



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 25, 2010

## Small Cap Oil Growth in Denbury Resources

<i>Symbol</i>	DNR	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$m)</i>	1,070
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (\$/sh)</i>	15.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/24/10	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	390	<i>EV/Ebitda</i>	8.9
<i>Market Capitalization (\$mm)</i>	6,180	<i>PV/Ebitda</i>	8.6
<i>Debt (\$mm)</i>	3,370	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	9,550	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	37.90
<i>Present Value (PV) (\$mm)</i>	9,220	<i>Present Value Proven Reserves(\$/boe)</i>	24.70
<i>Net Present Value (\$/share)</i>	15	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.37	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.74
<i>McDep Ratio - EV/PV</i>	1.04	<i>Price/Earnings Next Twelve Months</i>	21
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
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 research on oil and gas stocks since 2000, see <a href="http://www.mcdep.com">www.mcdep.com</a> .			

### Summary and Recommendation

Small (mid) cap independent producer **Denbury Resources (DNR)** offers strategic investment representation in oil at a tentative McDep Ratio of 1.04. Estimated Net Present Value (NPV) of \$15 a share has upside potential in volume that may grow more than 10% a year and in oil price that may double in the 2010s decade. We add DNR to coverage after it acquired a past McDep favorite, Encore Acquisition, for stock and debt. Encore properties that did not fit the geographic emphasis have been sold. DNR has also become the general partner and half owner of the units of **Encore Energy Partners, L.P. (ENP)**. Meanwhile, DNR's core strength is applying carbon dioxide (CO<sub>2</sub>) injection to recover more oil from the big old fields where primary production and waterflood secondary production have been mostly exploited. The company is a leader in applying CO<sub>2</sub> in the Gulf Coast and it acquired Encore to establish a similar position in the Rocky Mountain region. DNR may acquire the minority ENP interest in Elk Basin, a Rockies oil field considered a CO<sub>2</sub> prospect. Chief executive Phil Rykhoek hopes that enhanced oil recovery (EOR) can triple proven reserves (see slide [Headed to a Billion Barrels](#)). Mainly proven reserves are reflected in NPV (see table [Functional Cash Flow and Present Value](#)). Nor does the near-term cash flow projection indicate the growth potential (see table [Next Twelve Months Operating and Financial Estimates](#)). Debt looks high in part because we have increased it by about a half billion dollars for the minority interest in ENP, pending the outcome of an ENP restructuring. Finally, stock price trend is up with DNR trading fractionally above its 200-day average.

Kurt H. Wulff, CFA



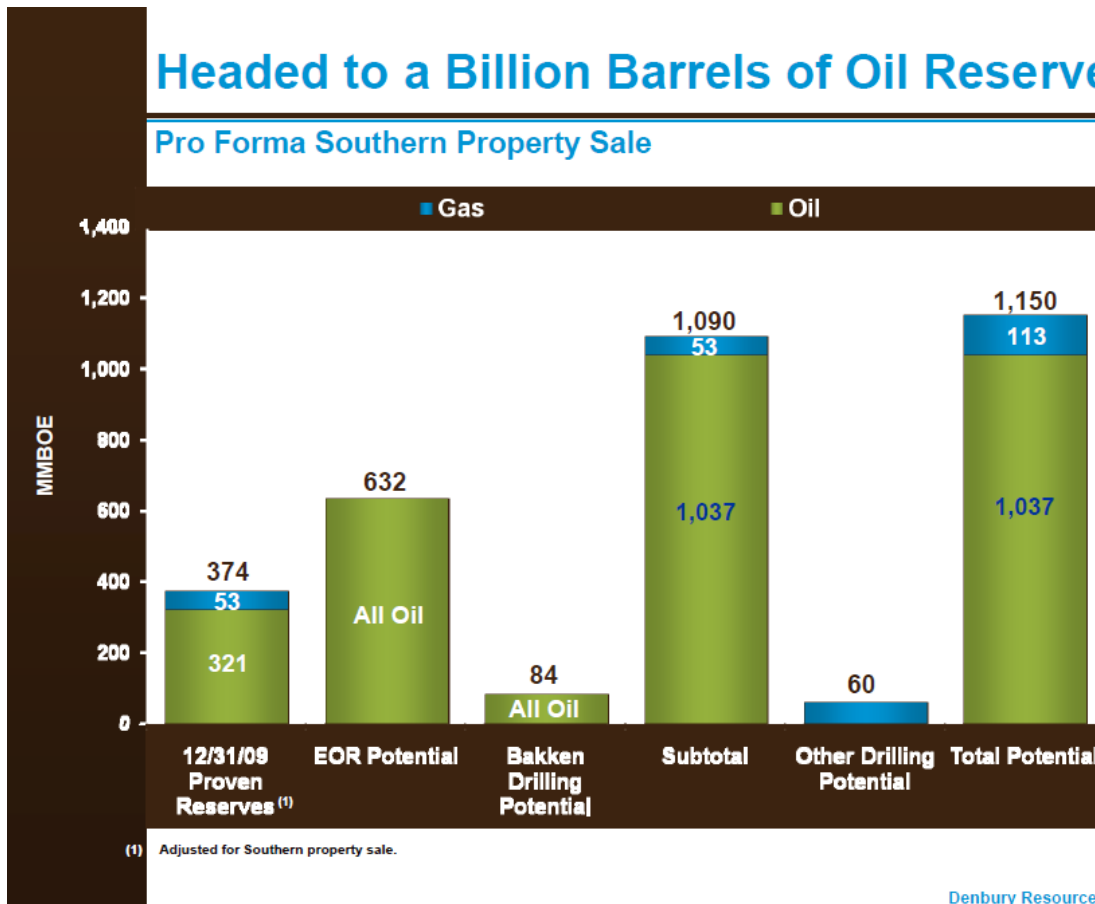
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## Headed to a Billion Barrels of Oil Reserves

### Pro Forma Southern Property Sale



Denbury Resources Inc.					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	146	8.6	10.2	1,500	16%
Oil	924	12.4	8.4	7,720	84%
	1,070	11.3	8.6	9,220	100%
Debt (US\$mm)					3,370
Net Present Value (US\$mm)					5,850
Shares (mm)					390
Net Present Value - Standard Estimate (US\$/sh)					15
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					14



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Denbury Resources Inc.								
Next Twelve Months Operating and Financial Estimates								
	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	3/31/10	6/30/10	9/30/10	12/31/10	2010	3/31/11	6/30/11	6/30/11
<b>Volume</b>								
Natural Gas (mmcf)	53	128	128	128	110	128	128	128
Oil (mbd)	44	56	56	56	53	56	56	56
Total (mb)	4.8	7.0	7.1	7.1	26	7.0	7.0	28
Total (mbd)	53	77	77	77	71	77	77	77
<b>Price</b>								
Henry Hub (\$/mmbtu)	5.32	4.09	4.92	5.24	4.89	5.50	5.22	5.22
Differential (\$/mmbtu)	(0.08)	-	-	-	0.06	-	-	0.00
Company (\$/mcf)	5.40	4.09	4.92	5.24	4.83	5.50	5.22	5.22
WTI Cushing (\$/bbl)	78.67	78.30	78.50	80.68	79.04	81.72	83.22	81.03
Differential	2.14	5.48	5.50	5.65	4.82	5.72	5.83	5.68
Company (\$/bbl)	76.53	72.82	73.01	75.03	74.22	76.00	77.40	75.35
Total (\$/bbl)	69.19	59.50	61.02	63.01	62.65	64.14	64.69	63.21
<b>Revenue (\$mm)</b>								
Natural Gas	26	48	58	62	193	63	61	244
Oil	305	371	376	387	1,439	383	394	1,540
Total	331	419	434	448	1,632	446	455	1,784
<b>Expense</b>								
Lease operating	98							-
Production taxes	19							-
General and administrative	33							-
Total	150	167	174	179	670	179	182	714
<b>Ebitda</b>								
Deprec., Deplet., & Amort.	82	127	127	127	462	127	127	507
Other	45				45			-
<b>Ebit</b>								
Interest	26	30	30	30	116	30	30	120
<b>Ebt</b>								
Income Tax	10	33	36	39	118	39	41	155
<b>Net Income (\$mm)</b>								
Per Share (\$)	0.06	0.16	0.17	0.19	0.58	0.19	0.19	0.74
<b>Shares (millions)</b>								
Ebitda Margin	55%	60%	60%	60%	59%	60%	60%	60%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%



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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)	24-Jun 2010	Cap							
<b>Canadian Income Trusts (US\$)</b>									
Peyto Energy Trust	PEYUF	14.52	1.25	2,180	76	24	1.41	9.7	0.97
Pengrowth Energy Trust	PGH	9.78	1.47	4,200	39	61	0.82	8.4	0.92
Penn West Energy Trust	PWE	20.03	1.39	12,000	23	77	1.76	8.8	0.90
Enerplus Resources Fund	ERF	22.59	1.23	4,900	42	58	2.11	9.4	0.79
Canadian Oil Sands Trust	COSWF CB	27.17	1.10	14,500		100	1.96	7.2	0.73
<i>Total or Median</i>				37,800					0.90
<b>Small Cap Independent Producers</b>									
Range Resources	RRC	43.45	1.23	9,650	81	19	0.08	0.2	1.30
Petro-Hawk	HK	19.08	1.42	9,210	97	3	-	-	1.21
Denbury Resources Inc.	DNR	15.85	1.54	9,550	16	84	-	-	1.04
Ultra Petroleum	UPL	46.56	1.15	8,970	94	6	-	-	1.01
Cimarex Energy Company	XEC B	71.95	1.10	6,760	66	34	0.32	0.4	0.96
Whiting Petroleum Corporation	WLL	83.98	1.21	6,470	13	87	-	-	0.96
Berry Petroleum Company	BRY	28.73	1.73	2,540	31	69	0.30	1.0	0.89
Birchcliff Energy Ltd. (US\$)	BIREF B	9.72	1.20	1,490	66	34	-	-	0.73
<i>Total or Median</i>				53,200					1.01
<b>Top Line Cash Payers</b>									
Permian Basin RT	PBT	18.91	1.00	880	38	62	1.25	6.6	1.05
Sabine Royalty Trust	SBR	47.13	1.00	690	50	50	3.49	7.4	1.05
Cross Timbers Royalty Trust	CRT	35.50	1.00	210	75	25	2.42	6.8	1.04
Freehold Royalty Trust (US\$)	FRHLF	16.22	1.09	1,030	25	75	1.64	10.1	0.96
Dorchester Minerals, L.P.	DMLP B	25.74	1.02	780	71	29	1.80	7.0	0.95
<i>Total or Median</i>				3,600					1.04
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	25.79	1.46	5,420	42	58	2.52	9.8	1.15
Legacy Reserves LP.	LGCY	23.47	1.38	1,270	16	84	2.08	8.9	1.12
San Juan Basin Royalty Trust	SJT B	25.10	1.00	1,170	100	-	1.42	5.7	1.09
Encore Energy Partners, L.P. (52%)	ENP	17.52	1.33	550	23	77	2.00	11.4	1.02
Mesa Royalty Trust	MTR	47.25	1.00	88	75	25	3.83	8.1	0.98
Hugoton Royalty Trust	HGT B	19.97	1.00	800	90	10	1.64	8.2	0.95
<i>Total or Median</i>				9,300					1.06
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				90,800	53	47			1.01
<i>Equal Weighting</i>					54	46			1.00
<i>Equal Weighted Buys</i>					66	34			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 2**

## McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			Price		Market	Net		
			(\$/sh)	Shares	Cap	Present	Debt/	
	Symbol/		24-Jun	(mm)	(\$mm)	Value	Present	
	Rating		2010			(\$/un)	Value	
							McDep	
							Ratio	
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		14.52	120.5	1,750	15.00	0.19	0.97
Pengrowth Energy Trust	PGH		9.78	290.0	2,840	11.00	0.29	0.92
Penn West Energy Trust	PWE		20.03	428.3	8,580	23.00	0.26	0.90
Enerplus Resources Fund	ERF		22.59	178.0	4,020	30.00	0.14	0.79
Canadian Oil Sands Trust	COSWF	CB	27.17	484.0	13,150	38.00	0.07	0.73
<i>Total or Median</i>					30,300		0.19	0.90
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		43.45	160.0	7,820	35.00	0.25	1.30
Petro-Hawk	HK		19.08	303.0	6,470	16.00	0.36	1.21
Denbury Resources Inc.	DNR		15.85	390.0	6,180	15.00	0.37	1.04
Ultra Petroleum	UPL		46.56	154.0	7,810	50.00	0.13	1.01
Cimarex Energy Company	XEC	B	71.95	85.4	6,140	75.00	0.09	0.96
Whiting Petroleum Corporation	WLL		83.98	59.2	5,340	95.00	0.17	0.96
Berry Petroleum Company	BRY		28.73	51.0	1,470	35.00	0.37	0.89
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.72	127.0	1,240	14.00	0.12	0.73
<i>Total or Median</i>					42,470		0.21	0.99
<b>Top Line Cash Payers</b>								
Permian Basin RT	PBT		18.91	46.6	880	18.00	-	1.05
Sabine Royalty Trust	SBR		47.13	14.6	690	45.00	-	1.05
Cross Timbers Royalty Trust	CRT		35.50	6.0	210	34.00	-	1.04
Freehold Royalty Trust (US\$)	FRHLF		16.22	58.4	950	17.00	0.08	0.96
Dorchester Minerals, L.P.	DMLP	B	25.74	29.8	770	27.00	0.02	0.95
<i>Total or Median</i>					3,500			1.04
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		25.79	144.0	3,710	21.00	0.36	1.15
Legacy Reserves L.P.	LGCY		23.47	39.2	920	20.00	0.31	1.12
San Juan Basin Royalty Trust	SJT	B	25.10	46.6	1,170	23.00	-	1.09
Encore Energy Partners, L.P. (52%)	ENP		17.52	23.4	410	17.00	0.26	1.02
Mesa Royalty Trust	MTR		47.25	1.9	88	48.00	-	0.98
Hugoton Royalty Trust	HGT	B	19.97	40.0	800	21.00	-	0.95
<i>Total or Median</i>					7,100			1.06

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

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Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.



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			<i>Price</i> <i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Adjstd</i>		
	<i>Symbol/</i>		<i>24-Jun</i>	<i>Royalty</i>	<i>Equity</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>
						<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		14.52		1.05	23.1	11.2	10.9
Canadian Oil Sands Trust	COSWF	CB	27.17		0.62	31.0	12.0	8.8
Penn West Energy Trust	PWE		20.03		0.66	9.9	8.6	7.8
Pengrowth Energy Trust	PGH		9.78		0.58	9.9	7.7	7.1
Enerplus Resources Fund	ERF		22.59		0.59	9.7	8.4	6.6
	<i>Median</i>					9.9	8.6	7.8
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		43.45		-	13.2	10.6	13.8
Ultra Petroleum	UPL		46.56		-	14.1	11.4	11.6
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.72		-	22.4	14.1	10.4
Petro-Hawk	HK		19.08		-	7.1	8.2	10.0
Denbury Resources Inc.	DNR		15.85		-	11.3	8.6	8.9
Whiting Petroleum Corporation	WLL		83.98		-	10.3	7.1	6.8
Berry Petroleum Company	BRY		28.73		-	13.1	7.6	6.8
Cimarex Energy Company	XEC	B	71.95		-	6.4	5.4	5.2
	<i>Median</i>					12.2	8.4	9.5
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		35.50	84	0.96	13.6	13.5	14.1
Permian Basin RT	PBT		18.91	42	0.90	13.3	13.0	13.6
Sabine Royalty Trust	SBR		47.13	100	1.00	9.1	12.9	13.5
Dorchester Minerals, L.P.	DMLP	B	25.74	77	0.92	7.5	13.7	13.1
Freehold Royalty Trust (US\$)	FRHLF		16.22	71	0.85	8.6	8.8	8.5
	<i>Median</i>					9.1	13.0	13.5
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		25.79		1.52	20.0	12.7	14.5
San Juan Basin Royalty Trust	SJT	B	25.10		0.79	14.8	12.8	14.0
Mesa Royalty Trust	MTR		47.25		0.91	9.2	11.4	11.2
Hugoton Royalty Trust	HGT	B	19.97		0.90	12.3	11.5	11.0
Encore Energy Partners, L.P.	ENP		17.52		1.06	12.9	9.0	9.2
Legacy Reserves L.P.	LGCY		23.47		0.85	12.0	8.1	9.1
	<i>Median</i>					12.6	11.5	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 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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**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.