

San Juan Showcase

Summary and Recommendation

Disclosures by **Burlington Resources (BR)** of expected future natural gas production in the San Juan Basin imply that our projections may be conservative for **San Juan Basin Royalty Trust (SJT)** as well as portions of **Cross Timbers Royalty Trust (CRT)** and **Mesa Royalty Trust (MTR)**. BR Executive Vice President Steve Shapiro seemed to agree that SJT, whose sole asset is a slice of BR production, is a potential showcase for BR's most important asset. Not only did Mr. Shapiro point to an inventory of projects greater than currently producing reserves, he further stated that the inventory has been growing every year for the past 15 years. Meanwhile, those three trusts with San Juan exposure and four similar entities appear to offer cash distributions for the next twelve months exceeding 8% of current stock price (see table The Account).

U.S. Natural Gas and Oil Royalty Trusts The Account

	<i>Symbol</i>	<i>Price (\$/un) 3-Mar 2005</i>	<i>Units</i>	<i>Market Value (\$)</i>	<i>Next Twelve Months Distrib. (\$/un)</i>	<i>NTM Distrib. Yield (%/yr)</i>
Cross Timbers Royalty Trust	CRT	44.00	400	17,600	3.17	7.2
San Juan Basin Royalty Trust	SJT	36.00	500	18,000	3.02	8.4
Hugoton Royalty Trust	HGT	30.12	500	15,060	2.54	8.4
Permian Basin Royalty Trust	PBT	15.29	1,200	18,348	1.29	8.4
Sabine Royalty Trust	SBR	41.64	400	16,656	3.66	8.8
Mesa RoyaltyTrust	MTR	63.65	200	12,730	5.84	9.2
Dorchester Minerals, L.P.	DMLP	23.00	700	16,100	2.25	9.8
	<i>Total</i>			<i>114,494</i>		<i>8.6</i>
Futures Strip						
12 Month - Oil (\$/bbl)		52.72				
12 Month - Natural Gas (\$/mmbtu)		7.25				
72 Month - Oil (\$/bbl)		46.27				
72 Month - Natural Gas (\$/mmbtu)		6.24				

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San Juan Basin Value Expanding

EVP Shapiro visited with analysts in Boston on March 2, the day after BR's meeting with analysts in NY that was available to all by webcast. The EVP and Chief Financial Officer declared that **Burlington Resources (BR)** can hold natural gas production in the San Juan Basin stable for the rest of the decade at 750 million cubic feet per day (mmcf) by spending \$200 million a year. Since production from existing reserves normally declines, a stable trend can imply expanding reserves and value. BR currently has an inventory of new projects in the San Juan Basin of 2.9 trillion cubic feet (tcf) of which about 1.3 tcf are counted as proven undeveloped reserves.

Mr. Shapiro further states that the inventory of supply enhancement projects in that area has increased every year for the past 15 years. That suggests that the end is not in sight for expanding reserves.

The rate of development spending would be about an eighth of current cash flow generation. That contrasts to the quarter that we had been assuming when cash flow was at lower levels. As a dominant operator, BR has been able to contain drilling cost increases in the San Juan Basin to 3.0% a year for the past ten years compared to industry experience of 6.7% a year. Permitting and accessibility limit the rate of development.

Without new spending, conventional tight gas production would decline about 10% a year while coal seam gas production would decline about 15% a year. That suggests that the reserves associated with current production of 750 mmcf are about 2.5 tcf presuming a 9-year life index. Thus, BR's San Juan reserves are 2.5 tcf proven producing, 1.3 proven undeveloped and 1.6 unbooked for a total of 5.4 tcf.

BR Expectation Suggests More Potential for SJT

San Juan Basin Royalty Trust (SJT) net production, almost all operated by BR, is equivalent to about 12% of BR's production in the basin. Last year BR spent \$17 million on the SJT properties, a little less than the pro-rata portion of the spending Mr. Shapiro cites. Indeed SJT's production has been flat to inclining.

Practically none of the reserves associated with new projects are included in the Trust's disclosure of total reserves of 240 bcf on the understated royalty basis. The reserves that we estimate are about 280 bcf for existing production and 280 bcf for enhancement for a total of 560 bcf. Twelve percent of BR's proven and unbooked reserves would be 650 bcf and climbing.

Just as our present value of \$30 for SJT appears linked to 560 bcf it also relates to \$40 oil. Long-term oil is not \$40. Instead the six-year quote we track is \$46 and climbing.

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SJT Suggests More Potential for BR

Since SJT represents a pure slice of BR's most important asset, it behooves BR, in our opinion, to do every thing it can to help investors in SJT appreciate the prospects for future production. Mr. Shapiro cited legal restraints that keep BR from regular disclosure of information relevant to SJT.

The BR CFO speaks of the "arbitrage" value of SJT for BR. On our current estimates SJT has 5% of the Present Value of BR while the stock market implies that SJT has 7% of the Enterprise Value of BR. In other words, BR stock could be perhaps 50% higher to be valued like SJT.

Mr. Shapiro's reservations include a concern that the appeal of royalty trusts might change with interest rates. He also questions the size of the market for any new royalty trust that BR may form.

Perhaps BR management can do a superior job in creating value in the next several years. We hope so. If not there is a proven alternative readily available.

Valuation a Moving Target

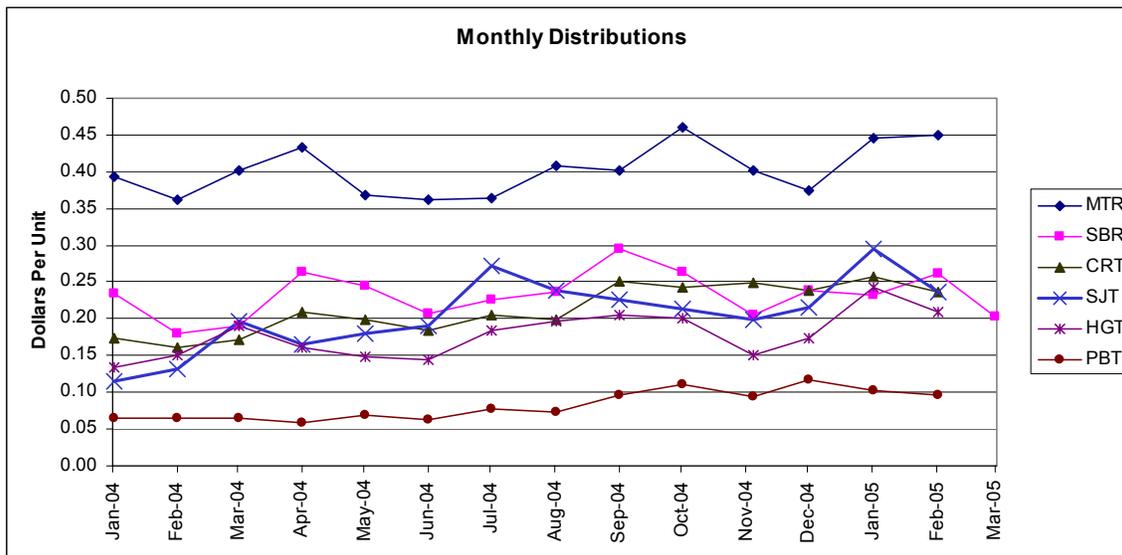
The largest market cap trust, SJT, is trading at a McDep Ratio of 1.20, the point where we would normally not expect further immediate appreciation (see table Rank by McDep Ratio). When we have reached that point in the past we have subsequently raised our estimate of present value. While we have no plans to do so immediately, we noted above that reserves of 560 bcf that we estimate may be 650 bcf and rising. Moreover, our commodity price assumption is \$40 a barrel constant real, while six-year oil is quoted at \$46 a barrel and rising.

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

	<i>Symbol</i>	<i>Price (\$/sh) 3-Mar 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>EV/ Ebitda</i>	<i>McDep Ratio</i>
Permian Basin RT (41%)	PBT	15.29	19.1	290	11.00	10.9	1.39
Sabine Royalty Trust	SBR	41.64	14.6	610	33.00	11.4	1.26
Cross Timbers Royalty Trust	CRT	44.00	6.0	260	36.00	13.7	1.22
San Juan Basin Royalty Trust	SJT	36.00	46.6	1,680	30.00	10.6	1.20
Hugoton RoyaltyTrust (46%)	HGT	30.12	18.4	550	27.00	9.6	1.12
Dorchester Minerals, L.P.	DMLP	23.00	27.0	620	21.00	10.2	1.10
Mesa RoyaltyTrust	MTR	63.65	1.9	120	60.00	10.7	1.06
	<i>Total or Median</i>			<i>4,100</i>		<i>10.7</i>	<i>1.20</i>

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Index of Recent U.S. Royalty Trust Research

Single Trust Analyses

Date	Symbol	Stock	Theme
11-Feb	HGT	Hugoton Royalty Trust	Improving Volume Trend
3-Feb	SJT	San Juan Basin Royalty Trust	Real Value with Income
22-Nov	* MTR	Mesa Royalty Trust	Hugoton Predictability, San Juan Surprise
12-Nov	* CRT	Cross Timbers Royalty Trust	Low Risk, Long Life

U.S. Natural Gas Royalty Trusts - A Weekly Analysis

25-Feb		New High for Six-Year Oil
18-Feb		Founding Father Speaks
11-Feb	*	New High
4-Feb	*	Pioneer's Hugoton Deal
28-Jan	*	Present Value at \$40 Oil
21-Jan	*	Overlooked Asset Class
13-Jan	*	Green on the Screen
7-Jan	*	All Barrels Are Not the Same
31-Dec	*	Charitable Gifts

* Archived on www.mcdep.com

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