



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

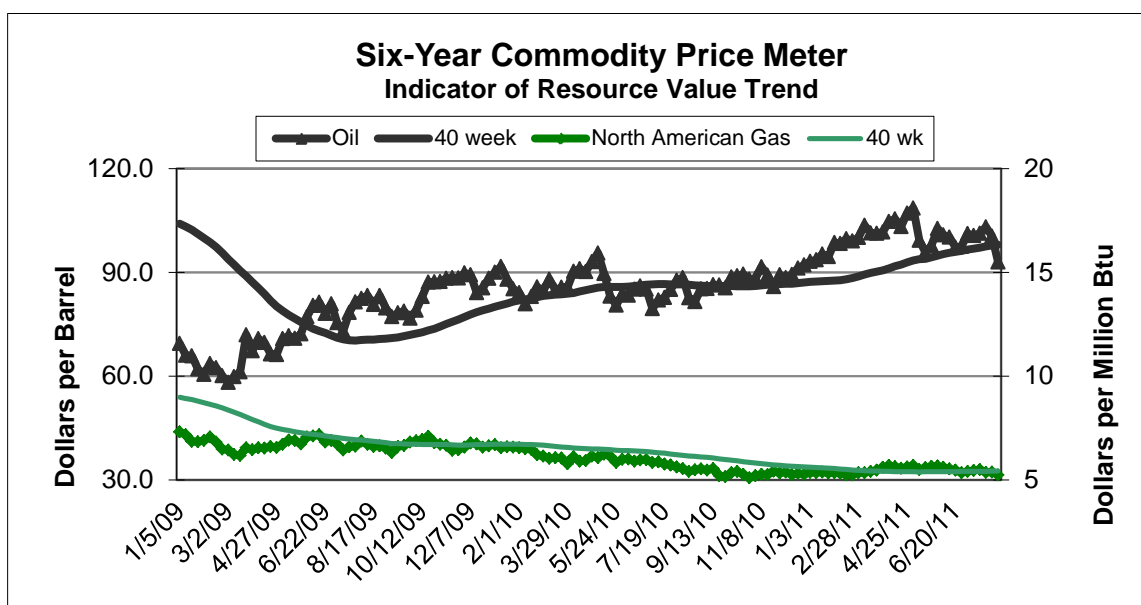
August 5, 2011

## Market Motion May Mean Near-Term Downtrend Raise NPV for RRC, Confirm XEC, Discontinue HK

### Summary and Recommendation

We recommend adding to positions in our buy-recommended stocks as their relative weighting in a typical portfolio has declined relative to bonds, cash and gold. Just as most equities have dropped in price to less than 200-day averages, oil futures prices for the next six years join natural gas below the 40-week averages (see chart below). Not knowing how long the potential broad downtrend will persist, we recommend that stock purchases be spread out. Investors should also be confident they can withstand further price declines in case they occur. Unlike 2008 when we suspended all buy recommendations for a short time, we do not foresee doing so again. Instead, we will focus on our ongoing company and industry analysis. Our experience covering market declines in 1974, 1982, 1987, 2002 and 2008 is that solid companies almost always appreciate in value again. Meanwhile, among the implications of recent disclosures, we raise Net Present Value (NPV) for **Range Resources (RRC)** and reaffirm NPV for **Cimarex (XEC)**. Happily, we discontinue research on **Petrohawk (HK)**, thanks to pending acquisition by BHP.

Kurt H. Wulff, CFA





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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	4-Aug	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2011	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
Peyto Exploration and Development	PEYUF		22.95	1.22	3,720	71	29	12.4	0.74	3.2	0.97
Berry Petroleum Company	BRY		53.98	1.49	4,330	26	74	10.1	0.30	0.6	0.93
Range Resources	RRC	B	59.48	1.21	11,440	69	31	14.5	0.16	0.3	0.87
Birchcliff Energy Ltd.	BIREF	B	13.43	1.22	2,140	55	45	13.2	-	-	0.87
Denbury Resources Inc.	DNR		16.38	1.36	8,830	6	94	7.5	-	-	0.72
Whiting Petroleum Corporation	WLL	CB	52.52	1.26	7,850	11	89	5.8	-	-	0.64
Cimarex Energy Company	XEC	CB	71.95	1.12	6,920	45	55	5.5	0.40	0.6	0.63
<i>Total or Median</i>					45,200			10.1			0.87
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT		21.35	1.00	1,000	42	58		1.46	6.8	0.97
Sabine Royalty Trust	SBR		62.05	1.00	910	51	49		4.30	6.9	0.89
Cross Timbers Royalty Trust	CRT		39.85	1.00	240	87	13		2.58	6.5	0.89
Freehold Royalties Ltd.	FRHLF		19.29	1.07	1,200	18	82		1.72	8.9	0.88
Dorchester Minerals, L.P.	DMLP	CB	24.76	1.00	760	61	39		1.64	6.6	0.83
<i>Total or Median</i>					4,100					6.8	0.89
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE		36.08	1.49	9,450	31	69	15.0	2.76	7.6	1.04
Vanguard Natural Resources, LLC	VNR		27.39	1.72	1,610	26	74	13.6	2.28	8.3	1.01
Hugoton Royalty Trust	HGT	CB	21.48	1.00	860	88	13	13.2	1.40	6.5	0.98
Legacy Reserves L.P.	LGCY		26.09	1.48	1,670	19	81	10.8	2.12	8.1	0.95
San Juan Basin Royalty Trust	SJT		22.34	1.00	1,040	100	-	12.7	1.46	6.5	0.89
Encore Energy Partners, L.P.	ENP		19.52	1.34	1,190	17	83	10.4	1.96	10.0	0.88
Mesa Royalty Trust	MTR		46.00	1.00	86	75	25	13.5	2.78	6.0	0.87
Enerplus Corporation	ERF	CB	27.83	1.31	6,500	33	67	8.4	2.21	7.9	0.80
<i>Total or Median</i>					22,400			12.9		7.8	0.92
<b>Composite</b>											
<i>Enterprise Value Weighting</i>					71,700	38	62				0.81
<i>Equal Weighting</i>						46	54				0.87
<i>Equal Weighted Buys</i>						45	55				0.80

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 June 30, 2012. 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>4-Aug</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	
	<i>Rating</i>		<i>2011</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	
							<i>McDep</i>	
							<i>Ratio</i>	
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development Cor	PEYUF		22.95	132.7	3,050	24.00	0.17	0.97
Berry Petroleum Company	BRY		53.98	54.0	2,910	60.00	0.30	0.93
Range Resources	RRC	B	59.48	159.0	9,460	70.00	0.15	0.87
Birchcliff Energy Ltd.	BIREF	B	13.43	130.0	1,750	16.00	0.16	0.87
Denbury Resources Inc.	DNR		16.38	397.0	6,500	25.00	0.19	0.72
Whiting Petroleum Corporation	WLL	CB	52.52	119.0	6,250	90.00	0.13	0.64
Cimarex Energy Company	XEC	CB	71.95	86.1	6,190	120.00	0.07	0.63
<i>Total or Median</i>					<i>36,110</i>		<i>0.16</i>	<i>0.87</i>
<b>Top Line Cash Payers</b>								
Permian Basin RT	PBT		21.35	46.6	1,000	22.00	-	0.97
Sabine Royalty Trust	SBR		62.05	14.6	910	70.00	-	0.89
Cross Timbers Royalty Trust	CRT		39.85	6.0	240	45.00	-	0.89
Freehold Royalties Ltd.	FRHLF		19.29	58.4	1,130	22.00	0.06	0.88
Dorchester Minerals, L.P.	DMLP	CB	24.76	30.7	760	30.00	-	0.83
<i>Total or Median</i>					<i>4,040</i>			<i>0.89</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		36.08	176.0	6,350	34.00	0.34	1.04
Vanguard Natural Resources, LLC	VNR		27.39	34.2	940	27.00	0.42	1.01
Hugoton RoyaltyTrust	HGT	CB	21.48	40.0	860	22.00	-	0.98
Legacy Reserves L.P.	LGCY		26.09	43.5	1,140	28.00	0.31	0.95
San Juan Basin Royalty Trust	SJT		22.34	46.6	1,040	25.00	-	0.89
Encore Energy Partners, L.P.	ENP		19.52	45.5	890	23.00	0.22	0.88
Mesa RoyaltyTrust	MTR		46.00	1.9	86	53.00	-	0.87
Enerplus Corporation	ERF	CB	27.83	179.5	5,000	37.00	0.19	0.80
<i>Total or Median</i>					<i>16,310</i>			<i>0.92</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	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		4-Aug 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	59.48		-	15.2	16.6	14.5
Birchcliff Energy Ltd.	BIREF	B	13.43		-	19.7	15.3	13.2
Peyto Exploration and Development Corp	PEYUF		22.95		0.39	14.9	12.9	12.4
Berry Petroleum Company	BRY		53.98		-	12.0	10.8	10.1
Denbury Resources Inc.	DNR		16.38		-	13.6	10.4	7.5
Whiting Petroleum Corporation	WLL	CB	52.52		-	8.9	9.1	5.8
Cimarex Energy Company	XEC	CB	71.95		-	7.4	8.8	5.5
	<i>Median</i>					<i>13.6</i>	<i>10.8</i>	<i>10.1</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		39.85	80	0.96	15.1	16.8	14.9
Sabine Royalty Trust	SBR		62.05	100	1.00	7.3	16.3	14.5
Permian Basin RT	PBT		21.35	32	0.97	16.6	14.6	14.2
Dorchester Minerals, L.P.	DMLP	CB	24.76	77	0.87	7.0	15.9	13.1
Freehold Royalties Ltd.	FRHLF		19.29	71	0.89	6.3	11.4	10.1
	<i>Median</i>					<i>7.3</i>	<i>15.9</i>	<i>14.2</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		36.08		1.17	17.2	14.5	15.0
Vanguard Natural Resources, LLC	VNR		27.39		1.14	13.2	13.5	13.6
Mesa Royalty Trust	MTR		46.00		0.81	14.5	15.5	13.5
Hugoton Royalty Trust	HGT	CB	21.48		0.86	14.0	13.5	13.2
San Juan Basin Royalty Trust	SJT		22.34		0.83	9.2	14.2	12.7
Legacy Reserves L.P.	LGCY		26.09		0.85	12.0	11.3	10.8
Encore Energy Partners, L.P.	ENP		19.52		1.01	13.1	11.8	10.4
Enerplus Corporation	ERF	CB	27.83		0.63	8.3	10.6	8.4
	<i>Median</i>					<i>13.2</i>	<i>13.5</i>	<i>12.9</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 June 30, 2012; 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									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		4-Aug 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>									
	Range Resources	RRC	B	59.48	0.90	1.61	1.04	1.15	0.87
	Birchcliff Energy Ltd.	BIREF	B	13.43	0.91	1.54	0.99	1.13	0.87
	Peyto Exploration and Development C	PEYUF		22.95	0.92	1.58	1.02	1.13	0.97
	Berry Petroleum Company	BRY		53.98	0.92	1.52	1.02	1.10	0.93
	Whiting Petroleum Corporation	WLL	CB	52.52	0.74	1.21	0.91	0.89	0.64
	Denbury Resources Inc.	DNR		16.38	0.70	1.11	0.87	0.84	0.72
	Cimarex Energy Company	XEC	CB	71.95	0.64	1.13	0.83	0.78	0.63
	<i>Median</i>				<i>0.90</i>	<i>1.52</i>	<i>0.99</i>	<i>1.10</i>	<i>0.87</i>
<b>Top Line Cash Payers</b>									
	Sabine Royalty Trust	SBR		62.05	0.88	1.26	0.96	1.00	0.89
	Permian Basin RT	PBT		21.35	0.90	1.18	0.99	0.99	0.97
	Cross Timbers Royalty Trust	CRT		39.85	0.82	1.15	0.91	0.92	0.89
	Freehold Royalties Ltd.	FRHLF		19.29	0.80	1.26	0.92	0.92	0.88
	Dorchester Minerals, L.P.	DMLP	CB	24.76	0.82	1.05	0.92	0.91	0.83
	<i>Median</i>				<i>0.82</i>	<i>1.18</i>	<i>0.92</i>	<i>0.92</i>	<i>0.89</i>
<b>Bottom Line Cash Payers</b>									
	Hugoton RoyaltyTrust	HGT	CB	21.48	0.87	1.19	0.95	0.98	0.98
	Mesa RoyaltyTrust	MTR		46.00	0.90	1.16	1.03	0.97	0.87
	Linn Energy, LLC	LINE		36.08	0.91	1.20	0.95	0.97	1.04
	Vanguard Natural Resources, LLC	VNR		27.39	0.88	1.10	0.97	0.96	1.01
	Enerplus Corporation	ERF	CB	27.83	0.87	1.21	0.92	0.93	0.80
	Legacy Reserves L.P.	LGCY		26.09	0.83	1.10	0.92	0.92	0.95
	Encore Energy Partners, L.P.	ENP		19.52	0.81	1.08	0.93	0.92	0.88
	San Juan Basin Royalty Trust	SJT		22.34	0.80	1.07	0.92	0.91	0.89
	<i>Median</i>				<i>0.87</i>	<i>1.13</i>	<i>0.94</i>	<i>0.94</i>	<i>0.92</i>

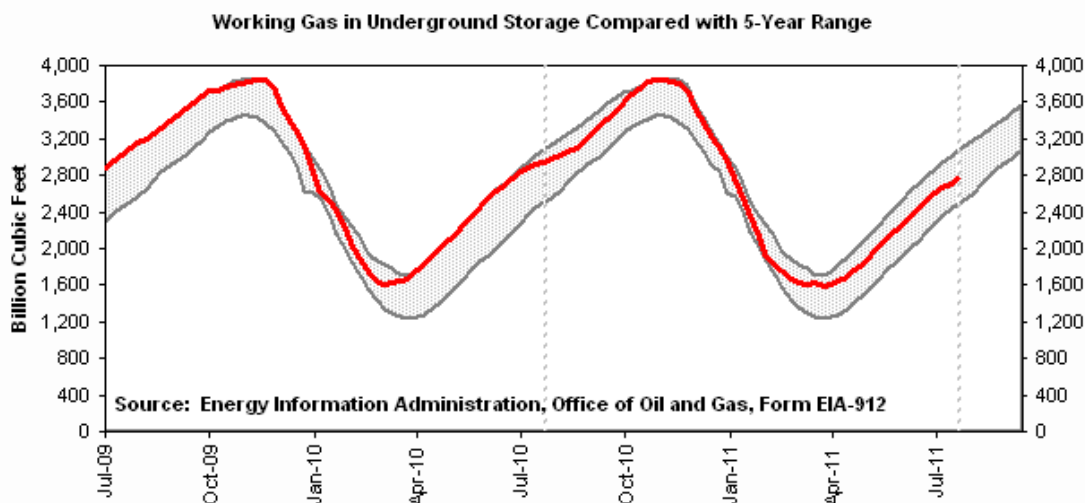
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