



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 27, 2009

Practically Unlimited Global Demand for Natural Gas

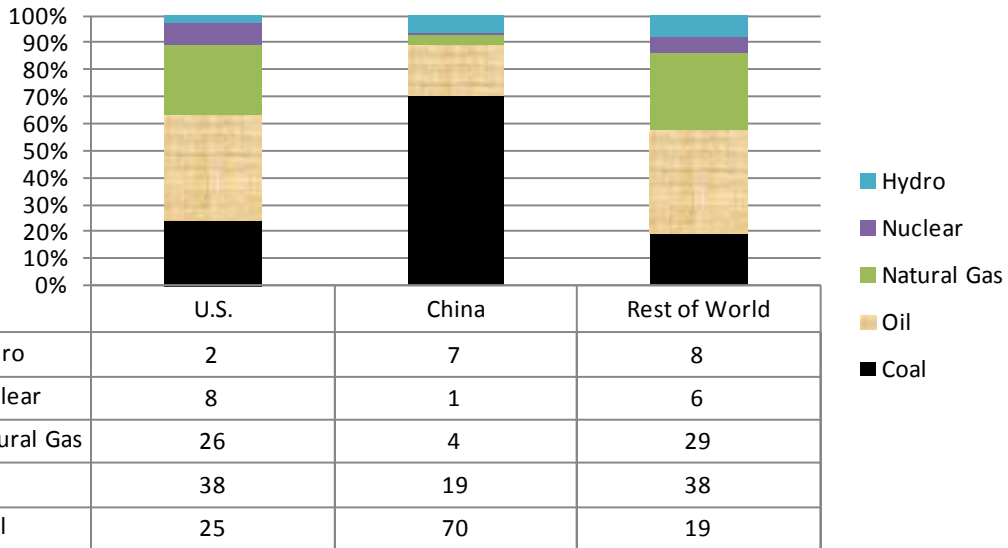
Summary and Recommendation

While the natural gas market may have too much supply and too little demand in the short term, there is practically unlimited demand to replace coal in the long term. The solid black fuel that energized the industrial revolution in the 19th century provides 70% of the primary energy for China's industrial revolution in the 21st century (see chart [Fuel Share of Primary Energy, 2008](#)). China and the U.S. combined consumed 60% of the world's coal last year (see chart [Geographic Share of Global Fuel, 2008](#)). In contrast, China gets only 3% of its primary energy from natural gas. The country's primitive energy mix has to be an increasing concern for its citizens. There may be doubt about the climate impact of carbon dioxide from coal, but there can be little doubt about the health effects of more serious emissions of sulphur, microparticulates, mercury and carcinogens from coal. Natural gas generates half the carbon dioxide of coal and practically none of the disease-causing pollutants. Meanwhile, cracks are appearing in the Chinese energy supply that may slow the headlong rush to coal and open the door to more natural gas. Reaching the limits of its own coal production, China drove up coal prices in the global market until last year's financial collapse interrupted. Early snows in Beijing this fall have created shortages of natural gas for heating, adding to the urgency for more natural gas supply, we understand. In response, apparently, the Chinese leaders are pushing energy companies to step up domestic expansion plans and tap more of the international market in liquefied natural gas. Obviously China and the U.S. need more natural gas to fuel economic growth in cleaner fashion, and that means a positive outlook for natural gas producers. Small cap and income stocks generally offer more concentration on the cleanest fossil fuel than do large caps (see Table 1).

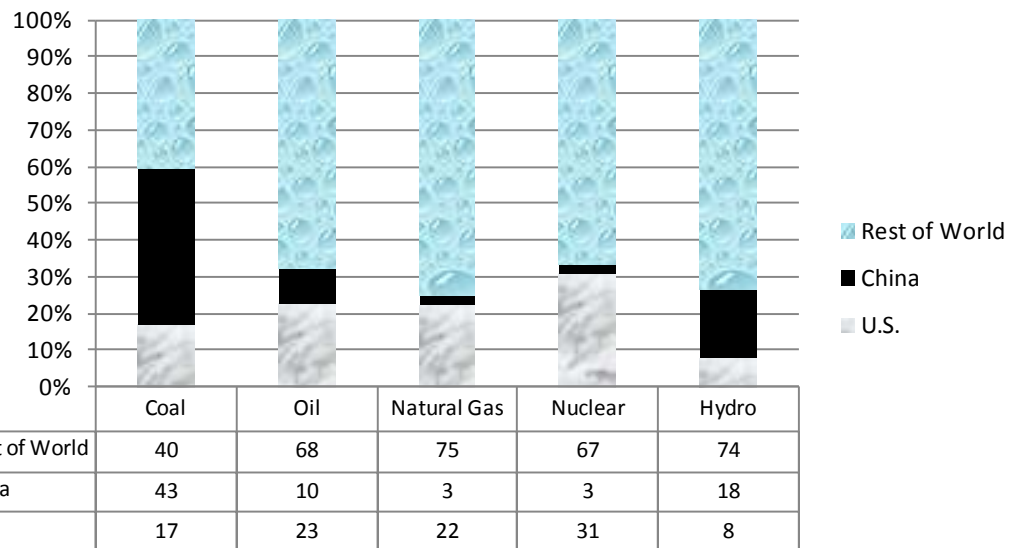
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Primary energy data from *BP Statistical Review of World Energy June 2009*

Fuel Share of Primary Energy , 2008



Geographic Share of Global Fuel, 2008





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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	25-Nov 2009	Cap						
Canadian Income Trusts (US\$)									
Penn West Energy Trust	PWE	18.44	1.52	11,800	22	78	1.68	9.1	0.98
Peyto Energy Trust	PEYUF	11.56	1.29	1,720	72	28	1.34	11.6	0.91
Pengrowth Energy Trust	PGH	9.96	1.51	4,400	35	65	0.78	7.9	0.88
Enerplus Resources Fund	ERF	23.38	1.21	4,800	42	58	2.02	8.6	0.81
Canadian Oil Sands Trust	COSWF B	28.44	1.10	15,200		100	1.59	5.6	0.70
<i>Total or Median</i>				37,900					0.88
Small Cap Independent Producers									
Cimarex Energy Company	XEC B	47.69	1.20	4,710	67	33	0.24	0.5	0.96
Encore Acquisition Company	EAC	46.49	1.67	4,060	22	78	-	-	0.96
Berry Petroleum Company	BRY	28.47	1.87	2,390	31	69	0.30	1.1	0.89
Birchcliff Energy Ltd. (US\$)	BIREF	7.41	1.20	1,190	64	36	-	-	0.85
<i>Total or Median</i>				12,350					0.92
Top Line Cash Payers									
Cross Timbers Royalty Trust	CRT	35.20	1.00	210	64	36	2.32	6.6	1.26
Freehold Royalty Trust (US\$)	FRHLF	14.82	1.20	880	25	75	1.61	10.8	0.89
Dorchester Minerals, L.P.	DMLP B	21.32	1.00	640	68	32	1.47	6.9	0.79
Permian Basin RT	PBT	13.91	1.00	650	27	73	0.94	6.7	0.77
Sabine Royalty Trust	SBR	41.53	1.00	610	38	63	2.79	6.7	0.76
<i>Total or Median</i>				2,990					0.79
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	25.00	1.56	4,460	36	64	2.52	10.1	1.34
Encore Energy Partners, L.P. (52%)	ENP	18.21	1.31	560	24	76	2.15	11.8	1.05
Mesa Royalty Trust	MTR	42.30	1.00	79	75	25	2.09	4.9	0.88
San Juan Basin Royalty Trust	SJT B	18.20	1.00	850	100	-	1.13	6.2	0.87
Hugoton Royalty Trust	HGT B	16.43	1.00	660	89	11	1.05	6.4	0.71
<i>Total or Median</i>				6,610					0.88
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				44,700	39	61			0.94
<i>Equal Weighting</i>					50	50			0.92
<i>Equal Weighted Buys</i>					54	46			0.86
* 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	25-Nov 2009	Shares (mm)					
Canadian Income Trusts (US\$)								
	PWE		420.0	18.44	7,740	19.00	0.34	0.98
	PEYUF		114.9	11.56	1,330	13.00	0.21	0.91
	PGH		290.0	9.96	2,890	12.00	0.30	0.88
	ERF		169.0	23.38	3,950	30.00	0.14	0.81
	COSWF	B	484.0	28.44	13,760	42.00	0.06	0.70
	<i>Total or Median</i>				29,700		0.21	0.88
Small Cap Independent Producers								
	XEC	B	82.2	47.69	3,920	50.00	0.16	0.96
	EAC		52.3	46.49	2,430	50.00	0.38	0.96
	BRY		44.9	28.47	1,280	35.00	0.41	0.89
	BIREF		133.4	7.41	990	9.00	0.14	0.85
	<i>Total or Median</i>				8,620		0.27	0.92
Top Line Cash Payers								
	CRT		6.0	35.20	210	28.00	-	1.26
	FRHLF		49.6	14.82	740	17.00	0.15	0.89
	DMLP	B	29.8	21.32	640	27.00	-	0.79
	PBT		46.6	13.91	650	18.00	-	0.77
	SBR		14.6	41.53	610	55.00	-	0.76
	<i>Total or Median</i>				2,850			0.79
Bottom Line Cash Payers								
	LINE		114.0	25.00	2,850	15.00	0.48	1.34
	ENP		23.2	18.21	420	17.00	0.25	1.05
	MTR		1.9	42.30	79	48.00	-	0.88
	SJT	B	46.6	18.20	850	21.00	-	0.87
	HGT	B	40.0	16.43	660	23.00	-	0.71
	<i>Total or Median</i>				4,860			0.88
B = Buy, Hold ratings discontinued October 23, 2009								
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		25-Nov 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		11.56		1.48	18.0	14.3	13.0
	COSWF	B	28.44		0.48	22.7	12.8	8.9
	PWE		18.44		0.76	8.1	8.6	8.4
	ERF		23.38		0.64	9.6	9.5	7.7
	PGH		9.96		0.54	8.1	8.3	7.3
	<i>Median</i>					9.6	9.5	8.4
Small Cap Independent Producers								
	BIREF		7.41		-	10.5	17.0	14.5
	EAC		46.49		-	11.7	8.2	7.9
	BRY		28.47		-	12.4	8.0	7.2
	XEC	B	47.69		-	7.6	5.8	5.6
	<i>Median</i>					11.1	8.1	7.5
Top Line Cash Payers								
	SBR		41.53	100	1.00	11.6	19.7	14.9
	CRT		35.20	84	0.95	12.6	11.4	14.3
	DMLP	B	21.32	64	0.87	7.8	15.9	12.6
	PBT		13.91	32	0.84	11.4	16.2	12.5
	FRHLF		14.82	71	0.92	6.7	9.7	8.7
	<i>Median</i>					11.4	15.9	12.6
Bottom Line Cash Payers								
	LINE		25.00		2.41	18.1	14.3	19.3
	MTR		42.30		0.86	9.1	19.8	17.5
	SJT	B	18.20		0.77	9.1	14.3	12.4
	HGT	B	16.43		0.71	13.3	15.6	11.2
	ENP		18.21		1.14	13.1	9.0	9.5
	<i>Median</i>					13.1	14.3	12.4
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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