



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

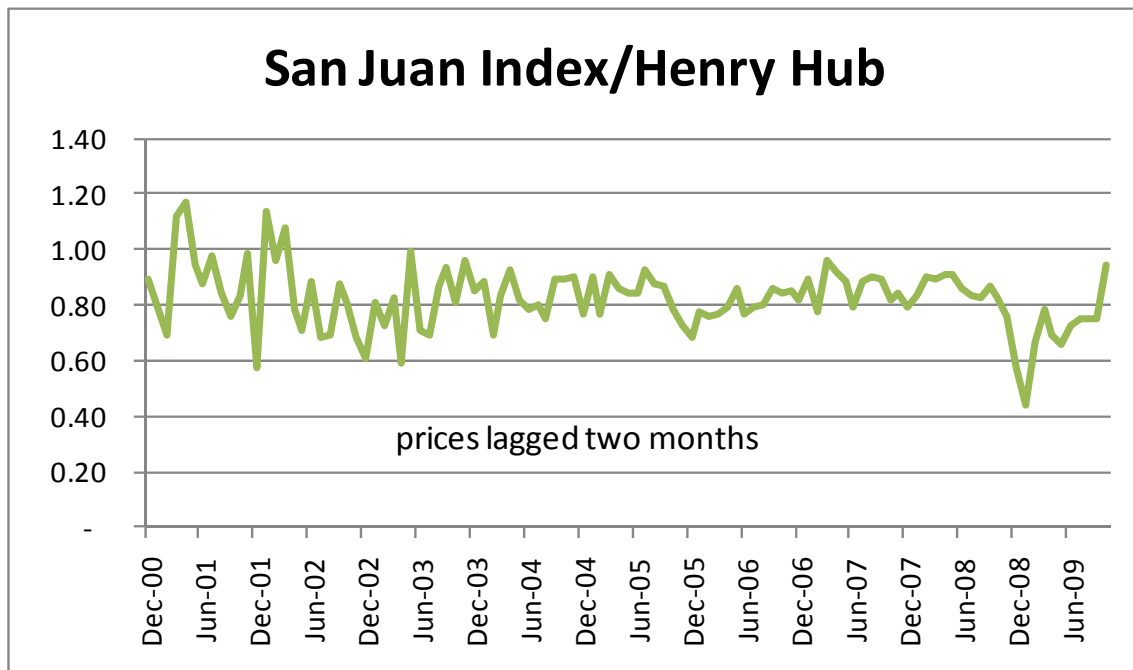
August 7, 2009

Volatile Geographic Differences Narrow for Natural Gas

Summary and Recommendation

In an early sign of an improving outlook for some of our most out-of-favor stocks, the price for inland natural gas went up for the month of August while the price of coastal natural gas, the reference for futures trading, continued to erode. Captured in the ratio of San Juan Basin index price to Henry Hub index price, the relationship has been more volatile recently than at any time since the previous recession in 2001 (see chart ([San Juan Index/Henry Hub](#))). There probably is a recession connection with its interruption of normal consumption patterns. It also looks like hot summer weather in the West has helped the demand for inland natural gas. Moreover, completion in the past few weeks of the latest phase of the new Rocky Mountain Express pipeline to the western border of Ohio moved the competitive interface of inland and coastal gas. As we understand it, the Rockies gas that was backing Midcontinent gas out of Chicago is now backing Louisiana gas out of Ohio. Inland natural gas producers like buy recommendations **Cimarex (XEC)** and **Dorchester Minerals (DMLP)** are in stock price uptrends with recent quotes above the 200-day average. At the other extreme, inland natural gas producers like **San Juan Basin (SJT)**, **Mesa Royalty Trust (MTR)** and **Permian Basin Royalty Trust (PBT)** remain most depressed at stock prices 0.69, 0.74 and 0.83 times the 200-day average, and at McDep Ratios of 0.67, 0.44 and 0.58 respectively.

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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 | | | |
| Canadian Income Trusts (US\$) | | | | | | | | | |
| Pengrowth Energy Trust | PGH | 8.32 | 1.89 | 4,000 | 33 | 67 | 1.11 | 13.4 | 0.73 |
| Peyto Energy Trust | PEYUF | 8.40 | 1.48 | 1,320 | 67 | 33 | 1.34 | 15.9 | 0.73 |
| Penn West Energy Trust | PWE H | 13.34 | 1.76 | 9,600 | 26 | 74 | 1.67 | 12.5 | 0.71 |
| Enerplus Resources Fund | ERF | 21.67 | 1.25 | 4,500 | 43 | 57 | 2.00 | 9.2 | 0.65 |
| Canadian Oil Sands Trust | COSWF B | 25.66 | 1.12 | 13,900 | | 100 | 1.83 | 7.1 | 0.64 |
| <i>Total or Median</i> | | | | 33,300 | | | | | 0.71 |
| Small Cap Independent Producers | | | | | | | | | |
| Encore Acquisition Company | EAC B | 35.38 | 1.87 | 3,520 | 24 | 76 | - | - | 0.89 |
| Cimarex Energy Company | XEC B | 37.09 | 1.29 | 3,900 | 62 | 38 | 0.24 | 0.6 | 0.84 |
| Berry Petroleum Company | BRY H | 22.77 | 2.11 | 2,160 | 31 | 69 | 0.30 | 1.3 | 0.80 |
| Birchcliff Energy Ltd. (US\$) | BIREF | 6.12 | 1.34 | 1,000 | 70 | 30 | - | - | 0.74 |
| <i>Total or Median</i> | | | | 10,580 | | | | | 0.82 |
| Top Line Cash Payers | | | | | | | | | |
| Cross Timbers Royalty Trust | CRT | 25.08 | 1.00 | 150 | 64 | 36 | 1.65 | 6.6 | 0.89 |
| Freehold Royalty Trust (US\$) | FRHLF | 14.15 | 1.21 | 850 | 25 | 38 | 1.11 | 7.9 | 0.86 |
| Dorchester Minerals, L.P. | DMLP B | 22.22 | 1.00 | 660 | 63 | 38 | 1.53 | 6.9 | 0.82 |
| Sabine Royalty Trust | SBR | 38.89 | 1.00 | 570 | 38 | 63 | 2.96 | 7.6 | 0.71 |
| Permian Basin RT | PBT | 10.46 | 1.00 | 490 | 27 | 73 | 0.93 | 8.9 | 0.58 |
| <i>Total or Median</i> | | | | 2,720 | | | | | 0.82 |
| Bottom Line Cash Payers | | | | | | | | | |
| Linn Energy, LLC | LINE | 21.55 | 1.57 | 3,870 | 48 | 52 | 2.52 | 11.7 | 1.45 |
| Encore Energy Partners, L.P. (52%) | ENP | 15.36 | 1.32 | 470 | 24 | 76 | 2.15 | 14.0 | 0.92 |
| San Juan Basin Royalty Trust | SJT H | 14.01 | 1.00 | 650 | 100 | - | 0.99 | 7.1 | 0.67 |
| Hugoton Royalty Trust | HGT B | 14.21 | 1.00 | 570 | 89 | 11 | 1.04 | 7.3 | 0.62 |
| Mesa Royalty Trust | MTR | 24.50 | 1.00 | 46 | 75 | 25 | 1.84 | 7.5 | 0.44 |
| <i>Total or Median</i> | | | | 5,610 | | | | | 0.67 |
| Composite (excl COSWF) | | | | | | | | | |
| <i>Enterprise Value Weighting</i> | | | | 38,300 | 41 | 59 | | | 0.78 |
| <i>Equal Weighting</i> | | | | | 51 | 49 | | | 0.78 |
| <i>Equal Weighted Buys</i> | | | | | 48 | 52 | | | 0.79 |

* 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) | Shares | Market Cap (\$mm) | Net Present Value (\$/un) | Debt/ Present Value | McDep Ratio |
| | Symbol/ Rating | | 6-Aug 2009 | (mm) | | | | |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Pengrowth Energy Trust | PGH | | 8.32 | 257.0 | 2,140 | 14.00 | 0.35 | 0.73 |
| Peyto Energy Trust | PEYUF | | 8.40 | 105.9 | 890 | 13.00 | 0.24 | 0.73 |
| Penn West Energy Trust | PWE | H | 13.34 | 410.0 | 5,470 | 23.00 | 0.31 | 0.71 |
| Enerplus Resources Fund | ERF | | 21.67 | 165.7 | 3,590 | 36.00 | 0.13 | 0.65 |
| Canadian Oil Sands Trust | COSWF | B | 25.66 | 484.0 | 12,420 | 42.00 | 0.07 | 0.64 |
| <i>Total or Median</i> | | | | | 24,500 | | 0.24 | 0.71 |
| Small Cap Independent Producers | | | | | | | | |
| Encore Acquisition Company | EAC | B | 35.38 | 53.0 | 1,880 | 44.00 | 0.41 | 0.89 |
| Cimarex Energy Company | XEC | B | 37.09 | 81.7 | 3,030 | 46.00 | 0.19 | 0.84 |
| Berry Petroleum Company | BRY | H | 22.77 | 44.6 | 1,020 | 35.00 | 0.42 | 0.80 |
| Birchcliff Energy Ltd. (US\$) | BIREF | | 6.12 | 122.0 | 750 | 9.00 | 0.19 | 0.74 |
| <i>Total or Median</i> | | | | | 6,680 | | 0.30 | 0.82 |
| Top Line Cash Payers | | | | | | | | |
| Cross Timbers Royalty Trust | CRT | | 25.08 | 6.0 | 150 | 28.00 | - | 0.89 |
| Freehold Royalty Trust (US\$) | FRHLF | | 14.15 | 49.5 | 700 | 17.00 | 0.15 | 0.86 |
| Dorchester Minerals, L.P. | DMLP | B | 22.22 | 29.8 | 660 | 27.00 | - | 0.82 |
| Sabine Royalty Trust | SBR | | 38.89 | 14.6 | 570 | 55.00 | - | 0.71 |
| Permian Basin RT | PBT | | 10.46 | 46.6 | 490 | 18.00 | - | 0.58 |
| <i>Total or Median</i> | | | | | 2,570 | | | 0.82 |
| Bottom Line Cash Payers | | | | | | | | |
| Linn Energy, LLC | LINE | | 21.55 | 114.0 | 2,460 | 11.00 | 0.53 | 1.45 |
| Encore Energy Partners, L.P. (52%) | ENP | | 15.36 | 23.4 | 360 | 17.00 | 0.23 | 0.92 |
| San Juan Basin Royalty Trust | SJT | H | 14.01 | 46.6 | 650 | 21.00 | - | 0.67 |
| Hugoton Royalty Trust | HGT | B | 14.21 | 40.0 | 570 | 23.00 | - | 0.62 |
| Mesa Royalty Trust | MTR | | 24.50 | 1.9 | 50 | 56.00 | - | 0.44 |
| <i>Total or Median</i> | | | | | 4,090 | | | 0.67 |
| 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 \$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 | | 6-Aug 2009 | Royalty (%) | Ebitda | NTM | NTM | NTM |
| Canadian Income Trusts (US\$) | | | | | | | | |
| | COSWF | B | 25.66 | | 0.58 | 22.1 | 13.3 | 8.5 |
| | PEYUF | | 8.40 | | 1.12 | 17.1 | 10.9 | 8.0 |
| | PGH | | 8.32 | | 0.73 | 8.1 | 9.2 | 6.7 |
| | PWE | H | 13.34 | | 0.69 | 8.3 | 9.5 | 6.7 |
| | ERF | | 21.67 | | 0.57 | 9.3 | 10.2 | 6.7 |
| | <i>Median</i> | | | | | 9.3 | 10.2 | 6.7 |
| Small Cap Independent Producers | | | | | | | | |
| | BIREF | | 6.12 | | - | 9.9 | 21.7 | 16.1 |
| | EAC | B | 35.38 | | - | 11.7 | 8.8 | 7.8 |
| | BRY | H | 22.77 | | - | 12.1 | 8.6 | 6.8 |
| | XEC | B | 37.09 | | - | 7.2 | 6.5 | 5.5 |
| | <i>Median</i> | | | | | 10.8 | 8.7 | 7.3 |
| Top Line Cash Payers | | | | | | | | |
| | CRT | | 25.08 | 84 | 0.91 | 13.0 | 15.5 | 13.9 |
| | DMLP | B | 22.22 | 64 | 0.92 | 8.1 | 16.2 | 13.3 |
| | SBR | | 38.89 | 100 | 1.00 | 10.0 | 18.6 | 13.1 |
| | PBT | | 10.46 | 32 | 0.87 | 10.9 | 16.8 | 9.8 |
| | FRHLF | | 14.15 | 71 | 0.63 | 6.3 | 9.6 | 8.2 |
| | <i>Median</i> | | | | | 10.0 | 16.2 | 13.1 |
| Bottom Line Cash Payers | | | | | | | | |
| | LINE | | 21.55 | | 3.53 | 18.3 | 15.4 | 22.4 |
| | MTR | | 24.50 | | 0.77 | 16.8 | 23.3 | 10.3 |
| | SJT | H | 14.01 | | 0.71 | 9.2 | 15.0 | 10.0 |
| | HGT | B | 14.21 | | 0.71 | 13.1 | 15.8 | 9.7 |
| | ENP | | 15.36 | | 1.26 | 13.8 | 10.0 | 9.2 |
| | <i>Median</i> | | | | | 13.8 | 15.4 | 10.0 |
| EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses | | | | | | | | |



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