

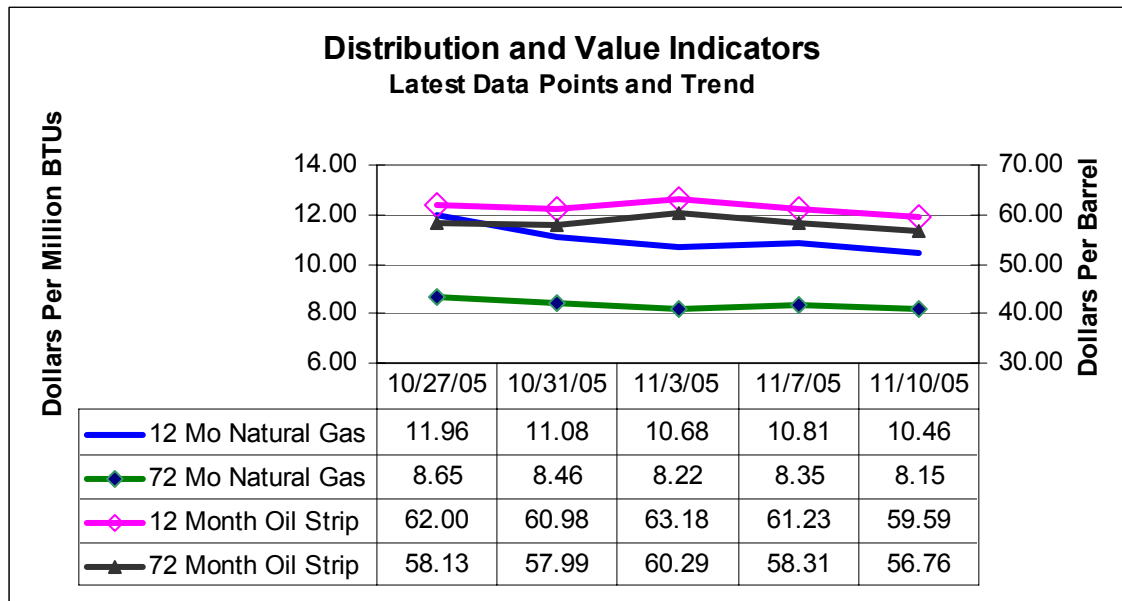
Hold That Line

Summary and Recommendation

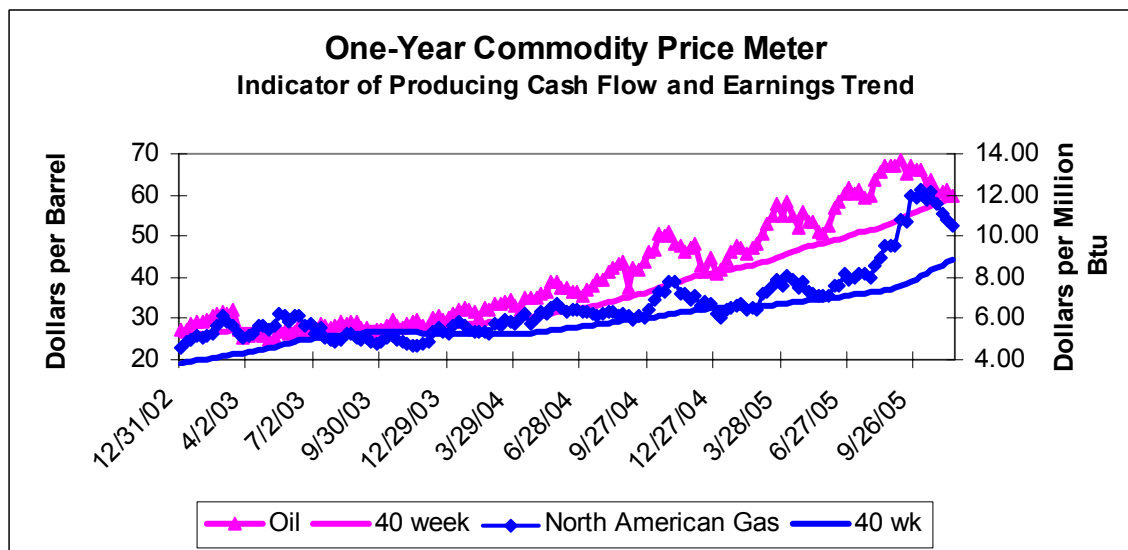
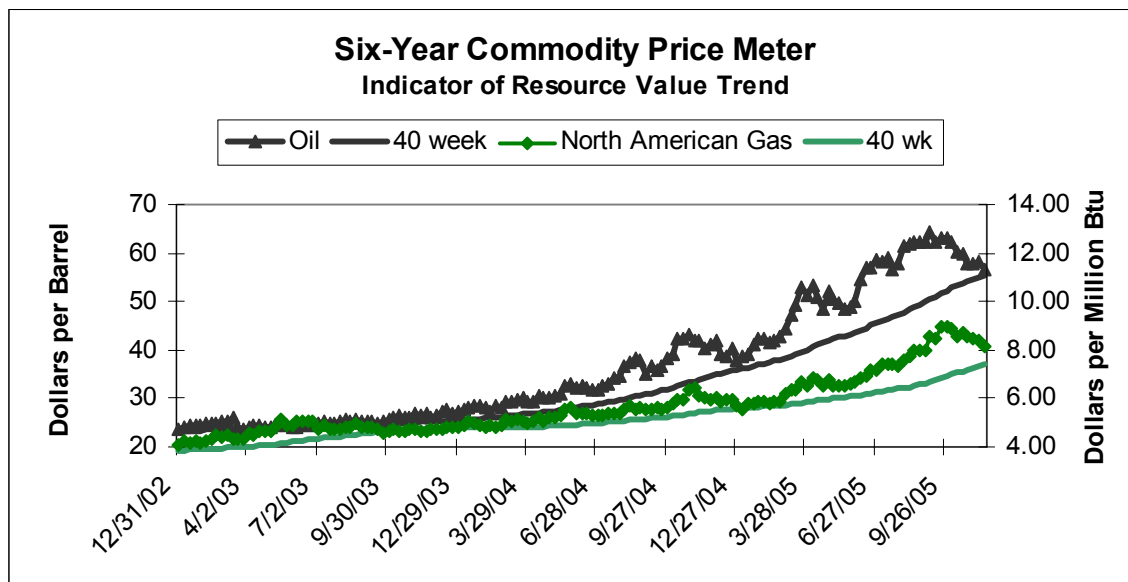
Oil bashing in Washington spilled over to the prices of royalty trust stocks. Short-term crude oil prices, beset by releases from government storage and the failure of commodity trader Refco are testing the 40-week average. Natural gas remains in a firm uptrend. Higher monthly distributions are likely to be declared late next week. As a result, stock price bashing seems about as unjustified in a longer term context as oil industry bashing. Sound energy investments are likely to do well over the next several years in our opinion. Meanwhile income investors can also look to those regular payments at an estimated annual rate more than a median 12% for U.S trusts and more than a median 10% currently being paid by Canadian trusts.

The 40-Week Test

Each of the major commodity price measures is holding the 40-week line that we put at about \$8.80, \$7.40, \$59.00 and \$55.40 for one year and six year natural gas and oil respectively (see table Distribution and Value Indicators). Crossing the line could be a short-term dampener while bouncing off the line could be positive (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).

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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

	Symbol/ Rating	Price (\$/sh) 10-Nov 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	50.00	6.0	300	45.00		1.11
Permian Basin RT (57%)	PBT	15.58	26.6	410	15.00		1.04
Sabine Royalty Trust	SBR	41.25	14.6	600	42.00		0.98
Dorchester Minerals, L.P.	DMLP	25.42	28.2	720	26.00		0.98
San Juan Basin Royalty Trust	SJT	H	38.89	46.6	1,810	40.00	0.97
Hugoton Royalty Trust (46%)	HGT		31.64	18.4	580	34.00	0.93
Mesa Royalty Trust	MTR		67.65	1.9	130	75.00	0.90
	<i>Total or Median</i>				4,600		0.98
Canadian Income Trusts							
Pengrowth Energy Trust	PGH		21.20	156.7	3,320	20.00	0.16
Penn West Energy Trust	PWTFF	B	27.27	175.7	4,790	28.00	0.15
Enerplus Resources Fund	ERF		40.90	104.9	4,290	42.00	0.13
Canadian Oil Sands Trust (US\$)	COSWF	B	94.71	92.8	8,790	136.00	0.11
	<i>Total or Median</i>				21,200		0.14

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) 10-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	50.00	17.8	9.6	10.7	10.8	9.2
Sabine Royalty Trust	SBR	41.25	11.9	8.7	8.5	8.5	11.7
Mesa RoyaltyTrust	MTR	67.65	20.0	8.6	7.8	8.2	12.1
San Juan Basin Royalty Trust	SJT	H 38.89	12.1	7.9	7.7	8.2	12.2
Dorchester Minerals, L.P.	DMLP	25.42	12.0	7.8	7.6	10.6	12.6
Permian Basin RT (57%)	PBT	15.58	14.6	7.6	7.9	8.5	11.7
Hugoton RoyaltyTrust (46%)	HGT	31.64	13.6	6.4	6.0	7.8	12.8
	<i>Median</i>		<i>13.6</i>	<i>7.9</i>	<i>7.8</i>	<i>8.5</i>	<i>12.1</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	B 94.71	20.0	12.1	8.9	10.1	3.6
Pengrowth Energy Trust	PGH	21.20	7.6	5.7	6.0	8.8	11.0
Enerplus Resources Fund	ERF	40.90	9.8	5.7	5.6	8.3	10.4
Penn West Energy Trust	PWTFF	B 27.27	8.0	4.6	4.5	6.4	11.5
	<i>Median</i>		<i>8.9</i>	<i>5.7</i>	<i>5.8</i>	<i>8.5</i>	<i>10.7</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	78	17.8	85	9.6
Sabine Royalty Trust	SBR	612	4.90	125	68	11.9	100	8.7
Mesa RoyaltyTrust	MTR	140	3.17	44	82	20.0	-	8.6
San Juan Basin Royalty Trust	SJT	1,864	3.70	504	99	12.1	-	7.9
Dorchester Minerals, L.P.	DMLP	734	5.15	143	83	12.0	54	7.8
Permian Basin RT (57%)	PBT	399	3.30	121	49	14.6	30	7.6
Hugoton RoyaltyTrust (46%)	HGT	626	3.70	169	94	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>7.9</i>
Canadian Income Trusts								
Canadian Oil Sands Trust (US\$)	COSWF	14,235	3.70	3,847	(9)	20.0	-	12.1
Pengrowth Energy Trust	PGH	3,749	4.50	833	48	7.6	-	5.7
Enerplus Resources Fund	ERF	5,076	3.70	1,372	65	9.8	-	5.7
Penn West Energy Trust	PWTFF	5,779	3.13	1,848	53	8.0	-	4.6
	<i>Total or Median</i>	<i>28,800</i>		<i>7,900</i>	<i>51</i>	<i>8.9</i>		<i>5.7</i>

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

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