

MCDEP Income and Small Cap Weekly

Analysis of Oil & Gas Stocks July 6, 2012

Lowballing LIBOR

Summary and Recommendation

The unfolding LIBOR controversy implies to us that investors in oil and gas income and small cap stocks should keep an independent perspective and be prepared to act against what may seem to be the popular interpretation of events. Revelations that the global benchmark commercial short-term interest rate was manipulated downward may be a telling sign of government overreach as was the apparent downward manipulation of oil price in 1998. The parallel suggests that interest rates ten years from now may be far higher just as oil price advanced more than ten times by 2008 from an artificially low level in 1998. Though we claim no special expert knowledge of the global money system, we are betting 70% that interest rates will be higher either because of growth and/or inflation and 30% that weak economic conditions accompanying low interest rates will persist or worsen. Our buy recommendations ought to be rewarding in the 70% case and mostly survive the 30% case. The percentages coincide with our personal portfolio allocation targets of 70% in global equities over weighted in oil and gas and 30% in gold, cash and bonds. Meanwhile, stock price volatility that may be disconcerting looking back a few months, may offer opportunity looking ahead. Valuations by McDep Ratios are low on an oil price trending around \$100 a barrel and North American natural gas price moving toward \$6 a million Btu. Elevated political risk in Syria and Iran adds to the investment challenge.

Governments Promote Artificial Conditions

The interest rate in question, the London Interbank Offered Rate (LIBOR), was intended to be more market-related and more global than the U.S. "Prime Rate" it replaced, as we understand. LIBOR was set by collecting indications from multiple commercial banks of the rate at which each bank could borrow funds overnight in the marketplace. Apparently, few of the banks were truthful, instead submitting a "lowball" rate below which they could actually borrow. Moreover government financial authorities who were already pursuing policies of artificially low rates likely welcomed and may have encouraged the commercial misrepresentation of market conditions. We like stocks of oil and gas producers whose economic contributions are real (see Tables ISC-1 through ISC-4 on pages 2-5).

Kurt H. Wulff, CFA



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				Table IS	C-1						
McI	Dep In	co	me and	Small	Cap Ene	rgy I	Porti	folio			
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C.	1 1/0		Price	F77.7/		DI 7/	0.71	F77.7/	D'	D: .	
Syn			(US\$/sh)	EV/	Enterprise	<u>PV(</u>	<u>%)</u>	EV/	Dist.	Dist.	
	B = 1		5-Jul	Market	Value	Nat		Ebitda	NTM	Yield	McDep
СВ	(see belo	ow)	2012	Сар	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio
Small Cap Independent Produce	rs										
Continental Resources	CLR		70.29	1.18	14,980	27	73	8.8	-	-	1.00
Halcon Resources	HK		9.46	1.07	1,710	20	80	8.7	_	-	0.95
Range Resources	RRC	СВ		1.27	12,550	71	29	14.4	0.16	0.3	0.90
Peyto Exploration and Developmen			19.81	1.18	3,240	77	23	10.3	0.71	3.6	0.85
PDC Energy	PETD		25.81	1.86	1,150	56	44	7.8	-	-	0.77
Berry Petroleum Company	BRY		40.23	1.71	3,760	13	87	6.1	0.32	0.8	0.70
Denbury Resources Inc.	DNR		15.08	1.46	8,620	6	94	5.9	0.52	-	0.63
Birchcliff Energy Ltd.	BIREF	CB		1.50	1,350	62	38	9.5		_	0.60
Whiting Petroleum Corporation	WLL	CB		1.36	7,010	8	92	4.8	_	-	0.57
Cimarex Energy Company	XEC	CB		1.22	5,800	42	58	5.2	0.48	0.9	0.57
Total or Median	ALC	СБ	33.20	1.22	60,200	42	36	8.2	0.46	0.9	0.74
Total or Median					00,200			0.2			0.74
Top Line Cash Payers											
Permian Basin RT	PBT		18.30	1.00	850	37	63		1.28	7.0	0.92
Freehold Royalties Ltd.	FRHLF		18.24	1.04	1,230	16	84		1.66	9.1	0.87
Sabine Royalty Trust	SBR		54.17	1.00	790	55	45		3.37	6.2	0.83
Cross Timbers Royalty Trust	CRT		36.49	1.00	220	70	30		2.19	6.0	0.83
Dorchester Minerals, L.P.	DMLP	CB	21.94	1.00	670	57	43		1.80	8.2	0.81
Total or Median					3,800					7.0	0.83
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		38.89	1.63	12,220	40	60	12.7	2.90	7.5	1.16
Vanguard Natural Resources, LLC	VNR		27.09	1.48	2,110	27	74	11.0	2.37	8.7	1.05
Legacy Reserves L.P.	LGCY		25.49	1.40	1,700	23	77	8.5	2.22	8.7	0.89
Enduro Royalty Trust (40%)	NDRO		16.72	1.00	220	42	58	7.5	1.43	8.5	0.80
San Juan Basin Royalty Trust	SJT	CB		1.00	740	100	-	11.9	1.01	6.4	0.75
Enerplus Corporation	ERF	CB		1.65	4,300	26	74	5.8	1.33	10.0	0.74
Mesa RoyaltyTrust	MTR		29.75	1.00	55	75	25	9.8	2.55	8.6	0.74
Hugoton RoyaltyTrust	HGT		7.69	1.00	310	89	11	8.1	0.11	1.4	0.55
Total or Median					21,700			9.2		8.6	0.77
Composite											
Enterprise Value Weighting					85,600	36	64				0.80
Equal Weighting					05,000	45	55				0.80
Equal Weighted Buys						46	54				0.30
Equal Weighted Buys						70	J 4				0.70
CB=Contrarian Buy, Stock Price ap	parently	in c	lowntrend	compared	to 200-day a	verage.					
McDep Ratio = \mathbf{M} arket \mathbf{c} ap and $\mathbf{D}\mathbf{e}$	bt to p re	sent	value of o	il and gas	and other bus	sinesses	s.				
Present Value (PV) presumes long-	term pri	ces	of \$100 a	barrel for	oil and \$6 a	million	btu fo	r natural g	gas.		



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Symbol/ Ra CLR HK RRC PEYUF PETD			Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
Symbol/ Ra CLR HK RRC PEYUF PETD	ting	Price (\$/sh) 5-Jul 2012	Shares (mm)	Market Cap (\$mm)	Present Value	Present	•
Ra CLR HK RRC PEYUF PETD		(\$/sh) 5-Jul 2012 70.29	(mm)	<i>Cap</i> (\$ <i>mm</i>)	Present Value	Present	•
Ra CLR HK RRC PEYUF PETD		(\$/sh) 5-Jul 2012 70.29	(mm)	<i>Cap</i> (\$ <i>mm</i>)	Present Value	Present	
Ra CLR HK RRC PEYUF PETD		(\$/sh) 5-Jul 2012 70.29	(mm)	<i>Cap</i> (\$ <i>mm</i>)	Present Value	Present	•
Ra CLR HK RRC PEYUF PETD		5-Jul 2012 70.29	(mm)	<i>Cap</i> (\$ <i>mm</i>)	Value	Present	•
Ra CLR HK RRC PEYUF PETD		70.29	(mm)	(\$mm)			•
CLR HK RRC PEYUF PETD		70.29			(\$/un)	Value	Ratio
HK RRC PEYUF PETD	СВ		180.0	10.650			
HK RRC PEYUF PETD	СВ		180.0	10.550			
HK RRC PEYUF PETD	СВ		100.0	12,650	70.00	0.16	1.00
RRC PEYUF PETD	СВ		169.1	1,600	10.00	0.06	0.95
PEYUF PETD		61.63	160.0	9,860	70.00	0.19	0.90
PETD		19.81	138.3	2,740	24.00	0.13	0.85
		25.81	23.9	620	40.00	0.36	0.77
BRY		40.23	54.7		70.00	0.29	0.70
DNR		15.08	391.0	- /	28.00	0.20	0.63
BIREF	СВ			900			0.60
WLL	СВ	43.17		5,140	88.00	0.15	0.57
XEC	СВ	55.26	86.1		110.00	0.10	0.55
				46,370		0.17	0.74
PBT		18.30	46.6	850	20.00	-	0.92
FRHLF		18.24	64.7	1,180	21.00	0.03	0.87
SBR		54.17	14.6	790	65.00	-	0.83
CRT		36.49	6.0	220	44.00	-	0.83
DMLP	CB	21.94	30.7	670	27.00	-	0.81
				3,710			0.83
LINE		38.89	193.0	7,510	30.00	0.45	1.16
VNR		27.09		,	25.00	0.34	1.05
LGCY		25.49	47.5		30.00	0.26	0.89
NDRO		16.72	13.2	220	21.00	-	0.80
SJT	CB	15.77	46.6	740	21.00	-	0.75
MTR		29.75	1.9	55	40.00	-	0.74
ERF	СВ	13.26	196.0	2,600	21.00	0.29	0.74
HGT		7.69	40.0	310	14.00	-	0.55
				14,070			0.77
apparentl	y in de	owntrend	compared	to 200-day	average		
	BIREF VLL KEC PBT TRHLF BBR CRT DMLP LINE VNR GCY VDRO JT JTR ERF IGT Apparentl resent va	DNR BIREF CB WLL CB WLL CB WLL CB BT FRHLF BR CRT DMLP CB LINE WNR GCY NDRO BJT CB MTR ERF CB Apparently in deceent value of	DNR 15.08 BIREF CB 5.98 WLL CB 43.17 KEC CB 55.26 BBT 18.30 BRHLF 18.24 BBR 54.17 CRT 36.49 DMLP CB 21.94 LINE 38.89 WNR 27.09 LGCY 25.49 NDRO 16.72 LTT CB 15.77 LTT 29.75 ERF CB 13.26 LGT 7.69 Apparently in downtrend of essent value of oil and gar	DNR 15.08 391.0 BIREF CB 5.98 150.7 WLL CB 43.17 119.0 WLL CB 55.26 86.1 DBT 18.30 46.6 BRHLF 18.24 64.7 BR 54.17 14.6 CRT 36.49 6.0 DMLP CB 21.94 30.7 DMLP CB 21.94 30.7 DMLP CB 25.49 47.5 DMC 16.72 13.2 DMC 16.72 13.2 DMC 15.77 46.6 DMTR 29.75 1.9 DMC 16.70 40.0 DMC 16.70 40.0 DMC 16.70 40.0 DMC 16.70 40.0 DMC 16.71 16.0 DMC 16.72 16.0 DMC 16.72 16.0 DMC 16.73 16.0 DMC 16.74 16.0 DMC 16.75 1.9 DMC 16.76 40.0 DMC 16.76 4	DNR 15.08 391.0 5,900 BIREF CB 5.98 150.7 900 WLL CB 43.17 119.0 5,140 EC CB 55.26 86.1 4,760 EBT 18.30 46.6 850 ERHLF 18.24 64.7 1,180 ERT 36.49 6.0 220 ERT 36.49 6.0 220 ERT 36.49 30.7 670 ERT 37.09 52.5 1,420 ERT 27.09 52.5 1,420 ERT CB 15.77 46.6 740 ERF CB 13.26 196.0 2,600 ERF CB 13.26 196.0 2,600 ERF CB 13.26 196.0 310 ERF CB 13.26 196.0 310 EXERTIFY 2000 2000 EXERTIFY 2000 2000 EXERTIFY 2000 2000 ERF CB 13.26 196.0 2,600 ERF CB 13.26 196.0 2,600 EXERTIFY 2000 310 EXERTIFY 2000 310 EXERTIFY 2000 310 EXERTIFY 38.89 39.0 310 EXERTIFY 38.89 39.0 310 EXERTIFY 38.89 39.0 310 EXERTIFY 38.89 39.0 EXERTIFY 38.89 39.0 EXERTIFY 30.0 310 EXERTIFY 30.0 310 EXERTIFY 30.0 EXERTIFY 30.0 310 EXERTIFY 30.0 EXERTIFY 30.0	DNR 15.08 391.0 5,900 28.00 BIREF CB 5.98 150.7 900 12.00 WLL CB 43.17 119.0 5,140 88.00 WEC CB 55.26 86.1 4,760 110.00 WERT 18.30 46.6 850 20.00 WERT 18.24 64.7 1,180 21.00 WERT 36.49 6.0 220 44.00 WERT 36.49 6.0 220 44.00 WERT 38.89 193.0 7,510 30.00 WERT 38.89 193.0 7,510 30.00 WERT 27.09 52.5 1,420 25.00 WERT 25.49 47.5 1,210 30.00 WERT 25.49 47.5 1,210 30.00 WERT 29.75 1.9 55 40.00 WERT 29.75 1.9 55 40.00 WERT 7.69 40.0 310 14.00 WERT 7.69 40.0 310 14.00 WERT 30.00 310 31.00 WERT 30.00 WERT 30.00 31.00 WERT 30.00 W	DNR 15.08 391.0 5,900 28.00 0.20 BIREF CB 5.98 150.7 900 12.00 0.20 WLL CB 43.17 119.0 5,140 88.00 0.15 EEC CB 55.26 86.1 4,760 110.00 0.10 BBT 18.30 46.6 850 20.00 - 46,370 0.17 BBT 18.24 64.7 1,180 21.00 0.03 BBR 54.17 14.6 790 65.00 - 60.00 - 60.00 CERT 36.49 6.0 220 44.00 - 60.00 DMLP CB 21.94 30.7 670 27.00 - 60.00 JINE 38.89 193.0 7,510 30.00 0.45 JANK 27.09 52.5 1,420 25.00 0.34 JANK 29.75 1.9 55 40.00 - 60.00 JAT CB 13.26 196.0 2,600 21.00 0.29 JATR 29.75 1.9 55 40.00 - 60.00 JATR 29.75 1.9 50.00 JATR 29.75 1.9 20.00 JATR 20.00 20.00



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		Tab	le ISC-3	3				
McDep Inco	ome an	d S	mall C	ap Enei	rgy Poi	rtfolio		
-				by EV/	-			
	_							
			ъ.			4 71 7		
			Price	D	D: //	Adjstd	DIZZ	EU
	G 1 1/			Revenue	Dist/	Resrvs/	PV/	EV
	Symbol/	tina	5-Jul 2012	Royalty (%)	Equity Ebitda	Prod NTM	Ebitda NTM	Ebitda NTM
	Ku	ting	2012	(70)	Lonaa	1 V 1 1V1	1 1 1 1 1 1	1 1 1 1 1 1 1
Small Cap Independent Producers								
Range Resources	RRC	CB	61.63		-	14.0	15.9	14.4
Peyto Exploration and Development Corp	PEYUF		19.81		0.36	10.0	12.1	10.3
Birchcliff Energy Ltd.	BIREF	CB	5.98		-	21.6	15.8	9.5
Continental Resources	CLR		70.29		-	9.6	8.7	8.8
Halcon Resources	HK		9.46		-	7.1	9.2	8.7
PDC Energy	PETD		25.81		-	8.1	10.0	7.8
Berry Petroleum Company	BRY		40.23		-	11.8	8.8	6.1
Denbury Resources Inc.	DNR		15.08		-	13.1	9.3	5.9
Cimarex Energy Company	XEC	CB	55.26		-	8.1	9.4	5.2
Whiting Petroleum Corporation	WLL	CB	43.17		-	9.5	8.5	4.8
Median						9.8	9.3	8.2
Top Line Cash Payers								
Sabine Royalty Trust	SBR		54.17	100	1.00	8.7	19.3	16.1
Cross Timbers Royalty Trust	CRT		36.49	78	0.96	17.7	19.2	15.9
Permian Basin RT	PBT		18.30	32	0.88	9.7	13.8	12.6
Dorchester Minerals, L.P.	DMLP	СВ	21.94	77	1.00	6.6	15.0	12.0
Freehold Royalties Ltd.	FRHLF	СБ	18.24	71	0.91	5.4	11.5	10.1
Median	TRILL		10.24	/ 1	0.91	8.7	15.0	12.6
						41,		
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.89		1.06	14.3	10.9	12.7
San Juan Basin Royalty Trust	SJT	CB	15.77		0.76	8.6	15.9	11.9
Vanguard Natural Resources, LLC	VNR		27.09		0.99	13.6	10.4	11.0
Mesa RoyaltyTrust	MTR		29.75		0.85	8.0	13.3	9.8
Legacy Reserves L.P.	LGCY		25.49		0.71	11.3	9.6	8.5
Hugoton RoyaltyTrust	HGT		7.69		0.11	13.6	14.7	8.1
Enduro Royalty Trust (40%)	NDRO		16.72		0.64	5.5	9.4	7.5
Enerplus Corporation	ERF	CB	13.26		0.49	6.3	7.8	5.8
Median						10.0	10.7	9.2
B=Buy; CB=Contrarian Buy, Stock Price	annarentl	v in d	owntrend	l compared	to 200-da	v average		
EV = Enterprise Value = Market Cap and							\n	
and amortization; $NTM = Next Twelve M$							/11	
Earnings; $PV = Present Value of oil and g$				12,1/15 – 1	JUCK I IIC			
Top Line Cash Payers defined as those ha				aa fifth aa	lumn from	right)		



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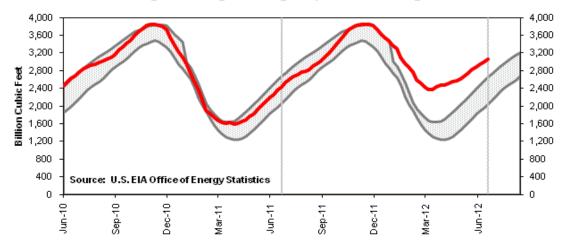
		Tab	le ISC-4					
Oil and (Gas Inc	come	e and S	Small C	Cap Stoc	ks		
Rank by E	nterpr	ise V	alue t	o 200 I	Day Ave	rage		
•	_					U		
			Price					
			(\$/sh)		Enterpris			
	Symbol/			52Wk	52Wk	-	200 Day	McDep
	Ra	ting	2012	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		19.81	0.80	1.29	1.11	1.01	0.85
Range Resources	RRC	CB	61.63	0.83	1.15	1.01	0.99	0.90
Continental Resources	CLR		70.29	0.76	1.50	0.96	0.97	1.00
Berry Petroleum Company	BRY		40.23	0.77	1.16	1.02	0.96	0.70
Denbury Resources Inc.	DNR		15.08	0.78	1.29	0.97	0.94	0.63
Whiting Petroleum Corporation	WLL	CB	43.17	0.74	1.32	0.97	0.92	0.57
PDC Energy	PETD		25.81	0.77	1.29	0.99	0.92	0.77
Cimarex Energy Company	XEC	CB	55.26	0.64	1.16	0.99	0.88	0.55
Birchcliff Energy Ltd.	BIREF	CB	5.98	0.49	1.13	0.99	0.66	0.60
Halcon Resources	HK		9.46	0.72		0.97		0.95
Median				0.76	1.29	0.99	0.94	0.74
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		18.24	0.80	1.32	1.02	0.98	0.87
Dorchester Minerals, L.P.	DMLP	CB	21.94	0.78	1.10	0.99	0.94	0.81
Permian Basin RT	PBT		18.30	0.78	1.11	0.98	0.90	0.92
Sabine Royalty Trust	SBR		54.17	0.80	1.19	1.05	0.90	0.83
Cross Timbers Royalty Trust	CRT		36.49	0.72	1.15	0.98	0.84	0.83
Median				0.78	1.15	0.99	0.90	0.83
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.89	0.97	1.14	1.03	1.03	1.16
Vanguard Natural Resources, LLC	VNR		27.09	0.90	1.15	1.03	1.00	1.05
Legacy Reserves L.P.	LGCY		25.49	0.87	1.11	0.98	0.94	0.89
San Juan Basin Royalty Trust	SJT	СВ	15.77	0.62	1.31	1.03	0.79	0.75
Mesa RoyaltyTrust	MTR		29.75	0.60	1.18	0.97	0.76	0.74
Enerplus Corporation	ERF	СВ	13.26	0.53	1.10	0.95	0.72	0.74
Hugoton RoyaltyTrust	HGT		7.69	0.32	1.20	0.81	0.48	0.55
Median				0.62	1.15	0.98	0.79	0.75
CB=Contrarian Buy, Stock Price appar	ently in d	owntre	end comp	ared to 20	0-day avera			



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Analysis of Oil & Gas Stocks July 6, 2012

Working Gas in Underground Storage Compared with 5-Year Range



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.

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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 forty 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.