



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

Raise Cimarex NPV to \$100 a Share

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	1,188
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	36
<i>Price (\$/sh)</i>	96.37	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/20/11	<i>Adjusted Reserves/Production NTM</i>	6.2
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	8,270	<i>PV/Ebitda</i>	7.8
<i>Debt (\$mm)</i>	630	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	8,900	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.60
<i>Present Value (PV) (\$mm)</i>	9,210	<i>Present Value Proven Reserves(\$/boe)</i>	36.00
<i>Net Present Value (\$/share)</i>	100	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.01
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.32
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, \$8 a million btu.			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

The common shares of buy-recommended independent oil and gas producer **Cimarex Energy (XEC)** are close to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$100 a share, up from \$92. Believing the industry and market trends to be favorable, we maintain our buy recommendation. At the same time, investors who have an over weighted position in the stock as a result of appreciation may wish to rebalance. Indeed, members of management have been doing just that by cashing in some of their stock, reaping a partial reward for many years of diligent effort. Looking back a few years, management's quick adjustment to step up oil drilling has enhanced cash flow at a time of low natural gas price. For a company once predominantly in natural gas, half of NPV now derives from oil (see table Functional Cash Flow and Present Value on page 2). Currently, natural gas price may be strengthening short term on strong winter demand and long term on compelling value relative to all other major fuels. While rising service costs threaten profitability, we can count on management to invest only when the profit looks attractive. Presuming a continuation of recent trends, our cash flow projections provide ample support for NPV (see table Next Twelve Months Operating and Financial Performance on page 3).

Positive Signs for Natural Gas Price

Natural gas in storage dropped sharply as reported on January 20 (see chart Working Gas in Underground Storage on page 4). We know the variables that determine storage levels, but predicting how weather, industrial demand, drilling and even floods in Australia interact is what



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

markets are all about. No one can know the future, but pricing decisions have to be made. Lower storage levels at this time of year can mean higher prices for the rest of winter.

Longer term, the discount for natural gas relative to oil will likely compel new investment to use more natural gas if the discount persists. U.S. Energy Information Administration analysis tracks natural gas price at less than a third of oil on a heating value basis (see chart [Futures and Spot Prices](#) on page 4). Our view is that the discount will close fast enough to reward producers and persist long enough to reward users who build capacity to use more natural gas instead of more expensive alternatives.

The implications are probably more important for coal, nuclear, hydro, biofuels, wind, solar and just about every alternative fuel. Cheap natural gas makes it less necessary to sacrifice health with coal-burning. Governments need not go bankrupt promoting alternative energy with subsidies or economy-killing mandates. Abundant natural gas supplies are a gift to enhance our physical and economic well-being.

Kurt H. Wulff, CFA

Cimarex Energy Company						
Functional Cash Flow and Present Value						
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>		
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>		
				<i>(US\$mm)</i>		
North American Natural Gas	430	8.0	10.7	4,600		50%
Oil	758	3.7	6.1	4,630		50%
	1,188	6.2	7.8	9,230		100%
Debt (US\$mm)						630
Net Present Value (US\$mm)						8,600
Shares (mm)						86
Net Present Value - Standard Estimate (US\$/sh)						100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)						107



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/09</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>Months</i>
	<i>12/31/09</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>12/31/11</i>
Volume									
Natural Gas (bcf)	30.4	32.4	32.4	134	31.7	32.1	32.4	32.4	129
Natural Gas (mmcf)	330	353	353	367	353	353	353	353	353
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	2.1	3.8	3.8	13.9	3.7	3.8	3.8	3.8	15.1
Oil (mbd)	22.9	41.3	41.3	38.0	41.3	41.3	41.3	41.3	41.3
Total (bcfe)	43.0	55.2	55.2	217	54.0	54.6	55.2	55.2	219
Total (mmcf)	468	600	600	595	600	600	600	600	600
Price									
Henry Hub (\$/mmbtu)	4.16	4.38	3.80	4.40	4.37	4.56	4.68	4.92	4.63
Differential (\$/mmbtu)	(1.14)	(0.10)	(0.09)	(0.45)	(0.10)	(0.10)	(0.11)	(0.11)	(0.11)
Company (\$/mcf)	5.30	4.48	3.89	4.84	4.47	4.66	4.79	5.03	4.74
WTI Cushing (\$/bbl)	76.09	76.08	85.10	79.43	92.18	93.73	95.29	95.97	94.29
Differential	3.82	17.80	19.91	14.35	21.57	21.93	22.30	22.46	22.05
Company (\$/bbl)	72.27	58.28	65.18	65.08	70.61	71.80	72.99	73.51	72.24
Total (\$/bbl)	43.65	39.83	40.59	42.50	44.87	46.05	46.98	48.07	46.50
Revenue (\$mm)									
Natural Gas	161	145	126	648	142	150	155	163	610
Oil	152	221	247	903	262	270	277	279	1,088
Other	(0)			(14)					
Total	313	366	373	1,538	404	419	432	442	1,697
Expense									
Operating	39	60							
Production taxes	25	28							
General and administrative	14	11							
Total	78	99	112	408	121	126	130	133	509
Ebitda									
Deprec., Deplet., & Amort	64	80	99	326	97	98	99	99	394
Other Non Cash	14	(11)		(12)	-	-			-
Ebit									
Interest	1	-	-	-	-	-	-	-	-
Ebt									
Income Tax	55	69	57	285	65	68	71	74	278
Net Income (\$mm)									
Per Share (\$)	1.23	1.50	1.23	6.19	1.41	1.48	1.54	1.59	6.01
Shares (millions)									
Operating (\$/mcf)	0.91	1.09							
Production taxes (% rev)	8.0	7.6							
General and admin (\$/mcf)	0.33	0.20							
Deprec., D, & A (\$/mcf)	1.49	1.45	1.80	1.50	1.80	1.80	1.80	1.80	1.80
Ebitda Margin	75%	73%	70%	73%	70%	70%	70%	70%	70%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

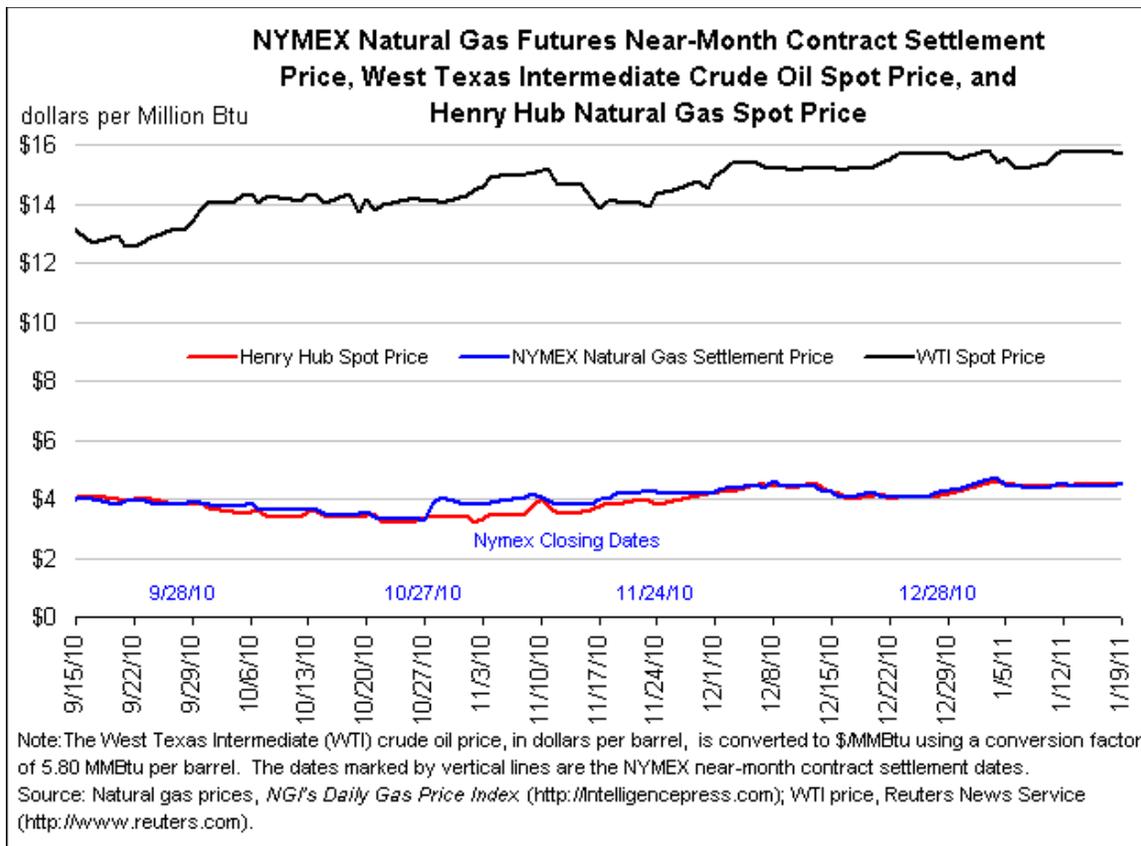
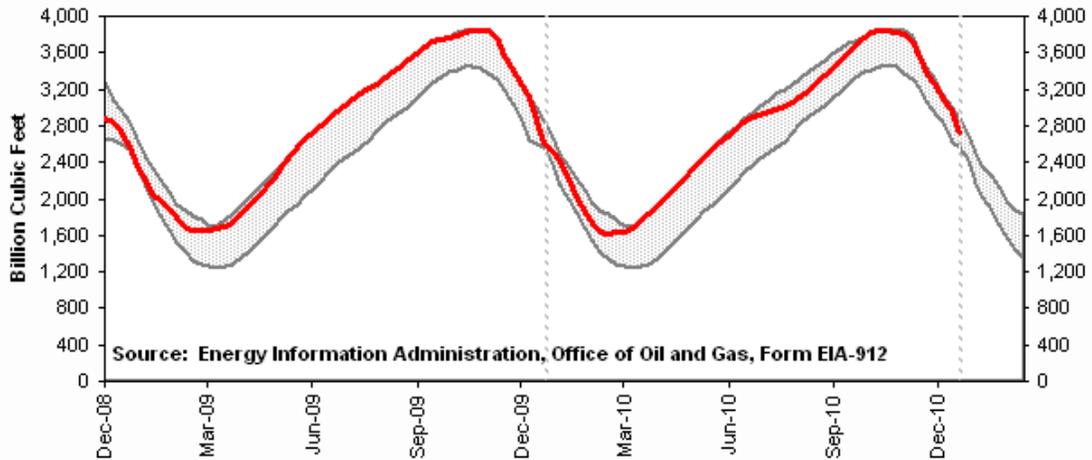


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

Working Gas in Underground Storage Compared with 5-Year Range





Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

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	20-Jan	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Berry Petroleum Company	BRY		45.13	1.43	3,510	26	74	8.7	0.30	0.7	0.97
Cimarex Energy Company	XEC	B	96.37	1.08	8,900	50	50	7.5	0.32	0.3	0.97
Petrohawk Energy Corporation	HK	B	18.88	1.60	9,100	96	4	10.2	-	-	0.96
Peyto Exploration and Development	PEYUF		18.54	1.20	2,710	69	31	12.3	0.73	3.9	0.94
Range Resources	RRC	B	45.85	1.29	9,290	68	32	14.0	0.16	0.3	0.93
Ultra Petroleum	UPL		47.06	1.20	8,730	90	10	11.4	-	-	0.92
Denbury Resources Inc.	DNR		18.85	1.45	10,970	12	88	8.3	-	-	0.90
Whiting Petroleum Corporation	WLL		116.24	1.17	8,040	11	89	7.0	-	-	0.80
Birchcliff Energy Ltd.	BIREF	B	11.27	1.24	1,770	62	38	12.7	-	-	0.74
<i>Total or Median</i>					63,000			10.2		-	0.93
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		43.21	1.00	260	69	31		2.78	6.4	1.17
Sabine Royalty Trust	SBR		61.81	1.00	900	38	62		4.18	6.8	1.05
Permian Basin RT	PBT		21.28	1.00	990	31	69		1.59	7.5	0.97
Freehold Royalties Ltd.	FRHLF		21.17	1.07	1,320	20	80		1.70	8.0	0.96
Dorchester Minerals, L.P.	DMLP	B	25.95	1.02	810	60	40		1.77	6.8	0.87
<i>Total or Median</i>					4,300					6.8	0.97
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.34	1.41	7,700	38	62	18.0	2.64	7.1	1.22
Vanguard Natural Resources, LLC	VNR		29.19	1.39	1,210	31	69	10.1	2.20	7.5	1.06
Legacy Reserves L.P.	LGCY		28.28	1.34	1,520	13	87	10.9	2.08	7.4	1.01
San Juan Basin Royalty Trust	SJT	B	24.30	1.00	1,130	100	-	13.9	1.43	5.9	0.97
Hugoton Royalty Trust	HGT	B	20.94	1.00	840	86	14	13.4	1.34	6.4	0.95
Pengrowth Energy Corporation	PGH		13.11	1.35	5,300	29	71	8.5	0.84	6.4	0.95
Encore Energy Partners, L.P.	ENP		21.34	1.25	1,210	19	81	9.9	2.00	9.4	0.94
Mesa Royalty Trust	MTR		47.75	1.00	89	75	25	11.7	3.72	7.8	0.90
Enerplus Corporation	ERF		31.65	1.18	6,700	34	66	8.3	2.16	6.8	0.88
<i>Total or Median</i>					25,700			10.9		7.1	0.95
Composite											
<i>Enterprise Value Weighting</i>					93,000	48	52				0.94
<i>Equal Weighting</i>						49	51				0.96
<i>Equal Weighted Buys</i>						72	28				0.91

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 \$8 a million btu for natural gas.

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



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

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	20-Jan 2011		(mm)				
Small Cap Independent Producers								
Berry Petroleum Company	BRY		45.13	54.4	2,460	47.00	0.29	0.97
Cimarex Energy Company	XEC	B	96.37	85.8	8,270	100.00	0.07	0.97
Petrohawk Energy Corporation	HK	B	18.88	302.0	5,700	20.00	0.36	0.96
Peyto Exploration and Development Corp	PEYUF		18.54	121.8	2,260	20.00	0.16	0.94
Range Resources	RRC	B	45.85	157.1	7,200	50.00	0.21	0.93
Ultra Petroleum	UPL		47.06	154.0	7,250	52.00	0.16	0.92
Denbury Resources Inc.	DNR		18.85	401.0	7,560	22.00	0.28	0.90
Whiting Petroleum Corporation	WLL		116.24	59.0	6,860	150.00	0.12	0.80
Birchcliff Energy Ltd.	BIREF	B	11.27	127.3	1,430	16.00	0.14	0.74
<i>Total or Median</i>					48,990		0.16	0.93
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		43.21	6.0	260	37.00	-	1.17
Sabine Royalty Trust	SBR		61.81	14.6	900	59.00	-	1.05
Permian Basin RT	PBT		21.28	46.6	990	22.00	-	0.97
Freehold Royalties Ltd.	FRHLF		21.17	58.4	1,240	22.00	0.06	0.96
Dorchester Minerals, L.P.	DMLP	B	25.95	30.7	800	30.00	0.02	0.87
<i>Total or Median</i>					4,190			0.97
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.34	146.5	5,470	28.00	0.35	1.22
Vanguard Natural Resources, LLC	VNR		29.19	29.8	870	27.00	0.30	1.06
Legacy Reserves L.P.	LGCY		28.28	40.1	1,130	28.00	0.25	1.01
San Juan Basin Royalty Trust	SJT	B	24.30	46.6	1,130	25.00	-	0.97
Hugoton Royalty Trust	HGT	B	20.94	40.0	840	22.00	-	0.95
Pengrowth Energy Corporation	PGH		13.11	299.0	3,920	14.00	0.25	0.95
Encore Energy Partners, L.P.	ENP		21.34	45.3	970	23.00	0.19	0.94
Mesa Royalty Trust	MTR		47.75	1.9	89	53.00	-	0.90
Enerplus Corporation	ERF		31.65	177.5	5,620	37.00	0.14	0.88
<i>Total or Median</i>					20,040			0.95

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.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

Table ISC-3

McDep Income and Small Cap Energy Portfolio

Value Multiples - Rank by EV/Ebitda

			<i>Price</i>			<i>Adjstd</i>		
			<i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Symbol/</i>		<i>20-Jan</i>	<i>Royalty</i>	<i>Equity</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2011</i>	<i>(%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
Small Cap Independent Producers								
Range Resources	RRC	B	45.85		-	11.4	14.9	14.0
Birchcliff Energy Ltd.	BIREF	B	11.27		-	17.6	17.1	12.7
Peyto Exploration and Development Corp	PEYUF		18.54		0.48	17.3	13.1	12.3
Ultra Petroleum	UPL		47.06		-	12.6	12.4	11.4
Petrohawk Energy Corporation	HK	B	18.88		-	7.0	10.6	10.2
Berry Petroleum Company	BRY		45.13		-	11.3	9.0	8.7
Denbury Resources Inc.	DNR		18.85		-	12.9	9.3	8.3
Cimarex Energy Company	XEC	B	96.37		-	6.2	7.8	7.5
Whiting Petroleum Corporation	WLL		116.24		-	9.3	8.7	7.0
	<i>Median</i>					<i>11.4</i>	<i>10.6</i>	<i>10.2</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		43.21	84	0.97	13.2	12.8	15.0
Sabine Royalty Trust	SBR		61.81	100	1.00	7.8	14.1	14.8
Permian Basin RT	PBT		21.28	32	0.98	13.2	13.6	13.2
Dorchester Minerals, L.P.	DMLP	B	25.95	77	0.85	6.7	14.4	12.5
Freehold Royalties Ltd.	FRHLF		21.17	71	0.84	8.1	10.9	10.5
	<i>Median</i>					<i>8.1</i>	<i>13.6</i>	<i>13.2</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.34		1.39	18.3	14.8	18.0
San Juan Basin Royalty Trust	SJT	B	24.30		0.82	13.6	14.3	13.9
Hugoton Royalty Trust	HGT	B	20.94		0.86	12.6	14.0	13.4
Mesa Royalty Trust	MTR		47.75		0.91	8.7	13.0	11.7
Legacy Reserves L.P.	LGCY		28.28		0.80	12.0	10.8	10.9
Vanguard Natural Resources, LLC	VNR		29.19		0.78	13.0	9.6	10.1
Encore Energy Partners, L.P.	ENP		21.34		0.91	13.5	10.5	9.9
Pengrowth Energy Corporation	PGH		13.11		0.53	9.6	8.9	8.5
Enerplus Corporation	ERF		31.65		0.55	9.7	9.5	8.3
	<i>Median</i>					<i>12.6</i>	<i>10.8</i>	<i>10.9</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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 21, 2011

Table ISC-4

Oil and Gas Income and Small Cap Stocks Rank by Enterprise Value to 200 Day Average

	Symbol/ Rating	Price (\$/sh) 20-Jan 2011	Enterprise Value/				McDep Ratio	
			52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.		
Small Cap Independent Producers								
Cimarex Energy Company	XEC	B	96.37	0.97	1.85	1.10	1.26	0.97
Berry Petroleum Company	BRY		45.13	0.96	1.48	1.06	1.22	0.97
Whiting Petroleum Corporation	WLL		116.24	0.96	1.65	1.03	1.19	0.80
Peyto Exploration and Development Co	PEYUF		18.54	0.94	1.51	1.02	1.18	0.94
Birchcliff Energy Ltd.	BIREF	B	11.27	0.98	1.34	1.13	1.18	0.74
Denbury Resources Inc.	DNR		18.85	0.96	1.25	1.00	1.07	0.90
Range Resources	RRC	B	45.85	0.88	1.30	1.03	1.07	0.93
Ultra Petroleum	UPL		47.06	0.89	1.21	0.99	1.04	0.92
Petrohawk Energy Corporation	HK	B	18.88	0.82	1.20	1.01	1.02	0.96
	<i>Median</i>			<i>0.96</i>	<i>1.34</i>	<i>1.03</i>	<i>1.18</i>	<i>0.93</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		21.17	0.94	1.45	1.06	1.20	0.96
Cross Timbers Royalty Trust	CRT		43.21	0.97	1.53	1.05	1.16	1.17
Sabine Royalty Trust	SBR		61.81	0.95	1.49	1.05	1.16	1.05
Permian Basin RT	PBT		21.28	0.90	1.52	0.95	1.07	0.97
Dorchester Minerals, L.P.	DMLP	B	25.95	0.88	1.26	0.96	0.99	0.87
	<i>Median</i>			<i>0.94</i>	<i>1.49</i>	<i>1.05</i>	<i>1.16</i>	<i>0.97</i>
Bottom Line Cash Payers								
Enerplus Corporation	ERF		31.65	0.96	1.91	1.05	1.21	0.88
Linn Energy, LLC	LINE		37.34	0.97	1.89	1.01	1.14	1.22
Pengrowth Energy Corporation	PGH		13.11	0.98	2.01	1.01	1.14	0.95
Vanguard Natural Resources, LLC	VNR		29.19	0.95	1.43	1.04	1.12	1.06
Legacy Reserves L.P.	LGCY		28.28	0.94	1.42	1.02	1.10	1.01
Encore Energy Partners, L.P.	ENP		21.34	0.95	1.79	1.01	1.08	0.94
Hugoton Royalty Trust	HGT	B	20.94	0.95	1.40	1.01	1.06	0.95
Mesa Royalty Trust	MTR		47.75	0.88	1.31	0.97	1.02	0.90
San Juan Basin Royalty Trust	SJT	B	24.30	0.85	1.23	1.00	1.00	0.97
	<i>Median</i>			<i>0.95</i>	<i>1.43</i>	<i>1.01</i>	<i>1.10</i>	<i>0.95</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								



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January 21, 2011

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