



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

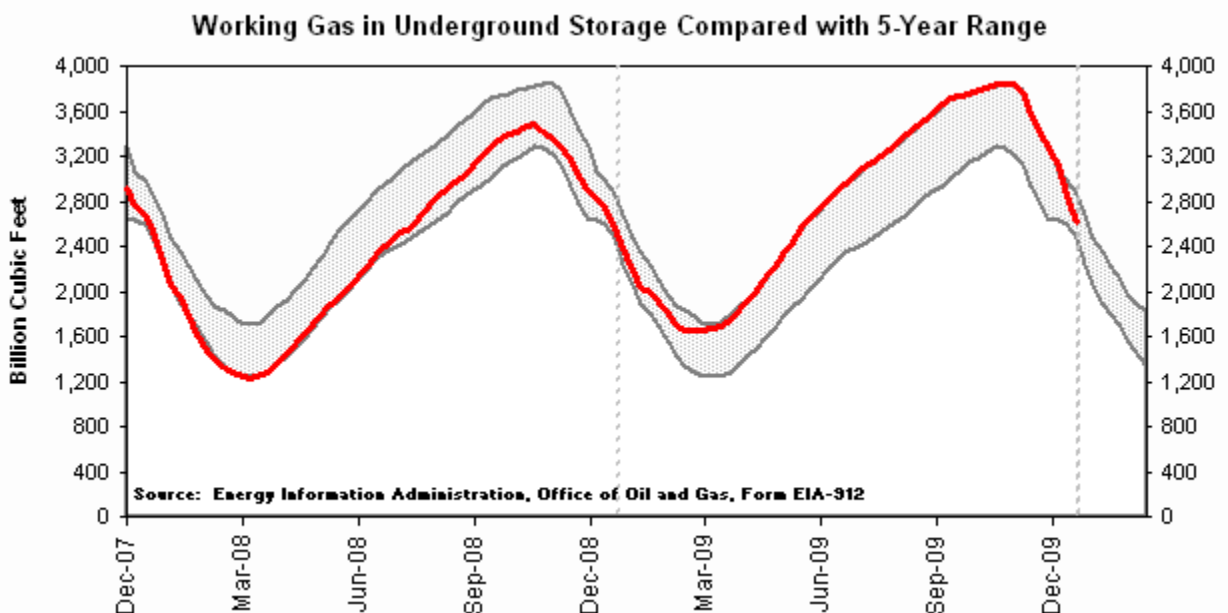
January 22, 2010

U.S. Natural Gas Inventories Drop Sharply

Summary and Recommendation

Cold winter weather in the Northern Hemisphere is depleting natural gas inventories rapidly in the U.S., Europe and China and increasing the attractiveness of natural gas small cap and income stocks. The U.S. Energy Information Administration said on January 21 that inventory withdrawals exceeding a half trillion cubic feet were the highest for a two-week period in the agency's 16-year history of collecting the data. The red line on the chart below is "plunging" as the headline writers might say. The line tracks the billion cubic feet of natural gas stored in the summertime for use in winter when normal production cannot meet all demand. The wiggles in the line of the past two weeks cancel all of the wiggles for the last eight months of last year that underpinned bearish price opinions. Yet, investors tend to overemphasize figures that are available. The future numbers can change quickly and the numbers readily available apply only to the U.S. natural gas portion of what is a global energy business. Nonetheless, the return of normal and occasionally colder than normal winter temperatures is good news for natural gas investors. Presumably, it is also good news for those who think warmer temperatures have been changing climate in an undesirable fashion.

Kurt H. Wulff, CFA





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Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)						McDep Ratio
				NAmer.		Dist.		Yield		
				Natural Gas	Oil Prod'n	NTM (\$/un)	Dist. (%)			
B = Buy H = Hold	21-Jan 2010									
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF	13.40	1.26	1,940	71	29	1.40	10.5	1.02	
Penn West Energy Trust	PWE	17.22	1.58	11,500	22	78	1.75	10.2	0.94	
Pengrowth Energy Trust	PGH	10.50	1.51	4,600	35	65	0.82	7.8	0.91	
Enerplus Resources Fund	ERF	22.70	1.23	4,700	42	58	2.10	9.3	0.79	
Canadian Oil Sands Trust	COSWF B	27.96	1.11	15,000		100	1.80	6.4	0.69	
<i>Total or Median</i>				37,700					0.91	
Small Cap Independent Producers										
Birchcliff Energy Ltd. (US\$)	BIREF	9.26	1.17	1,470	65	35	-	-	1.02	
Encore Acquisition Company	EAC	48.97	1.64	4,190	22	78	-	-	0.99	
Whiting Petroleum Corporation	WLL	70.82	1.27	5,450	17	83	-	-	0.95	
Cimarex Energy Company	XEC B	53.94	1.18	5,220	67	33	0.24	0.4	0.91	
Bery Petroleum Company	BRY	28.00	1.88	2,370	31	69	0.30	1.1	0.88	
<i>Total or Median</i>				18,700					0.95	
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	34.50	1.00	210	71	29	2.69	7.8	1.01	
Sabine Royalty Trust	SBR	44.49	1.00	650	39	61	2.98	6.7	0.99	
Freehold Royalty Trust (US\$)	FRHLF	15.04	1.21	900	25	75	1.67	11.1	0.90	
Permian Basin RT	PBT	15.72	1.00	730	27	73	1.11	7.1	0.87	
Dorchester Minerals, L.P.	DMLP B	23.10	1.02	710	67	33	1.80	7.8	0.86	
<i>Total or Median</i>				3,200					0.90	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	27.86	1.51	4,780	40	60	2.52	9.0	1.35	
Encore Energy Partners, L.P. (52%)	ENP	20.57	1.28	610	24	76	2.15	10.5	1.16	
San Juan Basin Royalty Trust	SJT B	22.48	1.00	1,050	100	-	1.84	8.2	1.07	
Hugoton Royalty Trust	HGT B	17.78	1.00	710	88	12	1.50	8.4	0.85	
Mesa Royalty Trust	MTR	40.47	1.00	75	75	25	4.20	10.4	0.84	
<i>Total or Median</i>				7,200					1.07	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				51,900	38	62			0.95	
<i>Equal Weighting</i>					49	51			0.96	
<i>Equal Weighted Buys</i>					73	27			0.92	
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.										
Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.										



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Table 2							
Oil and Gas Income and Small Cap Stocks							
Net Present Value and McDep Ratio							
		Price			Net		
	Symbol/	(\$/sh)	Shares	Market	Present	Debt/	
	Rating	21-Jan	(mm)	Cap	Value	Present	McDep
		2010		(\$mm)	(\$/un)	Value	Ratio
Canadian Income Trusts (US\$)							
Peyto Energy Trust	PEYUF	13.40	114.9	1,540	13.00	0.21	1.02
Penn West Energy Trust	PWE	17.22	420.0	7,230	19.00	0.35	0.94
Pengrowth Energy Trust	PGH	10.50	290.0	3,050	12.00	0.31	0.91
Enerplus Resources Fund	ERF	22.70	169.0	3,840	30.00	0.15	0.79
Canadian Oil Sands Trust	COSWF	B	27.96	484.0	13,530	42.00	0.07
<i>Total or Median</i>				29,200		0.21	0.91
Small Cap Independent Producers							
Birchcliff Energy Ltd. (US\$)	BIREF	9.26	136.3	1,260	9.00	0.15	1.02
Encore Acquisition Company	EAC	48.97	52.3	2,560	50.00	0.38	0.99
Whiting Petroleum Corporation	WLL	70.82	59.0	4,310	78.00	0.20	0.95
Cimarex Energy Company	XEC	B	53.94	82.2	4,430	60.00	0.14
Berry Petroleum Company	BRY	28.00	44.9	1,260	35.00	0.41	0.88
<i>Total or Median</i>				13,820		0.20	0.95
Top Line Cash Payers							
Cross Timbers Royalty Trust	CRT	34.50	6.0	210	34.00	-	1.01
Sabine Royalty Trust	SBR	44.49	14.6	650	45.00	-	0.99
Freehold Royalty Trust (US\$)	FRHLF	15.04	49.6	750	17.00	0.16	0.90
Permian Basin RT	PBT	15.72	46.6	730	18.00	-	0.87
Dorchester Minerals, L.P.	DMLP	B	23.10	29.8	690	27.00	0.02
<i>Total or Median</i>				3,030			0.90
Bottom Line Cash Payers							
Linn Energy, LLC	LINE	27.86	114.0	3,180	17.00	0.45	1.35
Encore Energy Partners, L.P. (52%)	ENP	20.57	23.2	480	17.00	0.25	1.16
San Juan Basin Royalty Trust	SJT	B	22.48	46.6	1,050	21.00	-
Hugoton Royalty Trust	HGT	B	17.78	40.0	710	21.00	-
Mesa Royalty Trust	MTR	40.47	1.9	75	48.00	-	0.84
<i>Total or Median</i>				5,500			1.07
B = Buy. 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		21-Jan 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.40		1.27	18.2	11.8	12.0
	COSWF	B	27.96		0.59	23.1	13.7	9.4
	PWE		17.22		0.77	8.3	8.4	7.8
	PGH		10.50		0.52	8.3	7.6	7.0
	ERF		22.70		0.61	9.8	8.7	6.9
	<i>Median</i>					9.8	8.7	7.8
Small Cap Independent Producers								
	BIREF		9.26		-	10.6	14.9	15.2
	EAC		48.97		-	11.7	7.6	7.5
	WLL		70.82		-	9.8	7.3	6.9
	BRY		28.00		-	12.4	7.3	6.5
	XEC	B	53.94		-	7.6	5.7	5.2
	<i>Median</i>					10.6	7.3	6.9
Top Line Cash Payers								
	SBR		44.49	100	1.00	12.0	15.1	15.0
	PBT		15.72	32	0.90	11.5	14.5	12.7
	CRT		34.50	84	0.95	12.6	12.0	12.2
	DMLP	B	23.10	64	0.91	7.8	13.7	11.7
	FRHLF		15.04	71	0.91	6.8	9.3	8.4
	<i>Median</i>					11.5	13.7	12.2
Bottom Line Cash Payers								
	LINE		27.86		1.70	18.3	11.5	15.5
	SJT	B	22.48		0.80	9.0	9.2	9.8
	ENP		20.57		1.07	13.2	8.4	9.8
	HGT	B	17.78		0.76	13.4	10.7	9.0
	MTR		40.47		0.93	8.0	10.6	8.9
	<i>Median</i>					13.2	10.6	9.8
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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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