



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 22, 2009

Hedge U.S. Dollar with Canadian Income and Small Cap

Summary and Recommendation

Six Canadian income trusts and one small cap independent producer offer strong appreciation potential signaled by low McDep Ratios ranging from 0.55 to 0.67 ((see Tables 1 and 2). The stocks also remain contrarian investments as they lag larger non-U.S. producers. Only **Peyto Energy Trust (PEYUF)** has regained a hint of investor favor with stock price trading above its 200-day average in U.S. dollars, but not in Canadian dollars. The stocks all offer a hedge against a declining U.S. dollar by virtue of not only being in the oil and gas business, but also being headquartered in a country with a stronger currency. The Canadian dollar has resumed an uptrend as it trades above its 200-day average compared to the U.S. greenback. Finally, while the U.S. threatens higher taxes that may reduce competitiveness, the Province of Alberta is backing off on the increases that were effective in the first quarter of 2009.

Alberta Royalties Lower than Projected

Variable rate royalties in Alberta are a combination of the normal royalty paid to the landowner and an extra petroleum tax paid to the province. The lower rate at lower commodity price is cushioning the profit impact just as a higher rate takes a disproportionate share of gains from higher price. In the name of the “Crown” the province owns most of the land and can thus attempt to combine tax policy with the normal land owner or “mineral” owner royalty. The unique appeal of **Freehold Royalty Trust (FRU-UN.TO)** is its mineral ownership in its properties that it leases to others who pay royalty to Freehold rather than to the Crown. Three of the seven producers paid lower royalties so far in 2009 while only one paid more (see table inset).

Royalty (Percent of Revenue)

<u>Stock</u>	2009	2008
	<u>Quarter</u>	<u>Year</u>
Canadian Oil Sands Trust	1	14
Enerplus Resources Fund	18	18
Freehold Royalty Trust		
Pengrowth Energy Trust	15	21
Penn West Energy Trust	18	18
Peyto Energy Trust	13	20
Birchcliff Energy Ltd.	21	17
	<i>Median</i>	18

Calculated from reported results.

A higher rate for **Birchcliff Energy**

(BIR.TO) in 2009 reflects the increased rates for one quarter before reductions are effective as of April 1, the beginning of the current quarter and not yet reported in financial statements. The low rate in 2009 for buy-recommended **Canadian Oil Sands Trust (COSWF)** reflects a different mechanism for oil sands, as opposed to conventional oil, which allows deduction of costs before assessing royalty.

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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 Cap	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	21-May 2009								
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF	9.49	1.39	1,390	79	21	1.22	12.9	0.67	
Freehold Royalty Trust	FRHLF	10.80	1.26	670	29	61	1.02	9.4	0.65	
Pengrowth Energy Trust	PGH	7.96	1.85	3,800	39	61	1.02	12.8	0.65	
Penn West Energy Trust	PWE	H 12.16	1.79	8,600	33	67	1.53	12.6	0.63	
Canadian Oil Sands Trust	COSWF	B 23.04	1.11	12,300		100	0.51	2.2	0.57	
Enerplus Resources Fund	ERF	21.83	1.22	4,400	46	54	1.83	8.4	0.55	
<i>Total or Median</i>				31,200						
Small Cap Independent Producers										
Encore Acquisition Company	EAC	B 31.92	1.67	2,830	23	77	-	-	0.81	
Berry Petroleum Company	BRY	H 17.71	2.22	1,760	38	62	0.30	1.7	0.64	
Birchcliff Energy Ltd. (US\$)	BIREF	5.34	1.38	830	70	30	-	-	0.61	
Cimarex Energy Company	XEC	B 29.61	1.36	3,290	67	33	0.24	0.8	0.61	
<i>Total or Median</i>				8,710						
U.S. Royalty Trusts										
Cross Timbers Royalty Trust	CRT	23.28	1.00	140	69	31	1.66	7.1	0.73	
San Juan Basin Royalty Trust	SJT	H 16.26	1.00	760	100	-	0.94	5.8	0.63	
Sabine Royalty Trust	SBR	37.27	1.00	540	43	57	2.54	6.8	0.62	
Permian Basin RT	PBT	9.77	1.00	460	33	67	0.87	8.9	0.51	
Hugoton Royalty Trust	HGT	B 12.45	1.00	500	91	9	0.85	6.8	0.44	
Mesa Royalty Trust	MTR	27.35	1.00	50	75	25	3.12	11.4	0.41	
<i>Total or Median</i>				2,450						
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE	17.58	1.70	3,410	53	47	2.52	14.3	1.14	
Encore Energy Partners, L.P. (I)	ENP	15.72	1.29	210	24	76	2.00	12.7	0.94	
Dorchester Minerals, L.P.	DMLP	18.99	1.00	540	51	49	1.43	7.5	0.59	
<i>Total or Median</i>				4,160						
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				33,700	46	54			0.66	
<i>Equal Weighting</i>					53	47			0.66	
<i>Equal Weighted Buys</i>					50	50			0.62	
* 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)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	21-May 2009	Shares (mm)					
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		105.9		1,000	16.00	0.19	0.67
Freehold Royalty Trust	FRHLF		49.5		530	18.00	0.13	0.65
Pengrowth Energy Trust	PGH		257.0		2,050	16.00	0.30	0.65
Penn West Energy Trust	PWE	H	398.2		4,840	25.00	0.28	0.63
Canadian Oil Sands Trust	COSWF	B	482.2		11,110	42.00	0.05	0.57
Enerplus Resources Fund	ERF		165.7		3,620	44.00	0.10	0.55
<i>Total or Median</i>					23,200		0.16	0.64
Small Cap Independent Producers								
Encore Acquisition Company	EAC	B	53.3		1,700	44.00	0.33	0.81
Berry Petroleum Company	BRY	H	44.6		790	40.00	0.35	0.64
Birchcliff Energy Ltd. (US\$)	BIREF		112.0		600	10.00	0.17	0.61
Cimarex Energy Company	XEC	B	81.7		2,420	55.00	0.16	0.61
<i>Total or Median</i>					5,510		0.25	0.63
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		6.0		140	32.00	-	0.73
San Juan Basin Royalty Trust	SJT	H	46.6		760	26.00	-	0.63
Sabine Royalty Trust	SBR		14.6		540	60.00	-	0.62
Permian Basin RT	PBT		46.6		460	19.00	-	0.51
Hugoton RoyaltyTrust	HGT	B	40.0		500	28.00	-	0.44
Mesa RoyaltyTrust	MTR		1.9		50	67.00	-	0.41
<i>Total or Median</i>					2,450			0.57
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		114.0		2,000	14.00	0.47	1.14
Encore Energy Partners, L.P. (32%)	ENP		10.6		170	17.00	0.21	0.94
Dorchester Minerals, L.P.	DMLP		28.2		540	32.00	-	0.59
<i>Total or Median</i>					2,710		0.21	0.94
B = Buy, H = Hold								
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 \$10 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-May 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	COSWF	B	23.04		0.23	23.2	19.1	11.0
	PEYUF		9.49		1.05	16.9	13.8	9.2
	PGH		7.96		0.77	7.6	12.1	7.9
	ERF		21.83		0.58	9.1	13.9	7.6
	FRHLF		10.80	71	0.66	6.2	11.6	7.6
	PWE	H	12.16		0.64	8.1	10.5	6.6
	<i>Median</i>					8.6	12.9	7.7
Small Cap Independent Producers								
	BIREF		5.34		-	10.0	25.0	15.4
	EAC	B	31.92		-	11.5	11.2	9.1
	BRY	H	17.71		-	11.3	11.6	7.4
	XEC	B	29.61		-	7.1	8.7	5.3
	<i>Median</i>					10.7	11.4	8.3
U.S. Royalty Trusts								
	SBR		37.27	100	1.00	9.8	23.6	14.7
	CRT		23.28	84	0.92	12.6	17.8	13.0
	SJT	H	16.26		0.69	9.0	19.2	12.0
	PBT		9.77	32	0.86	10.7	18.8	9.6
	HGT	B	12.45		0.62	12.9	20.5	9.1
	MTR		27.35		0.87	13.5	18.7	7.7
	<i>Median</i>					11.6	19.0	10.8
U.S. Master Limited Partnerships (MLPs)								
	LINE		17.58		4.45	18.1	24.7	28.1
	ENP		15.72		1.65	11.4	14.1	13.2
	DMLP		18.99	64	0.93	8.1	20.8	12.4
	<i>Median</i>					11.4	20.8	13.2
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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