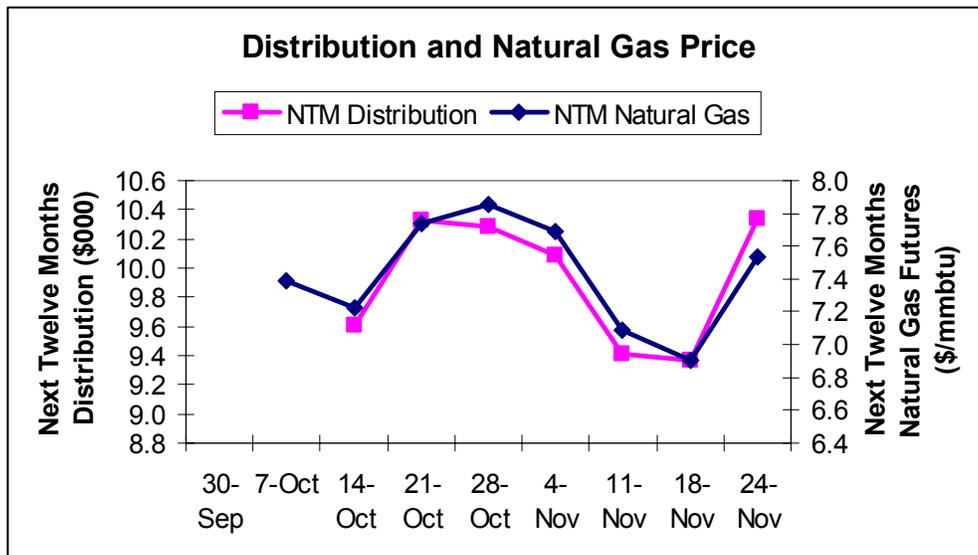


## Distribution Correlation

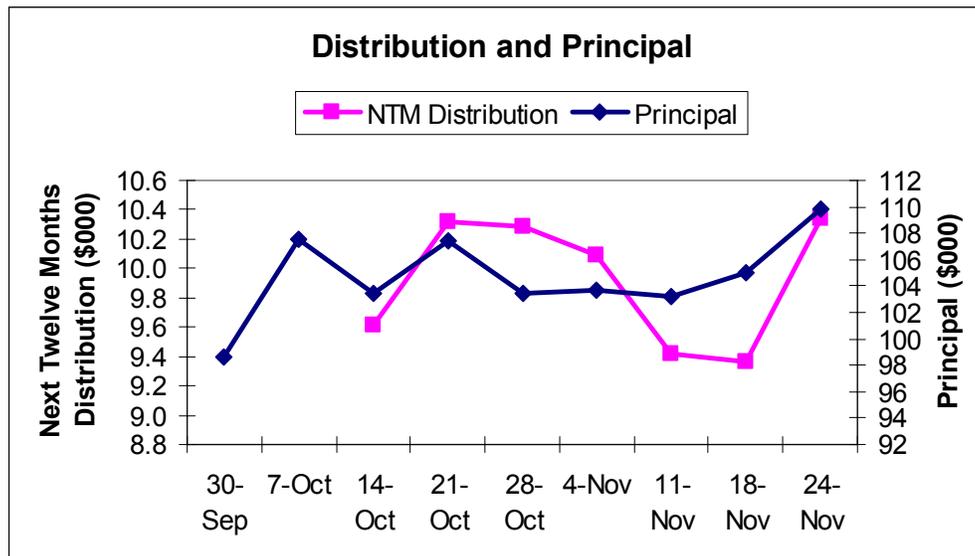
### Summary and Recommendation

The tight relationship of projected Next Twelve Months Distribution with natural gas futures held in the past week as both advanced sharply. That is not much of a surprise since we make the projection using natural gas price and the latter went up recently. The Principal value of an account holding roughly equal amounts of seven income stocks also correlated with rising NTM Distribution in the past week, but Principal value further depends on longer term expectations. By statistical standards, the correlation factor has been 93% for NTM distribution and natural gas price and 54% for NTM Distribution and Principal value since we started regular analysis eight weeks ago. We append the summary and recommendation section of the latest detailed analysis of one of the stocks, Mesa Royalty Trust, emailed to clients on November 22.

Kurt H. Wulff, CFA



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.



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

	<i>Symbol</i>	<i>Price (\$/un)</i> 24-Nov 2004	<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	41.49	400	16,596	3.28	7.9
Dorchester Minerals, L.P.	DMLP	23.65	700	16,554	2.28	9.6
Hugoton Royalty Trust	HGT	29.82	500	14,910	2.99	10.0
Mesa RoyaltyTrust	MTR	68.89	200	13,778	6.28	9.1
Permian Basin Royalty Trust	PBT	14.78	1,200	17,736	1.22	8.3
Sabine Royalty Trust	SBR	36.98	400	14,792	3.73	10.1
San Juan Basin Royalty Trust	SJT	30.91	500	15,455	3.45	11.2
<i>Total</i>				<i>109,821</i>		<i>9.4</i>
<b>Futures Strip</b>						
12 Month - Oil (\$/bbl)		47.72				
12 Month - Natural Gas (\$/mmbtu)		7.53				
72 Month - Oil (\$/bbl)		41.51				
72 Month - Natural Gas (\$/mmbtu)		6.20				

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**Mesa Royalty Trust**  
**Hugoton Predictability, San Juan Surprise**

<i>Symbol</i>	MTR	<i>Ebitda Next Twelve Months ending 12/31/05 (US\$mm)</i>	11
<i>Rating</i>	None	<i>North American Natural Gas/Ebitda (%)</i>	78
<i>Price (US\$/sh)</i>	68.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/19/04	<i>Adjusted Reserves/Production NTM</i>	15.0
<i>Shares (mm)</i>	1.86	<i>EV/Ebitda</i>	11.3
<i>Market Capitalization (US\$mm)</i>	127	<i>PV/Ebitda</i>	9.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	2
<i>Enterprise Value (EV) (US\$mm)</i>	127	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	4.65
<i>Present Value (PV) (US\$mm)</i>	102	<i>Present Value Proven Reserves(US\$/boe)</i>	16.47
<i>Net Present Value (US\$/unit)</i>	55	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.74
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	5.83
<i>McDep Ratio - EV/PV</i>	1.24	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.5	<i>Distribution Next Twelve Months (US\$/sh)</i>	5.83

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

**Summary and Recommendation**

Units of small cap **Mesa Royalty Trust (MTR)** offer a high quality income stream from predictable natural gas production in the Hugoton field of Kansas and surprising volume from the San Juan Basin of New Mexico. Hugoton properties operated by Pioneer Natural Resources (PXD) account for about 42% of value while San Juan Basin properties operated by **ConocoPhillips (COP)** account for about 58% of value. The longest reported reserve life index among peers supports a unit price implying a distribution yield of 8.5% a year. Other advantages include free management, no hedges, no debt, no corporate double taxation, and deferral of unitholder income taxation. Units of the trust first traded 25 years ago this month, launching a wave of new trust issues. Coincidentally in our first single-stock analysis of the trust in early 1980 the distribution yield was 8.1% and the gain in the price of the units since then has matched inflation to turn a nominal yield into a real yield.

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