



Oil & Gas Income Stocks

A Weekly Analysis

August 15, 2008

San Juan Basin Royalty Trust (SJT) Long-Term Natural Gas Income

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	197
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	99
<i>Price (US\$/sh)</i>	37.98	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/14/08	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	9.0
<i>Market Capitalization (US\$mm)</i>	1,770	<i>PV/Ebitda</i>	11.3
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$mm)</i>	1,770	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	7.40
<i>Present Value (PV) (US\$mm)</i>	2,240	<i>Present Value Proven Reserves(US\$/boe)</i>	44.64
<i>Net Present Value (US\$/unit)</i>	48	<i>Present Value Proven Reserves(US\$/mcfe)</i>	7.44
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.60
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	9.5	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.60
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, \$14 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)**, with estimated net present value (NPV) of \$48 a unit, offers natural gas resource value with income. On May 13, we raised NPV from \$40 on the basis of a long-term natural gas price assumption of \$14 a million btu, up from \$11. Since then perceptions of the long-term supply outlook for our cleanest fuel have increased materially, spurred by Chesapeake's Energy optimistic outlook for the Haynesville Shale formation in East Texas and North Louisiana (see *Meter Reader*, July 8, 2008). The better industry outlook may give electric utilities more confidence to build new plants to use natural gas and regulators more confidence to impose standards that favor the more environmentally friendly fuel. Distributions to be declared for August and September should be the highest of the year followed by a lower distribution in October mirroring real-time natural gas price after a two month lag (see table Monthly Declarations). Current futures prices point to seasonally higher price in winter that boosts our estimate of distributions in the first half of next year (see table Distributable Income).

Weekly Income Stock Valuation

Thirteen income stocks have a median McDep Ratio of 0.81 that indicates attractive value (see table, page 4). The median unlevered market cash flow multiple (EV/Ebitda) is 8.1 times, a low valuation for a median conservatively stated adjusted reserve life of 10.6 years (see table, page 4). Median estimated distribution yield is a high 11.2% compared to 4% for the ten year U.S. Treasury Note (see table, page 5).

Kurt H. Wulff, CFA



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San Juan Basin Royalty Trust									
Monthly Declarations									
	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Distribution (\$/unit)									
Declared	0.18	0.27	0.30	0.32					
Projected					0.37	0.46	0.28	0.25	0.26
Volume									
Natural gas (mmbtu)	2.34	3.09	3.15	3.22	3.12	3.20	3.18	3.07	3.14
Heat Content(btu/cf)	1,120	1,084	1,084	1,076	1,079	1,080	1,081	1,082	1,084
Natural gas (bcf)	2.09	2.85	2.90	2.99	2.89	2.96	2.94	2.84	2.90
Natural Gas (mmcf)	72	92	97	96	96	95	95	95	94
Days	29	31	30	31	30	31	31	30	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	7.99	8.93	9.58	11.29	11.93	13.11	9.23	8.35	8.42
San Juan Monthly Index	7.28	8.10	8.27	9.43	9.82	11.36	7.63	7.17	7.24
San Juan Index/Henry Hub	0.91	0.91	0.86	0.84	0.82	0.87	0.83	0.86	0.86
SJT/San Juan Index	1.00	0.98	0.97	0.96	1.00	1.00	1.00	1.01	1.00
SJT (\$/mmbtu)	7.25	7.90	8.05	9.05	9.78	11.38	7.67	7.21	7.25
SJT (\$/mcf)	8.12	8.57	8.73	9.73	10.55	12.29	8.29	7.80	7.85
Revenue (\$mm)									
Natural Gas	17.0	24.4	25.3	29.1	30.5	36.4	24.4	22.1	22.8
Other	(0.1)	0.2	0.1	0.5	0.2	0.2	0.2	0.2	0.2
Cost (\$mm)									
Severance tax	1.6	2.3	2.4	2.8	3.0	3.5	2.4	2.1	2.2
Operating	2.3	2.8	2.7	2.9	2.6	2.6	2.6	2.6	2.6
Total	4.0	5.1	5.1	5.7	5.5	6.1	4.9	4.7	4.8
Cash flow (\$mm)	12.9	19.5	20.4	23.9	25.2	30.5	19.7	17.6	18.2
Development	1.7	2.6	1.8	3.9	2.0	2.0	2.1	2.2	2.2
Net proceeds (\$mm)	11.2	16.9	18.6	20.0	23.2	28.5	17.6	15.4	15.9
Royalty income (\$mm)	8.4	12.7	13.9	15.0	17.4	21.3	13.2	11.5	12.0
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time									
Distributable income (\$mm)	8.4	12.7	13.9	15.0	17.4	21.3	13.2	11.5	12.0
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.18	0.27	0.30	0.32	0.37	0.46	0.28	0.25	0.26
<i>Latest Twelve Month Average</i>									
Heat Content(btu/cf)	1,075	1,076	1,078	1,079	1,080	1,081	1,082	1,084	1,084
Natural Gas (mmcf)	99	99	98	96	95	95	95	94	93
San Juan Index/Henry Hub	0.86	0.86	0.87	0.87	0.86	0.86	0.86	0.86	0.87
SJT/San Juan Index	0.99	0.99	0.99	1.00	1.00	1.00	1.01	1.00	1.00
Other revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Operating	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Development	1.7	1.7	1.7	2.0	2.0	2.1	2.2	2.2	2.2
Severance tax/revenue	9.8%	9.8%	9.7%	9.7%	9.6%	9.7%	9.7%	9.7%	9.7%
Ebitda Margin	78%	78%	78%	78%	79%	79%	79%	80%	80%



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San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q3	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	
	9/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	6/30/09
Highlights									
Revenue (\$mm) (75%)	49.7	45.6	50.8	72.9	52.8	222.1	60.0	58.4	244.2
Cash flow (\$mm) (75%)	39.5	35.2	40.2	60.0	41.9	177.3	48.5	47.0	197.4
Per unit	0.85	0.75	0.86	1.29	0.90	3.80	1.04	1.01	4.23
Distributable Income (\$mm)	37.4	25.1	35.0	53.7	36.7	150.5	39.2	38.0	167.7
Per unit	0.80	0.54	0.75	1.15	0.79	3.23	0.84	0.82	3.60
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	10.6	9.3	8.6	9.5	9.4	36.8	9.7	9.5	38.0
Heat Content(btu/cf)	1,066	1,082	1,071	1,073	1,074	1,084	1,074	1,076	1,078
Natural gas (bcf)	10.0	8.6	7.8	8.8	8.7	33.9	9.0	8.8	35.3
Natural Gas (mmcf)	108.2	93.0	87.1	97.7	97.7	92.7	97.7	97.7	96.4
Days	92	92	90	92	92	366	92	90	366
Oil (mb)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil (mbd)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Days	92	92	90	92	92	366	92	90	366
Total gas & oil (bcf)	10.1	8.6	7.9	8.9	8.7	34.2	9.1	8.9	35.6
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	7.35	7.21	8.83	12.11	8.67	9.20	9.14	9.21	9.78
Differential (%)	16	11	12	16	16	14	11	12	14
Net to SJT (\$/mmbtu)	6.14	6.44	7.78	10.13	7.31	7.93	8.17	8.11	8.43
Natural gas (\$/mcf)	6.55	6.97	8.33	10.87	7.85	8.60	8.77	8.72	9.09
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	68.31	93.03	104.49	130.89	114.52	110.73	115.34	115.79	119.14
SJT	64.16	88.58	94.81	118.77	103.91	101.05	105.26	105.67	108.36
Total gas & oil (\$/mcf)	6.59	7.04	8.57	10.92	8.05	8.66	8.84	8.79	9.15
Revenue (\$mm)									
Natural Gas	65.2	59.7	66.7	95.9	69.3	291.5	78.8	76.7	320.7
Oil	1.1	1.1	1.0	1.3	1.1	4.6	1.2	1.2	4.8
Total	66.3	60.8	67.7	97.2	70.4	296.1	80.0	77.9	325.6
Cost (\$mm)									
Severance tax	6.4	5.8	6.4	9.3	6.7	28.1	7.6	7.4	30.9
Operating	7.2	8.1	7.7	8.0	7.8	31.6	7.8	7.8	31.4
Total	13.6	13.9	14.1	17.3	14.5	59.8	15.4	15.2	62.4
Cash flow (\$mm)									
Development	3.2	6.2	6.1	7.9	6.5	26.7	11.6	11.3	37.3
Net proceeds (\$mm)									
Royalty income (\$mm)	37.1	30.5	35.6	54.0	37.1	157.2	39.7	38.5	169.4
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	(0.3)	0.5	0.6	0.5	0.5	2.1	0.5	0.5	2.0
One-time		4.9				4.9			-
Distributable income (\$mm)									
Severance tax/revenue	9.7%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Operating cost (\$/mcf)	0.72	0.94	0.98	0.90	0.89	0.93	0.86	0.88	0.88
Development/Cash flow	6%	13%	11%	10%	12%	11%	18%	18%	14%



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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		14-Aug 2008	(mm)				
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		64.69	14.6	940	60.00	-	1.08
Permian Basin RT	PBT		21.73	46.6	1,010	23.00	-	0.94
Cross Timbers Royalty Trust	CRT		47.55	6.0	290	57.00	-	0.83
Mesa RoyaltyTrust	MTR		73.97	1.9	140	93.00	-	0.80
San Juan Basin Royalty Trust	SJT	B	37.98	46.6	1,770	48.00	-	0.79
Hugoton RoyaltyTrust	HGT	B	29.80	40.0	1,190	42.00	-	0.71
<i>Total or Median</i>					5,300			0.81
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	45.83	479.9	22,000	57.00	0.04	0.81
Pengrowth Energy Trust	PGH		16.86	248.0	4,180	24.00	0.26	0.78
Penn West Energy Trust	PWE	B	28.00	380.0	10,640	40.00	0.26	0.78
Enerplus Resources Fund	ERF		39.56	164.5	6,510	63.00	0.13	0.68
<i>Total or Median</i>					43,300		0.19	0.78
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P. (32%)	ENP		24.99	10.0	250	29.00	0.17	0.88
Dorchester Minerals, L.P.	DMLP		27.81	28.2	790	33.00	-	0.84
Linn Energy, LLC	LINE		20.11	114.0	2,290	30.00	0.49	0.83
<i>Total or Median</i>					3,300		0.17	0.84
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda							
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Divd or Distrib
	Symbol/ Rating		14-Aug 2008	NTM	NTM	NTM	NTM (%)
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR		64.69	8.9	8.5	9.1	11.0
San Juan Basin Royalty Trust	SJT	B	37.98	10.6	11.3	9.0	9.5
Cross Timbers Royalty Trust	CRT		47.55	13.9	10.1	8.4	8.9
Mesa RoyaltyTrust	MTR		73.97	21.1	10.3	8.2	10.7
Permian Basin RT	PBT		21.73	8.6	8.0	7.6	12.8
Hugoton RoyaltyTrust	HGT	B	29.80	13.1	9.9	7.1	9.9
<i>Median</i>				11.9	10.0	8.3	10.8
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	45.83	22.2	9.9	8.1	11.5
Enerplus Resources Fund	ERF		39.56	9.6	7.7	5.2	13.1
Penn West Energy Trust	PWE	B	28.00	7.5	6.6	5.1	13.6
Pengrowth Energy Trust	PGH		16.86	9.1	6.5	5.1	15.0
<i>Median</i>				9.3	7.1	5.1	13.4
U.S. Master Limited Partnerships (MLPs)							
Dorchester Minerals, L.P.	DMLP		27.81	8.5	10.7	9.0	11.1
Linn Energy, LLC	LINE		20.11	17.1	10.3	8.6	12.5
Encore Energy Partners, L.P.	ENP		24.99	11.9	7.2	6.3	9.7
<i>Median</i>				11.9	10.3	8.6	11.1
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							



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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural Gas/					
	Symbol	Royalty (%)	Ebitda (%)	Dist/ Ebitda	Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Dist. Yield (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	99	0.85	0.85	168	3.60	9.5
Hugoton Royalty Trust	HGT	-	86	0.70	0.70	117	2.94	9.9
Mesa Royalty Trust	MTR	-	65	0.88	0.88	15	7.92	10.7
Sabine Royalty Trust	SBR	100	56	1.00	1.00	103	7.10	11.0
Cross Timbers Royalty Trust	CRT	84	69	0.95	0.95	32	5.32	11.2
Permian Basin RT	PBT	32	34	0.97	0.97	130	2.79	12.8
<i>Total or Median</i>				<i>67</i>	<i>0.91</i>	<i>600</i>		<i>10.8</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(6)	0.88	0.92	2,540	5.29	11.5
Enerplus Resources Fund	ERF	-	42	0.55	0.63	852	5.18	13.1
Penn West Energy Trust	PWE	-	28	0.46	0.63	1,450	3.82	13.6
Pengrowth Energy Trust	PGH	-	31	0.51	0.68	626	2.53	15.0
<i>Total or Median</i>				<i>30</i>	<i>0.53</i>	<i>666</i>		<i>13.4</i>
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P.	ENP		18	0.50	0.60	24	2.42	9.7
Dorchester Minerals, L.P.	DMLP	64	67	1.00	1.00	87	3.09	11.1
Linn Energy, LLC	LINE		44	0.45	0.87	287	2.52	12.5
<i>Total or Median</i>				<i>44</i>	<i>0.50</i>	<i>400</i>		<i>11.1</i>
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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