



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

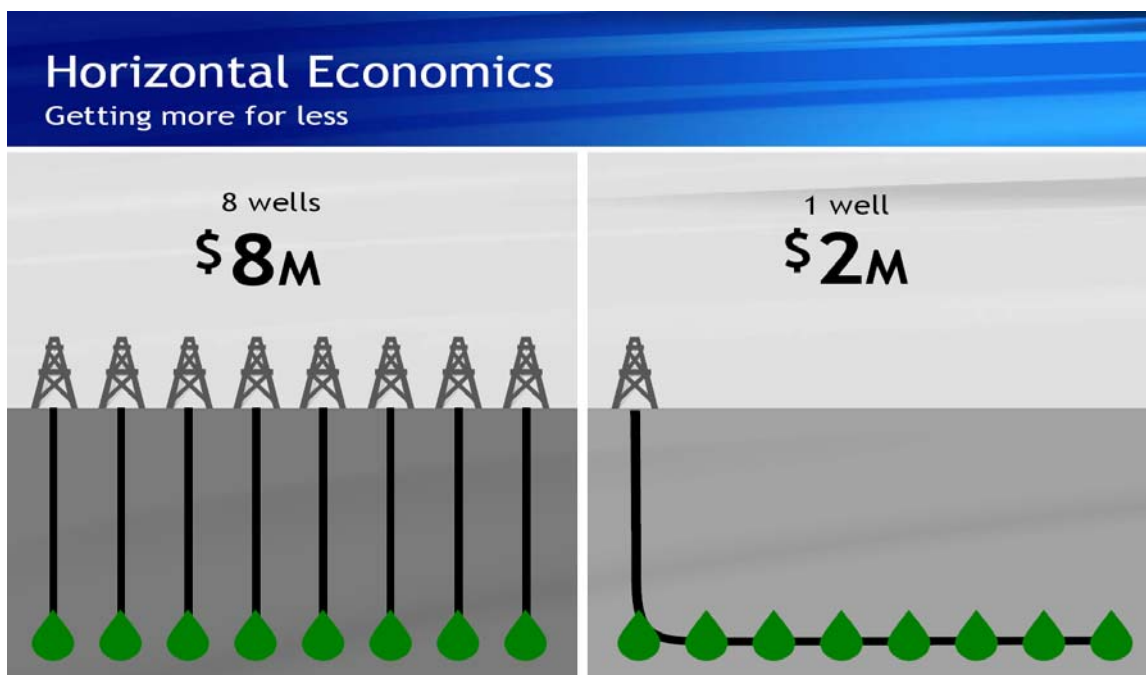
October 23, 2009

Going Horizontal

Summary and Recommendation

After visits with technologists at an explorer and three trusts in Calgary, we have confidence in our assessment of attractive investment potential signaled by McDep Ratios of 0.87 for **Birchcliff Energy Ltd. (BIR)**, 0.91 for **Freehold Royalty Trust (FRHLF)**, 0.95 for **Peyto Energy Trust (PEYUF)** and 0.95 for **Penn West Energy Trust (PWE)** (see Tables 1-3). BIR is for investors looking for high growth subject to higher risk. The remaining three income stocks have strong resource value at the same time they expect Canadian taxation changes in 2011. All are applying newly developing techniques of multifrac horizontal drilling (HZ) to unlock oil and gas accumulations more profitably. Neither fracturing, nor horizontal drilling is new, but the combination of multiple fracture treatments with horizontal drilling is sweeping Canada after having been advanced in the Barnett Shale natural gas drilling in Texas. In its Analyst Day presentation, PWE illustrated in a deliberate oversimplification how 8 single frac vertical wells costing \$8 million might be replaced by one multifrac horizontal well for \$2 million (see slide). We think HZ is promising for individual companies without depressing industry pricing from too much long-term supply. We'll have more to say about each of the four stocks in future analyses.

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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/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	23-Oct 2009	Cap							
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	17.67	1.58	11,500	27	73	1.71	9.7	0.95	
Peyto Energy Trust	PEYUF	12.16	1.26	1,760	78	22	1.37	11.3	0.95	
Pengrowth Energy Trust	PGH	10.18	1.73	4,600	33	67	0.82	8.0	0.82	
Enerplus Resources Fund	ERF	23.96	1.23	4,900	48	52	2.10	8.8	0.79	
Canadian Oil Sands Trust	COSWF B	30.09	1.10	16,100		100	2.23	7.4	0.74	
<i>Total or Median</i>				38,900						0.82
Small Cap Independent Producers										
Encore Acquisition Company	EAC B	42.76	1.75	3,970	23	77	-	-	0.98	
Cimarex Energy Company	XEC B	43.60	1.23	4,420	62	38	0.24	0.6	0.96	
Berry Petroleum Company	BRY	28.79	1.88	2,430	31	69	0.30	1.0	0.90	
Birchcliff Energy Ltd. (US\$)	BIREF	7.61	1.21	1,140	62	38	-	-	0.87	
<i>Total or Median</i>				11,960						0.93
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	35.52	1.00	210	64	36	2.16	6.1	1.27	
Freehold Royalty Trust (US\$)	FRHLF	15.15	1.20	900	25	75	1.37	9.0	0.91	
Dorchester Minerals, L.P.	DMLP B	23.29	1.00	690	63	38	1.59	6.8	0.86	
Permian Basin RT	PBT	13.79	1.00	640	27	73	0.99	7.2	0.77	
Sabine Royalty Trust	SBR	42.14	1.00	610	38	63	3.23	7.7	0.77	
<i>Total or Median</i>				3,050						0.86
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	24.88	1.50	4,260	38	62	2.52	10.1	1.36	
Encore Energy Partners, L.P. (52%)	ENP	18.75	1.30	570	24	76	2.15	11.5	1.08	
San Juan Basin Royalty Trust	SJT B	18.88	1.00	880	100	-	1.40	7.4	0.90	
Hugoton Royalty Trust	HGT B	17.37	1.00	700	89	11	1.31	7.5	0.76	
Mesa Royalty Trust	MTR	36.00	1.00	67	75	25	2.86	7.9	0.75	
<i>Total or Median</i>				6,480						0.90
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				44,200	41	59				0.93
<i>Equal Weighting</i>					50	50				0.92
<i>Equal Weighted Buys</i>					53	47				0.89
* 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)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		23-Oct 2009	(mm)				
Canadian Income Trusts (US\$)								
	PWE		17.67	411.0	7,260	19.00	0.35	0.95
	PEYUF		12.16	115.0	1,400	13.00	0.20	0.95
	PGH		10.18	260.0	2,650	14.00	0.35	0.82
	ERF		23.96	166.3	3,980	32.00	0.15	0.79
	COSWF	B	30.09	484.0	14,560	42.00	0.07	0.74
	<i>Total or Median</i>				29,900		0.20	0.82
Small Cap Independent Producers								
	EAC	B	42.76	53.0	2,270	44.00	0.42	0.98
	XEC	B	43.60	82.0	3,580	46.00	0.18	0.96
	BRY		28.79	44.8	1,290	35.00	0.42	0.90
	BIREF		7.61	124.0	940	9.00	0.15	0.87
	<i>Total or Median</i>				8,080		0.30	0.93
Top Line Cash Payers								
	CRT		35.52	6.0	210	28.00	-	1.27
	FRHLF		15.15	49.6	750	17.00	0.15	0.91
	DMLP	B	23.29	29.8	690	27.00	-	0.86
	PBT		13.79	46.6	640	18.00	-	0.77
	SBR		42.14	14.6	610	55.00	-	0.77
	<i>Total or Median</i>				2,900			0.86
Bottom Line Cash Payers								
	LINE		24.88	114.0	2,840	15.00	0.45	1.36
	ENP		18.75	23.4	440	17.00	0.25	1.08
	SJT	B	18.88	46.6	880	21.00	-	0.90
	HGT	B	17.37	40.0	700	23.00	-	0.76
	MTR		36.00	1.9	67	48.00	-	0.75
	<i>Total or Median</i>				4,930			0.90
B = Buy, Hold ratings discontinued October 23, 2009								
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 \$8 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		23-Oct 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		12.16		1.22	18.0	11.6	11.0
	COSWF	B	30.09		0.63	21.8	11.8	8.7
	PWE		17.67		0.72	8.2	8.0	7.7
	ERF		23.96		0.58	9.4	8.8	6.9
	PGH		10.18		0.47	7.9	8.1	6.6
	<i>Median</i>					9.4	8.8	7.7
Small Cap Independent Producers								
	BIREF		7.61		-	10.1	12.2	10.6
	EAC	B	42.76		-	11.5	7.7	7.6
	BRY		28.79		-	12.1	7.4	6.7
	XEC	B	43.60		-	7.8	5.3	5.1
	<i>Median</i>					10.8	7.6	7.1
Top Line Cash Payers								
	CRT		35.52	84	0.94	13.3	12.1	15.4
	SBR		42.14	100	1.00	10.2	17.0	13.0
	DMLP	B	23.29	64	0.87	8.2	14.8	12.7
	PBT		13.79	32	0.90	11.7	16.3	12.5
	FRHLF		15.15	71	0.70	6.5	8.7	7.9
	<i>Median</i>					10.2	14.8	12.7
Bottom Line Cash Payers								
	LINE		24.88		2.00	18.2	11.9	16.2
	MTR		36.00		0.86	7.8	14.4	10.8
	SJT	B	18.88		0.78	9.1	11.7	10.6
	HGT	B	17.37		0.76	13.3	13.4	10.1
	ENP		18.75		1.13	13.9	8.9	9.6
	<i>Median</i>					13.3	11.9	10.6
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; 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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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty 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.