



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 20, 2009

Freehold Royalty Trust (FRHLF) Highest Distribution Rate Unhedged

<i>Symbol</i>	FRHLF	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	104
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (US\$/un)</i>	14.41	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/19/09	<i>Adjusted Reserves/Production NTM</i>	6.7
<i>Units (mm)</i>	50	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (US\$mm)</i>	710	<i>PV/Ebitda</i>	9.6
<i>Debt (US\$mm)</i>	150	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	860	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.83
<i>Present Value (PV) (US\$mm)</i>	990	<i>Present Value Proven Reserves(US\$/boe)</i>	59.98
<i>Net Present Value (US\$/unit)</i>	17	<i>Oil and Gas Ebitda Margin (%)</i>	85
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/un)</i>	0.81
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	18
<i>Distribution Yield (%/year)</i>	11.2	<i>Indicated Annual Distribution (US\$/un)</i>	1.61
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

Investors looking for high income distributions might consider the units of **Freehold Royalty Trust (FRHLF)**, unique in Canada for the right to oil and gas production free of investment and operating cost. That qualifies the stock as a Top Line Cash Payer in an exclusive group with the most favorable financial structure (see Tables 1-3). Freehold's highest distribution yield without commodity price hedges, estimated at about 11% for the next twelve months (NTM), is supported by rising cash flow (see table [Next Twelve Months Operating and Financial Estimates](#) on page 5). We reaffirm Net Present Value (NPV) of US\$17 a share after analyzing third quarter results (see table [Functional Cash Flow and Present Value](#) on page 6). Better than expected future volume trend could be a positive surprise with success by others on Freehold's lands where horizontal drilling with multi-stage fracturing may be mushrooming. Promising results have been achieved by the industry on trust lands in the Bakken Shale oil trend in Saskatchewan, across the border from intense activity in North Dakota. The trust has been alerted to plans to apply horizontal multi-frac on its lands in the giant Pembina oil field in west central Alberta. Supplementing its legacy "freehold" rights, some of which date back to 1670, the trust also acquires both royalty interests and working interests in new properties. Proceeds of an underwriting of 6.6 million new units, announced November 19, may be applied to acquisitions. Finally, U.S. taxpayers need to give careful consideration to the classification of Freehold's distribution as ordinary income rather than as a qualified dividend. In a tax-deferred account, the 15% Canadian withholding tax may not be recoverable.

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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	19-Nov 2009	Cap							
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	17.87	1.55	11,600	22	78	1.71	9.5	0.96	
Peyto Energy Trust	PEYUF	11.31	1.30	1,690	72	28	1.37	12.1	0.90	
Pengrowth Energy Trust	PGH	9.68	1.54	4,300	35	65	0.80	8.3	0.87	
Enerplus Resources Fund	ERF	23.01	1.22	4,800	42	58	2.06	9.0	0.80	
Canadian Oil Sands Trust	COSWF B	28.40	1.10	15,200		100	1.62	5.7	0.70	
<i>Total or Median</i>				37,600					0.87	
Small Cap Independent Producers										
Cimarex Energy Company	XEC B	46.45	1.21	4,610	67	33	0.24	0.5	0.94	
Encore Acquisition Company	EAC	44.70	1.70	3,970	22	78	-	-	0.94	
Berry Petroleum Company	BRY	27.07	1.91	2,330	31	69	0.30	1.1	0.87	
Birchcliff Energy Ltd. (US\$)	BIREF	7.07	1.22	1,140	64	36	-	-	0.81	
<i>Total or Median</i>				12,050					0.90	
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	35.60	1.00	210	64	36	2.37	6.7	1.27	
Freehold Royalty Trust (US\$)	FRHLF	14.41	1.21	860	25	75	1.61	11.2	0.87	
Dorchester Minerals, L.P.	DMLP B	21.36	1.00	640	68	32	1.50	7.0	0.79	
Sabine Royalty Trust	SBR	41.52	1.00	610	38	63	2.83	6.8	0.75	
Permian Basin RT	PBT	13.56	1.00	630	27	73	0.95	7.0	0.75	
<i>Total or Median</i>				2,950					0.79	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	24.50	1.58	4,400	36	64	2.52	10.3	1.33	
Encore Energy Partners, L.P. (52%)	ENP	17.49	1.33	540	24	76	2.15	12.3	1.02	
San Juan Basin Royalty Trust	SJT B	18.02	1.00	840	100	-	1.17	6.5	0.86	
Mesa Royalty Trust	MTR	40.80	1.00	76	75	25	2.14	5.2	0.85	
Hugoton Royalty Trust	HGT B	16.16	1.00	650	89	11	1.09	6.7	0.70	
<i>Total or Median</i>				6,510					0.86	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				43,900	39	61			0.92	
<i>Equal Weighting</i>					50	50			0.90	
<i>Equal Weighted Buys</i>					55	45			0.85	

* 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	19-Nov 2009	Shares (mm)					
Canadian Income Trusts (US\$)								
	PWE		17.87	420.0	7,510	19.00	0.34	0.96
	PEYUF		11.31	114.9	1,300	13.00	0.21	0.90
	PGH		9.68	290.0	2,810	12.00	0.30	0.87
	ERF		23.01	169.0	3,890	30.00	0.15	0.80
	COSWF	B	28.40	484.0	13,750	42.00	0.07	0.70
	<i>Total or Median</i>				29,300		0.21	0.87
Small Cap Independent Producers								
	XEC	B	46.45	82.2	3,820	50.00	0.16	0.94
	EAC		44.70	52.3	2,340	50.00	0.38	0.94
	BRY		27.07	44.9	1,220	35.00	0.41	0.87
	BIREF		7.07	133.4	940	9.00	0.15	0.81
	<i>Total or Median</i>				8,320		0.27	0.90
Top Line Cash Payers								
	CRT		35.60	6.0	210	28.00	-	1.27
	FRHLF		14.41	49.6	720	17.00	0.15	0.87
	DMLP	B	21.36	29.8	640	27.00	-	0.79
	SBR		41.52	14.6	610	55.00	-	0.75
	PBT		13.56	46.6	630	18.00	-	0.75
	<i>Total or Median</i>				2,810			0.79
Bottom Line Cash Payers								
	LINE		24.50	114.0	2,790	15.00	0.48	1.33
	ENP		17.49	23.2	410	17.00	0.25	1.02
	SJT	B	18.02	46.6	840	21.00	-	0.86
	MTR		40.80	1.9	76	48.00	-	0.85
	HGT	B	16.16	40.0	650	23.00	-	0.70
	<i>Total or Median</i>				4,770			0.86
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		19-Nov 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		11.31		1.47	18.0	14.0	12.6
	COSWF	B	28.40		0.49	22.7	12.7	8.8
	PWE		17.87		0.76	8.1	8.5	8.1
	ERF		23.01		0.65	9.6	9.4	7.5
	PGH		9.68		0.55	8.1	8.2	7.1
	<i>Median</i>					9.6	9.4	8.1
Small Cap Independent Producers								
	BIREF		7.07		-	10.5	16.7	13.6
	EAC		44.70		-	11.7	8.0	7.5
	BRY		27.07		-	12.4	7.8	6.8
	XEC	B	46.45		-	7.6	5.7	5.3
	<i>Median</i>					11.1	7.9	7.2
Top Line Cash Payers								
	SBR		41.52	100	1.00	11.6	19.4	14.7
	CRT		35.60	84	0.95	12.6	11.2	14.2
	DMLP	B	21.36	64	0.87	7.8	15.5	12.3
	PBT		13.56	32	0.84	11.4	15.9	12.0
	FRHLF		14.41	71	0.91	6.7	9.6	8.3
	<i>Median</i>					11.4	15.5	12.3
Bottom Line Cash Payers								
	LINE		24.50		2.32	18.1	13.8	18.3
	MTR		40.80		0.87	9.1	19.4	16.5
	SJT	B	18.02		0.77	9.1	13.9	11.9
	HGT	B	16.16		0.72	13.3	15.2	10.7
	ENP		17.49		1.11	13.1	8.7	8.9
	<i>Median</i>					13.1	13.9	11.9
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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Freehold Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									Next Twelve Months
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	
	9/30/08	6/30/09	9/30/09	12/31/09	2009	3/31/09	6/30/10	9/30/10	9/30/10
Volume									
Natural Gas (mmcf)	17.1	16.1	15.3	15.1	15.7	15.0	14.7	14.5	14.8
Days	91	91	92	92	365	90	91	92	365
Oil (mbd)	4.76	4.61	4.44	4.40	4.6	4.35	4.27	4.22	4.3
Total gas & oil (bcf)	4.2	4.0	3.9	3.8	15.7	3.7	3.7	3.7	14.9
Total gas & oil (mbd)	7.6	7.3	7.0	6.9	7.2	6.9	6.7	6.6	6.8
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	10.25	3.50	3.39	4.21	4.00	5.06	5.17	5.43	4.97
Currency (US\$/C\$)	0.96	0.86	0.91	0.94	0.87	0.94	0.94	0.94	0.94
Henry Hub (C\$/mmbtu)	10.66	4.08	3.72	4.49	4.59	5.40	5.52	5.80	5.30
Company (C\$/mcf)	8.38	3.02	2.78	3.36	3.61	4.25	4.34	5.22	4.28
Oil (\$/bbl)									
WTI Cushing (US\$)	117.99	59.52	68.22	77.80	62.12	80.11	82.07	83.47	80.86
WTI Cushing (C\$/bbl)	122.77	69.38	74.83	83.06	71.39	85.53	87.62	89.12	86.34
Company (C\$/bbl)	103.33	57.50	59.70	66.27	55.97	67.05	68.69	69.87	67.95
Total gas & oil (\$/mcf)	13.91	7.17	7.33	8.24	7.29	8.65	8.86	9.30	8.76
Revenue (\$mm)									
Natural Gas	13.0	4.4	3.9	4.7	21	5.7	5.8	7.0	23
Oil	44.8	24.1	24.4	26.8	93	26.3	26.7	27.1	107
Other	0.4	(0.0)	1.1		1				-
Total	58.2	28.5	29.4	31.5	115	32.0	32.5	34.1	130
Expense (\$mm)	4.0	6.3	6.0	4.7	23	4.8	4.9	5.1	20
Ebitda (\$mm)	54.2	22.2	23.4	26.8	92	27.2	27.6	29.0	111
Deprec., Deplet., & Amort.	17.4	15.8	15.7	15.7	63	15.7	15.7	15.7	63
Ebit (\$mm)	36.8	6.4	7.7	11.1	29	11.5	11.9	13.3	48
Interest	1.6	1.6	1.2	1.2	5	1.2	1.2	1.2	5
Ebt (\$mm)	35.2	4.8	6.5	9.9	24	10.3	10.7	12.1	43
Income Tax	(1.4)	(2.1)	(1.4)		(4)				-
Net Income (\$mm)	36.6	6.9	7.9	9.9	27	10.3	10.7	12.1	43
Shares (millions)	49.4	49.6	49.6	49.6	49.6	49.6	49.6	49.6	49.6
Per share (\$)	0.74	0.14	0.16	0.20	0.55	0.21	0.22	0.24	0.87
Ebitda Margin - O&G	94%	78%	83%	85%	80%	85%	85%	85%	85%
Tax Rate	-4%	-43%	-21%	0%	-15%	0%	0%	0%	0%
Distribution (\$mm)	37.1	14.9	16.9	22.8	69	20.8	20.8	20.8	85
Per share (\$)	0.75	0.30	0.34	0.46	1.40	0.42	0.42	0.42	1.72
Payout (%)	0.70	0.72	0.76	0.89	0.80	0.80	0.79	0.75	0.81
Note: Payout defined as distribution divided by (Ebitda minus Interest).									



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Freehold Royalty Trust					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	19	7.1	13.2	250	25%
Oil	85	6.4	8.7	740	75%
	104	6.7	9.5	990	100%
Debt (US\$mm)					150
Net Present Value (US\$mm)					840
Shares (mm)					50
Net Present Value - Standard Estimate (US\$/sh)					17
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10
(Freehold reserves and Ebitda understated)					

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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