



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 19, 2011

Dorchester Minerals, L.P. (DMLP – Buy) Preferred Risk 7% Income with Price and Volume Upside

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 6/30/12 (US\$m)</i>	64
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	56
<i>Price (US\$/sh)</i>	24.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/18/11	<i>Adjusted Reserves/Production NTM</i>	6.6
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	11.9
<i>Market Capitalization (US\$m)</i>	755	<i>PV/Ebitda</i>	14.5
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	755	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.83
<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>	86
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.30
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	19
<i>Distribution Yield (%/year)</i>	7.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.77
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)** may have special appeal to income investors who want to take advantage of current low stock price without full exposure to possibly lower stock price. Moderating the downside, first, DMLP has no debt. Second, more than 80% of oil and gas revenue derives from top line revenue royalties that producers must pay to DMLP before covering operating costs. Third, 56% of estimated next twelve months revenue would be generated by natural gas, which is resisting downward fluctuation better than oil mainly because it has remained at nearly the same depressed level for the past year. At the same time, revenue is directly proportional to the upside of oil and gas price that we believe is more likely than the downside as we approach the 2012 U.S. elections. Moreover, oil and gas volume is growing at no capital cost to the partnership. Analyzing second quarter results filed on August 5, we see natural gas equivalent production up about 14% over the previous year and 8% over the previous quarter (see table Next Twelve Months Operating and Financial Estimates on page 2). Unit holders of DMLP are benefitting from a “free ride” in the form of royalties from most of the areas where the horizontal drilling/“fracking” boom is turning around the U.S. oil and gas production trend. While the Fayetteville Shale in Arkansas has been a main contributor to growth, new oil volumes in the North Dakota Bakken and the Texas Permian are noticeable in 2011. Areas yet to contribute may include the Texas Granite Wash, The New York Marcellus and the Arkansas Brown Dense. Meanwhile, estimated distribution yield is 7.2% and DMLP’s McDep Ratio at 0.82 is lowest among Top Line Cash Payers. Finally, DMLP is a contrarian call with stock price below the 200-day average (see Tables ISC-1 to ISC-4 on pages 3-6).

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>6/30/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>Months</i>
									<i>6/30/12</i>
Volume									
Natural Gas (bcf)	2.20	2.41	2.64	2.69	2.69	10.43	2.66	2.69	10.73
Natural Gas (mmcf)	24.1	26.8	29.0	29.2	29.2	28.6	29.2	29.5	29.3
Days	91	90	91	92	92	365	91	91	366
Oil (mb)	0.10	0.10	0.10	0.10	0.10	0.4	0.10	0.10	0.4
Oil (mbd)	1.15	1.06	1.09	1.11	1.11	1.09	1.11	1.12	1.11
Total (bcfe)	2.8	3.0	3.2	3.3	3.3	12.8	3.3	3.3	13.2
Total (mmcf)	31	33	36	36	36	35	36	36	36
Price									
Henry Hub (\$/mmbtu)	4.09	4.11	4.32	4.25	4.21	4.22	4.50	4.46	4.36
Differential (%)	2	2	6	6	6	5	6	6	6
Company (\$/mcf)	4.02	4.02	4.06	4.00	3.96	4.01	4.23	4.20	4.10
WTI Cushing (\$/bbl)	77.85	94.10	102.55	90.76	88.20	93.90	89.42	90.71	89.77
Differential	4.44	6.62	4.14	3.66	3.56	4.51	3.61	3.66	3.62
Company	73.42	87.48	98.41	87.10	84.64	89.39	85.82	87.06	86.15
Total (\$/mcfe)	5.85	6.04	6.34	5.95	5.84	6.04	6.09	6.10	6.00
Revenue (\$mm)									
Natural Gas	8.8	9.7	10.7	10.8	10.7	41.8	11.3	11.3	44.0
Oil	7.7	8.3	9.8	8.9	8.6	35.6	8.6	8.8	34.9
Other	(0.1)	(1.3)	(1.3)	(1.3)	(1.3)	(5.1)	(1.3)	(1.3)	(5.0)
Total	16.4	16.7	19.3	18.4	18.0	72.3	18.6	18.9	73.9
Expense									
Operating	1.4	1.6	1.9	1.8	1.8	7.1	1.8	1.8	7.2
General and administrative	0.9	1.2	0.8	0.8	0.8	3.4	0.8	0.8	3.0
Total	2.2	2.8	2.6	2.6	2.6	10.6	2.6	2.6	10.3
Ebitda	14.2	13.9	16.6	15.8	15.4	61.8	16.1	16.3	63.6
Minerals NPI	1.7	1.9	2.3	2.3	2.3	8.8	2.3	2.3	9.1
Deprec., Deplet., & Amort.	4.5	4.2	4.6	5.6	5.6	20.0	5.6	5.6	22.4
Other Non Cash	(0.0)	0.1	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.4)
Ebit	7.9	7.6	9.9	10.3	9.9	37.7	10.6	10.8	41.6
Ebt	7.9	7.6	9.9	10.3	9.9	37.7	10.6	10.8	41.6
General Partner	0.3	0.3	0.4	0.4	0.4	1.4	0.4	0.4	1.7
Net Income (\$mm)	7.7	7.4	9.5	9.9	9.5	36.3	10.2	10.4	39.9
Units (millions)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.25	0.24	0.31	0.32	0.31	1.18	0.33	0.34	1.30
Distribution (\$/unit)	0.41	0.43	0.42	0.45	0.42	1.72	0.44	0.46	1.77



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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	18-Aug	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Peyto Exploration and Development	PEYUF		22.16	1.17	3,450	76	24	10.8	0.74	3.3	0.93
Range Resources	RRC	B	58.05	1.21	11,210	69	31	14.0	0.16	0.3	0.86
Birchcliff Energy Ltd.	BIREF	B	12.04	1.24	1,960	56	44	11.8	-	-	0.79
Berry Petroleum Company	BRY		46.27	1.59	4,020	23	77	7.6	0.30	0.6	0.76
Denbury Resources Inc.	DNR		14.93	1.39	8,390	5	95	6.7	-	-	0.61
Whiting Petroleum Corporation	WLL	CB	45.21	1.30	6,980	11	89	5.1	-	-	0.57
Cimarex Energy Company	XEC	CB	62.47	1.14	6,110	45	55	4.8	0.40	0.6	0.55
<i>Total or Median</i>					42,100			7.6			0.76
Top Line Cash Payers											
Permian Basin RT	PBT		22.11	1.00	1,030	42	58		1.48	6.7	1.01
Cross Timbers Royalty Trust	CRT		44.45	1.00	270	87	13		2.60	5.9	0.99
Sabine Royalty Trust	SBR		60.09	1.00	880	51	49		4.33	7.2	0.86
Freehold Royalties Ltd.	FRHLF		18.23	1.06	1,150	17	83		1.70	9.3	0.84
Dorchester Minerals, L.P.	DMLP	CB	24.60	1.00	760	61	39		1.77	7.2	0.82
<i>Total or Median</i>					4,100					7.2	0.86
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.61	1.48	9,540	31	69	15.1	2.76	7.5	1.05
Vanguard Natural Resources, LLC	VNR		28.75	1.44	2,110	23	77	11.1	2.30	8.0	1.04
Hugoton Royalty Trust	HGT	B	22.10	1.00	880	88	13	13.4	1.43	6.5	1.00
San Juan Basin Royalty Trust	SJT		24.22	1.00	1,130	100	-	13.4	1.50	6.2	0.97
Legacy Reserves L.P.	LGCY		27.60	1.47	1,770	21	79	9.3	2.16	7.8	0.94
Mesa Royalty Trust	MTR		43.00	1.00	80	75	25	12.7	2.68	6.2	0.81
Enerplus Corporation	ERF	CB	27.96	1.22	6,100	30	70	8.0	2.19	7.8	0.79
<i>Total or Median</i>					21,600			12.7		7.5	0.97
Composite											
<i>Enterprise Value Weighting</i>					67,800	38	62				0.76
<i>Equal Weighting</i>						48	52				0.85
<i>Equal Weighted Buys</i>						45	55				0.77

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								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		18-Aug 2011	(mm)				
Small Cap Independent Producers								
Peyto Exploration and Development Cor	PEYUF		22.16	133.1	2,950	24.00	0.14	0.93
Range Resources	RRC	B	58.05	159.0	9,230	70.00	0.15	0.86
Birchcliff Energy Ltd.	BIREF	B	12.04	131.0	1,580	16.00	0.15	0.79
Berry Petroleum Company	BRY		46.27	54.7	2,530	70.00	0.28	0.76
Denbury Resources Inc.	DNR		14.93	404.0	6,030	28.00	0.17	0.61
Whiting Petroleum Corporation	WLL	CB	45.21	119.0	5,380	90.00	0.13	0.57
Cimarex Energy Company	XEC	CB	62.47	86.1	5,380	120.00	0.07	0.55
<i>Total or Median</i>					33,080		0.15	0.76
Top Line Cash Payers								
Permian Basin RT	PBT		22.11	46.6	1,030	22.00	-	1.01
Cross Timbers Royalty Trust	CRT		44.45	6.0	270	45.00	-	0.99
Sabine Royalty Trust	SBR		60.09	14.6	880	70.00	-	0.86
Freehold Royalties Ltd.	FRHLF		18.23	59.4	1,080	22.00	0.05	0.84
Dorchester Minerals, L.P.	DMLP	CB	24.60	30.7	760	30.00	-	0.82
<i>Total or Median</i>					4,020			0.86
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.61	176.0	6,440	34.00	0.34	1.05
Vanguard Natural Resources, LLC	VNR		28.75	51.1	1,470	27.00	0.32	1.04
Hugoton Royalty Trust	HGT	B	22.10	40.0	880	22.00	-	1.00
San Juan Basin Royalty Trust	SJT		24.22	46.6	1,130	25.00	-	0.97
Legacy Reserves L.P.	LGCY		27.60	43.6	1,200	30.00	0.30	0.94
Mesa Royalty Trust	MTR		43.00	1.9	80	53.00	-	0.81
Enerplus Corporation	ERF	CB	27.96	179.6	5,020	37.00	0.14	0.79
<i>Total or Median</i>					16,220			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 \$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		18-Aug 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	58.05		-	15.2	16.4	14.0
Birchcliff Energy Ltd.	BIREF	B	12.04		-	19.7	14.9	11.8
Peyto Exploration and Development Corp	PEYUF		22.16		0.36	14.3	11.6	10.8
Berry Petroleum Company	BRY		46.27		-	11.9	10.0	7.6
Denbury Resources Inc.	DNR		14.93		-	13.4	10.9	6.7
Whiting Petroleum Corporation	WLL	CB	45.21		-	8.9	9.0	5.1
Cimarex Energy Company	XEC	CB	62.47		-	7.4	8.7	4.8
	<i>Median</i>					13.4	10.9	7.6
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		44.45	80	0.96	15.1	16.6	16.5
Permian Basin RT	PBT		22.11	32	0.97	16.6	14.5	14.6
Sabine Royalty Trust	SBR		60.09	100	1.00	7.3	16.2	13.9
Dorchester Minerals, L.P.	DMLP	CB	24.60	77	0.85	6.6	14.5	11.9
Freehold Royalties Ltd.	FRHLF		18.23	71	0.94	6.6	12.2	10.2
	<i>Median</i>					7.3	14.5	13.9
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.61		1.16	17.2	14.3	15.1
San Juan Basin Royalty Trust	SJT		24.22		0.83	9.2	13.8	13.4
Hugoton Royalty Trust	HGT	B	22.10		0.86	14.0	13.3	13.4
Mesa Royalty Trust	MTR		43.00		0.79	14.4	15.6	12.7
Vanguard Natural Resources, LLC	VNR		28.75		0.91	9.0	10.7	11.1
Legacy Reserves L.P.	LGCY		27.60		0.71	10.2	9.8	9.3
Enerplus Corporation	ERF	CB	27.96		0.60	8.5	10.1	8.0
	<i>Median</i>					10.2	13.3	12.7
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		18-Aug 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Range Resources	RRC	B	58.05	0.88	1.58	1.00	1.11	0.86
Peyto Exploration and Development C	PEYUF		22.16	0.89	1.58	0.98	1.08	0.93
Birchcliff Energy Ltd.	BIREF	B	12.04	0.83	1.41	0.91	1.01	0.79
Berry Petroleum Company	BRY		46.27	0.83	1.37	0.92	0.98	0.76
Denbury Resources Inc.	DNR		14.93	0.65	1.03	0.84	0.79	0.61
Whiting Petroleum Corporation	WLL	CB	45.21	0.66	1.08	0.85	0.79	0.57
Cimarex Energy Company	XEC	CB	62.47	0.56	1.02	0.77	0.69	0.55
	<i>Median</i>			<i>0.83</i>	<i>1.37</i>	<i>0.91</i>	<i>0.98</i>	<i>0.76</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		44.45	0.92	1.29	1.01	1.03	0.99
Permian Basin RT	PBT		22.11	0.93	1.22	1.01	1.02	1.01
Sabine Royalty Trust	SBR		60.09	0.85	1.27	0.94	0.96	0.86
Dorchester Minerals, L.P.	DMLP	CB	24.60	0.82	1.18	0.94	0.90	0.82
Freehold Royalties Ltd.	FRHLF		18.23	0.76	1.20	0.89	0.87	0.84
	<i>Median</i>			<i>0.85</i>	<i>1.22</i>	<i>0.94</i>	<i>0.96</i>	<i>0.86</i>
Bottom Line Cash Payers								
Hugoton RoyaltyTrust	HGT	B	22.10	0.90	1.23	0.99	1.01	1.00
San Juan Basin Royalty Trust	SJT		24.22	0.87	1.19	1.01	0.99	0.97
Vanguard Natural Resources, LLC	VNR		28.75	0.89	1.17	1.00	0.98	1.04
Linn Energy, LLC	LINE		36.61	0.92	1.21	0.97	0.97	1.05
Legacy Reserves L.P.	LGCY		27.60	0.87	1.16	0.98	0.96	0.94
Enerplus Corporation	ERF	CB	27.96	0.86	1.23	0.93	0.92	0.79
Mesa RoyaltyTrust	MTR		43.00	0.84	1.08	0.95	0.91	0.81
	<i>Median</i>			<i>0.87</i>	<i>1.19</i>	<i>0.98</i>	<i>0.97</i>	<i>0.97</i>

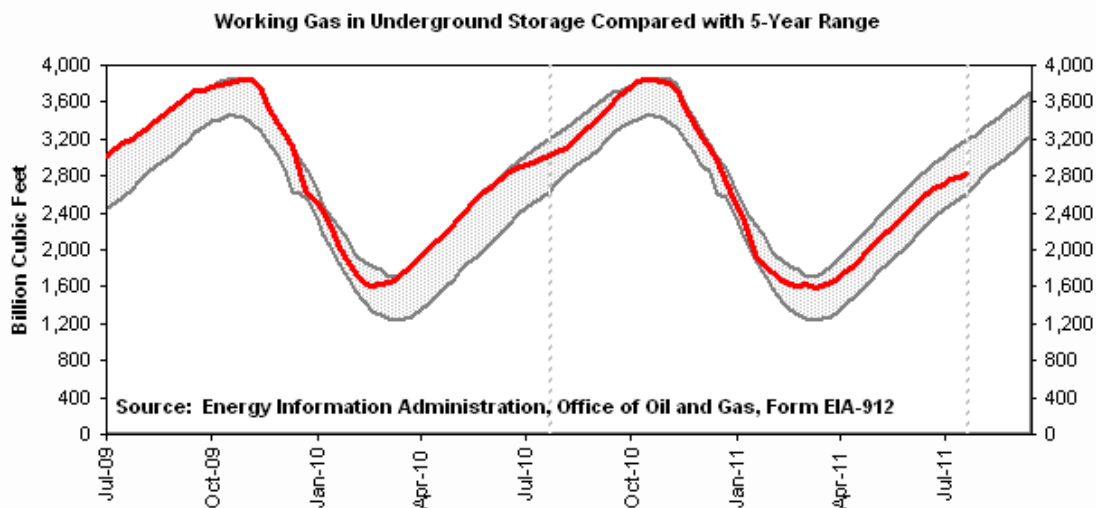
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