



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 2, 2010

Low Cost Natural Gas in SJT

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	88
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/sh)</i>	21.22	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/1/10	<i>Adjusted Reserves/Production NTM</i>	13.7
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	11.2
<i>Market Capitalization (US\$mm)</i>	990	<i>PV/Ebitda</i>	12.2
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	4
<i>Enterprise Value (EV) (US\$mm)</i>	990	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.44
<i>Present Value (PV) (US\$mm)</i>	1,070	<i>Present Value Proven Reserves(US\$/boe)</i>	17.95
<i>Net Present Value (US\$/unit)</i>	23	<i>Oil and Gas Ebitda Margin (%)</i>	72
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.49
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	14
<i>Distribution Yield (%/year)</i>	7.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.49
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

Buy-recommended **San Juan Basin Royalty Trust (SJT)** is an income and small cap pure play on what buy-recommended large cap **ConocoPhillips (COP)** cited as the most competitive of resource opportunities in North America at its analyst meeting on March 24. SJT gets 75% of cash flow after reinvestment from a sample of COP wells distributed throughout the San Juan Basin. COP ranks San Juan economics ahead of exciting new shale plays where the company is spending 40% of its 2010 budget for U.S. and Canada exploration and development. While those comparisons relate to new drilling, the lowest cost natural gas of all is that which is already flowing because no new investment is required. Moreover, San Juan gas will be flowing for a long time because of a slow decline rate. Normally, new wells would be drilled to replace decline and keep overall volume flat. The new supply from shale may impact the rate at which new wells are likely to be drilled in San Juan. Because shale is a new source, much of the drilling continues despite low prices as operators are committed to drill to keep expensive new leases. In the San Juan most of the leases were secured by production decades ago and operators have the optionality to drill when the market calls for new supply. That call is coming as natural gas is the world's most rapidly growing major fuel and SJT has the reserves to meet it.

Estimated Reserves Up in 2009

Part of the investment opportunity in SJT arises because the mechanism of reporting operating trends presents a misleading negative picture. Prominently displayed in the trust's annual report are the estimates of royalty reserves that trace a steep decline for the past three years. The calculation is influenced almost entirely by short-term natural gas price that has been declining



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over the same period. In contrast, the net reserves in the properties underlying the royalty interest are up sharply (see chart [Underlying Natural Gas Reserves Up](#)). Underlying reserves are not disclosed directly, but can be calculated by multiplying a production index for underlying reserves disclosed in the text of the annual report by net underlying production.

Truthfully, we do not believe underlying reserves were as low as stated in 2008 and 2007. We believe the 2009 production index of 13.7 years is realistic in the context of normal industry reporting. It is still conservative as it includes developed reserves primarily, which typically are two-thirds of total proven reserves.

Physical volume produced is about the most authentic data. It has shortcomings, too, especially when it is reported as royalty volumes that are wholly sensitive to price. Fortunately SJT discloses quarterly underlying volumes along with royalty volumes. Underlying volumes are the only volumes disclosed monthly. Underlying volumes point to a more realistic trend (see chart [Royalty Estimating Understates Natural Gas Production](#)).

NPV Amply Supported by Increase in Reserves

Using latest futures prices for the next twelve months we see that our current estimate of NPV looks solid in an industry context. SJT NPV of \$23 a unit is lower than the approximation of \$26 using reserve life and cash flow multiple for some 45 stocks (see table [Functional Cash Flow and Present Value](#)). In the end we agree with COP that the San Juan Basin will be producing for generations more.

Distributions Entering Seasonally Lower Periods

Trust distributions may have been the highest for the year in the winter quarter just ended as is often the case (see table [Next Twelve Months Operating and Financial Estimates](#)). Factual declines in industry prices for February, March and April point to likely lower distributions in April, May and June (see table [Monthly Declarations](#)). Compared to the previous year, distributions are in an uptrend. Futures prices point to further year over year increases, but the trend in average futures prices for the next six years is down as measured by current quote of \$5.99 compared to the 40-week average of \$6.55. More important stock price trend is up compared to the 200-day average as investors anticipate that cheap natural gas will be more appreciated as the most economic clean fuel for global growth and prosperity.

Kurt H. Wulff, CFA

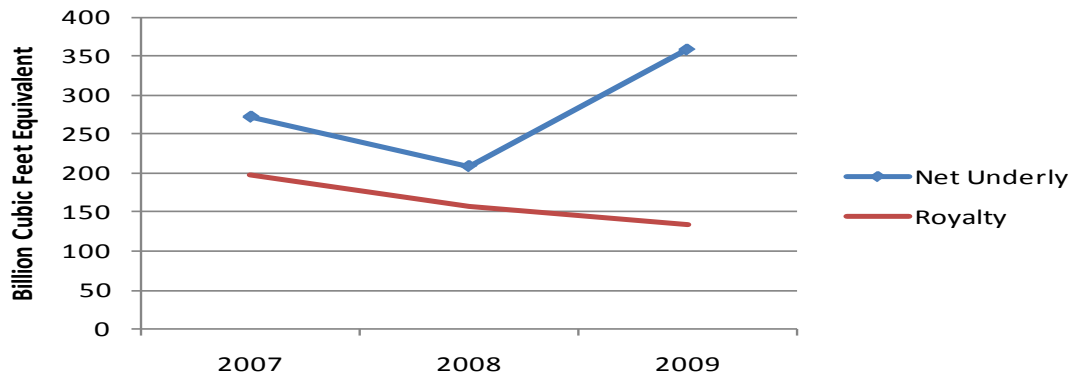


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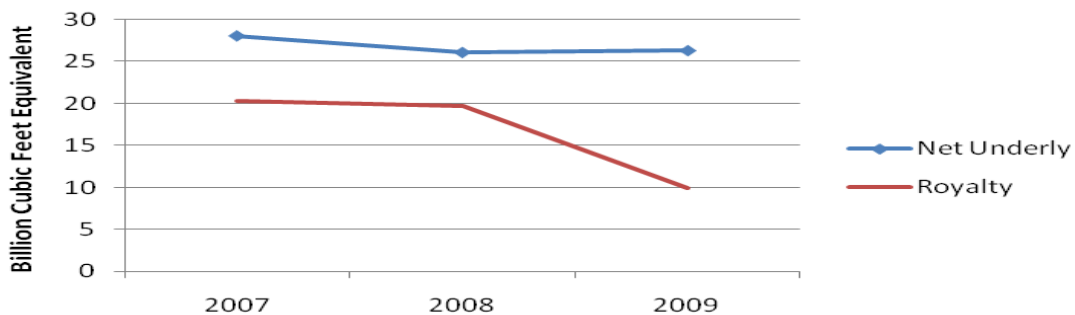
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Underlying Natural Gas Reserves Up



Royalty Estimating Understates Natural Gas Production



San Juan Basin Royalty Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	88	13.7	12.2	1,070	100%
	88	13.7	12.2	1,070	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					1,070
Shares (mm)					47
Net Present Value - Standard Estimate (US\$/sh)					23
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					26



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San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
									<i>Twelve</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Months</i>
	<i>3/31/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>
Highlights									
Revenue (\$mm) (75%)	26.3	24.7	90.0	33.8	29.5	28.6	30.0	121.8	123.0
Cash flow (\$mm) (75%)	17.0	16.6	57.1	24.7	20.8	20.1	21.3	86.9	87.9
Per unit	0.36	0.36	1.22	0.53	0.45	0.43	0.46	1.86	1.89
Distributable Income (\$mm)	9.0	12.4	30.2	21.5	15.4	16.2	16.8	69.8	69.5
Per unit	0.19	0.27	0.65	0.46	0.33	0.35	0.36	1.50	1.49
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	9.3	9.9	38.1	9.3	9.1	9.3	9.2	36.9	36.8
Heat Content(btu/cf)	1,081	1,089	1,085	1,092	1,089	1,089	1,089	1,089	1,089
Natural gas (bcf)	8.6	9.1	35.1	8.5	8.4	8.6	8.5	33.9	33.8
Natural Gas (mmcf)	93.0	98.7	96.1	92.7	93.9	93.0	92.0	92.9	92.5
Days	92	92	365	92	89	92	92	365	365
Oil (mb)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Oil (mbd)	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	92	92	365	92	89	92	92	365	365
Total gas & oil (bcf)	8.6	9.2	35.4	8.6	8.4	8.6	8.6	34.3	34.1
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	6.50	3.31	4.37	4.88	4.64	4.19	4.44	4.54	4.63
Differential (%)	42	2	30	3	9	5	5	6	6
Net to SJT (\$/mmbtu)	3.74	3.23	3.08	4.74	4.21	3.98	4.22	4.29	4.35
Natural gas (\$/mcf)	4.04	3.52	3.34	5.17	4.58	4.33	4.59	4.67	4.73
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	46.82	72.10	57.22	76.95	80.84	85.33	86.32	82.36	84.82
SJT	40.50	62.79	49.78	66.94	70.33	74.23	75.09	71.62	73.79
Total gas & oil (\$/mcf)	4.06	3.58	3.39	5.23	4.65	4.41	4.67	4.74	4.81
Revenue (\$mm)									
Natural Gas	34.6	31.9	117.1	44.1	38.3	37.0	38.9	158.3	159.7
Oil	0.4	0.9	2.9	1.0	1.0	1.1	1.1	4.1	4.2
Total	35.0	32.9	120.0	45.1	39.3	38.1	40.0	162.4	163.9
Cost (\$mm)									
Severance tax	3.4	3.1	11.7	4.3	3.8	3.6	3.9	15.6	15.8
Operating	9.0	7.6	32.2	7.8	7.7	7.7	7.7	31.0	30.9
Total	12.4	10.7	43.9	12.1	11.5	11.4	11.6	46.6	46.7
Cash flow (\$mm)									
Development	9.9	5.3	33.6	3.4	6.4	4.8	5.6	20.2	22.4
Net proceeds (\$mm)									
Royalty/Net proceeds	12.7	16.8	42.5	29.5	21.4	21.9	22.8	95.6	94.8
Royalty income (\$mm)									
Royalty/Net proceeds	9.6	12.6	31.9	22.2	16.0	16.5	17.1	71.7	71.1
Administration	0.6	0.2	1.7	0.6	0.6	0.3	0.3	1.9	1.6
One-time			-					-	-
Distributable income (\$mm)									
Severance tax/revenue	9.0	12.4	30.2	21.5	15.4	16.2	16.8	69.8	69.5
Operating cost (\$/mcf)	9.8%	9.6%	9.8%	9.6%	9.7%	9.6%	9.7%	9.6%	9.7%
Development/Cash flow	1.04	0.83	0.91	0.91	0.91	0.89	0.90	0.90	0.91
	44%	24%	44%	10%	23%	18%	20%	17%	19%

Please see disclosures on the final page.

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San Juan Basin Royalty Trust									
Monthly Declarations									
	Apr-09	May-09	Jun-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Distribution (\$/unit)									
Declared	0.01	0.03	0.01	0.14	0.14	0.18			
Projected							0.13	0.12	0.08
Volume									
Natural gas (mmbtu)	2.85	3.33	3.02	3.26	3.13	2.92	2.87	3.17	3.06
Heat Content(btu/cf)	1,079	1,081	1,082	1,090	1,094	1,090	1,088	1,089	1,089
Natural gas (bcf)	2.64	3.08	2.79	2.99	2.86	2.68	2.63	2.92	2.81
Natural Gas (mmcf)	94	99	93	100	92	86	94	94	94
Days	28	31	30	30	31	31	28	31	30
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	4.49	4.07	3.63	4.28	4.49	5.87	5.28	4.81	3.84
San Juan Monthly Index	3.12	2.69	2.62	4.26	4.28	5.72	5.37	4.64	3.78
San Juan Index/Henry Hub	0.69	0.66	0.72	1.00	0.95	0.97	1.02	0.96	0.98
SJT/San Juan Index	0.92	0.94	0.93	0.96	1.03	0.98	0.92	0.92	0.92
SJT (\$/mmbtu)	2.88	2.54	2.44	4.10	4.40	5.62	4.94	4.26	3.47
SJT (\$/mcf)	3.10	2.75	2.64	4.62	4.81	6.17	5.37	4.64	3.78
Revenue (\$mm)									
Natural Gas	8.2	8.5	7.4	13.8	13.8	16.5	14.1	13.5	10.6
Other	(0.3)	(0.1)	(0.0)	0.5	(0.0)	(0.4)	0.2	(0.0)	(0.0)
Cost (\$mm)									
Severance tax	0.8	0.9	0.8	1.4	1.4	1.6	1.4	1.3	1.1
Operating	2.8	2.5	2.6	2.8	2.5	2.5	2.6	2.6	2.6
Total	3.6	3.3	3.4	4.2	3.9	4.1	4.0	3.9	3.6
Cash flow (\$mm)									
Development	3.9	3.4	3.6	1.6	1.0	0.9	2.3	2.1	2.0
Net proceeds (\$mm)									
	0.4	1.7	0.4	8.6	8.9	11.2	8.1	7.5	5.0
Royalty income (\$mm)									
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time									
Distributable income (\$mm)									
	0.3	1.2	0.3	6.4	6.7	8.4	6.1	5.6	3.7
Units (millions)									
	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)									
	0.01	0.03	0.01	0.14	0.14	0.18	0.13	0.12	0.08
<i>Latest Twelve Month Average</i>									
Heat Content(btu/cf)	1,078	1,078	1,077	1,086	1,088	1,088	1,089	1,089	1,090
Natural Gas (mmcf)	96	97	96	96	96	96	96	96	96
San Juan Index/Henry Hub	0.75	0.73	0.72	0.79	0.82	0.83	0.86	0.88	0.91
SJT/San Juan Index	0.97	0.97	0.96	0.98	0.99	1.00	1.00	1.00	1.00
Other revenue	0.2	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Operating	2.9	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.6
Development	2.7	2.8	3.0	2.7	2.6	2.3	2.1	2.0	1.9
Severance tax/revenue	9.7%	9.7%	9.7%	10.0%	10.0%	9.9%	9.9%	9.9%	9.9%
Ebitda Margin	77%	76%	75%	64%	64%	66%	67%	68%	68%



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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio		
B = Buy CB (see below)	1-Apr 2010	Cap								
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	21.57	1.46	13,200	22	78	1.78	8.3	1.09	
Pengrowth Energy Trust	PGH	11.86	1.43	4,900	37	63	0.83	7.0	1.05	
Peyto Energy Trust	PEYUF	13.63	1.26	1,980	80	20	1.43	10.5	0.93	
Canadian Oil Sands Trust	COSWF	B	31.72	1.09	16,700	100	1.39	4.4	0.85	
Enerplus Resources Fund	ERF	24.13	1.22	5,200	40	60	2.14	8.9	0.83	
<i>Total or Median</i>				42,000					0.93	
Small Cap Independent Producers										
Whiting Petroleum Corporation	WLL	84.19	1.31	6,510	15	85	-	-	1.06	
Cimarex Energy Company	XEC	B	60.35	1.14	5,680	62	38	0.32	0.5	
Berry Petroleum Company	BRY	29.39	1.88	2,480	31	69	0.30	1.0	0.91	
Birchcliff Energy Ltd. (US\$)	BIREF	8.92	1.20	1,440	77	23	-	-	0.84	
<i>Total or Median</i>				16,100					0.92	
Top Line Cash Payers										
Sabine Royalty Trust	SBR	45.93	1.00	670	39	61	3.59	7.8	1.02	
Freehold Royalty Trust (US\$)	FRHLF	16.86	1.12	1,080	29	71	1.67	9.9	0.99	
Permian Basin RT	PBT	17.70	1.00	830	27	73	1.32	7.4	0.98	
Cross Timbers Royalty Trust	CRT	32.27	1.00	190	78	22	2.72	8.4	0.95	
Dorchester Minerals, L.P.	DMLP	B	21.97	1.03	670	67	33	1.91	8.7	
<i>Total or Median</i>				3,400					0.98	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	25.46	1.51	4,390	44	56	2.52	9.9	1.28	
Encore Energy Partners, L.P. (52%)	ENP	20.22	1.29	610	23	77	2.15	10.6	1.14	
San Juan Basin Royalty Trust	SJT	B	21.22	1.00	990	100	-	1.49	7.0	
Mesa Royalty Trust	MTR	42.11	1.00	78	75	25	3.64	8.6	0.87	
Hugoton Royalty Trust	HGT	B	16.85	1.00	670	90	10	1.31	7.8	
<i>Total or Median</i>				6,700					0.92	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				51,600	39	61			1.00	
<i>Equal Weighting</i>					52	48			0.97	
<i>Equal Weighted Buys</i>					70	30			0.87	

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 \$75 a barrel for oil and \$8 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price			Net		
			(\$/sh)		Market	Present	Debt/	
	Symbol/		1-Apr	Shares	Cap	Value	Present	
	Rating		2010	(mm)	(\$mm)	(\$/un)	Value	
							McDep	
							Ratio	
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE		21.57	420.7	9,070	19.00	0.34	1.09
Pengrowth Energy Trust	PGH		11.86	290.0	3,440	11.00	0.32	1.05
Peyto Energy Trust	PEYUF		13.63	114.9	1,570	15.00	0.19	0.93
Canadian Oil Sands Trust	COSWF	B	31.72	484.0	15,350	38.00	0.07	0.85
Enerplus Resources Fund	ERF		24.13	177.0	4,270	30.00	0.15	0.83
<i>Total or Median</i>					33,700		0.19	0.93
Small Cap Independent Producers								
Whiting Petroleum Corporation	WLL		84.19	59.0	4,970	78.00	0.25	1.06
Cimarex Energy Company	XEC	B	60.35	82.6	4,980	65.00	0.12	0.94
Berry Petroleum Company	BRY		29.39	45.0	1,320	35.00	0.42	0.91
Birchcliff Energy Ltd. (US\$)	BIREF		8.92	134.0	1,200	11.00	0.14	0.84
<i>Total or Median</i>					12,470		0.20	0.92
Top Line Cash Payers								
Sabine Royalty Trust	SBR		45.93	14.6	670	45.00	-	1.02
Freehold Royalty Trust (US\$)	FRHLF		16.86	57.2	970	17.00	0.10	0.99
Permian Basin RT	PBT		17.70	46.6	830	18.00	-	0.98
Cross Timbers Royalty Trust	CRT		32.27	6.0	190	34.00	-	0.95
Dorchester Minerals, L.P.	DMLP	B	21.97	29.8	660	27.00	0.02	0.82
<i>Total or Median</i>					3,320			0.98
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		25.46	114.0	2,900	17.00	0.43	1.28
Encore Energy Partners, L.P. (52%)	ENP		20.22	23.4	470	17.00	0.26	1.14
San Juan Basin Royalty Trust	SJT	B	21.22	46.6	990	23.00	-	0.92
Mesa Royalty Trust	MTR		42.11	1.9	78	48.00	-	0.87
Hugoton Royalty Trust	HGT	B	16.85	40.0	670	21.00	-	0.80
<i>Total or Median</i>					5,110			0.92
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 \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		1-Apr 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.63		1.21	25.0	12.7	11.8
	COSWF	B	31.72		0.40	31.1	10.8	9.2
	PGH		11.86		0.63	9.7	8.3	8.7
	PWE		21.57		0.75	9.9	8.0	8.7
	ERF		24.13		0.61	9.7	8.5	7.1
	<i>Median</i>					9.9	8.5	8.7
Small Cap Independent Producers								
	BIREF		8.92		-	12.0	15.9	13.4
	BRY		29.39		-	12.9	8.2	7.5
	WLL		84.19		-	10.9	6.9	7.3
	XEC	B	60.35		-	7.0	6.0	5.6
	<i>Median</i>					11.4	7.6	7.4
Top Line Cash Payers								
	SBR		45.93	100	1.00	9.4	12.5	12.8
	PBT		17.70	32	0.90	21.2	12.3	12.1
	CRT		32.27	84	0.96	13.4	12.1	11.5
	DMLP	B	21.97	64	0.97	7.9	13.8	11.3
	FRHLF		16.86	71	0.81	8.3	8.3	8.3
	<i>Median</i>					9.4	12.3	11.5
Bottom Line Cash Payers								
	LINE		25.46		1.80	19.3	12.2	15.6
	SJT	B	21.22		0.79	13.6	12.2	11.2
	MTR		42.11		0.91	-	12.0	10.4
	ENP		20.22		1.07	12.6	8.5	9.7
	HGT	B	16.85		0.75	12.3	12.0	9.6
	<i>Median</i>					12.6	12.0	10.4
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 March 31, 2011; 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

April 2, 2010

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.