



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 18, 2010

Montney Buzz from Calgary

Summary and Recommendation

The investment appeal of buy-recommended **Birchcliff Energy (BIREF)** along with **Freehold Royalty Trust (FRHLF)**, **Penn West Energy Trust (PWE)** and buy-recommended **Canadian Oil Sands Trust (COSWF)** among other stocks was bolstered by presenters at the annual Canadian Association of Petroleum Producers (CAPP) investor conference in Calgary on June 14-16. Buy-recommended EnCana (ECA), covered separately as a large cap in *Meter Reader*, rated its Montney natural gas resource play in British Columbia and Alberta as the most economic in its North American portfolio. EnCana's enthusiasm lent credibility to Birchcliff and fellow Montney producers ARC Energy Trust (AETUF) and Advantage Oil and Gas Ltd. (AAV). Also at CAPP and representing Canada's largest conventional light oil producer, PWE's Murray Nunns exuded new vigor describing progress in exploiting horizontal multi-frac technology to produce another 10% of the remaining 86% of original oil in place in the giant Pembina Cardium field. Royalty interest in PWE wells would help FRHLF's Bill Ingram meet an upwardly revised volume forecast for 2010. Finally, COSWF's Marcel Coutu stressed the growth and income potential in synthetic light oil for the only buy recommendation in our small cap and income coverage whose stock price is not in uptrend above the 200-day average. That condition may not be far away after six-year oil crossed above its 40-week average on June 16. Meanwhile, we feature the Montney in our discussion below.

EnCana Sees A Billion Cubic Feet Daily (bcfd) Montney Natural Gas

Chief Executive Randy Eresman listed 2000 identified well locations on 1100 sections of land where ECA holds 720,000 net acres. In 2009 the company drilled 60 wells averaging 4 million cubic feet daily (mmcf) in the first 30 days of production. Wells were drilled 6 to a pad with horizontal intervals of 4000-8000 feet and completed with 8-12 fracs. Some future Encana natural gas would likely be processed in a 200 mmcf Montney plant announced by Spectra Energy on June 10. Encana guidance for 2010 includes 400 mmcf from Cutbank Ridge, which includes Montney. Mr. Eresman expects Encana production of more than 1 bcfd as part of a doubling of corporate production in the next five years.

Glacier Montney Plant to Reach 100 mmcf

Chief Executive Andy Mah expects Advantage's Montney property at Glacier to reach 100 mmcf in the second quarter of 2011. He calls attention to Glacier's location directly east of Encana's Montney property at Swan (see slide Focus on page 6). Pointing to the trend in production at Swan to 250 mmcf in five years and to the density of drilling, he suggests that Glacier has comparable potential (see slide Glacier on page 6). Alternatively, if Glacier production were to stay at 100mmcf, it could be held flat with moderate drilling of \$70 million a year.



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Provincial jurisdiction also counts. Encana's production is mainly in British Columbia which has had a more favorable royalty regime. Glacier is in Alberta where the province overreached in its royalty increases the past several years. Alberta continues to back down from the ill-fated mistake with more favorable incentives. Andy Mah figures that the current program provides an incentive worth half the cost of a \$5 million Montney well, bringing the effective royalty rate over the life of production to 7%.

Dawson Montney Plant to Reach 120 mmcf/d

Directly North of Encana Swan, ARC Energy Trust is building a processing plant at its Dawson property expected to reach 120 mmcf/d in the first quarter of 2011. The new plant allows ARC to quadruple Dawson production (see slide Dawson on page 7).

Birchcliff Pouce Coupe Montney Plant to Reach 120 mmcf/d

In the midst of Montney activity with Encana to the southeast and northeast, Glacier to the south and Dawson to the northwest among other competitors, Birchcliff is building its Pouce Coupe natural gas processing plant (see Birchcliff slide Montney on page 7). Birchcliff's plant is in the midst of the Birchcliff horizontal wells, but not shown explicitly. Similarly, Birchcliff shows only half its acreage on the map.

The Birchcliff plant currently operates at 30 mmcf/d and would double to 60 by year end. Planning is underway for further expansion to 120 in 2011.

Chief Executive Jeff Tonken counts 700 potential drilling locations on about 170 net sections of land. He measures costs of about \$4 million a well, 30 day initial production of 5 mmcf/d and ultimate recovery of 6 billion cubic feet equivalent. The potential is quite large while the timing and degree of success remain uncertain. Yet the credibility of the play is advancing with the completion of processing plants, improvement of royalty terms and declining costs with improving technology among other factors. Birchcliff is practically a pure play in a trend that larger competitors consider to be among their most attractive opportunities.

Kurt H. Wulff, CFA



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						<i>Present Value by Segment (%)</i>				
<i>Symbol/Rating</i>		<i>Price (US\$/sh)</i>	<i>EV/ Market</i>	<i>Enterprise Value (\$mm)</i>	<i>NAmer. Natural Gas</i>	<i>Oil Prod'n</i>	<i>Dist. NTM (\$/un)</i>	<i>Dist. Yield (%)</i>	<i>McDep Ratio</i>	
	<i>B = Buy CB (see below)</i>	<i>17-Jun 2010</i>	<i>Cap</i>							
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF	15.46	1.23	2,290	76	24	1.40	9.0	1.02	
Pengrowth Energy Trust	PGH	9.99	1.45	4,200	39	61	0.81	8.2	0.94	
Penn West Energy Trust	PWE	20.77	1.38	12,300	23	77	1.75	8.4	0.93	
Enerplus Resources Fund	ERF	23.33	1.22	5,000	42	58	2.09	9.0	0.81	
Canadian Oil Sands Trust	COSWF CB	28.03	1.10	14,900		100	1.94	6.9	0.76	
<i>Total or Median</i>				38,700					0.93	
Small Cap Independent Producers										
Range Resources	RRC	49.53	1.23	9,800	81	19	0.08	0.2	1.32	
Petro-Hawk	HK	21.51	1.43	9,160	97	3	-	-	1.21	
Cimarex Energy Company	XEC B	79.32	1.09	7,390	66	34	0.32	0.4	1.05	
Ultra Petroleum	UPL	50.52	1.15	8,810	94	6	-	-	0.99	
Berry Petroleum Company	BRY	32.64	1.64	2,730	31	69	0.30	0.9	0.96	
Whiting Petroleum Corporation	WLL	89.37	1.21	6,430	13	87	-	-	0.95	
Birchcliff Energy Ltd. (US\$)	BIREF B	10.38	1.19	1,570	66	34	-	-	0.77	
<i>Total or Median</i>				44,300					1.02	
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	38.32	1.00	230	75	25	2.35	6.1	1.13	
Permian Basin RT	PBT	19.43	1.00	910	38	62	1.21	6.2	1.08	
Sabine Royalty Trust	SBR	48.12	1.00	700	50	50	3.43	7.1	1.07	
Dorchester Minerals, L.P.	DMLP B	27.12	1.02	820	71	29	1.81	6.7	1.00	
Freehold Royalty Trust (US\$)	FRHLF	16.46	1.08	1,040	25	75	1.63	9.9	0.97	
<i>Total or Median</i>				3,700					1.07	
Bottom Line Cash Payers										
San Juan Basin Royalty Trust	SJT B	27.30	1.00	1,270	100	-	1.47	5.4	1.19	
Linn Energy, LLC	LINE	26.38	1.45	5,510	42	58	2.52	9.6	1.16	
Legacy Reserves LP.	LGCY	23.20	1.38	1,260	16	84	2.08	9.0	1.11	
Encore Energy Partners, L.P. (52%)	ENP	17.72	1.33	550	23	77	2.00	11.3	1.03	
Hugoton RoyaltyTrust	HGT B	21.18	1.00	850	90	10	1.62	7.7	1.01	
Mesa RoyaltyTrust	MTR	47.00	1.00	88	75	25	3.87	8.2	0.98	
<i>Total or Median</i>				9,500					1.07	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				82,900	57	43			1.03	
<i>Equal Weighting</i>					56	44			1.03	
<i>Equal Weighted Buys</i>					66	34			1.00	

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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			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>17-Jun</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2010</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		15.46	120.5	1,860	15.00	0.19	1.02
Pengrowth Energy Trust	PGH		9.99	290.0	2,900	11.00	0.29	0.94
Penn West Energy Trust	PWE		20.77	428.3	8,900	23.00	0.25	0.93
Enerplus Resources Fund	ERF		23.33	178.0	4,150	30.00	0.14	0.81
Canadian Oil Sands Trust	COSWF	CB	28.03	484.0	13,570	38.00	0.07	0.76
<i>Total or Median</i>					<i>31,400</i>		<i>0.19</i>	<i>0.93</i>
Small Cap Independent Producers								
Range Resources	RRC		49.53	160.0	7,970	35.00	0.25	1.32
Petro-Hawk	HK		21.51	303.0	6,420	16.00	0.36	1.21
Cimarex Energy Company	XEC	B	79.32	85.4	6,770	75.00	0.09	1.05
Ultra Petroleum	UPL		50.52	154.0	7,650	50.00	0.13	0.99
Berry Petroleum Company	BRY		32.64	51.0	1,660	35.00	0.37	0.96
Whiting Petroleum Corporation	WLL		89.37	59.2	5,300	95.00	0.17	0.95
Birchcliff Energy Ltd. (US\$)	BIREF	B	10.38	127.0	1,320	14.00	0.12	0.77
<i>Total or Median</i>					<i>37,090</i>		<i>0.17</i>	<i>0.99</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		38.32	6.0	230	34.00	-	1.13
Permian Basin RT	PBT		19.43	46.6	910	18.00	-	1.08
Sabine Royalty Trust	SBR		48.12	14.6	700	45.00	-	1.07
Dorchester Minerals, L.P.	DMLP	B	27.12	29.8	810	27.00	0.02	1.00
Freehold Royalty Trust (US\$)	FRHLF		16.46	58.4	960	17.00	0.07	0.97
<i>Total or Median</i>					<i>3,610</i>			<i>1.07</i>
Bottom Line Cash Payers								
San Juan Basin Royalty Trust	SJT	B	27.30	46.6	1,270	23.00	-	1.19
Linn Energy, LLC	LINE		26.38	144.0	3,800	21.00	0.36	1.16
Legacy Reserves L.P.	LGCY		23.20	39.2	910	20.00	0.31	1.11
Encore Energy Partners, L.P. (52%)	ENP		17.72	23.4	420	17.00	0.26	1.03
Hugoton Royalty Trust	HGT	B	21.18	40.0	850	21.00	-	1.01
Mesa Royalty Trust	MTR		47.00	1.9	88	48.00	-	0.98
<i>Total or Median</i>					<i>7,340</i>			<i>1.07</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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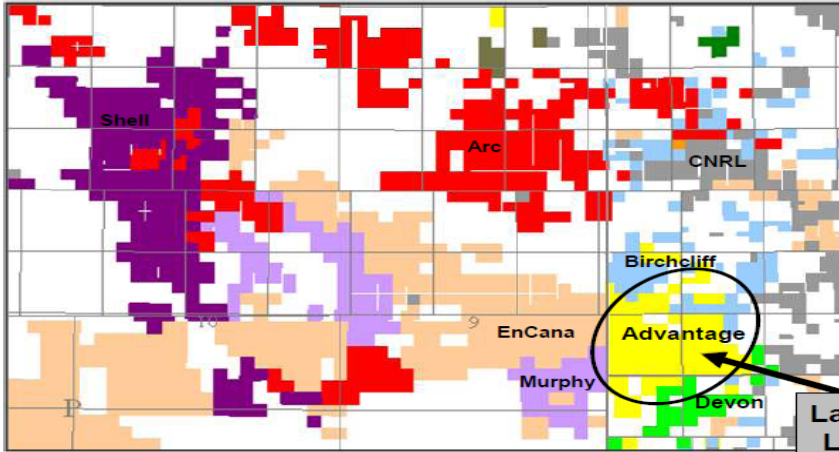
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			<i>Price</i>			<i>Adjstd</i>	
			<i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Resrvs/</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>17-Jun</i>	<i>Royalty</i>	<i>Equity</i>	<i>Prod</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>
							<i>EV/</i>
							<i>Ebitda</i>
							<i>NTM</i>
Canadian Income Trusts (US\$)							
Peyto Energy Trust	PEYUF		15.46		1.03	23.1	11.1
Canadian Oil Sands Trust	COSWF	CB	28.03		0.64	31.0	12.6
Penn West Energy Trust	PWE		20.77		0.66	9.9	8.7
Pengrowth Energy Trust	PGH		9.99		0.58	9.9	7.8
Enerplus Resources Fund	ERF		23.33		0.59	9.7	8.4
	<i>Median</i>					9.9	8.7
							8.1
Small Cap Independent Producers							
Range Resources	RRC		49.53		-	13.2	10.5
Ultra Petroleum	UPL		50.52		-	14.1	11.2
Birchcliff Energy Ltd. (US\$)	BIREF	B	10.38		-	22.4	14.2
Petro-Hawk	HK		21.51		-	7.1	8.1
Berry Petroleum Company	BRY		32.64		-	13.1	7.8
Whiting Petroleum Corporation	WLL		89.37		-	10.3	7.3
Cimarex Energy Company	XEC	B	79.32		-	6.4	5.4
	<i>Median</i>					13.1	8.1
							9.8
Top Line Cash Payers							
Cross Timbers Royalty Trust	CRT		38.32	84	0.96	13.5	13.9
Permian Basin RT	PBT		19.43	42	0.89	13.3	13.3
Sabine Royalty Trust	SBR		48.12	100	1.00	9.1	13.1
Dorchester Minerals, L.P.	DMLP	B	27.12	77	0.91	7.5	13.7
Freehold Royalty Trust (US\$)	FRHLF		16.46	71	0.86	8.6	9.0
	<i>Median</i>					9.1	13.3
							14.1
Bottom Line Cash Payers							
Linn Energy, LLC	LINE		26.38		1.53	20.0	12.8
San Juan Basin Royalty Trust	SJT	B	27.30		0.80	14.8	12.5
Hugoton Royalty Trust	HGT	B	21.18		0.90	12.4	11.6
Mesa Royalty Trust	MTR		47.00		0.92	9.2	11.4
Encore Energy Partners, L.P.	ENP		17.72		1.09	12.9	9.2
Legacy Reserves L.P.	LGCY		23.20		0.87	12.0	8.4
	<i>Median</i>					12.7	11.5
							11.5

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 June 30, 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).

Focus on Our Extensive Montney Land Block at Glacier



Trends:

- Increased drilling activity around Glacier land block by Major players
- Improving Montney well productivities & frac technology
- Well density per section is still very low
- Some operators are evaluating up to 8 wells per section

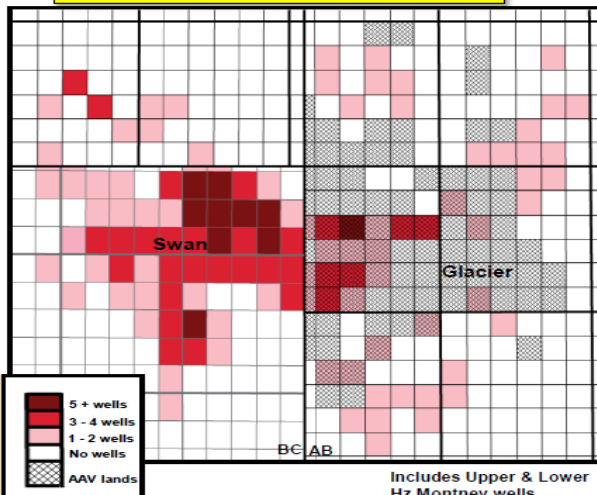
Large Contiguous Land Block at Glacier

- 84 gross (80 net) sections of Montney acreage*
- 95% working interest

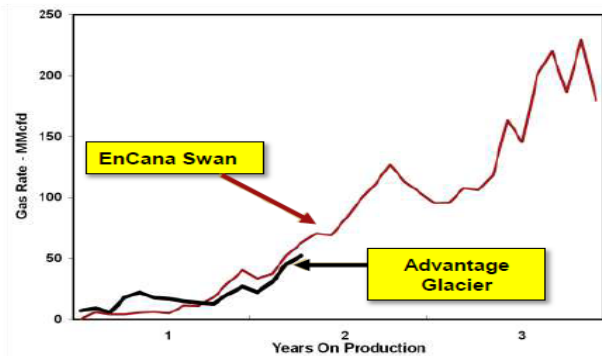
* Source: Modified from various company reports, Accumap, and CIBC World Markets Inc. Advantage Glacier land holdings at December 31, 2009

Glacier – Low Well Density Provides Significant Upside Potential

Vast Majority of Land at Glacier Contains No Hz Montney Wells



Glacier and Swan Production Chart

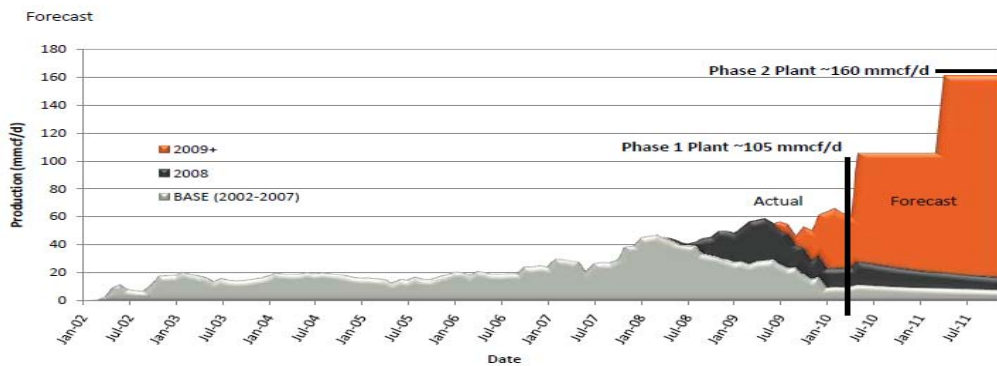


Glacier Production Growth to 50 mmcfd in 20 months:

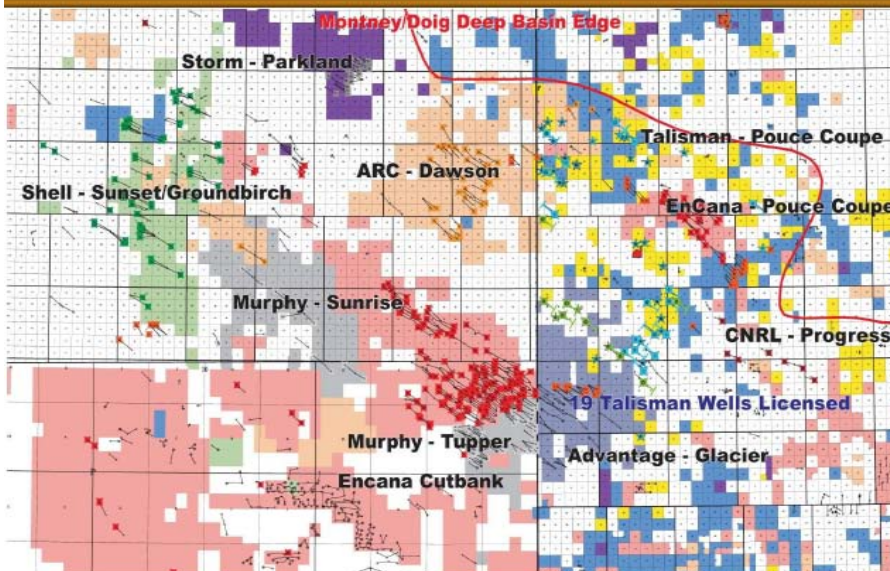
- 22 net (34 gross) wells are currently on production
- Total of 34 net(42 gross) wells drilled to date

DAWSON PRODUCTION FORECAST

- Staged growth phase
 - 60 mmcf/d gas plant was commissioned in May 2010
 - Second 60 mmcf/d gas plant to be on stream Q1 2011



Montney/Doig Natural Gas Resource Play – Competitor Activity



HORIZONTAL WELL LISTS

- Birchcliff - Pouce Coupe
- Birchcliff 2009 - Pouce Coupe
- Talisman - Pouce Coupe
- EnCana - Progress
- CNRL - Progress
- Storm - Parkland
- ARC - Dawson
- Shell - Sunset/Groundbirch
- Murphy - Tupper

WELL LISTS

- Birchcliff Mont/Doig Vertical
- Birchcliff 2009 Mont/Doig Vertical

Only ~ 50% of Birchcliff Montney/Doig undeveloped land on this map.

Remaining is confidential



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Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

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