



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Price Decline Action in SJT and Royalty Trusts

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$mm)</i>	56
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	96
<i>Price (US\$/sh)</i>	12.72	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/7/12	<i>Adjusted Reserves/Production NTM</i>	8.6
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	10.6
<i>Market Capitalization (US\$mm)</i>	590	<i>PV/Ebitda</i>	17.5
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	4
<i>Enterprise Value (EV) (US\$mm)</i>	590	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.19
<i>Present Value (PV) (US\$mm)</i>	980	<i>Present Value Proven Reserves(US\$/boe)</i>	26.46
<i>Net Present Value (US\$/unit)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	64
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.85
<i>McDep Ratio - EV/PV</i>	0.61	<i>Price/Earnings Next Twelve Months</i>	15
<i>Distribution Yield (%/year)</i>	6.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.85
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.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million bu.			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

Long-term investors have a fresh opportunity to acquire the units of high quality, zero debt, long life, high income paying oil and gas royalty trusts at McDep Ratios ranging from 0.49 to 0.87, down from a range of 0.80 to 1.01 five weeks ago. Our official choice at a McDep Ratio of 0.61 is Contrarian Buy **San Juan Basin Royalty Trust (SJT)**. We see attractive value at McDep Ratios of 0.49, 0.67, 0.74, 0.81, 0.82 and 0.87 for the remaining six stocks **Hugoton Royalty Trust (HGT)**, **Mesa Royalty Trust (MTR)**, **Sabine Royalty Trust (SBR)**, **Cross Timbers Royalty Trust (CRT)**, **Enduro Royalty Trust (NDRO)** and **Permian Basin Royalty Trust (PBT)**. Relevant valuation measures are ranked, contrasted and compared in the regular weekly tables (see [Tables ISC-1](#) through [ISC-2](#) on pages 6-9). Over reaction in stock price to a potential short-term loss of income at HGT to pay a surprise legal settlement raises questions whether something similar might happen at other royalty trusts, especially SJT. We explain why we think that is not likely. We also present the latest detail in our regularly updated estimates that currently look for a distribution yield of 6.7% for the next twelve months. Finally, we reconfirm our estimate of Net Present Value (NPV) of \$21 a unit for SJT compared to current stock price of \$12.70.

Legal Risk Doesn't Justify SJT Decline

The announcement of a legal settlement that may reduce distribution by some 85% for a year triggered a 50% decline in HGT stock price in five weeks. Much of the decline in SJT appears to be in sympathy. If it can happen to HGT, it can happen to SJT as the reasoning might go in the minds of some. Though we can't know the future, we are familiar with past disputes that have generally favored SJT rather than the opposite. Since there is almost always more than one party with a claim to the cash from oil and gas production, disputes can readily arise over respective



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

shares. Even in the HGT case where the settlement amounts to a dollar a unit, it does not justify a \$7 a unit decline in stock price, in our opinion (see *ISCW* May 25, 2012).

Distribution Yield Rebounds to 6.7% a Year

The distribution outlook has improved in recent weeks as natural gas price begins to recover from an unsustainably low level after record winter warmth impacted heating demand. Combined with the drop in stock price, estimated annual distribution yield has rebounded to 6.7% from a low 4.0% in early May (see *ISCW* May 4, 2012).

Because of the lag in making declarations, monthly distributions may be lower before turning higher. Natural gas price dipped below \$2 a million btu for April and May, which sets the price for the distributions to be declared two months later in June and July. Real-time natural gas price for June has been set 29% higher, which implies a higher distribution to be declared in August (see table Monthly Declarations on page 4). Recent futures prices climb steadily higher through the second quarter of 2013 and our projected distribution rises accordingly (see table Next Twelve Months Operating and Financial Estimates on page 4). Futures climb further to almost \$5 in 2018 on the way to our long-term estimate of \$6.

Production Typically Exceeds Proven Reserves

While SJT stock price declined, negative concerns have reappeared citing SJT reported reserves as evidence the trust will not last long enough to justify its current price. SJT's independent engineer disclaims any conclusion that estimated reserves are a determination of market value. SJT's independent engineer is among the most conservative. There is an important role for conservative estimates of proven reserves of future oil and gas production in helping bankers determine how much to lend and still have full assurance of getting their principal back. Moreover, producers naturally prefer a conservative estimate when determining a base for local property taxes or for determining the proportion of cash flow that can be sheltered from income taxes as a return of capital.

For equity investors the potential for production beyond proven reserves can be just as important or more so. To say that SJT has only 8.8 years of production remaining (the adjusted ratio of reserves to production we calculate from the engineer's estimate) underestimates future volume from an equity value point of view. An 8.8 year life index implies that production might decline some 11% a year and last about 17 years.

Instead, we know that the San Juan Basin has already been producing for 60 years. Moreover, the operator of the trust's properties is continually refurbishing and otherwise keeping the production facilities in top shape. Rather than declining, production has actually been increasing for the past twelve months. With infrastructure in place throughout the basin there will be a normal incentive to keep it full by bringing on new production as existing production slowly declines.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Over the decades, drillers have uncovered new resources in the San Juan not previously considered in proven reserves. When the trust was first formed in 1980, we had little idea that there was as much gas to be produced from the Fruitland coal seam as in the original Dakota and Mesa Verde formations in some places. Commercial coal seam production began about 20 years ago. Since then, additional conventional formations are proving more productive with advanced drilling and fracking techniques. More recently, shale formations may be productive. ConocoPhillips, the operator of the trust's properties, completed a well last year in the Mancos shale, which it is studying for untapped potential. There is no rush to produce more in today's low price environment because the lease rights last as long as any existing wells continue to produce, i.e. indefinitely. There is likely much more gas to be tapped.

Present Value \$21 a Unit

We like the discounted cash flow technique as a theoretical basis for calculating present value, but readily realize the output is sensitive to the input. Cognizant of that, we try to pick assumptions that are plausible. The independent engineer follows the same model with a more narrowly prescribed input such as constant price, proven reserves, no productivity adjustment and a 10% annual discount rate. We use a higher long-term price after taking whatever the futures market indicates for the first year. We estimate future production in excess of proven reserves and we use a 7% discount rate with no escalation in price beyond our fixed assumption and constant costs. We liken that to a 10% discount rate with 3% inflation built in. We are sure that the prescribed 10% rate is too high and our 7% real rate looks high also considering that the real rate on the ten-year U.S. Treasury Inflation Protected Security is a *negative* half percent a year. A 7% a year sustained distribution on a royalty trust whose stock price goes up with inflation would be a 7% real return. Our current estimate of the distribution for SJT is 6.7% on depressed price for natural gas.

SJT in Deflation, Growth, and Inflation Scenarios

A decline in stock prices and a rise in U.S. government securities prices the past month signals deflation concerns. Investors can protect separately against deflation with a portfolio allocation to cash and government debt and perhaps gold. Once that allocation is satisfied, declining stock prices are an opportunity, not a threat. Stock prices can always decline further before rising and for that reason we would act gradually to take advantage of the price opportunity.

SJT has financial strength even in deflation because it has no debt. Moreover, SJT's existing wells produce some positive cash flow under extreme conditions without further investment. Moving on from deflation, growth is the second general economic condition and the case that we all strive to achieve. We need energy for economic growth and oil and gas stocks ought to earn a reasonable return in a growth scenario. Under the third general economic condition, inflation, SJT could be particularly rewarding as prices go up for finite quantities of real resources.

During our lifetime, incidents of deflation have been fleeting while growth and inflation scenarios have dominated. The stock market is up a hundred times in seven decades while the dollar lost 95% of its value. Broad stock market gains were strong in the 1940s, 1950s, 1960s, 1980s and 1990s. When the stock market was flat in the 1970s and 2000s price gains were strong for energy and natural resources. On that basis a dominant portfolio allocation to growth and inflation coupled with sufficient protection from deflation may be optimal.

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

San Juan Basin Royalty Trust											
Monthly Declarations											
	Apr-11	May-11	Jun-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Distribution (\$/unit)											
Declared	0.08	0.13	0.12	0.12	0.11	0.09	0.08	0.07			
Projected									0.04		
Volume											
Natural gas (mmbtu)	2.48	2.99	2.97	2.91	3.00	2.97	3.02	2.97	3.00		
Heat Content(btu/cf)	1,076	1,103	1,097	1,072	1,075	1,098	1,095	1,100	1,100		
Natural gas (bcf)	2.31	2.71	2.71	2.72	2.79	2.71	2.76	2.70	2.73		
Natural Gas (mmcf)	82	87	90	91	90	87	95	87	91		
Days	28	31	30	30	31	31	29	31	30		
Price											
Natural gas industry quotes lagged two months (\$/mmbtu)											
Henry Hub Index/Futures	4.32	3.79	4.24	3.52	3.37	3.08	2.67	2.44	2.19	2.03	2.42
San Juan Monthly Index	4.08	3.66	3.97	3.38	3.28	3.08	2.51	2.39	1.91	1.85	2.38
San Juan Index/Henry Hub	0.94	0.97	0.94	0.96	0.97	1.00	0.94	0.98	0.87		
SJT/San Juan Index	1.09	1.16	1.15	1.24	1.27	1.20	1.27	1.34	1.30		
SJT (\$/mmbtu)	4.45	4.23	4.56	4.18	4.18	3.70	3.19	3.21	2.48		
SJT (\$/mcf)	4.79	4.66	5.00	4.48	4.49	4.07	3.49	3.52	2.73		
Revenue (\$mm)											
Natural Gas	11.1	12.6	13.5	12.2	12.5	11.0	9.6	9.5	7.5		
Other	(0.1)	0.3	0.4	0.8	0.1	0.2	(0.3)	0.1	0.3		
Cost (\$mm)											
Severance tax	1.1	1.3	1.4	1.2	1.2	0.8	0.9	0.9	0.7		
Operating	2.9	2.7	2.9	2.8	2.9	2.6	2.3	2.4	2.7		
Total	4.0	4.0	4.2	4.0	4.0	3.5	3.2	3.4	3.4		
Cash flow (\$mm)											
Development	6.9	9.0	9.8	9.0	8.6	7.8	6.2	6.2	4.4		
Development	1.8	1.8	2.1	1.6	1.8	2.5	1.0	1.9	1.9		
Net proceeds (\$mm)											
Development	5.1	7.2	7.7	7.4	6.8	5.3	5.1	4.3	2.5		
Royalty income (\$mm)											
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%		
One time		0.7									
Distributable income (\$mm)											
Development	3.9	6.1	5.8	5.5	5.1	4.0	3.8	3.2	1.9		
Units (millions)											
Development	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6		
Distribution (\$/unit)											
Development	0.08	0.13	0.12	0.12	0.11	0.09	0.08	0.07	0.04		
<i>Latest Twelve Month Average</i>											
Heat Content(btu/cf)	1,102	1,101	1,101	1,092	1,091	1,090	1,092	1,091	1,092		
Natural Gas (mmcf)	90	90	90	90	90	91	92	92	92		
San Juan Index/Henry Hub	0.92	0.92	0.91	0.95	0.95	0.96	0.96	0.96	0.95		
SJT/San Juan Index	1.08	1.09	1.10	1.13	1.15	1.16	1.18	1.19	1.21		
Other revenue	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3		
Operating	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7		
Development	1.2	1.3	1.4	1.8	1.8	1.9	1.9	1.9	1.9		
Severance tax/revenue	10.2%	10.2%	10.2%	9.9%	9.8%	9.6%	9.6%	9.5%	9.5%		
Ebitda Margin	68%	68%	68%	69%	69%	70%	70%	69%	69%		
Input											
Distribution (\$/unit)	0.08	0.13	0.12	0.12	0.11	0.09	0.08	0.07	0.04		
Volume (bcf)	2.31	2.71	2.71	2.72	2.79	2.71	2.76	2.70	2.73		
Volume (mmbtu)	2.48	2.99	2.97	2.91	3.00	2.97	3.02	2.97	3.00		
Price (\$/mcf)	4.79	4.66	5.00	4.48	4.49	4.07	3.49	3.52	2.73		
Price (\$/mmbtu)	4.45	4.23	4.56	4.18	4.18	3.70	3.19	3.21	2.48		
Capital costs (\$mm)	1.76	1.78	2.08	1.62	1.81	2.47	1.03	1.92	1.90		
Lease operating expense (\$mm)	2.93	2.69	2.88	2.78	2.87	2.64	2.33	2.44	2.70		
Taxes (\$mm)	1.09	1.27	1.35	1.21	1.16	0.81	0.88	0.94	0.71		



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	2011	3/31/12	6/30/12	9/30/12	12/31/12	2012E	3/31/13	6/30/13	6/30/13
Highlights									
Revenue (\$mm) (75%)	121.1	27.7	21.0	18.4	19.8	87.0	24.3	25.1	87.7
Cash flow (\$mm) (75%)	83.8	19.1	13.5	10.8	12.1	55.4	16.1	16.9	55.8
Per unit	1.80	0.41	0.29	0.23	0.26	1.19	0.35	0.36	1.20
Distributable Income (\$mm)	67.2	14.6	8.9	6.7	8.0	38.3	12.1	12.9	39.8
Per unit	1.44	0.31	0.19	0.14	0.17	0.82	0.26	0.28	0.85
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	36.1	8.9	9.0	9.3	9.3	36.5	9.3	9.0	36.8
Heat Content(btu/cf)	1,095	1,082	1,098	1,098	1,098	1,094	1,094	1,094	1,096
Natural gas (bcf)	33.0	8.2	8.2	8.5	8.5	33.3	8.5	8.2	33.6
Natural Gas (mmcf)	90.3	89.3	92.0	92.0	92.0	91.3	92.0	92.0	92.0
Days	365	92	89	92	92	365	92	89	365
Oil (mb)	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	365	92	89	92	92	365	92	89	365
Total gas & oil (bcf)	33.3	8.3	8.3	8.6	8.6	33.7	8.6	8.3	34.0
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	4.10	3.32	2.43	2.26	2.45	2.62	3.04	3.25	2.75
Differential (%)	(6)	(21)	(21)	(11)	(11)	(16)	(11)	(11)	(11)
Net to SJT (\$/mmbtu)	4.34	4.02	2.96	2.51	2.72	3.04	3.37	3.61	3.05
Natural gas (\$/mcf)	4.76	4.35	3.25	2.76	2.99	3.33	3.69	3.95	3.34
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	93.25	98.69	103.93	91.11	83.88	94.40	84.71	85.26	86.24
SJT	81.08	86.01	90.58	79.41	73.11	82.17	73.73	74.21	75.13
Total gas & oil (\$/mcf)	4.85	4.45	3.38	2.87	3.09	3.44	3.78	4.05	3.44
Revenue (\$mm)									
Natural Gas	156.8	35.7	26.6	23.3	25.3	111.0	31.2	32.4	112.3
Oil	4.8	1.2	1.4	1.2	1.1	5.0	1.1	1.1	4.6
Total	161.5	36.9	28.0	24.6	26.5	116.0	32.4	33.5	116.9
Cost (\$mm)									
Severance tax	15.5	3.2	2.5	2.2	2.4	10.3	2.9	3.0	10.5
Operating	34.2	8.3	7.5	8.0	8.0	31.8	8.0	8.0	32.0
Total	49.8	11.5	10.0	10.2	10.4	42.1	10.9	11.0	42.5
Cash flow (\$mm)	111.7	25.5	18.0	14.4	16.1	73.9	21.5	22.5	74.5
Development	21.0	5.9	4.9	4.9	4.9	20.5	4.8	4.8	19.3
Net proceeds (\$mm)	90.7	19.6	13.1	9.5	11.2	53.4	16.7	17.7	55.1
Royalty income (\$mm)	68.0	14.7	9.8	7.1	8.4	40.1	12.5	13.3	41.4
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	1.5	0.1	0.9	0.4	0.4	1.7	0.4	0.4	1.6
One-time	(0.7)					-			-
Distributable income (\$mm)	67.2	14.6	8.9	6.7	8.0	38.3	12.1	12.9	39.8
Severance tax/revenue	9.6%	8.6%	9.0%	9.0%	9.0%	8.9%	8.9%	8.9%	9.0%
Operating cost (\$/mcf)	1.03	1.00	0.90	0.93	0.93	0.94	0.93	0.97	0.94
Development/Cash flow	19%	23%	27%	34%	30%	28%	22%	21%	26%



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
B = Buy	7-Jun	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	CB	56.65	1.30	11,750	71	29	14.2	0.16	0.3	0.85
Peyto Exploration and Developmen	PEYUF		17.72	1.20	2,940	77	23	10.1	0.70	4.0	0.77
PDC Energy	PETD		22.90	1.97	1,080	56	44	7.5	-	-	0.73
Berry Petroleum Company	BRY		38.03	1.75	3,640	13	87	6.0	0.32	0.8	0.68
Denbury Resources Inc.	DNR		15.10	1.47	8,670	6	94	5.9	-	-	0.63
Birchcliff Energy Ltd.	BIREF	CB	6.26	1.47	1,400	62	38	10.2	-	-	0.62
Whiting Petroleum Corporation	WLL	CB	42.65	1.37	6,950	8	92	4.8	-	-	0.56
Cimarex Energy Company	XEC	CB	50.12	1.24	5,360	42	58	4.9	0.48	1.0	0.51
<i>Total or Median</i>					41,800			6.8			0.65
Top Line Cash Payers											
Permian Basin RT	PBT		17.47	1.00	810	37	63		1.30	7.4	0.87
Freehold Royalties Ltd.	FRHLF		17.71	1.04	1,190	16	84		1.61	9.1	0.85
Cross Timbers Royalty Trust	CRT		35.56	1.00	210	70	30		2.14	6.0	0.81
Dorchester Minerals, L.P.	DMLP	CB	21.28	1.00	650	57	43		1.70	8.0	0.79
Sabine Royalty Trust	SBR		48.19	1.00	700	55	45		3.28	6.8	0.74
<i>Total or Median</i>					3,600					7.4	0.81
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.61	1.67	11,780	40	60	12.6	2.90	7.9	1.12
Vanguard Natural Resources, LLC	VNR		25.12	1.52	2,010	27	74	10.7	2.37	9.4	1.00
Legacy Reserves L.P.	LGCY		26.19	1.39	1,730	23	77	8.9	2.22	8.5	0.91
Enduro Royalty Trust (40%)	NDRO		17.26	1.00	230	42	58	7.6	1.44	8.3	0.82
Mesa RoyaltyTrust	MTR		27.07	1.00	50	75	25	11.9	1.78	6.6	0.67
Enerplus Corporation	ERF	CB	13.77	1.61	4,300	27	73	6.0	2.07	15.1	0.64
San Juan Basin Royalty Trust	SJT	CB	12.72	1.00	590	100	-	10.6	0.85	6.7	0.61
Hugoton RoyaltyTrust	HGT		6.91	1.00	280	89	11	8.4	0.09	1.2	0.49
<i>Total or Median</i>					21,000			9.8		8.1	0.75
Composite											
<i>Enterprise Value Weighting</i>					66,300	38	62				0.73
<i>Equal Weighting</i>						47	53				0.75
<i>Equal Weighted Buys</i>						45	55				0.64

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.
 Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2013. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Table ISC-2

McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>7-Jun</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
Range Resources	RRC	CB	56.65	160.0	9,060	70.00	0.19	0.85
Peyto Exploration and Development Cor	PEYUF		17.72	138.3	2,450	24.00	0.13	0.77
PDC Energy	PETD		22.90	23.9	550	40.00	0.36	0.73
Berry Petroleum Company	BRY		38.03	54.7	2,080	70.00	0.29	0.68
Denbury Resources Inc.	DNR		15.10	391.0	5,900	28.00	0.20	0.63
Birchcliff Energy Ltd.	BIREF	CB	6.26	151.0	950	12.00	0.20	0.62
Whiting Petroleum Corporation	WLL	CB	42.65	119.0	5,080	88.00	0.15	0.56
Cimarex Energy Company	XEC	CB	50.12	86.1	4,320	110.00	0.10	0.51
<i>Total or Median</i>					30,390		0.20	0.65
Top Line Cash Payers								
Permian Basin RT	PBT		17.47	46.6	810	20.00	-	0.87
Freehold Royalties Ltd.	FRHLF		17.71	64.7	1,150	21.00	0.03	0.85
Cross Timbers Royalty Trust	CRT		35.56	6.0	210	44.00	-	0.81
Dorchester Minerals, L.P.	DMLP	CB	21.28	30.7	650	27.00	-	0.79
Sabine Royalty Trust	SBR		48.19	14.6	700	65.00	-	0.74
<i>Total or Median</i>					3,520			0.81
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.61	193.0	7,070	30.00	0.45	1.12
Vanguard Natural Resources, LLC	VNR		25.12	52.5	1,320	25.00	0.34	1.00
Legacy Reserves L.P.	LGCY		26.19	47.5	1,240	30.00	0.26	0.91
Enduro Royalty Trust (40%)	NDRO		17.26	13.2	230	21.00	-	0.82
Mesa RoyaltyTrust	MTR		27.07	1.9	50	40.00	-	0.67
Enerplus Corporation	ERF	CB	13.77	196.0	2,700	26.00	0.24	0.64
San Juan Basin Royalty Trust	SJT	CB	12.72	46.6	590	21.00	-	0.61
Hugoton RoyaltyTrust	HGT		6.91	40.0	280	14.00	-	0.49
<i>Total or Median</i>					13,480			0.75
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		7-Jun 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	CB	56.65		-	14.0	16.8	14.2
Birchcliff Energy Ltd.	BIREF	CB	6.26		-	21.6	16.5	10.2
Peyto Exploration and Development Corp	PEYUF		17.72		0.38	10.0	13.1	10.1
PDC Energy	PETD		22.90		-	8.1	10.3	7.5
Berry Petroleum Company	BRY		38.03		-	11.8	8.9	6.0
Denbury Resources Inc.	DNR		15.10		-	13.1	9.4	5.9
Cimarex Energy Company	XEC	CB	50.12		-	8.1	9.7	4.9
Whiting Petroleum Corporation	WLL	CB	42.65		-	9.5	8.5	4.8
	<i>Median</i>					10.9	10.0	6.8
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		35.56	78	0.96	16.4	19.6	15.8
Sabine Royalty Trust	SBR		48.19	100	1.00	8.7	19.8	14.7
Dorchester Minerals, L.P.	DMLP	CB	21.28	77	1.00	6.6	15.9	12.5
Permian Basin RT	PBT		17.47	32	0.91	9.7	14.0	12.2
Freehold Royalties Ltd.	FRHLF		17.71	71	0.90	5.4	11.7	9.9
	<i>Median</i>					8.7	15.9	12.5
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.61		1.09	14.3	11.3	12.6
Mesa RoyaltyTrust	MTR		27.07		0.79	8.0	17.8	11.9
Vanguard Natural Resources, LLC	VNR		25.12		1.01	13.6	10.7	10.7
San Juan Basin Royalty Trust	SJT	CB	12.72		0.71	8.6	17.5	10.6
Legacy Reserves L.P.	LGCY		26.19		0.73	11.3	9.8	8.9
Hugoton RoyaltyTrust	HGT		6.91		0.10	13.3	17.0	8.4
Enduro Royalty Trust (40%)	NDRO		17.26		0.63	5.3	9.2	7.6
Enerplus Corporation	ERF	CB	13.77		0.74	6.3	9.2	6.0
	<i>Median</i>					9.9	11.0	9.8
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2013; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012

Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		7-Jun 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Denbury Resources Inc.	DNR		15.10	0.78	1.28	0.91	0.94	0.63
Range Resources	RRC	CB	56.65	0.78	1.09	0.95	0.92	0.85
Berry Petroleum Company	BRY		38.03	0.74	1.13	0.94	0.92	0.68
Whiting Petroleum Corporation	WLL	CB	42.65	0.73	1.31	0.89	0.91	0.56
Peyto Exploration and Development C	PEYUF		17.72	0.72	1.17	1.05	0.91	0.77
PDC Energy	PETD		22.90	0.72	1.21	0.86	0.86	0.73
Cimarex Energy Company	XEC	CB	50.12	0.59	1.02	0.82	0.80	0.51
Birchcliff Energy Ltd.	BIREF	CB	6.26	0.50	1.07	0.97	0.65	0.62
	<i>Median</i>			<i>0.73</i>	<i>1.15</i>	<i>0.92</i>	<i>0.91</i>	<i>0.65</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		17.71	0.78	1.28	0.96	0.95	0.85
Dorchester Minerals, L.P.	DMLP	CB	21.28	0.75	1.02	0.90	0.90	0.79
Permian Basin RT	PBT		17.47	0.75	1.06	0.85	0.84	0.87
Cross Timbers Royalty Trust	CRT		35.56	0.70	1.07	0.90	0.79	0.81
Sabine Royalty Trust	SBR		48.19	0.71	1.06	0.86	0.78	0.74
	<i>Median</i>			<i>0.75</i>	<i>1.06</i>	<i>0.90</i>	<i>0.84</i>	<i>0.81</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.61	0.93	1.10	0.98	0.99	1.12
Legacy Reserves L.P.	LGCY		26.19	0.89	1.13	0.96	0.96	0.91
Vanguard Natural Resources, LLC	VNR		25.12	0.85	1.09	0.96	0.95	1.00
Enerplus Corporation	ERF	CB	13.77	0.54	1.04	0.86	0.70	0.64
Mesa RoyaltyTrust	MTR		27.07	0.54	1.07	0.80	0.66	0.67
San Juan Basin Royalty Trust	SJT	CB	12.72	0.50	1.03	0.74	0.61	0.61
Hugoton RoyaltyTrust	HGT		6.91	0.29	1.06	0.57	0.40	0.49
	<i>Median</i>			<i>0.54</i>	<i>1.07</i>	<i>0.86</i>	<i>0.70</i>	<i>0.67</i>

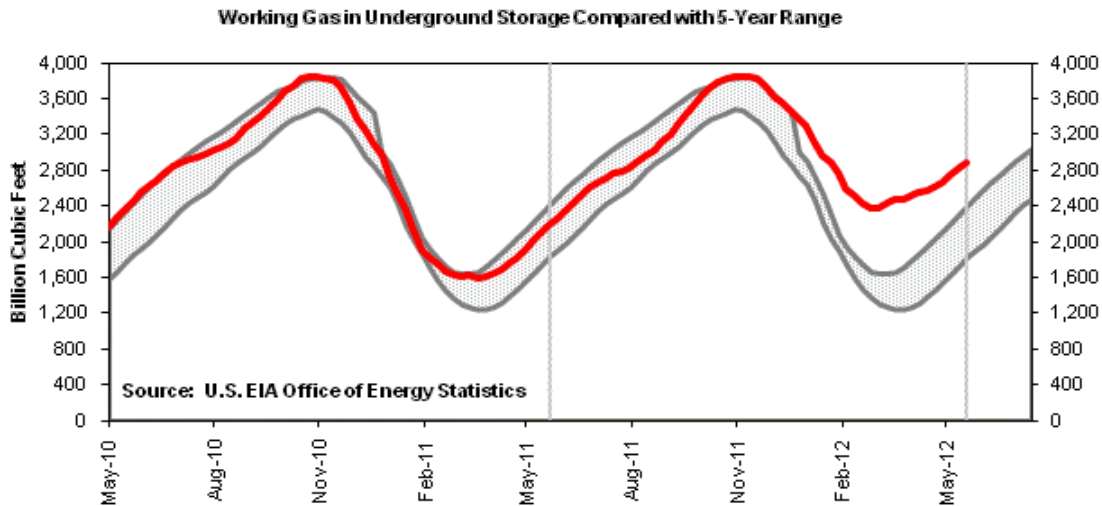
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 8, 2012



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