

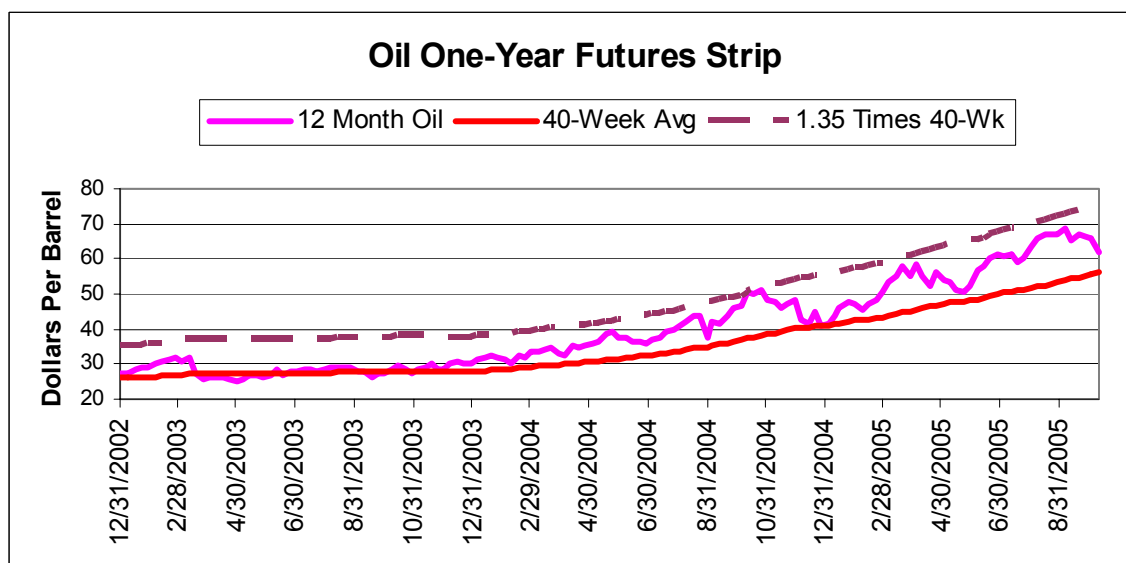
October Jitters

Summary and Recommendation

Royalty trusts lost up to 14% in stock price in the past week while six-year natural gas and oil are down about 6%. Stock prices seem to be overreacting as the commodity price outlook remains strong. Natural gas supply is critically challenged with the continued loss of Gulf of Mexico production. Crude oil price today is lower temporarily than futures prices for next year because refineries that are still shut down can't use it at the same time emergency supplies from government storage are offsetting lost crude oil production. With refineries shut down, supplies of gasoline and heating oil are dwindling. Meanwhile, annual distribution yield has moved up to more than a median 12% projected for U.S trusts and to more than a median 9% currently being paid by Canadian trusts. Buy-recommended **Canadian Oil Sands Trust (COSWF)** may announce a distribution increase with its earnings release on October 25.

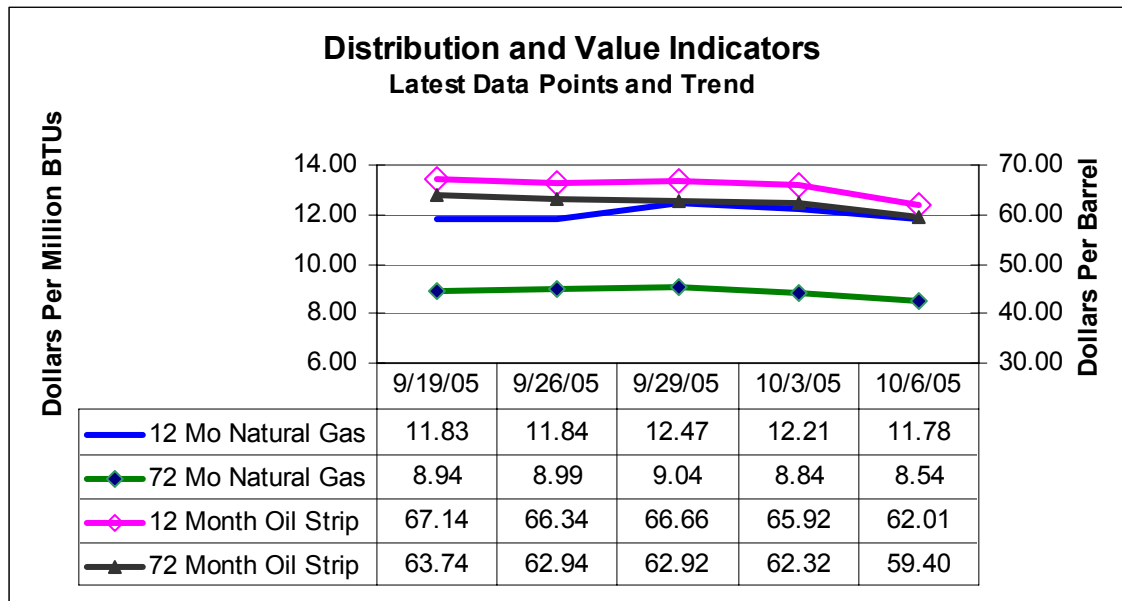
Charting New Territory

In the aftermath of the 2005 hurricanes, we are in uncharted territory for natural gas and oil supply and demand. But we do have charts. In fact the oil price trend continues to follow a classic pattern. One-year oil is tracking within a well-defined channel (see chart [Oil One-Year Futures Strip](#)). The current bounds are about \$76 on the high side and \$56 on the low side. Several times along the way we have dipped to the floor of the lower bound and hit the ceiling of the upper bound. Each time the next floor and the next ceiling were higher. Investments sensitive to oil price may move a bit lower or a bit higher in the near term while the continuing trend seems to be up.



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Because oil for delivery over the next six years trades above \$59 a barrel, it seems unlikely that oil price would be at lower levels for long (see table Distribution and Value Indicators). We use the 12 months futures to recalculate distributions for U.S. trusts and cash flow for Canadian trusts automatically. We take the 72 months futures into account when we make our occasional revisions of present value, the denominator of the McDep Ratio.



One year natural gas seems to be tracking oil while six-year natural gas has appreciation potential relative to oil. Spot natural gas prices west of the hurricane-affected area are not up as much as for Henry Hub, the pricing point for futures. Thus some of the projected 12% distribution yield for U.S. natural gas royalty trusts may depend on reestablishing a more normal relationship among different natural gas producing regions.

Stock Price near Present Value

Royalty Trusts appear to be priced in the stock market near Present Value that would yield a 7% real return on our current long-term assumptions of \$50 a barrel for oil and \$10 a million btu for natural gas (see table Rank by McDep Ratio). Estimated next twelve months distribution yield for U.S. royalty trusts varies directly with expected commodity price. Estimated next twelve months distribution yield for Canadian royalty trusts is fixed at the currently declared amount. Because estimated Ebitda varies directly with expected commodity price for both U.S. and Canadian trusts, we use that measure for comparative ranking (see table Rank by Enterprise Value to Ebitda).

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Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 6-Oct 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	51.04	6.0	310	45.00		1.13
Sabine Royalty Trust	SBR	45.64	14.6	670	42.00		1.09
San Juan Basin Royalty Trust	SJT H	41.95	46.6	1,960	40.00		1.05
Dorchester Minerals, L.P.	DMLP	27.20	28.2	770	26.00		1.05
Hugoton RoyaltyTrust (46%)	HGT	35.36	18.4	650	34.00		1.04
Permian Basin RT (57%)	PBT	15.58	26.6	410	15.00		1.04
Mesa RoyaltyTrust	MTR	69.00	1.9	130	75.00		0.92
	<i>Total or Median</i>			4,900			1.05
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	22.50	156.7	3,530	20.00	0.16	1.11
Enerplus Resources Fund	ERF	42.29	104.9	4,440	42.00	0.13	1.01
Penn West Energy Trust	PWTFF B	27.38	173.6	4,750	28.00	0.16	0.98
Canadian Oil Sands Trust (US\$)	COSWF B	97.62	92.9	10,130	136.00	0.12	0.83
	<i>Total or Median</i>			22,900		0.14	0.99

B = Buy, H = Hold

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 6-Oct 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	51.04	17.8	9.0	10.2	10.3	9.7
Sabine Royalty Trust	SBR	45.64	11.9	8.1	8.8	8.9	11.3
San Juan Basin Royalty Trust	SJT H	41.95	12.0	7.9	8.3	8.9	11.3
Dorchester Minerals, L.P.	DMLP	27.20	12.0	7.2	7.5	10.2	12.7
Permian Basin RT (57%)	PBT	15.58	14.5	7.2	7.5	8.0	12.5
Mesa RoyaltyTrust	MTR	69.00	20.0	8.0	7.4	7.8	12.8
Hugoton RoyaltyTrust (46%)	HGT	35.36	13.6	5.9	6.2	7.1	14.0
	<i>Median</i>		13.6	7.9	7.5	8.9	12.5
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF B	97.62	20.0	9.6	7.9	8.5	1.5
Pengrowth Energy Trust	PGH	22.50	7.6	5.3	5.9	8.1	10.4
Enerplus Resources Fund	ERF	42.29	9.8	5.3	5.3	7.5	8.6
Penn West Energy Trust	PWTFF B	27.38	8.0	4.3	4.2	6.1	9.6
	<i>Median</i>		8.9	5.3	5.6	7.8	9.1

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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