

## HGT Boosts Reinvestment

### Summary and Recommendation

A timely investment, we believe, **Hugoton Royalty Trust (HGT)** will likely pay a distribution of 8.9% in the next twelve months despite increasing reinvestment spending to 32% of cash flow. We attach our models of HGT that back up the regular calculations in our weekly royalty trust industry analysis. While **San Juan Basin Royalty Trust (SJT)** is the only U.S. royalty trust with an official buy rating, we also regard the smaller peers including HGT as similarly attractive long-term income investments with natural gas and/or oil commodity price opportunity. HGT was created by buy-recommended **XTO Energy (XTO)** whose chief executive likes to summarize the XTO business model in part by how much cash flow needs to be reinvested to keep volume constant. HGT is almost at the point where new capacity matches the natural decline in existing capacity. Income investors often react more negatively initially to the near-term reduction in income than positively to the increment to capacity for future production. Finally, latest projections indicate annual income of a median 8.9% for the U.S. stocks and 8.9% 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) 7-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>								
Dorchester Minerals, L.P.	DMLP	28.36	28.2	800	27.00	-	1.05	
Sabine Royalty Trust	SBR	47.27	14.6	690	45.00	-	1.05	
Cross Timbers Royalty Trust	CRT	45.95	6.0	280	46.00	-	1.00	
Permian Basin RT	PBT	15.90	46.6	740	16.50	-	0.96	
San Juan Basin Royalty Trust	SJT	B	36.67	46.6	1,710	40.00	-	0.92
Mesa RoyaltyTrust	MTR	63.00	1.9	120	75.00	-	0.84	
Hugoton RoyaltyTrust	HGT	27.25	40.0	1,090	34.00	-	0.80	
	<i>Total or Median</i>			<i>5,400</i>			<i>0.96</i>	
<b>Canadian Income Trusts (US\$)</b>								
Enerplus Resources Fund	ERF	54.53	123.1	6,710	47.00	0.11	1.14	
Pengrowth Energy Trust	PGH	22.49	161.0	3,620	20.00	0.16	1.10	
Penn West Energy Trust	PWE	B	38.90	246.0	9,570	39.00	0.13	1.00
Canadian Oil Sands Trust	COSWF	B	29.39	466.1	13,700	35.00	0.09	0.85
	<i>Total or Median</i>			<i>33,600</i>		<i>0.12</i>	<i>1.05</i>	

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.

	Symbol/ Rating	Price (\$/sh) 7-Sep 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	47.27	9.8	11.0	11.6	11.6	8.6
Cross Timbers Royalty Trust	CRT	45.95	12.6	11.2	11.2	11.3	8.8
Dorchester Minerals, L.P.	DMLP	28.36	8.3	10.0	10.6	15.7	8.9
San Juan Basin Royalty Trust	SJT	B	36.67	13.8	10.6	9.7	11.1
Mesa RoyaltyTrust	MTR	63.00	19.9	11.6	9.7	11.8	8.5
Permian Basin RT	PBT	15.90	8.0	9.7	9.3	10.3	9.7
Hugoton RoyaltyTrust	HGT	27.25	13.8	9.5	7.6	11.2	8.9
	<i>Median</i>		12.6	10.6	9.7	11.3	8.9
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	B	29.39	24.4	11.2	9.5	12.5
Enerplus Resources Fund	ERF		54.53	9.4	7.3	8.3	16.4
Pengrowth Energy Trust	PGH		22.49	7.5	6.9	7.6	13.1
Penn West Energy Trust	PWE	B	38.90	8.0	7.2	7.2	11.2
	<i>Median</i>			8.7	7.3	8.0	12.8

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

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
<b>U.S. Royalty Trusts</b>							
Mesa RoyaltyTrust	MTR	-	75	0.83	0.83	10	5.36
Sabine Royalty Trust	SBR	100	56	1.00	1.00	59	4.08
Cross Timbers Royalty Trust	CRT	81	68	0.99	0.99	24	4.06
Dorchester Minerals, L.P.	DMLP	56	74	0.94	0.94	71	2.52
Hugoton RoyaltyTrust	HGT	-	90	0.68	0.68	97	2.43
San Juan Basin Royalty Trust	SJT	-	98	0.88	0.88	154	3.31
Permian Basin RT	PBT	29	36	0.91	0.91	72	1.55
	<i>Total or Median</i>		74	0.91	0.91	500	8.9
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	-	(9)	0.55	0.61	887	1.90
Enerplus Resources Fund	ERF	-	47	0.63	0.71	562	4.57
Penn West Energy Trust	PWE	-	39	0.59	0.68	909	3.70
Pengrowth Energy Trust	PGH	-	38	0.78	0.94	438	2.72
	<i>Total or Median</i>		39	0.61	0.70	2,800	8.9
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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## Hugoton Royalty Trust Distributable Income

	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	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) (80%)	40.5	36.2	36.9	<b>171.2</b>	49.7	50.0	44.9	<b>181.4</b>
Cash flow (\$mm) (80%)	31.2	27.4	28.0	<b>133.6</b>	39.7	39.9	35.3	<b>142.9</b>
Per unit	0.78	0.69	0.70	<b>3.34</b>	0.99	1.00	0.88	<b>3.57</b>
Distributable Income (\$mm)	21.0	16.0	16.6	<b>92.6</b>	28.2	28.5	23.8	<b>97.1</b>
Per unit	0.52	0.40	0.41	<b>2.32</b>	0.71	0.71	0.60	<b>2.43</b>
<b>Units</b> (millions)	40.0	40.0	40.0	<b>40.0</b>	40.0	40.0	40.0	<b>40.0</b>
<b>Volume</b>								
Natural Gas (bcf)	7.2	7.4	7.4	<b>29.4</b>	7.4	7.2	7.4	<b>29.4</b>
Natural Gas (mmcf)	80.6	80.6	80.6	<b>80.6</b>	80.6	80.6	80.6	<b>80.6</b>
Days	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Oil (mb)	83	85	85	<b>332</b>	85	83	85	<b>339</b>
Oil (mbd)	0.9	0.9	0.9	<b>0.9</b>	0.9	0.9	0.9	<b>0.9</b>
Days	89	92	92	<b>365</b>	92	89	92	<b>365</b>
Total (bcf)	7.7	7.9	7.9	<b>31.4</b>	7.9	7.7	7.9	<b>31.5</b>
<b>Price</b>								
Natural Gas (HH lagged two months)								
Henry Hub (\$/mmbtu)	7.61	6.36	6.53	<b>8.16</b>	9.13	9.50	8.11	<b>8.32</b>
Differential (%)	17	17	17	<b>20</b>	17	17	17	<b>17</b>
HGT (\$/mcf)	6.33	5.29	5.43	<b>6.53</b>	7.59	7.90	6.74	<b>6.91</b>
Oil (\$/bbl) (WTI Cushing lagged two months)								
WTI Cushing	64.68	72.09	69.28	<b>66.78</b>	69.38	71.38	72.51	<b>70.64</b>
HGT	63.54	70.81	68.06	<b>65.53</b>	68.16	70.04	71.15	<b>69.35</b>
Total (\$/mcf)	6.60	5.71	5.81	<b>6.81</b>	7.84	8.14	7.07	<b>7.21</b>
<b>Revenue</b> (\$mm)								
Natural Gas	45.4	39.2	40.3	<b>192.3</b>	56.3	56.7	50.0	<b>203.3</b>
Oil	5.3	6.1	5.8	<b>21.7</b>	5.8	5.8	6.1	<b>23.5</b>
Total	50.6	45.3	46.1	<b>214.0</b>	62.2	62.5	56.1	<b>226.8</b>
<b>Cost</b> (\$mm)								
Tax, transport & other	4.9	4.2	4.3	<b>19.1</b>	5.8	5.8	5.2	<b>21.1</b>
Production	4.8	4.8	4.8	<b>19.9</b>	4.8	4.8	4.8	<b>19.1</b>
Overhead	2.0	2.0	2.0	<b>8.0</b>	2.0	2.0	2.0	<b>8.0</b>
Total	11.6	11.0	11.1	<b>47.0</b>	12.6	12.6	12.0	<b>48.2</b>
<b>Cash flow</b> (\$mm)	39.0	34.3	35.0	<b>167.1</b>	49.6	49.9	44.1	<b>178.6</b>
Development	12.6	14.2	14.2	<b>50.9</b>	14.2	14.2	14.2	<b>56.8</b>
<b>Net proceeds</b> (\$mm)	26.4	20.1	20.8	<b>116.2</b>	35.4	35.7	29.9	<b>121.8</b>
<b>Royalty income</b> (\$mm)	21.1	16.1	16.7	<b>92.9</b>	28.3	28.5	23.9	<b>97.5</b>
Royalty/Net proceeds	80%	80%	80%	<b>80%</b>	80%	80%	80%	<b>80%</b>
Administration	0.2	0.1	0.1	<b>0.3</b>	0.1	0.1	0.1	<b>0.3</b>
<b>Distributable income</b> (\$mm)	21.0	16.0	16.6	<b>92.6</b>	28.2	28.5	23.8	<b>97.1</b>
Tax and other/revenue	9.6%	9.3%	9.3%	<b>8.9%</b>	9.3%	9.3%	9.3%	<b>9.3%</b>
Production cost (\$/mcf)	0.62	0.60	0.60	<b>0.63</b>	0.60	0.62	0.60	<b>0.61</b>
Overhead cost (\$/mcf)	0.26	0.25	0.25	<b>0.25</b>	0.25	0.26	0.25	<b>0.25</b>
Development/Cash flow	0.32	0.41	0.41	<b>0.30</b>	0.29	0.28	0.32	<b>0.32</b>

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## Hugoton Royalty Trust Monthly Declarations

	May-05	Jun-05	Jul-05	Aug-05	May-06	Jun-06	Jul-06	Aug-06
<b>Distribution</b> (\$/unit)								
Declared	0.19	0.22	0.21	0.18	0.17	0.17	0.17	0.12
Projected								
<b>Volume</b>								
Natural Gas (bcf)	2.47	2.45	2.58	2.49	2.44	2.46	2.53	2.40
Natural Gas (mmcf)	80	82	83	83	79	82	81	80
Days	31	30	31	30	31	30	30	30
<b>Price</b>								
Natural gas industry quotes lagged two months (\$/mmbtu)								
Henry Hub Index/Futures	6.30	7.33	6.80	6.14	7.13	7.25	7.23	5.95
HGT/Henry Hub	0.89	0.87	0.93	0.93	0.86	0.84	0.84	0.91
HGT (\$/mcf)	5.62	6.36	6.34	5.74	6.13	6.08	6.07	5.42
<b>Revenue</b> (\$mm)								
Natural Gas	13.9	15.6	16.3	14.3	15.0	14.9	15.3	13.0
Other	0.1	(0.2)	(0.2)	0.1	(0.0)	0.3	0.1	0.4
Total	14.0	15.4	16.1	14.3	14.9	15.2	15.4	13.4
<b>Cost</b> (\$mm)								
Production	1.5	1.4	1.7	1.5	1.4	1.6	2.1	1.7
Overhead	0.6	0.7	0.7	0.7	0.6	0.7	0.7	0.7
Total	2.2	2.0	2.3	2.2	2.0	2.4	2.9	2.4
<b>Cash flow</b> (\$mm)	11.9	13.3	13.8	12.2	12.9	12.9	12.6	10.9
Development	2.4	2.4	3.3	3.3	4.2	4.2	4.2	5.0
<b>Net proceeds</b> (\$mm)	9.5	10.9	10.5	8.9	8.7	8.7	8.4	5.9
<b>Royalty income</b> (\$mm)	7.6	8.7	8.4	7.1	7.0	6.9	6.7	4.8
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%
<b>Distributable income</b> (\$mm)	7.6	8.7	8.4	7.1	7.0	6.9	6.7	4.8
<b>Units</b> (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
<b>Distribution</b> (\$/unit)	0.19	0.22	0.21	0.18	0.17	0.17	0.17	0.12
<i>Latest Twelve Month Average</i>								
Natural Gas (mmcf)	82	82	82	82	82	82	82	81
HGT/Henry Hub	0.88	0.88	0.89	0.90	0.82	0.82	0.81	0.81
Other revenue (\$mm)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Development (\$mm)	2.0	2.1	2.2	2.4	3.8	4.0	4.1	4.2
Production (\$mm)	1.5	1.5	1.5	1.5	1.6	1.7	1.7	1.7
Overhead (\$mm)	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7

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