



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 3, 2009

Brief Notes from Calgary

Summary and Recommendation

Visiting in Calgary with buy-recommended **Canadian Oil Sands Trust (COSWF)**, small cap **Birchcliff Energy (BIR.TO)** and income trust **Enerplus Resources Fund (ERF)**, we are optimistic for the potential of each stock to appreciate to a McDep Ratio of 1.0. At the conference on Investing in Energy sponsored by the *CFA Institute* with the *Calgary CFA Society* where we presented, we gained insight from fellow speakers including reknowned geologist Ken Deffeyes, long-time friendly competitor Tom Petrie, and former friendly Canadian analyst competitor, Pentti Karkkainen among others. Oil price for the next twelve months is running more than US\$20 a barrel above operating breakeven at Canadian Oil Sands Trust. First quarter volume may be up above the fourth quarter at Birchcliff with the completion of high volume horizontal wells in the Montney tight gas/shale play that is attracting much industry attention. High distribution paying Enerplus reminds us that U.S. investors who hold the income stock in tax-deferred accounts would no longer have the 15% Canadian tax withheld when the trust converts to a corporation in 2011 or soon thereafter.

Princeton professor emeritus Deffeyes, who wrote the current day book on Hubbert's Peak, believes the peak in world oil production is now behind us. Merrill Lynch Vice Chairman Tom Petrie, with his first hand experience in Russia and Saudi Arabia, believes oil production will peak early in the next decade and bring triple digit oil price. In his new role as a private equity investor living in Calgary, Pentti Karkkanien believes he can identify the top decile professional leaders who can be successful in private companies in the ups and downs of the oil cycle. From alternative energy specialists at the conference we glean that investment opportunities in solar (First Solar) and wind (Vestas) are capital spending in nature akin to oil service or technology stocks. There are no sizeable publicly traded companies with much concentration on steady cash flow generation from solar or wind that we have noticed yet. In any event, solar and wind depend on subsidies at the whim of politicians while the practical alternative energy, natural gas, is a bargain.

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				
						by Segment (%)				
	Symbol/Rating		Price (US\$/sh)	EV/	Enterprise	NAmer.		Dist.	Dist.	
	B = Buy		2-Apr	Market	Value	Natural	Oil	NTM	Yield	McDep
	H = Hold		2009	Cap	(\$mm)	Gas	Prod'n	(\$/un)	(%)	Ratio
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	H	10.33	1.83	7,800	30	70	1.45	14.1	0.56
Pengrowth Energy Trust	PGH		5.99	2.06	3,100	40	60	0.97	16.2	0.55
Canadian Oil Sands Trust	COSWF	B	21.29	1.11	11,400		100	0.48	2.2	0.53
Enerplus Resources Fund	ERF		18.24	1.26	3,800	46	54	1.75	9.6	0.47
<i>Total or Median</i>					26,100					
Small Cap Independent Producers										
Encore Acquisition Company	EAC	H	26.44	1.82	2,520	26	74	-	-	0.73
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.23	1.34	860	72	28	-	-	0.60
Berry Petroleum Company	BRY	H	12.63	2.93	1,670	36	64	0.30	2.4	0.57
Cimarex Energy Company	XEC	B	19.98	1.52	2,520	66	34	0.24	1.2	0.46
<i>Total or Median</i>					7,570					
U.S. Royalty Trusts										
Sabine Royalty Trust	SBR		36.16	1.00	530	54	46	2.57	7.1	0.77
Permian Basin RT	PBT		10.06	1.00	470	33	67	0.87	8.6	0.53
Cross Timbers Royalty Trust	CRT		18.80	1.00	110	76	24	1.92	10.2	0.45
San Juan Basin Royalty Trust	SJT	H	15.26	1.00	710	100	-	1.03	6.8	0.45
Mesa Royalty Trust	MTR		27.00	1.00	50	75	25	2.76	10.2	0.40
Hugoton Royalty Trust	HGT	B	10.52	1.00	420	91	9	0.87	8.3	0.38
<i>Total or Median</i>					2,290					
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE		15.18	2.01	3,480	48	52	2.52	16.6	1.04
Encore Energy Partners, L.P. (3)	ENP		15.04	1.25	200	34	66	2.00	13.3	0.91
Dorchester Minerals, L.P.	DMLP		17.20	1.00	490	68	32	1.36	7.9	0.72
<i>Total or Median</i>					4,170					
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					28,700	44	56			0.58
<i>Equal Weighting</i>						56	44			0.60
<i>Equal Weighted Buys</i>						70	30			0.42
* 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		2-Apr 2009	Shares (mm)				
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE	H	10.33	410.0	4,240	25.00	0.26	0.56
Pengrowth Energy Trust	PGH		5.99	255.5	1,530	16.00	0.28	0.55
Canadian Oil Sands Trust	COSWF	B	21.29	482.0	10,260	42.00	0.05	0.53
Enerplus Resources Fund	ERF		18.24	165.3	3,020	44.00	0.10	0.47
<i>Total or Median</i>					<i>19,100</i>		<i>0.18</i>	<i>0.54</i>
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	26.44	52.6	1,390	44.00	0.33	0.73
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.23	122.0	640	10.00	0.15	0.60
Berry Petroleum Company	BRY	H	12.63	45.2	570	40.00	0.38	0.57
Cimarex Energy Company	XEC	B	19.98	83.2	1,660	55.00	0.16	0.46
<i>Total or Median</i>					<i>4,260</i>		<i>0.24</i>	<i>0.59</i>
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		36.16	14.6	530	47.00	-	0.77
Permian Basin RT	PBT		10.06	46.6	470	19.00	-	0.53
Cross Timbers Royalty Trust	CRT		18.80	6.0	110	42.00	-	0.45
San Juan Basin Royalty Trust	SJT	H	15.26	46.6	710	34.00	-	0.45
Mesa RoyaltyTrust	MTR		27.00	1.9	50	67.00	-	0.40
Hugoton RoyaltyTrust	HGT	B	10.52	40.0	420	28.00	-	0.38
<i>Total or Median</i>					<i>2,290</i>			<i>0.45</i>
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.18	114.0	1,730	14.00	0.52	1.04
Encore Energy Partners, L.P. (32%)	ENP		15.04	10.6	160	17.00	0.18	0.91
Dorchester Minerals, L.P.	DMLP		17.20	28.2	490	24.00	-	0.72
<i>Total or Median</i>					<i>2,380</i>		<i>0.18</i>	<i>0.91</i>
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)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		2-Apr 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	21.29		0.23	23.2	20.5	10.9
Pengrowth Energy Trust	PGH		5.99		0.93	7.8	15.4	8.5
Penn West Energy Trust	PWE	H	10.33		0.69	8.2	11.9	6.7
Enerplus Resources Fund	ERF		18.24		0.51	8.9	12.9	6.1
	<i>Median</i>					8.5	14.1	7.6
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.23		-	9.5	21.1	12.6
Encore Acquisition Company	EAC	H	26.44		-	12.0	12.1	8.9
Berry Petroleum Company	BRY	H	12.63		-	11.8	15.4	8.8
Cimarex Energy Company	XEC	B	19.98		-	7.3	9.8	4.6
	<i>Median</i>					10.7	13.7	8.8
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		36.16	100	1.00	9.6	18.3	14.1
San Juan Basin Royalty Trust	SJT	H	15.26		0.79	9.2	25.9	11.6
Permian Basin RT	PBT		10.06	32	0.86	10.4	18.8	9.9
Cross Timbers Royalty Trust	CRT		18.80	84	0.94	12.4	20.5	9.2
Mesa Royalty Trust	MTR		27.00		0.87	22.6	21.2	8.5
Hugoton Royalty Trust	HGT	B	10.52		0.61	12.1	19.6	7.4
	<i>Median</i>					11.3	20.0	9.6
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.18		4.86	17.7	27.0	28.1
Encore Energy Partners, L.P.	ENP		15.04		1.70	10.9	14.4	13.1
Dorchester Minerals, L.P.	DMLP		17.20	64	0.95	8.2	16.7	12.0
	<i>Median</i>					10.9	16.7	13.1
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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