



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 4, 2011

Enduro Royalty Trust New Bottom Line Cash Payer

<i>Symbol</i>	NDRO	<i>Ebitda Next Twelve Months ending 9/30/12 (US\$mm)</i>	77
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	29
<i>Price (\$/un)</i>	21.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/3/11	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	33	<i>EV/Ebitda</i>	9.2
<i>Market Capitalization (\$mm)</i>	700	<i>PV/Ebitda</i>	9.5
<i>Debt (\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	36.60
<i>Present Value (PV) (\$mm)</i>	730	<i>Present Value Proven Reserves(\$/boe)</i>	27.60
<i>Net Present Value (\$/unit)</i>	22	<i>Oil and Gas Ebitda Margin (%)</i>	72
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.62
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	13
<i>Distribution Yield (%/year)</i>	7.6	<i>NTM Distribution (US\$/un)</i>	1.62
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.			
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, \$8 a million btu.			
Sixty percent of units held by Enduro Resource Partners LLC, the sponsor of the trust.			

Summary and Recommendation

Newly trading **Enduro Royalty Trust (NDRO)** offers attractive current income from Permian Basin oil and development upside in Haynesville natural gas. At a distribution yield of 7.6% and a McDep Ratio of 0.97, the stock appears competitively valued among bottom line cash payers offering a median 7.4% income stream and a median McDep Ratio of 0.99 (see [Table ISC-1](#) on page 3). Colloquially, we might refer to NDRO as “Son of PBT and SJT”, the royalty trusts founded 32 years ago by I. Jon Brumley (Jon – now 72) and his colleagues. Enduro is the creation of Jon S. Brumley (Jonny - 41) and his team at Enduro Resource Partners LLC. Jonny is the chief executive of the trust sponsor while his father Jon is a director. Like PBT and SJT, NDRO pays out all of its cash flow, has no debt and is confined to a fixed set of properties. Aside from commodity price, the potential for extra return lies in further drilling on existing properties financed by funds withheld from cash flow before paying distributions. Cawley, Gillespie, the same conservative independent engineer who estimates reserves for SJT and PBT, provides the estimates for NDRO. Drawing from information disclosed in the prospectus, we prepared our initial estimates (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Estimates](#) on page 2). Almost half the properties of the trust were reacquired in December 2010 out of Denbury Resources’ March 2010 purchase of Encore Acquisition, a company founded by the Brumleys. About a third of the properties were acquired from ConocoPhillips in 2011 and a sixth from Samson in 2011. Retaining 60% of the units, the Enduro sponsor has an incentive to see the new trust perform well.

Kurt H. Wulff, CFA



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Enduro Royalty Trust					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
				(US\$m)	
North American Natural Gas	22	10.5	15.5	340	47%
Oil	55	5.6	7.1	390	53%
	77	7.4	9.5	730	100%
Debt (US\$m)					-
Net Present Value (US\$m)					730
Shares (mm)					33
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					21

Enduro Royalty Trust								
Next Twelve Months Operating and Financial Estimates								
	Six Months	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve
	6/30/11	9/30/11	12/31/11	2011E	3/31/12	6/30/12	9/30/12	Months
								9/30/12
Volume								
Natural Gas (mmcf)	20	19	19	20	19	19	19	19
Oil (mbd)	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Total (mb)	1,056	526	526	2,108	520	520	526	2,092
Total (mbd)	5.8	5.7	5.7	5.8	5.7	5.7	5.7	5.7
Price								
Henry Hub (\$/mmbtu)	4.32	4.19	3.87	4.12	4.05	4.06	4.16	4.04
Differential (\$/mmbtu)	(0.30)	(0.29)	(0.27)	(0.34)	(0.28)	(0.29)	(0.29)	(0.28)
Company (\$/mcf)	4.62	4.49	4.15	4.47	4.34	4.35	4.45	4.32
WTI Cushing (\$/bbl)	102.55	89.76	90.99	94.35	93.11	92.74	92.28	92.28
Differential	9.68	8.47	8.59	6.95	8.79	8.75	8.71	8.71
Company	92.87	81.29	82.40	87.40	84.32	83.99	83.57	83.57
Total (\$/bbl)	56.22	50.42	49.73	53.16	51.21	51.10	51.28	50.83
Revenue (\$mm)								
Natural Gas	16.5	8.0	7.4	31.9	7.7	7.7	8.0	30.8
Oil	42.9	18.5	18.7	80.1	19.0	18.9	19.0	75.5
Total	59.4	26.5	26.2	112.0	26.6	26.6	27.0	106.3
Expense								
Lease operating	18.7							-
General and administrative	0.4							-
Total	19.1	7.4	7.3	33.8	7.5	7.4	7.6	29.8
Ebitda	40.3	19.1	18.8	76.0	19.2	19.1	19.4	76.6
Development	32.1	2.5	2.5	37.1	2.5	2.5	2.5	9.9
Other Non Cash	(0.0)		-	(0.0)	-	-	-	-
Working interest (20%)	1.64	3.3	3.3	8.2	3.3	3.3	3.4	13.3
Ebit	6.6	13.3	13.1	33.0	13.4	13.3	13.6	53.3
Ebt	6.6	13.3	13.1	33.0	13.4	13.3	13.6	53.3
Distributable Income (\$mm)	6.6	13.3	13.1	33.0	13.4	13.3	13.6	53.3
Distribution Per Unit (\$)	0.20	0.40	0.40	1.00	0.40	0.40	0.41	1.62
Units (millions)	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Ebitda Margin	68%	72%	72%	68%	72%	72%	72%	72%



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price			Enterprise		PV(%)			
	Symbol/Rating		(US\$/sh)	EV/	Market	Value	Nat	Ebitda	Dist.	Dist.	
	B = Buy	3-Nov	Market	Cap	(\$mm)	Gas	Oil	NTM	NTM	Yield	McDep
	CB (see below)	2011							(\$/un)	(%)	Ratio
Small Cap Independent Producers											
Range Resources	RRC	B	71.25	1.19	13,530	66	34	16.7	0.16	0.2	1.02
Birchcliff Energy Ltd.	BIREF	B	15.24	1.19	2,380	56	44	14.0	-	-	0.96
Peyto Exploration and Developmen	PEYUF		22.05	1.17	3,430	76	24	10.4	0.74	3.3	0.93
PDC Energy	PETD		27.71	1.87	1,240	60	40	8.4	-	-	0.93
Berry Petroleum Company	BRY		39.06	1.67	3,580	21	79	6.1	0.32	0.8	0.68
Denbury Resources Inc.	DNR		17.12	1.34	9,280	5	95	7.2	-	-	0.68
Whiting Petroleum Corporation	WLL	CB	47.88	1.28	7,300	11	89	4.7	-	-	0.59
Cimarex Energy Company	XEC	CB	62.33	1.14	6,100	46	54	4.8	0.40	0.6	0.55
<i>Total or Median</i>					46,800			7.8			0.80
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		46.86	1.00	280	87	13		2.97	6.3	1.04
Sabine Royalty Trust	SBR		66.09	1.00	960	51	49		4.26	6.4	0.94
Permian Basin RT	PBT		19.83	1.00	920	42	58		1.36	6.9	0.90
Freehold Royalties Ltd.	FRHLF		17.84	1.06	1,120	18	82		1.67	9.3	0.82
Dorchester Minerals, L.P.	DMLP	CB	24.15	1.00	740	61	39		1.98	8.2	0.81
<i>Total or Median</i>					4,000					6.9	0.90
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.13	1.45	9,500	31	69	13.7	2.76	7.4	1.06
Vanguard Natural Resources, LLC	VNR		28.62	1.44	2,110	23	77	10.8	2.30	8.0	1.04
Hugoton Royalty Trust	HGT		22.17	1.00	890	88	13	15.9	1.26	5.7	1.01
Legacy Reserves L.P.	LGCY		29.50	1.44	1,850	21	79	9.6	2.16	7.3	0.99
San Juan Basin Royalty Trust	SJT	B	24.56	1.00	1,150	100	-	14.4	1.34	5.5	0.98
Enduro Royalty Trust (40%)	NDRO		21.26	1.00	280	47	53	9.2	1.62	7.6	0.97
Mesa Royalty Trust	MTR		43.93	1.00	82	75	25	12.1	3.08	7.0	0.83
Enerplus Corporation	ERF	CB	28.58	1.21	6,200	30	70	8.0	2.14	7.5	0.80
<i>Total or Median</i>					22,100			11.5		7.4	0.99
Composite											
<i>Enterprise Value Weighting</i>					72,900	38	62				0.80
<i>Equal Weighting</i>						48	52				0.88
<i>Equal Weighted Buys</i>						46	54				0.82

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 \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended September 30, 2012. Enterprise Value = Market Cap and Debt.



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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>3-Nov</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2011</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
Range Resources	RRC	B	71.25	159.0	11,330	70.00	0.17	1.02
Birchcliff Energy Ltd.	BIREF	B	15.24	131.0	2,000	16.00	0.15	0.96
Peyto Exploration and Development Cor	PEYUF		22.05	133.1	2,930	24.00	0.14	0.93
PDC Energy	PETD		27.71	23.7	660	32.00	0.43	0.93
Berry Petroleum Company	BRY		39.06	54.7	2,140	70.00	0.27	0.68
Denbury Resources Inc.	DNR		17.12	404.0	6,920	28.00	0.17	0.68
Whiting Petroleum Corporation	WLL	CB	47.88	119.0	5,700	90.00	0.13	0.59
Cimarex Energy Company	XEC	CB	62.33	86.1	5,370	120.00	0.07	0.55
<i>Total or Median</i>					<i>37,050</i>		<i>0.16</i>	<i>0.80</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		46.86	6.0	280	45.00	-	1.04
Sabine Royalty Trust	SBR		66.09	14.6	960	70.00	-	0.94
Permian Basin RT	PBT		19.83	46.6	920	22.00	-	0.90
Freehold Royalties Ltd.	FRHLF		17.84	59.1	1,050	22.00	0.05	0.82
Dorchester Minerals, L.P.	DMLP	CB	24.15	30.7	740	30.00	-	0.81
<i>Total or Median</i>					<i>3,950</i>			<i>0.90</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.13	176.0	6,540	34.00	0.33	1.06
Vanguard Natural Resources, LLC	VNR		28.62	51.1	1,460	27.00	0.32	1.04
Hugoton Royalty Trust	HGT		22.17	40.0	890	22.00	-	1.01
Legacy Reserves L.P.	LGCY		29.50	43.6	1,290	30.00	0.30	0.99
San Juan Basin Royalty Trust	SJT	B	24.56	46.6	1,150	25.00	-	0.98
Enduro Royalty Trust (40%)	NDRO		21.26	13.2	280	22.00	-	0.97
Mesa Royalty Trust	MTR		43.93	1.9	82	53.00	-	0.83
Enerplus Corporation	ERF	CB	28.58	179.6	5,130	37.00	0.14	0.80
<i>Total or Median</i>					<i>16,820</i>			<i>0.99</i>
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 \$8 a million btu for natural gas.								



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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		3-Nov 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	71.25		-	14.4	16.4	16.7
Birchcliff Energy Ltd.	BIREF	B	15.24		-	20.3	14.6	14.0
Peyto Exploration and Development Corp	PEYUF		22.05		0.34	13.6	11.2	10.4
PDC Energy	PETD		27.71		-	7.7	9.1	8.4
Denbury Resources Inc.	DNR		17.12		-	13.4	10.6	7.2
Berry Petroleum Company	BRY		39.06		-	11.6	9.0	6.1
Cimarex Energy Company	XEC	CB	62.33		-	6.8	8.7	4.8
Whiting Petroleum Corporation	WLL	CB	47.88		-	8.7	7.9	4.7
	<i>Median</i>					12.5	9.9	7.8
Top Line Cash Payers								
Sabine Royalty Trust	SBR		66.09	100	1.00	7.4	16.4	15.5
Cross Timbers Royalty Trust	CRT		46.86	80	0.97	13.9	14.6	15.2
Permian Basin RT	PBT		19.83	32	0.98	16.5	15.8	14.3
Dorchester Minerals, L.P.	DMLP	CB	24.15	77	0.85	6.1	12.8	10.3
Freehold Royalties Ltd.	FRHLF		17.84	71	0.90	6.6	11.9	9.7
	<i>Median</i>					7.4	14.6	14.3
Bottom Line Cash Payers								
Hugoton Royalty Trust	HGT		22.17		0.90	14.0	15.8	15.9
San Juan Basin Royalty Trust	SJT	B	24.56		0.79	8.6	14.7	14.4
Linn Energy, LLC	LINE		37.13		1.05	16.2	12.9	13.7
Mesa Royalty Trust	MTR		43.93		0.84	14.5	14.5	12.1
Vanguard Natural Resources, LLC	VNR		28.62		0.89	8.8	10.4	10.8
Legacy Reserves L.P.	LGCY		29.50		0.70	10.2	9.7	9.6
Enduro Royalty Trust (40%)	NDRO		21.26		0.70	7.4	9.5	9.2
Enerplus Corporation	ERF	CB	28.58		0.57	8.3	9.9	8.0
	<i>Median</i>					9.5	11.7	11.5
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 September 30, 2012; 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).								



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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		3-Nov 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Range Resources	RRC	B	71.25	0.93	1.64	1.08	1.20	1.02
Birchcliff Energy Ltd.	BIREF	B	15.24	0.99	1.56	1.15	1.16	0.96
Peyto Exploration and Development C	PEYUF		22.05	0.89	1.31	1.05	1.04	0.93
Denbury Resources Inc.	DNR		17.12	0.72	1.43	1.15	0.92	0.68
PDC Energy	PETD		27.71	0.71	1.32	1.11	0.89	0.93
Berry Petroleum Company	BRY		39.06	0.75	1.15	0.96	0.88	0.68
Whiting Petroleum Corporation	WLL	CB	47.88	0.69	1.45	1.10	0.87	0.59
Cimarex Energy Company	XEC	CB	62.33	0.56	1.20	1.00	0.73	0.55
	<i>Median</i>			<i>0.73</i>	<i>1.38</i>	<i>1.09</i>	<i>0.90</i>	<i>0.80</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		46.86	0.97	1.24	1.03	1.05	1.04
Sabine Royalty Trust	SBR		66.09	0.94	1.39	1.04	1.04	0.94
Permian Basin RT	PBT		19.83	0.84	1.10	0.96	0.93	0.90
Dorchester Minerals, L.P.	DMLP	CB	24.15	0.80	1.16	1.00	0.91	0.81
Freehold Royalties Ltd.	FRHLF		17.84	0.74	1.28	1.03	0.87	0.82
	<i>Median</i>			<i>0.84</i>	<i>1.24</i>	<i>1.03</i>	<i>0.93</i>	<i>0.90</i>
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	B	24.56	0.88	1.20	1.04	1.01	0.98
Legacy Reserves L.P.	LGCY		29.50	0.91	1.21	1.05	1.01	0.99
Hugoton RoyaltyTrust	HGT		22.17	0.90	1.15	1.01	1.00	1.01
Vanguard Natural Resources, LLC	VNR		28.62	0.89	1.20	1.04	0.98	1.04
Linn Energy, LLC	LINE		37.13	0.93	1.13	1.00	0.98	1.06
Enerplus Corporation	ERF	CB	28.58	0.88	1.25	1.06	0.96	0.80
Mesa RoyaltyTrust	MTR		43.93	0.86	1.13	1.00	0.96	0.83
	<i>Median</i>			<i>0.89</i>	<i>1.20</i>	<i>1.04</i>	<i>0.98</i>	<i>0.99</i>

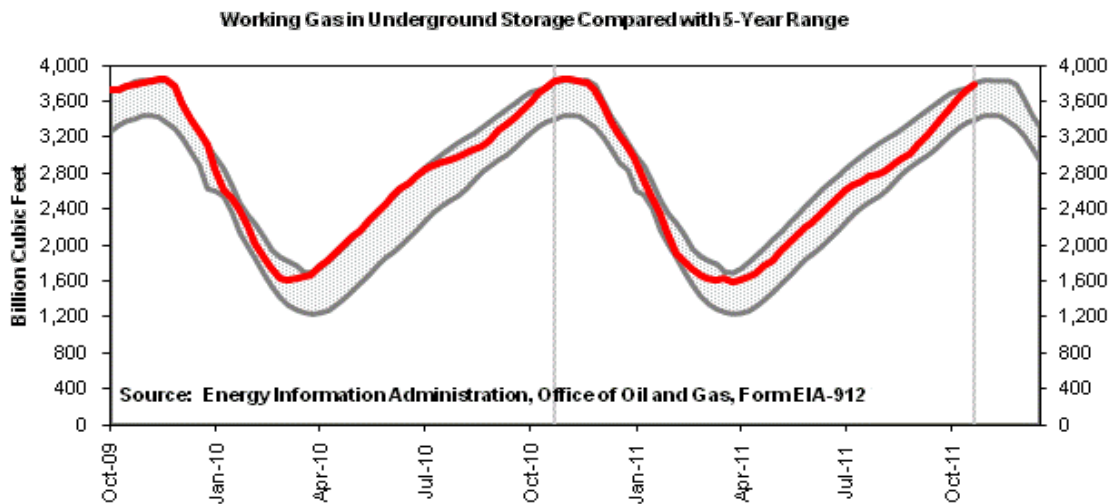
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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