

Hugoton Handover

Summary and Recommendation

Our buy recommendation of **San Juan Basin Royalty Trust (SJT)** can be considered as a proxy for any of its closely ranked peers including **Hugoton Royalty Trust (HGT)**. As of May 12 the handover of 54% of the outstanding units of HGT should be complete. All holders of buy-recommended **XTO Energy (XTO)** should see new HGT shares in their account or certificates in their hands as a result of XTO's distribution. Compared to peers among U.S. Royalty Trusts, HGT appears to have the lowest McDep Ratio and the lowest cash flow multiple. A discounted cash flow model illustrates the calculation of present value of \$34 a unit that in turn presumes a long-term natural gas price of \$10 a million btu. A quarterly model details the source of a projected distribution yield of 8.3% for the next twelve months that is tied to a twelve months futures quote of \$9.10. A monthly model adds perspective for judging the immediate declarations ahead. Our vision of \$150 oil in 2010 and \$30 natural gas points to capital gain potential in addition to high current income.

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) 11-May 2006</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Permian Basin RT	PBT	16.31	46.6	760	15.00	-	1.09
Sabine Royalty Trust	SBR	44.60	14.6	650	42.00	-	1.06
Dorchester Minerals, L.P.	DMLP	26.75	28.2	760	26.00	-	1.03
Cross Timbers Royalty Trust	CRT	44.65	6.0	270	45.00	-	0.99
San Juan Basin Royalty Trust	SJT	B 38.84	46.6	1,810	40.00	-	0.97
Mesa RoyaltyTrust	MTR	66.30	1.9	120	75.00	-	0.89
Hugoton RoyaltyTrust	HGT	29.05	40.0	1,160	34.00	-	0.85
<i>Total or Median</i>				5,500			0.99
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	24.85	161.0	4,000	18.00	0.17	1.32
Enerplus Resources Fund	ERF	55.03	123.1	6,770	42.00	0.12	1.27
Penn West Energy Trust	PWTFF	B 42.27	230.4	9,740	33.00	0.15	1.24
Canadian Oil Sands Trust	COSWF	B 32.74	463.8	15,180	27.20	0.12	1.18
<i>Total or Median</i>				35,700		0.14	1.26

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) 11-May 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	44.65	13.0	11.3	11.2	11.6	8.6
San Juan Basin Royalty Trust	SJT B	38.84	13.5	10.9	10.6	12.3	8.1
Mesa RoyaltyTrust	MTR	66.30	20.1	11.6	10.3	11.3	8.8
Dorchester Minerals, L.P.	DMLP	26.75	13.7	10.0	10.2	15.8	8.7
Sabine Royalty Trust	SBR	44.60	9.3	9.3	9.9	9.9	10.1
Permian Basin RT	PBT	16.31	7.8	8.8	9.6	10.4	9.7
Hugoton RoyaltyTrust	HGT	29.05	13.6	9.9	8.5	12.1	8.3
	<i>Median</i>		<i>13.5</i>	<i>10.0</i>	<i>10.2</i>	<i>11.6</i>	<i>8.7</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF B	32.74	20.0	9.0	10.7	13.9	5.0
Enerplus Resources Fund	ERF	55.03	9.3	6.3	8.0	15.1	8.3
Pengrowth Energy Trust	PGH	24.85	7.5	5.8	7.7	13.0	11.0
Penn West Energy Trust	PWTFF B	42.27	7.9	5.5	6.8	9.2	8.8
	<i>Median</i>		<i>8.6</i>	<i>6.1</i>	<i>7.8</i>	<i>13.5</i>	<i>8.6</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; 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. Distribution (\$/un)	Dist. Yield (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.86	0.86	147	3.15	8.1
Hugoton RoyaltyTrust	HGT	-	90	0.70	0.70	96	2.40	8.3
Cross Timbers Royalty Trust	CRT	81	67	0.97	0.97	23	3.85	8.6
Dorchester Minerals, L.P.	DMLP	56	73	0.89	0.89	66	2.34	8.7
Mesa RoyaltyTrust	MTR	-	72	0.91	0.91	11	5.87	8.8
Permian Basin RT	PBT	29	34	0.92	0.92	73	1.57	9.7
Sabine Royalty Trust	SBR	100	51	1.00	1.00	66	4.53	10.1
	<i>Total or Median</i>		<i>72</i>	<i>0.91</i>	<i>0.91</i>	<i>500</i>		<i>8.7</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.48	0.54	760	1.64	5.0
Enerplus Resources Fund	ERF	-	46	0.60	0.69	565	4.59	8.3
Penn West Energy Trust	PWTFF	-	40	0.52	0.62	856	3.71	8.8
Pengrowth Energy Trust	PGH	-	38	0.74	0.89	440	2.73	11.0
	<i>Total or Median</i>		<i>39</i>	<i>0.56</i>	<i>0.65</i>	<i>2,600</i>		<i>8.6</i>
Kinder Morgan Energy Partners	KMP			0.79	1.79			7.1

NTM = Next Twelve Months Ended March 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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Natural Gas and Oil Royalty Trusts

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Hugoton Royalty Trust Present Value

Oil Volume Decline (%/yr):	20	Oil Price Post 2007 (2005\$/bbl)	50.00
Nat Gas Volume Decline (%/yr):	15	Nat Gas Price Post 2007 (2005\$/mcf)	10.00
Volume/Reserves - Oil:	1.2	Real Discount Rate (%/yr):	7.0
Volume/Reserves - Nat Gas:	1.0	PV/Volume (\$/mcf):	3.44
Variable Cost (%):	20	PV/EBITDA 2007:	9.9
Cumul. Vol/Prod 2007:	15.4	Capex/Cash Flow (%):	18

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2007 through 2036; years ending on 3/31												
	3.6	369			3439	135	688	327	2289	57.23	0.59	33.60
2007	0.26	23.88	66.48	6.67	176.1	4.5	35.2	40.3	96.1	2.40	0.97	2.32
2008	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.90	3.28
2009	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.84	3.07
2010	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.79	2.87
2011	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.74	2.68
2012	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.69	2.50
2013	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.64	2.34
2014	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.60	2.19
2015	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.56	2.04
2016	0.26	23.88	48.00	9.00	227.1	4.5	45.4	31.9	145.3	3.63	0.53	1.91
2017	0.20	20.30	48.00	9.00	192.5	4.5	38.5		149.5	3.74	0.49	1.84
2018	0.16	17.25	48.00	9.00	163.1	4.5	32.6		126.0	3.15	0.46	1.45
2019	0.13	14.66	48.00	9.00	138.2	4.5	27.6		106.1	2.65	0.43	1.14
2020	0.10	12.46	48.00	9.00	117.2	4.5	23.4		89.3	2.23	0.40	0.90
2021	0.08	10.59	48.00	9.00	99.4	4.5	19.9		75.0	1.87	0.37	0.70
2022	0.07	9.01	48.00	9.00	84.3	4.5	16.9		62.9	1.57	0.35	0.55
2023	0.05	7.65	48.00	9.00	71.5	4.5	14.3		52.7	1.32	0.33	0.43
2024	0.04	6.51	48.00	9.00	60.6	4.5	12.1		44.0	1.10	0.31	0.34
2025	0.03	5.53	48.00	9.00	51.4	4.5	10.3		36.6	0.92	0.29	0.26
2026	0.03	4.70	48.00	9.00	43.6	4.5	8.7		30.4	0.76	0.27	0.20
2027	0.02	4.00	48.00	9.00	37.0	4.5	7.4		25.1	0.63	0.25	0.16
2028	0.02	3.40	48.00	9.00	31.4	4.5	6.3		20.6	0.52	0.23	0.12
2029	0.01	2.89	48.00	9.00	26.7	4.5	5.3		16.8	0.42	0.22	0.09
2030	0.01	2.45	48.00	9.00	22.6	4.5	4.5		13.6	0.34	0.20	0.07
2031	0.01	2.09	48.00	9.00	19.2	4.5	3.8		10.9	0.27	0.19	0.05
2032	0.01	1.77	48.00	9.00	16.3	4.5	3.3		8.5	0.21	0.18	0.04
2033	0.01	1.51	48.00	9.00	13.8	4.5	2.8		6.6	0.16	0.17	0.03
2034	0.00	1.28	48.00	9.00	11.7	4.5	2.3		4.9	0.12	0.16	0.02
2035	0.00	1.09	48.00	9.00	10.0	4.5	2.0		3.5	0.09	0.15	0.01
2036	0.00	0.93	48.00	9.00	8.5	4.5	1.7		2.3	0.06	0.14	0.01

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Hugoton Royalty Trust Distributable Income

	Q1	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Next
	3/31/05	2005	3/31/06	6/30/06	9/30/06	12/31/06	2006E	3/31/07	Twelve Months 3/31/07
Highlights									
Revenue (\$mm) (80%)	40.0	172.8	57.6	40.0	38.5	42.2	178.4	55.4	176.1
Cash flow (\$mm) (80%)	31.3	136.5	47.0	30.7	29.3	32.6	139.6	44.6	137.2
Per unit	0.78	3.41	1.18	0.77	0.73	0.82	3.49	1.11	3.43
Distributable Income (\$mm)	25.7	104.8	39.1	20.0	19.1	22.5	100.7	34.4	96.1
Per unit	0.64	2.62	0.98	0.50	0.48	0.56	2.52	0.86	2.40
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	7.5	30.0	7.4	7.3	7.5	7.5	29.7	7.5	29.8
Natural Gas (mmcf/d)	81.4	82.2	80.5	81.8	81.8	81.8	81.5	81.8	81.8
Days	92	365	92	89	92	92	365	92	365
Oil (mb)	74	325	78	79	80	80	317	80	319
Oil (mbd)	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Days	92	365	92	89	92	92	365	92	365
Total (bcf)	7.9	31.9	7.9	7.7	8.0	8.0	31.6	8.0	31.8
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	7.23	7.85	12.13	7.61	6.92	7.65	8.58	10.52	8.17
Differential (%)	14	15	25	19	19	19	21	19	18
HGT (\$/mcf)	6.22	6.64	9.10	6.20	5.64	6.23	6.79	8.57	6.67
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	46.17	54.14	61.06	64.68	73.57	76.08	68.85	61.06	68.85
HGT	45.03	52.27	59.10	62.44	71.02	73.45	66.56	58.94	66.48
Total (\$/mcf)	6.29	6.76	9.14	6.46	6.02	6.59	7.05	8.65	6.93
Revenue (\$mm)									
Natural Gas	46.6	199.0	67.4	45.1	42.4	46.9	201.9	64.5	199.0
Oil	3.4	17.0	4.6	4.9	5.7	5.9	21.1	4.7	21.2
Total	49.9	216.0	72.0	50.0	48.2	52.8	223.0	69.2	220.2
Cost (\$mm)									
Tax, transport & other	4.6	19.1	5.7	4.7	4.5	4.9	19.8	6.4	20.5
Production	4.3	18.5	5.5	5.1	5.1	5.1	20.7	5.1	20.2
Overhead	1.9	7.8	2.0	2.0	2.0	2.0	8.0	2.0	8.0
Total	10.9	45.4	13.3	11.7	11.5	12.0	48.5	13.5	48.7
Cash flow (\$mm)	39.1	170.6	58.8	38.3	36.6	40.8	174.5	55.7	171.5
Development	6.8	39.2	9.9	12.6	12.6	12.6	47.7	12.6	50.4
Net proceeds (\$mm)	32.3	131.4	48.9	25.7	24.0	28.2	126.8	43.1	121.1
Royalty income (\$mm)	25.8	105.1	39.1	20.6	19.2	22.6	101.4	34.5	96.9
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.1	0.4	0.0	0.6	0.1	0.1	0.7	0.1	0.8
Distributable income (\$mm)	25.7	104.8	39.1	20.0	19.1	22.5	100.7	34.4	96.1
Tax and other/revenue	9.2%	8.8%	8.0%	9.3%	9.3%	9.3%	8.9%	9.3%	9.3%
Production cost (\$/mcf)	0.55	0.58	0.70	0.65	0.63	0.63	0.66	0.63	0.64
Overhead cost (\$/mcf)	0.24	0.24	0.25	0.26	0.25	0.25	0.25	0.25	0.25
Development/Cash flow	0.17	0.23	0.17	0.33	0.34	0.31	0.27	0.23	0.29

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Hugoton Royalty Trust Monthly Declarations

	May-05	Jun-05	Mar-06	Apr-06	May-06	Jun-06
Distribution (\$/unit)						
Declared	0.19	0.22	0.30	0.18		
Projected					0.16	0.16
Volume						
Natural Gas (bcf)	2.47	2.45	2.50	2.28	2.54	2.46
Natural Gas (mmcf)	80	82	81	81	82	82
Days	31	30	31	28	31	30
Price						
Natural gas industry quotes lagged two months (\$/mmbtu)						
Henry Hub Index/Futures	6.30	7.33	11.35	8.44	7.13	7.25
HGT/Henry Hub	0.89	0.87	0.75	0.81	0.83	0.82
HGT (\$/mcf)	5.62	6.36	8.47	6.80	5.90	5.96
Revenue (\$mm)						
Natural Gas	13.9	15.6	21.2	15.5	15.0	14.7
Other	0.1	(0.2)	(0.1)	(0.0)	(0.2)	(0.2)
Total	14.0	15.4	21.1	15.5	14.8	14.5
Cost (\$mm)						
Production	1.5	1.4	2.0	1.7	1.7	1.7
Overhead	0.6	0.7	0.7	0.7	0.7	0.7
Total	2.2	2.0	2.6	2.4	2.3	2.3
Cash flow (\$mm)	11.9	13.3	18.4	13.1	12.4	12.1
Development	2.4	2.4	3.3	4.2	4.2	4.2
Net proceeds (\$mm)	9.5	10.9	15.1	8.9	8.2	7.9
Royalty income (\$mm)	7.6	8.7	12.1	7.1	6.6	6.3
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)	7.6	8.7	12.1	7.1	6.6	6.3
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0
Distribution (\$/unit)	0.19	0.22	0.30	0.18	0.16	0.16
<i>Latest Twelve Month Average</i>						
Natural Gas (mmcf)	82	82	82	82	82	82
HGT/Henry Hub	0.88	0.88	0.83	0.83	0.82	0.82
Other revenue (\$mm)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Development (\$mm)	2.0	2.1	3.5	3.7	3.8	4.0
Production (\$mm)	1.5	1.5	1.6	1.7	1.7	1.7
Overhead (\$mm)	0.6	0.6	0.7	0.7	0.7	0.7

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