

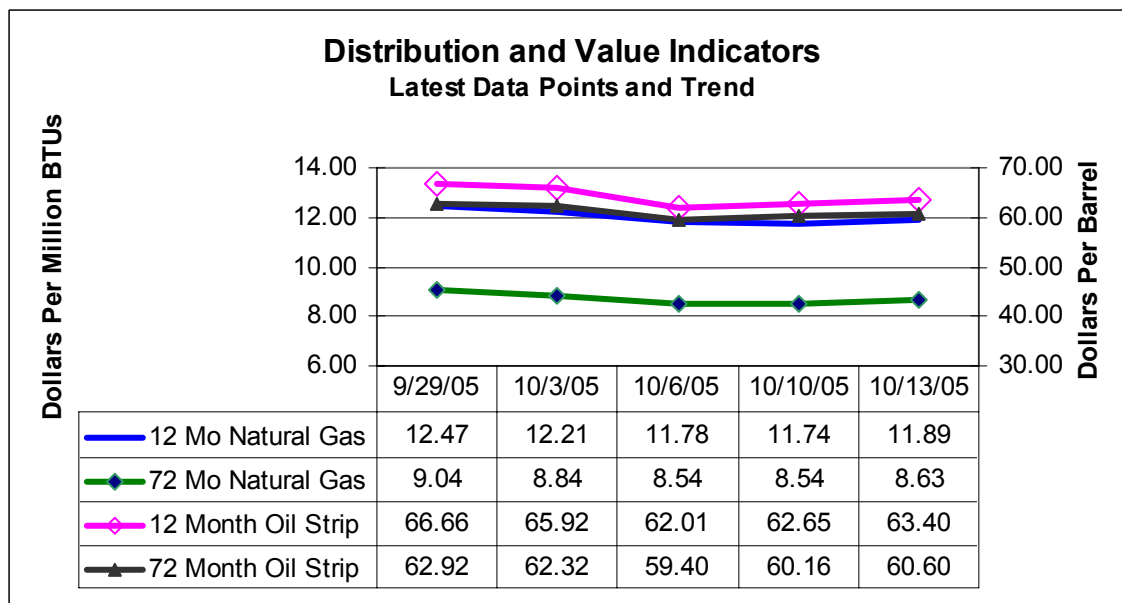
Fraud on the Street

Summary and Recommendation

The trend in royalty trust stock prices and natural gas and oil futures remains up as defined by current quotes above the 200-day or 40-week averages. Odd recent price changes may be related to the failure of Refco, Inc., the eighth largest futures broker and largest independent as classified by Bloomberg. The broker froze customers' funds after its chief executive officer was arrested for fraud. In a desperate rush for liquidity, Refco, partners and front-runners or others may be selling energy stocks simply because sales of better performing assets may be more palatable. Meanwhile energy futures do not seem to be showing the same weakness as energy stocks and a sharp divergence has emerged. Annual distribution yield is more than a median 12% projected for U.S trusts and more than a median 9% currently being paid by Canadian trusts.

Stock Prices down More than Futures

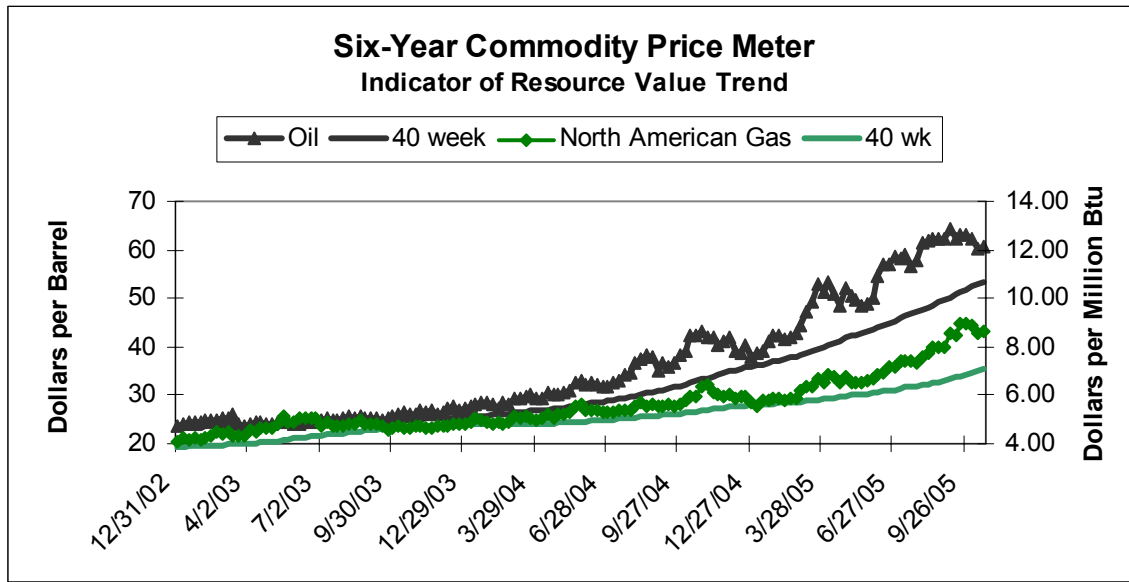
Stock prices are down a median 9% and as much as 17% since the end of September. In contrast 72-month futures are down 6% over the same time (see table Distribution and Value Indicators). We take the 72 months futures into account when we make our occasional revisions of present value, the denominator of the McDep Ratio. We use the 12 months futures to recalculate distributions for U.S. trusts and cash flow for Canadian trusts automatically.



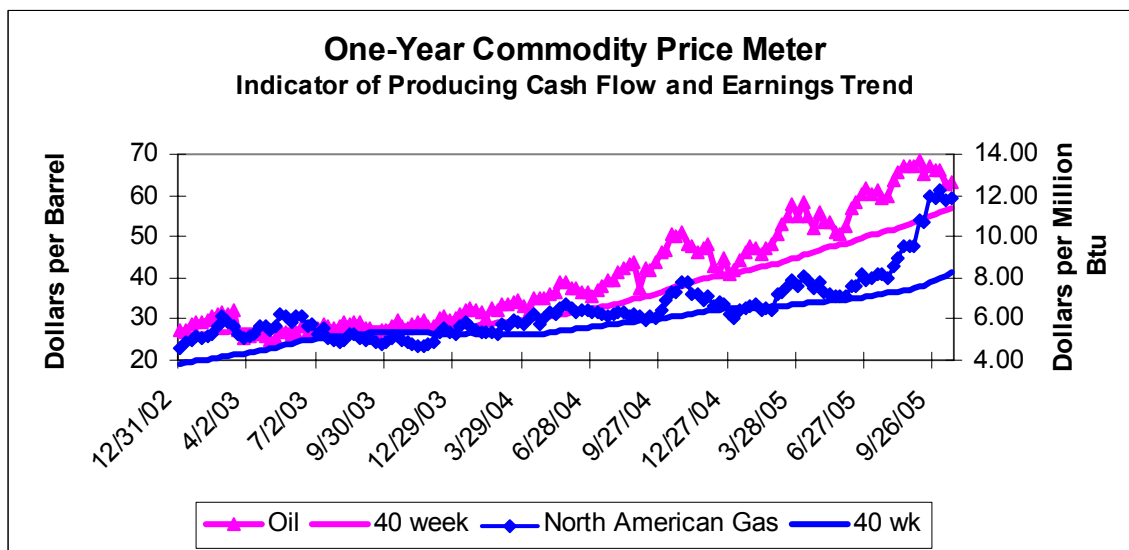
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Futures above 40 Week Average

The price trend for long-term natural gas and oil futures remains well defined in an upward pattern (see chart Six-Year Commodity Price Meter). Eventually we expect the natural gas price trend to cross above the oil price trend.



One year futures also are in an upward trend (see chart One-Year Commodity Price Meter). One year natural gas recently closed the gap with oil. While we take that as confirmation of our expectations we also recognize that there are regional distortions currently. Spot natural gas prices west of the hurricane-affected area are not up as much as for Henry Hub, the pricing point for futures.



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Stock Price Justified Fundamentally by 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).

Financial Accidents Can Distort Markets

There is very little that we actually know about the failure of Refco. Only long after do some of the critical events become publicly evident. From time to time financial accidents like Refco, Long Term Capital Management, Orange County and Metallgesellschaft, to name a few, can have temporarily distorting impact. Each event signaled something unusual happening.

While we track the futures market and use the prices for perspective in our research we do not accept the implications blindly. If the prices don't make sense we don't rely on them.

Conservative investors can take comfort that royalty trusts are backed by physical assets. Moreover the U.S. royalty trusts have no financial leverage. Some of the trusts do not even have operating leverage, that is, their revenues are directly proportional to commodity price without the burden of operating or capital costs.

Futures in contrast are derivatives of the real thing. The party on the other side of the transaction is usually a financial institution. As such the counterparty is often highly leveraged with complex interrelationships with other highly leveraged entities. When one party fails it threatens all the other players. The best we can say about the risk of derivatives is that it is spread around. When Enron failed many oil and gas producers who had hedged with Enron lost serious money, but few went out of business because of Enron. The failure of Refco may test the futures business further. We hope there are no further adverse consequences. In any event we will sleep peacefully knowing that the U.S. royalty trusts we own and cover in our research are among the most secure investments.

Kurt H. Wulff, CFA

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

	Symbol/ Rating	Price (\$/sh) 13-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	49.64	6.0	300	45.00		1.10	
Hugoton RoyaltyTrust (46%)	HGT	37.10	18.4	680	34.00		1.09	
Sabine Royalty Trust	SBR	45.55	14.6	660	42.00		1.08	
Dorchester Minerals, L.P.	DMLP	27.81	28.2	790	26.00		1.07	
Permian Basin RT (57%)	PBT	15.60	26.6	410	15.00		1.04	
San Juan Basin Royalty Trust	SJT	H	40.49	46.6	1,890	40.00	1.01	
Mesa RoyaltyTrust	MTR		68.60	1.9	130	75.00	0.92	
	<i>Total or Median</i>				4,900		1.07	
Canadian Income Trusts								
Pengrowth Energy Trust	PGH		22.01	156.7	3,450	20.00	0.17	1.08
Enerplus Resources Fund	ERF		43.19	104.9	4,530	42.00	0.13	1.02
Penn West Energy Trust	PWTFF	B	27.95	173.6	4,850	28.00	0.16	1.00
Canadian Oil Sands Trust (US\$)	COSWF	B	94.72	92.9	10,130	136.00	0.12	0.83
	<i>Total or Median</i>				23,000		0.14	1.01

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) 13-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	49.64	17.8	8.9	9.8	9.9	10.1
Sabine Royalty Trust	SBR	45.55	11.9	8.1	8.8	8.8	11.4
San Juan Basin Royalty Trust	SJT	H	40.49	12.0	7.8	7.9	11.7
Dorchester Minerals, L.P.	DMLP		27.81	12.0	7.1	7.6	10.3
Permian Basin RT (57%)	PBT		15.60	14.5	7.1	7.4	7.9
Mesa RoyaltyTrust	MTR		68.60	20.0	7.9	7.3	7.7
Hugoton RoyaltyTrust (46%)	HGT		37.10	13.6	5.9	6.4	7.4
	<i>Median</i>			13.6	7.8	7.6	8.5
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	B	94.72	20.0	9.6	7.9	8.5
Pengrowth Energy Trust	PGH		22.01	7.6	5.2	5.6	7.8
Enerplus Resources Fund	ERF		43.19	9.8	5.2	5.4	7.6
Penn West Energy Trust	PWTFF	B	27.95	8.0	4.2	4.2	6.0
	<i>Median</i>			8.9	5.2	5.5	7.7

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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