



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 7, 2010

Mini-Panic and Encore Energy Partners

Summary and Recommendation

After declining up to 49% from high to low on May 6, small cap and income stocks recovered with 16 of 23 issues closing above their 200-day average, confirming an uptrend by that measure. Five buy recommendations trade at a median McDep Ratio of 0.99 and a median distribution yield of 7% for the next twelve months (see Tables 1-3). Underpinning our recommendations, we believe that the prospects for growth in the global economy and in demand for oil and gas remain positive.

Nonetheless, during the mini crash on May 6 we measured a 49% decline in the unit price of **Encore Energy Partners (ENP)** before it rebounded. Recall that \$0.5 billion ENP was formed by \$4 billion Encore Acquisition Company in 2007. When Denbury Resources (DNR) acquired Encore Acquisition in March 2010 it also became ENP's new general partner and owner of 47% of its units. DNR announced on April 30 that the future of the partnership is under strategic review. DNR Chief Executive Phil Rykhoek explained in a call on May 6 that the low-decline, minimal reinvestment properties of the income partnership do not fit with the volume growth, high investment properties DNR is focusing on. In an orderly market the partnership could be sold or merged at a price equal to or greater than our Net Present Value, as we see it.

Meanwhile, like most of the stocks, average futures price for oil for the next six years at \$88 a barrel is above its 40-week average of \$86. Natural gas for the next six-years at \$6.15 a million Btu is below its 40-week average of \$6.48. We believe the prospects are favorable for the natural gas trend to turn up before next winter.

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 7, 2010

					<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>	
	B = Buy CB (see below)	6-May 2010	Cap							
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	17.92	1.55	11,700	22	78	1.78	9.9	0.96	
Pengrowth Energy Trust	PGH	10.10	1.50	4,400	37	63	0.83	8.2	0.94	
Peyto Energy Trust	PEYUF	12.29	1.23	1,820	79	21	1.42	11.6	0.85	
Enerplus Resources Fund	ERF	21.76	1.24	4,800	42	58	2.13	9.8	0.77	
Canadian Oil Sands Trust	COSWF B	27.26	1.11	14,600		100	1.98	7.3	0.74	
<i>Total or Median</i>				37,300					0.85	
Small Cap Independent Producers										
Range Resources	RRC	46.23	1.23	9,750	71	29	0.12	0.2	1.31	
Petro-Hawk	HK	19.67	1.40	9,340	96	4	-	-	1.25	
Cimarex Energy Company	XEC B	65.04	1.13	6,070	62	38	0.32	0.5	1.00	
Whiting Petroleum Corporation	WLL	83.82	1.21	6,600	13	87	-	-	0.98	
Ultra Petroleum	UPL	44.61	1.14	8,280	94	6	-	-	0.97	
Berry Petroleum Company	BRY	30.87	1.68	2,640	30	70	0.30	1.0	0.92	
Birchcliff Energy Ltd. (US\$)	BIREF	8.31	1.22	1,350	77	23	-	-	0.79	
<i>Total or Median</i>				42,700					0.99	
Top Line Cash Payers										
Sabine Royalty Trust	SBR	47.59	1.00	690	39	61	3.64	7.7	1.06	
Cross Timbers Royalty Trust	CRT	35.44	1.00	210	78	22	2.77	7.8	1.04	
Dorchester Minerals, L.P.	DMLP B	26.92	1.02	820	67	33	1.92	7.1	1.00	
Permian Basin RT	PBT	16.93	1.00	790	27	73	1.36	8.0	0.94	
Freehold Royalty Trust (US\$)	FRHLF	15.82	1.12	1,020	29	71	1.66	10.5	0.94	
<i>Total or Median</i>				3,500					1.00	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	23.69	1.50	5,120	45	55	2.52	10.6	1.08	
Encore Energy Partners, L.P. (52%)	ENP	17.26	1.34	540	23	77	2.11	12.2	1.01	
Legacy Reserves L.P.	LGCY	20.31	1.44	1,140	16	84	2.08	10.2	1.01	
San Juan Basin Royalty Trust	SJT B	22.67	1.00	1,060	100	-	1.44	6.3	0.99	
Mesa Royalty Trust	MTR	43.35	1.00	81	75	25	3.66	8.4	0.91	
Hugoton Royalty Trust	HGT B	18.44	1.00	740	90	10	1.55	8.4	0.88	
<i>Total or Median</i>				8,700					1.00	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				79,000	55	45			1.01	
<i>Equal Weighting</i>					55	45			0.98	
<i>Equal Weighted Buys</i>					64	36			0.97	

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.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 7, 2010

Table 2

McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>6-May</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\$)								
Penn West Energy Trust	PWE		17.92	420.7	7,540	19.00	0.34	0.96
Pengrowth Energy Trust	PGH		10.10	290.0	2,930	11.00	0.31	0.94
Peyto Energy Trust	PEYUF		12.29	120.5	1,480	15.00	0.16	0.85
Enerplus Resources Fund	ERF		21.76	177.0	3,850	30.00	0.15	0.77
Canadian Oil Sands Trust	COSWF	B	27.26	484.0	13,190	38.00	0.07	0.74
<i>Total or Median</i>					<i>29,000</i>		<i>0.16</i>	<i>0.85</i>
Small Cap Independent Producers								
Range Resources	RRC		46.23	160.0	7,920	35.00	0.25	1.31
Petro-Hawk	HK		19.67	302.0	6,690	16.00	0.35	1.25
Cimarex Energy Company	XEC	B	65.04	82.6	5,370	65.00	0.12	1.00
Whiting Petroleum Corporation	WLL		83.82	59.2	5,470	95.00	0.17	0.98
Ultra Petroleum	UPL		44.61	151.0	7,280	50.00	0.12	0.97
Berry Petroleum Company	BRY		30.87	51.0	1,570	35.00	0.37	0.92
Birchcliff Energy Ltd. (US\$)	BIREF		8.31	134.0	1,110	11.00	0.14	0.79
<i>Total or Median</i>					<i>35,410</i>		<i>0.17</i>	<i>0.98</i>
Top Line Cash Payers								
Sabine Royalty Trust	SBR		47.59	14.6	690	45.00	-	1.06
Cross Timbers Royalty Trust	CRT		35.44	6.0	210	34.00	-	1.04
Dorchester Minerals, L.P.	DMLP	B	26.92	29.8	800	27.00	0.02	1.00
Permian Basin RT	PBT		16.93	46.6	790	18.00	-	0.94
Freehold Royalty Trust (US\$)	FRHLF		15.82	57.2	910	17.00	0.10	0.94
<i>Total or Median</i>					<i>3,400</i>			<i>1.00</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		23.69	144.0	3,410	21.00	0.36	1.08
Encore Energy Partners, L.P. (52%)	ENP		17.26	23.4	400	17.00	0.26	1.01
Legacy Reserves L.P.	LGCY		20.31	39.0	790	20.00	0.31	1.01
San Juan Basin Royalty Trust	SJT	B	22.67	46.6	1,060	23.00	-	0.99
Mesa Royalty Trust	MTR		43.35	1.9	81	48.00	-	0.91
Hugoton Royalty Trust	HGT	B	18.44	40.0	740	21.00	-	0.88
<i>Total or Median</i>					<i>6,480</i>			<i>1.00</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.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 7, 2010

			<i>Price (\$/sh)</i>	<i>Revenue</i>	<i>Dist/ Equity</i>	<i>Adjstd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>
	<i>Symbol/ Rating</i>		<i>6-May 2010</i>	<i>Royalty (%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		12.29		1.21	25.0	12.8	10.8
Canadian Oil Sands Trust	COSWF	B	27.26		0.53	31.4	10.1	7.5
Pengrowth Energy Trust	PGH		10.10		0.59	9.7	7.8	7.4
Penn West Energy Trust	PWE		17.92		0.70	9.9	7.5	7.2
Enerplus Resources Fund	ERF		21.76		0.58	9.7	8.2	6.3
	<i>Median</i>					9.9	8.2	7.4
Small Cap Independent Producers								
Range Resources	RRC		46.23		-	13.3	11.3	14.8
Ultra Petroleum	UPL		44.61		-	14.7	13.6	13.1
Birchcliff Energy Ltd. (US\$)	BIREF		8.31		-	12.0	15.7	12.3
Petro-Hawk	HK		19.67		-	7.8	9.8	12.2
Berry Petroleum Company	BRY		30.87		-	13.2	7.2	6.7
Whiting Petroleum Corporation	WLL		83.82		-	10.3	6.3	6.2
Cimarex Energy Company	XEC	B	65.04		-	7.0	5.8	5.8
	<i>Median</i>					12.0	9.8	12.2
Top Line Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	26.92	64	0.97	7.9	13.7	13.7
Sabine Royalty Trust	SBR		47.59	100	1.00	9.2	12.3	13.1
Cross Timbers Royalty Trust	CRT		35.44	84	0.97	13.4	11.8	12.4
Permian Basin RT	PBT		16.93	32	0.90	13.1	12.0	11.3
Freehold Royalty Trust (US\$)	FRHLF		15.82	71	0.78	8.3	8.0	7.5
	<i>Median</i>					9.2	12.0	12.4
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		23.69		1.48	20.3	12.3	13.3
San Juan Basin Royalty Trust	SJT	B	22.67		0.79	14.0	12.7	12.5
Mesa RoyaltyTrust	MTR		43.35		0.91	8.5	11.9	10.8
Hugoton RoyaltyTrust	HGT	B	18.44		0.90	12.3	12.2	10.7
Encore Energy Partners, L.P.	ENP		17.26		1.00	12.8	8.1	8.2
Legacy Reserves L.P.	LGCY		20.31		0.78	12.0	7.5	7.5
	<i>Median</i>					12.5	12.0	10.7
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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 7, 2010

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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

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.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.