



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

## Vote for Oil - Berry (BRY), Denbury (DNR), Whiting (WLL), Freehold (FRHLF) and Legacy (LGCY)

### Summary and Recommendation

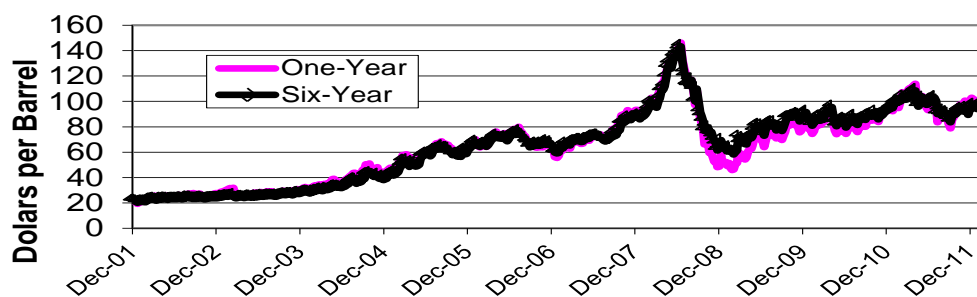
Investors can bet on the early winner so far in the election cycle, oil price, by owning the stocks of the five most oil-concentrated producers in our income and small cap coverage. The latest settlement price for crude oil for the next six years is \$98 a barrel and climbing (see chart [U.S. Crude Oil Futures](#) below). **Berry Petroleum Company (BRY)** is concentrated 88% on oil by value, **Denbury Resources Inc. (DNR)**, 96%; **Whiting Petroleum Corporation (WLL)**, 91%; **Freehold Royalties Ltd. (FRHLF)**, 86%; and **Legacy Reserves L.P. (LGCY)**, 82% (see [Table ISC-1](#)). WLL has the lowest McDep Ratio and has our official buy recommendation while the other four also offer attractive value. FRHLF has the strongest financial position measured by ratio of Debt/Present Value of 0.05, followed by WLL at 0.15, DNR at 0.20, LGCY at 0.25 and BRY at 0.28 (see [Table ISC-2](#)). Cash flow multiple (EV/Ebitda) as low as 4.8 for WLL suggests that stock prices could advance further before fully reflecting current oil price (see [Table ISC-3](#)). The actual oil price received by each producer compared to the benchmark during the last quarter of 2011 ranged from premiums of \$9 and \$1 a barrel for DNR and BRY to discounts of \$9 for LGCY and WLL to about \$15 for FRHLF (see tables [NTM Operating](#) and [Financial Estimates](#)).

The individual price differences illustrate a consequence of U.S. energy policy which restricts domestic pipeline transportation. DNR's premium price oil is close to water where it competes with international supplies, while WLL and FRHLF have oil that is land-locked in North Dakota or Canada and requires expensive rail transportation for incremental shipments. That transportation premium has helped lift the whole international oil price level in a tight global market. Meanwhile, the global crude oil market is kept tight by policy to stimulate demand with free money that is handed out to consumers who can spend it on energy consumption. It is a virtuous cycle for oil price, thanks to our political leaders.

Kurt H. Wulff, CFA

□

**U.S. Crude Oil Futures**





# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

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	8-Mar	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
PDC Energy	PETD	36.53	1.43	1,240	55	45	7.1	-	-	0.94	
Range Resources	RRC B	64.29	1.24	12,790	64	36	15.0	0.16	0.2	0.93	
Berry Petroleum Company	BRY	52.78	1.52	4,400	12	88	6.0	0.32	0.6	0.82	
Peyto Exploration and Development	PEYUF	17.60	1.20	2,840	76	24	8.9	0.73	4.1	0.77	
Cimarex Energy Company	XEC B	81.44	1.13	7,930	43	57	6.0	0.36	0.4	0.76	
Denbury Resources Inc.	DNR	19.13	1.37	10,290	4	96	5.8	-	-	0.75	
Birchcliff Energy Ltd.	BIREF CB	10.68	1.30	1,820	56	44	10.5	-	-	0.72	
Whiting Petroleum Corporation	WLL B	57.72	1.27	8,730	9	91	4.8	-	-	0.71	
<i>Total or Median</i>				50,000			6.6			0.77	
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT	22.75	1.00	1,060	37	63		1.56	6.9	1.14	
Cross Timbers Royalty Trust	CRT	47.52	1.00	290	70	30		2.55	5.4	1.08	
Sabine Royalty Trust	SBR	63.00	1.00	920	55	45		4.06	6.4	0.97	
Freehold Royalties Ltd.	FRHLF	20.22	1.06	1,250	14	86		1.70	8.4	0.96	
Dorchester Minerals, L.P.	DMLP B	24.76	1.00	760	57	43		2.12	8.6	0.92	
<i>Total or Median</i>				4,300					6.9	0.97	
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE	38.43	1.76	11,800	40	60	10.2	2.76	7.2	1.14	
Vanguard Natural Resources, LLC	VNR	28.16	1.38	2,620	21	79	12.1	2.31	8.2	1.09	
Enduro Royalty Trust (40%)	NDRO	21.43	1.00	280	45	55	7.4	1.78	8.3	1.02	
Legacy Reserves L.P.	LGCY	29.66	1.34	1,890	18	82	8.5	2.20	7.4	0.99	
Mesa Royalty Trust	MTR	43.00	1.00	80	75	25	13.1	2.86	6.6	0.89	
San Juan Basin Royalty Trust	SJT CB	18.77	1.00	880	100	-	14.6	0.94	5.0	0.89	
Hugoton Royalty Trust	HGT	14.58	1.00	580	87	13	16.2	0.76	5.2	0.86	
Enerplus Corporation	ERF CB	23.35	1.32	6,000	23	77	6.6	2.18	9.4	0.74	
<i>Total or Median</i>				24,100			11.1		7.3	0.94	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>				78,500	35	65					0.85
<i>Equal Weighting</i>					46	54					0.91
<i>Equal Weighted Buys</i>					41	59					0.81

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 March 31, 2013. Enterprise Value = Market Cap and Debt.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

Table ISC-2							
McDep Income and Small Cap Energy Portfolio							
Net Present Value and McDep Ratio							
		Price			Net		
	Symbol/	(\$/sh)	Shares	Market	Present	Debt/	
	Rating	8-Mar	(mm)	Cap	Value	Present	McDep
		2012		(\$mm)	(\$/un)	Value	Ratio
<b>Small Cap Independent Producers</b>							
PDC Energy	PETD	36.53	23.8	870	40.00	0.28	0.94
Range Resources	RRC B	64.29	160.0	10,290	70.00	0.18	0.93
Berry Petroleum Company	BRY	52.78	55.0	2,900	70.00	0.28	0.82
Peyto Exploration and Development Cor	PEYUF	17.60	133.9	2,360	24.00	0.13	0.77
Cimarex Energy Company	XEC B	81.44	86.2	7,020	110.00	0.09	0.76
Denbury Resources Inc.	DNR	19.13	393.0	7,520	28.00	0.20	0.75
Birchcliff Energy Ltd.	BIREF CB	10.68	131.0	1,400	16.00	0.17	0.72
Whiting Petroleum Corporation	WLL B	57.72	119.0	6,870	88.00	0.15	0.71
<i>Total or Median</i>				39,230		0.17	0.77
<b>Top Line Cash Payers</b>							
Permian Basin RT	PBT	22.75	46.6	1,060	20.00	-	1.14
Cross Timbers Royalty Trust	CRT	47.52	6.0	290	44.00	-	1.08
Sabine Royalty Trust	SBR	63.00	14.6	920	65.00	-	0.97
Freehold Royalties Ltd.	FRHLF	20.22	58.4	1,180	21.00	0.05	0.96
Dorchester Minerals, L.P.	DMLP B	24.76	30.7	760	27.00	-	0.92
<i>Total or Median</i>				4,210			0.97
<b>Bottom Line Cash Payers</b>							
Linn Energy, LLC	LINE	38.43	175.0	6,720	30.00	0.49	1.14
Vanguard Natural Resources, LLC	VNR	28.16	67.2	1,890	25.00	0.30	1.09
Enduro Royalty Trust (40%)	NDRO	21.43	13.2	280	21.00	-	1.02
Legacy Reserves L.P.	LGCY	29.66	47.5	1,410	30.00	0.25	0.99
Mesa Royalty Trust	MTR	43.00	1.9	80	48.00	-	0.89
San Juan Basin Royalty Trust	SJT CB	18.77	46.6	880	21.00	-	0.89
Hugoton Royalty Trust	HGT	14.58	40.0	580	17.00	-	0.86
Enerplus Corporation	ERF CB	23.35	196.0	4,580	34.00	0.18	0.74
<i>Total or Median</i>				16,420			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 9, 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		8-Mar 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	64.29		-	15.8	16.0	15.0
Birchcliff Energy Ltd.	BIREF	CB	10.68		-	23.6	14.5	10.5
Peyto Exploration and Development Corp	PEYUF		17.60		0.35	14.9	11.6	8.9
PDC Energy	PETD		36.53		-	8.2	7.6	7.1
Cimarex Energy Company	XEC	B	81.44		-	8.2	7.9	6.0
Berry Petroleum Company	BRY		52.78		-	11.8	7.3	6.0
Denbury Resources Inc.	DNR		19.13		-	14.1	7.8	5.8
Whiting Petroleum Corporation	WLL	B	57.72		-	9.8	6.7	4.8
	<i>Median</i>					13.0	7.8	6.6
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		47.52	80	0.96	14.6	16.6	17.9
Sabine Royalty Trust	SBR		63.00	100	1.00	7.2	16.0	15.5
Permian Basin RT	PBT		22.75	32	0.98	17.2	12.6	14.3
Dorchester Minerals, L.P.	DMLP	B	24.76	77	1.00	6.1	12.7	11.7
Freehold Royalties Ltd.	FRHLF		20.22	71	0.81	6.7	10.0	9.6
	<i>Median</i>					7.2	12.7	14.3
<b>Bottom Line Cash Payers</b>								
Hugoton Royalty Trust	HGT		14.58		0.84	14.4	18.9	16.2
San Juan Basin Royalty Trust	SJT	CB	18.77		0.73	8.7	16.3	14.6
Mesa Royalty Trust	MTR		43.00		0.87	14.1	14.6	13.1
Vanguard Natural Resources, LLC	VNR		28.16		1.03	8.7	11.1	12.1
Linn Energy, LLC	LINE		38.43		0.82	14.7	8.9	10.2
Legacy Reserves L.P.	LGCY		29.66		0.63	11.7	8.6	8.5
Enduro Royalty Trust (40%)	NDRO		21.43		0.61	5.7	7.2	7.4
Enerplus Corporation	ERF	CB	23.35		0.57	8.2	8.9	6.6
	<i>Median</i>					10.2	10.0	11.1
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, 2013; 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 9, 2012

Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
	Q4		Q3		Q4		Year		Next
	12/31/10	9/30/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	2012E	Twelve
									Months
									3/31/13
<b>Volume</b>									
Natural Gas (mmcf)	71	65	61	65	61	61	61	61	61
Days	92	92	92	365	91	91	92	366	365
Oil (mb)	2,088	2,401	2,364	9,038	2,409	2,481	2,584	10,135	10,407
Oil (mbd)	22.7	26.1	25.7	24.8	26.5	27.3	28.1	27.7	28.5
Total (mb)	3,174	3,397	3,296	13,022	3,330	3,403	3,515	13,841	14,104
Total (mbd)	34.5	36.9	35.8	35.7	36.6	37.4	38.2	37.8	38.6
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.73	2.47	2.69	2.72	2.89
Differential (\$/mmbtu)	(0.10)	(0.04)	0.04	(0.05)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Company (\$/mcf)	3.90	4.23	3.51	4.09	2.76	2.50	2.73	2.76	2.92
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	103.11	107.18	108.02	106.55	107.61
Differential	12.43	(0.80)	(1.12)	2.76	2.99	3.11	3.14	3.03	3.11
Company	72.67	90.56	95.18	92.35	100.11	104.07	104.89	103.52	104.50
Total (\$/bbl)	55.82	71.45	74.23	71.61	77.00	79.95	81.42	80.23	81.71
<b>Revenue (\$mm)</b>									
Natural Gas	25	25	20	98	15	14	15	61	65
Oil	152	217	225	835	241	258	271	1,049	1,088
Total	177	243	245	933	256	272	286	1,110	1,152
<b>Expense</b>									
Lease operating	56	71	69	272	74	78	82	320	332
General and administrative	15	15	15	62	18	20	21	80	83
Total	71	86	84	334	92	98	103	400	415
<b>Ebitda</b>	106	157	161	599	164	174	183	711	738
Exploration	-	-	-	-	-	-	-	-	-
Deprec., Deplet., & Amort.	51	55	55	215	55	55	55	220	220
Other, incl hedge	9	15	21	84	21	21	21	85	85
<b>Ebit</b>	46	86	84	300	88	98	107	405	432
Interest	17	20	20	74	20	20	20	80	80
<b>Ebt</b>	28	66	64	226	68	78	87	325	352
Income Tax	10	23	23	79	24	27	30	114	123
<b>Net Income (\$mm)</b>	18	43	42	147	44	51	56	211	229
Per Share (\$)	0.35	0.79	0.76	2.69	0.80	0.92	1.03	3.84	4.16
<b>Shares (millions)</b>	53	55	55	55	55	55	55	55	55
Ebitda Margin	60%	65%	66%	64%	64%	64%	64%	64%	64%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

Denbury Resources Inc.									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Next Twelve Months
	12/31/10	9/30/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	2012E	3/31/13
<b>Volume</b>									
Natural Gas (bcf)	6.3	2.7	2.4	<b>10.8</b>	2.4	2.4	2.4	<b>9.5</b>	<b>9.5</b>
Natural Gas (mmcf)	69	29	26	<b>30</b>	26	26	26	<b>26</b>	<b>26</b>
Days	92	92	92	<b>365</b>	91	91	92	<b>366</b>	<b>365</b>
Oil (mmb)	6.0	5.7	5.8	<b>22</b>	5.7	5.8	6.0	<b>24</b>	<b>24</b>
Oil (mbd)	65	62	63	<b>61</b>	63	64	65	<b>65</b>	<b>66</b>
Total (mb)	7.0	6.2	6.2	<b>24</b>	6.1	6.2	6.4	<b>25</b>	<b>26</b>
Total (mbd)	77	67	67	<b>66</b>	67	68	70	<b>69</b>	<b>70</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	<b>4.04</b>	2.73	2.47	2.69	<b>2.72</b>	<b>2.89</b>
Differential (\$/mmbtu)	(0.65)	(0.76)	(0.57)	<b>(0.74)</b>	(0.44)	(0.40)	(0.43)	<b>(0.44)</b>	<b>(0.46)</b>
Company (\$/mcf)	4.45	4.95	4.12	<b>4.79</b>	3.17	2.87	3.12	<b>3.16</b>	<b>3.35</b>
WTI Cushing (\$/bbl)	85.10	89.76	94.06	<b>95.12</b>	103.11	107.18	108.02	<b>106.55</b>	<b>107.61</b>
Differential	3.84	(7.09)	(9.02)	<b>(4.91)</b>	(5.32)	(5.54)	(5.58)	<b>(5.55)</b>	<b>(5.56)</b>
Company (\$/bbl)	81.26	96.85	103.08	<b>100.03</b>	108.43	112.72	113.60	<b>112.10</b>	<b>113.17</b>
Total (\$/bbl)	73.06	91.98	98.03	<b>94.68</b>	102.67	106.67	107.71	<b>106.27</b>	<b>107.42</b>
<b>Revenue (\$mm)</b>									
Natural Gas	28	13	10	<b>52</b>	7	7	7	<b>30</b>	<b>32</b>
Oil	486	552	597	<b>2,218</b>	621	658	684	<b>2,660</b>	<b>2,717</b>
Total	514	566	606	<b>2,269</b>	628	665	691	<b>2,690</b>	<b>2,749</b>
<b>Expense</b>									
Lease operating	131	136	128	<b>521</b>					-
Production taxes	36	36	39	<b>148</b>					-
General and administrative	39	29	28	<b>132</b>					-
Total	206	201	195	<b>801</b>	223	236	245	<b>955</b>	<b>976</b>
<b>Ebitda</b>	308	365	411	<b>1,468</b>	405	429	446	<b>1,735</b>	<b>1,773</b>
Deprec., Deplet., & Amort.	112	102	110	<b>409</b>	110	110	110	<b>440</b>	<b>440</b>
Other	7	(5)	(7)	<b>4</b>				-	-
<b>Ebit</b>	189	267	308	<b>1,055</b>	295	319	336	<b>1,295</b>	<b>1,333</b>
Interest	53	38	36	<b>165</b>	36	36	36	<b>144</b>	<b>144</b>
<b>Ebt</b>	136	229	272	<b>890</b>	259	283	300	<b>1,151</b>	<b>1,189</b>
Income Tax	48	80	95	<b>312</b>	91	99	105	<b>403</b>	<b>416</b>
<b>Net Income (\$mm)</b>	88	149	177	<b>579</b>	168	184	195	<b>748</b>	<b>773</b>
Per Share (\$)	0.22	0.37	0.45	<b>1.45</b>	0.43	0.47	0.50	<b>1.90</b>	<b>1.97</b>
<b>Shares (millions)</b>	402	403	393	<b>399</b>	393	393	393	<b>393</b>	<b>393</b>
Ebitda Margin	60%	64%	68%	<b>65%</b>	65%	65%	65%	<b>65%</b>	<b>65%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>	<b>35%</b>



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

Whiting Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Next Twelve Months
	12/31/10	9/30/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	2012E	3/31/13
<b>Volume</b>									
Natural Gas (mmcf)	80	74	69	72	69	69	69	69	69
Days	92	92	92	365	91	91	92	366	365
Oil (mmb)	5.0	5.4	5.5	20	5.7	5.9	6.3	25	26
Oil (mbd)	55	58	59	56	62	65	69	67	70
Total (mb)	6.2	6.5	6.5	24.8	6.7	7.0	7.4	28.7	30
Total (mbd)	68	71	71	68	74	77	80	79	82
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.73	2.47	2.69	2.72	2.89
Differential (\$/mmbtu)	(0.54)	(0.81)	(1.17)	(0.88)	(0.90)	(0.81)	(0.89)	(0.90)	(0.95)
Company (\$/mcf)	4.34	5.00	4.72	4.92	3.63	3.28	3.58	3.62	3.84
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	103.11	107.18	108.02	106.55	107.61
Differential	10.57	8.80	9.20	10.20	13.50	11.00	11.09	11.52	11.70
Company (\$/bbl)	74.53	80.96	84.86	84.92	89.61	96.18	96.94	95.03	95.91
Total (\$/bbl)	65.06	72.07	75.67	75.07	79.02	84.73	86.10	84.30	85.67
<b>Revenue (\$mm)</b>									
Natural Gas	32	34	30	130	23	21	23	91	97
Oil	375	435	462	1,731	507	572	612	2,332	2,463
Total	406	469	492	1,861	530	592	634	2,423	2,560
<b>Expense</b>									
Lease operating	71	78	83						
Production taxes	27	35	39						
General and administrative	16	23	23						
Total	114	136	145	532	151	169	181	693	732
<b>Ebitda</b>	292	333	347	1,329	378	423	453	1,731	1,828
Exploration	21	19	23	84	23	23	23	92	92
Deprec., Deplet., & Amort.	104	123	127	468	127	127	127	508	508
Other	52	1	(12)	9				-	-
<b>Ebit</b>	116	190	209	767	228	273	303	1,131	1,228
Interest	13	16	17	62	17	17	17	68	68
<b>Ebt</b>	103	174	192	705	211	256	286	1,063	1,160
Income Tax	36	61	67	247	74	90	100	372	406
<b>Net Income (\$mm)</b>	67	113	125	459	137	166	186	691	754
Per Share (\$)	0.56	0.95	1.05	3.86	1.16	1.40	1.56	5.80	6.34
<b>Shares (millions)</b>	119	119	119	119	119	119	119	119	119
Ebitda Margin	72%	71%	71%	71%	71%	71%	71%	71%	71%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

Freehold Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Twelve</i>
	<i>12/31/10</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>2012E</i>	<i>Months</i>
									<i>3/31/13</i>
<b>Volume</b>									
Natural Gas (mmcf)	19.0	16.8	16.5	<b>16.8</b>	16.5	16.5	16.1	<b>16.2</b>	<b>16.1</b>
Days	92	92	92	<b>365</b>	91	91	92	<b>366</b>	<b>365</b>
Oil (mbd)	4.81	4.40	4.31	<b>4.5</b>	4.36	4.40	4.44	<b>4.4</b>	<b>4.4</b>
Total gas & oil (bcf)	4.4	4.0	3.9	<b>16.0</b>	3.9	3.9	3.9	<b>15.6</b>	<b>15.5</b>
Total gas & oil (mbd)	8.0	7.2	7.1	<b>7.3</b>	7.1	7.1	7.1	<b>7.1</b>	<b>7.1</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	3.80	4.19	3.55	<b>4.04</b>	2.73	2.47	2.69	<b>2.72</b>	<b>2.89</b>
Currency (US\$/C\$)	1.01	1.02	0.98	<b>1.01</b>	1.01	1.01	1.01	<b>1.01</b>	<b>1.01</b>
Henry Hub (C\$/mmbtu)	3.77	4.11	3.63	<b>3.99</b>	2.71	2.45	2.67	<b>2.70</b>	<b>2.87</b>
Company (C\$/mcf)	3.30	3.15	2.78	<b>3.09</b>	2.08	1.88	2.05	<b>2.07</b>	<b>2.19</b>
Oil (\$/bbl)									
WTI Cushing (US\$)	85.10	89.76	94.06	<b>95.12</b>	103.11	107.18	108.02	<b>106.55</b>	<b>107.61</b>
WTI Cushing (C\$/bbl)	84.39	87.94	96.20	<b>93.92</b>	102.25	106.29	107.12	<b>105.67</b>	<b>106.71</b>
Company (C\$/bbl)	67.88	74.28	81.26	<b>77.22</b>	86.36	89.78	90.48	<b>89.26</b>	<b>90.13</b>
Total gas & oil (\$/mcf)	8.13	8.79	9.36	<b>9.13</b>	9.63	9.94	10.17	<b>9.99</b>	<b>10.17</b>
<b>Revenue (\$mm)</b>									
Natural Gas	5.8	4.9	4.2	<b>19</b>	3.1	2.8	3.0	<b>12</b>	<b>13</b>
Oil	30.0	30.1	32.2	<b>127</b>	34.2	35.9	37.0	<b>143</b>	<b>145</b>
Other	(0.4)	(0.3)		<b>0</b>				<b>-</b>	<b>-</b>
Total	35.4	34.6	36.5	<b>146</b>	37.3	38.7	40.0	<b>156</b>	<b>158</b>
<b>Expense</b>	8.3	5.6	6.6	<b>25</b>	6.8	7.0	7.3	<b>28</b>	<b>29</b>
<b>Ebitda (\$mm)</b>	27.2	29.0	29.8	<b>121</b>	30.5	31.7	32.7	<b>127</b>	<b>129</b>
Deprec., Deplet., & Amort.	17.7	11.7	11.7	<b>47</b>	11.7	11.7	11.7	<b>47</b>	<b>47</b>
Other				<b>-</b>				<b>-</b>	<b>-</b>
<b>Ebit</b>	9.5	17.3	18.1	<b>74</b>	18.8	20.0	21.0	<b>81</b>	<b>82</b>
Interest	0.8	0.6	0.6	<b>3</b>	0.6	0.6	0.6	<b>2</b>	<b>2</b>
<b>Ebt</b>	8.7	16.7	17.5	<b>71</b>	18.2	19.4	20.4	<b>78</b>	<b>80</b>
Income Tax	(1.7)	5.3	4.4	<b>14</b>	4.6	4.9	5.1	<b>20</b>	<b>20</b>
<b>Net Income (\$mm)</b>	10.4	11.4	13.1	<b>57</b>	13.7	14.6	15.3	<b>59</b>	<b>60</b>
<b>Units (millions)</b>	57.5	60.2	60.2	<b>59.8</b>	60.2	58.4	58.4	<b>58.8</b>	<b>58.4</b>
Per unit (\$)	0.18	0.19	0.22	<b>0.95</b>	0.23	0.25	0.26	<b>1.00</b>	<b>1.02</b>
Ebitda Margin - O&G	77%	84%	82%	<b>83%</b>	82%	82%	82%	<b>82%</b>	<b>82%</b>
Tax Rate	-20%	32%	25%	<b>20%</b>	25%	25%	25%	<b>25%</b>	<b>25%</b>





# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 2012

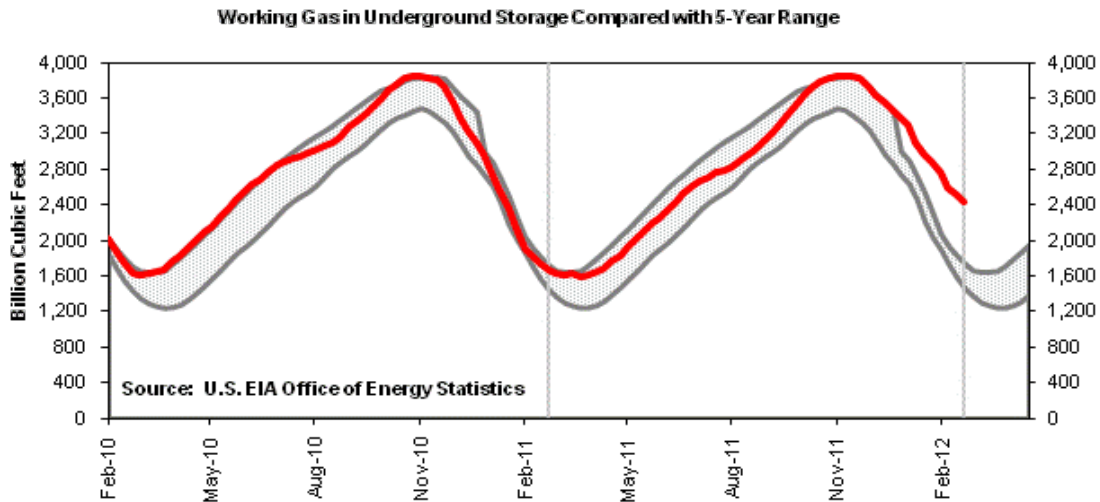
Legacy Reserves L.P.									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Next Twelve Months
	12/31/10	9/30/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	2012E	3/31/13
<b>Volume</b>									
Natural Gas (mmcf)	15.3	27.7	26.6	24.2	26.6	26.6	26.6	26.6	26.6
Days	92	92	92	365	91	91	92	366	365
Oil (mb)	717	844	857	3,298	848	848	857	3,411	3,402
Oil (mbd)	7.8	9.2	9.3	9.0	9.3	9.3	9.3	9.3	9.3
Total (mbd)	10.3	13.8	13.7	13.1	13.7	13.7	13.7	13.7	13.7
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.73	2.47	2.69	2.72	2.89
Differential (\$/mmbtu)	(1.91)	(2.11)	(2.04)	(2.01)	(1.57)	(1.42)	(1.55)	(1.56)	(1.66)
LGCY (\$/mcf)	5.71	6.30	5.59	6.05	4.30	3.89	4.24	4.29	4.55
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	103.11	107.18	108.02	106.55	107.61
Differential	9.37	8.81	8.64	9.18	9.48	9.85	9.93	9.79	9.89
LGCY (\$/bbl)	75.72	80.95	85.41	85.93	93.63	97.33	98.10	96.77	97.72
Total (\$/bbl)	65.51	66.51	68.70	70.61	71.78	73.49	74.69	73.88	75.03
<b>Revenue (\$mm)</b>									
Natural Gas	8	16	14	54	10	9	10	42	44
Oil	54	68	73	283	79	83	84	330	332
Total	62	84	87	337	90	92	94	372	377
<b>Expense</b>									
Lease operating	18	24	26	97					
Production taxes	2	5	5	20					
General and administrative	6	4	4	18					
Total	26	33	35	135	37	37	39	152	154
<b>Ebitda</b>									
	36	51	52	202	53	54	56	220	223
Deprec., Deplet., & Amort.	18	22	24	88	25	25	25	101	100
Hedging and other	36	(102)	83	24				-	-
<b>Ebit</b>									
	(18)	131	(55)	90	28	29	31	120	123
Interest	1	6	3	18	3	3	3	12	12
<b>Ebt</b>									
	(19)	125	(58)	72	25	26	28	108	111
<b>Net Income (\$mm)</b>									
	(19)	125	(58)	72	25	26	28	108	111
Per Unit (\$)	(0.45)	2.87	(1.28)	1.71	0.53	0.56	0.58	2.26	2.33
<b>Units (millions)</b>									
	42	44	46	42	48	48	48	48	48
<b>Distribution (\$mm)</b>									
	22	24	25	95	26	26	26	105	105
Per Unit (\$)	0.53	0.55	0.55	2.17	0.55	0.55	0.55	2.20	2.20
Ebitda Margin	58%	61%	60%	60%	59%	59%	59%	59%	59%



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 9, 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.