



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 16, 2009

Canada Trusts on Real Growth Trend

Summary and Recommendation

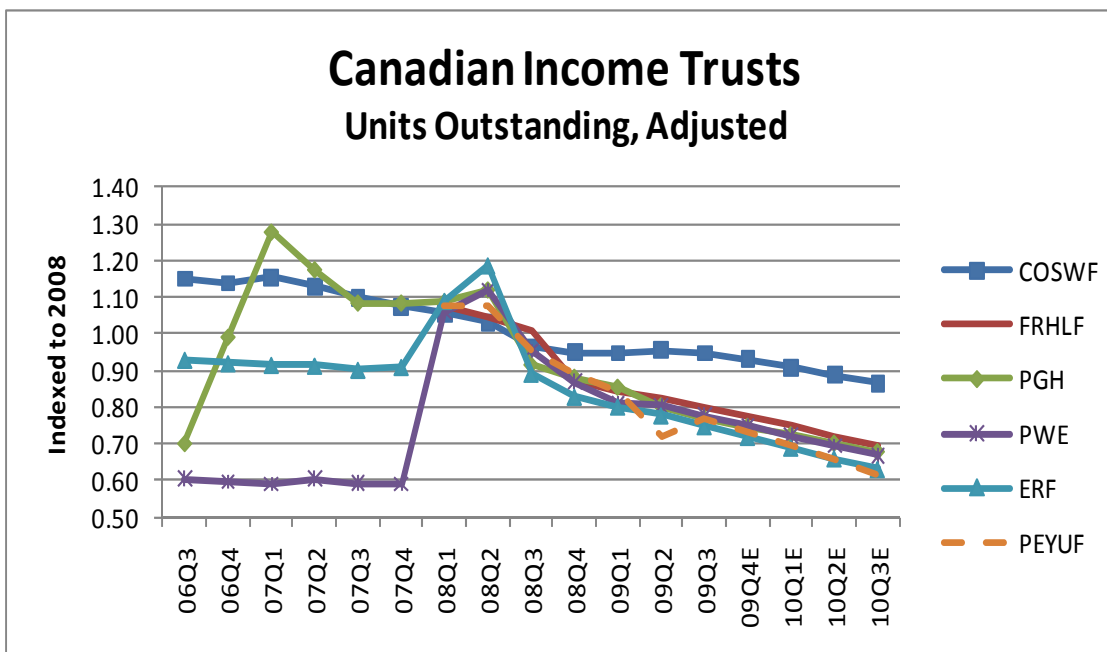
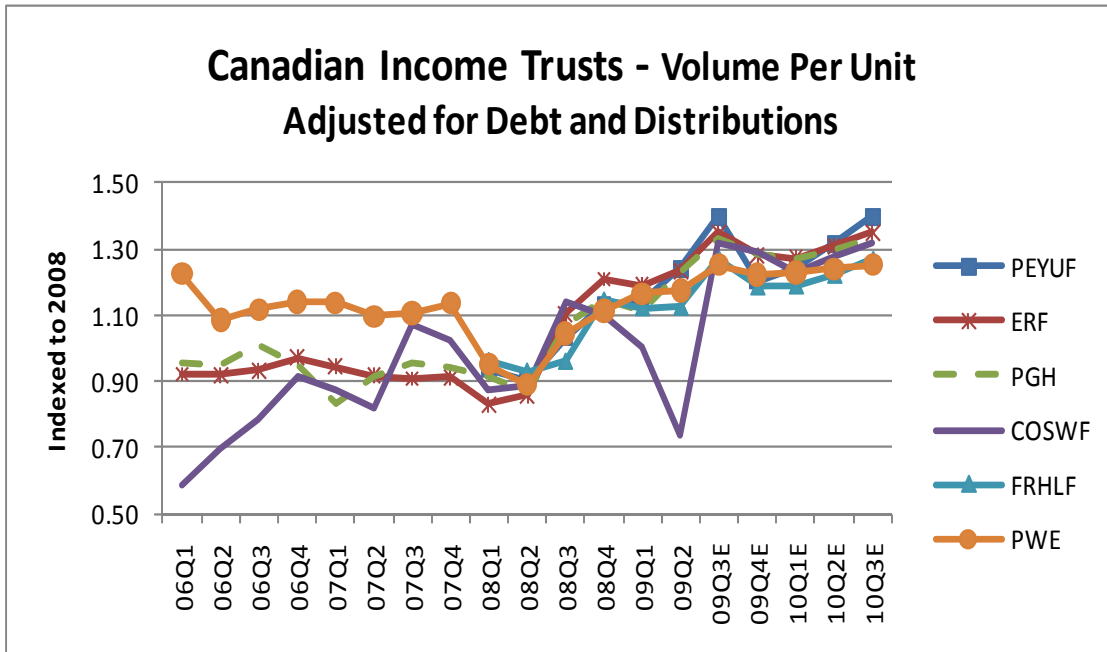
Canadian Income Trusts are in good position to make money for investors after adjusting to the Halloween Betrayal of 2006, the Alberta royalty overreach of 2007 and the global financial follies of 2008. Each of the six stocks in our coverage is in an upward fundamental volume trend per unit adjusted for debt reduction and high income distributions (see chart Volume per Unit, page 2). The adjustment casts the trusts in a better light when reported volume is divided by adjusted units that have been declining for most of the trusts (see chart Units Outstanding, Adjusted, page 2). Bumps in the trend prior to the market peak last year reflect acquisitions. The three largest conventional trusts acted as consolidators of smaller trusts in the face of changing trust taxation in 2011. Now those trusts are focused on reinvesting more cash flow. Considering our latest comparative analysis, **Enerplus Resources Fund (ERF)** retains a low McDep Ratio of 0.79 after we reduce estimated Net Present Value (NPV) to US\$32 from US\$36 a unit.

The largest income stock, **Canadian Oil Sands Trust (COSWF)**, has our buy rating, while the other five also offer attractive appreciation potential indicated by low McDep Ratios (see Table 1 and Table 2). The second, third and fourth largest, **Penn West Energy Trust (PWE)**, **ERF**, and **Pengrowth Energy Trust (PGH)**, are well-positioned in lighter crude oil in the Western Canadian Sedimentary Basin (WCSB) where multi-frac horizontal drilling is attracting new excitement. One of the smaller stocks, **Peyto Energy Trust (PEYUF)**, has unique concentration on long-life natural gas in the deep WCSB. The other smaller stock, **Freehold Royalty Trust (FRHLF)** has unique top line royalty rights that are usually reserved for the provincial government in Canada. We expect to visit Peyto, Freehold and **Birchcliff Energy (BIREF)** when we are in Calgary on October 20-21 for Penn West's Analysts Day.

Some McDep Ratios May Be Less Accurate

McDep Ratios for PWE, ERF, and PGH may be understated by perhaps 0.1 compared to our standards for large cap stocks. That tentative observation follows from the literal interpretation of a quick test that relies primarily on two variables, adjusted reserve life and Next Twelve Months (NTM) cash flow. Favorable results from new emphasis on reinvestment could boost both variables. Meanwhile, investors can get a rough impression of the consistency in McDep Ratio calculations by comparing PV/Ebitda with Adjusted Reserves/Production (see Table 3). Higher PV/Ebitda is generally associated with higher reserve life.

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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 H = Hold | 15-Oct 2009 | Cap | | | | | | | |
| Canadian Income Trusts (US\$) | | | | | | | | | | |
| Penn West Energy Trust | PWE H | 16.78 | 1.62 | 11,200 | 26 | 74 | 1.74 | 10.4 | 0.92 | |
| Peyto Energy Trust | PEYUF | 11.03 | 1.29 | 1,640 | 78 | 22 | 1.38 | 12.5 | 0.88 | |
| Pengrowth Energy Trust | PGH | 10.34 | 1.71 | 4,600 | 33 | 67 | 0.81 | 7.9 | 0.83 | |
| Canadian Oil Sands Trust | COSWF B | 33.02 | 1.09 | 17,500 | | 100 | 2.22 | 6.7 | 0.80 | |
| Enerplus Resources Fund | ERF | 23.95 | 1.23 | 4,900 | 48 | 52 | 2.09 | 8.7 | 0.79 | |
| <i>Total or Median</i> | | | | 39,800 | | | | | 0.83 | |
| Small Cap Independent Producers | | | | | | | | | | |
| Cimarex Energy Company | XEC B | 47.16 | 1.22 | 4,710 | 62 | 38 | 0.24 | 0.5 | 1.02 | |
| Encore Acquisition Company | EAC B | 44.48 | 1.72 | 4,060 | 23 | 77 | - | - | 1.01 | |
| Birchcliff Energy Ltd. (US\$) | BIREF | 8.23 | 1.19 | 1,220 | 62 | 38 | - | - | 0.93 | |
| Berry Petroleum Company | BRY H | 30.09 | 1.84 | 2,490 | 31 | 69 | 0.30 | 1.0 | 0.92 | |
| <i>Total or Median</i> | | | | 12,480 | | | | | 0.97 | |
| Top Line Cash Payers | | | | | | | | | | |
| Cross Timbers Royalty Trust | CRT | 33.00 | 1.00 | 200 | 64 | 36 | 2.06 | 6.2 | 1.18 | |
| Freehold Royalty Trust (US\$) | FRHLF | 15.15 | 1.20 | 900 | 25 | 75 | 1.38 | 9.1 | 0.91 | |
| Dorchester Minerals, L.P. | DMLP B | 23.16 | 1.00 | 690 | 63 | 38 | 1.54 | 6.6 | 0.86 | |
| Sabine Royalty Trust | SBR | 41.76 | 1.00 | 610 | 38 | 63 | 3.12 | 7.5 | 0.76 | |
| Permian Basin RT | PBT | 13.20 | 1.00 | 620 | 27 | 73 | 0.94 | 7.1 | 0.73 | |
| <i>Total or Median</i> | | | | 3,020 | | | | | 0.86 | |
| Bottom Line Cash Payers | | | | | | | | | | |
| Linn Energy, LLC | LINE | 24.50 | 1.51 | 4,210 | 38 | 62 | 2.52 | 10.3 | 1.35 | |
| Encore Energy Partners, L.P. (52%) | ENP | 17.73 | 1.31 | 540 | 24 | 76 | 2.15 | 12.1 | 1.03 | |
| San Juan Basin Royalty Trust | SJT B | 18.82 | 1.00 | 880 | 100 | - | 1.39 | 7.4 | 0.90 | |
| Hugoton Royalty Trust | HGT B | 17.84 | 1.00 | 710 | 89 | 11 | 1.23 | 6.9 | 0.78 | |
| Mesa Royalty Trust | MTR | 36.60 | 1.00 | 68 | 75 | 25 | 2.77 | 7.6 | 0.76 | |
| <i>Total or Median</i> | | | | 6,410 | | | | | 0.90 | |
| Composite (excl COSWF) | | | | | | | | | | |
| <i>Enterprise Value Weighting</i> | | | | 44,200 | 41 | 59 | | | 0.93 | |
| <i>Equal Weighting</i> | | | | | 50 | 50 | | | 0.92 | |
| <i>Equal Weighted Buys</i> | | | | | 53 | 47 | | | 0.91 | |

* 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 | Net Present Value | Debt/ Present Value | McDep Ratio |
| | Symbol/ Rating | | 15-Oct 2009 | Shares (mm) | (\$mm) | (\$/un) | | |
| Canadian Income Trusts (US\$) | | | | | | | | |
| | PWE | H | 16.78 | 411.0 | 6,900 | 19.00 | 0.36 | 0.92 |
| | PEYUF | | 11.03 | 115.0 | 1,270 | 13.00 | 0.20 | 0.88 |
| | PGH | | 10.34 | 260.0 | 2,690 | 14.00 | 0.34 | 0.83 |
| | COSWF | B | 33.02 | 484.0 | 15,980 | 42.00 | 0.07 | 0.80 |
| | ERF | | 23.95 | 166.3 | 3,980 | 32.00 | 0.15 | 0.79 |
| | <i>Total or Median</i> | | | | 30,800 | | 0.20 | 0.83 |
| Small Cap Independent Producers | | | | | | | | |
| | XEC | B | 47.16 | 82.0 | 3,870 | 46.00 | 0.18 | 1.02 |
| | EAC | B | 44.48 | 53.0 | 2,360 | 44.00 | 0.42 | 1.01 |
| | BIREF | | 8.23 | 124.0 | 1,020 | 9.00 | 0.15 | 0.93 |
| | BRY | H | 30.09 | 44.8 | 1,350 | 35.00 | 0.42 | 0.92 |
| | <i>Total or Median</i> | | | | 8,600 | | 0.30 | 0.97 |
| Top Line Cash Payers | | | | | | | | |
| | CRT | | 33.00 | 6.0 | 200 | 28.00 | - | 1.18 |
| | FRHLF | | 15.15 | 49.6 | 750 | 17.00 | 0.15 | 0.91 |
| | DMLP | B | 23.16 | 29.8 | 690 | 27.00 | - | 0.86 |
| | SBR | | 41.76 | 14.6 | 610 | 55.00 | - | 0.76 |
| | PBT | | 13.20 | 46.6 | 620 | 18.00 | - | 0.73 |
| | <i>Total or Median</i> | | | | 2,870 | | | 0.86 |
| Bottom Line Cash Payers | | | | | | | | |
| | LINE | | 24.50 | 114.0 | 2,790 | 15.00 | 0.45 | 1.35 |
| | ENP | | 17.73 | 23.4 | 420 | 17.00 | 0.25 | 1.03 |
| | SJT | B | 18.82 | 46.6 | 880 | 21.00 | - | 0.90 |
| | HGT | B | 17.84 | 40.0 | 710 | 23.00 | - | 0.78 |
| | MTR | | 36.60 | 1.9 | 68 | 48.00 | - | 0.76 |
| | <i>Total or Median</i> | | | | 4,870 | | | 0.90 |
| 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 | | 15-Oct 2009 | Royalty (%) | Ebitda | NTM | NTM | NTM |
| Canadian Income Trusts (US\$) | | | | | | | | |
| | COSWF | B | 33.02 | | 0.70 | 21.8 | 13.3 | 10.7 |
| | PEYUF | | 11.03 | | 1.26 | 18.0 | 11.8 | 10.4 |
| | PWE | H | 16.78 | | 0.83 | 8.2 | 9.0 | 8.4 |
| | ERF | | 23.95 | | 0.61 | 9.4 | 9.4 | 7.4 |
| | PGH | | 10.34 | | 0.51 | 7.9 | 8.7 | 7.2 |
| | <i>Median</i> | | | | | 9.4 | 9.4 | 8.4 |
| Small Cap Independent Producers | | | | | | | | |
| | BIREF | | 8.23 | | - | 10.1 | 12.9 | 11.9 |
| | EAC | B | 44.48 | | - | 11.5 | 8.4 | 8.5 |
| | BRY | H | 30.09 | | - | 12.1 | 8.2 | 7.5 |
| | XEC | B | 47.16 | | - | 7.8 | 5.6 | 5.7 |
| | <i>Median</i> | | | | | 10.8 | 8.3 | 8.0 |
| Top Line Cash Payers | | | | | | | | |
| | CRT | | 33.00 | 84 | 0.94 | 13.3 | 12.8 | 15.0 |
| | SBR | | 41.76 | 100 | 1.00 | 10.2 | 17.7 | 13.4 |
| | DMLP | B | 23.16 | 64 | 0.87 | 8.2 | 15.2 | 13.1 |
| | PBT | | 13.20 | 32 | 0.89 | 11.7 | 17.0 | 12.5 |
| | FRHLF | | 15.15 | 71 | 0.75 | 6.5 | 9.2 | 8.3 |
| | <i>Median</i> | | | | | 10.2 | 15.2 | 13.1 |
| Bottom Line Cash Payers | | | | | | | | |
| | LINE | | 24.50 | | 2.19 | 18.2 | 13.0 | 17.5 |
| | MTR | | 36.60 | | 0.86 | 7.8 | 14.8 | 11.3 |
| | HGT | B | 17.84 | | 0.75 | 13.4 | 14.0 | 10.8 |
| | SJT | B | 18.82 | | 0.78 | 9.1 | 11.8 | 10.6 |
| | ENP | | 17.73 | | 1.24 | 13.9 | 9.8 | 10.2 |
| | <i>Median</i> | | | | | 13.4 | 13.0 | 10.8 |
| 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 | | | | | | | | |
| Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right). | | | | | | | | |



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