



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

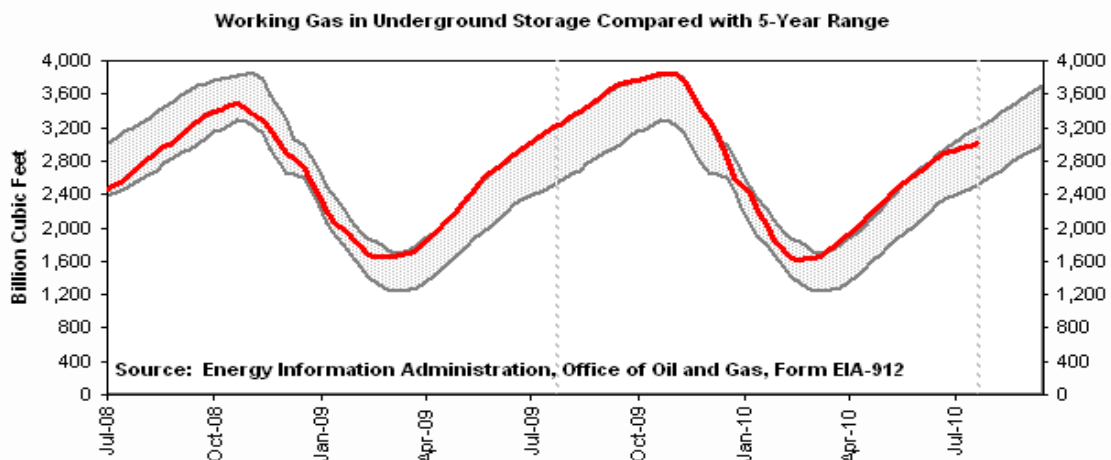
August 20, 2010

## Mid-Term Election Year Prospects

### Summary and Recommendation

We believe that long-term investment in oil and gas income and small cap stocks will be rewarding from mid-term election year price levels. There is a positive trend for small cap buy recommendations indicated by stock prices above the 200-day average, but those are among the exceptions in the broader market. The lack of positive overall direction is typical in the second year of the presidential cycle leading up to the U.S. elections in November, in our experience. There is heightened concern whether the course of the global economy will bring growth, inflation or deflation. Growth prospects are strong in developing countries with consequent increasing demand for energy. In developed countries, particularly the U.S., capital has gone on strike in anticipation of higher taxation next year in the absence of legislative action. Investments aren't being made because of lack of confidence in political leadership that promotes too much wasteful government spending, in our opinion. Yet, someone has to invest and spend in order for economic activity to grow. We think deflation is too demoralizing for hard-working people and should be avoided if at all possible. We believe that lower taxation, or at least the assurance of no increase, is the better way to promote growth by stimulating more efficient private investment, which in turn creates jobs and income for consumer spending. In our own case, we expect that any money we save that would otherwise go to taxes will go into equity investment. In the past, whether through growth or inflation, the resolution of political uncertainty surrounding elections in the middle of the four year presidential term usually has been followed by better stock prices in the ensuing two years. A rising stock market is necessary for the long-term economic success that most voters want.

Kurt H. Wulff, CFA

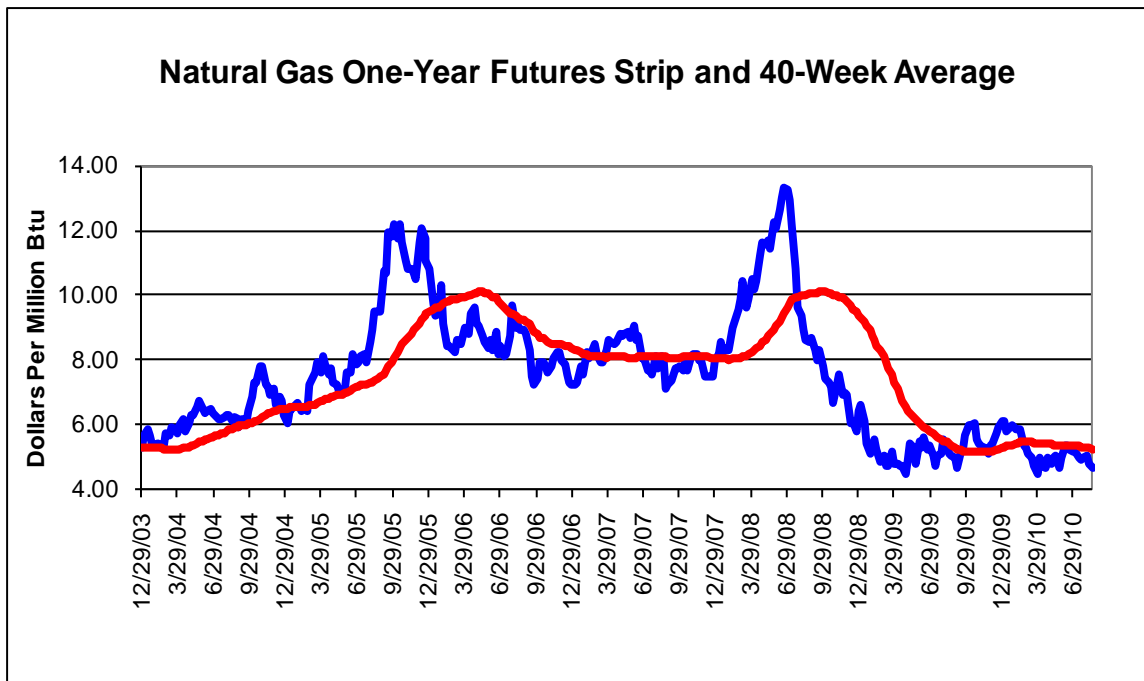
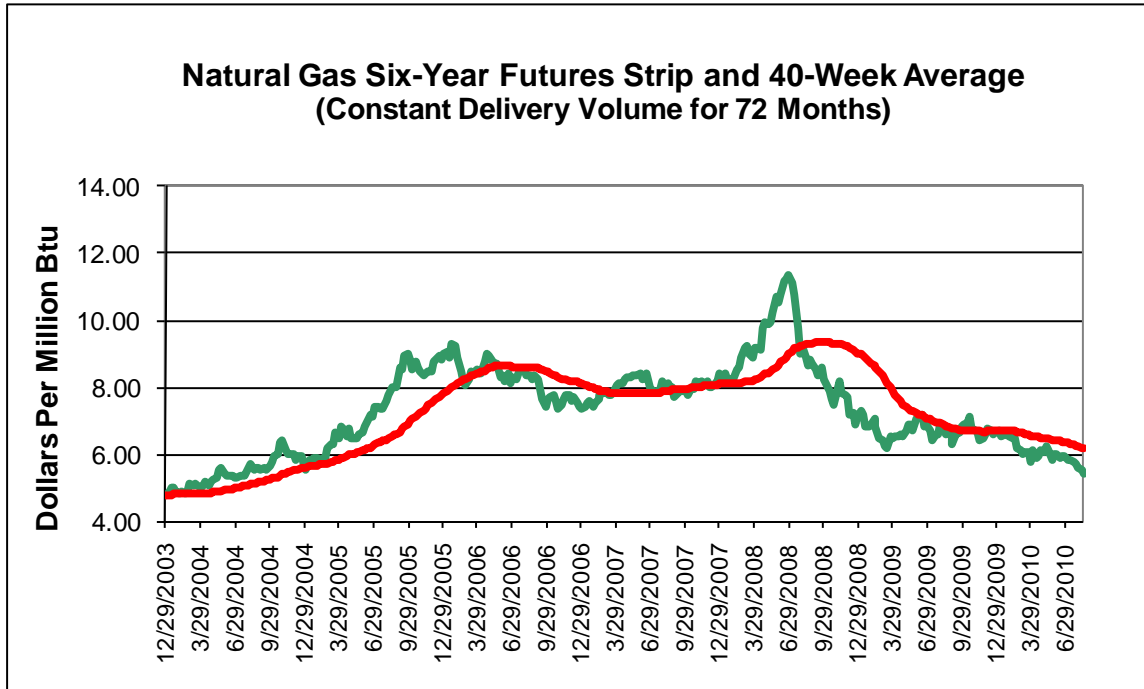




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	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n			
	B = Buy CB (see below)	19-Aug 2010	Cap						
<b>Canadian Income Trusts (US\$)</b>									
Pengrowth Energy Trust	PGH	9.60	1.46	4,100	36	64	0.81	8.4	0.91
Penn West Energy Trust	PWE	19.55	1.37	11,800	22	78	1.73	8.8	0.89
Peyto Energy Trust	PEYUF	13.95	1.24	2,060	79	21	1.38	9.9	0.81
Enerplus Resources Fund	ERF	22.78	1.25	5,000	41	59	2.07	9.1	0.80
Canadian Oil Sands Trust	COSWF CB	24.58	1.12	13,300		100	1.92	7.8	0.67
<i>Total or Median</i>				36,300					0.81
<b>Small Cap Independent Producers</b>									
Denbury Resources Inc.	DNR	15.22	1.56	9,510	16	84	-	-	1.01
Petrohawk Energy Corporation	HK	15.86	1.64	8,040	96	4	-	-	1.01
Whiting Petroleum Corporation	WLL	90.28	1.20	6,230	14	86	-	-	0.94
Range Resources	RRC	34.57	1.35	7,630	82	18	0.08	0.2	0.92
Cimarex Energy Company	XEC B	68.92	1.10	6,500	59	41	0.32	0.5	0.87
Berry Petroleum Company	BRY	27.65	1.68	2,520	31	69	0.30	1.1	0.86
Ultra Petroleum	UPL	40.13	1.21	7,620	94	6	-	-	0.84
Birchcliff Energy Ltd. (US\$)	BIREF B	9.12	1.23	1,420	68	32	-	-	0.70
<i>Total or Median</i>				49,500					0.89
<b>Top Line Cash Payers</b>									
Sabine Royalty Trust	SBR	52.22	1.00	760	50	50	3.31	6.3	1.16
Cross Timbers Royalty Trust	CRT	36.50	1.00	220	75	25	2.21	6.1	1.07
Permian Basin RT	PBT	18.97	1.00	880	38	62	1.44	7.6	1.05
Dorchester Minerals, L.P.	DMLP B	25.06	1.02	790	66	34	1.74	6.9	0.93
Freehold Royalty Trust (US\$)	FRHLF	15.59	1.09	990	25	75	1.61	10.3	0.92
<i>Total or Median</i>				3,600					1.05
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	29.48	1.46	6,330	47	53	2.52	8.5	1.24
Legacy Reserves L.P.	LGCY	23.54	1.38	1,300	17	83	2.08	8.8	1.12
Encore Energy Partners, L.P. (52%)	ENP	18.52	1.29	560	25	75	2.00	10.8	1.07
San Juan Basin Royalty Trust	SJT B	24.30	1.00	1,130	100	-	1.40	5.8	0.97
Hugoton Royalty Trust	HGT B	20.18	1.00	810	90	10	1.54	7.6	0.96
Mesa Royalty Trust	MTR	45.87	1.00	85	75	25	3.65	8.0	0.95
<i>Total or Median</i>				10,200					1.02
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				86,300	51	49			0.93
<i>Equal Weighting</i>					54	46			0.96
<i>Equal Weighted Buys</i>					62	38			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 March 31, 2011. Enterprise Value = Market Cap and Debt.





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			Price (\$/sh)	Revenue Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		19-Aug 2010					
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		13.95		1.01	21.5	13.2	10.7
Canadian Oil Sands Trust	COSWF	CB	24.58		0.68	28.0	13.6	9.1
Penn West Energy Trust	PWE		19.55		0.76	9.9	10.2	9.0
Enerplus Resources Fund	ERF		22.78		0.61	9.7	8.8	7.0
Pengrowth Energy Trust	PGH		9.60		0.54	9.3	7.3	6.7
	<i>Median</i>					9.9	10.2	9.0
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		34.57		-	12.4	13.9	12.8
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.12		-	23.0	15.3	10.7
Ultra Petroleum	UPL		40.13		-	13.2	12.6	10.6
Petrohawk Energy Corporation	HK		15.86		-	7.2	9.3	9.4
Denbury Resources Inc.	DNR		15.22		-	12.8	8.6	8.7
Berry Petroleum Company	BRY		27.65		-	11.9	8.7	7.5
Whiting Petroleum Corporation	WLL		90.28		-	9.6	7.0	6.6
Cimarex Energy Company	XEC	B	68.92		-	6.3	6.9	6.0
	<i>Median</i>					12.1	9.0	9.1
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		52.22	100	1.00	8.7	13.6	15.8
Cross Timbers Royalty Trust	CRT		36.50	84	0.96	13.6	14.7	15.8
Dorchester Minerals, L.P.	DMLP	B	25.06	77	0.89	6.8	13.8	12.9
Permian Basin RT	PBT		18.97	42	0.97	13.0	12.1	12.8
Freehold Royalty Trust (US\$)	FRHLF		15.59	71	0.94	8.2	9.9	9.2
	<i>Median</i>					8.7	13.6	12.9
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		29.48		1.67	18.4	13.9	17.3
San Juan Basin Royalty Trust	SJT	B	24.30		0.80	13.6	14.2	13.8
Hugoton Royalty Trust	HGT	B	20.18		0.90	12.5	12.3	11.8
Mesa Royalty Trust	MTR		45.87		0.92	8.9	12.1	11.5
Legacy Reserves L.P.	LGCY		23.54		1.05	12.2	10.0	11.3
Encore Energy Partners, L.P.	ENP		18.52		1.10	13.1	9.4	10.0
	<i>Median</i>					12.8	12.2	11.7

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 June 30, 2011; 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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