



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 26, 2010

s&p 500: 1103 intraday

## Dorchester Minerals, L.P. (DMLP) Replaces Reserves and Pays 8% Income

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	59
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (US\$/sh)</i>	22.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/26/10	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Units (mm)</i>	29.82	<i>EV/Ebitda</i>	11.4
<i>Market Capitalization (US\$mm)</i>	660	<i>PV/Ebitda</i>	13.9
<i>Debt (US\$mm)</i>	17	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	677	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.56
<i>Present Value (PV) (US\$mm)</i>	822	<i>Present Value Proven Reserves(US\$/boe)</i>	58.57
<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>	1.24
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	18
<i>Distribution Yield (%/year)</i>	8.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.82
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 <a href="http://www.mcdep.com/4dhulz.htm">www.mcdep.com/4dhulz.htm</a>			

### Summary and Recommendation

Buy-recommended **Dorchester Minerals (DMLP)** offers unlevered appreciation potential of 22% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$27 a share. Along with the release of fourth quarter financial results on February 25, management disclosed that new reserves replaced production during the past year despite the partnership paying out all of its cash flow without reinvesting any. Like other Top Line Cash Payers in our coverage, DMLP receives royalty payments without the obligation to make new investments. Those payments fund income distributions currently projected at \$1.82 a unit for 2010 (see table on page 2, Next Twelve Months Operating and Financial Estimates). Because none of Ebitda is applied to sustain production, NPV corresponds to higher than normal multiples of cash flow (PV/Ebitda) in an industry context (see table on last page, Functional Cash Flow and Present Value). At the same time, reserve life index (Adjusted R/P) is understated because it includes no proven undeveloped reserves and B.P. Huddleston, DMLP's engineer, is especially conservative, in our experience. There are no undeveloped reserves because royalty owners often lack the detailed information of an operator required for an official estimate. Yet, we know from DMLP disclosures and industry trends that DMLP's lands are well-located to contribute future reserves. Thus, latest disclosures reaffirm our opinion that DMLP has high quality characteristics that make the distribution more sustainable than may be reflected in stock price.

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<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>Twelve</i>
	<i>12/31/08</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>Months</i>
									<i>12/31/10</i>
<b>Volume</b>									
Natural Gas (bcf)	2.23	2.27	2.23	<b>8.65</b>	2.18	2.20	2.23	2.23	<b>8.84</b>
Natural Gas (mmcf)	24.2	24.7	24.2	<b>23.7</b>	24.2	24.2	24.2	24.2	<b>24.2</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mb)	0.08	0.08	0.08	<b>0.3</b>	0.07	0.08	0.08	0.08	<b>0.3</b>
Oil (mbd)	0.88	0.87	0.83	<b>0.90</b>	0.83	0.83	0.83	0.83	<b>0.83</b>
Total (bcfe)	2.7	2.7	2.7	<b>10.6</b>	2.6	2.7	2.7	2.7	<b>10.7</b>
Total (mmcf)	29	30	29	<b>29</b>	29	29	29	29	<b>29</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.35	4.98	5.18	5.61	<b>5.28</b>
Differential (\$/mmbtu)	1.28	0.45	(0.58)	<b>0.45</b>	0.11	0.10	0.10	0.11	<b>0.11</b>
Company (\$/mcf)	5.67	2.94	4.74	<b>3.54</b>	5.24	4.88	5.07	5.50	<b>5.18</b>
WTI Cushing (\$/bbl)	58.45	68.22	76.09	<b>61.70</b>	78.41	80.61	81.79	82.55	<b>80.84</b>
Differential	7.06	9.10	8.61	<b>8.66</b>	11.00	11.29	11.45	11.56	<b>11.31</b>
Company	51.39	59.12	67.47	<b>53.04</b>	67.41	69.33	70.34	70.99	<b>69.53</b>
Total (\$/mcf)	6.19	4.15	5.85	<b>4.52</b>	6.26	6.02	6.20	6.58	<b>6.27</b>
<b>Revenue (\$mm)</b>									
Natural Gas	12.6	6.7	10.6	<b>30.6</b>	11.4	10.8	11.3	12.3	<b>45.8</b>
Oil	4.1	4.7	5.1	<b>17.4</b>	5.0	5.2	5.4	5.4	<b>21.0</b>
Other	(0.0)	0.3	0.3	<b>(0.3)</b>	0.3	0.3	0.3	0.3	<b>1.2</b>
Total	16.8	11.7	15.3	<b>47.0</b>	16.8	16.3	17.0	18.0	<b>68.0</b>
<b>Expense</b>									
Operating	1.0	1.2	1.0	<b>4.2</b>	1.1	1.1	1.1	1.2	<b>4.5</b>
General and administrative	1.4	0.8	1.1	<b>3.7</b>	1.1	1.1	1.1	0.9	<b>4.2</b>
Total	2.4	2.0	2.1	<b>7.9</b>	2.2	2.2	2.2	2.1	<b>8.7</b>
<b>Ebitda</b>	14.4	9.7	13.2	<b>39.1</b>	14.6	14.1	14.7	15.9	<b>59.3</b>
Minerals NPI	1.3	0.8	0.6	<b>2.5</b>	0.6	0.6	0.6	0.6	<b>2.5</b>
Deprec., Deplet., & Amort.	4.1	4.5	4.3	<b>15.6</b>	5.3	5.3	5.4	5.4	<b>21.3</b>
Other Non Cash	0.7	0.8	(0.0)	<b>1.8</b>	(0.0)	(0.0)	(0.0)	(0.0)	<b>(0.1)</b>
<b>Ebit</b>	9.6	4.3	8.9	<b>21.7</b>	9.3	8.8	9.4	10.5	<b>38.1</b>
<b>Ebt</b>	9.6	4.3	8.9	<b>21.7</b>	9.3	8.8	9.4	10.5	<b>38.1</b>
General Partner	0.3	0.2	0.3	<b>0.7</b>	0.3	0.3	0.3	0.3	<b>1.1</b>
<b>Net Income (\$mm)</b>	9.3	4.2	8.7	<b>21.0</b>	9.0	8.6	9.1	10.2	<b>36.9</b>
Per Share (\$)	0.33	0.14	0.29	<b>0.72</b>	0.30	0.29	0.31	0.34	<b>1.24</b>
<b>Shares (millions)</b>	28.2	29.8	29.8	<b>29.2</b>	29.8	29.8	29.8	29.8	<b>29.8</b>
<b>Distribution (\$/unit)</b>	0.54	0.29	0.32	<b>1.28</b>	0.43	0.46	0.46	0.48	<b>1.82</b>



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	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n			
	B = Buy CB (see below)	26-Feb 2010	Cap						
<b>Canadian Income Trusts (US\$)</b>									
Penn West Energy Trust	PWE	20.18	1.47	12,500	23	78	1.73	8.6	1.04
Peyto Energy Trust	PEYUF	13.07	1.26	1,900	71	29	1.38	10.6	1.00
Pengrowth Energy Trust	PGH	10.36	1.51	4,500	35	65	0.81	7.8	0.90
Enerplus Resources Fund	ERF	22.01	1.23	4,600	42	58	2.07	9.4	0.77
Canadian Oil Sands Trust	COSWF B	26.54	1.10	14,200		100	1.34	5.1	0.72
<i>Total or Median</i>				37,700					0.90
<b>Small Cap Independent Producers</b>									
Encore Acquisition Company	EAC	49.31	1.63	4,210	22	78	-	-	0.99
Whiting Petroleum Corporation	WLL	73.59	1.35	5,890	15	85	-	-	0.96
Cimarex Energy Company	XEC B	58.49	1.14	5,530	62	38	0.32	0.5	0.91
Berry Petroleum Company	BRY	27.67	1.90	2,350	31	69	0.30	1.1	0.88
Birchcliff Energy Ltd. (US\$)	BIREF	9.07	1.17	1,430	76	24	-	-	0.85
<i>Total or Median</i>				19,400					0.91
<b>Top Line Cash Payers</b>									
Sabine Royalty Trust	SBR	48.24	1.00	700	39	61	2.81	5.8	1.07
Cross Timbers Royalty Trust	CRT	33.11	1.00	200	78	22	2.56	7.7	0.98
Permian Basin RT	PBT	17.15	1.00	800	27	73	1.06	6.2	0.95
Freehold Royalty Trust (US\$)	FRHLF	15.34	1.20	910	25	75	1.65	10.8	0.92
Dorchester Minerals, L.P.	DMLP B	22.15	1.03	680	67	33	1.82	8.2	0.82
<i>Total or Median</i>				3,300					0.95
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	26.59	1.53	4,640	40	60	2.52	9.5	1.31
Encore Energy Partners, L.P. (52%)	ENP	19.89	1.28	600	23	77	2.15	10.8	1.13
San Juan Basin Royalty Trust	SJT B	20.38	1.00	950	100	-	1.60	7.8	0.97
Mesa Royalty Trust	MTR	41.59	1.00	78	75	25	3.83	9.2	0.87
Hugoton Royalty Trust	HGT B	17.78	1.00	710	88	12	1.21	6.8	0.85
<i>Total or Median</i>				7,000					0.97
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				53,200	37	63			0.96
<i>Equal Weighting</i>					49	51			0.96
<i>Equal Weighted Buys</i>					70	30			0.89
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 December 31, 2010. Enterprise Value = Market Cap and Debt.									



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		26-Feb 2010	Shares (mm)				
<b>Canadian Income Trusts (US\$)</b>								
	PWE		20.18	420.7	8,490	19.00	0.33	1.04
	PEYUF		13.07	114.9	1,500	13.00	0.21	1.00
	PGH		10.36	290.0	3,000	12.00	0.30	0.90
	ERF		22.01	169.0	3,720	30.00	0.15	0.77
	COSWF	B	26.54	484.0	12,850	38.00	0.07	0.72
	<i>Total or Median</i>				29,600		0.21	0.90
<b>Small Cap Independent Producers</b>								
	EAC		49.31	52.3	2,580	50.00	0.38	0.99
	WLL		73.59	59.0	4,350	78.00	0.25	0.96
	XEC	B	58.49	82.6	4,830	65.00	0.12	0.91
	BRY		27.67	44.9	1,240	35.00	0.41	0.88
	BIREF		9.07	134.0	1,220	11.00	0.12	0.85
	<i>Total or Median</i>				14,220		0.25	0.91
<b>Top Line Cash Payers</b>								
	SBR		48.24	14.6	700	45.00	-	1.07
	CRT		33.11	6.0	200	34.00	-	0.98
	PBT		17.15	46.6	800	18.00	-	0.95
	FRHLF		15.34	49.6	760	17.00	0.15	0.92
	DMLP	B	22.15	29.8	660	27.00	0.02	0.82
	<i>Total or Median</i>				3,120			0.95
<b>Bottom Line Cash Payers</b>								
	LINE		26.59	114.0	3,030	17.00	0.45	1.31
	ENP		19.89	23.6	470	17.00	0.25	1.13
	SJT	B	20.38	46.6	950	21.00	-	0.97
	MTR		41.59	1.9	78	48.00	-	0.87
	HGT	B	17.78	40.0	710	21.00	-	0.85
	<i>Total or Median</i>				5,240			0.97
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 \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		26-Feb 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		13.07		1.43	18.2	13.4	13.5
	COSWF	B	26.54		0.48	23.1	13.5	9.7
	PWE		20.18		0.72	9.6	7.9	8.2
	PGH		10.36		0.55	8.3	8.2	7.4
	ERF		22.01		0.66	9.8	9.5	7.3
	<i>Median</i>					9.8	9.5	8.2
<b>Small Cap Independent Producers</b>								
	BIREF		9.07		-	12.1	16.9	14.4
	EAC		49.31		-	11.7	8.0	7.9
	WLL		73.59		-	10.9	7.3	7.0
	BRY		27.67		-	12.4	7.7	6.8
	XEC	B	58.49		-	6.9	6.1	5.5
	<i>Median</i>					11.7	7.7	7.0
<b>Top Line Cash Payers</b>								
	SBR		48.24	100	1.00	12.0	16.0	17.2
	PBT		17.15	32	0.89	11.5	15.1	14.4
	CRT		33.11	84	0.96	12.9	12.8	12.5
	DMLP	B	22.15	64	0.93	7.9	13.9	11.4
	FRHLF		15.34	71	0.93	6.8	9.6	8.8
	<i>Median</i>					11.5	13.9	12.5
<b>Bottom Line Cash Payers</b>								
	LINE		26.59		1.91	18.3	12.9	16.9
	HGT	B	17.78		0.72	11.8	12.5	10.6
	SJT	B	20.38		0.81	9.1	10.7	10.4
	MTR		41.59		0.92	8.0	11.5	10.1
	ENP		19.89		1.12	12.5	8.8	10.0
	<i>Median</i>					11.8	11.5	10.4
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 December 31, 2010; 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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<b>Dorchester Minerals, L.P.</b>						
<b>Functional Cash Flow and Present Value</b>						
					<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>		
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>		
North American Natural Gas	40	7.2	13.8	550		67%
Oil	19	11.1	14.6	277		33%
	59	7.9	14.0	827		100%
Debt (US\$mm)						17
Net Present Value (US\$mm)						810
Shares (mm)						30
Net Present Value - Standard Estimate (US\$/sh)						27

**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.

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