



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 6, 2010

## Dorchester Minerals, L.P. (DMLP) Free Ride on Bakken and Fayetteville Shale

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	66
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	61
<i>Price (US\$/sh)</i>	26.64	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/5/10	<i>Adjusted Reserves/Production NTM</i>	6.8
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	12.7
<i>Market Capitalization (US\$mm)</i>	817	<i>PV/Ebitda</i>	12.9
<i>Debt (US\$mm)</i>	17	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	834	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.29
<i>Present Value (PV) (US\$mm)</i>	845	<i>Present Value Proven Reserves(US\$/boe)</i>	60.22
<i>Net Present Value (US\$/unit)</i>	27	<i>Oil and Gas Ebitda Margin (%)</i>	87
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/un)</i>	1.13
<i>McDep Ratio - EV/PV</i>	0.99	<i>Price/Earnings Next Twelve Months</i>	24
<i>Distribution Yield (%/year)</i>	7.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.86

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\$75 a barrel and natural gas, \$8 a million btu.

For historical analysis of DMLP since 2000 see [www.mcdep.com/4dhulz.htm](http://www.mcdep.com/4dhulz.htm)

### Summary and Recommendation

Buy-recommended Dorchester Minerals (DMLP) would pay a distribution yield of 7% in the next twelve months by our latest estimates. Second quarter results released on August 5 displayed record volume including a rising contribution from newly economic shale formations in the Fayetteville Trend in Arkansas and the Bakken Trend in North Dakota. Recently acquired minerals interests also contributed incremental volume. An indicator of future distributions, general partner (GP) advances to the Minerals NPI (Net Profits Interest) increased to \$1.7 million, or 10% of Ebitda in the latest quarter (see table Next Twelve Months Operating and Financial Estimates). Funds spent by other operators, also to the ultimate benefit of DMLP, may be more than twice that amount and are not reported by DMLP. As a result, the multiple of our estimate of present value to Ebitda looks higher than it would be if we knew the full amount of Ebitda (see table Functional Cash Flow and Present Value). Normally, the minerals owner leases the right to drill in return for a percentage of revenue before any deduction for drilling or operating costs. In many cases DMLP also has the option to pay a share of costs in return for a further share of revenue. In the latter case, DMLP's general partner advances the partnership's share of drilling costs to the Minerals NPI. After the advances are recovered by the GP, the partnership gains a new source of continuing cash flow for distribution to unitholders.

DMLP appears competitively valued among Top Line Cash Payers offering 6-10% distribution yields derived from a preferred cost position and participation in future oil and gas price trends (see Tables 1-3 on pages 3-5).

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/10	6/30/11	6/30/11
<b>Volume</b>									
Natural Gas (mmcf)	22.8	25.3	27.2	27.2	27.2	26.7	27.2	27.2	27.2
Oil (mbd)	0.97	0.92	1.12	1.12	1.12	1.07	1.12	1.12	1.12
Total (bcfe)	2.6	2.8	3.1	3.1	3.1	12.1	3.1	3.1	12.4
Total (mmcf)	29	31	34	34	34	33	34	34	34
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.50	5.32	4.09	4.75	4.94	4.77	5.20	4.99	4.97
Differential (%)	8	3	1	1	1	1	1	1	1
Company (\$/mcf)	3.21	5.18	4.07	4.72	4.91	4.71	5.17	4.96	4.94
WTI Cushing (\$/bbl)	59.52	78.67	77.85	78.07	79.81	78.60	81.10	82.34	80.33
Differential	3.63	4.33	4.44	4.45	4.55	4.45	4.62	4.69	4.59
Company	55.89	74.34	73.41	73.62	75.26	74.15	76.48	77.64	75.74
Total (\$/mcf)	4.44	6.47	5.68	6.21	6.42	6.19	6.67	6.54	6.46
<b>Revenue (\$mm)</b>									
Natural Gas	6.7	11.8	10.1	11.8	12.3	46.0	12.7	12.3	49.1
Oil	4.9	6.2	7.5	7.6	7.7	29.0	7.7	7.9	30.9
Other	(1.1)	(0.9)	(1.2)	(1.2)	(1.2)	(4.4)	(1.2)	(1.2)	(4.6)
Total	10.4	17.0	16.4	18.2	18.9	70.5	19.2	19.0	75.4
<b>Expense</b>									
Operating	1.0	1.6	1.4	1.6	1.6	6.1	1.5	1.5	6.2
General and administrative	0.8	1.2	0.9	0.9	0.9	3.7	0.9	1.1	3.7
Total	1.9	2.7	2.2	2.4	2.4	9.8	2.4	2.6	9.9
<b>Ebitda</b>									
Minerals NPI	0.6	1.1	1.7	1.7	1.7	6.2	1.7	1.7	6.9
Deprec., Deplet., & Amort.	3.5	4.2	4.5	6.2	6.2	21.3	6.1	6.2	24.8
Other Non Cash	0.4	1.1	1.7	1.7	1.7	6.2	1.7		5.1
<b>Ebit</b>	4.7	8.9	7.9	7.9	8.5	33.3	9.0	10.2	35.7
<b>Ebt</b>	4.7	8.9	7.9	7.9	8.5	33.3	9.0	10.2	35.7
General Partner	0.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	1.1
<b>Net Income (\$mm)</b>									
Per Share (\$)	0.16	0.29	0.25	0.25	0.27	1.06	0.29	0.32	1.13
<b>Shares (millions)</b>									
Shares (mm)	28.3	29.8	30.7	30.7	30.7	30.4	30.7	30.7	30.7
<b>Distribution (\$/unit)</b>									
Distribution (\$/unit)	0.27	0.45	0.41	0.42	0.46	1.75	0.49	0.49	1.86

Dorchester Minerals, L.P.					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
			(US\$mm)	(US\$mm)	
North American Natural Gas	40	6.4	14.0	560	66%
Oil	26	8.2	11.0	287	34%
	66	6.8	12.8	847	100%
Debt (US\$mm)					17
Net Present Value (US\$mm)					830
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					27



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**Table 1**

## McDep Income and Small Cap Energy Portfolio Debt, Business Segments and Income Yield

Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
				N.Amer. Natural Gas	Oil Prod'n				
B = Buy CB (see below)	5-Aug 2010	Cap							
<b>Canadian Income Trusts (US\$)</b>									
Peyto Energy Trust	PEYUF	15.11	1.24	2,250	76	24	1.41	9.3	1.01
Pengrowth Energy Trust	PGH	9.80	1.47	4,200	39	61	0.82	8.4	0.92
Penn West Energy Trust	PWE	19.91	1.38	12,000	22	78	1.77	8.9	0.90
Enerplus Resources Fund	ERF	23.68	1.21	5,100	42	58	2.11	8.9	0.82
Canadian Oil Sands Trust	COSWF CB	26.71	1.11	14,300		100	1.95	7.3	0.72
<i>Total or Median</i>				37,900					0.90
<b>Small Cap Independent Producers</b>									
Denbury Resources Inc.	DNR	17.02	1.49	10,200	16	84	-	-	1.09
Petrohawk Energy Corporation	HK	17.39	1.64	8,030	96	4	-	-	1.00
Whiting Petroleum Corporation	WLL	92.02	1.19	6,530	14	86	-	-	0.98
Range Resources	RRC	39.31	1.32	8,060	82	18	0.08	0.2	0.97
Berry Petroleum Company	BRY	31.57	1.59	2,730	31	69	0.30	1.0	0.93
Cimarex Energy Company	XEC B	73.21	1.10	6,870	59	41	0.32	0.4	0.92
Ultra Petroleum	UPL	43.65	1.20	8,110	94	6	-	-	0.90
Birchcliff Energy Ltd. (US\$)	BIREF B	9.93	1.20	1,510	66	34	-	-	0.74
<i>Total or Median</i>				52,000					0.95
<b>Top Line Cash Payers</b>									
Sabine Royalty Trust	SBR	54.05	1.00	790	50	50	3.47	6.4	1.20
Permian Basin RT	PBT	19.42	1.00	910	38	62	1.52	7.8	1.08
Cross Timbers Royalty Trust	CRT	35.13	1.00	210	75	25	2.35	6.7	1.03
Dorchester Minerals, L.P.	DMLP B	26.64	1.02	830	66	34	1.86	7.0	0.99
Freehold Royalty Trust (US\$)	FRHLF	16.17	1.09	1,020	25	75	1.64	10.2	0.95
<i>Total or Median</i>				3,800					1.03
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	30.51	1.45	6,480	47	53	2.52	8.3	1.27
Legacy Reserves LP.	LGCY	24.69	1.36	1,350	17	83	2.08	8.4	1.16
Encore Energy Partners, L.P. (52%)	ENP	19.87	1.29	600	24	76	2.00	10.1	1.13
San Juan Basin Royalty Trust	SJT B	26.02	1.00	1,210	100	-	1.53	5.9	1.04
Hugoton Royalty Trust	HGT B	20.92	1.00	840	90	10	1.67	8.0	1.00
Mesa Royalty Trust	MTR	46.49	1.00	87	75	25	3.71	8.0	0.97
<i>Total or Median</i>				10,600					1.08
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				89,900	51	49			0.97
<i>Equal Weighting</i>					54	46			1.00
<i>Equal Weighted Buys</i>					62	38			0.94

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 \$75 a barrel for oil and \$8 a million btu for natural gas.

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





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Table 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		5-Aug 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		15.11		1.09	23.1	11.6	11.7
	COSWF	CB	26.71		0.66	32.1	12.9	9.4
	PWE		19.91		0.76	9.9	9.9	8.9
	PGH		9.80		0.60	9.9	8.0	7.4
	ERF		23.68		0.61	9.7	8.7	7.1
	<i>Median</i>					9.9	9.9	8.9
<b>Small Cap Independent Producers</b>								
	RRC		39.31		-	12.4	13.1	12.7
	BIREF	B	9.93		-	22.4	14.6	10.8
	UPL		43.65		-	13.2	11.8	10.6
	DNR		17.02		-	12.8	8.3	9.0
	HK		17.39		-	7.2	8.7	8.8
	BRY		31.57		-	11.9	8.3	7.7
	WLL		92.02		-	9.6	6.7	6.6
	XEC	B	73.21		-	6.3	6.6	6.1
	<i>Median</i>					12.1	8.5	8.9
<b>Top Line Cash Payers</b>								
	SBR		54.05	100	1.00	8.7	13.0	15.6
	CRT		35.13	84	0.96	13.6	13.9	14.4
	DMLP	B	26.64	77	0.89	6.8	12.9	12.7
	PBT		19.42	42	0.97	13.0	11.5	12.4
	FRHLF		16.17	71	0.87	8.6	9.0	8.6
	<i>Median</i>					8.7	12.9	12.7
<b>Bottom Line Cash Payers</b>								
	LINE		30.51		1.59	18.4	13.2	16.9
	SJT	B	26.02		0.81	13.6	13.2	13.8
	MTR		46.49		0.91	9.2	11.8	11.4
	HGT	B	20.92		0.91	12.5	11.4	11.3
	LGCY		24.69		1.00	12.2	9.6	11.2
	ENP		19.87		1.08	13.1	9.2	10.3
	<i>Median</i>					12.8	11.6	11.4

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 June 30, 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).

Please see disclosures on the final page.



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