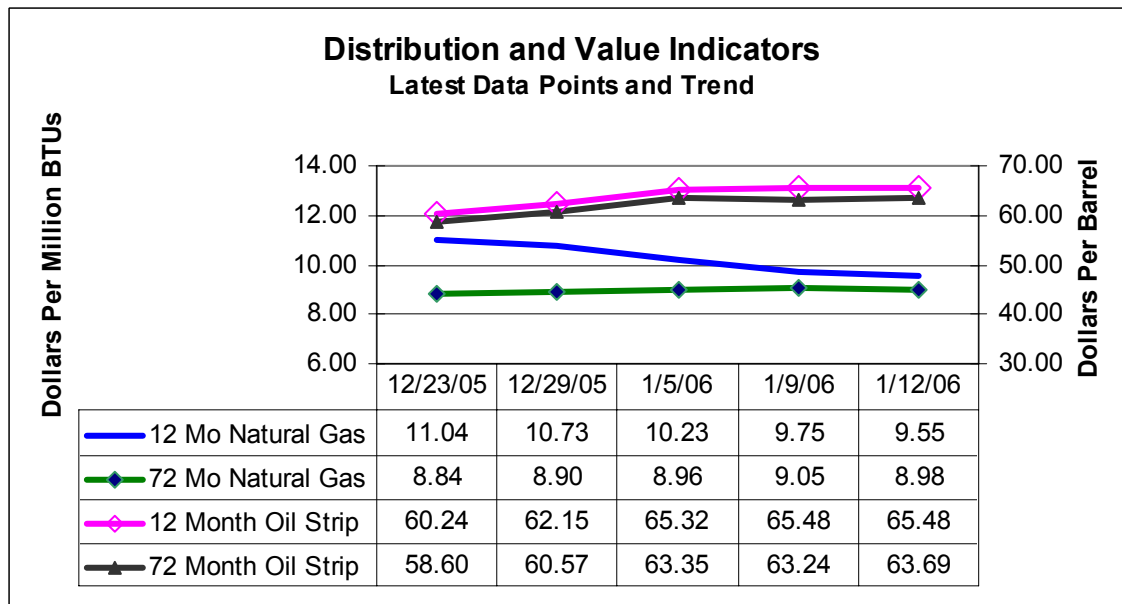


The Long and Short of It

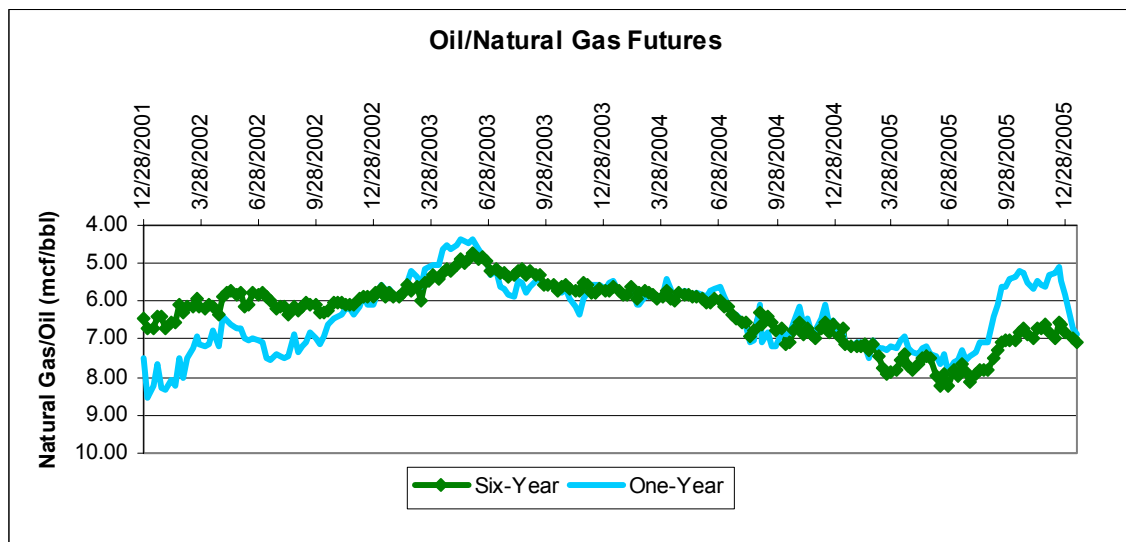
Summary and Recommendation

Long-term oil and natural gas price trends support investor interest in buy-recommended income stocks and royalty trust peers in our coverage. The short-term trend for oil price, slower late last year, has accelerated again while the short-term trend for natural gas price has faded to neutral with one-year futures on the 40-week moving average. Because of the time lag another round of record and near-record monthly distributions may be declared by natural gas oriented U.S. royalty trusts. Then the level may recede for a few months. Our estimated median distribution yield in 2006 is 9.9% for U.S. royalty trusts. The 2006 distribution would likely be more than a median 8.9% indicated for Canadian trusts. We are at a conference in Vail, Colorado today where the widespread preference for heated driveways suggests continuing robust demand for oil and natural gas.

Kurt H. Wulff, CFA



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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) 12-Jan 2006 | Shares (mm) | Market Cap (\$mm) | Net Present Value (\$/un) | Debt/ Present Value | McDep Ratio |
|--------------------------------|-------------------|------------------------------------|----------------|-------------------------|------------------------------------|---------------------------|----------------|
| U.S. Royalty Trusts | | | | | | | |
| Hugoton RoyaltyTrust (46%) | HGT | 36.72 | 18.4 | 680 | 34.00 | - | 1.08 |
| San Juan Basin Royalty Trust | SJT H | 42.34 | 46.6 | 1,970 | 40.00 | - | 1.06 |
| Permian Basin RT | PBT | 15.56 | 46.6 | 730 | 15.00 | - | 1.04 |
| Cross Timbers Royalty Trust | CRT | 46.58 | 6.0 | 280 | 45.00 | - | 1.03 |
| Dorchester Minerals, L.P. | DMLP | 26.58 | 28.2 | 750 | 26.00 | - | 1.02 |
| Sabine Royalty Trust | SBR | 41.68 | 14.6 | 610 | 42.00 | - | 0.99 |
| Mesa RoyaltyTrust | MTR | 68.24 | 1.9 | 130 | 75.00 | - | 0.91 |
| <i>Total or Median</i> | | | | 5,200 | | | 1.03 |
| Canadian Income Trusts | | | | | | | |
| Penn West Energy Trust | PWTF B | 35.15 | 179.4 | 6,300 | 28.00 | 0.15 | 1.22 |
| Pengrowth Energy Trust | PGH | 23.95 | 159.0 | 3,810 | 20.00 | 0.16 | 1.17 |
| Enerplus Resources Fund | ERF | 49.25 | 110.0 | 5,420 | 42.00 | 0.14 | 1.15 |
| Canadian Oil Sands Trust (USS) | COSWF B | 121.98 | 93.1 | 11,350 | 136.00 | 0.11 | 0.91 |
| <i>Total or Median</i> | | | | 26,900 | | 0.14 | 1.16 |

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) 12-Jan 2006 | 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 | 46.58 | 18.8 | 10.3 | 10.6 | 10.8 | 9.2 |
| San Juan Basin Royalty Trust | SJT H | 42.34 | 12.2 | 9.3 | 9.8 | 10.8 | 9.3 |
| Dorchester Minerals, L.P. | DMLP | 26.58 | 11.5 | 9.2 | 9.4 | 14.3 | 10.5 |
| Mesa RoyaltyTrust | MTR | 68.24 | 20.0 | 10.3 | 9.4 | 10.1 | 9.9 |
| Sabine Royalty Trust | SBR | 41.68 | 11.6 | 8.9 | 8.8 | 8.8 | 11.4 |
| Hugoton RoyaltyTrust (46%) | HGT | 36.72 | 13.5 | 7.8 | 8.4 | 11.7 | 8.5 |
| Permian Basin RT | PBT | 15.56 | 14.9 | 8.1 | 8.4 | 9.1 | 11.0 |
| | <i>Median</i> | | <i>13.5</i> | <i>9.2</i> | <i>9.4</i> | <i>10.8</i> | <i>9.9</i> |
| Canadian Income Trusts | | | | | | | |
| Canadian Oil Sands Trust (US\$) | COSWF B | 121.98 | 20.0 | 10.8 | 9.8 | 11.3 | 2.8 |
| Pengrowth Energy Trust | PGH | 23.95 | 7.6 | 5.5 | 6.5 | 9.5 | 10.8 |
| Enerplus Resources Fund | ERF | 49.25 | 8.6 | 5.6 | 6.4 | 9.7 | 8.8 |
| Penn West Energy Trust | PWTFF B | 35.15 | 8.0 | 4.9 | 6.0 | 9.0 | 9.1 |
| | <i>Median</i> | | <i>8.3</i> | <i>5.6</i> | <i>6.4</i> | <i>9.6</i> | <i>8.9</i> |

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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 NTM Distribution Yield

| | Symbol | Revenue Royalty (%) | Natural Gas/ Ebitda (%) | Dist/ Ebitda | Dist/ Equity Ebitda | NTM Distribution (\$mm) | Dist. Yield (\$/un) | Dist. Yield (%) |
|---------------------------------|------------------------|---------------------------|----------------------------------|-----------------|---------------------------|----------------------------|---------------------------|-----------------------|
| U.S. Royalty Trusts | | | | | | | | |
| Hugoton RoyaltyTrust (46%) | HGT | - | 92 | 0.72 | 0.72 | 58 | 3.14 | 8.5 |
| Cross Timbers Royalty Trust | CRT | 85 | 74 | 0.99 | 0.99 | 26 | 4.30 | 9.2 |
| San Juan Basin Royalty Trust | SJT | - | 99 | 0.91 | 0.91 | 183 | 3.93 | 9.3 |
| Mesa RoyaltyTrust | MTR | - | 78 | 0.92 | 0.92 | 13 | 6.73 | 9.9 |
| Dorchester Minerals, L.P. | DMLP | 54 | 77 | 0.99 | 0.99 | 79 | 2.80 | 10.5 |
| Permian Basin RT | PBT | 30 | 42 | 0.93 | 0.93 | 80 | 1.71 | 11.0 |
| Sabine Royalty Trust | SBR | 100 | 66 | 1.00 | 1.00 | 69 | 4.73 | 11.4 |
| | <i>Total or Median</i> | | <i>77</i> | <i>0.93</i> | <i>0.93</i> | <i>500</i> | | <i>9.9</i> |
| Canadian Income Trusts | | | | | | | | |
| Canadian Oil Sands Trust (US\$) | COSWF | - | (7) | 0.24 | 0.27 | 320 | 3.43 | 2.8 |
| Enerplus Resources Fund | ERF | - | 49 | 0.50 | 0.58 | 476 | 4.33 | 8.8 |
| Penn West Energy Trust | PWTFF | - | 48 | 0.48 | 0.56 | 573 | 3.19 | 9.1 |
| Pengrowth Energy Trust | PGH | - | 42 | 0.60 | 0.71 | 410 | 2.58 | 10.8 |
| | <i>Total or Median</i> | | <i>45</i> | <i>0.49</i> | <i>0.57</i> | <i>1,800</i> | | <i>8.9</i> |
| Kinder Morgan Energy Partners | KMP | | | 0.75 | 1.67 | | | 6.3 |

NTM = Next Twelve Months Ended December 31, 2006

Ebitda = Earnings before interest, tax, depreciation and amortization

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