MCDEP LLC

Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 13, 2009

Peyto Energy Trust (PEYUF)
Deep Basin Drilling "Going to Explode"

Symbol	PEYUF	*Ebitda Next Twelve Months ending 9/30/10 (US$mm)*	136
Rating		*North American Natural Gas/Ebitda (%)*	71
Price (US$/un)	11.11	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	11/12/09	*Adjusted Reserves/Production NTM*	18.0
Units (mm)	115	*EV/Ebitda*	12.3
Market Capitalization (US$mm)	1,280	*PV/Ebitda*	13.9
Debt (US$mm)	390	*Undeveloped Reserves (%)*	19
Enterprise Value (EV) (US$mm)	1,670	*Natural Gas and Oil Ebitda (US$/boe)*	21.29
Present Value (PV) (US$mm)	1,890	*Present Value Proven Reserves(US$/boe)*	14.87
Net Present Value (US$/unit)	13	*Oil and Gas Ebitda Margin (%)*	79
Debt/Present Value	0.21	*Earnings Next Twelve Months (US$/un)*	0.84
McDep Ratio - EV/PV	0.89	*Price/Earnings Next Twelve Months*	13
Distribution Yield (%/year)	12.3	*Indicated Annual Distribution (US$/un)*	1.37

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.
Reported results may vary widely from estimates. Estimated present value per unit revised only infrequently.
Estimated present value presumes a long-term price for oil of US$75 a barrel and natural gas, $8 a million btu.

Summary and Recommendation

Analyzing third quarter results, we reaffirm estimated Net Present Value (NPV) of US$13 a share for **Peyto Energy Trust (PEYUF)**. Though we have no investment rating on the stock, we like the trust for its long-life, low cost natural gas resources. Volume may soon be rising again as drilling reaccelerates, especially horizontally with multi-stage fracturing. Chief Executive Darren Gee piqued our attention on the quarterly call on November 12 saying, "...the Deep Basin is going to explode in that exact same way [like the Montney and the Bakken]..." He was responding to a question about whether Peyto would consider expanding to drill in the Montney formation in British Columbia or the Bakken formation in Saskatchewan. Acknowledging that those previously marginal formations had become quite profitable with horizontal multi-frac, Mr. Gee pointed out that Peyto's vertical drilling, which is all concentrated in the Central Deep Basin in western Alberta, continues to be profitable. Nonetheless, two experimental horizontal multi-fracs appear so promising that Peyto intends to drill 20 horizontal wells among 46 planned for 2010. Meanwhile, NPV is concentrated 72% on natural gas and 28% on the liquids that are present in the natural gas stream in the same wells (see table Functional Cash Flow and Present Value). Without including possible volume gains, pricing trends suggest rising cash flow in future quarters (see table Next Twelve Months Operating and Financial Estimates). The current distribution of C$0.12 a month will likely be maintained through 2010 until the trust converts to a corporation beginning in 2011.

Deep Basin and San Juan Basin Pedigrees

Peyto is named for Bill Peyto, a Canadian Pacific mountain guide and early warden of Banff National Park in the late 19th century. Like its namesake, Peyto is guiding investors to an appreciation of a valuable natural resource. The trust is the third largest operator by number of producing wells in the Central Deep Basin, according to Peyto data on its website.

The largest operator in the area is **ConocoPhillips** as a result of its acquisition of **Burlington Resources** which in turn had acquired **Canadian Hunter** in 2001, the originator of the Deep Basin idea. Burlington saw the Canadian prize as a reproduction of the San Juan Basin of New Mexico, the largest natural gas field in the U.S. ConocoPhillips is also the largest producer in the San Juan Basin along with **BP plc** through its acquisition of **Amoco**. If Peyto can demonstrate success with horizontal multi-frac, it could have implications for ConocoPhillips in both Canada and the U.S.

The fifth largest producer in the Central Deep Basin is **Devon Energy** by virtue of its acquisition of **Anderson Exploration**. Darren Gee, a co-founder of Peyto, was one of the first couple dozen employees of the company formed by J.C. Anderson. A former Amoco production man from Kansas, the legendary "J.C." always appreciated long life natural gas properties and looked for the same in Canada. Coincidentally, the late John Nichols, co-founder of Devon, was an early driller in the San Juan Basin in the 1950s.

While Peyto is early in applying horizontal multi-frac in the Central Deep Basin, the same drilling and completion techniques have already been applied to a greater degree to the northwest. The formations are different. Peyto is active in the Cardium, for example. Another company in our income and small cap coverage, **Birchcliff Energy**, has a leading independent position in the Montney/Doig formations. Completing a circle of connections, Birchcliff's Myles Bosman also gained some of his insights when working for Canadian Hunter.

Kurt H. Wulff, CFA

Peyto Energy Trust					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	*Adjusted*	*PV/*	*Value*	
	(US$mm)	*R/P*	*Ebitda*	*(US$mm)*	
North American Natural Gas	97	18.1	13.9	1,350	72%
Oil	39	17.6	13.6	530	28%
	136	18.0	13.8	1,880	100%
Debt (US$mm)					390
Net Present Value (US$mm)					1,490
Shares (mm)					115
Net Present Value - Standard Estimate (US$/sh)					13
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US$/sh)					12

Peyto Energy Trust Next Twelve Months Operating and Financial Estimates (Canadian dollars)									
	Q3 9/30/08	Q2 6/30/09	Q3 9/30/09	Q4E 12/31/09	***Year 2008***	Q1E 3/31/09	Q2E 6/30/10	Q3E 9/30/10	***Next Twelve Months 9/30/10***
Volume									
Natural Gas (mmcfd)	100.3	90.2	89.3	88.4	**91**	88.4	87.5	86.6	**88**
Days	91	91	92	92	**365**	90	91	92	**365**
Oil (mbd)	3.20	2.95	2.92	2.89	**2.9**	2.86	2.83	2.80	**2.8**
Total gas & oil (bcf)	10.9	9.8	9.8	9.7	**40.0**	9.5	9.5	9.5	**38.3**
Total gas & oil (mbd)	19.9	18.0	17.8	17.6	**18.1**	17.6	17.4	17.2	**17.5**
Price									
Natural gas ($/mcf)									
Henry Hub (US$/mmbtu)	10.25	3.50	3.39	4.22	**4.00**	5.08	5.21	5.49	**5.00**
Currency (US$/C$)	0.96	0.86	0.91	0.95	**0.87**	0.95	0.95	0.95	**0.95**
Henry Hub (C$/mmbtu)	10.66	4.08	3.72	4.45	**4.58**	5.36	5.49	5.79	**5.27**
Company (C$/mcf)	8.81	3.99	3.31	4.01	**4.39**	4.82	4.94	5.21	**4.74**
Oil ($/bbl)									
WTI Cushing (US$)	117.99	59.52	68.22	78.10	**62.20**	80.55	82.48	83.64	**81.20**
WTI Cushing (C$/bbl)	122.77	69.38	74.83	82.38	**71.26**	84.96	87.00	88.22	**85.64**
Company (C$/bbl)	99.28	43.42	51.06	56.21	**48.76**	58.13	59.52	60.36	**58.54**
Total gas & oil ($/mcf)	10.05	4.52	4.16	4.89	**4.32**	5.61	5.75	6.00	**4.73**
Revenue ($mm)									
Natural Gas	80.4	32.7	27.2	32.6	**146**	38.4	39.4	41.6	**152**
Oil	28.9	11.7	13.7	15.0	**52**	15.0	15.3	15.6	**61**
Other	(23.9)	(5.4)	(4.5)	(7.1)	**(25)**	(8.0)	(8.2)	(8.6)	**(32)**
Total	85.4	39.0	36.4	40.4	**173**	45.3	46.5	48.6	**181**
Expense	7.0	7.2	9.4	9.4	**32**	9.4	9.4	9.4	**38**
Ebitda ($mm)	78.4	31.8	27.0	31.0	**140**	35.9	37.1	39.2	**143**
Deprec., Deplet., & Amort.	18.6	17.7	18.0	18.6	**73**	18.6	18.6	18.6	**74**
Hedging and other	(4.9)	(20.4)	(23.9)	(11.7)	**(67)**	(12.2)	(13.7)	(13.0)	**(51)**
Ebit	64.7	34.5	32.9	24.1	**134**	29.5	32.2	33.6	**120**
Interest	5.0	3.9	4.5	4.5	**17**	4.5	4.5	4.5	**18**
Ebt	59.7	30.6	28.4	19.6	**117**	25.0	27.7	29.1	**102**
Income Tax	(4.9)	0.8	0.8		**(23)**				**-**
Net Income ($mm)	64.6	29.8	27.6	19.6	**141**	25.0	27.7	29.1	**102**
Shares (millions)	105.9	106.3	114.9	114.9	**109**	114.9	114.9	114.9	**115**
Per share ($)	0.61	0.28	0.24	0.17	**1.29**	0.22	0.24	0.25	**0.88**
Ebitda Margin - O&G	92%	82%	74%	77%	**81%**	79%	80%	81%	**79%**
Tax Rate	-8%	3%	3%	0%	**-20%**	0%	0%	0%	**0%**
Distribution ($mm)	48	39	41	41	**161**	41	41	41	**165**
Per share ($)	0.45	0.37	0.36	0.36	**1.48**	0.36	0.36	0.36	**1.44**

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Table 1

McDep Income and Small Cap Energy Portfolio

Debt, Business Segments and Income Yield

						Present Value				
			Price			*by Segment (%)*				
	Symbol/Rating		*(US$/sh)*	*EV/*	*Enterprise*	*NAmer.*		*Dist.*	*Dist.*	
	B = Buy		*12-Nov*	*Market*	*Value*	*Natural*	*Oil*	*NTM*	*Yield*	*McDep*
	H = Hold		*2009*	*Cap*	*($mm)*	*Gas*	*Prod'n*	*($/un)*	*(%)*	*Ratio*
Canadian Income Trusts (US$)										
Penn West Energy Trust	PWE		17.50	1.55	11,400	23	78	1.67	9.6	0.95
Peyto Energy Trust	PEYUF		11.11	1.31	1,670	72	28	1.37	12.3	0.89
Pengrowth Energy Trust	PGH		9.68	1.73	4,400	34	66	0.78	8.1	0.80
Enerplus Resources Fund	ERF		22.77	1.24	4,700	48	52	2.01	8.8	0.75
Canadian Oil Sands Trust	COSWF	B	28.30	1.10	15,100		100	1.61	5.7	0.70
Total or Median					*37,300*					*0.80*
Small Cap Independent Producers										
Encore Acquisition Company	EAC		45.38	1.69	4,000	22	78	-	-	0.94
Cimarex Energy Company	XEC	B	45.10	1.21	4,500	67	33	0.24	0.5	0.92
Berry Petroleum Company	BRY		27.04	1.92	2,320	31	69	0.30	1.1	0.87
Birchcliff Energy Ltd. (US$)	BIREF		7.22	1.21	1,080	62	38	-	-	0.83
Total or Median					*11,900*					*0.89*
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT		35.10	1.00	210	64	36	2.39	6.8	1.26
Freehold Royalty Trust (US$)	FRHLF		14.55	1.21	870	25	75	1.63	11.2	0.88
Dorchester Minerals, L.P.	DMLP	B	21.16	1.00	630	68	32	1.51	7.1	0.78
Permian Basin RT	PBT		13.69	1.00	640	27	73	0.96	7.0	0.76
Sabine Royalty Trust	SBR		41.77	1.00	610	38	63	2.84	6.8	0.76
Total or Median					*2,960*					*0.78*
Bottom Line Cash Payers										
Linn Energy, LLC	LINE		24.46	1.58	4,400	36	64	2.52	10.3	1.32
Encore Energy Partners, L.P. (52%)	ENP		17.35	1.33	540	24	76	2.15	12.4	1.01
San Juan Basin Royalty Trust	SJT	B	19.17	1.00	890	100	-	1.18	6.1	0.91
Mesa RoyaltyTrust	MTR		39.82	1.00	74	75	25	2.15	5.4	0.83
Hugoton RoyaltyTrust	HGT	B	17.15	1.00	690	89	11	1.07	6.2	0.75
Total or Median					*6,590*					*0.91*
Composite (excl COSWF)										
Enterprise Value Weighting					*43,600*	*40*	*60*			*0.90*
Equal Weighting						*50*	*50*			*0.90*
Equal Weighted Buys						*55*	*45*			*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.

Table 2

Oil and Gas Income and Small Cap Stocks

Net Present Value and McDep Ratio

	Symbol/ Rating		Price ($/sh) 12-Nov 2009	Shares (mm)	Market Cap ($mm)	Net Present Value ($/un)	Debt/ Present Value	McDep Ratio
Canadian Income Trusts (US$)								
Penn West Energy Trust	PWE		17.50	420.0	7,350	19.00	0.34	0.95
Peyto Energy Trust	PEYUF		11.11	114.9	1,280	13.00	0.21	0.89
Pengrowth Energy Trust	PGH		9.68	260.0	2,520	14.00	0.34	0.80
Enerplus Resources Fund	ERF		22.77	166.3	3,790	32.00	0.14	0.75
Canadian Oil Sands Trust	COSWF	B	28.30	484.0	13,700	42.00	0.06	0.70
Total or Median					*28,600*		*0.21*	*0.80*
Small Cap Independent Producers								
Encore Acquisition Company	EAC		45.38	52.3	2,370	50.00	0.38	0.94
Cimarex Energy Company	XEC	B	45.10	82.2	3,710	50.00	0.16	0.92
Berry Petroleum Company	BRY		27.04	44.9	1,210	35.00	0.41	0.87
Birchcliff Energy Ltd. (US$)	BIREF		7.22	124.0	890	9.00	0.15	0.83
Total or Median					*8,180*		*0.27*	*0.89*
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		35.10	6.0	210	28.00	-	1.26
Freehold Royalty Trust (US$)	FRHLF		14.55	49.6	720	17.00	0.15	0.88
Dorchester Minerals, L.P.	DMLP	B	21.16	29.8	630	27.00	-	0.78
Permian Basin RT	PBT		13.69	46.6	640	18.00	-	0.76
Sabine Royalty Trust	SBR		41.77	14.6	610	55.00	-	0.76
Total or Median					*2,810*			*0.78*
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		24.46	114.0	2,790	15.00	0.48	1.32
Encore Energy Partners, L.P. (52%)	ENP		17.35	23.2	400	17.00	0.25	1.01
San Juan Basin Royalty Trust	SJT	B	19.17	46.6	890	21.00	-	0.91
Mesa RoyaltyTrust	MTR		39.82	1.9	74	48.00	-	0.83
Hugoton RoyaltyTrust	HGT	B	17.15	40.0	690	23.00	-	0.75
Total or Median					*4,840*			*0.91*

B = Buy, Hold ratings discontinued October 23, 2009

McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent 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.

Table 3

Oil and Gas Income and Small Cap Stocks

Value Multiples - Rank by EV/Ebitda

	Symbol/	Rating	Price ($/sh) 12-Nov 2009	Revenue Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
Canadian Income Trusts (US$)								
Peyto Energy Trust	PEYUF		11.11		1.46	18.0	13.9	12.3
Canadian Oil Sands Trust	COSWF	B	28.30		0.48	22.7	12.5	8.7
Penn West Energy Trust	PWE		17.50		0.72	8.1	8.2	7.8
Enerplus Resources Fund	ERF		22.77		0.58	9.4	9.3	7.0
Pengrowth Energy Trust	PGH		9.68		0.46	7.9	8.3	6.6
Median						*9.4*	*9.3*	*7.8*
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US$)	BIREF		7.22		-	10.1	13.4	11.0
Encore Acquisition Company	EAC		45.38		-	11.7	8.0	7.5
Berry Petroleum Company	BRY		27.04		-	12.4	7.8	6.7
Cimarex Energy Company	XEC	B	45.10		-	7.6	5.6	5.2
Median						*10.9*	*7.9*	*7.1*
Top Line Cash Payers								
Sabine Royalty Trust	SBR		41.77	100	1.00	11.6	19.3	14.7
Cross Timbers Royalty Trust	CRT		35.10	84	0.95	12.6	11.1	14.0
Dorchester Minerals, L.P.	DMLP	B	21.16	64	0.86	7.8	15.5	12.1
Permian Basin RT	PBT		13.69	32	0.84	11.4	15.9	12.1
Freehold Royalty Trust (US$)	FRHLF		14.55	71	0.92	6.7	9.6	8.4
Median						*11.4*	*15.5*	*12.1*
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		24.46		2.29	18.1	13.7	18.1
Mesa RoyaltyTrust	MTR		39.82		0.87	9.1	19.3	16.0
San Juan Basin Royalty Trust	SJT	B	19.17		0.77	9.1	13.8	12.6
Hugoton RoyaltyTrust	HGT	B	17.15		0.71	13.3	15.4	11.5
Encore Energy Partners, L.P.	ENP		17.35		1.10	13.1	8.7	8.8
Median						*13.1*	*13.8*	*12.6*

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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