



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

Dorchester Minerals (DMLP – Buy) Fourth Quarter Production Up 42%

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$m)</i>	64
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	46
<i>Price (US\$/sh)</i>	26.08	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/1/12	<i>Adjusted Reserves/Production NTM</i>	6.1
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	12.5
<i>Market Capitalization (US\$m)</i>	800	<i>PV/Ebitda</i>	12.9
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	800	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.44
<i>Present Value (PV) (US\$m)</i>	828	<i>Present Value Proven Reserves(US\$/boe)</i>	56.09
<i>Net Present Value (US\$/unit)</i>	27	<i>Oil and Gas Ebitda Margin (%)</i>	87
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.37
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	19
<i>Distribution Yield (%/year)</i>	8.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.09
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.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

Buy-recommended **Dorchester Minerals (DMLP)** grew production 18% and reserves 8% in 2011 as disclosed in regulatory filings on February 24. Fourth quarter production grew 42% over the previous year (see table Next Twelve Months Operating and Financial Results on page 3). The timing and degree of increase is surprising, though the buildup of volume and cash flow was hinted in the text of quarterly filings in an arcane discussion of the “Minerals NPI”. We raise our estimated distribution for 2012 to \$2.09 a unit from \$1.84 a week ago, resulting in a distribution yield of 8.0% on current stock price. In addition, there appears to be \$0.22 of Ebitda (cash to be distributed) accrued in 2011, but not received at DMLP by year end and therefore not yet distributed. About 80% of the distribution derives from top line royalties determined as a fixed percentage of revenue. Top Line Cash Payers are the most prized group of oil and gas producers measured by a median McDep Ratio of 1.00 compared to 0.97 for DMLP (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 Top Line Cash Payers (see Table ISC-3 on page 6). Finally, stock price gains in recent days leave DMLP with near the highest ratio to 50-day average, possibly signaling reduced potential for immediate additional advance (see Table ISC-4 on page 7).

Minerals NPI Reaches Payout Status

After eight years, the Minerals NPI reached “payout status” and some of its production and all of its preliminary reserves are now included in the DMLP statements. We had tried to unveil the hidden value with our struggle to consolidate the Minerals NPI in quarterly cash flow estimates.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

We no longer see the need to make that adjustment and we revert to taking the financial and operating statements as presented.

Until recently, most of the activity in the Minerals NPI took place in the Fayetteville Shale of Arkansas. Now the thrust of new cash is coming from the Bakken Shale in North Dakota and the Permian Basin of West Texas, two of the three most active oil drilling areas that are contributing to the turnaround in U.S. oil production from decline to growth.

Oil and Liquids Prices Offset Natural Gas Price

The lost winter for natural gas has created a bulge of unconsumed fuel and consequently lower prices in 2012 (see chart Working Gas in Underground Storage on page 8). Contrary to industry quotes, DMLP natural gas price scored a surprising increase in the fourth quarter. The gain may reflect a higher price for liquids associated with new natural gas volume and reported as part of natural gas price. Higher price for liquids-rich gas and crude oil combine with new volume to contribute more than half of cash flow for the next twelve months. On the longer term measure, natural gas still accounts for more than half of present value (see table Functional Cash Flow and Present Value below).

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	29	5.6	16.2	470	57%
Oil	35	8.6	10.3	360	43%
	64	6.1	13.0	830	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					830
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					27
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					24
NPV Approx. after adjusting Ebitda for Revenue Royalty and Undeveloped Reserves(US\$/sh)					33



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/10</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>12/31/12</i>
Volume									
Natural Gas (mmcf)	22.4	28.0	32.6	27.5	32.6	32.6	32.6	32.6	32.6
Oil (mbd)	0.88	1.09	1.13	1.01	1.13	1.14	1.15	1.16	1.15
Total (bcfe)	2.5	3.2	3.6	12.3	3.6	3.6	3.6	3.6	14.5
Total (mmcf)	28	35	39	34	39	39	40	40	39
Price									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.74	2.58	2.78	3.07	2.79
Differential (%)	(30)	5	(26)	(3)	(10)	(10)	(10)	(10)	(10)
Company (\$/mcf)	4.92	4.00	4.48	4.17	3.01	2.84	3.05	3.37	3.07
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	103.78	109.18	109.81	109.33	108.03
Differential	5.21	2.77	1.72	3.92	5.19	5.46	5.49	5.47	5.37
Company	79.88	87.00	92.33	91.19	98.59	103.72	104.32	103.87	102.65
Total (\$/mcfe)	6.52	5.99	6.36	6.15	5.32	5.35	5.56	5.83	5.52
Revenue (\$mm)									
Natural Gas	10.2	10.3	13.4	41.9	8.9	8.4	9.2	10.1	36.6
Oil	6.5	8.7	9.6	33.5	10.1	10.8	11.1	11.1	43.1
Other	(1.8)	(0.7)	(2.6)	(5.9)	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)
Total	14.8	18.3	20.4	69.5	17.6	17.7	18.7	19.8	73.8
Expense									
Operating	0.9	1.2	1.2	4.9					-
General and administrative	1.3	0.8	1.3	4.1					-
Total	2.2	2.0	2.5	9.0	2.3	2.3	2.5	2.6	9.7
Ebitda									
Deprec., Deplet., & Amort.	4.1	4.8	4.7	18.3	5.0	5.0	5.1	5.1	20.2
Other Non Cash	(0.1)	0.1	(0.1)	0.0	-	-	-	-	-
Ebit									
	8.5	11.4	13.3	42.2	10.3	10.4	11.2	12.1	43.9
Ebt									
	8.5	11.4	13.3	42.2	10.3	10.4	11.2	12.1	43.9
General Partner	0.3	0.4	0.4	1.4	0.4	0.4	0.4	0.5	1.8
Net Income (\$mm)									
	8.3	11.0	12.9	40.8	9.9	9.9	10.7	11.6	42.1
Units (millions)									
	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)									
	0.27	0.36	0.42	1.33	0.32	0.32	0.35	0.38	1.37
Distribution (\$mm)									
	10.9	14.0	13.8	53.6	15.3	15.4	16.3	17.2	64.1
Distribution Per Unit (\$)									
	0.35	0.46	0.45	1.75	0.50	0.50	0.53	0.56	2.09
Ratios									
Ebitda Margin	85%	89%	88%	87%	87%	87%	87%	87%	87%
Distribution/Ebitda	0.86	0.86	0.77	0.89	1.00	1.00	1.00	1.00	1.00



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price			Enterprise		PV(%)			
Symbol/Rating		(US\$/sh)	EV/	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
B = Buy	1-Mar	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
CB (see below)											
Small Cap Independent Producers											
Range Resources	RRC	B	64.60	1.24	12,840	64	36	15.8	0.16	0.2	0.94
PDC Energy	PETD		34.85	1.45	1,200	55	45	6.9	-	-	0.91
Berry Petroleum Company	BRY		55.01	1.49	4,530	12	88	6.3	0.32	0.6	0.85
Peyto Exploration and Developmen	PEYUF		18.46	1.23	3,020	75	25	10.2	0.73	4.0	0.80
Denbury Resources Inc.	DNR		20.38	1.30	10,700	4	96	6.2	-	-	0.78
Cimarex Energy Company	XEC	B	82.96	1.13	8,060	43	57	6.2	0.48	0.6	0.78
Birchcliff Energy Ltd.	BIREF	CB	11.45	1.28	1,920	56	44	11.3	-	-	0.76
Whiting Petroleum Corporation	WLL	B	59.67	1.26	8,960	9	91	5.1	-	-	0.73
<i>Total or Median</i>					51,200			6.6			0.79
Top Line Cash Payers											
Permian Basin RT	PBT		22.36	1.00	1,040	37	63		1.56	7.0	1.12
Cross Timbers Royalty Trust	CRT		47.30	1.00	280	70	30		2.64	5.6	1.08
Sabine Royalty Trust	SBR		64.72	1.00	940	55	45		4.09	6.3	1.00
Freehold Royalties Ltd.	FRHLF		20.76	1.06	1,290	14	86		1.71	8.2	0.99
Dorchester Minerals, L.P.	DMLP	B	26.08	1.00	800	57	43		2.09	8.0	0.97
<i>Total or Median</i>					4,400					7.0	1.00
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		38.71	1.44	9,780	29	71	13.2	2.76	7.1	1.19
Vanguard Natural Resources, LLC	VNR		27.79	1.54	2,080	26	74	9.6	2.31	8.3	1.07
Enduro Royalty Trust (40%)	NDRO		21.38	1.00	280	45	55	7.3	1.79	8.4	1.02
Legacy Reserves L.P.	LGCY		29.49	1.34	1,880	18	82	8.4	2.20	7.5	0.99
San Juan Basin Royalty Trust	SJT	CB	18.82	1.00	880	100	-	15.1	0.91	4.8	0.90
Mesa RoyaltyTrust	MTR		43.00	1.00	80	75	25	12.9	2.91	6.8	0.89
Hugoton RoyaltyTrust	HGT		14.57	1.00	580	87	13	15.1	0.82	5.7	0.86
Enerplus Corporation	ERF	CB	24.38	1.30	6,200	23	77	6.9	2.19	9.0	0.77
<i>Total or Median</i>					21,800			11.2		7.3	0.94
Composite											
<i>Enterprise Value Weighting</i>					77,300	34	66				0.86
<i>Equal Weighting</i>						45	55				0.92
<i>Equal Weighted Buys</i>						41	59				0.83

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.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

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		1-Mar 2012	(mm)				
Small Cap Independent Producers								
Range Resources	RRC	B	64.60	160.0	10,340	70.00	0.18	0.94
PDC Energy	PETD		34.85	23.8	830	40.00	0.28	0.91
Berry Petroleum Company	BRY		55.01	55.0	3,030	70.00	0.28	0.85
Peyto Exploration and Development Cor	PEYUF		18.46	133.1	2,460	24.00	0.15	0.80
Denbury Resources Inc.	DNR		20.38	403.0	8,210	28.00	0.18	0.78
Cimarex Energy Company	XEC	B	82.96	86.2	7,150	110.00	0.09	0.78
Birchcliff Energy Ltd.	BIREF	CB	11.45	131.0	1,500	16.00	0.17	0.76
Whiting Petroleum Corporation	WLL	B	59.67	119.0	7,100	88.00	0.15	0.73
<i>Total or Median</i>					40,620		0.17	0.79
Top Line Cash Payers								
Permian Basin RT	PBT		22.36	46.6	1,040	20.00	-	1.12
Cross Timbers Royalty Trust	CRT		47.30	6.0	280	44.00	-	1.08
Sabine Royalty Trust	SBR		64.72	14.6	940	65.00	-	1.00
Freehold Royalties Ltd.	FRHLF		20.76	58.8	1,220	21.00	0.05	0.99
Dorchester Minerals, L.P.	DMLP	B	26.08	30.7	800	27.00	-	0.97
<i>Total or Median</i>					4,280			1.00
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.71	176.0	6,810	30.00	0.36	1.19
Vanguard Natural Resources, LLC	VNR		27.79	48.8	1,360	25.00	0.37	1.07
Enduro Royalty Trust (40%)	NDRO		21.38	13.2	280	21.00	-	1.02
Legacy Reserves L.P.	LGCY		29.49	47.5	1,400	30.00	0.25	0.99
San Juan Basin Royalty Trust	SJT	CB	18.82	46.6	880	21.00	-	0.90
Mesa Royalty Trust	MTR		43.00	1.9	80	48.00	-	0.89
Hugoton Royalty Trust	HGT		14.57	40.0	580	17.00	-	0.86
Enerplus Corporation	ERF	CB	24.38	196.0	4,780	34.00	0.18	0.77
<i>Total or Median</i>					16,170			0.94
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.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

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		1-Mar 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	64.60		-	15.9	16.8	15.8
Birchcliff Energy Ltd.	BIREF	CB	11.45		-	24.0	14.8	11.3
Peyto Exploration and Development Corp	PEYUF		18.46		0.39	16.1	12.7	10.2
PDC Energy	PETD		34.85		-	8.2	7.6	6.9
Berry Petroleum Company	BRY		55.01		-	12.0	7.4	6.3
Cimarex Energy Company	XEC	B	82.96		-	8.2	8.0	6.2
Denbury Resources Inc.	DNR		20.38		-	13.5	8.0	6.2
Whiting Petroleum Corporation	WLL	B	59.67		-	10.2	7.0	5.1
	<i>Median</i>					12.7	8.0	6.6
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.30	80	0.96	14.4	16.0	17.3
Sabine Royalty Trust	SBR		64.72	100	1.00	7.3	15.9	15.8
Permian Basin RT	PBT		22.36	32	0.98	17.2	12.6	14.1
Dorchester Minerals, L.P.	DMLP	B	26.08	77	1.00	6.1	12.9	12.5
Freehold Royalties Ltd.	FRHLF		20.76	71	0.81	6.7	10.0	9.9
	<i>Median</i>					7.3	12.9	14.1
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	CB	18.82		0.73	8.5	16.9	15.1
Hugoton Royalty Trust	HGT		14.57		0.86	14.2	17.6	15.1
Linn Energy, LLC	LINE		38.71		1.03	16.2	11.2	13.2
Mesa Royalty Trust	MTR		43.00		0.87	13.9	14.4	12.9
Vanguard Natural Resources, LLC	VNR		27.79		0.83	8.7	9.0	9.6
Legacy Reserves L.P.	LGCY		29.49		0.63	11.7	8.5	8.4
Enduro Royalty Trust (40%)	NDRO		21.38		0.61	5.7	7.2	7.3
Enerplus Corporation	ERF	CB	24.38		0.58	8.3	9.0	6.9
	<i>Median</i>					10.2	10.1	11.2
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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012

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		1-Mar 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers									
	Cimarex Energy Company	XEC	B	82.96	0.73	1.52	1.22	1.14	0.78
	Whiting Petroleum Corporation	WLL	B	59.67	0.82	1.69	1.12	1.14	0.73
	Denbury Resources Inc.	DNR		20.38	0.82	1.62	1.10	1.14	0.78
	Berry Petroleum Company	BRY		55.01	0.93	1.42	1.12	1.12	0.85
	PDC Energy	PETD		34.85	0.77	1.64	1.03	1.10	0.91
	Range Resources	RRC	B	64.60	0.86	1.30	1.05	1.04	0.94
	Birchcliff Energy Ltd.	BIREF	CB	11.45	0.78	1.12	0.92	0.89	0.76
	Peyto Exploration and Development C	PEYUF		18.46	0.76	1.04	0.91	0.88	0.80
	<i>Median</i>			<i>0.80</i>	<i>1.47</i>	<i>1.08</i>	<i>1.11</i>	<i>0.79</i>	
Top Line Cash Payers									
	Permian Basin RT	PBT		22.36	0.96	1.24	1.08	1.07	1.12
	Freehold Royalties Ltd.	FRHLF		20.76	0.86	1.48	1.03	1.07	0.99
	Dorchester Minerals, L.P.	DMLP	B	26.08	0.87	1.25	1.14	1.07	0.97
	Cross Timbers Royalty Trust	CRT		47.30	0.93	1.25	1.00	1.04	1.08
	Sabine Royalty Trust	SBR		64.72	0.92	1.37	1.02	1.01	1.00
	<i>Median</i>			<i>0.92</i>	<i>1.25</i>	<i>1.03</i>	<i>1.07</i>	<i>1.00</i>	
Bottom Line Cash Payers									
	Legacy Reserves L.P.	LGCY		29.49	0.90	1.23	1.02	1.03	0.99
	Linn Energy, LLC	LINE		38.71	0.96	1.16	1.03	1.02	1.19
	Vanguard Natural Resources, LLC	VNR		27.79	0.88	1.16	1.01	1.00	1.07
	Mesa RoyaltyTrust	MTR		43.00	0.86	1.18	1.05	0.99	0.89
	Enerplus Corporation	ERF	CB	24.38	0.79	1.09	1.00	0.92	0.77
	San Juan Basin Royalty Trust	SJT	CB	18.82	0.67	1.08	0.93	0.82	0.90
	Hugoton RoyaltyTrust	HGT		14.57	0.59	1.05	0.89	0.71	0.86
	<i>Median</i>			<i>0.86</i>	<i>1.16</i>	<i>1.01</i>	<i>0.99</i>	<i>0.90</i>	

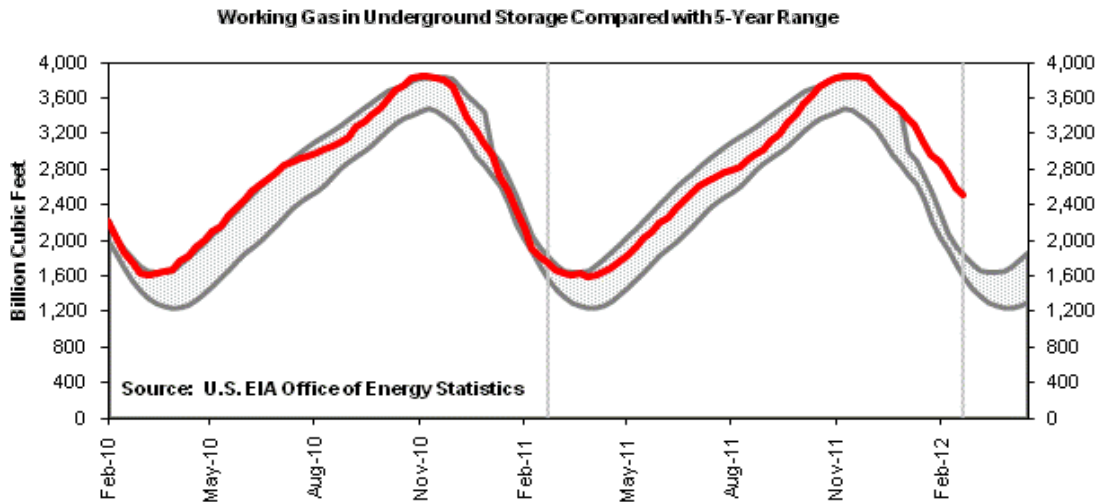
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 2, 2012



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty 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.