



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 25, 2011

Dorchester Minerals, L.P. (DMLP) Profitable Production amid Unstable Politics

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$m)</i>	58
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	55
<i>Price (US\$/sh)</i>	27.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/24/11	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	14.4
<i>Market Capitalization (US\$m)</i>	836	<i>PV/Ebitda</i>	15.8
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	836	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.09
<i>Present Value (PV) (US\$m)</i>	920	<i>Present Value Proven Reserves(US\$/boe)</i>	63.37
<i>Net Present Value (US\$/unit)</i>	30	<i>Oil and Gas Ebitda Margin (%)</i>	84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.12
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	24
<i>Distribution Yield (%/year)</i>	6.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.64
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, \$8 a million btu.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

Units of buy-recommended **Dorchester Minerals (DMLP)** offer 6% a year income from rising cash flow as the partnership helps fill growing demand for energy. The partnership also benefits as energy supply is restricted by chronically unstable political conditions in the Mideast and by chronically destructive energy policy in the U.S. Rising energy price boosted cash flow beyond our expectations of three months ago for DMLP as disclosed in Form 10-K filed with the Securities and Exchange Commission last night (see table Next Twelve Months Operating and Financial Performance on page 2). Volume per unit increased compared to the fourth quarter and year 2009 as new drilling by others at little cost to the partnership contributed volumes that more than offset decline from existing wells. The rate of increase tapered slightly in the fourth quarter. Royalty properties increased their share of volume to 60% and Minerals Net Profits Interests (NPI) to 11%. Rapidly growing Minerals NPI volume, up 76% in 2010, generates cash flow that will likely continue to be reinvested for at least the next five years as explained in the 10-K. DMLP royalty and NPI lands are strategically located in active drilling plays including the Fayetteville Shale of Arkansas, the Bakken Shale of North Dakota and the Granite Wash in the Texas Panhandle among others. Valuation is attractive as DMLP's McDep Ratio of 0.91 is the lowest in its group of high quality, mostly debt-free Top Line Cash Payers (see Tables 1-2 on pages 3-4). Meanwhile, seeing no early resolution of the curtailment of Libyan oil supply among other global and U.S. political issues, we are mindful that energy and the stock market did well under similar circumstances in 1979-1980 until the U.S. presidential elections in November at the end of those two years.

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>Year</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>12/31/09</i>	<i>2009</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>Months</i>
									<i>12/31/11</i>
Volume									
Natural Gas (bcf)	2.23	8.65	2.54	2.32	9.30	2.27	2.30	2.32	9.21
Natural Gas (mmcf/d)	24.2	23.7	27.6	25.2	25.5	25.2	25.2	25.2	25.2
Days	92	365	92	92	365	90	91	92	365
Oil (mb)	0.08	0.3	0.10	0.09	0.4	0.09	0.09	0.09	0.4
Oil (mbd)	0.83	0.90	1.08	1.02	1.05	1.02	1.02	1.02	1.02
Total (bcfe)	2.7	10.6	3.1	2.9	11.6	2.8	2.9	2.9	11.4
Total (mmcf/d)	29	29	34	31	32	31	31	31	31
Price									
Henry Hub (\$/mmbtu)	4.16	3.99	4.38	3.80	4.40	4.11	3.95	4.10	4.13
Differential (%)	(37)	1	6	(26)	(3)	(10)	(10)	(10)	(10)
Company (\$/mcf)	5.68	3.96	4.10	4.79	4.51	4.52	4.34	4.51	4.55
WTI Cushing (\$/bbl)	76.09	61.70	76.08	85.10	79.43	91.12	98.49	100.31	97.70
Differential	2.74	4.43	4.98	6.10	5.03	6.53	7.06	7.19	6.97
Company	73.34	57.27	71.10	79.00	74.39	84.59	91.43	93.12	90.72
Total (\$/mcf)	6.80	5.00	5.57	6.43	6.08	6.40	6.48	6.67	6.62
Revenue (\$mm)									
Natural Gas	12.7	34.3	10.4	11.1	41.9	10.3	10.0	10.5	41.9
Oil	5.6	18.8	7.0	7.4	28.6	7.8	8.5	8.8	33.9
Other	(3.0)	(6.0)	1.2	(1.6)	(1.5)	(1.6)	(1.6)	(1.6)	(6.5)
Total	15.3	47.0	18.7	16.9	69.0	16.4	16.9	17.6	69.3
Expense									
Operating	1.0	4.2	1.6	1.4	5.9	1.4	1.4	1.4	5.7
General and administrative	1.1	3.7	0.8	1.3	4.1	1.3	1.3	1.3	5.3
Total	2.1	7.9	2.3	2.7	10.0	2.7	2.7	2.8	11.0
Ebitda									
Minerals NPI	0.6	2.5	1.7	1.6	6.2	1.6	1.6	1.6	6.5
Deprec., Deplet., & Amort.	4.3	15.6	5.1	4.1	18.0	5.6	5.7	5.8	22.9
Other Non Cash	(0.7)	(0.8)	(0.0)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)
Ebit									
	8.9	21.7	9.5	8.5	35.0	8.2	8.5	9.2	35.8
Ebt									
	8.9	21.7	9.5	8.5	35.0	8.2	8.5	9.2	35.8
General Partner	0.3	0.7	0.3	0.3	1.2	0.3	0.3	0.4	1.4
Net Income (\$mm)									
	8.7	21.0	9.2	8.3	33.8	7.8	8.2	8.8	34.3
Units (millions)									
	29.8	29.2	30.7	30.7	30.5	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)									
	0.29	0.72	0.30	0.27	1.11	0.26	0.27	0.29	1.12
Distribution (\$/unit)									
	0.32	1.28	0.47	0.35	1.69	0.38	0.41	0.42	1.64



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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	24-Feb	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Denbury Resources Inc.	DNR		23.35	1.36	12,800	12	88	9.2	-	-	1.04
Berry Petroleum Company	BRY		49.24	1.39	3,730	26	74	9.2	0.30	0.6	1.03
Range Resources	RRC	B	52.09	1.26	10,270	77	23	17.2	0.16	0.3	1.03
Cimarex Energy Company	XEC	B	114.59	1.07	10,480	45	55	8.3	0.32	0.3	0.96
Petrohawk Energy Corporation	HK	B	20.35	1.55	9,550	87	13	10.7	-	-	0.90
Whiting Petroleum Corporation	WLL		64.00	1.16	8,800	11	89	7.3	-	-	0.87
Peyto Exploration and Development	PEYUF		19.30	1.19	2,800	77	23	12.6	0.73	3.8	0.83
Ultra Petroleum	UPL		44.29	1.22	8,300	92	8	11.6	-	-	0.77
Birchcliff Energy Ltd.	BIREF	B	11.23	1.24	1,770	62	38	11.3	-	-	0.74
<i>Total or Median</i>					68,500			10.7		-	0.90
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		47.35	1.00	280	69	31		2.80	5.9	1.28
Sabine Royalty Trust	SBR		64.45	1.00	940	38	62		4.35	6.7	1.09
Freehold Royalties Ltd.	FRHLF		22.01	1.07	1,370	20	80		1.69	7.7	1.00
Permian Basin RT	PBT		21.94	1.00	1,020	31	69		1.66	7.5	1.00
Dorchester Minerals, L.P.	DMLP	B	27.26	1.00	840	61	39		1.64	6.0	0.91
<i>Total or Median</i>					4,500					6.7	1.00
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		39.20	1.42	8,270	36	64	17.7	2.64	6.7	1.25
Vanguard Natural Resources, LLC	VNR		32.25	1.36	1,300	30	70	10.8	2.24	6.9	1.14
Legacy Reserves L.P.	LGCY		31.08	1.31	1,630	13	87	11.5	2.10	6.8	1.08
San Juan Basin Royalty Trust	SJT	B	24.74	1.00	1,150	100	-	14.8	1.40	5.7	0.99
Encore Energy Partners, L.P.	ENP		22.46	1.24	1,260	18	82	10.0	1.80	8.0	0.98
Hugoton Royalty Trust	HGT	B	21.50	1.00	860	86	14	14.5	1.25	5.8	0.98
Pengrowth Energy Corporation	PGH		12.53	1.37	5,100	29	71	8.0	0.85	6.8	0.92
Mesa Royalty Trust	MTR		47.08	1.00	88	75	25	11.9	3.27	7.0	0.89
Enerplus Corporation	ERF		31.96	1.18	6,700	34	66	8.2	2.18	6.8	0.88
<i>Total or Median</i>					26,400			11.5		6.8	0.98
Composite											
<i>Enterprise Value Weighting</i>					99,300	47	53				0.95
<i>Equal Weighting</i>						49	51				0.98
<i>Equal Weighted Buys</i>						70	30				0.93

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 \$8 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2011. Enterprise Value = Market Cap and Debt.



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Table ISC-2

McDep Income and Small Cap Energy Portfolio

Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>24-Feb</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2011</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
Denbury Resources Inc.	DNR		23.35	402.0	9,390	22.00	0.28	1.04
Berry Petroleum Company	BRY		49.24	54.4	2,680	47.00	0.29	1.03
Range Resources	RRC	B	52.09	157.1	8,180	50.00	0.21	1.03
Cimarex Energy Company	XEC	B	114.59	85.8	9,830	120.00	0.06	0.96
Petrohawk Energy Corporation	HK	B	20.35	302.0	6,150	24.00	0.32	0.90
Whiting Petroleum Corporation	WLL		64.00	119.0	7,620	75.00	0.12	0.87
Peyto Exploration and Development Corp	PEYUF		19.30	121.8	2,350	24.00	0.13	0.83
Ultra Petroleum	UPL		44.29	154.0	6,820	60.00	0.14	0.77
Birchcliff Energy Ltd.	BIREF	B	11.23	127.3	1,430	16.00	0.14	0.74
<i>Total or Median</i>					<i>54,450</i>		<i>0.14</i>	<i>0.90</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.35	6.0	280	37.00	-	1.28
Sabine Royalty Trust	SBR		64.45	14.6	940	59.00	-	1.09
Freehold Royalties Ltd.	FRHLF		22.01	58.4	1,290	22.00	0.06	1.00
Permian Basin RT	PBT		21.94	46.6	1,020	22.00	-	1.00
Dorchester Minerals, L.P.	DMLP	B	27.26	30.7	840	30.00	-	0.91
<i>Total or Median</i>					<i>4,370</i>			<i>1.00</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		39.20	148.3	5,810	28.00	0.37	1.25
Vanguard Natural Resources, LLC	VNR		32.25	29.8	960	27.00	0.30	1.14
Legacy Reserves L.P.	LGCY		31.08	40.1	1,250	28.00	0.25	1.08
San Juan Basin Royalty Trust	SJT	B	24.74	46.6	1,150	25.00	-	0.99
Encore Energy Partners, L.P.	ENP		22.46	45.3	1,020	23.00	0.19	0.98
Hugoton Royalty Trust	HGT	B	21.50	40.0	860	22.00	-	0.98
Pengrowth Energy Corporation	PGH		12.53	299.0	3,750	14.00	0.25	0.92
Mesa Royalty Trust	MTR		47.08	1.9	88	53.00	-	0.89
Enerplus Corporation	ERF		31.96	177.5	5,670	37.00	0.14	0.88
<i>Total or Median</i>					<i>20,560</i>			<i>0.98</i>

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 \$8 a million btu for natural gas.



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Table ISC-3

McDep Income and Small Cap Energy Portfolio

Value Multiples - Rank by EV/Ebitda

			Price (\$/sh)	Revenue Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		24-Feb 2011					
Small Cap Independent Producers								
Range Resources	RRC	B	52.09		-	16.8	16.6	17.2
Peyto Exploration and Development Corp	PEYUF		19.30		0.46	19.8	15.1	12.6
Ultra Petroleum	UPL		44.29		-	27.1	15.0	11.6
Birchcliff Energy Ltd.	BIREF	B	11.23		-	20.8	15.2	11.3
Petrohawk Energy Corporation	HK	B	20.35		-	8.2	11.9	10.7
Denbury Resources Inc.	DNR		23.35		-	13.1	8.8	9.2
Berry Petroleum Company	BRY		49.24		-	11.3	8.9	9.2
Cimarex Energy Company	XEC	B	114.59		-	7.4	8.7	8.3
Whiting Petroleum Corporation	WLL		64.00		-	10.8	8.4	7.3
	<i>Median</i>					<i>13.1</i>	<i>11.9</i>	<i>10.7</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.35	84	0.97	13.2	12.7	16.3
Sabine Royalty Trust	SBR		64.45	100	1.00	7.7	13.6	14.8
Dorchester Minerals, L.P.	DMLP	B	27.26	77	0.86	7.6	15.8	14.4
Permian Basin RT	PBT		21.94	32	0.96	13.2	12.7	12.7
Freehold Royalties Ltd.	FRHLF		22.01	71	0.81	8.1	10.5	10.5
	<i>Median</i>					<i>8.1</i>	<i>12.7</i>	<i>14.4</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		39.20		1.33	19.7	14.1	17.7
San Juan Basin Royalty Trust	SJT	B	24.74		0.84	14.1	15.0	14.8
Hugoton Royalty Trust	HGT	B	21.50		0.85	12.6	14.9	14.5
Mesa Royalty Trust	MTR		47.08		0.82	8.8	13.4	11.9
Legacy Reserves L.P.	LGCY		31.08		0.79	12.0	10.6	11.5
Vanguard Natural Resources, LLC	VNR		32.25		0.79	12.8	9.5	10.8
Encore Energy Partners, L.P.	ENP		22.46		0.80	12.9	10.2	10.0
Enerplus Corporation	ERF		31.96		0.55	9.2	9.3	8.2
Pengrowth Energy Corporation	PGH		12.53		0.52	9.0	8.6	8.0
	<i>Median</i>					<i>12.6</i>	<i>10.6</i>	<i>11.5</i>

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, 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).



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Table ISC-4

Oil and Gas Income and Small Cap Stocks Rank by Enterprise Value to 200 Day Average

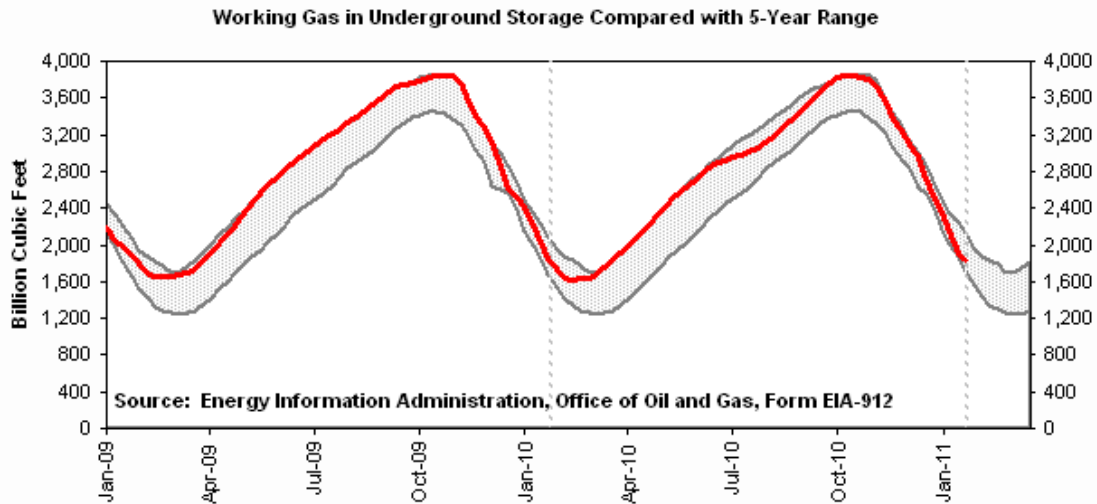
	Symbol/ Rating		Price (\$/sh)		Enterprise Value/			McDep Ratio
			24-Feb 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	
Small Cap Independent Producers								
Cimarex Energy Company	XEC	B	114.59	0.98	1.93	1.16	1.40	0.96
Berry Petroleum Company	BRY		49.24	0.99	1.57	1.07	1.26	1.03
Whiting Petroleum Corporation	WLL		64.00	0.97	1.64	1.06	1.24	0.87
Denbury Resources Inc.	DNR		23.35	0.97	1.45	1.12	1.23	1.04
Range Resources	RRC	B	52.09	0.97	1.43	1.09	1.18	1.03
Peyto Exploration and Development Co	PEYUF		19.30	0.97	1.56	1.02	1.18	0.83
Birchcliff Energy Ltd.	BIREF	B	11.23	0.92	1.34	1.04	1.14	0.74
Petrohawk Energy Corporation	HK	B	20.35	0.90	1.26	1.03	1.08	0.90
Ultra Petroleum	UPL		44.29	0.85	1.15	0.95	0.99	0.77
	<i>Median</i>			<i>0.97</i>	<i>1.45</i>	<i>1.06</i>	<i>1.18</i>	<i>0.90</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.35	0.98	1.68	1.10	1.24	1.28
Freehold Royalties Ltd.	FRHLF		22.01	0.97	1.47	1.04	1.21	1.00
Sabine Royalty Trust	SBR		64.45	0.99	1.52	1.06	1.18	1.09
Permian Basin RT	PBT		21.94	0.92	1.53	1.00	1.09	1.00
Dorchester Minerals, L.P.	DMLP	B	27.26	0.93	1.33	1.00	1.03	0.91
	<i>Median</i>			<i>0.97</i>	<i>1.52</i>	<i>1.04</i>	<i>1.18</i>	<i>1.00</i>
Bottom Line Cash Payers								
Enerplus Corporation	ERF		31.96	0.97	1.92	1.02	1.18	0.88
Vanguard Natural Resources, LLC	VNR		32.25	0.97	1.54	1.06	1.18	1.14
Legacy Reserves L.P.	LGCY		31.08	0.99	1.48	1.06	1.16	1.08
Linn Energy, LLC	LINE		39.20	0.99	1.91	1.02	1.14	1.25
Encore Energy Partners, L.P.	ENP		22.46	0.95	1.87	1.01	1.12	0.98
Pengrowth Energy Corporation	PGH		12.53	0.94	1.95	0.98	1.09	0.92
Hugoton Royalty Trust	HGT	B	21.50	0.97	1.43	1.02	1.06	0.98
San Juan Basin Royalty Trust	SJT	B	24.74	0.87	1.26	1.03	1.02	0.99
Mesa Royalty Trust	MTR		47.08	0.87	1.29	0.98	1.00	0.89
	<i>Median</i>			<i>0.97</i>	<i>1.54</i>	<i>1.02</i>	<i>1.12</i>	<i>0.98</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								



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