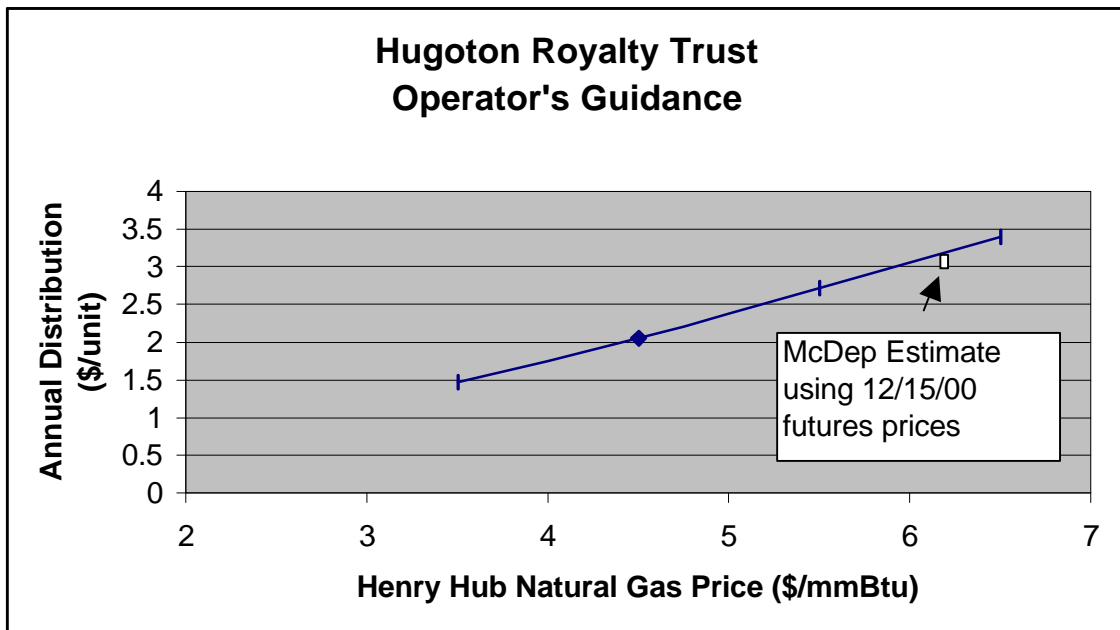


## Hugoton Royalty Trust (HGT – 14.43) Bounteous Income

The operator of properties in which the trust has an 80% net profits interest discloses projections of an annual distribution next year ranging from \$1.47 to \$3.40 per unit depending on natural gas price (see chart below). Taking account of other guidance given by the operator in a press release, we project a distribution in 2001 of \$3.05 a unit using natural gas futures prices as of last week's close (see Table HGT-2). Of course such levels point to wonderful rewards for holders of trust units and promise an attractive return to new investors. While we take the futures market literally in making our estimates, we will also be quick to question the validity of current market prices. It would be no surprise to see higher or lower results next year. We do believe that beyond 2003, the natural gas price used in making our estimates is lower than will actually be the case.

Kurt H. Wulff, CFA



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**Stock Idea**  
December 20, 2000

**Table HGT-1**  
**Hugoton Royalty Trust**  
**Present Value**

Volume Decline (%/yr):	11	Price Escalation Post 2006 (%/yr):	2.3
Volume Enhancement (%/yr):	9	Discount rate (%/yr):	6.6
Capex/Cash Flow (%):	24	U.S. TIPS Inflation (%/yr):	1.5
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	5.2

Year	Volume		Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$/unit)	Tax Credit (\$/unit)	Disc Factor	Present Value (\$/unit)
	Basic (bcf)	Enhanced (bcf)										
Total 2000 through 2029												
	279	336	615	3.87	2378	453	285	266	1374	34.34	0.06	18.50
1999	29.2		29.2	2.16	63.1	13.3	7.6	9.1	33.1	0.83	0.02	
2000	29.2	2.2	31.4	3.23	101.4	15.1	12.2	17.4	56.7	1.42	0.02	1.39
2001	26.0	5.6	31.6	5.60	176.7	15.1	21.2	18.4	122.0	3.05	0.02	2.79
2002	23.4	7.8	31.2	4.05	126.4	15.1	15.2	23.1	73.0	1.83	0.02	1.57
2003	21.1	9.8	30.9	3.30	101.8	15.1	12.2	17.9	56.6	1.42		1.13
2004	19.0	11.5	30.5	3.31	101.0	15.1	12.1	17.7	56.1	1.40		1.05
2005	17.1	12.9	30.1	3.27	98.3	15.1	11.8	17.1	54.2	1.36		0.95
2006	15.4	14.2	29.7	3.22	95.5	15.1	11.5	16.6	52.4	1.31		0.86
2007	13.9	15.3	29.2	3.29	96.3	15.1	11.6	16.7	52.9	1.32		0.82
2008	12.5	16.3	28.8	3.37	97.0	15.1	11.6	16.9	53.4	1.34		0.77
2009	11.3	17.1	28.4	3.45	97.7	15.1	11.7	17.0	53.9	1.35		0.73
2010	10.2	17.8	27.9	3.52	98.4	15.1	11.8	17.2	54.3	1.36		0.69
2011	9.2	18.3	27.5	3.60	99.0	15.1	11.9	17.3	54.7	1.37		0.65
2012	8.2	18.8	27.0	3.69	99.6	15.1	12.0	17.4	55.1	1.38		0.62
2013	7.4	19.1	26.6	3.77	100.2	15.1	12.0	17.5	55.5	1.39		0.58
2014	6.7	19.4	26.1	3.86	100.7	15.1	12.1	17.6	55.9	1.40		0.55
2015	6.0	17.3	23.3	3.94	91.9	15.1	11.0		65.8	1.65		0.61
2016	5.4	15.4	20.8	4.03	83.9	15.1	10.1		58.8	1.47		0.51
2017	4.9	13.7	18.6	4.12	76.7	15.1	9.2		52.4	1.31		0.42
2018	4.4	12.2	16.6	4.22	70.0	15.1	8.4		46.5	1.16		0.35
2019	4.0	10.8	14.8	4.31	63.9	15.1	7.7		41.1	1.03		0.29
2020	3.6	9.7	13.2	4.41	58.4	15.1	7.0		36.3	0.91		0.24
2021	3.2	8.6	11.8	4.51	53.3	15.1	6.4		31.8	0.80		0.20
2022	2.9	7.6	10.6	4.61	48.7	15.1	5.8		27.7	0.69		0.16
2023	2.6	6.8	9.4	4.72	44.5	15.1	5.3		24.0	0.60		0.13
2024	2.4	6.1	8.4	4.83	40.6	15.1	4.9		20.6	0.52		0.11
2025	2.1	5.4	7.5	4.94	37.1	15.1	4.5		17.5	0.44		0.09
2026	1.9	4.8	6.7	5.05	33.9	15.1	4.1		14.7	0.37		0.07
2027	1.7	4.3	6.0	5.16	30.9	15.1	3.7		12.1	0.30		0.05
2028	1.6	3.8	5.4	5.28	28.3	15.1	3.4		9.8	0.24		0.04
2029	1.4	3.4	4.8	5.40	25.8	15.1	3.1		7.6	0.19		0.03

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**Table HGT-2**  
**Hugoton Royalty Trust**  
**Distributable Income**

	Q4 12/31/99	Year 1999	Q1 3/31/00	Q2 6/30/00	Q3 9/30/00	Q4E 12/31/00	Year 2000E	Q1E 3/31/01	Q2E 6/30/01	Q3E 9/30/01	Q4E 12/31/01	Year 2001E
<b>Highlights</b>												
Revenue (\$mm) (80%)	20.4	63.1	20.0	19.8	28.2	33.4	101.4	52.2	49.8	37.1	37.6	176.7
Cash flow (\$mm) (80%)	14.4	42.2	14.1	13.9	20.8	25.5	74.3	42.4	40.4	28.8	29.2	140.7
Per unit	0.36	1.06	0.35	0.35	0.52	0.64	1.86	1.06	1.01	0.72	0.73	3.52
Tax credit (\$mm)	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8
Per unit	0.01	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.02
Distributable Income (\$mm)	12.2	33.1	10.9	11.3	16.2	18.3	56.7	37.7	35.7	24.1	24.5	122.0
Per unit	0.30	0.83	0.27	0.28	0.40	0.46	1.42	0.94	0.89	0.60	0.61	3.05
<b>Units</b> (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
<b>Volume</b>												
Natural Gas (bcf)	9.6	34.2	9.7	8.6	9.1	9.4	36.8	9.4	9.1	9.4	9.4	37.2
Natural Gas (mmcf)	104.2	102.1	105.5	96.0	98.4	102.7	100.9	102.0	102.0	102.0	102.0	102.0
Days	92	335	92	90	92	92	366	92	89	92	92	365
Oil (mb)	103	388	100	105	98	97	399	96	92	94	93	374
Oil (mbd)	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Days	92	342	92	90	92	92	366	92	89	92	92	365
Total (bcf)	10.2	36.5	10.3	9.3	9.6	10.0	39.2	10.0	9.6	9.9	9.9	39.5
<b>Price</b>												
Natural Gas (HH lagged two months)												
Henry Hub (\$/mmbtu)	2.66	2.18	2.35	2.82	3.94	4.83	3.49	7.35	7.19	5.18	5.16	6.22
Differential (\$/mmbtu)	0.24	0.06	0.04	0.29	0.37	0.72	0.35	0.70	0.60	0.50	0.40	0.56
HGT (\$/mcf)	2.42	2.12	2.32	2.54	3.57	4.11	3.14	6.65	6.59	4.68	4.76	5.66
Oil (\$/bbl) (WTI Cushing lagged two months)												
WTI Cushing	22.59	17.39	26.07	28.33	30.12	31.26	28.94	30.80	27.29	26.15	25.21	27.36
HGT	21.72	16.53	25.19	27.63	29.71	30.26	28.16	30.30	26.79	25.65	24.71	26.89
Total (\$/mcf)	2.49	2.16	2.43	2.68	3.65	4.17	3.23	6.56	6.47	4.66	4.72	5.60
<b>Revenue</b> (\$mm)												
Natural Gas	23.2	72.5	22.5	21.9	32.3	38.9	115.6	62.4	59.8	43.9	44.7	210.8
Oil	2.2	6.4	2.5	2.9	2.9	2.9	11.2	2.9	2.5	2.4	2.3	10.1
Total	25.4	78.9	25.0	24.8	35.2	41.8	126.8	65.3	62.2	46.4	47.0	220.9
<b>Cost</b> (\$mm)												
Tax, transport & other												
Production	3.0	11.0	3.3	3.2	3.9	4.6	15.0	3.9	3.8	3.9	3.9	15.4
Overhead	1.7	6.9	1.7	1.8	1.9	1.8	7.2	1.9	1.8	1.9	1.9	7.5
Total	7.4	26.2	7.4	7.4	9.2	9.9	34.0	12.3	11.8	10.4	10.5	45.0
<b>Cash flow</b> (\$mm)	18.1	52.8	17.6	17.4	26.0	31.8	92.8	53.0	50.4	35.9	36.5	175.9
Development	2.8	11.3	3.9	3.3	5.8	8.9	21.8	5.8	5.8	5.8	5.8	23.0
<b>Net proceeds</b> (\$mm)	15.2	41.4	13.7	14.1	20.3	23.0	71.1	47.3	44.7	30.2	30.7	152.9
<b>Royalty income</b> (\$mm)												
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.3
<b>Distributable income</b> (\$mm)	12.2	33.1	10.9	11.3	16.2	18.3	56.7	37.7	35.7	24.1	24.5	122.0
<b>Cost ratios</b>												
Tax and other/revenue	10%	10%	10%	10%	10%	8%	9%	10%	10%	10%	10%	10%
Production cost (\$/mcf)	0.29	0.30	0.32	0.35	0.40	0.46	0.38	0.39	0.39	0.39	0.39	0.39
Overhead cost (\$/mcf)	0.17	0.19	0.17	0.19	0.20	0.18	0.18	0.19	0.19	0.19	0.19	0.19

Note: The trust was formed on December 1, 1998. Also there is a two month lag between actual and reported production. As a result, the first year of operations includes only eleven months of actual production from December 1998 through October 1999.

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