

## Sub \$5 Natural Gas and SJT

### Summary and Recommendation

As futures prices for October, the last month of the storage refill season for natural gas, trade below \$5 a million btu, we feature buy-recommended **San Juan Basin Royalty Trust (SJT)** in this weekly analysis. The lack of positive price momentum for most of 2006 for both natural gas futures and most North American natural gas stocks has reminded us not to expect immediate gains from new purchases. Natural gas for delivery over the next six years at \$7.60 a million btu is at about the same level as early August 2005. In contrast, SJT stock has declined by the classic one-third from its high in August 2005. We attach our projections for monthly and quarterly distributions by SJT that depend on latest commodity price quotes as well as a discounted cash flow calculation of present value of \$40 a share that depends on a long-term natural gas price of \$10 a million btu. A bullish scenario, by no means assured, would be a replay, perhaps partially, of the four fold gain in San Juan Basin stocks after a consolidation in 1978. Finally, for all the royalty trusts in this weekly analysis, latest projections indicate annual income of a median 7.9% for the U.S. stocks and 9.2% for the Canadian stocks.

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### Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 14-Sep 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>	
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	47.00	14.6	690	45.00	-	1.04	
Dorchester Minerals, L.P.	DMLP	26.48	28.2	750	27.00	-	0.98	
Permian Basin RT	PBT	15.71	46.6	730	16.50	-	0.95	
Cross Timbers Royalty Trust	CRT	43.70	6.0	260	46.00	-	0.95	
San Juan Basin Royalty Trust	SJT	B	34.60	46.6	1,610	40.00	-	0.87
Mesa RoyaltyTrust	MTR	62.76	1.9	120	75.00	-	0.84	
Hugoton RoyaltyTrust	HGT	26.46	40.0	1,060	34.00	-	0.78	
	<i>Total or Median</i>			5,200			0.95	
<b>Canadian Income Trusts (US\$)</b>								
Enerplus Resources Fund	ERF	50.33	123.0	6,190	47.00	0.11	1.06	
Pengrowth Energy Trust	PGH	21.31	161.4	3,440	20.00	0.17	1.05	
Penn West Energy Trust	PWE	B	38.28	246.0	9,420	39.00	0.13	0.98
Canadian Oil Sands Trust	COSWF	B	27.86	466.1	12,980	35.00	0.09	0.81
	<i>Total or Median</i>			32,000		0.12	1.02	

B = Buy

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.**

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 14-Sep 2006</i>	<i>Adjstd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Divd or Distrib NTM (%)</i>	
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	47.00	9.8	12.2	12.7	12.7	7.9	
Cross Timbers Royalty Trust	CRT	43.70	12.6	12.1	11.5	11.7	8.5	
Dorchester Minerals, L.P.	DMLP	26.48	8.3	11.3	11.1	17.5	8.6	
Mesa RoyaltyTrust	MTR	62.76	19.9	12.8	10.7	13.3	7.5	
San Juan Basin Royalty Trust	SJT	B	34.60	14.6	12.4	10.7	13.4	7.4
Permian Basin RT	PBT		15.71	8.0	10.5	10.0	11.2	8.9
Hugoton RoyaltyTrust	HGT		26.46	13.8	10.9	8.5	13.3	7.5
	<i>Median</i>			<i>12.6</i>	<i>12.1</i>	<i>10.7</i>	<i>13.3</i>	<i>7.9</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	27.86	24.4	11.8	9.6	12.8	6.7
Enerplus Resources Fund	ERF		50.33	9.4	7.6	8.1	17.3	8.9
Penn West Energy Trust	PWE	B	38.28	8.0	8.1	8.0	13.8	9.5
Pengrowth Energy Trust	PGH		21.31	7.9	6.9	7.2	11.5	12.6
	<i>Median</i>			<i>8.7</i>	<i>7.9</i>	<i>8.1</i>	<i>13.3</i>	<i>9.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 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**

	<i>Symbol</i>	<i>Revenue Royalty (%)</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Dist/ Ebitda</i>	<i>Dist/ Equity Ebitda</i>	<i>NTM Distribution (\$mm)</i>	<i>Dist. Yield (\$/un)</i>	<i>Dist. Yield (%)</i>
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.80	0.80	120	2.58	7.4
Hugoton RoyaltyTrust	HGT	-	89	0.63	0.63	79	1.99	7.5
Mesa RoyaltyTrust	MTR	-	74	0.81	0.81	9	4.71	7.5
Sabine Royalty Trust	SBR	100	54	1.00	1.00	54	3.70	7.9
Cross Timbers Royalty Trust	CRT	81	66	0.98	0.98	22	3.73	8.5
Dorchester Minerals, L.P.	DMLP	56	73	0.95	0.95	64	2.28	8.6
Permian Basin RT	PBT	29	34	0.90	0.90	65	1.41	8.9
	<i>Total or Median</i>		<i>73</i>	<i>0.90</i>	<i>0.90</i>	<i>400</i>		<i>7.9</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(8)	0.58	0.63	873	1.87	6.7
Enerplus Resources Fund	ERF	-	42	0.65	0.73	553	4.49	8.9
Penn West Energy Trust	PWE	-	37	0.66	0.76	895	3.64	9.5
Pengrowth Energy Trust	PGH	-	35	0.76	0.92	432	2.67	12.6
	<i>Total or Median</i>		<i>36</i>	<i>0.65</i>	<i>0.74</i>	<i>2,800</i>		<i>9.2</i>
Kinder Morgan Energy Partners	KMP			0.75	1.70			7.2

NTM = Next Twelve Months Ended September 30, 2007  
Ebitda = Earnings before interest, tax, depreciation and amortization

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## San Juan Basin Royalty Trust Monthly Declarations

	Aug-05	Sep-05	Oct-05	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
<b>Distribution (\$/unit)</b>									
Declared	0.22	0.20	0.24	0.22	0.22				
Projected						0.18	0.22	0.20	0.11
<b>Volume</b>									
Natural gas (mmbtu)	3.87	3.44	3.63	3.47	3.76	3.70	3.68	3.56	3.68
Heat Content(btu/cf)	1,066	1,089	1,053	1,066	1,066	1,066	1,064	1,065	1,065
Natural gas (bcf)	3.63	3.16	3.45	3.25	3.53	3.48	3.46	3.35	3.46
Natural Gas (mmcf)	121	102	111	105	118	112	112	112	112
Days	30	31	31	31	30	31	31	30	31
<b>Price</b>									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	6.14	6.98	7.65	7.23	5.95	5.89	7.04	6.82	4.89
San Juan Monthly Index	5.38	6.05	5.98	5.71	4.76	5.07	5.93	5.78	3.89
San Juan Index/Henry Hub	0.88	0.87	0.78	0.79	0.80	0.86	0.84	0.85	0.79
SJT/San Juan Index	0.92	0.90	0.94	0.94	1.05	0.92	0.92	0.92	0.92
SJT (\$/mmbtu)	4.93	5.47	5.64	5.36	5.02	4.65	5.45	5.30	3.56
SJT (\$/mcf)	5.25	5.96	5.94	5.71	5.35	4.96	5.80	5.65	3.79
<b>Revenue (\$mm)</b>									
Natural Gas	19.1	18.8	20.5	18.6	18.9	17.2	20.0	18.9	13.1
Other	0.0	0.0	0.1	0.4	0.5	0.2	0.2	0.2	0.2
<b>Cost (\$mm)</b>									
Severance tax	2.2	1.9	2.2	1.9	2.0	1.8	2.0	1.9	1.3
Operating	1.7	2.5	2.0	2.6	2.0	1.9	1.9	1.9	1.9
Total	4.0	4.5	4.3	4.6	4.0	3.7	3.9	3.8	3.2
<b>Cash flow (\$mm)</b>	15.1	14.4	16.3	14.4	15.3	13.7	16.3	15.3	10.1
Development	1.7	2.2	1.2	2.7	1.7	2.8	2.8	3.0	3.1
<b>Net proceeds (\$mm)</b>	13.5	12.2	15.1	11.8	13.6	11.0	13.5	12.3	7.0
<b>Royalty income (\$mm)</b>	10.1	9.1	11.4	8.8	10.2	8.2	10.1	9.2	5.3
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time				1.5					
<b>Distributable income (\$mm)</b>	10.1	9.1	11.4	10.3	10.2	8.2	10.1	9.2	5.3
<b>Units (millions)</b>	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Distribution (\$/unit)</b>	0.22	0.20	0.24	0.22	0.22	0.18	0.22	0.20	0.11
<i>Latest Twelve Month Average</i>									
Heat Content(btu/cf)	1,073	1,074	1,075	1,066	1,066	1,064	1,065	1,065	1,064
Natural Gas (mmcf)	122	120	119	113	112	113	113	113	113
San Juan Index/Henry Hub	0.87	0.86	0.85	0.79	0.78	0.78	0.78	0.79	0.80
SJT/San Juan Index	0.91	0.91	0.92	0.91	0.92	0.92	0.92	0.92	0.92
Other revenue	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Operating	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Development	1.6	1.6	1.5	2.8	2.8	2.8	3.0	3.1	3.2
Severance tax/revenue	10.2%	10.2%	10.4%	10.3%	10.2%	10.2%	10.1%	10.1%	10.1%

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### San Juan Basin Royalty Trust Next Twelve Months Operating and Financial Estimates

	Q3	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
<b>Highlights</b>									
Revenue (\$mm) (75%)	46.6	45.6	42.1	40.0	<b>197.1</b>	49.4	50.6	46.1	<b>186.1</b>
Cash flow (\$mm) (75%)	37.1	36.8	32.9	31.8	<b>160.4</b>	40.3	41.4	37.3	<b>150.8</b>
Per unit	0.80	0.79	0.71	0.68	<b>3.44</b>	0.86	0.89	0.80	<b>3.23</b>
Distributable Income (\$mm)	32.3	27.9	28.8	24.5	<b>131.7</b>	32.5	33.6	29.5	<b>120.0</b>
Per unit	0.69	0.60	0.62	0.53	<b>2.83</b>	0.70	0.72	0.63	<b>2.58</b>
<b>Units (millions)</b>	46.6	46.6	46.6	46.6	<b>46.6</b>	46.6	46.6	46.6	<b>46.6</b>
<b>Volume</b>									
Natural gas (mmbtu)	11.3	10.6	10.9	10.9	<b>44.0</b>	10.9	10.6	10.9	<b>43.3</b>
Heat Content(btu/cf)	1,076	1,068	1,066	1,065	<b>1,064</b>	1,065	1,064	1,065	<b>1,064</b>
Natural gas (bcf)	10.5	10.0	10.3	10.3	<b>41.3</b>	10.3	9.9	10.3	<b>40.7</b>
Natural Gas (mmcf)	113.8	112.1	111.5	111.5	<b>113.2</b>	111.5	111.5	111.5	<b>111.5</b>
Days	92	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Oil (mb)	0.0	0.0	0.0	0.0	<b>0.1</b>	0.0	0.0	0.0	<b>0.1</b>
Oil (mbd)	0.2	0.2	0.2	0.2	<b>0.2</b>	0.2	0.2	0.2	<b>0.2</b>
Days	92	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Total gas & oil (bcf)	10.6	10.1	10.4	10.4	<b>41.8</b>	10.4	10.0	10.4	<b>41.2</b>
<b>Price</b>									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	6.64	7.61	6.36	6.25	<b>8.09</b>	7.76	8.23	7.22	<b>7.37</b>
Differential (%)	18	26	21	24	<b>27</b>	24	24	24	<b>24</b>
Net to SJT (\$/mmbtu)	5.44	5.59	5.00	4.76	<b>5.86</b>	5.92	6.27	5.50	<b>5.61</b>
Natural gas (\$/mcf)	5.85	5.97	5.33	5.07	<b>6.24</b>	6.30	6.67	5.86	<b>5.97</b>
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	54.96	64.68	72.09	66.93	<b>66.19</b>	65.14	67.47	68.80	<b>67.09</b>
SJT	49.70	60.57	67.50	62.68	<b>61.98</b>	61.00	63.19	64.43	<b>62.82</b>
Total gas & oil (\$/mcf)	5.87	6.02	5.40	5.14	<b>6.29</b>	6.35	6.72	5.92	<b>6.02</b>
<b>Revenue (\$mm)</b>									
Natural Gas	61.2	59.5	54.7	52.0	<b>257.8</b>	64.6	66.2	60.1	<b>243.0</b>
Oil	0.8	1.2	1.4	1.3	<b>5.0</b>	1.3	1.3	1.3	<b>5.2</b>
Total	62.1	60.8	56.1	53.3	<b>262.8</b>	65.9	67.5	61.5	<b>248.2</b>
<b>Cost (\$mm)</b>									
Severance tax	6.6	6.1	5.6	5.3	<b>26.1</b>	6.5	6.7	6.1	<b>24.6</b>
Operating	6.1	5.7	6.6	5.6	<b>22.9</b>	5.6	5.6	5.6	<b>22.6</b>
Total	12.7	11.7	12.3	10.9	<b>49.0</b>	12.2	12.3	11.7	<b>47.2</b>
<b>Cash flow (\$mm)</b>	49.4	49.0	43.8	42.4	<b>213.8</b>	53.7	55.1	49.7	<b>201.0</b>
Development	5.7	11.0	7.2	8.9	<b>38.2</b>	9.6	9.6	9.6	<b>37.6</b>
<b>Net proceeds (\$mm)</b>	43.7	38.1	36.6	33.5	<b>175.6</b>	44.2	45.6	40.2	<b>163.4</b>
<b>Royalty income (\$mm)</b>	32.8	28.6	27.5	25.1	<b>131.7</b>	33.1	34.2	30.1	<b>122.6</b>
Royalty/Net proceeds	75%	75%	75%	75%	<b>75%</b>	75%	75%	75%	<b>75%</b>
Administration	0.5	0.6	(1.3)	0.6	<b>0.5</b>	0.6	0.6	0.6	<b>2.5</b>
One-time					<b>(0.5)</b>				<b>-</b>
<b>Distributable income (\$mm)</b>	32.3	27.9	28.8	24.5	<b>131.7</b>	32.5	33.6	29.5	<b>120.0</b>
Severance tax/revenue	10.6%	10.0%	10.1%	9.9%	<b>9.9%</b>	9.9%	9.9%	9.9%	<b>9.9%</b>
Operating cost (\$/mcf)	0.58	0.56	0.64	0.54	<b>0.55</b>	0.54	0.56	0.54	<b>0.55</b>
Development/Cash flow	11%	22%	16%	21%	<b>18%</b>	18%	17%	19%	<b>19%</b>

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# Natural Gas and Oil Royalty Trusts

## A Weekly Analysis

September 15, 2006

### San Juan Basin Royalty Trust Present Value

Oil Volume Decline (%/yr):	12	Oil Price Post 2007 (2006\$/bbl)	60.00
Nat Gas Volume Decline (%/yr):	12	Nat Gas Price Post 2007 (2006\$/mcf)	10.00
Volume/Reserves - Oil:	1.5	Real Discount Rate (%/yr):	7.0
Volume/Reserves - Nat Gas:	1.4	PV/Volume (\$/mcf):	3.41
Variable Cost (%):	15	PV/EBITDA 2007:	12.6
Cumul. Vol/Prod 2007:	17.7	Capex/Cash Flow (%):	12

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 9/30												
	1.0	540			4621	300	693	267	3360	72.08	0.55	40.00
2007	0.06	30.52	62.82	5.97	186.1	10.0	27.9	28.2	120.0	2.58	0.97	2.49
2008	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.90	3.67
2009	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.84	3.43
2010	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.79	3.21
2011	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.74	3.00
2012	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.69	2.80
2013	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.64	2.62
2014	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.60	2.45
2015	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.56	2.29
2016	0.06	30.52	55.20	8.60	265.9	10.0	39.9	26.6	189.5	4.06	0.53	2.14
2017	0.05	30.52	55.20	8.60	265.5	10.0	39.8		215.7	4.63	0.49	2.27
2018	0.05	26.86	55.20	8.60	233.7	10.0	35.0		188.6	4.05	0.46	1.86
2019	0.04	23.64	55.20	8.60	205.6	10.0	30.8		164.8	3.53	0.43	1.52
2020	0.04	20.80	55.20	8.60	180.9	10.0	27.1		143.8	3.08	0.40	1.24
2021	0.03	18.30	55.20	8.60	159.2	10.0	23.9		125.3	2.69	0.37	1.01
2022	0.03	16.11	55.20	8.60	140.1	10.0	21.0		109.1	2.34	0.35	0.82
2023	0.03	14.18	55.20	8.60	123.3	10.0	18.5		94.8	2.03	0.33	0.67
2024	0.02	12.47	55.20	8.60	108.5	10.0	16.3		82.2	1.76	0.31	0.54
2025	0.02	10.98	55.20	8.60	95.5	10.0	14.3		71.2	1.53	0.29	0.44
2026	0.02	9.66	55.20	8.60	84.0	10.0	12.6		61.4	1.32	0.27	0.35
2027	0.02	8.50	55.20	8.60	73.9	10.0	11.1		52.8	1.13	0.25	0.28
2028	0.01	7.48	55.20	8.60	65.1	10.0	9.8		45.3	0.97	0.23	0.23
2029	0.01	6.58	55.20	8.60	57.3	10.0	8.6		38.7	0.83	0.22	0.18
2030	0.01	5.79	55.20	8.60	50.4	10.0	7.6		32.8	0.70	0.20	0.14
2031	0.01	5.10	55.20	8.60	44.3	10.0	6.7		27.7	0.59	0.19	0.11
2032	0.01	4.49	55.20	8.60	39.0	10.0	5.9		23.2	0.50	0.18	0.09
2033	0.01	3.95	55.20	8.60	34.3	10.0	5.2		19.2	0.41	0.17	0.07
2034	0.01	3.47	55.20	8.60	30.2	10.0	4.5		15.7	0.34	0.16	0.05
2035	0.01	3.06	55.20	8.60	26.6	10.0	4.0		12.6	0.27	0.15	0.04
2036	0.00	2.69	55.20	8.60	23.4	10.0	3.5		9.9	0.21	0.14	0.03

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