



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 29, 2010

Tenuous Timing

Summary and Recommendation

While income and small cap oil and gas stocks continue to trace upward stock price trends measured by the 200-day average, some large cap stocks in our separate coverage are showing signs of a potential downtrend. At the same time, our fundamental analysis summarized by the McDep Ratio continues to lend confidence to long-term commitments. In the face of the near-term uncertainty that is always with us, we keep our peace of mind by maintaining a targeted portfolio weighting in small cap and income stocks. Our five buy recommendations have strong appreciation potential with rising commodity price stimulated by global growth. Four are concentrated on natural gas and one on oil (see Table 1). All have zero or low debt (see Table 2). The four income buy recommendations offer distribution yields from 5% to 9% a year.

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	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n			
	B = Buy H = Hold	28-Jan 2010							
Canadian Income Trusts (US\$)									
Peyto Energy Trust	PEYUF	12.51	1.27	1,830	72	28	1.36	10.9	0.97
Penn West Energy Trust	PWE	16.62	1.59	11,100	22	78	1.70	10.2	0.92
Pengrowth Energy Trust	PGH	10.13	1.51	4,400	35	65	0.79	7.8	0.89
Enerplus Resources Fund	ERF	21.15	1.24	4,400	42	58	2.04	9.7	0.75
Canadian Oil Sands Trust	COSWF B	26.28	1.10	14,000		100	1.31	5.0	0.71
<i>Total or Median</i>				35,700					0.89
Small Cap Independent Producers									
Encore Acquisition Company	EAC	48.33	1.65	4,160	22	78	-	-	0.98
Birchcliff Energy Ltd. (US\$)	BIREF	8.68	1.18	1,320	63	37	-	-	0.97
Whiting Petroleum Corporation	WLL	68.62	1.28	5,260	17	83	-	-	0.92
Cimarex Energy Company	XEC B	51.61	1.19	5,030	67	33	0.24	0.5	0.88
Berry Petroleum Company	BRY	27.23	1.91	2,330	31	69	0.30	1.1	0.87
<i>Total or Median</i>				18,100					0.92
Top Line Cash Payers									
Cross Timbers Royalty Trust	CRT	32.73	1.00	200	71	29	2.69	8.2	0.96
Sabine Royalty Trust	SBR	42.69	1.00	620	39	61	2.98	7.0	0.95
Freehold Royalty Trust (US\$)	FRHLF	14.49	1.21	870	25	75	1.63	11.2	0.87
Dorchester Minerals, L.P.	DMLP B	22.31	1.03	680	67	33	1.86	8.3	0.83
Permian Basin RT	PBT	14.25	1.00	660	27	73	1.11	7.8	0.79
<i>Total or Median</i>				3,000					0.87
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	25.98	1.54	4,570	40	60	2.52	9.7	1.29
Encore Energy Partners, L.P. (52%)	ENP	20.34	1.28	610	24	76	2.15	10.6	1.15
San Juan Basin Royalty Trust	SJT B	20.48	1.00	960	100	-	1.84	9.0	0.98
Hugoton Royalty Trust	HGT B	16.75	1.00	670	88	12	1.50	8.9	0.80
Mesa Royalty Trust	MTR	38.20	1.00	71	75	25	4.20	11.0	0.79
<i>Total or Median</i>				6,900					0.98
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				49,700	38	62			0.92
<i>Equal Weighting</i>					49	51			0.92
<i>Equal Weighted Buys</i>					73	27			0.87
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 (\$/sh)		Market	Net		
	Symbol/ Rating	28-Jan 2010	Shares (mm)	Cap (\$mm)	Value (\$/un)	Debt/ Present Value	McDep Ratio
Canadian Income Trusts (US\$)							
	Peyto Energy Trust	PEYUF	12.51	114.9	1,440	13.00	0.21
	Penn West Energy Trust	PWE	16.62	420.0	6,980	19.00	0.34
	Pengrowth Energy Trust	PGH	10.13	290.0	2,940	12.00	0.30
	Enerplus Resources Fund	ERF	21.15	169.0	3,570	30.00	0.14
	Canadian Oil Sands Trust	COSWF	B	26.28	484.0	12,720	38.00
	<i>Total or Median</i>				27,700		0.21
							0.89
Small Cap Independent Producers							
	Encore Acquisition Company	EAC	48.33	52.3	2,530	50.00	0.38
	Birchcliff Energy Ltd. (US\$)	BIREF	8.68	129.0	1,120	9.00	0.15
	Whiting Petroleum Corporation	WLL	68.62	59.0	4,110	78.00	0.20
	Cimarex Energy Company	XEC	B	51.61	82.2	4,240	60.00
	Berry Petroleum Company	BRY	27.23	44.9	1,220	35.00	0.41
	<i>Total or Median</i>				13,220		0.20
							0.92
Top Line Cash Payers							
	Cross Timbers Royalty Trust	CRT	32.73	6.0	200	34.00	-
	Sabine Royalty Trust	SBR	42.69	14.6	620	45.00	-
	Freehold Royalty Trust (US\$)	FRHLF	14.49	49.6	720	17.00	0.15
	Dorchester Minerals, L.P.	DMLP	B	22.31	29.8	670	27.00
	Permian Basin RT	PBT	14.25	46.6	660	18.00	-
	<i>Total or Median</i>				2,870		
							0.87
Bottom Line Cash Payers							
	Linn Energy, LLC	LINE	25.98	114.0	2,960	17.00	0.45
	Encore Energy Partners, L.P. (52%)	ENP	20.34	23.2	470	17.00	0.25
	San Juan Basin Royalty Trust	SJT	B	20.48	46.6	960	21.00
	Hugoton Royalty Trust	HGT	B	16.75	40.0	670	21.00
	Mesa Royalty Trust	MTR	38.20	1.9	71	48.00	-
	<i>Total or Median</i>				5,130		
							0.98
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 Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		28-Jan 2010					
Canadian Income Trusts (US\$)								
	PEYUF		12.51		1.22	18.2	11.6	11.3
	COSWF	B	26.28		0.50	23.1	14.5	10.3
	PWE		16.62		0.72	8.3	8.1	7.4
	PGH		10.13		0.49	8.3	7.4	6.6
	ERF		21.15		0.58	9.8	8.5	6.4
	<i>Median</i>					9.8	8.5	7.4
Small Cap Independent Producers								
	BIREF		8.68		-	10.6	13.9	13.5
	EAC		48.33		-	11.7	7.6	7.4
	WLL		68.62		-	9.8	7.3	6.7
	BRY		27.23		-	12.4	7.3	6.4
	XEC	B	51.61		-	7.6	5.7	5.0
	<i>Median</i>					10.6	7.3	6.7
Top Line Cash Payers								
	SBR		42.69	100	1.00	12.0	15.1	14.3
	CRT		32.73	84	0.95	12.6	12.0	11.6
	PBT		14.25	32	0.90	11.5	14.5	11.5
	DMLP	B	22.31	64	0.91	7.8	13.2	11.0
	FRHLF		14.49	71	0.88	6.8	9.2	8.1
	<i>Median</i>					11.5	13.2	11.5
Bottom Line Cash Payers								
	LINE		25.98		1.70	18.3	11.5	14.8
	ENP		20.34		1.07	13.2	8.4	9.7
	SJT	B	20.48		0.80	9.0	9.2	9.0
	HGT	B	16.75		0.76	13.4	10.7	8.5
	MTR		38.20		0.93	8.0	10.6	8.4
	<i>Median</i>					13.2	10.6	9.0
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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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.