



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 20, 2012

Enerplus Timelier on Equity Offering Discount

<i>Symbol</i>	ERF	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$m)</i>	840
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (US\$/sh)</i>	23.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/19/12	<i>Adjusted Reserves/Production NTM</i>	8.1
<i>Shares (mm)</i>	196	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$m)</i>	4,540	<i>PV/Ebitda</i>	9.1
<i>Debt (US\$m)</i>	970	<i>Probable Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$m)</i>	5,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.60
<i>Present Value (PV) (US\$m)</i>	7,630	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	31.10
<i>Net Present Value (US\$/share)</i>	34	<i>Oil and Gas Ebitda Margin (%)</i>	66
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.26
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	18
<i>Dividend Yield (%/year)</i>	9.2	<i>Indicated Annual Dividend (US\$/sh)</i>	2.14
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, \$6 a million btu.			

Summary and Recommendation

Current purchase of the common shares of Buy-recommended **Enerplus (ERF)** may be timelier in the wake of the sale of \$300 million in new equity announced on January 18. Dilution of a dollar a share in Net Present Value (NPV) is magnified by a discount to place a large number of shares and to assure a profit to the underwriters. Recent weakness in natural gas price may have triggered management's decision to issue equity instead of using rebuilt debt capacity to finance a more active than normal drilling program in 2012. Though we were surprised by the move, the impact on stock price is done. The company's prospects appear bright and the low McDep Ratio of 0.72 points to potential rewards.

Concentration on oil at 74% of value mitigates the impact of negative investment sentiment on natural gas (see table Functional Cash Flow and Present Value on page 2). Moreover, oil production is growing with new volume from the Bakken Shale at Fort Berthold, North Dakota adding to a stable base of light oil in Canada (see table Next Twelve Months Operating and Financial Estimates on page 2). Operations appear to be meeting expectations with production on track to a 20% gain for oil in 2012. The company intends to maintain monthly dividends at C\$0.18 a share, which at 9.2% a year qualifies ERF as our highest yielding income stock (see Table ISC-1 on page 3). Debt is low at a ratio of 0.13 to present value (see Table ISC-2 on page 4). Dividend coverage is strongest among peers relative to allocable cash flow at 0.57 times Equity Ebitda (see Table ISC-3 on page 5). Finally, the strong fundamental valuation measures have not got enough attention yet to prevent stock price from declining recently as flagged by a low 0.84 ratio of Enterprise Value to 200-day average (see Table ISC-4 on page 6).

Kurt H. Wulff, CFA



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Enerplus Corporation						
Functional Cash Flow and Present Value						
	NTM Ebitda	Adjusted	PV/	Present		
	(US\$m)	R/P	Ebitda	Value		
				(US\$m)		
North American Natural Gas	120	7.5	16.7	2,000	26%	
Oil	720	8.7	7.9	5,670	74%	
	840	8.1	9.1	7,670	100%	
Debt (US\$m)					970	
Net Present Value (US\$m)					6,700	
Shares (mm)					196	
Net Present Value - Standard Estimate (US\$/sh)					34	
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35	

Enerplus Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next
	12/31/10	9/30/11	12/31/11	2011E	3/31/12	6/30/12	9/30/12	12/31/12	Twelve
									Months
									12/31/12
Volume									
Natural Gas (mmcf)	274	244	250	250	250	250	250	250	250
Oil (mbd)	34	33	36	33.7	39	40	42	44	41.2
Total (mb)	7.37	6.74	7.15	27.53	7.34	7.43	7.70	7.88	30.35
Total (mbd)	80.1	73.3	77.7	75.4	80.7	81.6	83.7	85.7	82.9
Price									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.59	2.55	2.69	2.95	2.70
Currency (US\$/C\$)	0.99	1.02	0.99	1.01	0.99	0.99	0.99	0.99	0.99
Henry Hub (C\$/mmbtu)	3.85	4.11	3.59	3.99	2.62	2.58	2.72	2.98	2.73
Differential (\$/mmbtu)	0.22	0.38	0.33	0.30	0.24	0.24	0.25	0.27	0.25
Company (\$/mcf)	3.63	3.73	3.26	3.69	2.38	2.34	2.47	2.71	2.48
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	100.16	100.83	101.22	100.98	100.80
WTI Cushing (C\$/bbl)	86.13	87.94	95.12	93.76	101.29	101.97	102.37	102.12	101.94
Differential	15.47	11.64	12.59	12.95	13.41	14.08	14.13	14.10	13.93
Company (\$/bbl)	70.66	76.30	82.53	80.82	87.88	87.89	88.23	88.02	88.01
Total (\$/bbl)	42.78	46.38	48.75	48.37	49.86	50.20	51.67	53.11	51.25
Revenue (C\$m)									
Natural Gas	92	84	75	337	54	53	57	62	226
Oil	224	229	273	995	312	320	341	356	1,329
Royalty	(45)	(56)	(62)	(239)	(66)	(67)	(71)	(75)	(278)
Total	270	257	286	1,093	300	306	327	344	1,277
Expense									
Operating	60	74							
Other	23	19							
Total	83	93		365	101	103	110	115	428
Ebitda	187	164	190	728	200	203	217	228	849
Deprec., Deplet., & Amort.	155	109	115	428	114	116	120	123	472
Other Non Cash	48	(106)		(365)					-
Ebit	(16)	160	75	664	85	88	97	106	376
Interest	16	11	11	54	11	11	11	11	44
Ebt	(32)	149	64	610	74	77	86	95	332
Income Tax	(30)	37	22	159	19	19	22	24	83
Net Income (\$mm)	(2)	112	41	451	56	58	65	71	249
Per Share (\$)	(0.01)	0.62	0.23	2.51	0.28	0.29	0.33	0.36	1.27
Shares (millions)	178	181	181	180	196	196	196	196	196
Distributions (\$mm)	96	98	98	389	106	106	106	106	423
Per Share (\$)	0.54	0.54	0.54	2.16	0.54	0.54	0.54	0.54	2.16
Ebitda Margin	69%	64%	66%	67%	66%	66%	66%	66%	66%
Tax rate	94%	25%	35%		25%	25%	25%	25%	25%



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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	19-Jan	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
Small Cap Independent Producers										
PDC Energy	PETD	29.88	1.77	1,250	57	43	7.8	-	-	0.90
Peyto Exploration and Developmen	PEYUF	19.25	1.21	3,100	75	25	11.1	0.71	3.7	0.83
Birchcliff Energy Ltd.	BIREF CB	12.62	1.25	2,060	56	44	13.0	-	-	0.82
Range Resources	RRC CB	54.06	1.26	10,800	66	34	15.0	0.16	0.3	0.81
Berry Petroleum Company	BRY	45.51	1.58	3,930	17	83	6.1	0.32	0.7	0.75
Denbury Resources Inc.	DNR	17.67	1.35	9,610	4	96	6.0	-	-	0.70
Whiting Petroleum Corporation	WLL CB	50.72	1.27	7,650	9	91	4.4	-	-	0.63
Cimarex Energy Company	XEC CB	59.28	1.15	5,870	41	59	4.8	0.40	0.7	0.57
<i>Total or Median</i>				44,300			7.0			0.78
Top Line Cash Payers										
Permian Basin RT	PBT	20.01	1.00	930	37	63		1.48	7.4	1.00
Cross Timbers Royalty Trust	CRT	42.95	1.00	260	87	13		2.49	5.8	0.98
Freehold Royalties Ltd.	FRHLF	20.33	1.06	1,260	14	86		1.66	8.2	0.97
Sabine Royalty Trust	SBR	60.09	1.00	880	55	45		3.91	6.5	0.92
Dorchester Minerals, L.P.	DMLP CB	22.08	1.00	680	57	43		1.70	7.7	0.82
<i>Total or Median</i>				4,000					7.4	0.97
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	36.41	1.46	9,370	29	71	13.5	2.76	7.6	1.14
Vanguard Natural Resources, LLC	VNR	27.61	1.54	2,070	26	74	10.2	2.31	8.4	1.07
Enduro Royalty Trust (40%)	NDRO	20.28	1.00	270	45	55	8.7	1.63	8.0	0.97
Legacy Reserves L.P.	LGCY	28.51	1.41	1,750	19	81	8.6	2.18	7.6	0.96
San Juan Basin Royalty Trust	SJT CB	18.37	1.00	860	100	-	15.4	0.86	4.7	0.87
Hugoton RoyaltyTrust	HGT	13.88	1.00	560	87	13	14.9	0.79	5.7	0.82
Mesa RoyaltyTrust	MTR	38.01	1.00	71	75	25	10.9	3.06	8.1	0.79
Enerplus Corporation	ERF CB	23.15	1.21	5,500	26	74	6.6	2.14	9.2	0.72
<i>Total or Median</i>				20,500			10.6		7.8	0.92
Composite										
<i>Enterprise Value Weighting</i>				68,700	34	66				0.78
<i>Equal Weighting</i>					47	53				0.86
<i>Equal Weighted Buys</i>					41	59				0.74

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 \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 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>Net</i>		
		<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>	<i>19-Jan</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>	<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers							
PDC Energy	PETD	29.88	23.8	710	36.00	0.39	0.90
Peyto Exploration and Development Cor	PEYUF	19.25	133.1	2,560	24.00	0.15	0.83
Birchcliff Energy Ltd.	BIREF CB	12.62	131.0	1,650	16.00	0.16	0.82
Range Resources	RRC CB	54.06	159.0	8,600	70.00	0.17	0.81
Berry Petroleum Company	BRY	45.51	54.7	2,490	70.00	0.27	0.75
Denbury Resources Inc.	DNR	17.67	403.0	7,120	28.00	0.18	0.70
Whiting Petroleum Corporation	WLL CB	50.72	119.0	6,040	88.00	0.13	0.63
Cimarex Energy Company	XEC CB	59.28	86.2	5,110	110.00	0.07	0.57
<i>Total or Median</i>					34,280	0.16	0.78
Top Line Cash Payers							
Permian Basin RT	PBT	20.01	46.6	930	20.00	-	1.00
Cross Timbers Royalty Trust	CRT	42.95	6.0	260	44.00	-	0.98
Freehold Royalties Ltd.	FRHLF	20.33	58.8	1,200	21.00	0.05	0.97
Sabine Royalty Trust	SBR	60.09	14.6	880	65.00	-	0.92
Dorchester Minerals, L.P.	DMLP CB	22.08	30.7	680	27.00	-	0.82
<i>Total or Median</i>					3,950		0.97
Bottom Line Cash Payers							
Linn Energy, LLC	LINE	36.41	176.0	6,410	30.00	0.36	1.14
Vanguard Natural Resources, LLC	VNR	27.61	48.8	1,350	25.00	0.37	1.07
Enduro Royalty Trust (40%)	NDRO	20.28	13.2	270	21.00	-	0.97
Legacy Reserves L.P.	LGCY	28.51	43.6	1,240	30.00	0.28	0.96
San Juan Basin Royalty Trust	SJT CB	18.37	46.6	860	21.00	-	0.87
Hugoton Royalty Trust	HGT	13.88	40.0	560	17.00	-	0.82
Mesa Royalty Trust	MTR	38.01	1.9	71	48.00	-	0.79
Enerplus Corporation	ERF CB	23.15	196.0	4,540	34.00	0.13	0.72
<i>Total or Median</i>					15,300		0.92

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 \$6 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								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		19-Jan 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	CB	54.06		-	13.6	18.5	15.0
Birchcliff Energy Ltd.	BIREF	CB	12.62		-	19.3	15.8	13.0
Peyto Exploration and Development Corp	PEYUF		19.25		0.40	12.9	13.3	11.1
PDC Energy	PETD		29.88		-	8.1	8.8	7.8
Berry Petroleum Company	BRY		45.51		-	11.4	8.2	6.1
Denbury Resources Inc.	DNR		17.67		-	12.6	8.6	6.0
Cimarex Energy Company	XEC	CB	59.28		-	6.9	8.3	4.8
Whiting Petroleum Corporation	WLL	CB	50.72		-	8.5	7.0	4.4
	<i>Median</i>					12.0	8.7	7.0
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		42.95	80	0.96	14.1	17.0	16.6
Sabine Royalty Trust	SBR		60.09	100	1.00	7.3	16.6	15.4
Permian Basin RT	PBT		20.01	32	0.98	17.2	13.3	13.3
Dorchester Minerals, L.P.	DMLP	CB	22.08	77	0.85	6.1	13.5	11.0
Freehold Royalties Ltd.	FRHLF		20.33	71	0.85	6.7	10.7	10.4
	<i>Median</i>					7.3	13.5	13.3
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	CB	18.37		0.72	8.5	17.6	15.4
Hugoton Royalty Trust	HGT		13.88		0.85	14.0	18.3	14.9
Linn Energy, LLC	LINE		36.41		1.09	16.2	11.9	13.5
Mesa Royalty Trust	MTR		38.01		0.88	13.9	13.7	10.9
Vanguard Natural Resources, LLC	VNR		27.61		0.89	8.7	9.6	10.2
Enduro Royalty Trust (40%)	NDRO		20.28		0.70	6.6	9.0	8.7
Legacy Reserves L.P.	LGCY		28.51		0.64	9.9	8.9	8.6
Enerplus Corporation	ERF	CB	23.15		0.57	8.1	9.1	6.6
	<i>Median</i>					9.3	10.7	10.6
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, 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/ Rating		19-Jan 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
	Denbury Resources Inc.	DNR	17.67	0.74	1.46	1.06	1.00	0.70
	Berry Petroleum Company	BRY	45.51	0.82	1.26	1.06	0.99	0.75
	PDC Energy	PEID	29.88	0.73	1.39	0.94	0.97	0.90
	Whiting Petroleum Corporation	WLL CB	50.72	0.72	1.52	1.05	0.97	0.63
	Birchcliff Energy Ltd.	BIREF CB	12.62	0.84	1.21	0.95	0.96	0.82
	Range Resources	RRC CB	54.06	0.75	1.15	0.86	0.91	0.81
	Peyto Exploration and Development C	PEYUF	19.25	0.78	1.08	0.86	0.90	0.83
	Cimarex Energy Company	XEC CB	59.28	0.54	1.14	0.94	0.80	0.57
	<i>Median</i>			<i>0.74</i>	<i>1.24</i>	<i>0.95</i>	<i>0.97</i>	<i>0.78</i>
Top Line Cash Payers								
	Freehold Royalties Ltd.	FRHLF	20.33	0.84	1.45	1.09	1.03	0.97
	Permian Basin RT	PBT	20.01	0.86	1.11	0.99	0.95	1.00
	Cross Timbers Royalty Trust	CRT	42.95	0.84	1.14	0.90	0.95	0.98
	Sabine Royalty Trust	SBR	60.09	0.85	1.27	0.93	0.94	0.92
	Dorchester Minerals, L.P.	DMLP CB	22.08	0.73	1.06	0.96	0.87	0.82
	<i>Median</i>			<i>0.84</i>	<i>1.14</i>	<i>0.96</i>	<i>0.95</i>	<i>0.97</i>
Bottom Line Cash Payers								
	Legacy Reserves L.P.	LGCY	28.51	0.89	1.19	1.02	1.00	0.96
	Vanguard Natural Resources, LLC	VNR	27.61	0.88	1.16	1.01	0.98	1.07
	Linn Energy, LLC	LINE	36.41	0.92	1.11	0.99	0.98	1.14
	Mesa RoyaltyTrust	MTR	38.01	0.76	0.98	0.90	0.86	0.79
	Enerplus Corporation	ERF CB	23.15	0.74	1.06	0.92	0.84	0.72
	San Juan Basin Royalty Trust	SJT CB	18.37	0.66	1.03	0.79	0.77	0.87
	Hugoton RoyaltyTrust	HGT	13.88	0.56	1.00	0.70	0.64	0.82
	<i>Median</i>			<i>0.76</i>	<i>1.06</i>	<i>0.92</i>	<i>0.86</i>	<i>0.87</i>

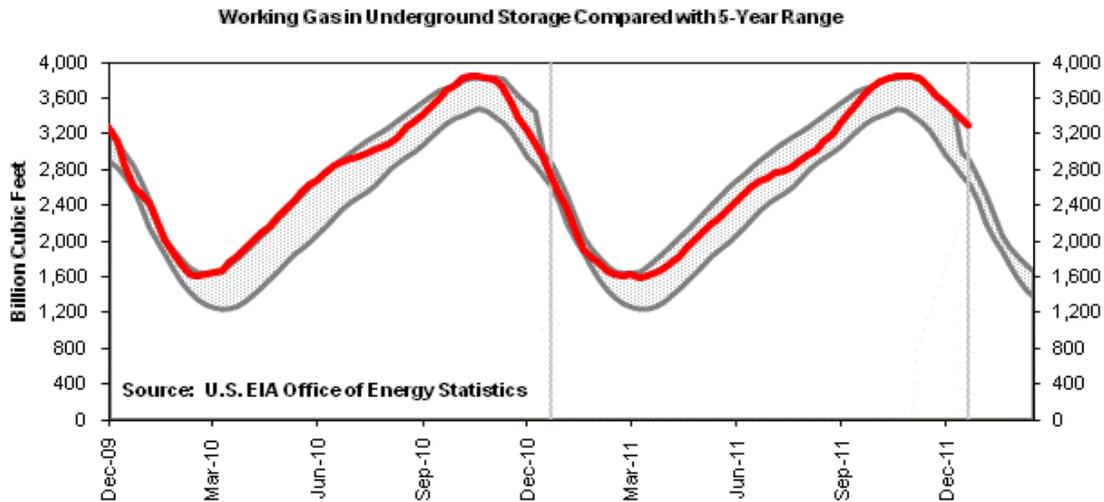
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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