

Natural Gas Royalty Trusts

A Weekly Analysis

October 9, 2003

Frequently Asked Questions

Summary and Recommendation

It was a good week for natural gas particularly considering that price expectations for the fall are usually cautious. Six-year futures are back above the 40-week average. Estimated next twelve months distributions are 10.8%, 9.2% and 9.6% respectively for recommended San Juan Basin Royalty Trust (SJT), for Cross Timbers Royalty Trust (CRT) and for Hugoton Royalty Trust (HGT). Continuing our theme in *Meter Reader* we answer some question on royalty trusts.

Kurt H. Wulff, CFA

1. I am wondering about the suitability of SJT in IRA/ERISA accounts. I am aware that the MLP's produce UBTI creating problems for these tax deferred accounts and I'd like to know if SJT and the other royalty trusts have the same issues.

There is no problem, to our knowledge, with SJT in IRA/ERISA accounts.

2. My question relates to BR's latest disclosures and New Mexico's new spacing laws. I recently met somebody from one of the major gatherers in the SJ basin, and asked them how these developments would affect their gathering business. They replied that it wouldn't in the short term as their gathering system was already full and full for the next few years. The mid- to long-term benefit to them though was that it would probably keep the system full further into the future. This makes me wonder whether the impact of these disclosures will be less significant than expected as there isn't the capacity to move the extra production to the mainline pipelines. Do you know if this is a potential constraint or whether other pipelines have ample take-away capacity?

Flat production is a favorable outlook for what is often considered a declining asset.

3. Is it right to compare CRT with SJT and HGT, with 10X less revenue?

Though we have recommended CRT in the past, we have refrained from doing so in recent years because of size. We own it on a low cost basis and have traded some of it.

4. Is XTO managing the numbers and production coming from CRT?

No, by design, CRT holds interests in properties that are operated by others rather than XTO. In contrast, XTO operates the properties in which HGT has interests.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Neither he nor his spouse act contrary to a buy or sell rating.

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5. Was the dividend of CRT shares to XTO shareholders a one-time event or ongoing?

One-time.

6. What about the big jump in cap ex estimated in 2005 for HGT?

Our cap ex estimate is tied to a percentage of cash flow that if reinvested could keep production flat. It may not be spent, nor might production be flat. Within the mix of properties, the Wyoming part could probably grow, but the Hugoton part is probably in uninterrupted decline.

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 8-Oct 2003</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Hugoton RoyaltyTrust (46%)	HGT	19.61	18.4	360	15.10	-	1.30
Cross Timbers Royalty Trust	CRT	22.10	6.0	133	18.80	-	1.18
San Juan Basin Royalty Trust	SJT B	18.49	46.6	860	17.60	-	1.05

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

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

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 8-Oct 2003</i>	<i>EV/ Sales NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
Cross Timbers Royalty Trust	CRT	22.10	7.4	10.6	11	9.2	9.0
Hugoton RoyaltyTrust (46%)	HGT	19.61	6.7	9.1	10	9.6	7.0
San Juan Basin Royalty Trust	SJT B	18.49	6.4	7.9	9	10.8	7.5

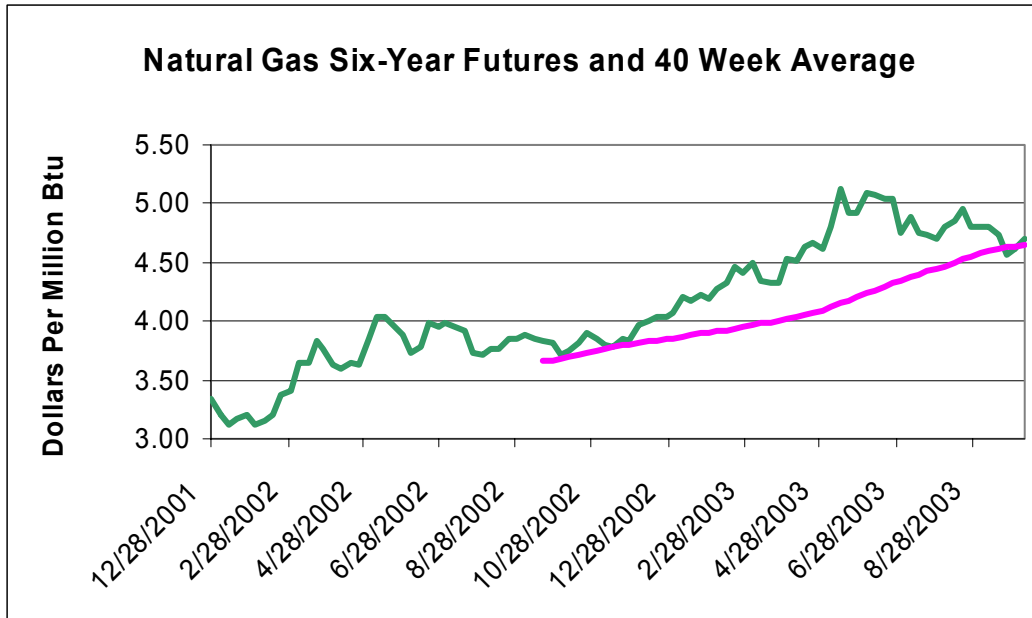
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Natural Gas and Oil Futures

October 8, 2003

	<i>Year Ending October</i>						<i>Six</i>
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Year</i>
Natural Gas (\$/mmbtu)	5.08	4.77	4.62	4.57	4.56	4.58	4.70
Light Sweet Crude Oil (\$/bbl)	28.28	25.68	25.31	25.50	25.65	25.94	26.06
Natural Gas/Oil (6:1 = 1.0)	1.08	1.11	1.10	1.07	1.07	1.06	1.08

Source: Nymex.com, McDep Associates

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