



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

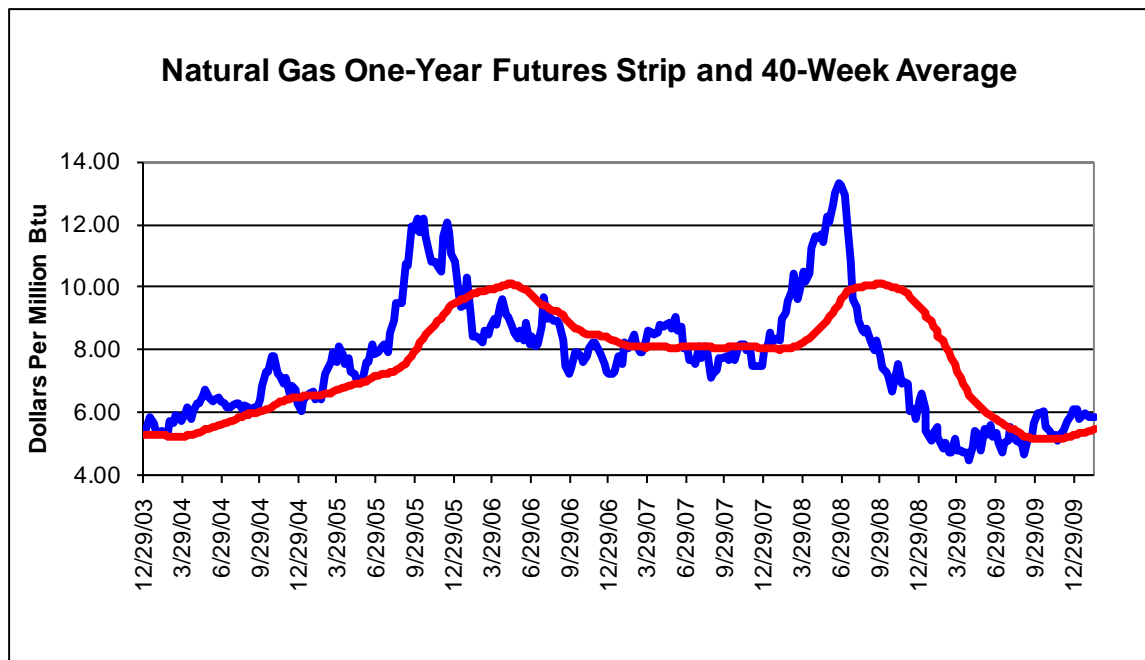
February 12, 2010

Natural Gas Ideas

Summary and Recommendation

Our best natural gas ideas among small cap stocks are all of those with more than 50% concentration on our favorite clean energy. We give the most research emphasis to the buy recommendations **Cimarex Energy (XEC)**, **Dorchester Minerals (DMLP)**, **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** at concentrations of 67%, 67%, 100% and 80% respectively (see Table 1). The attractive alternatives are **Peyto (PEYUF)**, **Birchcliff Energy (BIREF)**, **Cross Timbers Royalty Trust (CRT)**, and **Mesa Royalty Trust (MTR)** at concentrations of 72%, 64%, 71% and 75% respectively. One-year natural gas futures are in an uptrend (see chart below).

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/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
	B = Buy CB (see below)	11-Feb 2010	Cap						
Canadian Income Trusts (US\$)									
Peyto Energy Trust	PEYUF	12.83	1.26	1,860	72	28	1.34	10.4	0.99
Penn West Energy Trust	PWE	18.17	1.53	11,700	23	78	1.68	9.2	0.97
Pengrowth Energy Trust	PGH	10.44	1.49	4,500	35	65	0.78	7.5	0.91
Enerplus Resources Fund	ERF	21.67	1.23	4,500	42	58	2.01	9.3	0.76
Canadian Oil Sands Trust	COSWF B	27.73	1.10	14,700		100	1.31	4.7	0.75
<i>Total or Median</i>				37,300					0.91
Small Cap Independent Producers									
Encore Acquisition Company	EAC	49.39	1.63	4,210	22	78	-	-	0.99
Birchcliff Energy Ltd. (US\$)	BIREF	8.65	1.18	1,340	64	36	-	-	0.97
Cimarex Energy Company	XEC B	55.47	1.17	5,350	67	33	0.24	0.4	0.94
Berry Petroleum Company	BRY	27.84	1.89	2,360	31	69	0.30	1.1	0.88
Whiting Petroleum Corporation	WLL	69.25	1.30	5,000	17	83	-	-	0.87
<i>Total or Median</i>				18,300					0.94
Top Line Cash Payers									
Sabine Royalty Trust	SBR	44.17	1.00	640	39	61	2.76	6.3	0.98
Cross Timbers Royalty Trust	CRT	32.54	1.00	200	71	29	2.45	7.5	0.96
Freehold Royalty Trust (US\$)	FRHLF	14.87	1.20	890	25	75	1.60	10.8	0.89
Permian Basin RT	PBT	15.93	1.00	740	27	73	1.03	6.5	0.88
Dorchester Minerals, L.P.	DMLP B	21.47	1.03	660	67	33	1.71	8.0	0.80
<i>Total or Median</i>				3,100					0.89
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	25.71	1.55	4,540	40	60	2.52	9.8	1.28
Encore Energy Partners, L.P. (52%)	ENP	19.44	1.29	580	24	76	2.15	11.1	1.11
San Juan Basin Royalty Trust	SJT B	21.38	1.00	1,000	100	-	1.68	7.9	1.02
Mesa Royalty Trust	MTR	39.48	1.00	74	75	25	3.89	9.8	0.83
Hugoton Royalty Trust	HGT B	16.88	1.00	680	88	12	1.32	7.8	0.80
<i>Total or Median</i>				6,900					1.02
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				50,800	38	62			0.94
<i>Equal Weighting</i>					49	51			0.94
<i>Equal Weighted Buys</i>					73	27			0.89
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.									
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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			<i>Price</i>			<i>Net</i>		
	<i>Symbol/</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Rating</i>	<i>11-Feb</i>	<i>2010</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
					<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		12.83	114.9	1,470	13.00	0.21	0.99
Penn West Energy Trust	PWE		18.17	420.0	7,630	19.00	0.34	0.97
Pengrowth Energy Trust	PGH		10.44	290.0	3,030	12.00	0.30	0.91
Enerplus Resources Fund	ERF		21.67	169.0	3,660	30.00	0.14	0.76
Canadian Oil Sands Trust	COSWF	B	27.73	484.0	13,420	38.00	0.07	0.75
<i>Total or Median</i>					29,200		0.21	0.91
Small Cap Independent Producers								
Encore Acquisition Company	EAC		49.39	52.3	2,580	50.00	0.38	0.99
Birchcliff Energy Ltd. (US\$)	BIREF		8.65	132.0	1,140	9.00	0.14	0.97
Cimarex Energy Company	XEC	B	55.47	82.2	4,560	60.00	0.14	0.94
Berry Petroleum Company	BRY		27.84	44.9	1,250	35.00	0.41	0.88
Whiting Petroleum Corporation	WLL		69.25	59.0	3,860	78.00	0.20	0.87
<i>Total or Median</i>					13,390		0.20	0.94
Top Line Cash Payers								
Sabine Royalty Trust	SBR		44.17	14.6	640	45.00	-	0.98
Cross Timbers Royalty Trust	CRT		32.54	6.0	200	34.00	-	0.96
Freehold Royalty Trust (US\$)	FRHLF		14.87	49.6	740	17.00	0.15	0.89
Permian Basin RT	PBT		15.93	46.6	740	18.00	-	0.88
Dorchester Minerals, L.P.	DMLP	B	21.47	29.8	640	27.00	0.02	0.80
<i>Total or Median</i>					2,960			0.89
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		25.71	114.0	2,930	17.00	0.45	1.28
Encore Energy Partners, L.P. (52%)	ENP		19.44	23.2	450	17.00	0.25	1.11
San Juan Basin Royalty Trust	SJT	B	21.38	46.6	1,000	21.00	-	1.02
Mesa Royalty Trust	MTR		39.48	1.9	74	48.00	-	0.83
Hugoton Royalty Trust	HGT	B	16.88	40.0	680	21.00	-	0.80
<i>Total or Median</i>					5,130			1.02
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
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		11-Feb 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		12.83		1.32	18.2	12.8	12.6
	COSWF	B	27.73		0.54	23.1	15.7	11.7
	PWE		18.17		0.82	8.3	9.3	9.0
	PGH		10.44		0.55	8.3	8.5	7.7
	ERF		21.67		0.65	9.8	9.7	7.4
	<i>Median</i>					9.8	9.7	9.0
Small Cap Independent Producers								
	BIREF		8.65		-	10.6	15.9	15.4
	EAC		49.39		-	11.7	8.7	8.6
	BRY		27.84		-	12.4	8.5	7.5
	WLL		69.25		-	9.8	8.0	7.0
	XEC	B	55.47		-	7.2	4.9	4.6
	<i>Median</i>					10.6	8.5	7.5
Top Line Cash Payers								
	SBR		44.17	100	1.00	12.0	16.3	16.0
	PBT		15.93	32	0.89	11.5	15.6	13.8
	CRT		32.54	84	0.95	12.6	13.2	12.6
	DMLP	B	21.47	64	0.91	7.8	14.4	11.5
	FRHLF		14.87	71	0.95	6.8	10.1	9.0
	<i>Median</i>					11.5	14.4	12.6
Bottom Line Cash Payers								
	LINE		25.71		2.01	18.3	13.5	17.3
	ENP		19.44		1.23	12.5	9.7	10.8
	SJT	B	21.38		0.80	9.0	10.0	10.2
	HGT	B	16.88		0.74	13.4	11.7	9.4
	MTR		39.48		0.92	8.0	11.4	9.4
	<i>Median</i>					12.5	11.4	10.2
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
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.