

San Juan Basin Royalty Trust Ten Bagger

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	171
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	99
<i>Price (US\$/sh)</i>	37.66	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/27/05	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	10.3
<i>Market Capitalization (US\$mm)</i>	1,760	<i>PV/Ebitda</i>	8.7
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	1,760	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.09
<i>Present Value (PV) (US\$mm)</i>	1,490	<i>Present Value Proven Reserves(US\$/boe)</i>	17.24
<i>Net Present Value (US\$/unit)</i>	32	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.87
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.32
<i>McDep Ratio - EV/PV</i>	1.18	<i>Price/Earnings Next Twelve Months</i>	11
<i>Distribution Yield (%/year)</i>	8.8	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.32

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.

Summary and Recommendation

Despite our Hold rating, the stock of natural gas producer **San Juan Basin Royalty Trust (SJT)** continues to outperform. In the waning months of 2004, SJT achieved rare ten-bagger status as a stock that multiplied ten times in ten years counting distributions and stock price appreciation. Investors attracted by a distribution yield near 9% a year may see a monthly payout that continues to rise with natural gas volume and the price of clean fuel. The trust's wells produce more gas now than at any time in their 50-year history. There are increasing signs those volumes could go higher and last longer than contemplated in our calculation of present value that is less than current stock price. Investors looking for a lower McDep Ratio and indifferent to current income might prefer buy-recommended **Burlington Resources (BR)**, the operator of the trust's production and the dominant producer in the San Juan Basin of New Mexico.

Model for BR, Anadarko, Devon, Encana and XTO Energy among Buy Recommendations

Encana (ECA) looks for "resource plays". XTO Energy (XTO) seeks the "right rock". BR pursues "basin excellence". Anadarko (APC) concentrated its reserves last year on "long life". Devon Energy (DVN) carries its San Juan heritage to the Barnett Shale play. The favorable performance of SJT, a pure representation in the right rock resource play with basin excellence and long life provides a model to inspire leading natural gas producing companies. Only XTO has outperformed SJT in the past ten years (see table [Ten-Year Returns, 1995-2004](#)). The XTO management contributed to the formation of SJT in 1980.

Ten-Year Returns, 1995-2004

We calculated the performance from adjusted prices provided by Yahoo. Though we are not certain that the data supplier made all the correct

adjustments, the results are near what appears reasonable. The ten-year performance period runs from the beginning of 1995 to the end of 2004.

Had we adjusted for financial leverage, the relative performance of SJT would be better than shown.

	Ending/ Beginning Adj. Price	Compounded Annual Return (%/yr)
XTO Energy	39	44
San Juan Basin Royalty Trust	12.3	29
Ten Bagger	10.0	26
ExxonMobil	6.4	20
Devon Energy	4.7	17
Anadarko Petroleum	3.8	14
Burlington Resources	3.5	13

What Have You Done for Me Lately?

Ten bagger is nice, but does that tell us anything about the future? In the McDep framework SJT is at the point where present value would need to be higher to support a buy recommendation. Yet, compared to income stocks, SJT's 9% distribution yield looks attractive. Other distinguishing characteristics in addition to income include no debt, no hedges, no PUD's (reported proven undeveloped reserves), no management, no unrelated business taxable income and income tax deferral initially. Investors in SJT get a pure play on natural gas with all the upside and possible downside of commodity price.

Unbooked Potential Reserves

Compared to other stocks that may also offer natural gas exposure, perhaps the most critical question that affects the value of a royalty trust is the amount of potential beyond reported reserves. Burlington Resources talks about more unbooked reserves in the San Juan Basin than the volume we project. Moreover that amount seems to go up each year with improving technology and greater understanding of the unusual natural resource.

In its quarterly call on April 27, Encana raised its estimate of unbooked reserves to 19 trillion cubic feet in addition to 10.5 tcf proven. The Canadian company essentially out-maneuvered its U.S. competition to become a leading producer in Colorado and Wyoming exploiting "resource plays" in the Piceance Basin and the Jonah field. The latter is being drilled on 10 acre spacing and Encana plans to test 5 acre spacing. The much larger San Juan Basin is spaced on 80 acres in the Mesa Verde, 160 acres in the Dakota and 320 acres in the Fruitland coal formations. In a free flowing field, denser spacing only removes the reserves faster. In underdeveloped tight formations new technology and denser spacing recovers more gas, not just the same reserves faster. We don't know the number, but it seems that there are large quantities of natural gas in place in the San Juan Basin that are not yet counted in reserves or in the volumes we project.

Estimates Depend on Commodity Price

Price is the variable that contributes the most change in projected monthly distributions. Ironically, natural gas prices advanced in April after the end of winter. Index prices set at the

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beginning of April influence distributions to be announced in June and to be paid in July (see table Monthly Declarations). Distributions continue to climb through the first quarter of next year in the pattern suggested by the futures market (see table Distributable Income).

Our present value estimate is the justification for a hold rating. Our estimate of \$32 a unit is tied to \$40 oil, about \$8 natural gas and a 7% per year real return.

Alternatively, our estimate would be \$45 a unit if oil price would be \$50 as in the current futures market, the long term price of natural gas would be \$10 and the real discount rate 5% per year (see table at right Present Value Sensitivity).

Present Value Sensitivity			
(US\$/unit)			
<i>Oil(\$/bbl)/</i>	<i>Real Discount Rate</i>		
<i>Natural Gas</i>	<i>7%/yr</i>	<i>5%/yr</i>	
<i>(\$/mmbtu)</i>			
30/6	24	28	
40/8	32	36	
50/10	40	45	
60/12	47	54	

We project cash flow for 30 years and discount it in the detailed model (see table Present Value). The main difference compared to earlier calculations is a constant real gas price. While we expect the price of natural gas to rise relative to oil over time as it has for the past decades we simplify the calculation by using a constant price that is high relative to \$40 oil now and low later. The constant ratio is 5:1 for crude oil price to natural gas price which is a rough approximation of the competitive interface between natural gas and refined oil in the jet turbine driven electrical generation market.

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The benchmark oil average futures price for the next six years is near \$50 a barrel. A McDep Ratio of 1.0 implies that a stock is valued at present value assuming a constant real oil price of US\$40 (see tables Rank by McDep Ratio).

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San Juan Basin Royalty Trust Monthly Declarations

	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Distribution (\$/unit)						
Declared	0.30	0.24	0.30	0.21		
Projected					0.24	0.28
Volume						
Natural gas (mmbtu)	3.98	4.05	4.26	3.71	4.05	3.92
Heat Content(btu/cf)	1,078	1,075	1,095	1,093	1,076	1,076
Natural gas (bcf)	3.70	3.77	3.89	3.39	3.76	3.65
Natural Gas (mmcf)	123	122	126	121	121	122
Days	30	31	31	28	31	30
Price						
Natural gas industry quotes lagged two months (\$/mmbtu)						
Henry Hub Index/Futures	7.67	7.81	6.21	6.29	6.30	7.33
San Juan Monthly Index	6.90	5.96	5.67	5.43	5.29	6.19
San Juan Index/Henry Hub	0.90	0.76	0.91	0.86	0.84	0.84
SJT/San Juan Index	0.89	0.89	0.93	0.89	0.92	0.93
SJT (\$/mmbtu)	6.14	5.28	5.27	4.81	4.88	5.74
SJT (\$/mcf)	6.62	5.67	5.77	5.25	5.25	6.17
Revenue (\$mm)						
Natural Gas	24.5	21.4	22.5	17.8	19.8	22.5
Other	0.1	(0.0)	1.1	(0.4)	0.2	0.2
Cost (\$mm)						
Severance tax	2.8	2.0	2.4	1.8	2.0	2.3
Operating	1.8	1.8	1.1	1.8	1.7	1.7
Total	4.6	3.8	3.6	3.5	3.7	4.0
Cash flow (\$mm)						
Development	1.6	2.8	1.5	0.6	1.4	1.4
Net proceeds (\$mm)						
Royalty income (\$mm)	13.8	11.0	13.9	10.0	11.1	13.0
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%
Distributable income (\$mm)						
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)						
<i>Latest Twelve Month Average</i>						
Heat Content(btu/cf)	1,075	1,076	1,076	1,076	1,076	1,075
Natural Gas (mmcf)	120	121	122	121	122	121
San Juan Index/Henry Hub	0.83	0.84	0.84	0.84	0.84	0.84
SJT/San Juan Index	0.91	0.92	0.92	0.92	0.93	0.93
Other revenue	0.1	0.1	0.2	0.2	0.2	0.2
Operating	1.7	1.7	1.7	1.7	1.7	1.7
Development	1.7	1.6	1.6	1.4	1.4	1.5
Severance tax/revenue	10.2%	10.2%	10.2%	10.1%	10.1%	10.1%

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San Juan Basin Royalty Trust Distributable Income

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
Highlights										
Revenue (\$mm) (75%)	43.3	41.2	155.5	51.8	45.7	51.5	52.5	201.5	58.6	208.3
Cash flow (\$mm) (75%)	35.4	32.6	125.3	42.9	37.3	42.1	43.1	165.3	48.5	171.0
Per unit	0.76	0.70	2.69	0.92	0.80	0.90	0.92	3.55	1.04	3.67
Distributable Income (\$mm)	34.4	29.3	109.4	38.7	34.1	39.4	38.7	150.9	42.8	154.9
Per unit	0.74	0.63	2.35	0.83	0.73	0.84	0.83	3.24	0.92	3.32
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)	11.7	11.9	47.3	12.3	11.7	12.1	12.1	48.1	12.1	47.9
Heat Content(btu/cf)	1,081	1,056	1,076	1,083	1,081	1,081	1,081	1,082	1,081	1,081
Natural gas (bcf)	10.9	11.3	44.0	11.4	10.8	11.2	11.2	44.5	11.2	44.3
Natural Gas (mmcfd)	118.0	122.8	120.3	123.5	121.4	121.4	121.4	121.9	121.4	121.4
Days	92	92	366	92	89	92	92	365	92	365
Oil (mb)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.0	11.4	44.5	11.5	10.9	11.3	11.3	45.0	11.3	44.8
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	6.24	5.64	5.74	7.23	6.64	7.24	7.38	7.12	8.25	7.38
Differential (%)	22	19	25	23	23	23	23	23	23	22
Net to SJT (\$/mmbtu)	4.85	4.55	4.32	5.55	5.14	5.61	5.72	5.51	6.39	5.72
Natural gas (\$/mcf)	5.24	4.80	4.65	6.01	5.56	6.06	6.18	5.96	6.91	6.18
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	39.71	48.04	39.07	46.17	51.90	54.98	56.67	52.43	57.01	55.14
SJT	35.53	42.98	34.61	40.90	45.98	48.71	50.21	46.46	50.51	48.88
Total gas & oil (\$/mcf)	5.25	4.82	4.66	6.02	5.58	6.08	6.20	5.98	6.92	6.20
Revenue (\$mm)										
Natural Gas	56.9	54.2	204.6	68.3	60.1	67.7	69.0	265.1	77.1	273.9
Oil	0.7	0.8	2.7	0.8	0.9	0.9	1.0	3.6	1.0	3.8
Total	57.7	55.0	207.3	69.1	60.9	68.6	70.0	268.7	78.1	277.7
Cost (\$mm)										
Severance tax	5.8	5.1	20.6	7.3	6.0	6.8	6.9	27.1	7.7	27.5
Operating	4.6	6.4	19.7	4.7	5.2	5.6	5.6	21.2	5.6	22.1
Total	10.5	11.5	40.2	12.0	11.2	12.4	12.6	48.2	13.4	49.6
Cash flow (\$mm)										
Development	3.5	4.8	22.3	5.9	3.4	3.3	5.5	18.1	7.3	19.5
Net proceeds (\$mm)										
Net proceeds	43.7	38.7	144.7	51.2	46.3	52.9	52.0	202.3	57.4	208.6
Royalty income (\$mm)										
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.2	(0.3)	1.0	(0.3)	0.6	0.3	0.3	0.9	0.3	1.5
One-time	(1.8)		(1.8)					-		-
Distributable income (\$mm)										
Distributable income	34.4	29.3	109.4	38.7	34.1	39.4	38.7	150.9	42.8	154.9
Severance tax/revenue	10.1%	9.2%	9.9%	10.6%	9.9%	9.9%	9.9%	10.1%	9.9%	9.9%
Operating cost (\$/mcf)	0.42	0.56	0.44	0.41	0.48	0.50	0.50	0.47	0.50	0.49
Development/Cash flow	7%	11%	13%	10%	7%	6%	9%	8%	11%	9%

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Present Value

Oil Volume Decline (%/yr):	15	Oil Price Post 2006 (2005\$/bbl)	40.00
Nat Gas Volume Decline (%/yr):	15	Nat Gas Price Post 2006 (2005\$/mcf)	8.00
Volume/Reserves - Oil:	1.9	Real Discount Rate (%/yr):	7.0
Volume/Reserves - Nat Gas:	2.0	PV/Volume (\$/mcf):	2.88
Variable Cost (%):	15	PV/EBITDA 2005:	8.8
		Capex/Cash Flow (%):	14

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2006 through 2035; years ending on 3/31												
	0.9	513	36.32	6.67	3457	224	519	238	2476	53.13	0.60	32.00
2006	0.06	33.23	48.88	6.18	208.3	7.5	31.2	14.6	154.9	3.32	0.97	3.21
2007	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.90	3.08
2008	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.84	2.88
2009	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.79	2.69
2010	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.74	2.51
2011	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.69	2.35
2012	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.64	2.20
2013	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.60	2.05
2014	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.56	1.92
2015	0.06	33.23	35.46	6.71	224.9	7.5	33.7	24.8	158.9	3.41	0.53	1.79
2016	0.05	28.24	35.46	6.71	191.1	7.5	28.7		155.0	3.33	0.49	1.63
2017	0.04	24.01	35.46	6.71	162.5	7.5	24.4		130.6	2.80	0.46	1.29
2018	0.04	20.40	35.46	6.71	138.1	7.5	20.7		109.9	2.36	0.43	1.01
2019	0.03	17.34	35.46	6.71	117.4	7.5	17.6		92.3	1.98	0.40	0.79
2020	0.03	14.74	35.46	6.71	99.8	7.5	15.0		77.3	1.66	0.37	0.62
2021	0.02	12.53	35.46	6.71	84.8	7.5	12.7		64.6	1.39	0.35	0.49
2022	0.02	10.65	35.46	6.71	72.1	7.5	10.8		53.8	1.15	0.33	0.38
2023	0.02	9.05	35.46	6.71	61.3	7.5	9.2		44.6	0.96	0.31	0.29
2024	0.01	7.70	35.46	6.71	52.1	7.5	7.8		36.8	0.79	0.29	0.23
2025	0.01	6.54	35.46	6.71	44.3	7.5	6.6		30.1	0.65	0.27	0.17
2026	0.01	5.56	35.46	6.71	37.6	7.5	5.6		24.5	0.53	0.25	0.13
2027	0.01	4.73	35.46	6.71	32.0	7.5	4.8		19.7	0.42	0.23	0.10
2028	0.01	4.02	35.46	6.71	27.2	7.5	4.1		15.6	0.34	0.22	0.07
2029	0.01	3.41	35.46	6.71	23.1	7.5	3.5		12.2	0.26	0.20	0.05
2030	0.01	2.90	35.46	6.71	19.6	7.5	2.9		9.2	0.20	0.19	0.04
2031	0.00	2.47	35.46	6.71	16.7	7.5	2.5		6.7	0.14	0.18	0.03
2032	0.00	2.10	35.46	6.71	14.2	7.5	2.1		4.6	0.10	0.17	0.02
2033	0.00	1.78	35.46	6.71	12.1	7.5	1.8		2.8	0.06	0.16	0.01
2034	0.00	1.52	35.46	6.71	10.3	7.5	1.5		1.2	0.03	0.15	0.00
2035	0.00	1.29	35.46	6.71	8.7	7.5	1.3		-0.1	0.00	0.14	0.00

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 27-Apr 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	30.93	349	10,810	33.80	0.17	0.93
Encana Corporation	ECA	B	64.45	471	30,300	77.00	0.19	0.87
Unocal Corporation	UCL	B	54.59	271	14,800	65.00	0.21	0.87
Occidental Petroleum Corp.	OXY	B	69.54	406	28,300	87.00	0.14	0.83
CNOOC Limited (19%)	CEO	B	54.52	78	4,260	67.00	-	0.81
Devon Energy Corporation	DVN	B	45.74	500	22,900	63.00	0.16	0.77
Burlington Resources	BR	B	48.98	391	19,200	67.00	0.12	0.76
Anadarko Petroleum Corp.	APC	B	73.62	246	18,100	113.00	0.14	0.70
<i>Total or Median</i>					<i>149,000</i>		<i>0.15</i>	<i>0.82</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	47.61	22	1,070	50.00	0.12	0.96
Energy Partners Ltd.	EPL	B	23.88	39	940	30.00	0.20	0.84
Cimarex Energy Company	XEC	B	35.95	81	2,900	50.00	0.15	0.76
Encore Acquisition Company	EAC	B	37.96	33	1,240	57.00	0.19	0.73
<i>Total or Median</i>					<i>6,200</i>		<i>0.17</i>	<i>0.80</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.44	150	7,120	15.00	0.52	2.05
Kinder Morgan Management, LLC	KMR	S3	43.50	56	2,450	15.00	0.52	1.92
Pengrowth Energy Trust	PGH		20.60	136	2,800	16.00	0.24	1.22
San Juan Basin Royalty Trust	SJT		37.66	47	1,760	32.00	-	1.18
Enerplus Resources Fund	ERF		35.82	104	3,730	32.00	0.16	1.10
Canadian Oil Sands Trust (US\$)	COSWF	B	68.39	92	6,310	94.00	0.16	0.77
<i>Total or Median</i>					<i>24,200</i>		<i>0.20</i>	<i>1.20</i>

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol		Price (\$/sh) 27-Apr 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	EV/ Ebitda NTM	McDep Ratio
Sabine Royalty Trust	SBR		39.15	14.6	570	33.00	11.4	1.19
San Juan Basin Royalty Trust	SJT		37.66	46.6	1,760	32.00	10.3	1.18
Mesa RoyaltyTrust	MTR		67.35	1.9	130	60.00	10.4	1.13
Dorchester Minerals, L.P.	DMLP		22.69	27.0	610	21.00	9.5	1.08
Cross Timbers Royalty Trust	CRT		38.57	6.0	230	36.00	12.1	1.07
Permian Basin RT (41%)	PBT		12.42	19.1	240	12.00	8.6	1.03
Hugoton RoyaltyTrust (46%)	HGT		27.52	18.4	510	27.00	8.3	1.02
<i>Total or Median</i>					<i>4,100</i>		<i>10.3</i>	<i>1.08</i>

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More Analysis: Topics not fully covered in the latest Single Trust Analysis may have been discussed in previous written analyses archived on www.mcdep.com.

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