



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 7, 2012

Permian Basin Royalty Trust (PBT) New Volume from Horizontal Fracking

<i>Symbol</i>	PBT	<i>Ebitda Next Twelve Months ending 12/31/13 (US\$m)</i>	71
<i>Rating</i>	RTF stock	<i>North American Natural Gas/Ebitda (%)</i>	24
<i>Price (US\$/sh)</i>	13.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/6/12	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	46.61	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$m)</i>	608	<i>PV/Ebitda</i>	13.1
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	608	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	8.33
<i>Present Value (PV) (US\$m)</i>	932	<i>Present Value Proven Reserves(US\$/boe)</i>	95.80
<i>Net Present Value (US\$/unit)</i>	20.00	<i>Oil and Gas Ebitda Margin (%)</i>	75
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.08
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.3	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.08
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and 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 PBT see www.mcdep.com/5pbt.htm			

Summary and Recommendation

We see 53% unlevered appreciation potential in the units of **Permian Basin Royalty Trust (PBT)**, one of the nine stocks in our illustrative RTF (Royalty Trust Fund). The trust's long-life oil properties in West Texas, producing for some 90 years, may be growing in volume again with the application of new drilling and fracking technology. We project slight growth in the next year along with a high level of development spending (see table Next Twelve Months Operating and Financial Estimates on page 2). More spending by the operator, large cap buy **ConocoPhillips (COP)** could boost volume, typically after a delay. Development reached a new peak in the November distribution declaration at \$2.6 million net to the trust, or \$.06 a unit (see table Monthly Declarations on page 3). While profitable spending increases long-term value, it is fully financed by an immediate reduction in distribution which tends to reduce near-term stock price. Incremental spending reduced monthly distribution by about a third in 2012 and stock price has also declined by a third. If the spending is not profitable, it will be curtailed and the savings added to the near-term distribution. More predictably, about 56% or \$0.60 a unit of Next Twelve Months (NTM) distribution would be generated by a stable core of Top Line cash flow, which benefits from development by others at no cost to the trust. Combining Bottom Line and Top Line sources, estimated NTM distribution yield is 8.3%. Fluctuations in stock prices and monthly distributions are moderated when investment in PBT is complemented with others in our RTF of high quality oil and gas resources that have been creating wealth for generations (see table Royalty Trust Fund on page 3).

Kurt H. Wulff, CFA



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Permian Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
	Year	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next
	2011	9/30/12	12/31/12	2012E	3/31/13	6/30/13	9/30/13	12/31/13	Twelve
									Months
									12/31/13
Volume									
Natural Gas (bcf)	4.29	0.97	1.01	4.23	1.02	1.01	1.04	1.05	4.13
Natural Gas (mmcf)	11.8	10.6	11.0	11.5	11.1	11.2	11.3	11.4	11.3
Days	365	92	92	366	92	90	92	92	366
Oil (mmb)	0.95	0.26	0.26	1.04	0.26	0.26	0.27	0.27	1.06
Oil (mbd)	2.61	2.83	2.83	2.84	2.86	2.89	2.91	2.94	2.91
Days	365	92	92	366	92	89	92	92	365
Total (bcfe)	10.00	2.54	2.57	10.47	2.60	2.57	2.65	2.68	10.50
Total (mmcf)	27.4	27.6	28.0	28.6	28.3	28.5	28.8	29.1	28.7
Price (Henry Hub and WTI Cushing lagged two months)									
Henry Hub (\$/mmbtu)	4.10	2.41	2.89	2.76	3.68	3.86	3.91	3.98	3.86
Differential (%)	(86)	(113)	(78)	(120)	(78)	(78)	(78)	(78)	(78)
Trust (\$/mcf)	7.61	5.13	5.14	6.08	6.55	6.87	6.96	7.09	6.87
WTI Cushing (\$/bbl)	93.25	88.19	93.04	95.96	87.39	88.96	90.27	90.78	89.35
Differential (%)	6	7	7	6	7	7	7	7	7
Trust (\$/bbl)	88.12	81.88	86.39	90.54	81.14	82.60	83.82	84.29	82.98
Total (\$/bbl)	69.91	62.25	64.55	68.72	64.69	66.34	67.27	67.87	66.56
Revenue (\$mm)									
Natural Gas - Top Line	4.8	0.9	1.1	4.3	1.3	1.4	1.4	1.5	5.6
Natural Gas - Bottom Line	27.9	4.1	4.1	21.4	5.3	5.5	5.8	6.0	22.7
Oil - Top Line	27.6	6.7	7.0	29.7	6.6	6.7	6.8	6.9	27.1
Oil - Bottom Line	56.2	14.6	15.4	64.5	14.7	14.7	15.6	16.0	61.0
Total	116.5	26.3	27.7	119.9	28.0	28.4	29.7	30.3	116.4
Expense									
Operating - Top Line	2.0	0.4	0.4	1.8	0.4	0.4	0.5	0.5	1.8
Operating - Bottom Line	19.7	5.2	5.1	20.2	5.0	5.1	5.3	5.4	20.7
Production taxes - Top L	1.3	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.2
Production taxes - Bottom L	3.8	0.9	0.8	3.9	1.0	1.0	1.0	1.0	4.0
Total	26.7	6.7	6.6	27.0	6.7	6.8	7.1	7.2	27.8
Cash Flow (\$mm)									
Top Line	29.2	6.9	7.4	31.1	7.2	7.4	7.5	7.5	29.7
Bottom Line	60.6	12.7	13.7	61.8	14.1	14.2	15.1	15.5	59.0
Development	11.5	9.2	10.0	27.2	7.0	7.0	7.0	7.0	28.0
Royalty Income (\$mm)									
Top Line @ 95% Cash Flow	27.7	6.5	7.1	29.6	6.9	7.0	7.1	7.2	28.2
Bottom L @ 75% (CF-Dev)	36.9	2.6	2.8	25.9	5.3	5.4	6.1	6.4	23.2
Administration	1.2	0.2	0.3	1.3	0.3	0.3	0.3	0.3	1.2
Distributable Income (\$mm)	63.4	9.0	9.5	54.2	11.9	12.2	12.9	13.3	50.3
Units (millions)									
Per Unit (\$)	1.36	0.19	0.20	1.16	0.26	0.26	0.28	0.28	1.08



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Permian Basin Royalty Trust									
Monthly Declarations									
	Oct-11	Nov-11	Dec-11	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Volume									
Natural Gas (bcf)	0.158	0.147	0.159	0.106	0.080	0.073	0.071	0.105	0.072
Oil (mmb)	0.0504	0.0445	0.0440	0.0398	0.0371	0.0338	0.0353	0.0374	0.0335
Price (Henry Hub and WTI Cushing lagged two months)									
Henry Hub (\$/mmbtu)	4.37	3.85	3.76	2.19	2.03	2.42	2.77	3.01	2.63
Differential (%)	(93)	(116)	(115)	(153)	(148)	(78)	(78)	(78)	(78)
Company (\$/mcf)	8.44	8.32	8.07	5.55	5.04	4.30	4.92	5.35	4.67
WTI Cushing (\$/bbl)	86.34	85.61	86.43	103.33	94.22	82.41	87.93	94.16	94.56
Differential	3	3	3	6	9	9	7	6	5
Company (\$/bbl)	83.48	83.14	83.60	96.65	86.03	75.33	81.53	88.54	89.99
Revenue (\$mm)									
Natural Gas	1.33	1.22	1.28	0.59	0.40	0.31	0.35	0.56	0.34
Oil	4.21	3.70	3.68	3.84	3.19	2.55	2.88	3.31	3.01
Total	5.54	4.92	4.96	4.43	3.59	2.86	3.22	3.87	3.35
Expense									
Other	0.68	0.18	0.24	0.37	0.15	0.19	0.37	0.39	0.13
Distributable Income (\$mm)									
Per Unit (\$)	0.10	0.10	0.10	0.09	0.07	0.06	0.06	0.07	0.07
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Development @75% (\$mm)	0.93	1.11	0.91	2.26	2.13	2.31	2.49	2.50	2.62

The \$20 Million RTF (Royalty Trust Fund)										
		Price	Fund							
Symbol/Rating		(US\$/sh)	Shares	Market	Top	PV(%)		Dist.	Dist.	
	B = Buy	6-Dec	or Units	Value	Line	Nat		NTM	Yield	McDep
CB (see below)		2012	(thous.)	(\$mm)	(%)	Gas	Oil	(\$/un)	(%)	Ratio
Freehold Royalties Ltd.	FRHLF	22.00	110	2.4	76	16	84	1.69	7.7	1.05
Enduro Royalty Trust (40%)	NDRO	17.20	130	2.2	0	43	57	1.75	10.2	0.82
Dorchester Minerals, L.P.	DMLP CB	20.73	100	2.1	77	57	43	1.89	9.1	0.77
Sabine Royalty Trust	SBR	45.00	50	2.3	100	51	49	4.09	9.1	0.69
San Juan Basin Royalty Trust	SJT CB	13.74	160	2.2	0	100	-	1.33	9.7	0.65
Permian Basin RT	PBT	13.05	150	2.0	52	33	67	1.08	8.3	0.65
Cross Timbers Royalty Trust	CRT	25.31	70	1.8	78	70	30	2.77	10.9	0.58
Mesa Royalty Trust	MTR	20.86	90	1.9	0	75	25	2.12	10.2	0.52
Hugoton Royalty Trust	HGT	7.31	350	2.6	0	88	13	0.69	9.4	0.52
Total				19.3		59	41		9.3	0.67

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 December 31, 2013. Enterprise Value = Market Cap and Debt.



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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	6-Dec	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE		34.97	1.74	1,850	52	48	13.7	-	-	1.09
Range Resources	RRC	B	64.58	1.33	13,760	75	25	16.0	0.16	0.2	0.94
Peyto Exploration and Developmen	PEYUF		24.55	1.21	4,260	76	24	10.4	0.73	3.0	0.92
Continental Resources (32%)	CLR	CB	74.14	1.22	5,300	24	76	7.1	-	-	0.78
Halcón Resources	HK		6.49	1.48	4,200	13	87	6.3	-	-	0.73
Birchcliff Energy Ltd.	BIREF	B	7.86	1.44	1,690	63	37	9.5	-	-	0.73
Denbury Resources Inc.	DNR		15.47	1.53	9,270	6	94	6.0	-	-	0.65
Berry Petroleum Company	BRY		32.09	2.00	3,530	12	88	5.1	-	-	0.63
Cimarex Energy Company	XEC	CB	59.87	1.27	6,590	41	59	5.1	0.48	0.8	0.60
Whiting Petroleum Corporation	WLL	CB	43.59	1.41	7,320	9	91	4.7	-	-	0.58
<i>Total or Median</i>					57,800			6.7			0.73
Top Line Cash Payers											
Freehold Royalties Ltd.	FRHLF		22.00	1.05	1,510	16	84	10.8	1.69	7.7	1.05
Dorchester Minerals, L.P.	DMLP	CB	20.73	1.00	640	57	43	9.9	1.89	9.1	0.77
Sabine Royalty Trust	SBR		45.00	1.00	660	51	49	11.0	4.09	9.1	0.69
Permian Basin RT	PBT		13.05	1.00	610	33	67	8.5	1.08	8.3	0.65
Cross Timbers Royalty Trust	CRT		25.31	1.00	150	70	30	8.8	2.77	10.9	0.58
<i>Total or Median</i>					3,600			9.9		9.1	0.69
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.72	1.66	14,580	43	57	12.6	2.90	7.7	1.14
Vanguard Natural Resources, LLC	VNR		27.08	1.64	2,350	33	67	11.5	2.40	8.9	1.05
Legacy Reserves L.P.	LGCY		24.12	1.51	1,730	25	75	8.9	2.26	9.4	0.86
Enduro Royalty Trust (40%)	NDRO		17.20	1.00	230	43	57	9.2	1.75	10.2	0.82
Enerplus Corporation	ERF	CB	12.99	1.70	4,300	31	69	6.1	1.09	8.4	0.73
San Juan Basin Royalty Trust	SJT	CB	13.74	1.00	640	100	-	8.1	1.33	9.7	0.65
Mesa RoyaltyTrust	MTR		20.86	1.00	39	75	25	7.9	2.12	10.2	0.52
Hugoton RoyaltyTrust	HGT		7.31	1.00	290	88	13	5.8	0.69	9.4	0.52
<i>Total or Median</i>					24,200			8.5		9.4	0.78
Composite											
<i>Enterprise Value Weighting</i>					85,500	38	62				0.79
<i>Equal Weighting</i>						45	55				0.77
<i>Equal Weighted Buys</i>						49	51				0.72

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 December 31, 2013. 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								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		6-Dec 2012	Shares (mm)				
Small Cap Independent Producers								
PDC Energy	PDCE		34.97	30.2	1,060	30.00	0.46	1.09
Range Resources	RRC	B	64.58	160.0	10,330	70.00	0.23	0.94
Peyto Exploration and Development Cor	PEYUF		24.55	143.2	3,520	27.00	0.16	0.92
Continental Resources (32%)	CLR	CB	74.14	58.6	4,340	100.00	0.14	0.78
Halcón Resources	HK		6.49	436.0	2,830	10.00	0.24	0.73
Birchcliff Energy Ltd.	BIREF	B	7.86	149.0	1,170	12.00	0.23	0.73
Denbury Resources Inc.	DNR		15.47	391.0	6,050	28.00	0.23	0.65
Berry Petroleum Company	BRY		32.09	55.3	1,770	70.00	0.31	0.63
Cimarex Energy Company	XEC	CB	59.87	86.9	5,200	110.00	0.13	0.60
Whiting Petroleum Corporation	WLL	CB	43.59	119.0	5,190	88.00	0.17	0.58
<i>Total or Median</i>					41,460		0.23	0.73
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.00	65.7	1,450	21.00	0.05	1.05
Dorchester Minerals, L.P.	DMLP	CB	20.73	30.7	640	27.00	-	0.77
Sabine Royalty Trust	SBR		45.00	14.6	660	65.00	-	0.69
Permian Basin RT	PBT		13.05	46.6	610	20.00	-	0.65
Cross Timbers Royalty Trust	CRT		25.31	6.0	150	44.00	-	0.58
<i>Total or Median</i>					3,510			0.69
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.72	233.0	8,790	30.00	0.45	1.14
Vanguard Natural Resources, LLC	VNR		27.08	53.1	1,440	25.00	0.41	1.05
Legacy Reserves L.P.	LGCY		24.12	47.5	1,150	30.00	0.29	0.86
Enduro Royalty Trust (40%)	NDRO		17.20	13.2	230	21.00	-	0.82
Enerplus Corporation	ERF	CB	12.99	196.0	2,550	21.00	0.30	0.73
San Juan Basin Royalty Trust	SJT	CB	13.74	46.6	640	21.00	-	0.65
Mesa RoyaltyTrust	MTR		20.86	1.9	39	40.00	-	0.52
Hugoton RoyaltyTrust	HGT		7.31	40.0	290	14.00	-	0.52
<i>Total or Median</i>					15,130			0.78
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.								



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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		6-Dec 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	64.58		-	13.5	17.0	16.0
PDC Energy	PDCE		34.97		-	9.9	12.6	13.7
Peyto Exploration and Development Corp	PEYUF		24.55		0.30	9.2	11.3	10.4
Birchcliff Energy Ltd.	BIREF	B	7.86		-	19.4	13.0	9.5
Continental Resources (32%)	CLR	CB	74.14		-	9.0	9.1	7.1
Halcón Resources	HK		6.49		-	5.5	8.6	6.3
Denbury Resources Inc.	DNR		15.47		-	13.0	9.1	6.0
Cimarex Energy Company	XEC	CB	59.87		-	7.3	8.5	5.1
Berry Petroleum Company	BRY		32.09		-	11.3	8.1	5.1
Whiting Petroleum Corporation	WLL	CB	43.59		-	9.1	8.0	4.7
	<i>Median</i>					9.5	9.1	6.7
Top Line Cash Payers								
Sabine Royalty Trust	SBR		45.00	100	1.00	7.6	15.9	11.0
Freehold Royalties Ltd.	FRHLF		22.00	76	0.83	5.1	10.3	10.8
Dorchester Minerals, L.P.	DMLP	CB	20.73	77	0.90	6.8	12.9	9.9
Cross Timbers Royalty Trust	CRT		25.31	78	0.97	16.5	15.3	8.8
Permian Basin RT	PBT		13.05	52	0.71	9.9	13.1	8.5
	<i>Median</i>					7.6	13.1	9.9
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.72		1.06	14.0	11.0	12.6
Vanguard Natural Resources, LLC	VNR		27.08		1.05	13.2	11.0	11.5
Enduro Royalty Trust (40%)	NDRO		17.20		0.94	7.2	11.3	9.2
Legacy Reserves L.P.	LGCY		24.12		0.78	11.0	10.4	8.9
San Juan Basin Royalty Trust	SJT	CB	13.74		0.79	9.1	12.4	8.1
Mesa RoyaltyTrust	MTR		20.86		0.80	7.7	15.2	7.9
Enerplus Corporation	ERF	CB	12.99		0.43	6.3	8.3	6.1
Hugoton RoyaltyTrust	HGT		7.31		0.54	13.6	11.1	5.8
	<i>Median</i>					10.0	11.0	8.5
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 December 31, 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).								



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Table ISC-4								
McDep Income and Small Cap Energy Portfolio								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		6-Dec 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		24.55	0.94	1.51	0.99	1.17	0.92
PDC Energy	PDCE		34.97	0.92	1.35	1.07	1.09	1.09
Birchcliff Energy Ltd.	BIREF	B	7.86	0.64	1.35	1.01	1.03	0.73
Range Resources	RRC	B	64.58	0.90	1.17	0.96	1.01	0.94
Continental Resources (32%)	CLR	CB	74.14	0.80	1.17	1.01	0.98	0.78
Cimarex Energy Company	XEC	CB	59.87	0.73	1.22	0.99	0.97	0.60
Denbury Resources Inc.	DNR		15.47	0.80	1.11	0.99	0.96	0.65
Whiting Petroleum Corporation	WLL	CB	43.59	0.75	1.15	0.98	0.95	0.58
Berry Petroleum Company	BRY		32.09	0.72	1.03	0.94	0.88	0.63
Halcón Resources	HK		6.49	0.58		0.99	0.83	0.73
	<i>Median</i>			<i>0.77</i>	<i>1.17</i>	<i>0.99</i>	<i>0.97</i>	<i>0.73</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.00	1.01	1.30	1.06	1.12	1.05
Dorchester Minerals, L.P.	DMLP	CB	20.73	0.78	1.04	0.94	0.91	0.77
Sabine Royalty Trust	SBR		45.00	0.67	1.04	0.92	0.84	0.69
Permian Basin RT	PBT		13.05	0.56	1.09	0.92	0.72	0.65
Cross Timbers Royalty Trust	CRT		25.31	0.50	1.04	0.89	0.70	0.58
	<i>Median</i>			<i>0.67</i>	<i>1.04</i>	<i>0.92</i>	<i>0.84</i>	<i>0.69</i>
Bottom Line Cash Payers								
Vanguard Natural Resources, LLC	VNR		27.08	0.93	1.11	0.97	0.99	1.05
Linn Energy, LLC	LINE		37.72	0.93	1.06	0.96	0.98	1.14
Legacy Reserves L.P.	LGCY		24.12	0.86	1.03	0.92	0.92	0.86
San Juan Basin Royalty Trust	SJT	CB	13.74	0.57	1.14	0.99	0.88	0.65
Enerplus Corporation	ERF	CB	12.99	0.62	1.08	0.92	0.87	0.73
Hugoton RoyaltyTrust	HGT		7.31	0.35	1.28	1.03	0.78	0.52
Mesa RoyaltyTrust	MTR		20.86	0.47	1.02	0.85	0.69	0.52
	<i>Median</i>			<i>0.62</i>	<i>1.08</i>	<i>0.96</i>	<i>0.88</i>	<i>0.73</i>

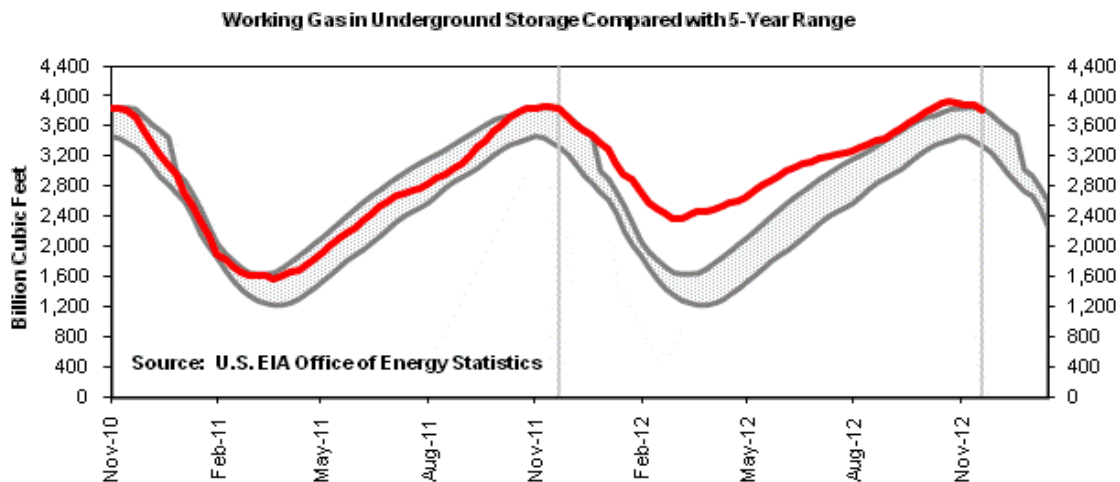
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

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