



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

San Juan Basin Royalty Trust (SJT) Acreage 75% in Liquids-Rich Shale Zone

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 6/30/14 (US\$mm)</i>	66
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/sh)</i>	16.01	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/18/13	<i>Adjusted Reserves/Production NTM</i>	10.2
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	11.3
<i>Market Capitalization (US\$mm)</i>	750	<i>PV/Ebitda</i>	14.8
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	3
<i>Enterprise Value (EV) (US\$mm)</i>	750	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.75
<i>Present Value (PV) (US\$mm)</i>	980	<i>Present Value Proven Reserves(US\$/boe)</i>	23.56
<i>Net Present Value (US\$/unit)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	63
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.88
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	18
<i>Distribution Yield (%/year)</i>	5.5	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.88
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\$90 a barrel and natural gas, \$6 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)** may have 75% of its acreage in the oil-rich shale gas window, or zone, that often becomes the most prospective in shale plays (see chart [SJT Acreage by Resource Window](#) on page 2). The other 25% may be 5% in the oil and 20% in the gas windows. We draw that conclusion from analysis of 30,000 wells in 4000 sections of a square mile each. SJT has interests in 3000 wells in 400 sections. Heat maps of natural gas and oil for the industry and for the trust help us spot the location of three zones of oil, oil/gas and gas concentration (see charts [All Natural Gas](#), [All Oil](#), [SJT Natural Gas](#) and [SJT Oil](#) on pages 3-6). The data represents March 2013 production primarily from conventional formations above and below the Mancos Shale. We think the distribution of oil and gas is similar in the shale except that the proportion of oil is higher in the shale. The latest analysis confirms and strengthens our earlier expectations for how prospective SJT lands may be (see archive of past analyses www.mcdep.com/4sjt.htm). **Encana (ECA)**, the most active horizontal Mancos driller, may have an update on oil window activities on its July 24 quarterly call. **ConocoPhillips (COP)** has demonstrated favorable oil content in its Yert well, the only horizontal Mancos frack in the oil-rich window. WPX Energy has proven high flow rates from horizontal Mancos fracks in the gas window. The promise of major development of the Mancos Shale later in the decade provides long-term upside in SJT stock while our estimates for existing operations support current buy interest (see tables on pages 7-12).

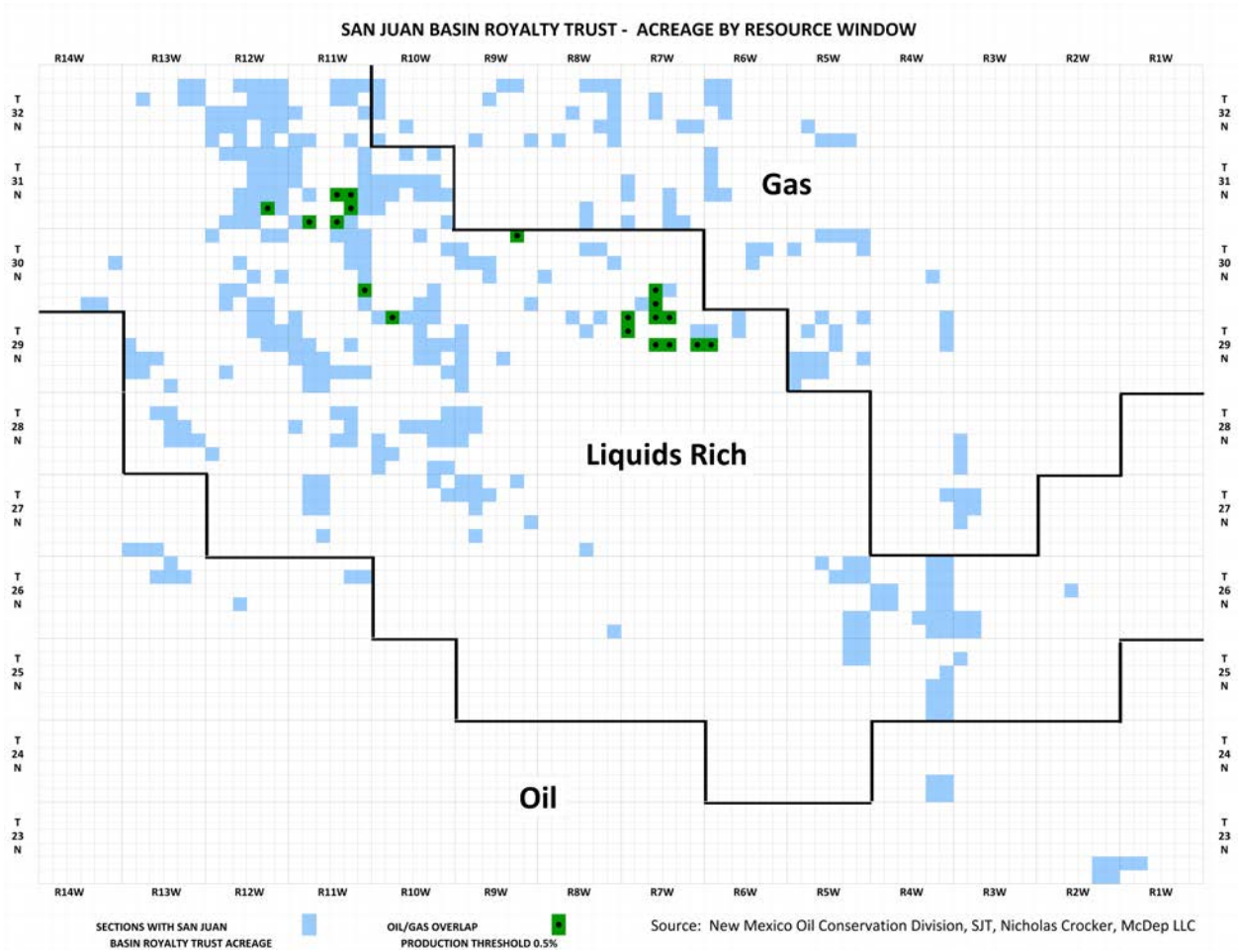
Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

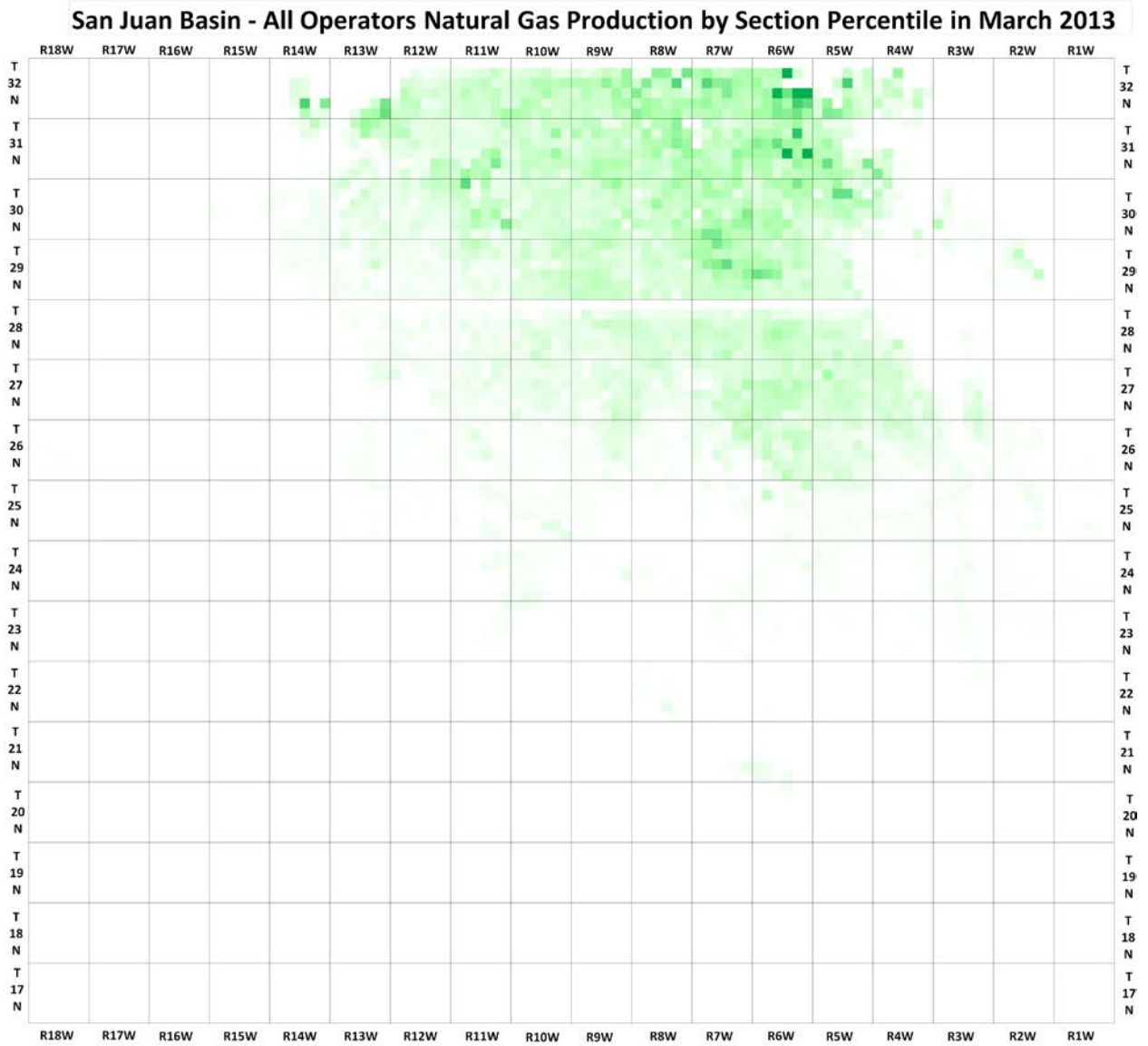




Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013



Source: NMOCD, Nicholas Crocker, McDep LLC

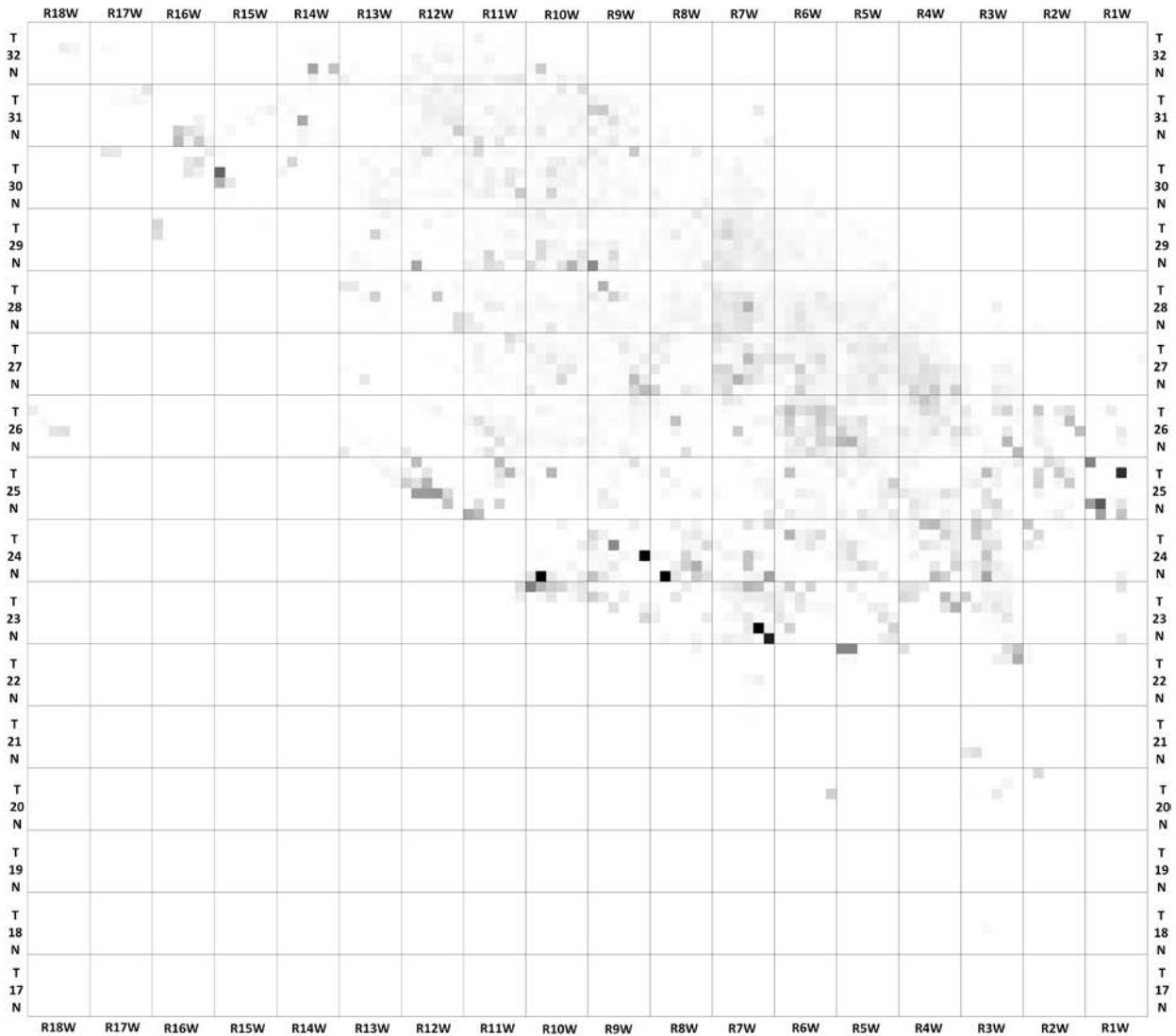


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

San Juan Basin - All Operators Oil Production by Section Percentile in March 2013

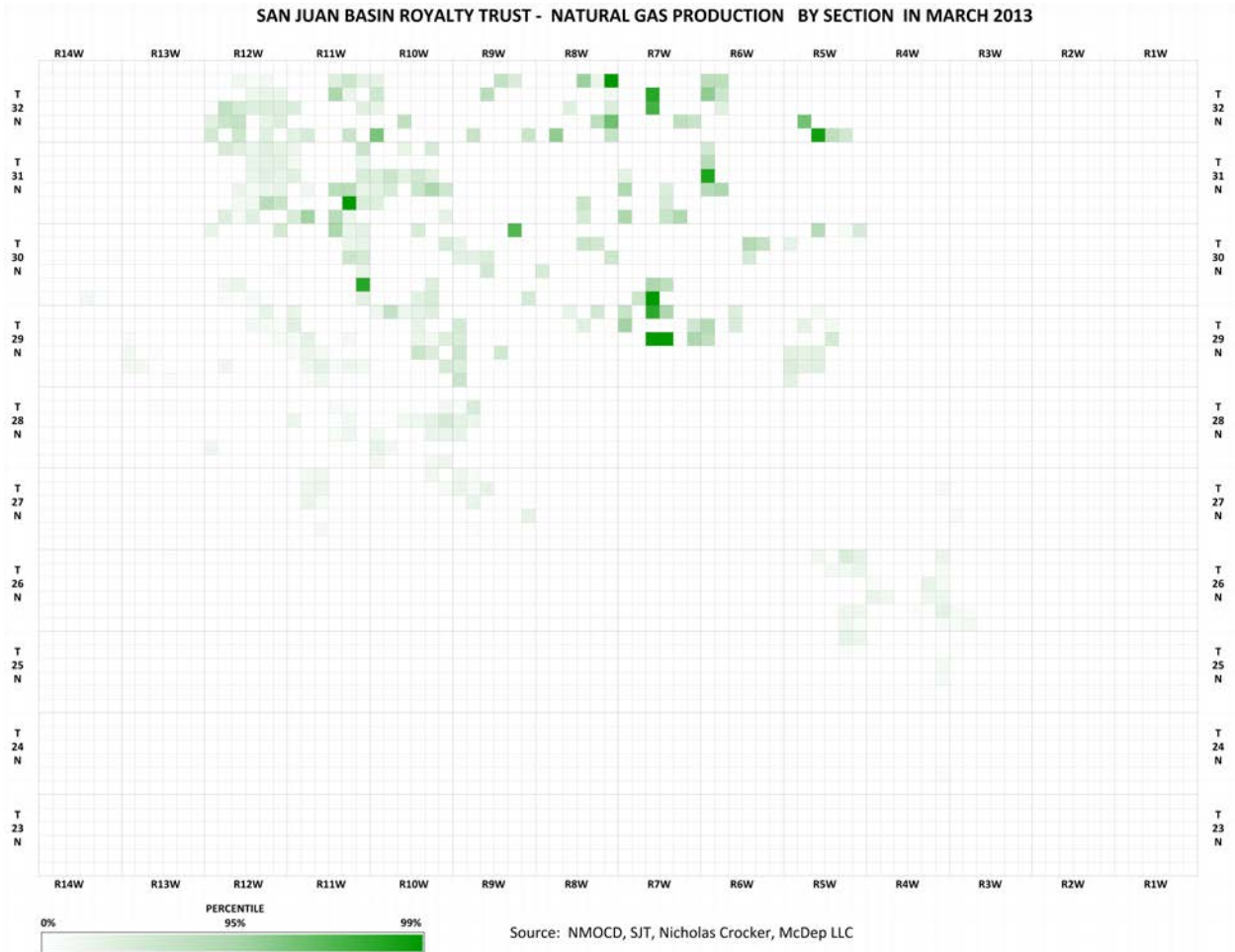


Source: NMOCD, Nicholas Crocker, McDep LLC



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks
July 19, 2013

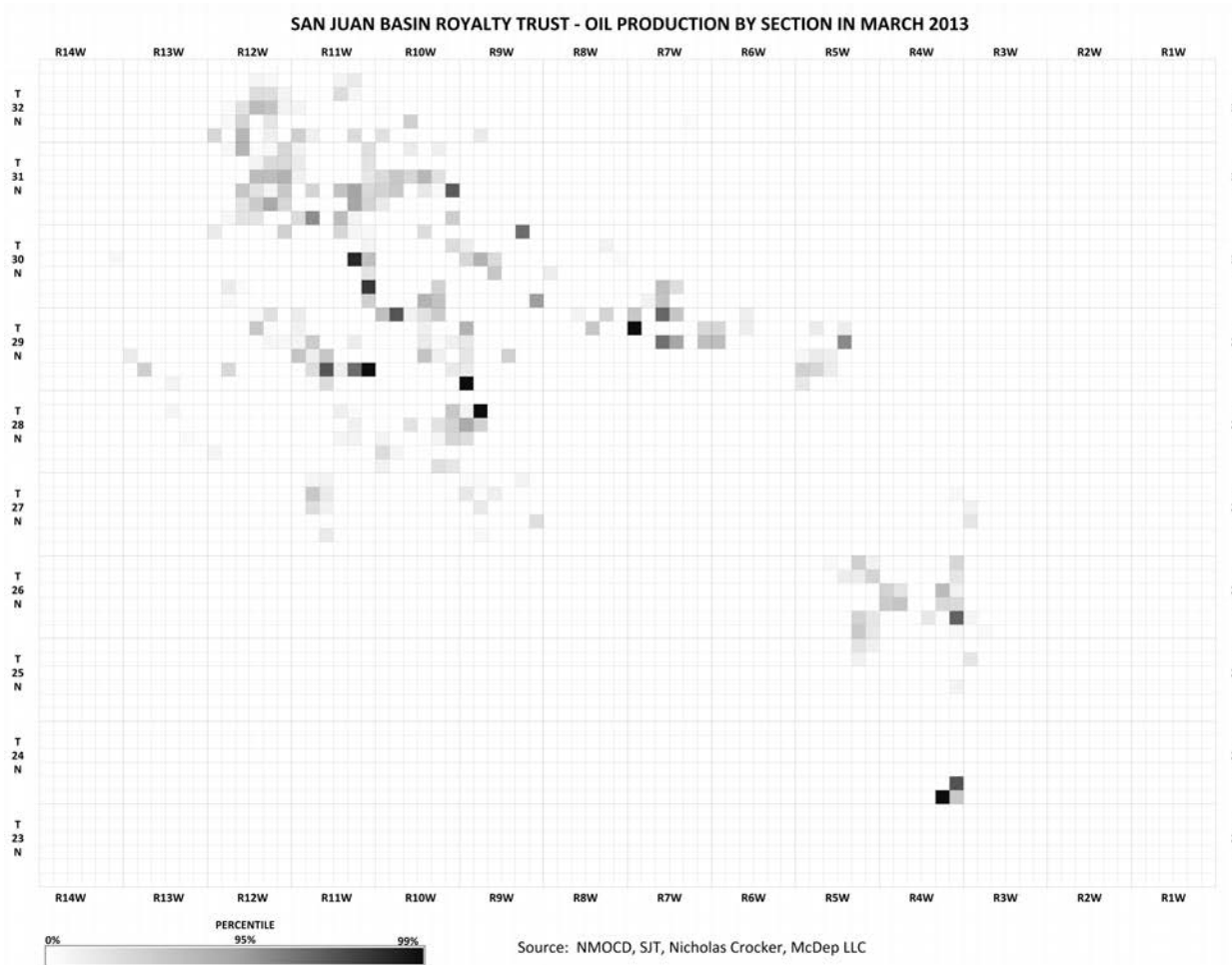




Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013





Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

San Juan Basin Royalty Trust									
Monthly Declarations									
	<i>Oct-12</i>	<i>Nov-12</i>	<i>Dec-12</i>	<i>Jan-13</i>	<i>Feb-13</i>	<i>Mar-13</i>	<i>Apr-13</i>	<i>May-13</i>	<i>Jun-13</i>
Volume									
Natural gas (mmbtu)	2.48	2.93	3.14	2.86	2.76	2.43	2.73	3.26	3.23
Heat Content(btu/cf)	1,127	1,097	1,098	1,098	1,095	1,102	1,101	1,103	1,099
Natural gas (bcf)	2.20	2.67	2.86	2.60	2.52	2.20	2.48	2.96	2.94
Natural Gas (mmcf)	71	89	92	87	81	71	85	95	98
Days	31	30	31	30	31	31	29	31	30
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	3.01	2.63	3.03	3.47	3.71	3.35	3.23	3.43	3.98
San Juan Monthly Index	2.79	2.48	2.79	3.31	3.56	3.24	3.24	3.24	3.77
San Juan Index/Henry Hub	0.93	0.94	0.92	0.95	0.96	0.97	1.00	0.94	0.95
SJT/San Juan Index	1.32	1.07	1.07	1.01	0.96	0.98	0.98	0.93	0.88
SJT (\$/mmbtu)	3.67	2.66	2.98	3.34	3.42	3.17	3.17	3.01	3.33
SJT (\$/mcf)	4.14	2.92	3.27	3.67	3.74	3.50	3.26	3.32	3.66
Revenue (\$mm)									
Natural Gas	9.1	7.8	9.4	9.5	9.4	7.7	8.1	9.8	10.8
Other	0.3	0.2	0.1	0.3	(0.1)	2.0	(2.0)	0.3	0.4
Cost (\$mm)									
Severance tax	1.0	0.9	1.0	1.0	1.0	0.9	0.9	1.1	1.2
Operating	3.5	4.0	3.1	2.8	3.0	3.0	3.1	3.5	3.4
Total	4.4	4.9	4.1	3.8	4.0	3.9	4.0	4.6	4.5
Cash flow (\$mm)									
Development	1.6	3.1	3.7	3.1	3.7	5.7	2.1	3.1	1.6
Net proceeds (\$mm)	3.4	0.1	1.7	2.9	1.7	-	-	2.4	5.0
Royalty income (\$mm)									
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time									
Distributable income (\$mm)	2.5	0.0	1.3	2.2	1.2	-	-	1.8	3.8
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.05	0.00	0.03	0.05	0.03	-	-	0.04	0.08



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

San Juan Basin Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
										<i>Next</i>
	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	6/30/14
Highlights										
Revenue (\$mm) (75%)	20.8	85.3	20.7	22.0	27.4	25.2	95.3	26.5	25.9	105.0
Cash flow (\$mm) (75%)	13.7	51.1	11.8	12.2	17.5	15.5	57.0	16.7	16.4	66.1
Per unit	0.29	1.10	0.25	0.26	0.38	0.33	1.22	0.36	0.35	1.42
Distributable Income (\$mm)	10.4	33.5	3.4	5.5	11.2	9.2	29.3	10.4	10.1	40.9
Per unit	0.22	0.72	0.07	0.12	0.24	0.20	0.63	0.22	0.22	0.88
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume										
Natural gas (mmbtu)	8.9	35.6	8.0	9.2	8.8	8.8	34.9	8.8	8.5	35.0
Heat Content(btu/cf)	1,096	1,093	1,099	1,101	1,101	1,101	1,100	1,100	1,100	1,101
Natural gas (bcf)	8.1	32.6	7.3	8.4	8.0	8.0	31.7	8.0	7.7	31.8
Natural Gas (mmcf)	90.3	89.0	79.6	94.0	87.0	87.0	86.8	87.0	87.0	87.0
Days	90	366	92	89	92	92	365	92	89	365
Oil (mb)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil (mbd)	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Days	90	366	92	89	92	92	365	92	89	365
Total gas & oil (bcf)	8.2	32.9	7.4	8.4	8.1	8.1	32.0	8.1	7.8	32.0
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	2.43	2.76	3.51	3.55	4.01	3.68	3.69	3.90	3.96	3.89
Differential (%)	(24)	(11)	6	12	-	-	4	-	-	0
Net to SJT (\$/mmbtu)	3.02	3.08	3.32	3.11	4.01	3.68	3.53	3.90	3.96	3.89
Natural gas (\$/mcf)	3.31	3.36	3.64	3.42	4.41	4.06	3.88	4.29	4.35	4.28
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	103.93	95.89	89.97	93.45	98.52	105.58	96.88	101.53	97.74	100.84
SJT	90.26	82.80	77.69	80.69	85.07	91.16	83.92	87.95	84.66	87.27
Total gas & oil (\$/mcf)	3.39	3.46	3.73	3.49	4.51	4.16	3.97	4.38	4.42	4.37
Revenue (\$mm)										
Natural Gas	26.9	109.6	26.7	28.6	35.3	32.5	123.1	34.3	33.7	135.8
Oil	0.9	4.2	0.9	0.8	1.2	1.1	4.0	1.0	0.8	4.1
Total	27.7	113.8	27.6	29.4	36.5	33.6	127.1	35.4	34.5	140.0
Cost (\$mm)										
Severance tax	2.6	10.8	3.0	3.1	3.9	3.6	13.6	3.8	3.7	15.0
Operating	6.9	34.8	8.8	10.0	9.3	9.3	37.4	9.3	9.0	36.8
Total	9.5	45.6	11.8	13.2	13.2	12.9	51.0	13.1	12.7	51.8
Cash flow (\$mm)										
Development	3.9	22.2	12.5	6.8	8.0	8.0	35.3	8.0	8.0	32.0
Net proceeds (\$mm)										
Royalty income (\$mm)	14.3	46.0	3.3	9.5	15.3	12.7	40.8	14.3	13.8	56.2
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.2	0.8	0.6	0.6	0.3	0.3	1.8	0.3	0.3	1.2
One-time	0.2	0.2	(1.5)				(1.5)			-
Distributable income (\$mm)	10.4	33.5	3.4	5.5	11.2	9.2	29.3	10.4	10.1	40.9



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

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	18-Jul	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE		56.13	1.46	2,530	32	68	10.7	-	-	1.16
Halcón Resources	HK		5.91	2.17	5,370	9	91	6.6	-	-	0.92
Peyto Exploration and Development Corp	PEYUF		29.57	1.18	5,190	80	20	9.8	0.81	2.7	0.89
Range Resources	RRC	B	77.50	1.29	16,080	74	26	14.6	0.16	0.2	0.89
Continental Resources (32%)	CLR	B	95.05	1.24	6,960	18	82	6.6	-	-	0.89
Denbury Resources Inc.	DNR		18.30	1.50	10,240	5	95	5.9	-	-	0.85
Berry Petroleum Company	BRY		41.62	1.80	4,130	14	86	6.1	0.32	0.8	0.82
Cimarex Energy Company	XEC	B	74.53	1.22	7,860	46	54	5.5	0.56	0.8	0.78
Birchcliff Energy Ltd.	BIREF	B	8.25	1.40	1,890	72	28	9.3	-	-	0.75
Whiting Petroleum Corporation	WLL	B	50.53	1.43	8,580	8	92	4.1	-	-	0.75
<i>Total or Median</i>				1.41	68,800	25	75	6.6			0.87
Leveraged Cash Payers											
Vanguard Natural Resources, LLC	VNR		27.27	1.60	2,830	44	56	10.4	2.46	9.0	1.14
Legacy Reserves L.P.	LGCY		27.01	1.60	2,470	28	72	9.8	2.30	8.5	1.05
Linn Energy, LLC	LINE		28.15	1.95	12,780	47	53	11.1	2.90	10.3	1.04
Enerplus Corporation	ERF		16.42	1.55	5,000	35	65	6.5	1.04	6.3	0.94
<i>Total or Median</i>				1.60	23,100	40	60	10.1		8.8	1.04
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		23.71	TL	1,650	16	84	12.9	1.62	6.8	1.12
Dorchester Minerals, L.P.	DMLP	B	24.59	TL	750	64	36	13.7	1.69	6.9	0.95
Enduro Royalty Trust (40%)	NDRO		15.04	BL	200	48	52	8.9	1.52	10.1	0.89
Sabine Royalty Trust	SBR		51.37	TL	750	52	48	11.9	4.30	8.4	0.80
San Juan Basin Royalty Trust	SJT	B	16.01	BL	750	100	-	11.3	0.88	5.5	0.76
Permian Basin RT	PBT		13.68	TL	640	19	81	7.9	1.09	7.9	0.76
Hugoton RoyaltyTrust	HGT		8.90	BL	360	90	10	8.5	0.93	10.5	0.74
Mesa RoyaltyTrust	MTR		22.29	BL	42	75	25	9.0	2.04	9.2	0.75
Cross Timbers Royalty Trust	CRT		27.00	TL	160	83	17	10.8	2.24	8.3	0.64
<i>Total or Median</i>					5,300	64	36	10.8		8.3	0.76
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 \$90 a barrel for oil and \$6 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

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		18-Jul 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	77.50		-	13.6	16.4	14.6
PDC Energy	PDCE		56.13		-	15.0	9.3	10.7
Peyto Exploration and Development Corp	PEYUF		29.57		0.26	9.3	11.1	9.8
Birchcliff Energy Ltd.	BIREF	B	8.25		-	18.8	12.3	9.3
Continental Resources (32%)	CLR	B	95.05		-	9.8	7.5	6.6
Halcón Resources	HK		5.91		-	5.0	7.2	6.6
Berry Petroleum Company	BRY		41.62		-	12.1	7.4	6.1
Denbury Resources Inc.	DNR		18.30		-	13.9	6.9	5.9
Cimarex Energy Company	XEC	B	74.53		-	7.6	7.0	5.5
Whiting Petroleum Corporation	WLL	B	50.53		-	8.4	5.5	4.1
	<i>Median</i>					10.9	7.4	6.6
Leveraged Cash Payers								
Linn Energy, LLC	LINE		28.15		1.19	14.0	10.7	11.1
Vanguard Natural Resources, LLC	VNR		27.27		1.03	11.0	9.2	10.4
Legacy Reserves L.P.	LGCY		27.01		0.86	11.0	9.3	9.8
Enerplus Corporation	ERF		16.42		0.40	6.5	6.9	6.5
	<i>Median</i>					11.0	9.3	10.1
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	24.59	77	0.95	7.0	14.5	13.7
Freehold Royalties Ltd.	FRHLF		23.71	86	0.89	4.9	11.5	12.9
Sabine Royalty Trust	SBR		51.37	100	1.00	8.9	14.9	11.9
San Juan Basin Royalty Trust	SJT	B	16.01		0.62	10.2	14.8	11.3
Cross Timbers Royalty Trust	CRT		27.00	98	0.90	13.0	16.9	10.8
Enduro Royalty Trust (40%)	NDRO		15.04		0.90	5.8	10.0	8.9
Mesa Royalty Trust	MTR		22.29		0.82	5.2	12.0	9.0
Hugoton Royalty Trust	HGT		8.90		0.89	13.0	11.4	8.5
Permian Basin RT	PBT		13.68	69	0.63	12.7	10.4	7.9
	<i>Median</i>					8.9	12.0	10.8
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, 2014; 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

July 19, 2013

Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		18-Jul	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers									
PDC Energy	PDCE		56.13	70	0.98	1.67	1.05	1.21	1.16
Continental Resources (32%)	CLR	B	95.05	29	0.99	1.41	1.08	1.14	0.89
Peyto Exploration and Development C	PEYUF		29.57	30	0.94	1.39	1.00	1.11	0.89
Cimarex Energy Company	XEC	B	74.53	29	0.95	1.31	1.05	1.10	0.78
Whiting Petroleum Corporation	WLL	B	50.53	17	0.94	1.20	1.05	1.06	0.75
Range Resources	RRC	B	77.50	24	0.95	1.23	1.01	1.06	0.89
Birchcliff Energy Ltd.	BIREF	B	8.25	10	0.95	1.25	1.01	1.05	0.75
Denbury Resources Inc.	DNR		18.30	13	0.95	1.18	1.01	1.04	0.85
Berry Petroleum Company	BRY		41.62	24	0.91	1.18	0.98	1.02	0.82
Halcón Resources	HK		5.91	(14)	0.83	1.24	1.01	0.94	0.92
	<i>Median</i>			24	0.95	1.25	1.01	1.06	0.87
Leveraged Cash Payers									
Enerplus Corporation	ERF		16.42	33	0.96	1.24	1.05	1.09	0.94
Legacy Reserves L.P.	LGCY		27.01	20	0.94	1.12	1.00	1.02	1.05
Vanguard Natural Resources, LLC	VNR		27.27	10	0.94	1.07	0.98	0.98	1.14
Linn Energy, LLC	LINE		28.15	(16)	0.79	1.17	0.93	0.86	1.04
	<i>Median</i>			15	0.94	1.14	0.99	1.00	1.04
RTF Cash Payers									
Hugoton RoyaltyTrust	HGT		8.90	29	0.89	1.56	0.99	1.08	0.74
San Juan Basin Royalty Trust	SJT	B	16.01	21	0.89	1.30	1.02	1.07	0.76
Dorchester Minerals, L.P.	DMLP	B	24.59	28	0.96	1.24	1.00	1.07	0.95
Sabine Royalty Trust	SBR		51.37	35	0.92	1.32	0.98	1.06	0.80
Freehold Royalties Ltd.	FRHLF		23.71	11	0.97	1.26	1.02	1.06	1.12
Permian Basin RT	PBT		13.68	15	0.71	1.15	1.04	1.03	0.76
Cross Timbers Royalty Trust	CRT		27.00	5	0.68	1.14	0.96	0.96	0.64
Mesa RoyaltyTrust	MTR		22.29	20	0.70	1.20	0.98	0.96	0.75
Enduro Royalty Trust (40%)	NDRO		15.04	(7)	0.76	1.03	0.94	0.90	0.89
	<i>Median</i>			20	0.89	1.24	0.99	1.06	0.76

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

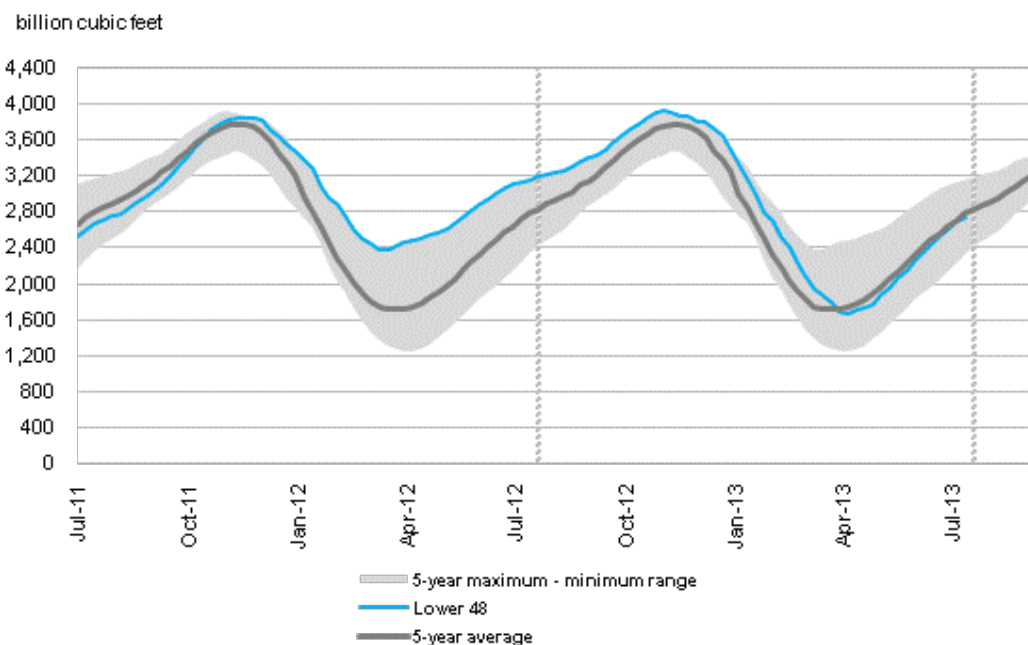


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 19, 2013

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

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