



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 15, 2009

Cash Flow Strength

Summary and Recommendation

Small cap producers, trusts and partnerships generated a median \$12 a barrel of cash flow in early 2009 despite a 57% decline in the price of Light, Sweet Crude Oil to \$43 a barrel in the first quarter compared to \$100 for the full year average in 2008 (see table below Ebitda (Cash Flow) per Barrel). Low operating costs help buy-recommended natural gas producer **Cimarex Energy (XEC)** generate the highest cash flow on a barrel equivalent basis for operating companies. Similarly, buy-recommended **Canadian Oil Sands Trust (COSWF)** generated

respectable cash flow under adverse circumstances.

Sensitivity on the downside that reduced cash flow may be reversing in future quarters to help justify our newly restored buy recommendation of

Encore Acquisition (EAC).

Buy-recommended **Hugoton**

Royalty Trust (HGT) has

low-cost natural gas

production at the same time it has low natural gas price.

Since the trust has no debt, it seems just a matter of time until stock price advances again with the commodity as

we believe it will. Finally, the four income producers that derive some or all of their cash

flow “off the top” have the highest cash flow per barrel and appear promising as new investments.

Ebitda (Cash Flow) per Barrel

	2009 Quarter	2008 Year
Cross Timbers Royalty Trust	24	63
Sabine Royalty Trust	23	58
Dorchester Minerals, L.P.	18	50
Permian Basin RT	15	55
Cimarex Energy Company	15	48
Mesa RoyaltyTrust	15	39
Enerplus Resources Fund	13	40
Canadian Oil Sands Trust	12	41
Encore Energy Partners, L.P.	12	53
Birchcliff Energy Ltd.	12	39
Penn West Energy Trust	12	41
Encore Acquisition Company	12	49
Pengrowth Energy Trust	11	37
Hugoton RoyaltyTrust	10	38
San Juan Basin Royalty Trust	9	39
Berry Petroleum Company	9	35
Linn Energy, LLC	4	37

Calculated from reported results except for U.S. royalty trusts for which the 2009 quarter is adjusted approximately for a 2-3 month time lag. Ebitda includes the effect of overhead and excludes the effect of hedging.

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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 Cap	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	14-May 2009								
Canadian Income Trusts (US\$)										
Pengrowth Energy Trust	PGH	7.51	1.92	3,700	39	61	1.04	13.9	0.63	
Peyto Energy Trust	PEYUF	8.60	1.44	1,310	79	21	1.22	14.2	0.63	
Freehold Royalty Trust	FRHLF	10.15	1.27	640	29	67	1.02	10.0	0.62	
Penn West Energy Trust	PWE	H	11.88	1.81	8,500	33	67	1.53	12.9	0.62
Enerplus Resources Fund	ERF	21.63	1.23	4,400	46	54	1.84	8.5	0.54	
Canadian Oil Sands Trust	COSWF	B	21.44	1.12	11,500		100	0.52	2.4	0.54
<i>Total or Median</i>					30,100					
Small Cap Independent Producers										
Encore Acquisition Company	EAC	B	32.02	1.66	2,840	23	77	-	-	0.82
Berry Petroleum Company	BRY	H	16.04	2.34	1,690	38	62	0.30	1.9	0.61
Birchcliff Energy Ltd. (US\$)	BIREF		5.19	1.40	810	70	30	-	-	0.60
Cimarex Energy Company	XEC	B	28.00	1.38	3,160	67	33	0.24	0.9	0.59
<i>Total or Median</i>					8,500					
U.S. Royalty Trusts										
Cross Timbers Royalty Trust	CRT		23.44	1.00	140	69	31	1.59	6.8	0.73
Sabine Royalty Trust	SBR		42.47	1.00	620	43	57	2.57	6.0	0.71
San Juan Basin Royalty Trust	SJT	H	16.43	1.00	770	100	-	0.90	5.5	0.63
Permian Basin RT	PBT		9.46	1.00	440	33	67	0.87	9.2	0.50
Hugoton Royalty Trust	HGT	B	12.96	1.00	520	91	9	0.85	6.5	0.46
Mesa Royalty Trust	MTR		28.82	1.00	50	75	25	3.16	11.0	0.43
<i>Total or Median</i>					2,540					
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE		16.58	1.75	3,300	53	47	2.52	15.2	1.10
Encore Energy Partners, L.P. (I)	ENP		16.31	1.28	220	24	76	2.00	12.3	0.97
Dorchester Minerals, L.P.	DMLP		18.78	1.00	530	51	49	1.45	7.7	0.59
<i>Total or Median</i>					4,050					
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					33,500	46	54			0.64
<i>Equal Weighting</i>						53	47			0.65
<i>Equal Weighted Buys</i>						50	50			0.62

* 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		14-May 2009	Shares (mm)				
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		7.51	257.0	1,930	16.00	0.30	0.63
Peyto Energy Trust	PEYUF		8.60	105.9	910	16.00	0.19	0.63
Freehold Royalty Trust	FRHLF		10.15	49.5	500	18.00	0.13	0.62
Penn West Energy Trust	PWE	H	11.88	397.6	4,720	25.00	0.28	0.62
Enerplus Resources Fund	ERF		21.63	165.7	3,580	44.00	0.10	0.54
Canadian Oil Sands Trust	COSWF	B	21.44	482.2	10,340	42.00	0.06	0.54
<i>Total or Median</i>					22,000		0.16	0.62
Small Cap Independent Producers								
Encore Acquisition Company	EAC	B	32.02	53.3	1,710	44.00	0.33	0.82
Berry Petroleum Company	BRY	H	16.04	44.6	720	40.00	0.35	0.61
Birchcliff Energy Ltd. (US\$)	BIREF		5.19	112.0	580	10.00	0.17	0.60
Cimarex Energy Company	XEC	B	28.00	81.7	2,290	55.00	0.16	0.59
<i>Total or Median</i>					5,300		0.25	0.61
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		23.44	6.0	140	32.00	-	0.73
Sabine Royalty Trust	SBR		42.47	14.6	620	60.00	-	0.71
San Juan Basin Royalty Trust	SJT	H	16.43	46.6	770	26.00	-	0.63
Permian Basin RT	PBT		9.46	46.6	440	19.00	-	0.50
Hugoton RoyaltyTrust	HGT	B	12.96	40.0	520	28.00	-	0.46
Mesa RoyaltyTrust	MTR		28.82	1.9	50	67.00	-	0.43
<i>Total or Median</i>					2,540			0.57
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		16.58	114.0	1,890	14.00	0.47	1.10
Encore Energy Partners, L.P. (32%)	ENP		16.31	10.6	170	17.00	0.21	0.97
Dorchester Minerals, L.P.	DMLP		18.78	28.2	530	32.00	-	0.59
<i>Total or Median</i>					2,590		0.21	0.97
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 \$10 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		14-May 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	COSWF	B	21.44		0.24	23.2	19.4	10.4
	PEYUF		8.60		1.17	16.7	15.3	9.6
	PGH		7.51		0.80	7.6	12.3	7.7
	ERF		21.63		0.57	9.1	13.7	7.4
	FRHLF		10.15	71	0.64	6.1	11.2	7.0
	PWE	H	11.88		0.64	8.1	10.4	6.4
	<i>Median</i>					8.6	13.0	7.6
Small Cap Independent Producers								
	BIREF		5.19		-	10.0	24.4	14.7
	EAC	B	32.02		-	11.5	11.1	9.1
	BRY	H	16.04		-	11.3	11.5	7.0
	XEC	B	28.00		-	7.1	8.6	5.0
	<i>Median</i>					10.7	11.3	8.1
U.S. Royalty Trusts								
	SBR		42.47	100	1.00	9.8	23.4	16.6
	CRT		23.44	84	0.92	12.5	18.4	13.5
	SJT	H	16.43		0.69	9.1	20.0	12.7
	HGT	B	12.96		0.62	12.7	20.4	9.4
	PBT		9.46	32	0.86	10.7	18.8	9.3
	MTR		28.82		0.87	13.5	18.5	8.0
	<i>Median</i>					11.6	19.4	11.0
U.S. Master Limited Partnerships (MLPs)								
	LINE		16.58		4.29	18.1	23.8	26.2
	ENP		16.31		1.65	11.4	14.0	13.5
	DMLP		18.78	64	0.93	8.1	20.5	12.0
	<i>Median</i>					11.4	20.5	13.5
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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