



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 24, 2012

Hugoton Royalty Trust (HGT) Highest Return for the Next Year

| | | | |
|--|---------|---|-------|
| <i>Symbol</i> | HGT | <i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i> | 40 |
| <i>Rating</i> | | <i>North American Natural Gas/Ebitda (%)</i> | 76 |
| <i>Price (US\$/sh)</i> | 6.51 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 8/23/12 | <i>Adjusted Reserves/Production NTM</i> | 13.4 |
| <i>Shares (mm)</i> | 40.0 | <i>EV/Ebitda</i> | 6.5 |
| <i>Market Capitalization (US\$m)</i> | 260 | <i>PV/Ebitda</i> | 14.0 |
| <i>Debt (US\$m)</i> | 0 | <i>Undeveloped Reserves (%)</i> | 13 |
| <i>Enterprise Value (EV) (US\$m)</i> | 260 | <i>Natural Gas and Oil Ebitda (US\$/mcf)</i> | 2.35 |
| <i>Present Value (PV) (US\$m)</i> | 560 | <i>Present Value Proven Reserves(US\$/boe)</i> | 13.70 |
| <i>Net Present Value (US\$/unit)</i> | 14.0 | <i>Oil and Gas Ebitda Margin (%)</i> | 53 |
| <i>Debt/Present Value</i> | 0.00 | <i>Earnings Next Twelve Months (US\$/un)</i> | 0.19 |
| <i>McDep Ratio - EV/PV</i> | 0.47 | <i>Price/Earnings Next Twelve Months</i> | 35 |
| <i>Distribution Yield (%/year)</i> | 2.9 | <i>Distribution Next Twelve Months (US\$/sh)</i> | 0.19 |
| 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 btu. | | | |
| For historical analysis of HGT since 2000 see www.mcdep.com/4hgt.htm | | | |

Summary and Recommendation

Units of **Hugoton Royalty Trust (HGT)** offer the highest return potential over the next year among royalty trusts on the basis of recovery from a steep stock price decline associated with an adverse proposed legal settlement. Relying on public disclosures from the trustee regarding progress of the legal dispute, we reaffirm Net Present Value (NPV) of \$14 a unit, double current stock price (see tables Functional Cash Flow and Present Value on page 2 and Next Twelve Months Operating and Financial Results on page 3). Latest disclosures suggest the negative impact may be less than initially described. First, the trust's share of a prospective legal settlement of \$29.6 million (\$0.74 a unit) announced in May has been reduced to \$28.5 (\$0.71 a unit) to eliminate claims that predate the formation of the trust in late 1998. Second, the estimate of the time period for withholding payments from the monthly distribution has been reduced from 18 months to 13 months for 82% of the possible assessment. Third, the trustee for the unit holders will seek a court order to prohibit withholding of distributions by the operator until arbitration now under way is completed. Fourth, the arbitrator may agree that all or some of the responsibility for payment may rest with the operator who contributed the properties that form the trust. Since total claims, current and future, may be less than \$1.22 a unit, we conclude that a \$6 decline in stock price in the past four months presents unusual chance for rebound.

Total Claims May be Less than \$1.22 a Unit

The net settlement amounts to about 3.5% of the total distributions paid during the trust's 13-year history of public trading. That may be an indication that NPV could be reduced by 3.5% (\$0.49 a unit) if the terms of the settlement are applied to the same degree in the future as in the past.



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Meanwhile, the trustee has reserved \$0.7 million (\$.0175 a unit) from the monthly distribution declared on August 20 to take legal action to prevent withholding by the operator until arbitration is complete (see table [Monthly Declarations](#) on page 4). As a result, total claims could be \$1.22 a unit (\$0.71 + \$0.49 + \$0.02), a fraction of the decline in stock price.

Distributions May Rebound in Less Than a Year

When the indicated charge was disclosed in May, the operator estimated there would be no distributions from the properties in Oklahoma (79% of future revenue) and Kansas (8% of future revenue) for 18 months until the settlement amount was recovered from cash flow. Disclosed on August 20, the latest estimate from the operator is 13 months for the Oklahoma properties and 8 years for the Kansas properties. Our projections that take account of natural gas futures prices would have the hypothetical Oklahoma liability extinguished in the second quarter of 2013. The extreme estimate for the Kansas properties suggests narrow cash flow margin that could widen rapidly at higher natural gas price.

Valuation Opportunity

While the impact on near-term distributions remains quite dramatic because of the royalty trust requirement to pay liabilities out of current cash flow, the impact on underlying resource value is far less than the decline in stock price. As a result, HGT stock has opened a gap in McDep Ratio at 0.46 compared to 0.70 for the next lowest in rank, unusual for royalty trusts in our experience (see [Tables ISC-1 to ISC-2](#) on pages 5-6). Unlevered cash flow multiple (EV/Ebitda) of 6.5 times looks too low for the long 13.4 year adjusted life index (see [Table ISC-3](#) on page 7). Further measures of exaggerated stock price action are the lowest ratio of enterprise value to 52-week high at just 0.28, lowest ratio to 52-week low at 1.06, lowest ratio to 50-day average at 0.89 and lowest ratio to 200-day average at 0.49 (see [Table ISC-4](#) on page 8).

Kurt H. Wulff, CFA

| Hugoton Royalty Trust | | | | | |
|---|------------|----------|--------|----------|------|
| Functional Cash Flow and Present Value | | | | | |
| | NTM Ebitda | Adjusted | PV/ | Present | |
| | (US\$mm) | R/P | Ebitda | Value | |
| | | | | (US\$mm) | |
| North American Natural Gas | 30 | 13.7 | 16.2 | 490 | 88% |
| Oil | 10 | 10.2 | 7.2 | 70 | 13% |
| | 40 | 13.4 | 14.0 | 560 | 100% |
| Debt (US\$mm) | | | | | - |
| Net Present Value (US\$mm) | | | | | 560 |
| Units (mm) | | | | | 40 |
| Net Present Value - Standard Estimate (US\$/un) | | | | | 14 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/un) | | | | | 15 |



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| Hugoton Royalty Trust | | | | | | | | | |
|--|---------|-------|---------|---------|---------|----------|-------|---------|---------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | |
| | Q2 | Year | Q1 | Q2 | Q3E | Q4E | Year | Q2E | Next |
| | 6/30/12 | 2011 | 3/31/12 | 6/30/12 | 9/30/12 | 12/31/12 | 2012E | 6/30/13 | Twelve |
| | | | | | | | | | Months |
| | | | | | | | | | 6/30/13 |
| Highlights | | | | | | | | | |
| Revenue (\$mm) (80%) | 25.5 | 100.0 | 20.5 | 16.9 | 15.9 | 18.4 | 71.7 | 20.5 | 74.9 |
| Cash flow (\$mm) (80%) | 16.7 | 63.7 | 11.3 | 8.1 | 7.4 | 9.6 | 36.4 | 11.6 | 40.0 |
| Per unit | 0.42 | 1.59 | 0.28 | 0.20 | 0.19 | 0.24 | 0.91 | 0.29 | 1.00 |
| Distributable Income (\$mm) | 14.4 | 55.8 | 9.8 | 6.6 | 1.9 | 1.1 | 19.4 | 3.2 | 7.5 |
| Per unit | 0.36 | 1.39 | 0.25 | 0.16 | 0.05 | 0.03 | 0.48 | 0.08 | 0.19 |
| Units (millions) | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Volume | | | | | | | | | |
| Natural Gas (bcf) | 5.3 | 21.7 | 5.2 | 4.9 | 5.0 | 5.0 | 20.1 | 4.8 | 19.8 |
| Natural Gas (mmcf) | 59.6 | 59.4 | 56.4 | 54.6 | 54.3 | 54.0 | 54.8 | 53.8 | 54.0 |
| Days | 89 | 365 | 92 | 90 | 92 | 92 | 366 | 90 | 366 |
| Oil (mb) | 64 | 249 | 52 | 62 | 63 | 63 | 240 | 60 | 250 |
| Oil (mbd) | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Days | 89 | 365 | 92 | 89 | 92 | 92 | 365 | 89 | 365 |
| Total (bcf) | 5.7 | 23.2 | 5.5 | 5.3 | 5.4 | 5.4 | 21.5 | 5.2 | 21.3 |
| Price | | | | | | | | | |
| Natural Gas (HH lagged two months) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 4.12 | 4.10 | 3.32 | 2.43 | 2.41 | 2.87 | 2.76 | 3.43 | 2.99 |
| Differential (%) | (18) | (15) | (20) | (25) | (20) | (20) | (22) | (20) | (20) |
| HGT (\$/mcf) | 4.86 | 4.73 | 4.00 | 3.05 | 2.89 | 3.44 | 3.35 | 4.11 | 3.58 |
| Oil (\$/bbl) (WTI Cushing lagged two months) | | | | | | | | | |
| WTI Cushing | 100.91 | 93.25 | 98.69 | 103.93 | 88.19 | 95.41 | 96.55 | 97.76 | 94.57 |
| HGT | 96.92 | 90.07 | 95.36 | 100.63 | 85.38 | 92.38 | 93.29 | 94.45 | 91.43 |
| Total (\$/mcf) | 5.62 | 5.39 | 4.67 | 4.01 | 3.69 | 4.29 | 4.17 | 4.92 | 4.40 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 25.7 | 102.6 | 20.8 | 15.0 | 14.4 | 17.1 | 67.3 | 19.9 | 70.8 |
| Oil | 6.2 | 22.4 | 4.9 | 6.2 | 5.4 | 5.8 | 22.4 | 5.7 | 22.8 |
| Total | 31.9 | 125.0 | 25.7 | 21.2 | 19.8 | 22.9 | 89.7 | 25.6 | 93.6 |
| Cost (\$mm) | | | | | | | | | |
| Tax, transport & other | 3.4 | 13.6 | 3.0 | 2.6 | 2.2 | 2.5 | 10.3 | 2.8 | 10.3 |
| Production | 4.9 | 21.1 | 6.0 | 5.7 | 5.7 | 5.7 | 22.9 | 5.5 | 22.3 |
| Overhead | 2.7 | 10.8 | 2.7 | 2.8 | 2.8 | 2.8 | 11.0 | 2.8 | 11.0 |
| Total | 11.1 | 45.5 | 11.6 | 11.0 | 10.6 | 10.9 | 44.1 | 11.1 | 43.6 |
| Cash flow (\$mm) | | | | | | | | | |
| Development | 2.6 | 8.8 | 1.5 | 1.5 | 1.5 | 1.5 | 6.0 | 1.5 | 6.0 |
| Excess costs | - | - | - | - | - | 8.9 | 8.9 | 8.8 | 28.5 |
| Net proceeds (\$mm) | 18.3 | 70.8 | 12.6 | 8.7 | 7.8 | 1.6 | 39.5 | 4.2 | 44.0 |
| Royalty income (\$mm) | 14.7 | 56.6 | 10.1 | 7.0 | 6.2 | 1.3 | 31.6 | 3.4 | 35.2 |
| Royalty/Net proceeds | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| Administration | 0.3 | 0.8 | 0.2 | 0.4 | 0.9 | 0.2 | 1.7 | 0.2 | 1.5 |
| Distributable income (\$mm) | 14.4 | 55.8 | 9.8 | 6.6 | 1.9 | 1.1 | 19.4 | 3.2 | 7.5 |



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| Hugoton Royalty Trust | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Monthly Declarations | | | | | | | | | |
| | Dec-11 | Jan-12 | Feb-12 | Mar-12 | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 |
| Distribution (\$/unit) | | | | | | | | | |
| Declared | 0.09 | 0.08 | 0.09 | 0.08 | 0.06 | 0.05 | 0.05 | 0.03 | 0.01 |
| Projected | | | | | | | | | |
| Volume | | | | | | | | | |
| Natural Gas (bcf) | 1.62 | 1.73 | 1.73 | 1.73 | 1.61 | 1.64 | 1.66 | 1.67 | 1.66 |
| Natural Gas (mmcf) | 52 | 58 | 56 | 56 | 56 | 53 | 55 | 54 | 55 |
| Days | 31 | 30 | 31 | 31 | 29 | 31 | 30 | 31 | 30 |
| Price | | | | | | | | | |
| Natural gas industry quotes lagged two months (\$/mmbtu) | | | | | | | | | |
| Henry Hub Index/Futures | 3.76 | 3.52 | 3.37 | 3.08 | 2.67 | 2.44 | 2.19 | 2.03 | 2.42 |
| HGT/Henry Hub | 1.20 | 1.18 | 1.22 | 1.21 | 1.24 | 1.30 | 1.23 | 1.27 | 1.14 |
| HGT (\$/mcf) | 4.52 | 4.16 | 4.11 | 3.73 | 3.30 | 3.16 | 2.69 | 2.57 | 2.76 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 7.3 | 7.2 | 7.1 | 6.5 | 5.3 | 5.2 | 4.5 | 4.3 | 4.6 |
| Other | 0.3 | 0.3 | 0.4 | 1.0 | 1.0 | 0.9 | 1.2 | 0.9 | (0.5) |
| Total | 7.6 | 7.4 | 7.6 | 7.4 | 6.3 | 6.1 | 5.6 | 5.2 | 4.0 |
| Cost (\$mm) | | | | | | | | | |
| Production | 1.7 | 1.9 | 1.9 | 2.1 | 1.9 | 2.1 | 1.7 | 2.0 | 1.9 |
| Overhead | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 0.9 | 1.0 |
| Total | 2.6 | 2.8 | 2.8 | 3.0 | 2.8 | 3.0 | 2.6 | 2.9 | 2.9 |
| Cash flow (\$mm) | | | | | | | | | |
| Development | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Net proceeds (\$mm) | | | | | | | | | |
| | 4.5 | 4.1 | 4.3 | 3.9 | 3.1 | 2.6 | 2.5 | 1.7 | 0.7 |
| Royalty income (\$mm) | | | | | | | | | |
| Royalty/Net proceeds | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| Distributable income (\$mm) | | | | | | | | | |
| | 3.6 | 3.3 | 3.4 | 3.1 | 2.5 | 2.1 | 2.0 | 1.4 | 0.5 |
| Units (millions) | | | | | | | | | |
| | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Distribution (\$/unit) | | | | | | | | | |
| | 0.09 | 0.08 | 0.09 | 0.08 | 0.06 | 0.05 | 0.05 | 0.03 | 0.01 |



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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 | 23-Aug | 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 | B | 65.66 | 1.30 | 13,680 | 74 | 26 | 15.9 | 0.16 | 0.2 | 0.95 |
| PDC Energy | PDCE | | 26.08 | 1.87 | 1,520 | 54 | 46 | 9.4 | - | - | 0.93 |
| Continental Resources (32%) | CLR | | 72.50 | 1.20 | 5,030 | 25 | 75 | 7.8 | - | - | 0.92 |
| Peyto Exploration and Developmen | PEYUF | | 20.91 | 1.19 | 3,440 | 75 | 25 | 11.9 | 0.72 | 3.5 | 0.89 |
| Halcón Resources | HK | | 7.85 | 1.33 | 3,020 | 12 | 88 | 9.1 | - | - | 0.83 |
| Birchcliff Energy Ltd. | BIREF | CB | 7.14 | 1.49 | 1,550 | 62 | 38 | 10.2 | - | - | 0.69 |
| Berry Petroleum Company | BRY | | 37.77 | 1.78 | 3,690 | 13 | 87 | 5.3 | - | - | 0.68 |
| Denbury Resources Inc. | DNR | | 15.37 | 1.45 | 8,730 | 6 | 94 | 5.2 | - | - | 0.64 |
| Cimarex Energy Company | XEC | CB | 57.99 | 1.25 | 6,250 | 45 | 55 | 5.3 | 0.48 | 0.8 | 0.58 |
| Whiting Petroleum Corporation | WLL | CB | 43.75 | 1.37 | 7,130 | 8 | 92 | 4.6 | - | - | 0.58 |
| <i>Total or Median</i> | | | | | 54,000 | | | 8.4 | | | 0.76 |
| Top Line Cash Payers | | | | | | | | | | | |
| Freehold Royalties Ltd. | FRHLF | | 19.40 | 1.04 | 1,310 | 16 | 84 | | 1.69 | 8.7 | 0.93 |
| Permian Basin RT | PBT | | 17.90 | 1.00 | 830 | 37 | 63 | | 1.38 | 7.7 | 0.89 |
| Cross Timbers Royalty Trust | CRT | | 38.28 | 1.00 | 230 | 70 | 30 | | 2.45 | 6.4 | 0.87 |
| Sabine Royalty Trust | SBR | | 53.23 | 1.00 | 780 | 55 | 45 | | 3.59 | 6.7 | 0.82 |
| Dorchester Minerals, L.P. | DMLP | CB | 21.91 | 1.00 | 670 | 57 | 43 | | 1.92 | 8.7 | 0.81 |
| <i>Total or Median</i> | | | | | 3,800 | | | | | 7.7 | 0.87 |
| Bottom Line Cash Payers | | | | | | | | | | | |
| Linn Energy, LLC | LINE | | 39.00 | 1.78 | 13,760 | 40 | 60 | 13.1 | 2.90 | 7.4 | 1.15 |
| Vanguard Natural Resources, LLC | VNR | | 28.28 | 1.70 | 2,510 | 23 | 77 | 10.5 | 2.40 | 8.5 | 1.07 |
| Legacy Reserves L.P. | LGCY | | 27.10 | 1.34 | 1,720 | 24 | 76 | 8.5 | 2.24 | 8.3 | 0.93 |
| Enduro Royalty Trust (40%) | NDRO | | 18.94 | 1.00 | 250 | 42 | 58 | 8.0 | 1.73 | 9.1 | 0.90 |
| Enerplus Corporation | ERF | CB | 15.85 | 1.59 | 4,900 | 30 | 70 | 6.6 | 1.36 | 8.6 | 0.83 |
| San Juan Basin Royalty Trust | SJT | CB | 15.04 | 1.00 | 700 | 100 | - | 11.4 | 1.00 | 6.7 | 0.72 |
| Mesa RoyaltyTrust | MTR | | 27.99 | 1.00 | 52 | 75 | 25 | 11.5 | 1.97 | 7.0 | 0.70 |
| Hugoton RoyaltyTrust | HGT | | 6.51 | 1.00 | 260 | 88 | 13 | 6.5 | 0.19 | 2.9 | 0.46 |
| <i>Total or Median</i> | | | | | 24,200 | | | 9.5 | | 7.9 | 0.87 |
| Composite | | | | | | | | | | | |
| <i>Enterprise Value Weighting</i> | | | | | 82,000 | 38 | 62 | | | | 0.81 |
| <i>Equal Weighting</i> | | | | | | 45 | 55 | | | | 0.82 |
| <i>Equal Weighted Buys</i> | | | | | | 49 | 51 | | | | 0.74 |

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.



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Table ISC-2

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

| | | | Price (\$/sh) | Shares | Market Cap (\$mm) | Net Present Value (\$/un) | Debt/ Present Value | McDep Ratio |
|--|-------------------|----|------------------|--------|-------------------------|------------------------------------|---------------------------|----------------|
| | Symbol/ Rating | | 23-Aug 2012 | (mm) | | | | |
| Small Cap Independent Producers | | | | | | | | |
| Range Resources | RRC | B | 65.66 | 160.0 | 10,510 | 70.00 | 0.22 | 0.95 |
| PDC Energy | PDCE | | 26.08 | 31.0 | 810 | 30.00 | 0.43 | 0.93 |
| Continental Resources (32%) | CLR | | 72.50 | 57.6 | 4,180 | 80.00 | 0.16 | 0.92 |
| Peyto Exploration and Development Cor | PEYUF | | 20.91 | 138.5 | 2,900 | 24.00 | 0.14 | 0.89 |
| Halcón Resources | HK | | 7.85 | 290.0 | 2,280 | 10.00 | 0.20 | 0.83 |
| Birchcliff Energy Ltd. | BIREF | CB | 7.14 | 144.9 | 1,040 | 12.00 | 0.23 | 0.69 |
| Berry Petroleum Company | BRY | | 37.77 | 54.7 | 2,070 | 70.00 | 0.30 | 0.68 |
| Denbury Resources Inc. | DNR | | 15.37 | 391.0 | 6,010 | 28.00 | 0.20 | 0.64 |
| Cimarex Energy Company | XEC | CB | 57.99 | 86.4 | 5,010 | 110.00 | 0.12 | 0.58 |
| Whiting Petroleum Corporation | WLL | CB | 43.75 | 119.0 | 5,210 | 88.00 | 0.16 | 0.58 |
| <i>Total or Median</i> | | | | | 40,020 | | 0.20 | 0.76 |
| Top Line Cash Payers | | | | | | | | |
| Freehold Royalties Ltd. | FRHLF | | 19.40 | 64.7 | 1,260 | 21.00 | 0.03 | 0.93 |
| Permian Basin RT | PBT | | 17.90 | 46.6 | 830 | 20.00 | - | 0.89 |
| Cross Timbers Royalty Trust | CRT | | 38.28 | 6.0 | 230 | 44.00 | - | 0.87 |
| Sabine Royalty Trust | SBR | | 53.23 | 14.6 | 780 | 65.00 | - | 0.82 |
| Dorchester Minerals, L.P. | DMLP | CB | 21.91 | 30.7 | 670 | 27.00 | - | 0.81 |
| <i>Total or Median</i> | | | | | 3,770 | | | 0.87 |
| Bottom Line Cash Payers | | | | | | | | |
| Linn Energy, LLC | LINE | | 39.00 | 198.0 | 7,720 | 30.00 | 0.50 | 1.15 |
| Vanguard Natural Resources, LLC | VNR | | 28.28 | 52.2 | 1,480 | 25.00 | 0.44 | 1.07 |
| Legacy Reserves L.P. | LGCY | | 27.10 | 47.5 | 1,290 | 30.00 | 0.23 | 0.93 |
| Enduro Royalty Trust (40%) | NDRO | | 18.94 | 13.2 | 250 | 21.00 | - | 0.90 |
| Enerplus Corporation | ERF | CB | 15.85 | 196.0 | 3,110 | 21.00 | 0.31 | 0.83 |
| San Juan Basin Royalty Trust | SJT | CB | 15.04 | 46.6 | 700 | 21.00 | - | 0.72 |
| Mesa RoyaltyTrust | MTR | | 27.99 | 1.9 | 52 | 40.00 | - | 0.70 |
| Hugoton RoyaltyTrust | HGT | | 6.51 | 40.0 | 260 | 14.00 | - | 0.46 |
| <i>Total or Median</i> | | | | | 14,860 | | | 0.87 |
| 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 | | 23-Aug 2012 | Royalty (%) | Ebitda | NTM | NTM | NTM |
| Small Cap Independent Producers | | | | | | | | |
| Range Resources | RRC | B | 65.66 | | - | 15.1 | 16.7 | 15.9 |
| Peyto Exploration and Development Corp | PEYUF | | 20.91 | | 0.40 | 10.4 | 13.4 | 11.9 |
| Birchcliff Energy Ltd. | BIREF | CB | 7.14 | | - | 22.0 | 14.8 | 10.2 |
| PDC Energy | PDCE | | 26.08 | | - | 8.9 | 10.1 | 9.4 |
| Halcón Resources | HK | | 7.85 | | - | 7.2 | 10.9 | 9.1 |
| Continental Resources (32%) | CLR | | 72.50 | | - | 10.7 | 8.5 | 7.8 |
| Berry Petroleum Company | BRY | | 37.77 | | - | 11.8 | 7.8 | 5.3 |
| Cimarex Energy Company | XEC | CB | 57.99 | | - | 7.9 | 9.1 | 5.3 |
| Denbury Resources Inc. | DNR | | 15.37 | | - | 13.2 | 8.2 | 5.2 |
| Whiting Petroleum Corporation | WLL | CB | 43.75 | | - | 9.5 | 8.0 | 4.6 |
| | <i>Median</i> | | | | | 10.5 | 9.6 | 8.4 |
| Top Line Cash Payers | | | | | | | | |
| Cross Timbers Royalty Trust | CRT | | 38.28 | 78 | 0.96 | 17.8 | 17.2 | 15.0 |
| Sabine Royalty Trust | SBR | | 53.23 | 100 | 1.00 | 8.7 | 18.1 | 14.8 |
| Permian Basin RT | PBT | | 17.90 | 32 | 0.89 | 9.7 | 12.8 | 11.5 |
| Dorchester Minerals, L.P. | DMLP | CB | 21.91 | 77 | 0.98 | 6.4 | 13.8 | 11.2 |
| Freehold Royalties Ltd. | FRHLF | | 19.40 | 71 | 0.83 | 5.4 | 10.4 | 9.6 |
| | <i>Median</i> | | | | | 8.7 | 13.8 | 11.5 |
| Bottom Line Cash Payers | | | | | | | | |
| Linn Energy, LLC | LINE | | 39.00 | | 1.10 | 15.1 | 11.4 | 13.1 |
| Mesa RoyaltyTrust | MTR | | 27.99 | | 0.81 | 8.0 | 16.5 | 11.5 |
| San Juan Basin Royalty Trust | SJT | CB | 15.04 | | 0.76 | 8.6 | 16.0 | 11.4 |
| Vanguard Natural Resources, LLC | VNR | | 28.28 | | 0.94 | 14.0 | 9.8 | 10.5 |
| Legacy Reserves L.P. | LGCY | | 27.10 | | 0.69 | 11.4 | 9.2 | 8.5 |
| Enduro Royalty Trust (40%) | NDRO | | 18.94 | | 0.73 | 7.2 | 8.9 | 8.0 |
| Enerplus Corporation | ERF | CB | 15.85 | | 0.51 | 6.3 | 7.9 | 6.6 |
| Hugoton RoyaltyTrust | HGT | | 6.51 | | 0.19 | 13.4 | 14.0 | 6.5 |
| | <i>Median</i> | | | | | 10.0 | 10.6 | 9.5 |

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 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

August 24, 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 | 23-Aug 2012 | 52Wk High | 52Wk Low | 50 Day Avg. | 200 Day Avg. | McDep Ratio |
| Small Cap Independent Producers | | | | | | | |
| Peyto Exploration and Development C | PEYUF | 20.91 | 0.84 | 1.34 | 1.04 | 1.06 | 0.89 |
| Range Resources | RRC B | 65.66 | 0.88 | 1.19 | 1.04 | 1.04 | 0.95 |
| Continental Resources (32%) | CLR | 72.50 | 0.78 | 1.53 | 1.04 | 0.97 | 0.92 |
| Denbury Resources Inc. | DNR | 15.37 | 0.79 | 1.30 | 1.02 | 0.94 | 0.64 |
| Berry Petroleum Company | BRY | 37.77 | 0.78 | 1.12 | 1.00 | 0.93 | 0.68 |
| Whiting Petroleum Corporation | WLL CB | 43.75 | 0.75 | 1.33 | 1.04 | 0.93 | 0.58 |
| Cimarex Energy Company | XEC CB | 57.99 | 0.71 | 1.19 | 1.04 | 0.93 | 0.58 |
| PDC Energy | PDCE | 26.08 | 0.78 | 1.29 | 1.02 | 0.91 | 0.93 |
| Birchcliff Energy Ltd. | BIREF CB | 7.14 | 0.56 | 1.27 | 1.09 | 0.82 | 0.69 |
| Halcón Resources | HK | 7.85 | 0.66 | | 0.93 | | 0.83 |
| | <i>Median</i> | | <i>0.78</i> | <i>1.29</i> | <i>1.04</i> | <i>0.93</i> | <i>0.76</i> |
| Top Line Cash Payers | | | | | | | |
| Freehold Royalties Ltd. | FRHLF | 19.40 | 0.92 | 1.40 | 1.06 | 1.02 | 0.93 |
| Dorchester Minerals, L.P. | DMLP CB | 21.91 | 0.82 | 1.10 | 1.00 | 0.95 | 0.81 |
| Sabine Royalty Trust | SBR | 53.23 | 0.79 | 1.17 | 1.01 | 0.91 | 0.82 |
| Cross Timbers Royalty Trust | CRT | 38.28 | 0.75 | 1.21 | 1.04 | 0.91 | 0.87 |
| Permian Basin RT | PBT | 17.90 | 0.77 | 1.09 | 0.99 | 0.90 | 0.89 |
| | <i>Median</i> | | <i>0.79</i> | <i>1.17</i> | <i>1.01</i> | <i>0.91</i> | <i>0.87</i> |
| Bottom Line Cash Payers | | | | | | | |
| Vanguard Natural Resources, LLC | VNR | 28.28 | 0.97 | 1.15 | 1.02 | 1.02 | 1.07 |
| Linn Energy, LLC | LINE | 39.00 | 0.97 | 1.13 | 1.01 | 1.02 | 1.15 |
| Legacy Reserves L.P. | LGCY | 27.10 | 0.91 | 1.12 | 1.02 | 0.99 | 0.93 |
| Enerplus Corporation | ERF CB | 15.85 | 0.65 | 1.22 | 1.10 | 0.87 | 0.83 |
| San Juan Basin Royalty Trust | SJT CB | 15.04 | 0.60 | 1.25 | 0.99 | 0.81 | 0.72 |
| Mesa RoyaltyTrust | MTR | 27.99 | 0.60 | 1.12 | 0.94 | 0.76 | 0.70 |
| Hugoton RoyaltyTrust | HGT | 6.51 | 0.28 | 1.06 | 0.89 | 0.49 | 0.46 |
| | <i>Median</i> | | <i>0.65</i> | <i>1.13</i> | <i>1.01</i> | <i>0.87</i> | <i>0.83</i> |

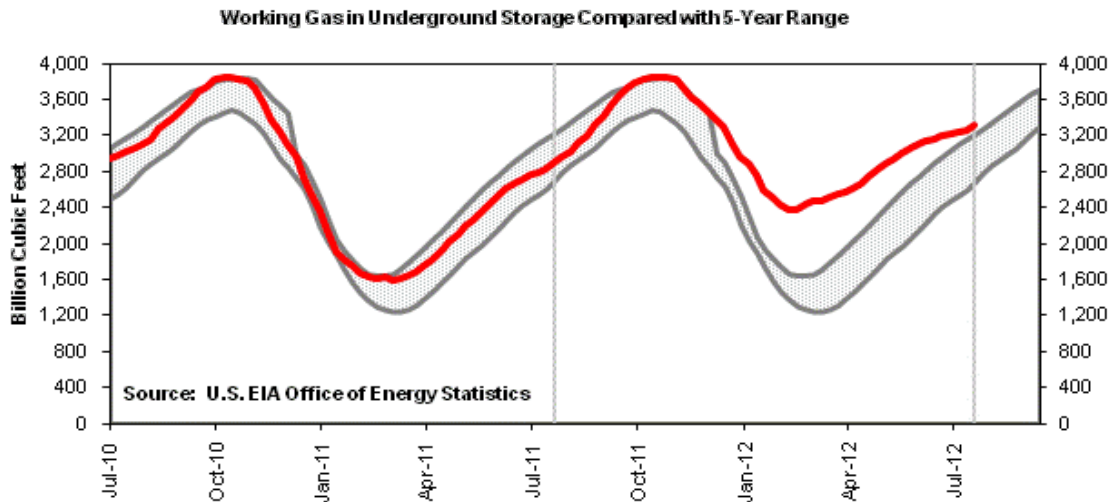
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 24, 2012



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