



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

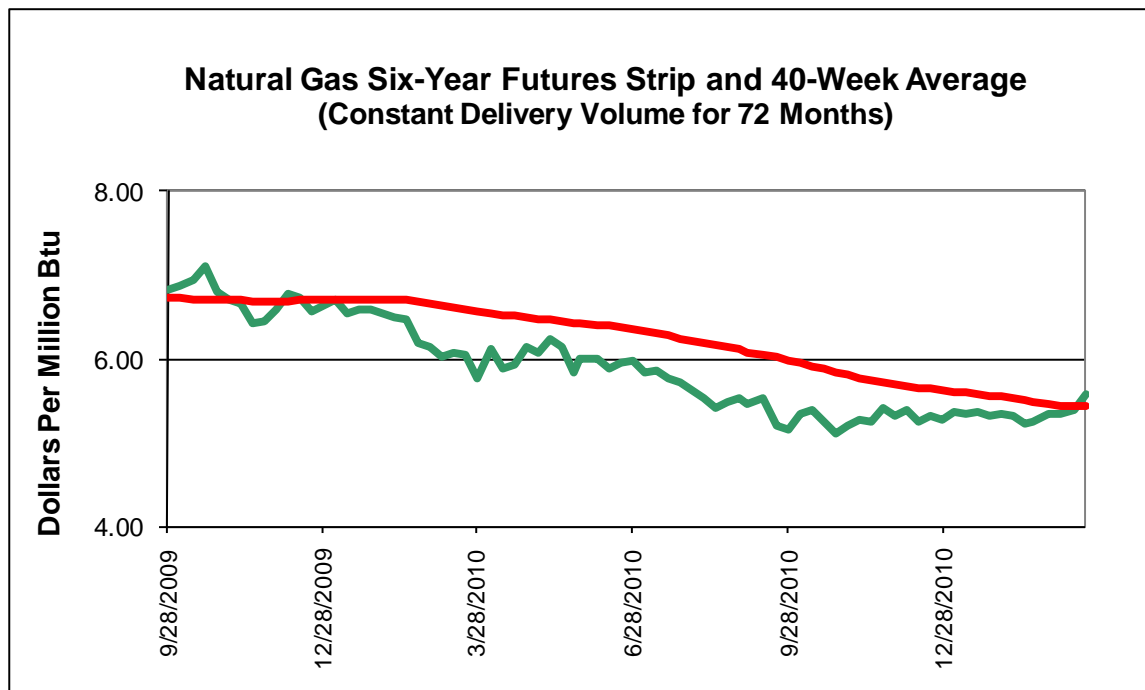
March 18, 2011

Natural Gas Price Breakout on Nuclear Tragedy

Summary and Recommendation

Notwithstanding our sympathy for those who have suffered tragically as a result of the earthquake, tsunami, and nuclear radiation in Japan, the event has profound long-term implications for natural gas, the most attractive alternative fuel. Trading in futures has begun to validate the strategic change. The latest quote for U.S. delivery of natural gas for the next six years at \$5.57 a million btu has crossed above its 40-week average for the first time in the 15 months since December 2009 (see chart below Natural Gas Six-Year Futures Strip). Diminished confidence in nuclear power also helps confirm the price uptrend already underway in oil. Immediately, Japan has contracted for more cargoes of both natural gas and oil to fuel the generation of power to replace the lost nuclear contribution. All of the income and small cap stocks in our coverage benefit from higher natural gas and oil price. Buy recommendations with strong representation in natural gas include small caps **Cimarex (XEC)**, **Birchcliff (BIREF)**, **Petrohawk (HK)** and **Range Resources (RRC)** as well as income payers **Dorchester Minerals (DMLP)**, **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** (see Tables 1-4 on pages 2-5 for more perspective).

Kurt H. Wulff





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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	17-Mar	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	53.81	1.28	10,830	70	30	15.4	0.16	0.3	1.06
Denbury Resources Inc.	DNR		23.06	1.37	12,680	12	88	8.7	-	-	1.03
Petrohawk Energy Corporation	HK	B	22.77	1.49	10,280	87	13	10.7	-	-	0.97
Whiting Petroleum Corporation	WLL		67.29	1.15	9,190	11	89	7.2	-	-	0.91
Cimarex Energy Company	XEC	B	108.32	1.07	9,940	45	55	7.2	0.30	0.3	0.91
Berry Petroleum Company	BRY		46.54	1.53	3,750	24	76	8.2	0.30	0.6	0.89
Peyto Exploration and Development	PEYUF		19.55	1.17	2,870	76	24	12.2	0.74	3.8	0.84
Ultra Petroleum	UPL		47.25	1.20	8,760	92	8	11.5	-	-	0.82
Birchcliff Energy Ltd.	BIREF	B	11.55	1.24	1,820	62	38	11.0	-	-	0.76
<i>Total or Median</i>					70,100			10.7		-	0.91
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		45.25	1.00	270	69	31		2.98	6.6	1.23
Sabine Royalty Trust	SBR		61.10	1.00	890	38	62		4.57	7.5	1.04
Freehold Royalties Ltd.	FRHLF		22.26	1.07	1,390	20	80		1.73	7.8	1.01
Permian Basin RT	PBT		20.42	1.00	950	31	69		1.76	8.6	0.93
Dorchester Minerals, L.P.	DMLP	B	27.30	1.00	840	61	39		1.79	6.6	0.91
<i>Total or Median</i>					4,300					7.5	1.01
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		38.50	1.43	8,160	36	64	15.5	2.64	6.9	1.24
Vanguard Natural Resources, LLC	VNR		31.38	1.61	1,640	28	72	12.7	2.24	7.1	1.10
Legacy Reserves L.P.	LGCY		30.60	1.31	1,610	13	87	10.7	2.10	6.9	1.07
San Juan Basin Royalty Trust	SJT	B	25.97	1.00	1,210	100	-	14.4	1.54	5.9	1.04
Hugoton Royalty Trust	HGT	B	22.36	1.00	890	89	11	14.6	1.31	5.9	1.02
Encore Energy Partners, L.P.	ENP		22.80	1.24	1,270	18	82	9.6	1.80	7.9	0.99
Pengrowth Energy Corporation	PGH		12.99	1.37	5,300	28	72	7.7	0.87	6.7	0.95
Mesa Royalty Trust	MTR		46.65	1.00	87	75	25	11.2	3.48	7.5	0.88
Enerplus Corporation	ERF		30.83	1.23	6,700	34	66	7.6	2.22	7.2	0.86
<i>Total or Median</i>					26,900			11.2		6.9	1.02
Composite											
<i>Enterprise Value Weighting</i>					101,300	47	53				0.96
<i>Equal Weighting</i>						49	51				0.98
<i>Equal Weighted Buys</i>						69	31				0.95

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 March 31, 2012. 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**

			<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>17-Mar</i> <i>2011</i>						
Small Cap Independent Producers								
Range Resources	RRC	B	53.81	157.0	8,450	50.00	0.23	1.06
Denbury Resources Inc.	DNR		23.06	402.0	9,270	22.00	0.28	1.03
Petrohawk Energy Corporation	HK	B	22.77	302.0	6,880	24.00	0.32	0.97
Whiting Petroleum Corporation	WLL		67.29	119.0	8,010	75.00	0.12	0.91
Cimarex Energy Company	XEC	B	108.32	85.8	9,290	120.00	0.06	0.91
Berry Petroleum Company	BRY		46.54	52.8	2,450	55.00	0.31	0.89
Peyto Exploration and Development Corp	PEYUF		19.55	125.7	2,460	24.00	0.12	0.84
Ultra Petroleum	UPL		47.25	154.0	7,280	60.00	0.14	0.82
Birchcliff Energy Ltd.	BIREF	B	11.55	127.3	1,470	16.00	0.15	0.76
<i>Total or Median</i>					<i>55,560</i>		<i>0.15</i>	<i>0.91</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.25	6.0	270	37.00	-	1.23
Sabine Royalty Trust	SBR		61.10	14.6	890	59.00	-	1.04
Freehold Royalties Ltd.	FRHLF		22.26	58.4	1,300	22.00	0.06	1.01
Permian Basin RT	PBT		20.42	46.6	950	22.00	-	0.93
Dorchester Minerals, L.P.	DMLP	B	27.30	30.7	840	30.00	-	0.91
<i>Total or Median</i>					<i>4,250</i>			<i>1.01</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.50	148.3	5,710	28.00	0.37	1.24
Vanguard Natural Resources, LLC	VNR		31.38	32.4	1,020	27.00	0.41	1.10
Legacy Reserves L.P.	LGCY		30.60	40.1	1,230	28.00	0.25	1.07
San Juan Basin Royalty Trust	SJT	B	25.97	46.6	1,210	25.00	-	1.04
Hugoton Royalty Trust	HGT	B	22.36	40.0	890	22.00	-	1.02
Encore Energy Partners, L.P.	ENP		22.80	45.0	1,030	23.00	0.19	0.99
Pengrowth Energy Corporation	PGH		12.99	299.0	3,880	14.00	0.25	0.95
Mesa Royalty Trust	MTR		46.65	1.9	87	53.00	-	0.88
Enerplus Corporation	ERF		30.83	178.0	5,490	37.00	0.16	0.86
<i>Total or Median</i>					<i>20,550</i>			<i>1.02</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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Table ISC-3

McDep Income and Small Cap Energy Portfolio

Value Multiples - Rank by EV/Ebitda

			<i>Price</i>			<i>Adjstd</i>		
	<i>Symbol/</i>		<i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Rating</i>	<i>17-Mar</i>	<i>Royalty</i>	<i>Equity</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>Ebitda</i>
		<i>2011</i>	<i>(%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
Small Cap Independent Producers								
Range Resources	RRC	B	53.81		-	16.9	14.5	15.4
Peyto Exploration and Development Corp	PEYUF		19.55		0.45	19.7	14.6	12.2
Ultra Petroleum	UPL		47.25		-	27.1	14.0	11.5
Birchcliff Energy Ltd.	BIREF	B	11.55		-	20.7	14.4	11.0
Petrohawk Energy Corporation	HK	B	22.77		-	8.2	11.1	10.7
Denbury Resources Inc.	DNR		23.06		-	13.1	8.4	8.7
Berry Petroleum Company	BRY		46.54		-	11.9	9.2	8.2
Cimarex Energy Company	XEC	B	108.32		-	7.3	8.0	7.2
Whiting Petroleum Corporation	WLL		67.29		-	10.7	7.9	7.2
	<i>Median</i>					<i>13.1</i>	<i>11.1</i>	<i>10.7</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.25	84	0.97	13.2	12.0	14.7
Sabine Royalty Trust	SBR		61.10	100	1.00	7.7	12.9	13.4
Dorchester Minerals, L.P.	DMLP	B	27.30	77	0.87	7.6	14.5	13.2
Permian Basin RT	PBT		20.42	32	0.96	13.2	12.0	11.1
Freehold Royalties Ltd.	FRHLF		22.26	71	0.79	8.1	10.1	10.2
	<i>Median</i>					<i>8.1</i>	<i>12.0</i>	<i>13.2</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.50		1.18	19.0	12.5	15.5
Hugoton Royalty Trust	HGT	B	22.36		0.85	13.2	14.3	14.6
San Juan Basin Royalty Trust	SJT	B	25.97		0.85	8.7	13.9	14.4
Vanguard Natural Resources, LLC	VNR		31.38		0.96	13.1	11.6	12.7
Mesa Royalty Trust	MTR		46.65		0.83	8.8	12.7	11.2
Legacy Reserves L.P.	LGCY		30.60		0.75	11.9	10.0	10.7
Encore Energy Partners, L.P.	ENP		22.80		0.76	13.0	9.7	9.6
Pengrowth Energy Corporation	PGH		12.99		0.50	9.0	8.2	7.7
Enerplus Corporation	ERF		30.83		0.53	8.4	8.9	7.6
	<i>Median</i>					<i>11.9</i>	<i>11.6</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 March 31, 2012; 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 ISC-4

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

	Symbol/ Rating	Price (\$/sh) 17-Mar 2011	Enterprise Value/				McDep Ratio	
			52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.		
Small Cap Independent Producers								
Cimarex Energy Company	XEC	B	108.32	0.92	1.81	1.04	1.28	0.91
Whiting Petroleum Corporation	WLL		67.29	0.97	1.70	1.08	1.26	0.91
Range Resources	RRC	B	53.81	0.98	1.46	1.08	1.20	1.06
Denbury Resources Inc.	DNR		23.06	0.95	1.40	1.06	1.20	1.03
Peyto Exploration and Development Co	PEYUF		19.55	0.95	1.59	1.01	1.16	0.84
Berry Petroleum Company	BRY		46.54	0.92	1.45	1.00	1.16	0.89
Petrohawk Energy Corporation	HK	B	22.77	0.97	1.35	1.08	1.16	0.97
Birchcliff Energy Ltd.	BIREF	B	11.55	0.95	1.37	1.02	1.15	0.76
Ultra Petroleum	UPL		47.25	0.90	1.22	1.02	1.05	0.82
	<i>Median</i>			0.95	1.45	1.04	1.16	0.91
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.26	0.95	1.49	1.02	1.19	1.01
Cross Timbers Royalty Trust	CRT		45.25	0.93	1.61	1.01	1.16	1.23
Sabine Royalty Trust	SBR		61.10	0.94	1.44	0.98	1.10	1.04
Dorchester Minerals, L.P.	DMLP	B	27.30	0.93	1.33	1.00	1.03	0.91
Permian Basin RT	PBT		20.42	0.86	1.42	0.95	1.00	0.93
	<i>Median</i>			0.93	1.44	1.00	1.10	1.01
Bottom Line Cash Payers								
Legacy Reserves L.P.	LGCY		30.60	0.96	1.46	1.02	1.12	1.07
Enerplus Corporation	ERF		30.83	0.94	1.83	0.98	1.12	0.86
Encore Energy Partners, L.P.	ENP		22.80	0.96	1.89	1.02	1.11	0.99
Vanguard Natural Resources, LLC	VNR		31.38	0.96	1.40	1.01	1.11	1.10
Linn Energy, LLC	LINE		38.50	0.97	1.89	1.00	1.11	1.24
Pengrowth Energy Corporation	PGH		12.99	0.97	1.98	1.01	1.10	0.95
Hugoton Royalty Trust	HGT	B	22.36	0.99	1.49	1.05	1.10	1.02
San Juan Basin Royalty Trust	SJT	B	25.97	0.91	1.32	1.06	1.06	1.04
Mesa Royalty Trust	MTR		46.65	0.86	1.28	0.98	0.99	0.88
	<i>Median</i>			0.96	1.49	1.01	1.11	1.02

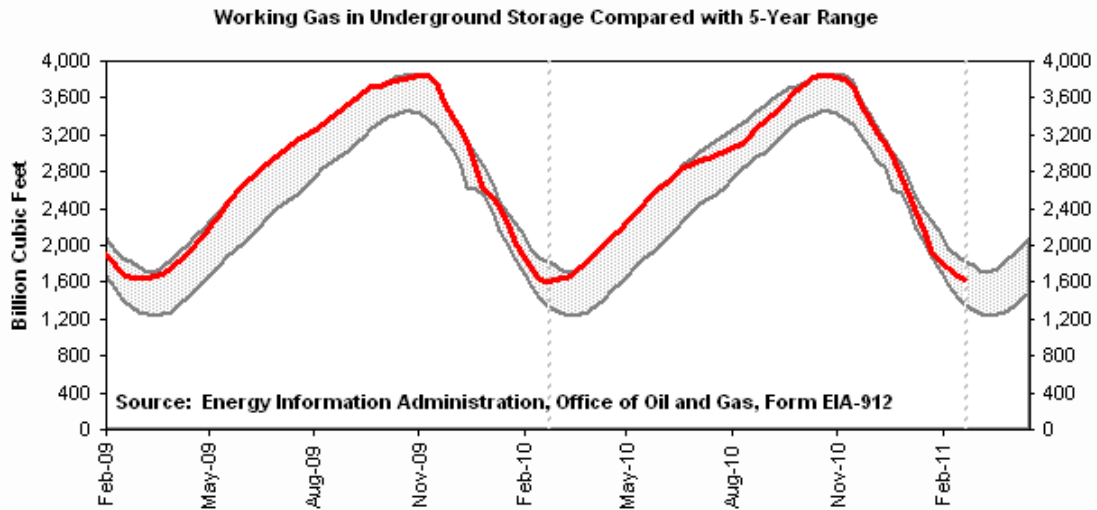
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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.