



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 18, 2011

Dorchester Minerals (DMLP) Insider Accumulation

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 9/30/12 (US\$m)</i>	70
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	48
<i>Price (US\$/sh)</i>	24.02	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/17/11	<i>Adjusted Reserves/Production NTM</i>	6.1
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	10.6
<i>Market Capitalization (US\$m)</i>	737	<i>PV/Ebitda</i>	13.2
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	737	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.89
<i>Present Value (PV) (US\$m)</i>	920	<i>Present Value Proven Reserves(US\$/boe)</i>	63.37
<i>Net Present Value (US\$/unit)</i>	30	<i>Oil and Gas Ebitda Margin (%)</i>	86
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.29
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	19
<i>Distribution Yield (%/year)</i>	8.1	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.95
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 DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

Contrarian Buy recommended **Dorchester Minerals (DMLP)** exceeded our expectations from three months ago in cash flow, earnings and distribution in the third quarter. Since disclosure of results, Chief Financial Officer H.C. Allen has resumed acquisition of DMLP stock to bring the holdings in his personal and related accounts to 262,000 units, according to our reading of his submissions to the Securities and Exchange Commission. The *Washington Service EZ-Insider* gives Mr. Allen its top rating for return on purchases over multiple periods going back six years. Going ahead, we believe the timing is good for investing in high quality DMLP. The Top Line Cash Payer offers a distribution yield of 8% for the next year, has no debt, and a low McDep Ratio of 0.8.

The partnership's traditional reliance on natural gas is shifting with a price trend that favors oil along with new liquids volumes. While natural gas still accounts for more than half of present value, the near-term cash flow mix has flipped to oil now accounting for more than natural gas (see table [Functional Cash Flow and Present Value](#) on page 2). The shift is illustrated on a quarterly basis in the revenue trends (see table [Next Twelve Months Operating and Financial Estimates](#) on page 3).

Oil volumes are beginning to be noticeable from the Bakken trend of North Dakota and the Permian Basin of West Texas. For the first time, reported results included a sliver of oil and gas revenue from the otherwise unbooked Minerals Nets Profits Interests (Minerals NPI). Though only partial volume detail is disclosed on a quarterly basis we took keen interest in the hint that the small booked Minerals NPI contribution stemmed about a third each from Fayetteville shale



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natural gas, Bakken oil and Permian Basin, which was likely mostly oil. To capture the indicated revenues to benefit the limited partners in the future, we include all of the Minerals NPI in our operating and financial projections.

DMLP's McDep Ratio is lower and its distribution yield is higher than the median of peers (see [Table ISC-1](#) on page 4). Like U.S. royalty trusts, DMLP has no debt (see [Table ISC-2](#) on page 5). Revenue royalty is the unique characteristic of DMLP and other Top Line Cash Payers (see [Table ISC-3](#) on page 6). Finally, the stock price trend has been down by comparison to the 200-day average thereby requiring the Contrarian qualification to our Buy recommendation (see [Table ISC-4](#) on page 7).

European Government Debt among Global Market Concerns

Though we can have reasonable confidence in analyzing DMLP and other oil and gas stocks, market action also appears to be influenced by global issues. European sovereign debt has been among the most prominent in the news in recent weeks. Traders can see that momentum continues toward higher bond interest rates and lower bond prices. Overleveraged sovereigns can't afford the higher rates and must adjust government spending. Stronger European governments with help from the U.S. Federal Reserve and perhaps other sources may be able to turn the tide. The shrewd financial powers, mainly in Germany, could let the interest rate pain worsen until it reaches a point that can be more readily reversed by a massive supply of liquidity available to purchase bonds at a capped interest rate. The inflationary consequences of printing money to supply that liquidity could be dealt with later. The subsequent decline in interest rates could stimulate economic activity. Investors in productive assets may achieve positive returns.

Kurt H. Wulff, CFA

Dorchester Minerals, L.P.					
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	33	5.8	17.0	560	61%
Oil	37	7.5	9.7	360	39%
	70	6.1	13.1	920	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					920
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					30
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23
NPV Approximation after adjusting Ebitda for Revenue Royalty (US\$/sh)					33



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Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/10</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>9/30/12</i>
Volume									
Natural Gas (bcf)	2.54	2.64	2.86	2.86	10.77	2.83	2.86	2.92	11.46
Natural Gas (mmcf)	27.6	29.0	31.1	31.1	29.5	31.1	31.4	31.7	31.3
Days	92	91	92	92	365	91	91	92	366
Oil (mb)	0.10	0.10	0.12	0.12	0.4	0.11	0.12	0.12	0.5
Oil (mbd)	1.08	1.09	1.26	1.26	1.17	1.26	1.27	1.28	1.27
Total (bcfe)	3.1	3.2	3.6	3.6	13.3	3.5	3.6	3.6	14.2
Total (mmcf)	34	36	39	39	37	39	39	39	39
Price									
Henry Hub (\$/mmbtu)	4.38	4.32	4.19	3.58	4.05	3.60	3.66	3.78	3.65
Differential (%)	6	6	5	5	5	5	5	5	5
Company (\$/mcf)	4.10	4.06	4.00	3.41	3.86	3.43	3.49	3.60	3.48
WTI Cushing (\$/bbl)	76.08	102.55	89.76	94.23	95.16	98.13	97.80	97.18	96.84
Differential	4.98	4.14	2.67	2.80	4.16	2.92	2.91	2.89	2.88
Company	71.10	98.41	87.09	91.43	91.00	95.21	94.89	94.29	93.95
Total (\$/mcf)	5.57	6.34	6.05	5.72	6.03	5.86	5.90	5.97	5.86
Revenue (\$mm)									
Natural Gas	10.4	10.7	11.4	9.7	41.6	9.7	10.0	10.5	39.9
Oil	7.0	9.8	10.1	10.6	38.8	10.9	11.0	11.1	43.6
Other	1.2	(1.3)	(0.7)	(0.7)	(3.9)	(0.7)	(0.7)	(0.7)	(2.7)
Total	18.7	19.3	20.8	19.7	76.4	19.9	20.3	21.0	80.8
Expense									
Operating	1.6	1.9	1.6	2.0	7.1	1.9	2.0	2.0	7.8
General and administrative	0.8	0.8	0.8	0.8	3.6	0.8	0.8	0.8	3.3
Total	2.3	2.6	2.5	2.8	10.6	2.8	2.8	2.8	11.1
Ebitda									
Minerals NPI unbooked	1.7	2.3	2.1	2.1	8.4	2.1	2.1	2.1	8.3
Deprec., Deplet., & Amort.	5.1	4.6	4.8	5.0	18.6	4.9	5.0	5.1	19.9
Other Non Cash	(0.0)	(0.1)	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Ebit									
	9.5	9.9	11.4	9.8	38.7	10.1	10.4	10.9	41.1
Ebt									
	9.5	9.9	11.4	9.8	38.7	10.1	10.4	10.9	41.1
General Partner	0.3	0.4	0.4	0.4	1.4	0.4	0.4	0.4	1.6
Net Income (\$mm)									
	9.2	9.5	11.0	9.4	37.3	9.7	10.0	10.5	39.5
Units (millions)									
	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)									
	0.30	0.31	0.36	0.31	1.22	0.32	0.32	0.34	1.29
Distribution (\$/unit)									
	0.47	0.42	0.46	0.52	1.82	0.46	0.47	0.49	1.95



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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-Nov	Market	Value	Nat		Ebitda	NTM	Yield	McDep	
CB (see below)		2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers											
PDC Energy	PETD		33.10	1.69	1,330	62	38	8.4	-	-	1.02
Range Resources	RRC	B	68.50	1.20	13,090	66	34	16.7	0.16	0.2	0.98
Peyto Exploration and Developmen	PEYUF		22.73	1.18	3,570	75	25	11.3	0.71	3.1	0.96
Birchcliff Energy Ltd.	BIREF	B	13.43	1.23	2,170	56	44	12.8	-	-	0.87
Berry Petroleum Company	BRY		40.00	1.66	3,630	21	79	6.0	0.32	0.8	0.69
Denbury Resources Inc.	DNR		15.95	1.39	8,920	4	96	5.9	-	-	0.65
Whiting Petroleum Corporation	WLL	CB	47.79	1.28	7,300	11	89	4.5	-	-	0.59
Cimarex Energy Company	XEC	CB	64.45	1.14	6,320	46	54	5.1	0.40	0.6	0.57
<i>Total or Median</i>					46,300			7.2			0.78
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		47.54	1.00	290	87	13		2.94	6.2	1.06
Sabine Royalty Trust	SBR		65.36	1.00	950	51	49		4.21	6.4	0.93
Permian Basin RT	PBT		20.24	1.00	940	42	58		1.40	6.9	0.92
Freehold Royalties Ltd.	FRHLF		17.80	1.06	1,120	18	82		1.66	9.3	0.82
Dorchester Minerals, L.P.	DMLP	CB	24.02	1.00	740	61	39		1.95	8.1	0.80
<i>Total or Median</i>					4,000					6.9	0.92
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.96	1.46	9,470	31	69	13.4	2.76	7.5	1.06
Hugoton Royalty Trust	HGT		21.78	1.00	870	88	13	17.0	1.14	5.2	0.99
Vanguard Natural Resources, LLC	VNR		26.49	1.56	2,020	27	73	9.9	2.31	8.7	0.99
San Juan Basin Royalty Trust	SJT	B	24.46	1.00	1,140	100	-	16.0	1.16	4.8	0.98
Legacy Reserves L.P.	LGCY		27.28	1.43	1,700	22	78	8.2	2.18	8.0	0.93
Enduro Royalty Trust (40%)	NDRO		19.83	1.00	260	47	53	8.5	1.63	8.2	0.90
Mesa Royalty Trust	MTR		43.51	1.00	81	75	25	11.2	3.36	7.7	0.82
Enerplus Corporation	ERF	CB	26.14	1.28	6,000	29	71	7.9	2.13	8.2	0.75
<i>Total or Median</i>					21,500			10.5		7.9	0.96
Composite											
<i>Enterprise Value Weighting</i>					71,900	38	62				0.79
<i>Equal Weighting</i>						48	52				0.87
<i>Equal Weighted Buys</i>						45	55				0.79

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 September 30, 2012. Enterprise Value = Market Cap and Debt.



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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		17-Nov 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	68.50		-	14.4	17.0	16.7
Birchcliff Energy Ltd.	BIREF	B	13.43		-	20.1	14.8	12.8
Peyto Exploration and Development Corp	PEYUF		22.73		0.35	13.5	11.8	11.3
PDC Energy	PETD		33.10		-	8.2	8.2	8.4
Berry Petroleum Company	BRY		40.00		-	11.6	8.7	6.0
Denbury Resources Inc.	DNR		15.95		-	13.0	9.1	5.9
Cimarex Energy Company	XEC	CB	64.45		-	7.1	9.0	5.1
Whiting Petroleum Corporation	WLL	CB	47.79		-	8.7	7.5	4.5
	<i>Median</i>					12.3	9.0	7.2
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.54	80	0.97	13.9	14.8	15.6
Sabine Royalty Trust	SBR		65.36	100	1.00	7.4	16.6	15.5
Permian Basin RT	PBT		20.24	32	0.98	17.3	15.5	14.2
Dorchester Minerals, L.P.	DMLP	CB	24.02	77	0.86	6.1	13.2	10.6
Freehold Royalties Ltd.	FRHLF		17.80	71	0.86	6.7	11.3	9.3
	<i>Median</i>					7.4	14.8	14.2
Bottom Line Cash Payers								
Hugoton Royalty Trust	HGT		21.78		0.89	14.0	17.2	17.0
San Juan Basin Royalty Trust	SJT	B	24.46		0.76	8.6	16.4	16.0
Linn Energy, LLC	LINE		36.96		1.03	16.2	12.7	13.4
Mesa Royalty Trust	MTR		43.51		0.87	13.8	13.7	11.2
Vanguard Natural Resources, LLC	VNR		26.49		0.86	8.7	10.0	9.9
Enduro Royalty Trust (40%)	NDRO		19.83		0.70	7.4	9.4	8.5
Legacy Reserves L.P.	LGCY		27.28		0.64	9.9	8.8	8.2
Enerplus Corporation	ERF	CB	26.14		0.61	8.5	10.5	7.9
	<i>Median</i>					9.3	11.6	10.5
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 September 30, 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								
			Price (\$/sh)	Enterprise Value/				
	Symbol/		17-Nov	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2011	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers								
Range Resources	RRC	B	68.50	0.90	1.52	1.02	1.14	0.98
Peyto Exploration and Development C	PEYUF		22.73	0.91	1.30	1.08	1.06	0.96
Birchcliff Energy Ltd.	BIREF	B	13.43	0.89	1.34	1.02	1.03	0.87
PDC Energy	PETD		33.10	0.77	1.48	1.19	0.99	1.02
Berry Petroleum Company	BRY		40.00	0.76	1.17	0.98	0.90	0.69
Denbury Resources Inc.	DNR		15.95	0.69	1.35	1.07	0.88	0.65
Whiting Petroleum Corporation	WLL	CB	47.79	0.69	1.45	1.09	0.88	0.59
Cimarex Energy Company	XEC	CB	64.45	0.58	1.23	1.03	0.77	0.57
	<i>Median</i>			<i>0.77</i>	<i>1.35</i>	<i>1.05</i>	<i>0.94</i>	<i>0.78</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.54	0.98	1.26	1.03	1.06	1.06
Sabine Royalty Trust	SBR		65.36	0.93	1.38	1.01	1.02	0.93
Permian Basin RT	PBT		20.24	0.86	1.12	0.99	0.96	0.92
Dorchester Minerals, L.P.	DMLP	CB	24.02	0.80	1.15	0.99	0.91	0.80
Freehold Royalties Ltd.	FRHLF		17.80	0.74	1.28	1.03	0.88	0.82
	<i>Median</i>			<i>0.86</i>	<i>1.26</i>	<i>1.01</i>	<i>0.96</i>	<i>0.92</i>
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	B	24.46	0.87	1.20	1.03	1.00	0.98
Linn Energy, LLC	LINE		36.96	0.93	1.12	1.00	0.98	1.06
Hugoton RoyaltyTrust	HGT		21.78	0.88	1.13	1.00	0.98	0.99
Mesa RoyaltyTrust	MTR		43.51	0.85	1.11	1.00	0.96	0.82
Legacy Reserves L.P.	LGCY		27.28	0.86	1.16	0.99	0.95	0.93
Vanguard Natural Resources, LLC	VNR		26.49	0.85	1.13	0.99	0.94	0.99
Enerplus Corporation	ERF	CB	26.14	0.82	1.16	0.99	0.90	0.75
	<i>Median</i>			<i>0.86</i>	<i>1.13</i>	<i>1.00</i>	<i>0.96</i>	<i>0.98</i>

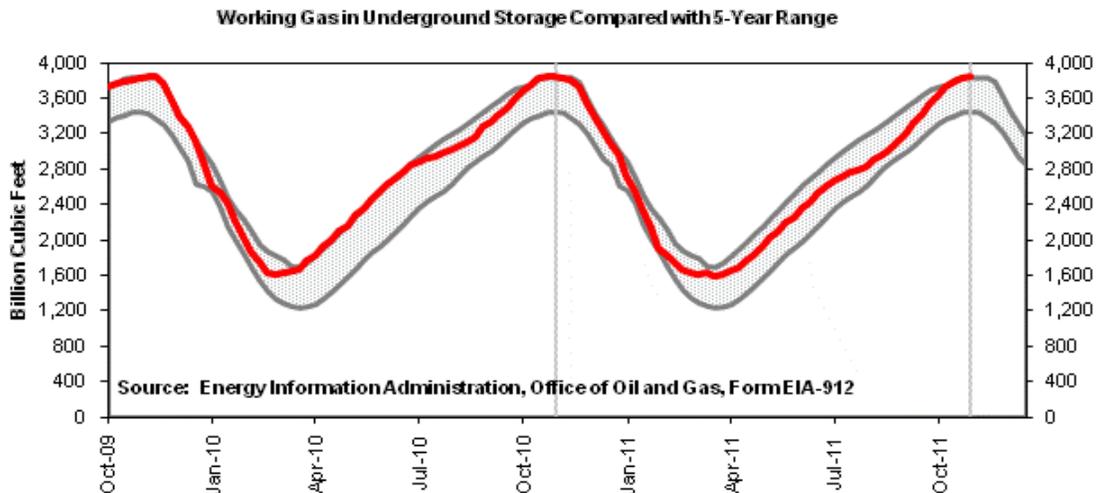
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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