

Natural Gas Royalty Trusts

A Weekly Analysis

July 24, 2003

Futures Curve Close to Normal

Summary and Recommendation

Stock price for recommended **San Juan Basin Royalty Trust (SJT)** seems to have appreciation potential relative to values implied by a futures price curve that seems to have a more normal shape by itself and in relation to oil. One-year futures at \$4.96 a million BTU's are closely aligned with six-year futures at \$4.74. Natural gas is only at a slight premium to crude oil on a heating basis. The premium rises modestly over time at about .02 per year compared to almost .03 per year for the past three decades. The oil curve seems to have its usual downward bias with one-year futures at \$28 a barrel and six-year futures near \$25 a barrel. Currently our best rationale for that bias is that hedgers are willing to pay for insurance while traders who take the other side of the transaction have to make money. Despite an apparent bias we still take futures as the ultimate consensus forecast. Meanwhile the week was relatively uneventful including the monthly declarations of distributions close enough to our projections considering that the results are relatively unmanaged from an investor relations point of view.

Kurt H. Wulff, CFA

Natural Gas and Oil Futures

July 23, 2003

	Year Ending July						Six
	2004	2005	2006	2007	2008	2009	Year
Natural Gas (\$/mmbtu)	4.96	4.69	4.61	4.67	4.72	4.77	4.74
Light Sweet Crude Oil (\$/bbl)	28.00	25.12	24.19	24.09	24.02	23.97	24.90
Natural Gas/Oil (6:1 = 1.0)	1.06	1.12	1.14	1.16	1.18	1.19	1.14

Source: Nymex, FutureSource, wsj.com, McDep Associates

Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 23-Jul 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Cross Timbers Royalty Trust	CRT	24.90	6.0	149	20.40	-	1.22
Hugoton RoyaltyTrust (46%)	HGT	17.29	18.4	320	15.60	-	1.11
San Juan Basin Royalty Trust	SJT	16.21	46.6	760	18.60	-	0.87

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

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Table SJT-1
San Juan Basin Royalty Trust
Present Value

Volume Decline (%/yr):	11	Price Escalation Post 2009 (%/yr):	2.9
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.1
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	2.1
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	4.1
PV/Volume (\$/mcf):	1.67	PV/EBITDA 2004:	8.6

Year	Volume			Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	(\$/unit)	Disc Factor	Present Value (\$/unit)
	Basic (bcf)	Enhanced (bcf)	Total (bcf)									
Total 2004 through 2030; years ending on 6/30												
	312	208	520	4.35	2260	350	271	187	1453	31.17	0.60	18.60
2004	34.7	0.0	34.7	3.67	127.6	11.5	15.3	10.5	90.3	1.94	0.97	1.88
2005	31.1	3.5	34.5	3.78	130.6	13.0	15.7	25.5	76.4	1.64	0.92	1.50
2006	27.8	6.6	34.3	3.68	126.2	13.0	15.1	24.5	73.5	1.58	0.86	1.36
2007	24.8	9.3	34.1	3.71	126.5	13.0	15.2	24.6	73.7	1.58	0.81	1.29
2008	22.2	11.7	33.9	3.76	127.7	13.0	15.3	24.8	74.5	1.60	0.77	1.23
2009	19.8	13.9	33.7	3.81	128.4	13.0	15.4	25.0	75.0	1.61	0.72	1.16
2010	17.7	15.8	33.5	3.92	131.4	13.0	15.8	25.6	76.9	1.65	0.68	1.12
2011	15.9	17.5	33.3	4.03	134.4	13.0	16.1	26.3	78.9	1.69	0.64	1.09
2012	14.2	15.6	29.8	4.15	123.6	13.0	14.8		95.8	2.06	0.61	1.24
2013	12.7	14.0	26.6	4.27	113.7	13.0	13.6		87.1	1.87	0.57	1.07
2014	11.3	12.5	23.8	4.39	104.6	13.0	12.6		79.0	1.70	0.54	0.91
2015	10.1	11.1	21.3	4.52	96.2	13.0	11.5		71.7	1.54	0.51	0.78
2016	9.1	10.0	19.0	4.65	88.5	13.0	10.6		64.9	1.39	0.48	0.67
2017	8.1	8.9	17.0	4.79	81.4	13.0	9.8		58.7	1.26	0.45	0.57
2018	7.2	8.0	15.2	4.93	74.9	13.0	9.0		52.9	1.14	0.42	0.48
2019	6.5	7.1	13.6	5.07	68.9	13.0	8.3		47.6	1.02	0.40	0.41
2020	5.8	6.4	12.2	5.22	63.4	13.0	7.6		42.8	0.92	0.38	0.35
2021	5.2	5.7	10.9	5.37	58.3	13.0	7.0		38.3	0.82	0.36	0.29
2022	4.6	5.1	9.7	5.52	53.6	13.0	6.4		34.2	0.73	0.33	0.25
2023	4.1	4.5	8.7	5.68	49.4	13.0	5.9		30.4	0.65	0.32	0.21
2024	3.7	4.1	7.8	5.85	45.4	13.0	5.4		27.0	0.58	0.30	0.17
2025	3.3	3.6	6.9	6.02	41.8	13.0	5.0		23.8	0.51	0.28	0.14
2026	3.0	3.3	6.2	6.19	38.4	13.0	4.6		20.8	0.45	0.26	0.12
2027	2.6	2.9	5.5	6.37	35.3	13.0	4.2		18.1	0.39	0.25	0.10
2028	2.4	2.6	5.0	6.56	32.5	13.0	3.9		15.6	0.34	0.23	0.08
2029	2.1	2.3	4.4	6.75	29.9	13.0	3.6		13.3	0.29	0.22	0.06
2030	1.9	2.1	4.0	6.94	27.5	13.0	3.3		11.2	0.24	0.21	0.05

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Table SJT-2
San Juan Basin Royalty Trust
Distributable Income

	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next
	12/31/02	2002	3/31/03	6/30/03	9/30/03	12/31/03	2003E	3/31/04	6/30/04	Twelve
										Months
										6/30/04
Highlights										
Revenue (\$mm) (75%)	20.4	78.9	31.0	35.5	33.7	30.4	130.5	32.8	30.8	127.6
Cash flow (\$mm) (75%)	15.6	59.7	24.9	28.9	26.7	24.3	104.8	26.5	24.7	102.2
Per unit	0.33	1.28	0.53	0.62	0.57	0.52	2.25	0.57	0.53	2.19
Tax credit (\$mm)	1.9	5.6					-			
Per unit	0.04	0.12					-			
Distributable Income (\$mm)	11.6	36.3	19.5	25.6	23.7	21.3	90.2	23.5	21.8	90.3
Per unit	0.25	0.78	0.42	0.55	0.51	0.46	1.93	0.50	0.47	1.94
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume										
Natural gas (mmbtu)	12.4	48.5	12.6	11.4	12.3	12.3	48.6	12.3	11.9	48.7
Heat Content(btu/cf)	1,064	1,050	1,084	1,094	1,060	1,060	1,074	1,060	1,060	1,060
Natural gas (bcf)	11.6	46.2	11.6	10.5	11.6	11.6	45.3	11.6	11.2	45.9
Natural Gas (mmcf)	126.2	126.6	126.5	117.5	125.9	125.9	124.0	125.9	125.9	125.9
Days	92	365	92	89	92	92	365	92	89	365
Oil (mb)	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Oil (mbd)	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.7	46.8	11.7	10.5	11.7	11.7	45.6	11.7	11.3	46.3
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	3.59	3.02	4.73	6.33	5.59	4.88	5.38	5.27	5.11	5.21
Differential (%)	40	30	32	35	33	33	34	33	33	34
Total	2.16	2.13	3.24	4.10	3.74	3.27	3.55	3.53	3.42	3.46
Natural gas (\$/mcf)	2.30	2.24	3.51	4.48	3.97	3.46	3.81	3.74	3.63	3.67
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	28.96	24.70	29.55	32.51	29.83	29.68	30.39	28.54	27.32	28.84
SJT	28.35	20.90	24.44	26.89	24.68	24.55	25.13	23.61	22.60	23.87
Total gas & oil (\$/mcf)	2.32	2.25	3.52	4.48	3.85	3.47	3.81	3.74	3.63	3.67
Revenue (\$mm)										
Natural Gas	26.7	103.3	40.9	46.9	44.5	40.1	172.4	43.3	40.7	168.6
Oil	0.6	2.0	0.4	0.4	0.4	0.4	1.6	0.4	0.4	1.5
Total	27.3	105.2	41.3	47.3	44.9	40.5	174.0	43.7	41.0	170.1
Cost (\$mm)										
Severance tax	3.1	10.5	4.2	4.8	5.5	4.1	18.6	4.4	4.1	18.0
Operating	3.4	15.2	3.9	3.9	3.8	4.1	15.7	4.1	3.9	15.8
Total	6.5	25.6	8.1	8.7	9.3	8.1	34.3	8.4	8.0	33.8
Cash flow (\$mm)										
Development	4.7	21.5	6.6	2.9	3.5	3.5	16.4	3.5	3.5	14.0
Net proceeds (\$mm)										
Royalty/Net proceeds	16.1	58.2	26.6	35.7	32.1	28.9	123.3	31.8	29.5	122.3
Royalty income (\$mm)										
Royalty/Net proceeds	12.1	43.6	19.9	26.8	24.1	21.7	92.5	23.8	22.1	91.7
Administration	0.5	2.0	0.4	0.2	0.4	0.4	1.4	0.4	0.4	1.5
One-time		5.3		0.9			0.9			-
Distributable income (\$mm)										
Distributable income	11.6	36.3	19.5	25.6	23.7	21.3	90.2	23.5	21.8	90.3
Severance tax/revenue	11.5%	9.9%	10.2%	10.2%	12.2%	10.0%	10.7%	10.0%	10.0%	10.6%
Operating cost (\$/mcf)	0.29	0.32	0.33	0.37	0.33	0.35	0.34	0.35	0.35	0.34
Development/Cash flow	22%	27%	20%	7%	10%	11%	12%	10%	11%	10%

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Table SJT-3
San Juan Basin Royalty Trust
Monthly Declarations

	<i>Apr-03</i>	<i>May-03</i>	<i>Jun-03</i>	<i>Jul-03</i>	<i>Aug-03</i>	<i>Sep-03</i>
Distribution (\$/unit)						
Declared	0.16	0.26	0.13	0.15		
Projected					0.19	0.18
Volume						
Natural gas (mmbtu)	3.62	4.06	3.76	4.20	3.97	4.10
Heat Content(btu/cf)	1,107	1,075	1,102	1,077	1,051	1,051
Natural gas (bcf)	3.27	3.78	3.41	3.90	3.78	3.90
Natural Gas (mmcf)	117	122	114	126	126	126
Days	28	31	30	31	30	31
Price						
Natural gas industry quotes lagged two months (\$/mmbtu)						
Henry Hub Daily/Futures	7.77	5.95	5.26	5.81	5.82	5.14
San Juan Monthly Index	4.58	5.91	3.71	4.03	5.03	4.70
SJT/Henry Hub	0.54	0.84	0.59	0.52	0.71	0.73
SJT/San Juan Index	0.91	0.84	0.84	0.75	0.82	0.80
SJT (\$/mmbtu)	4.16	4.97	3.10	3.01	4.13	3.76
SJT (\$/mcf)	4.60	5.34	3.42	3.24	4.35	3.96
Revenue (\$mm)						
Natural Gas	15.0	20.2	11.7	12.6	16.4	15.5
Other	0.1	0.1	(0.1)	(0.0)	(0.0)	(0.0)
Cost (\$mm)						
Severance tax	1.6	2.1	1.2	1.6	2.0	1.9
Operating	1.4	1.3	1.2	1.3	1.3	1.3
Total	3.0	3.3	2.4	2.8	3.3	3.2
Cash flow (\$mm)	12.1	16.9	9.2	9.8	13.1	12.2
Development	1.1	0.5	1.2	0.8	1.4	1.4
Net proceeds (\$mm)	11.0	16.4	7.9	9.0	11.7	10.9
Royalty income (\$mm)	8.3	12.3	6.0	6.8	8.8	8.2
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%
One time	0.9					
Distributable income (\$mm)	7.4	12.3	6.0	6.8	8.8	8.2
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.16	0.26	0.13	0.15	0.19	0.18
<i>Latest Twelve Month Average</i>						
Heat Content(btu/cf)	1,051	1,049	1,051	1,051		
Natural Gas (mmcf)	126	126	125	126		
SJT/Henry Hub	0.67	0.68	0.67	0.66		
SJT/San Juan Index	0.90	0.90	0.89	0.88		
Other revenue	(0.0)	(0.1)	(0.0)	(0.0)		
Operating	1.3	1.3	1.3	1.3		
Development	1.2	1.4	1.4	1.4		
Severance tax/revenue	10.2%	10.3%	10.3%	10.6%		

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