

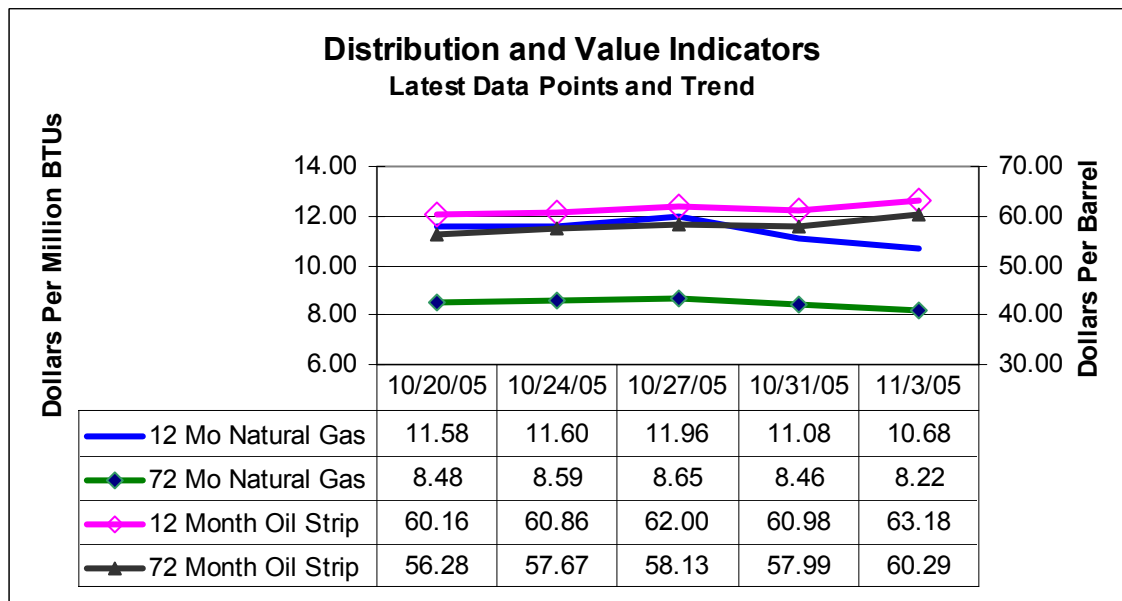
What to Do with the Money

Summary and Recommendation

The likelihood of more rewarding natural gas price this winter presents a high class problem. U.S. royalty trusts must distribute all free cash to unitholders. Problem solved. There is no risk that management will reinvest the sums in a manner that investors may not wish to do. Stated another way, an important advantage of U.S. royalty trusts is that investors control reinvestment risk. While there is reinvestment risk in Canadian royalty trusts, it is reduced by higher rates of distribution than is typical for operating companies. Annual distribution yield is more than a median 11% projected for U.S trusts and more than a median 10% currently being paid by Canadian trusts. Six-year and one year natural gas and oil continue above 40-week averages and natural gas has additional appreciation potential relative to oil.

Arbitrage Six-Year Oil and Natural Gas

One-year oil (pink line) and one-year natural gas (blue line) have been trading near parity with each other recently (see table [Distribution and Value Indicators](#)). One-year oil is also trading close to six-year oil (brown line) without the backwardation so common in futures markets where price declines with time for technical reasons. Six-year oil and six-year natural gas (green line) are far enough apart that there appears to be an arbitrage opportunity to anticipate their convergence.



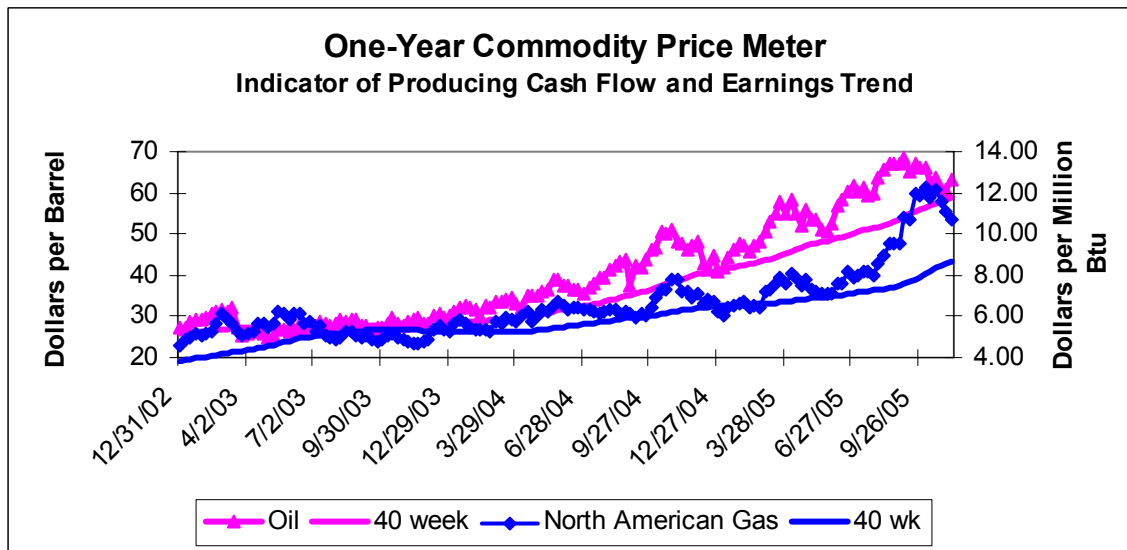
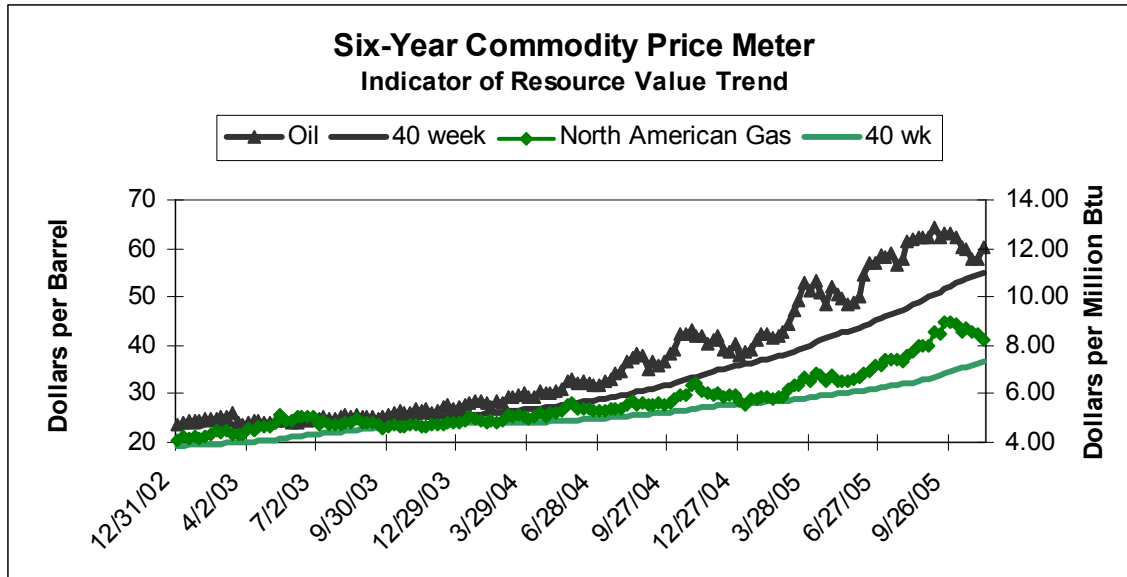
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Natural Gas and Oil Royalty Trusts

A Weekly Analysis

November 4, 2005

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. Oil futures are holding above the 40-week average. Natural gas futures are well above the 40-week average (see charts Six-Year Commodity Price Meter and One-Year Commodity Price Meter).



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Commodity Representation and Income Potential

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). 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). Ten of the eleven trusts are half or more concentrated on natural gas (see column natural Gas/Ebitda in table Rank by PV/Ebitda).

The two buy recommendations have lower McDep Ratios and more stock market liquidity. Investors might judge the remaining trusts by McDep Ratio. We usually think 0.8 is generally quite attractive; 1.0, reasonable and 1.2, a little rich. At the same time we appear to be in a rising commodity price trend that can cause the denominator of the McDep Ratio to increase, thereby lowering the whole range of McDep Ratios.

Kurt H. Wulff, CFA

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 3-Nov 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	54.52	6.0	330	45.00		1.21
San Juan Basin Royalty Trust	SJT H	42.75	46.6	1,990	40.00		1.07
Permian Basin RT (57%)	PBT	16.00	26.6	430	15.00		1.07
Sabine Royalty Trust	SBR	44.30	14.6	650	42.00		1.05
Hugoton RoyaltyTrust (46%)	HGT	35.04	18.4	650	34.00		1.03
Dorchester Minerals, L.P.	DMLP	26.46	28.2	750	26.00		1.02
Mesa RoyaltyTrust	MTR	67.55	1.9	130	75.00		0.90
	<i>Total or Median</i>			<i>4,900</i>			<i>1.05</i>
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	21.90	156.7	3,430	20.00	0.16	1.08
Enerplus Resources Fund	ERF	42.49	104.9	4,460	42.00	0.13	1.01
Penn West Energy Trust	PWTFF B	27.15	173.9	4,720	28.00	0.16	0.97
Canadian Oil Sands Trust (US\$)	COSWF B	96.69	92.8	8,970	136.00	0.11	0.74
	<i>Total or Median</i>			<i>21,600</i>		<i>0.14</i>	<i>0.99</i>

B = Buy, H = Hold

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

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Natural Gas and Oil Royalty Trusts

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 3-Nov 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	54.52	17.8	9.5	11.5	11.6	8.6
San Juan Basin Royalty Trust	SJT H	42.75	12.2	8.8	9.4	10.2	9.8
Sabine Royalty Trust	SBR	44.30	11.9	8.6	9.1	9.1	11.0
Mesa RoyaltyTrust	MTR	67.55	20.0	8.5	7.7	8.2	12.2
Dorchester Minerals, L.P.	DMLP	26.46	12.0	7.7	7.8	10.9	12.2
Permian Basin RT (57%)	PBT	16.00	14.6	7.5	8.0	8.5	11.7
Hugoton RoyaltyTrust (46%)	HGT	35.04	13.6	6.4	6.6	8.6	11.6
	<i>Median</i>		<i>13.6</i>	<i>8.5</i>	<i>8.0</i>	<i>9.1</i>	<i>11.6</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF B	96.69	20.0	10.3	7.7	8.4	3.5
Enerplus Resources Fund	ERF	42.49	9.8	5.6	5.7	8.3	10.0
Pengrowth Energy Trust	PGH	21.90	7.6	5.5	6.0	8.5	10.7
Penn West Energy Trust	PWTFF B	27.15	8.0	4.5	4.4	6.5	11.6
	<i>Median</i>		<i>8.9</i>	<i>5.6</i>	<i>5.8</i>	<i>8.4</i>	<i>10.4</i>

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

Natural Gas and Oil Royalty Trusts

Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	Symbol	Total Present Value (\$mm)	Unit Present Value (\$/mcf)	Reserves (bcf)	Natural Gas/ Ebitda (%)	Adjusted Reserves/ Production NTM	Revenue Royalty (%)	PV/ Ebitda
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT	270	4.50	60	77	17.8	85	9.5
San Juan Basin Royalty Trust	SJT	1,864	3.74	498	99	12.2	-	8.8
Sabine Royalty Trust	SBR	612	4.90	125	67	11.9	100	8.6
Mesa RoyaltyTrust	MTR	140	3.17	44	82	20.0	-	8.5
Dorchester Minerals, L.P.	DMLP	734	5.15	143	82	12.0	54	7.7
Permian Basin RT (57%)	PBT	399	3.30	121	48	14.6	30	7.5
Hugoton RoyaltyTrust (46%)	HGT	626	3.70	169	93	13.6	-	6.4
	<i>Total or Median</i>	<i>4,600</i>		<i>1,200</i>	<i>82</i>	<i>13.6</i>		<i>8.5</i>
Canadian Income Trusts								
Canadian Oil Sands Trust (US\$)	COSWF	14,239	3.70	3,848	(9)	20.0	-	10.3
Enerplus Resources Fund	ERF	5,077	3.70	1,372	64	9.8	-	5.6
Pengrowth Energy Trust	PGH	3,752	4.50	834	47	7.6	-	5.5
Penn West Energy Trust	PWTFF	5,765	3.13	1,844	56	8.0	-	4.5
	<i>Total or Median</i>	<i>28,800</i>		<i>7,900</i>	<i>51</i>	<i>8.9</i>		<i>5.6</i>

PV = Present Value of oil and gas and other businesses
Ebitda = Earnings before interest, tax, depreciation and amortization

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