



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 31, 2010

Longer Life, Higher Value

Summary and Recommendation

Technological advances that extend the life of oil and gas production are driving unlevered cash flow multiples (EV/Ebitda) and stock prices higher for income and small cap oil and gas stocks, including independent oil producer **Whiting Petroleum (WLL)** and buy-recommended natural gas/oil producer **Cimarex (XEC)**. WLL and XEC have the lowest EV/Ebitda multiples of 7.2 and 7.2 respectively, compared to related stocks that range to 18.5 (see [Table 3](#) on page 4). Combined with successful operations, the lower multiples may imply upward revisions in present value when final reserves for 2010 are reported in early 2011. Unusual among U.S. producers, WLL reports probable reserves in addition to proven reserves in order to emphasize its additional potential from projects underway. XEC has begun to boost its reserves with the addition of undeveloped volumes that are becoming more readily apparent in its Cana shale play in western Oklahoma. WLL and XEC are two of the ideas that pop out of a graphical study of unlevered multiples.

Multiples Imply More Price Appreciation Potential for Natural Gas

Higher EV/Ebitda is associated with longer life as reported by independent producers and bottom line cash payers (see charts on page 6). Oil producers have lower EV/Ebitda multiples for the same reported life than natural gas producers (see charts on page 7). The difference likely reflects expectations for more price appreciation for natural gas.

Probable Reserves Lower McDep Ratios

Canadian producers have lower EV/Ebitda multiples for the same reported life using proven and probable reserves than U.S. producers using proven reserves only (see charts on page 8). Present value cash flow multiples (PV/Ebitda) are higher for Canadian companies because of the partial credit we give for probable reserves. As a result, there may be understatement in our present value estimates for U.S. companies.

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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy CB (see below)	30-Dec 2010	Cap							
Small Cap Independent Producers										
Cimarex Energy Company	XEC	B	89.55	1.08	8,310	52	48	0.32	0.4	0.97
Peyto Exploration and Development	PEYUF		18.79	1.19	2,740	69	31	0.72	3.8	0.95
Berry Petroleum Company	BRY		43.59	1.44	3,420	26	74	0.30	0.7	0.95
Petrohawk Energy Corporation	HK	B	18.14	1.62	8,880	96	4	-	-	0.94
Ultra Petroleum	UPL		47.77	1.20	8,840	90	10	-	-	0.93
Whiting Petroleum Corporation	WLL		116.19	1.17	8,040	11	89	-	-	0.92
Range Resources	RRC	B	44.97	1.30	9,150	68	32	0.16	0.4	0.92
Denbury Resources Inc.	DNR		19.00	1.45	11,030	12	88	-	-	0.90
Birchcliff Energy Ltd.	BIREF	B	9.65	1.27	1,570	62	38	-	-	0.66
<i>Total or Median</i>					62,000				-	0.93
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT		39.77	1.00	240	69	31	2.71	6.8	1.08
Permian Basin RT	PBT		22.83	1.00	1,060	31	69	1.55	6.8	1.04
Sabine Royalty Trust	SBR		59.69	1.00	870	38	62	4.09	6.8	1.01
Freehold Royalties Ltd.	FRHLF		20.87	1.07	1,300	20	80	1.68	8.0	0.95
Dorchester Minerals, L.P.	DMLP	B	27.45	1.02	860	60	40	1.75	6.4	0.92
<i>Total or Median</i>					4,300				6.8	1.01
Bottom Line Cash Payers										
Linn Energy, LLC	LINE		37.33	1.41	7,700	38	62	2.64	7.1	1.22
Vanguard Natural Resources, LLC	VNR		29.41	1.39	1,220	31	69	2.20	7.5	1.06
Legacy Reserves L.P.	LGCY		28.43	1.34	1,520	13	87	2.08	7.3	1.01
Encore Energy Partners, L.P.	ENP		22.31	1.24	1,260	19	81	2.00	9.0	0.98
San Juan Basin Royalty Trust	SJT	B	24.04	1.00	1,120	100	-	1.43	6.0	0.96
Hugoton Royalty Trust	HGT	B	20.76	1.00	830	86	14	1.34	6.5	0.94
Pengrowth Energy Corporation	PGH		12.92	1.36	5,200	29	71	0.84	6.5	0.94
Mesa Royalty Trust	MTR		49.39	1.00	92	75	25	3.63	7.3	0.93
Enerplus Corporation	ERF		31.10	1.19	6,600	34	66	2.16	6.9	0.86
<i>Total or Median</i>					25,500				7.1	0.96
Composite										
<i>Enterprise Value Weighting</i>					91,900	48	52			0.95
<i>Equal Weighting</i>						49	51			0.96
<i>Equal Weighted Buys</i>						73	27			0.90

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 \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2011. Enterprise Value = Market Cap and Debt.



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			<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/un)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/</i> <i>Rating</i>		<i>30-Dec</i> <i>2010</i>					
Small Cap Independent Producers								
Cimarex Energy Company	XEC	B	89.55	85.8	7,680	92.00	0.07	0.97
Peyto Exploration and Development Corp	PEYUF		18.79	121.8	2,290	20.00	0.15	0.95
Berry Petroleum Company	BRY		43.59	54.4	2,370	47.00	0.29	0.95
Petrohawk Energy Corporation	HK	B	18.14	302.0	5,480	20.00	0.36	0.94
Ultra Petroleum	UPL		47.77	154.0	7,360	52.00	0.16	0.93
Whiting Petroleum Corporation	WLL		116.19	59.0	6,860	128.00	0.14	0.92
Range Resources	RRC	B	44.97	157.1	7,060	50.00	0.21	0.92
Denbury Resources Inc.	DNR		19.00	401.0	7,620	22.00	0.28	0.90
Birchcliff Energy Ltd.	BIREF	B	9.65	127.3	1,230	16.00	0.14	0.66
<i>Total or Median</i>					<i>47,950</i>		<i>0.16</i>	<i>0.93</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		39.77	6.0	240	37.00	-	1.08
Permian Basin RT	PBT		22.83	46.6	1,060	22.00	-	1.04
Sabine Royalty Trust	SBR		59.69	14.6	870	59.00	-	1.01
Freehold Royalties Ltd.	FRHLF		20.87	58.4	1,220	22.00	0.06	0.95
Dorchester Minerals, L.P.	DMLP	B	27.45	30.7	840	30.00	0.02	0.92
<i>Total or Median</i>					<i>4,230</i>			<i>1.01</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.33	146.5	5,470	28.00	0.35	1.22
Vanguard Natural Resources, LLC	VNR		29.41	29.8	880	27.00	0.30	1.06
Legacy Reserves L.P.	LGCY		28.43	40.1	1,140	28.00	0.25	1.01
Encore Energy Partners, L.P.	ENP		22.31	45.3	1,010	23.00	0.19	0.98
San Juan Basin Royalty Trust	SJT	B	24.04	46.6	1,120	25.00	-	0.96
Hugoton Royalty Trust	HGT	B	20.76	40.0	830	22.00	-	0.94
Pengrowth Energy Corporation	PGH		12.92	299.0	3,860	14.00	0.25	0.94
Mesa Royalty Trust	MTR		49.39	1.9	92	53.00	-	0.93
Enerplus Corporation	ERF		31.10	177.5	5,520	37.00	0.14	0.86
<i>Total or Median</i>					<i>19,920</i>			<i>0.96</i>
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 \$8 a million btu for natural gas.								



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			<i>Price</i> <i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Adjstd</i>		
	<i>Symbol/</i>		<i>30-Dec</i>	<i>Royalty</i>	<i>Equity</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>
						<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
Small Cap Independent Producers								
Range Resources	RRC	B	44.97		-	11.8	16.2	14.9
Peyto Exploration and Development Corp	PEYUF		18.79		0.48	18.4	13.5	12.8
Ultra Petroleum	UPL		47.77		-	12.6	12.8	11.9
Birchcliff Energy Ltd.	BIREF	B	9.65		-	19.8	17.5	11.5
Petrohawk Energy Corporation	HK	B	18.14		-	7.0	10.9	10.2
Berry Petroleum Company	BRY		43.59		-	11.3	9.2	8.7
Denbury Resources Inc.	DNR		19.00		-	12.9	9.5	8.6
Cimarex Energy Company	XEC	B	89.55		-	6.2	7.4	7.2
Whiting Petroleum Corporation	WLL		116.19		-	9.3	7.8	7.2
	<i>Median</i>					<i>11.8</i>	<i>10.9</i>	<i>10.2</i>
Top Line Cash Payers								
Sabine Royalty Trust	SBR		59.69	100	1.00	7.8	14.4	14.6
Permian Basin RT	PBT		22.83	32	0.98	13.2	14.0	14.5
Cross Timbers Royalty Trust	CRT		39.77	84	0.96	13.2	13.2	14.2
Dorchester Minerals, L.P.	DMLP	B	27.45	77	0.87	6.7	14.9	13.6
Freehold Royalties Ltd.	FRHLF		20.87	71	0.85	8.4	11.2	10.6
	<i>Median</i>					<i>8.4</i>	<i>14.0</i>	<i>14.2</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.33		1.43	18.3	15.2	18.5
San Juan Basin Royalty Trust	SJT	B	24.04		0.82	13.6	14.3	13.7
Hugoton Royalty Trust	HGT	B	20.76		0.86	12.6	14.0	13.2
Mesa Royalty Trust	MTR		49.39		0.91	8.7	13.3	12.4
Legacy Reserves L.P.	LGCY		28.43		0.82	12.0	11.1	11.2
Encore Energy Partners, L.P.	ENP		22.31		0.94	13.5	10.8	10.5
Vanguard Natural Resources, LLC	VNR		29.41		0.80	13.0	9.8	10.4
Pengrowth Energy Corporation	PGH		12.92		0.53	9.6	8.9	8.4
Enerplus Corporation	ERF		31.10		0.55	9.7	9.5	8.2
	<i>Median</i>					<i>12.6</i>	<i>11.1</i>	<i>11.2</i>
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, 2011; 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 4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		30-Dec 2010	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers									
	Peyto Exploration and Development Co	PEYUF	18.79	0.97	1.52	1.08	1.22	0.95	
	Berry Petroleum Company	BRY	43.59	0.98	1.44	1.08	1.22	0.95	
	Cimarex Energy Company	XEC	B	89.55	0.99	1.73	1.08	1.21	0.97
	Whiting Petroleum Corporation	WLL		116.19	0.98	1.65	1.06	1.21	0.92
	Denbury Resources Inc.	DNR		19.00	0.97	1.26	1.02	1.09	0.90
	Ultra Petroleum	UPL		47.77	0.90	1.23	1.03	1.06	0.93
	Range Resources	RRC	B	44.97	0.86	1.28	1.06	1.05	0.92
	Birchcliff Energy Ltd.	BIREF	B	9.65	0.93	1.19	1.04	1.05	0.66
	Petrohawk Energy Corporation	HK	B	18.14	0.76	1.17	1.00	0.99	0.94
	<i>Median</i>			<i>0.97</i>	<i>1.28</i>	<i>1.06</i>	<i>1.09</i>	<i>0.93</i>	
Top Line Cash Payers									
	Freehold Royalties Ltd.	FRHLF		20.87	0.99	1.44	1.08	1.20	0.95
	Permian Basin RT	PBT		22.83	0.96	1.63	1.03	1.17	1.04
	Sabine Royalty Trust	SBR		59.69	0.99	1.48	1.04	1.14	1.01
	Cross Timbers Royalty Trust	CRT		39.77	0.94	1.41	1.00	1.09	1.08
	Dorchester Minerals, L.P.	DMLP	B	27.45	0.93	1.33	1.02	1.06	0.92
	<i>Median</i>			<i>0.96</i>	<i>1.44</i>	<i>1.03</i>	<i>1.14</i>	<i>1.01</i>	
Bottom Line Cash Payers									
	Enerplus Corporation	ERF		31.10	0.98	1.88	1.07	1.21	0.86
	Linn Energy, LLC	LINE		37.33	0.99	1.89	1.03	1.17	1.22
	Vanguard Natural Resources, LLC	VNR		29.41	0.99	1.44	1.07	1.14	1.06
	Pengrowth Energy Corporation	PGH		12.92	0.98	1.99	1.02	1.13	0.94
	Encore Energy Partners, L.P.	ENP		22.31	0.99	1.86	1.07	1.13	0.98
	Legacy Reserves L.P.	LGCY		28.43	0.98	1.43	1.05	1.12	1.01
	Mesa Royalty Trust	MTR		49.39	0.91	1.36	1.01	1.07	0.93
	Hugoton Royalty Trust	HGT	B	20.76	0.94	1.38	1.01	1.06	0.94
	San Juan Basin Royalty Trust	SJT	B	24.04	0.84	1.41	0.98	1.00	0.96
	<i>Median</i>			<i>0.98</i>	<i>1.44</i>	<i>1.03</i>	<i>1.13</i>	<i>0.96</i>	

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

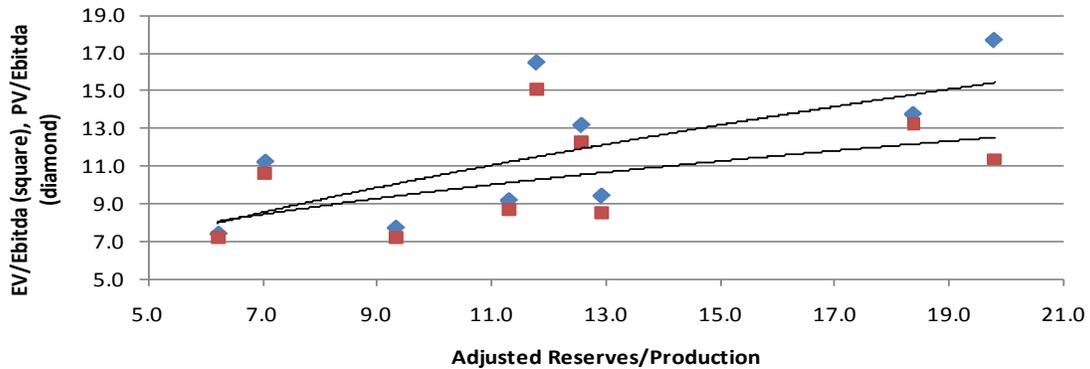


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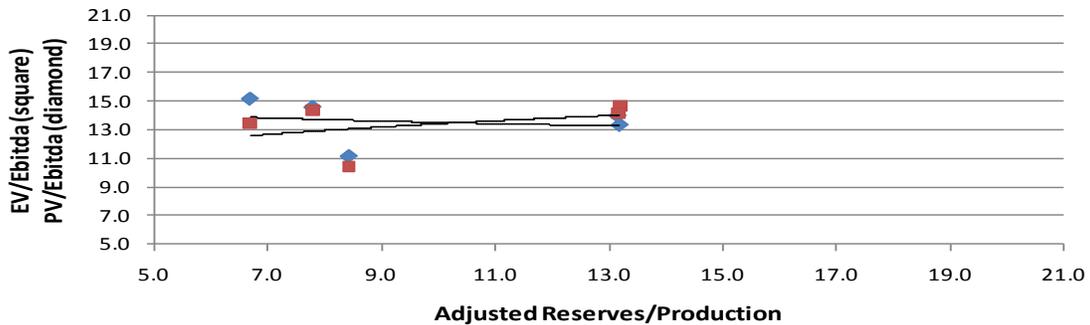
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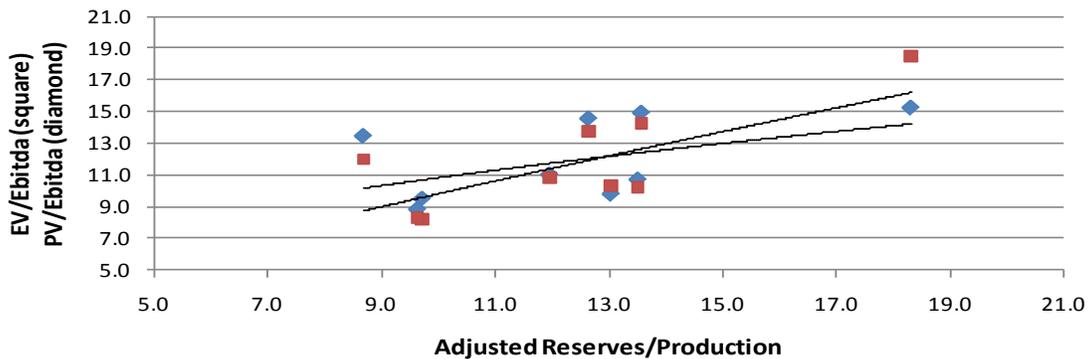
Small Cap Independent Producers



Top Line Cash Payers



Bottom Line Cash Payers

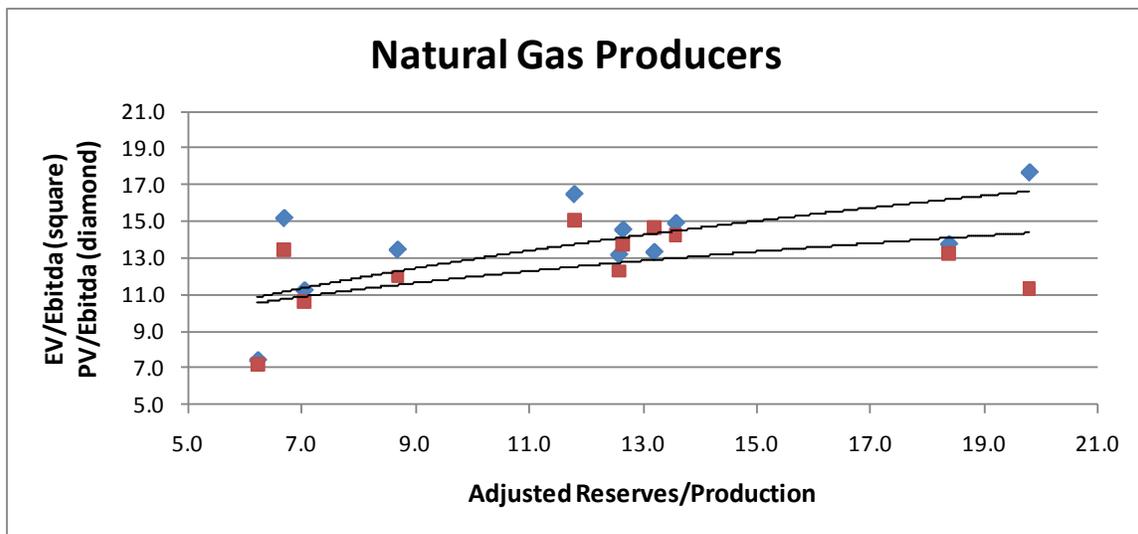
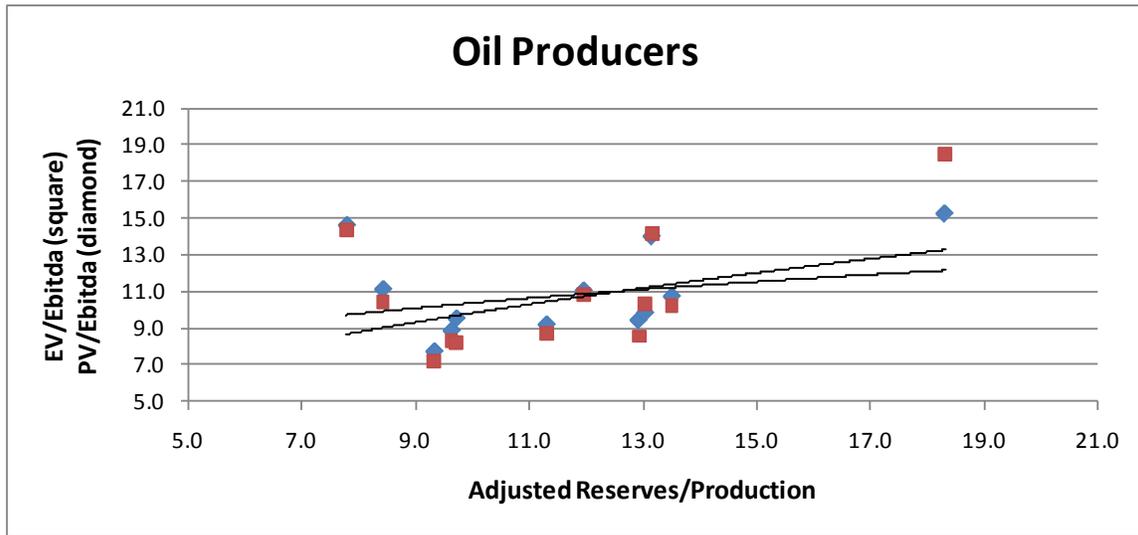




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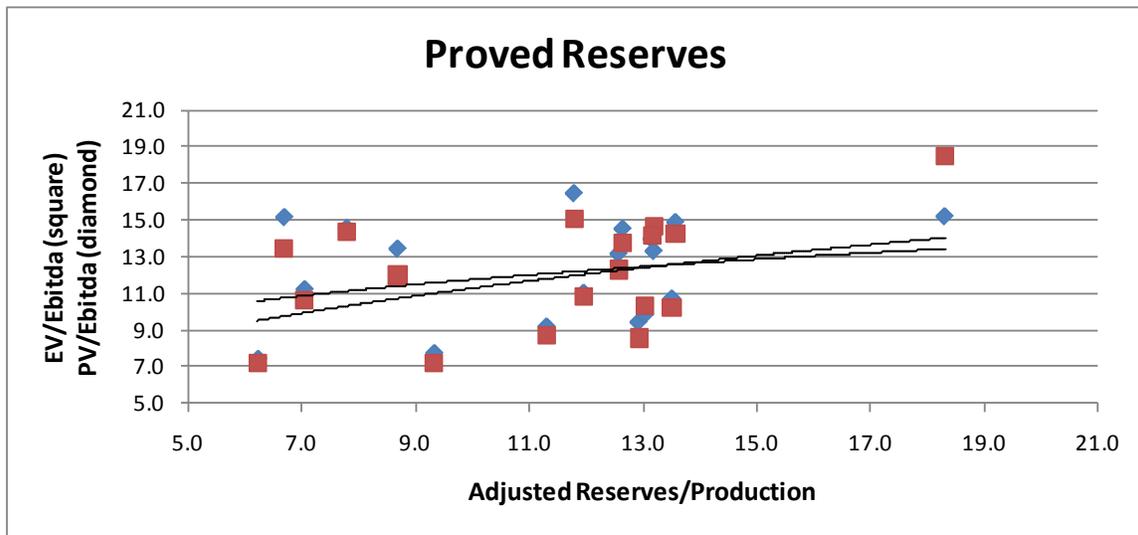
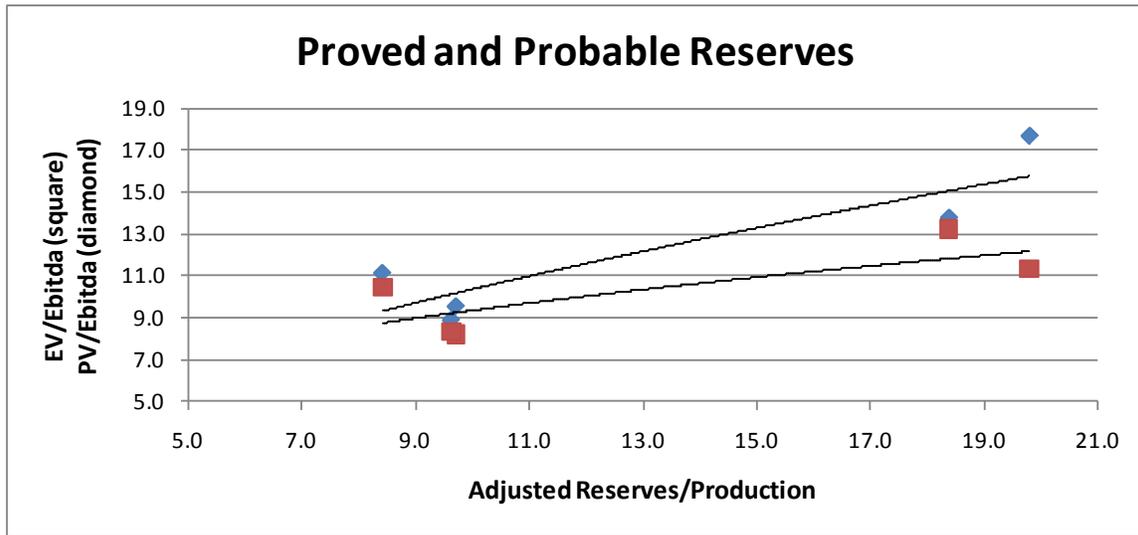




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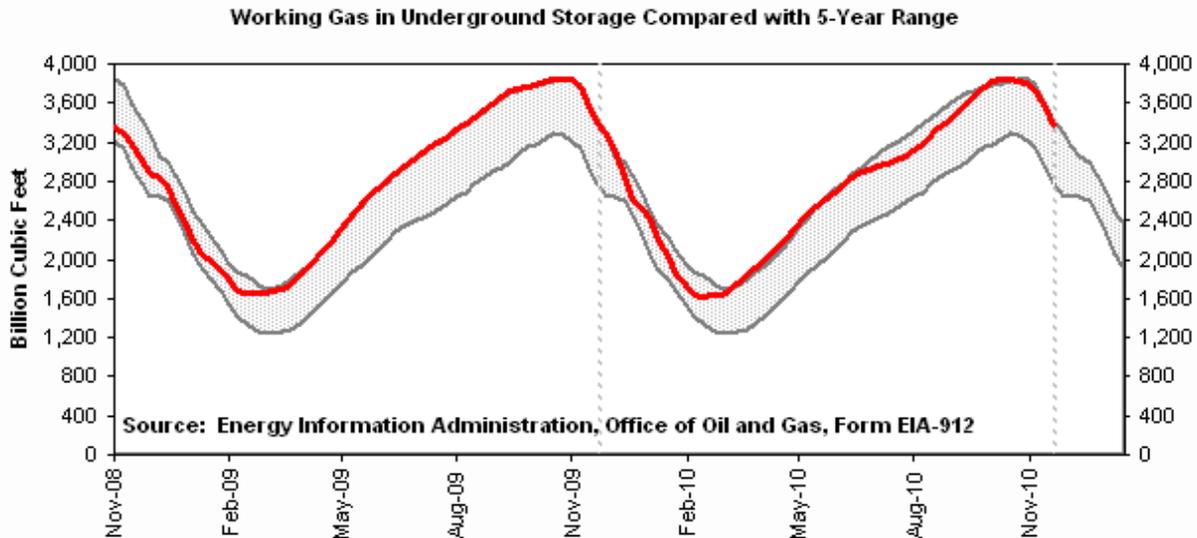




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