



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010

Top Line Cash Payers Pure Plays in Reawakening Oil and Gas

Summary and Recommendation

Five Top Line Cash Payers including buy-recommended **Dorchester Minerals L.P. (DMLP)** along with **Freehold Energy Trust (FRHLF)**, **Cross Timbers Royalty Trust (CRT)**, **Permian Basin Royalty Trust (PBT)** and **Sabine Royalty Trust (SBR)** are trending upward in stock price defined by current quote above the 200-day average. A median McDep Ratio of 1.02 suggests that the stocks are reasonably valued on expected oil and gas prices and investors would receive most of their return in cash distributions. Yet the strong performance of small cap and income stocks along with indications of large companies stepping up acquisitions and investments in North American oil and gas may be omens of further oil and gas price and stock price gains. Boosted also by the curtailment of deep water oil supply as a result of the spill in the Gulf of Mexico, oil for the next six years has rebounded to \$85 a barrel, just under its 40-week average of \$86. A hot summer, stronger economy and increased risk of hurricanes has helped near-month natural gas break out to the upside of the 200-day average on June 3, settling at \$4.71 a million btu. The signs are encouraging for six-year natural gas, currently \$6.01, to resume an uptrend in the next few months above the 40-week average, currently \$6.50.

A high projected distribution yield ranging from 6-10% for the next twelve months for the five stocks is subject to almost no financial leverage and derives from onshore U.S. and Canada oil and gas, an essential need in a growing economy. Cash distributions in turn are mostly paid from the “top line” of financial results while others bear the burden of operating costs and capital expenditures. McDep Ratios range from 0.96 to 1.12 (see Tables 1-2 on pages 2-3). The denominator, Present Value, is a median 13.8 times unlevered cash flow (see PV/Ebitda in Table 3 on page 4). PV/Ebitda depends on reserve life and whether the resource is natural gas or oil (see tables for each stock, Functional Cash Flow and Present Value, on pages 5-6). We attribute the apparent disparity between reserve life and cash flow multiple for DMLP and SBR compared to CRT and PBT to restrictions on operating information available to royalty owners and differing interpretation of reporting rules. Actual volume history paints a more consistent picture. The same considerations apply to FRHLF where we have boosted reported reserves with the addition of probable quantities that Canadian companies provide.

Coincidentally, both FRHLF and DMLP are positioned in the same geologic trend on opposite sides of the Canada-U.S. border (see slide Bakken Mineral Title Lands, page 7, taken from FRHLF annual meeting presentation and slide Horizontal Bakken, page 7, taken from DMLP annual meeting presentation). DMLP and FRHLF also share the distinction of having independent management that can issue new units and acquire additional property. That feature shows in the volume trend, unadjusted for units, debt or distributions (see chart on page 8).

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010

Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAm.	Oil	Dist.	Dist.	McDep	
	B = Buy	3-Jun	Cap		Natural	Prod'n	NTM	Yield	Ratio	
	CB (see below)	2010			Gas		(\$/un)	(%)		
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF	14.03	1.25	2,110	76	24	1.37	9.8	0.95	
Penn West Energy Trust	PWE	20.04	1.38	11,900	23	77	1.71	8.5	0.90	
Pengrowth Energy Trust	PGH	9.48	1.47	4,000	39	61	0.80	8.4	0.90	
Enerplus Resources Fund	ERF	22.77	1.22	4,900	42	58	2.06	9.0	0.79	
Canadian Oil Sands Trust	COSWF CB	27.24	1.10	14,500		100	1.90	7.0	0.74	
<i>Total or Median</i>				37,400					0.90	
Small Cap Independent Producers										
Range Resources	RRC	51.01	1.25	9,020	81	19	0.08	0.2	1.21	
Petro-Hawk	HK	20.64	1.47	8,570	97	3	-	-	1.13	
Cimarex Energy Company	XEC B	77.33	1.09	7,220	66	34	0.32	0.4	1.03	
Berry Petroleum Company	BRY	32.88	1.64	2,750	31	69	0.30	0.9	0.96	
Ultra Petroleum	UPL	52.54	1.16	8,250	94	6	-	-	0.93	
Whiting Petroleum Corporation	WLL	87.92	1.23	6,090	13	87	-	-	0.90	
Birchcliff Energy Ltd. (US\$)	BIREF B	9.64	1.20	1,460	65	35	-	-	0.72	
<i>Total or Median</i>				41,900					1.00	
Top Line Cash Payers										
Sabine Royalty Trust	SBR	50.40	1.00	740	48	52	3.35	6.6	1.12	
Cross Timbers Royalty Trust	CRT	35.90	1.00	220	75	25	2.23	6.2	1.05	
Permian Basin RT	PBT	18.38	1.00	860	38	62	1.16	6.3	1.02	
Dorchester Minerals, L.P.	DMLP B	26.17	1.02	800	71	29	1.69	6.5	0.97	
Freehold Royalty Trust (US\$)	FRHLF	16.25	1.08	1,030	25	75	1.61	9.9	0.96	
<i>Total or Median</i>				3,700					1.02	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	25.59	1.46	5,390	45	55	2.52	9.8	1.14	
San Juan Basin Royalty Trust	SJT B	25.51	1.00	1,190	100	-	1.42	5.6	1.11	
Legacy Reserves L.P.	LGCY	22.15	1.40	1,210	16	84	2.08	9.4	1.07	
Encore Energy Partners, L.P. (52%)	ENP	16.50	1.35	520	23	77	2.00	12.1	0.98	
Mesa RoyaltyTrust	MTR	45.89	1.00	86	75	25	3.29	7.2	0.96	
Hugoton RoyaltyTrust	HGT B	19.49	1.00	780	90	10	1.60	8.2	0.93	
<i>Total or Median</i>				9,200					1.03	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				79,100	57	43			0.98	
<i>Equal Weighting</i>					56	44			0.99	
<i>Equal Weighted Buys</i>					66	34			0.95	

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.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010

Table 3

McDep Income and Small Cap Energy Portfolio Value Multiples - Rank by EV/Ebitda

			<i>Price</i>		<i>Adjstd</i>		
			<i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Resrvs/</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>3-Jun</i>	<i>Royalty</i>	<i>Equity</i>	<i>Prod</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>
							<i>EV/</i>
							<i>Ebitda</i>
							<i>NTM</i>
Canadian Income Trusts (US\$)							
Peyto Energy Trust	PEYUF		14.03		1.07	23.1	11.7
Canadian Oil Sands Trust	COSWF	CB	27.24		0.63	31.0	12.6
Penn West Energy Trust	PWE		20.04		0.67	9.9	9.0
Pengrowth Energy Trust	PGH		9.48		0.59	9.9	8.1
Enerplus Resources Fund	ERF		22.77		0.60	9.7	8.8
	<i>Median</i>					9.9	9.0
							8.1
Small Cap Independent Producers							
Range Resources	RRC		51.01		-	13.2	11.2
Ultra Petroleum	UPL		52.54		-	14.1	12.3
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.64		-	22.4	14.8
Petro-Hawk	HK		20.64		-	7.1	8.7
Berry Petroleum Company	BRY		32.88		-	13.1	7.9
Whiting Petroleum Corporation	WLL		87.92		-	10.3	7.5
Cimarex Energy Company	XEC	B	77.33		-	6.4	5.7
	<i>Median</i>					13.1	8.7
							9.8
Top Line Cash Payers							
Cross Timbers Royalty Trust	CRT		35.90	84	0.96	13.5	14.6
Sabine Royalty Trust	SBR		50.40	100	1.00	9.3	13.4
Permian Basin RT	PBT		18.38	42	0.89	13.3	13.8
Dorchester Minerals, L.P.	DMLP	B	26.17	77	0.91	7.5	14.5
Freehold Royalty Trust (US\$)	FRHLF		16.25	71	0.87	8.6	9.2
	<i>Median</i>					9.3	13.8
							14.1
Bottom Line Cash Payers							
Linn Energy, LLC	LINE		25.59		1.56	20.0	13.0
San Juan Basin Royalty Trust	SJT	B	25.51		0.79	14.8	12.9
Mesa RoyaltyTrust	MTR		45.89		0.91	9.2	13.2
Hugoton RoyaltyTrust	HGT	B	19.49		0.90	12.3	11.8
Legacy Reserves L.P.	LGCY		22.15		0.93	12.0	9.0
Encore Energy Partners, L.P.	ENP		16.50		1.14	12.9	9.7
	<i>Median</i>					12.6	12.3
							11.8

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).



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010

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	37	6.9	15.7	580	71%
Oil	20	10.0	11.8	237	29%
	57	7.5	14.3	817	100%
Debt (US\$mm)					17
Net Present Value (US\$mm)					800
Shares (mm)					30
Net Present Value - Standard Estimate (US\$/sh)					27

Freehold Royalty Trust					
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	21	8.4	12.9	270	25%
Oil	96	8.7	8.3	800	75%
	117	8.6	9.1	1,070	100%
Debt (US\$mm)					80
Net Present Value (US\$mm)					990
Shares (mm)					58
Net Present Value - Standard Estimate (US\$/sh)					17

Permian Basin Royalty Trust					
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	18	12.8	17.9	320	38%
Oil	43	13.6	12.2	520	62%
	61	13.3	13.8	840	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					840
Shares (mm)					46.6
Net Present Value (US\$/sh)					18



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010

Sabine Royalty Trust					
Functional Cash Flow and Present Value					
				<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	24	7.1	13.5	320	48%
Oil	25	14.3	13.5	340	52%
	49	9.3	13.5	660	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					660
Shares (mm)					14.6
Net Present Value (US\$/sh)					45

Cross Timbers Royalty Trust					
Functional Cash Flow and Present Value					
				<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	9	14.4	17.2	154	75%
Oil	5	11.7	10.0	50	25%
	14	13.5	14.6	204	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					204
Shares (mm)					6
Net Present Value (US\$/sh)					34

Bakken Mineral Title Lands

Most of Freehold's Bakken-prone title lands are unleased

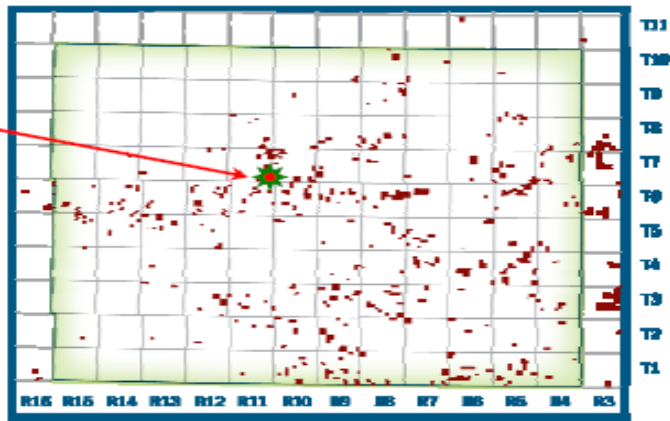
2009

- 2 (2.0 net) wells on 100% title lands

2010

- \$14 million
- 15 (6.5 net) wells

Freehold's land holdings



Freehold Royalty Trust 18

Dorchester Minerals, LP

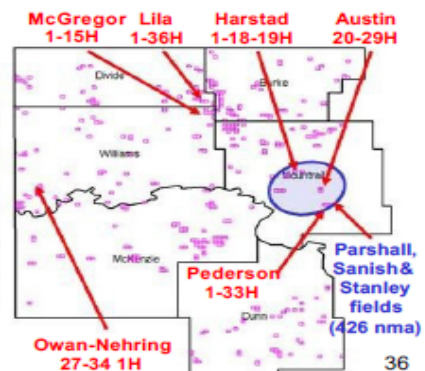


Horizontal Bakken

- Six County Core Area
 - Current development activity on DMLP acreage
 - 64 wells completed as producers (4 reached payout status)
 - 14 wells in various stages of drilling or completion
 - 10 wells permitted and/or proposed by operator
 - Rig count has increased 268% since May 2009
 - Three rigs currently drilling on DMLP acreage

88 wells/permits

Well Name (Operator)	Test Rate (boepd)	BPO NRI	APO NRI
Austin 20-29H (EOG)	1,693	4.15%	19.76%
Pederson 1-33H (EOG)	1,639	0.52%	2.47%
Harstad 18-19H (Fidelity)	681	0.73%	5.82%
Lila 1-36H (Continental)	561	0.42%	2.45%
Owan-Nehring 27-34 1H (BEXP)	2,513	0.21%	1.65%
McGregor 1-15H (Continental)	1,476	0.02%	0.11%

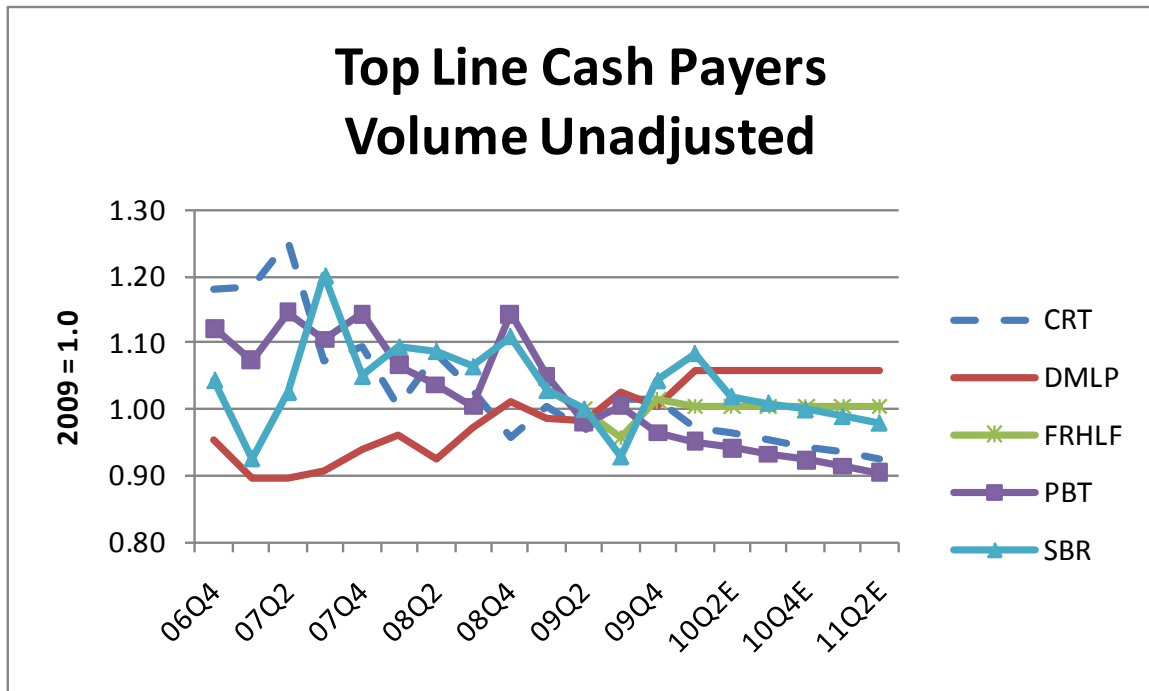




Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 4, 2010



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 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.