

## Supply Creation

### Summary

Volume trends for seven income stocks may be reflecting supply creation stimulated by increased investment justified by higher commodity price. Five of the seven stocks had volume increases for the quarter just ended. Distributions also depend directly on commodity price that we take from the futures market for our projection. Because of a time lag, recent natural gas and oil price increases will have their dramatic effect beginning in the fourth quarter of 2005. Both volume and price contribute to an estimated next twelve months (NTM) distribution yield of an average 10.3%, up from a median 7.4% for the trailing twelve months. **San Juan Basin Royalty Trust (SJT)** offers the most market liquidity. **Permian Basin Royalty Trust (PBT)** has new investors who purchased about \$120 million worth of units as **Burlington Resources (BR)** reduced its ownership to 43%.

*McDep will be on vacation from August 20 through September 2.*

### Current Income

Stocks in the “account” are ranked by income expectation. The illustrative account was initiated with an investment of \$98,600 on September 30, 2004.

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

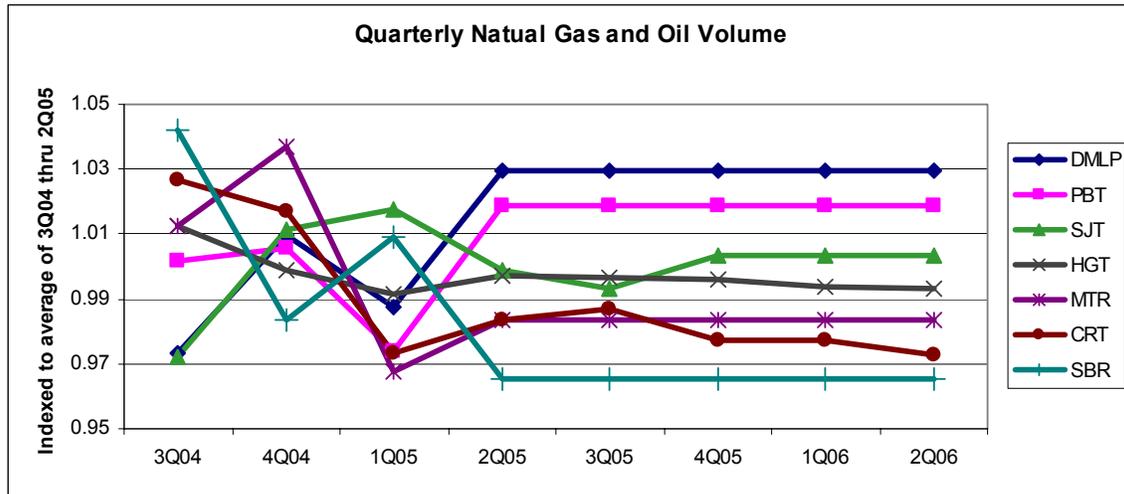
#### The Account

	<i>Symbol</i>	<i>Price (\$/un) 18-Aug 2005</i>	<i>Units</i>	<i>Market Value (\$)</i>	<i>Next Twelve Months Distrib. (\$/un)</i>	<i>NTM Distrib. Yield (%/yr)</i>
Sabine Royalty Trust	SBR	44.23	400	17,692	4.18	9.4
San Juan Basin Royalty Trust	SJT	41.74	500	20,870	4.07	9.7
Mesa Royalty Trust	MTR	67.05	200	13,410	6.66	9.9
Cross Timbers Royalty Trust	CRT	39.20	400	15,680	4.05	10.3
Hugoton Royalty Trust	HGT	31.84	500	15,920	3.42	10.7
Dorchester Minerals, L.P.	DMLP	25.20	700	17,640	2.74	10.9
Permian Basin Royalty Trust	PBT	14.75	1,200	17,700	1.65	11.2
	<i>Total</i>			<i>118,912</i>		<i>10.3</i>
Futures Strip						
		12 Month - Oil (\$/bbl)		64.74		
		12 Month - Natural Gas (\$/mmbtu)		9.31		
		72 Month - Oil (\$/bbl)		61.38		
		72 Month - Natural Gas (\$/mmbtu)		7.93		

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.

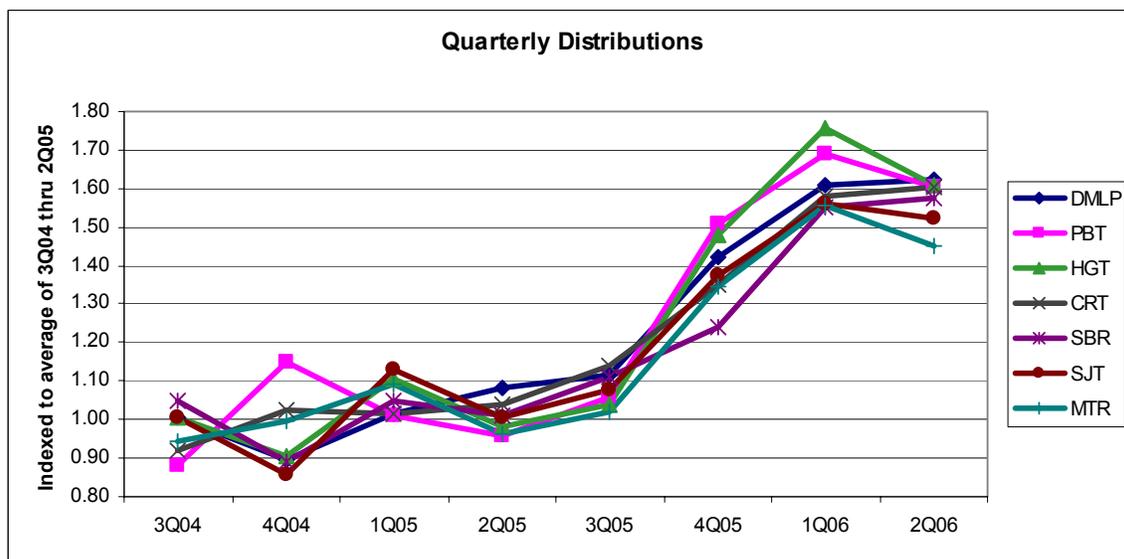
**Future Volume**

Projected volume falls within about 3% of the actual rate of production for the past four quarters. The projections are more for a frame of reference than to suggest any special insight.



**Future Distributions**

Projected quarterly distributions illustrate the lagged response to recent price gains. For those who think the stock market typically looks six months ahead, now may be timely to be interested in the seven income stocks. Projected distributions for the first quarter next year are 60% higher than for the quarter just ended.



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.

## Valuation Rank

The rank by McDep Ratio attempts to highlight the stocks that may be more or less recognized for their identifiable potential. The order is descending to suggest that stocks near the bottom have a chance to move up.

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

	<i>Symbol</i>	<i>Price (\$/sh) 18-Aug 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>EV/ Ebitda NTM</i>	<i>McDep Ratio</i>
Sabine Royalty Trust	SBR	44.23	14.6	650	40.00	10.6	1.11
San Juan Basin Royalty Trust	SJT	41.74	46.6	1,950	40.00	9.5	1.04
Permian Basin RT (57%)	PBT	14.75	26.6	390	15.00	8.2	0.98
Dorchester Minerals, L.P.	DMLP	25.20	28.2	710	26.00	8.5	0.97
Hugoton RoyaltyTrust (46%)	HGT	31.84	18.4	590	34.00	8.0	0.94
Mesa RoyaltyTrust	MTR	67.05	1.9	130	75.00	9.3	0.89
Cross Timbers Royalty Trust	CRT	39.20	6.0	240	45.00	9.6	0.87
<i>Total or Median</i>				<i>4,700</i>		<i>9.3</i>	<i>0.97</i>

## Factors Influencing Present Value

The McDep Ratio depends on estimated present value. Reserves listed may be higher than reported numbers. Concentration on natural gas, reserve life and revenue royalty influence the multiple of present value to cash flow, PV/Ebitda. Trusts with a revenue royalty get a free ride on capital expenditures by others and may have cash flow that is less volatile.

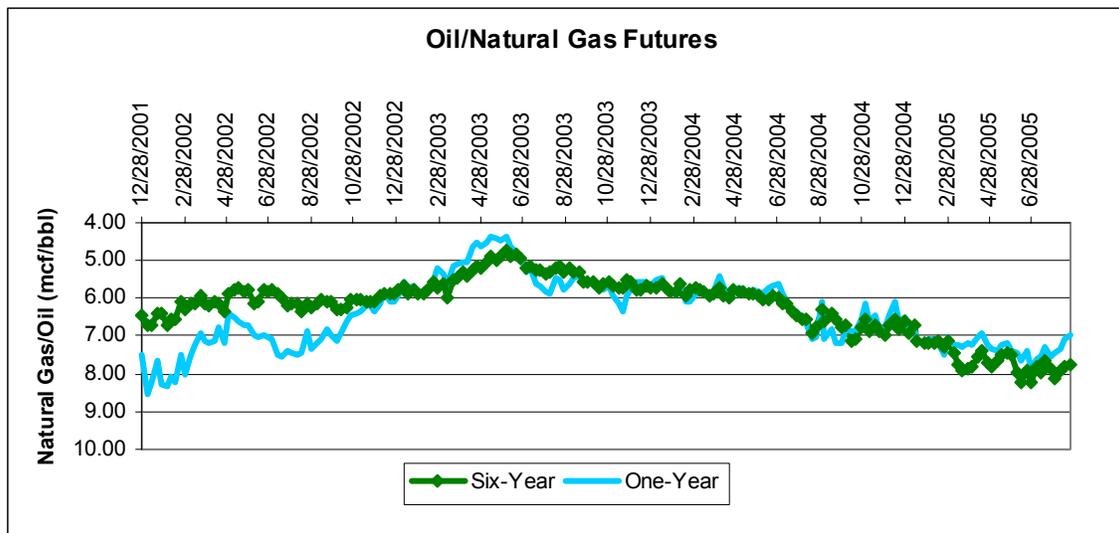
### Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Total Present Value (\$mm)</i>	<i>Unit Present Value (\$/mcf)</i>	<i>Reserves (bcf)</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Adjusted Reserves/ Production NTM</i>	<i>Revenue Royalty (%)</i>	<i>PV/ Ebitda</i>
Cross Timbers Royalty Trust	CRT	270	3.90	69	73	20.0	85	11.0
Mesa RoyaltyTrust	MTR	140	3.18	44	79	20.0	-	10.4
Sabine Royalty Trust	SBR	583	4.70	124	61	11.9	100	9.6
San Juan Basin Royalty Trust	SJT	1,864	3.59	520	99	12.0	-	9.1
Dorchester Minerals, L.P.	DMLP	734	4.47	164	78	12.9	54	8.8
Hugoton RoyaltyTrust (46%)	HGT	626	3.70	169	92	13.7	-	8.5
Permian Basin RT (57%)	PBT	399	2.90	137	42	15.5	30	8.3
<i>Total or Median</i>		<i>4,616</i>		<i>1,228</i>	<i>78</i>	<i>13.7</i>		<i>9.1</i>

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.

**Natural Gas Price Potential**

The seven income stocks are concentrated a median 78% on natural gas, the commodity with potential appreciation relative to oil. In a cold winter or on a regular basis in a cleaner energy economy, natural gas may be priced at the oil price divided by 5. \$60 oil implies \$12 natural gas.



Kurt H. Wulff, CFA

**Index of Recent U.S. Royalty Trust Research**

**Single Trust Analyses**

<i>Date</i>	<i>Symbol</i>	<i>Stock</i>	<i>Theme</i>
18-Aug	SJT	San Juan Basin Royalty Trust	Sharp Stock Price Drop
20-Jul	* MTR	Mesa Royalty Trust	Improved Distribution Declared
13-May	* DMLP	Dorchester Minerals, L.P.	Royalty Volume Increasing
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger

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

19-Aug		Supply Creation
12-Aug		\$50 SJT
5-Aug	*	Raise Present Value for \$50 Oil
29-Jul	*	PBT Deal
22-Jul	*	Renminbi Revalued
15-Jul	*	Sakhalin Saga

\* Archived on [www.mcdep.com](http://www.mcdep.com)

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.