



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

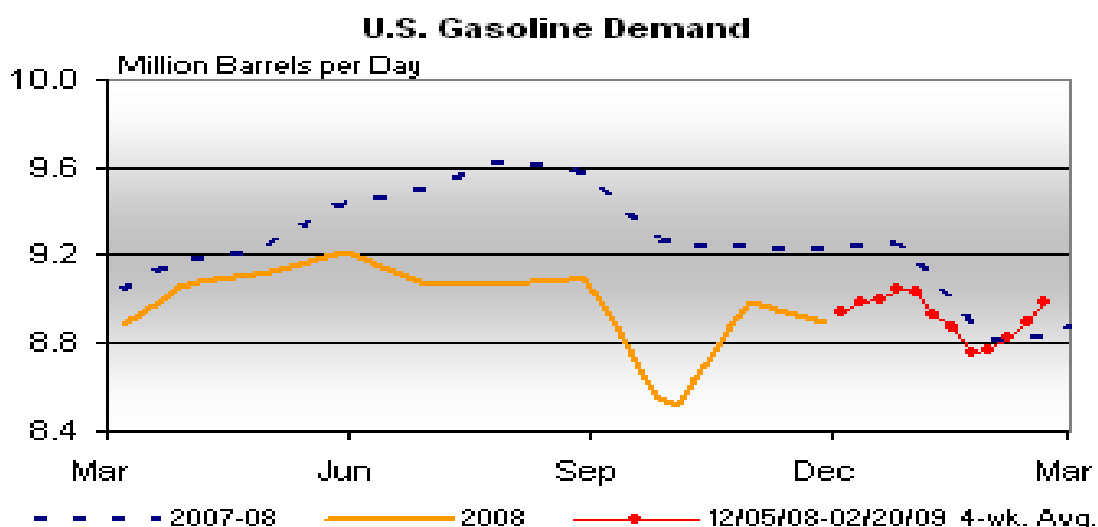
February 27, 2009

Turning Points

Summary and Recommendation

Stock prices may be turning up for eleven oil and gas small cap and income stocks that hit new lows in the past week just as the fundamental outlook may be turning up for gasoline demand. The smallest stock, **Mesa Royalty Trust (MTR)**, came back 57% in two days. A simultaneous potential early sign of recovery from the global economic recession appeared with the U.S. Department of Energy disclosure of gasoline demand advancing ahead of a year ago (see chart below, U.S. Gasoline Demand). We also like the parallel of an historic turning point 75 years ago when the Dow Jones Average began a four year climb from a secondary low on March 1, 1933 (see www.djindexes.com). Then as now, a new president was leading the way out of a generational financial setback. Meanwhile, we can't forecast stock price action, but we can express conviction that income and small cap stocks are selling well below fair value in a normal context. That implies investors should be able to look forward to gains at the same time we should be alert to predators who would attempt to gain control of our assets at terms disadvantageous to us. Three years ago, an acquirer seeking **Sabine Royalty Trust (SBR)** was thwarted by a vigilant trustee and unit holders. To illustrate what might have been, the stock price of the company behind the proposed buyer has since declined by 97%. Thus, with vigilance and patience, investors can make money from here in almost any of the stocks in our tables, we believe.

Kurt H. Wulff, CFA





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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value				
		Price	EV/	Enterprise	by Segment (%)					
Symbol/Rating	(US\$/sh)	26-Feb	Market	Value	NAmer.	Oil	NTM	Yield	McDep	
B = Buy	2009	Cap	(\$mm)	Natural	Gas	Prod'n	(\$/un)	(%)	Ratio	
H = Hold										
Canadian Income Trusts (US\$)										
Pengrowth Energy Trust	PGH		6.02	2.21	3,300	34	66	0.96	16.0	0.57
Penn West Energy Trust	PWE	H	9.04	1.94	7,200	30	70	2.21	24.5	0.52
Enerplus Resources Fund	ERF		17.19	1.27	3,600	56	44	1.73	10.1	0.45
Canadian Oil Sands Trust	COSWF	B	16.54	1.14	9,100		100	0.48	2.9	0.42
<i>Total or Median</i>					23,200					
Small Cap Independent Producers										
Encore Acquisition Company	EAC	H	20.69	2.22	2,420	25	75	-	-	0.66
Berry Petroleum Company	BRY	H	6.72	5.10	1,530	41	59	0.30	4.5	0.50
Cimarex Energy Company	XEC	B	19.78	1.52	2,510	66	34	0.24	1.2	0.46
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.51	1.45	600	75	25	-	-	0.44
<i>Total or Median</i>					7,060					
U.S. Royalty Trusts										
Sabine Royalty Trust	SBR		32.43	1.00	470	54	46	2.77	8.5	0.69
San Juan Basin Royalty Trust	SJT	H	15.96	1.00	740	100	-	1.22	7.6	0.47
Permian Basin RT	PBT		8.02	1.00	370	33	67	0.84	10.5	0.42
Cross Timbers Royalty Trust	CRT		16.95	1.00	100	76	24	2.07	12.2	0.40
Hugoton RoyaltyTrust	HGT	B	9.99	1.00	400	91	9	0.84	8.4	0.36
Mesa RoyaltyTrust	MTR		23.49	1.00	40	75	25	2.76	11.7	0.35
<i>Total or Median</i>					2,120					
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE		15.12	2.01	3,470	48	52	2.52	16.7	1.04
Encore Energy Partners, L.P. (3	ENP		12.83	1.29	170	34	66	2.00	15.6	0.80
Dorchester Minerals, L.P.	DMLP		16.30	1.00	460	68	32	1.35	8.3	0.68
<i>Total or Median</i>					4,100					
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					33,180	37	63			0.67
<i>Equal Weighting</i>						57	43			0.55
<i>Equal Weighted Buys</i>						69	31			0.41
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		26-Feb 2009	Shares (mm)				
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		6.02	249.0	1,500	16.00	0.31	0.57
Penn West Energy Trust	PWE	H	9.04	410.0	3,710	25.00	0.25	0.52
Enerplus Resources Fund	ERF		17.19	165.3	2,840	44.00	0.10	0.45
Canadian Oil Sands Trust	COSWF	B	16.54	482.0	7,970	42.00	0.05	0.42
<i>Total or Median</i>					16,000		0.18	0.49
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	20.69	52.6	1,090	44.00	0.37	0.66
Berry Petroleum Company	BRY	H	6.72	45.2	300	40.00	0.40	0.50
Cimarex Energy Company	XEC	B	19.78	83.2	1,650	55.00	0.16	0.46
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.51	117.0	410	10.00	0.14	0.44
<i>Total or Median</i>					3,450		0.26	0.48
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		32.43	14.6	470	47.00	-	0.69
San Juan Basin Royalty Trust	SJT	H	15.96	46.6	740	34.00	-	0.47
Permian Basin RT	PBT		8.02	46.6	370	19.00	-	0.42
Cross Timbers Royalty Trust	CRT		16.95	6.0	100	42.00	-	0.40
Hugoton Royalty Trust	HGT	B	9.99	40.0	400	28.00	-	0.36
Mesa Royalty Trust	MTR		23.49	1.9	40	67.00	-	0.35
<i>Total or Median</i>					2,120			0.41
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.12	114.0	1,720	14.00	0.52	1.04
Encore Energy Partners, L.P. (32%)	ENP		12.83	10.6	140	17.00	0.18	0.80
Dorchester Minerals, L.P.	DMLP		16.30	28.2	460	24.00	-	0.68
<i>Total or Median</i>					2,320		0.18	0.80
B = Buy, H = Hold								
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 \$10 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Revenue Royalty (%)	Dist/ Equity Ebitda
	Symbol/ Rating		26-Feb 2009	NTM	NTM	NTM		
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	16.54	23.3	29.1	12.4		0.33
Pengrowth Energy Trust	PGH		6.02	9.5	14.3	8.1		0.86
Penn West Energy Trust	PWE	H	9.04	8.2	13.6	7.1		1.20
Enerplus Resources Fund	ERF		17.19	8.9	14.0	6.3		0.55
	<i>Median</i>			9.2	14.1	7.6		
Small Cap Independent Producers								
Berry Petroleum Company	BRY		6.72	11.2	20.5	10.3		-
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.51	6.9	21.8	9.6		-
Encore Acquisition Company	EAC		20.69	11.4	12.9	8.6		-
Cimarex Energy Company	XEC		19.78	7.3	10.5	4.9		-
	<i>Median</i>			9.3	16.7	9.1		
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		32.43	9.2	17.0	11.7	100	1.00
San Juan Basin Royalty Trust	SJT	H	15.96	10.7	22.0	10.3		0.79
Hugoton Royalty Trust	HGT	B	9.99	12.1	22.8	8.2		0.69
Permian Basin RT	PBT		8.02	8.8	18.7	7.9	32	0.83
Cross Timbers Royalty Trust	CRT		16.95	12.2	19.2	7.8	84	0.95
Mesa Royalty Trust	MTR		23.49	22.6	21.2	7.5		0.87
	<i>Median</i>			11.4	20.2	8.0		
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.12	17.7	32.2	33.4		5.80
Encore Energy Partners, L.P.	ENP		12.83	10.9	16.2	12.9		1.90
Dorchester Minerals, L.P.	DMLP		16.30	8.5	16.8	11.4	64	0.94
	<i>Median</i>			10.9	16.8	12.9		
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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