



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 26, 2010

Raise Peyto NPV to US\$15 from \$13

Summary and Recommendation

Units of Canadian Deep Basin natural gas producer **Peyto Energy Trust (PEYUF)** appear attractive for investment considering unlevered appreciation potential of 13% to estimated Net Present Value (NPV) of US\$15. On the basis of rising volume and rising reserves reported on March 11 we raise NPV from US\$13 a unit. The favorable results verify Chief Executive Darren Gee's enthusiasm last fall (see *Income and Small Cap Weekly*, November 13, 2009). A reserve life index of 21 years on proven reserves alone is enough to justify NPV without taking account of probable reserves, which boost the life index to 25 or 28 years depending on whether we give probable reserves a half or full weight (see table below Peyto – Natural Gas and Oil Reserves). The broader topic of this week's analysis is the inclusion of probable reserves in comparative analysis of Canadian Income Trusts (see tables on page 2 and 3). The change is necessary to reconcile NPV estimates for the three largest conventional holders of reserves with those for large cap stocks covered in a separate weekly analysis. Most of the proven reserves of **Penn West Energy Trust (PWE)**, **Pengrowth Energy Trust (PGH)** and **Enerplus Resources Fund (ERF)** are in conventional oil which is currently quite profitable, but would decline quickly without active drilling, which is sensitive to oil price. Despite the recognition of probable reserves, the McDep Ratio for PWE is above 1.0 (see Tables 1-3). Unusual success in applying new technology in the form of multi-stage fracturing in horizontal wells could prove our analysis too cautious. Finally, we also add probable reserves to our presentation of buy-recommended **Canadian Oil Sands Trust (COSWF)**. Reserve life has not been an issue for us with COSWF as we have emphasized the trust has the resources to produce at capacity indefinitely.

Kurt H. Wulff, CFA

Peyto Energy Trust				
Natural Gas and Oil Reserves				
	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<i>Reserves (bcf or mmb)</i>				
Proven and Probable (P1+P2)	1013	31	1199	200
Proven (P1)	753	23	893	149
Probable (P2)	260	8	306	51
<i>Production, Next Twelve Months</i>				
	35	1.2	42	7
<i>Reserve Life Index (years)</i>				
R/P (P1+P2)	29.1	26.4	28.6	28.6
R/P (P1)	21.6	19.9	21.3	21.3
R/P (P2)	7.5	6.5	7.3	7.3
R/P (P1+.5P2)	25.3	23.1	25.0	25.0



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Penn West Energy Trust				
Natural Gas and Oil Reserves				
	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<u>Reserves (bcf or mmb)</u>				
Proven and Probable (P1+P2)	1292	472	4124	687
Proven (P1)	938	341	2984	497
Probable (P2)	354	131	1140	190
<i>Production, Next Twelve Months</i>	142	36.3	360	60
<u>Reserve Life Index (years)</u>				
R/P (P1+P2)	9.1	13.0	11.5	11.5
R/P (P1)	6.6	9.4	8.3	8.3
R/P (P2)	2.5	3.6	3.2	3.2
R/P (P1+.5P2)	7.8	11.2	9.9	9.9

Enerplus Resources Fund				
Natural Gas and Oil Reserves				
	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<u>Reserves (bcf or mmb)</u>				
Proven and Probable (P1+P2)	1038	172	2070	345
Proven (P1)	754	132	1546	258
Probable (P2)	284	40	524	87
<i>Production, Next Twelve Months</i>	108	13.1	187	31
<u>Reserve Life Index (years)</u>				
R/P (P1+P2)	9.6	13.1	11.1	11.1
R/P (P1)	7.0	10.0	8.3	8.3
R/P (P2)	2.6	3.0	2.8	2.8
R/P (P1+.5P2)	8.3	11.6	9.7	9.7



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Pengrowth Energy Trust				
Natural Gas and Oil Reserves				
	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<u><i>Reserves (bcf or mmb)</i></u>				
Proven and Probable (P1+P2)	757	170	1777	296
Proven (P1)	575	120	1295	216
Probable (P2)	182	50	482	80
<i>Production, Next Twelve Months</i>	79	13.2	158	26
<u><i>Reserve Life Index (years)</i></u>				
R/P (P1+P2)	9.6	12.9	11.2	11.2
R/P (P1)	7.3	9.1	8.2	8.2
R/P (P2)	2.3	3.8	3.0	3.0
R/P (P1+.5P2)	8.4	11.0	9.7	9.7

Canadian Oil Sands Trust				
Natural Gas and Oil Reserves				
	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<u><i>Reserves (bcf or mmb)</i></u>				
Proven and Probable (P1+P2)		1787	10722	1787
Proven (P1)		976	5856	976
Probable (P2)		811	4866	811
<i>Production, Next Twelve Months</i>		45	272	45
<u><i>Reserve Life Index (years)</i></u>				
R/P (P1+P2)		39.4	39.4	39.4
R/P (P1)		21.5	21.5	21.5
R/P (P2)		17.9	17.9	17.9
R/P (P1+.5P2)		30.4	30.4	30.4



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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	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio		
B = Buy CB (see below)	26-Mar 2010	Market Cap								
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	21.05	1.46	12,900	22	78	1.75	8.3	1.07	
Pengrowth Energy Trust	PGH	11.29	1.44	4,700	38	62	0.82	7.2	1.02	
Peyto Energy Trust	PEYUF	12.85	1.27	1,880	80	20	1.40	10.9	0.89	
Enerplus Resources Fund	ERF	22.95	1.22	5,000	40	60	2.10	9.2	0.80	
Canadian Oil Sands Trust	COSWF	B	27.70	1.10	14,800	100	1.37	4.9	0.75	
<i>Total or Median</i>				39,300					0.89	
Small Cap Independent Producers										
Whiting Petroleum Corporation	WLL	77.61	1.34	6,080	15	85	-	-	0.99	
Cimarex Energy Company	XEC	B	56.86	1.15	5,400	62	38	0.32	0.6	
Berry Petroleum Company	BRY	27.06	1.95	2,380	31	69	0.30	1.1	0.87	
Birchcliff Energy Ltd. (US\$)	BIREF	8.22	1.21	1,340	77	23	-	-	0.78	
<i>Total or Median</i>				15,200					0.88	
Top Line Cash Payers										
Sabine Royalty Trust	SBR	44.12	1.00	640	39	61	3.29	7.5	0.98	
Freehold Royalty Trust (US\$)	FRHLF	16.50	1.12	1,050	29	71	1.63	9.9	0.97	
Permian Basin RT	PBT	17.38	1.00	810	27	73	1.14	6.5	0.97	
Cross Timbers Royalty Trust	CRT	31.67	1.00	190	78	22	2.44	7.7	0.93	
Dorchester Minerals, L.P.	DMLP	B	21.08	1.03	640	67	33	1.76	8.4	
<i>Total or Median</i>				3,300					0.97	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	25.17	1.52	4,360	44	56	2.52	10.0	1.27	
Encore Energy Partners, L.P. (52%)	ENP	19.77	1.29	600	23	77	2.15	10.9	1.12	
San Juan Basin Royalty Trust	SJT	B	20.15	1.00	940	100	-	1.41	7.0	
Mesa Royalty Trust	MTR	42.48	1.00	79	75	25	3.35	7.9	0.88	
Hugoton Royalty Trust	HGT	B	16.21	1.00	650	90	10	1.19	7.4	
<i>Total or Median</i>				6,600					0.88	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				49,600	39	61			0.97	
<i>Equal Weighting</i>					52	48			0.94	
<i>Equal Weighted Buys</i>					70	30			0.83	

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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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		26-Mar 2010	(mm)				
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE		21.05	420.7	8,860	19.00	0.34	1.07
Pengrowth Energy Trust	PGH		11.29	290.0	3,270	11.00	0.31	1.02
Peyto Energy Trust	PEYUF		12.85	114.9	1,480	15.00	0.19	0.89
Enerplus Resources Fund	ERF		22.95	177.0	4,060	30.00	0.15	0.80
Canadian Oil Sands Trust	COSWF	B	27.70	484.0	13,400	38.00	0.07	0.75
<i>Total or Median</i>					<i>31,100</i>		<i>0.19</i>	<i>0.89</i>
Small Cap Independent Producers								
Whiting Petroleum Corporation	WLL		77.61	59.0	4,540	78.00	0.25	0.99
Cimarex Energy Company	XEC	B	56.86	82.6	4,700	65.00	0.12	0.89
Berry Petroleum Company	BRY		27.06	45.0	1,220	35.00	0.42	0.87
Birchcliff Energy Ltd. (US\$)	BIREF		8.22	134.0	1,100	11.00	0.14	0.78
<i>Total or Median</i>					<i>11,560</i>		<i>0.19</i>	<i>0.88</i>
Top Line Cash Payers								
Sabine Royalty Trust	SBR		44.12	14.6	640	45.00	-	0.98
Freehold Royalty Trust (US\$)	FRHLF		16.50	57.2	940	17.00	0.10	0.97
Permian Basin RT	PBT		17.38	46.6	810	18.00	-	0.97
Cross Timbers Royalty Trust	CRT		31.67	6.0	190	34.00	-	0.93
Dorchester Minerals, L.P.	DMLP	B	21.08	29.8	630	27.00	0.02	0.78
<i>Total or Median</i>					<i>3,210</i>			<i>0.97</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		25.17	114.0	2,870	17.00	0.43	1.27
Encore Energy Partners, L.P. (52%)	ENP		19.77	23.4	460	17.00	0.26	1.12
Mesa Royalty Trust	MTR		42.48	1.9	79	48.00	-	0.88
San Juan Basin Royalty Trust	SJT	B	20.15	46.6	940	23.00	-	0.88
Hugoton Royalty Trust	HGT	B	16.21	40.0	650	21.00	-	0.77
<i>Total or Median</i>					<i>5,000</i>			<i>0.88</i>
B=Buy; 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.								



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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		26-Mar 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		12.85		1.28	25.0	13.7	12.1
	PWE		21.05		0.90	9.9	9.8	10.5
	PGH		11.29		0.75	9.7	10.0	10.2
	COSWF	B	27.70		0.49	30.4	13.5	10.1
	ERF		22.95		0.70	9.7	10.0	8.0
	<i>Median</i>					9.9	10.0	10.2
Small Cap Independent Producers								
	BIREF		8.22		-	12.0	17.6	13.8
	BRY		27.06		-	12.9	10.3	9.0
	WLL		77.61		-	10.9	8.3	8.2
	XEC	B	56.86		-	7.0	6.8	6.0
	<i>Median</i>					11.4	9.3	8.6
Top Line Cash Payers								
	PBT		17.38	32	0.89	21.2	14.0	13.6
	SBR		44.12	100	1.00	9.4	13.7	13.4
	CRT		31.67	84	0.96	13.4	13.4	12.5
	DMLP	B	21.08	64	0.97	7.9	14.9	11.7
	FRHLF		16.50	71	0.90	8.3	9.4	9.2
	<i>Median</i>					9.4	13.7	12.5
Bottom Line Cash Payers								
	LINE		25.17		2.26	19.3	15.2	19.4
	ENP		19.77		1.30	12.6	10.3	11.6
	MTR		42.48		0.90	-	12.9	11.4
	SJT	B	20.15		0.79	16.5	13.0	11.4
	HGT	B	16.21		0.73	12.3	12.8	9.9
	<i>Median</i>					12.6	12.9	11.4
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 March 31, 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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