



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 13, 2010

Raise Peyto NPV to US\$18 from \$15

<i>Symbol</i>	PEYUF	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	200
<i>Rating</i>	Low McDep	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (US\$/un)</i>	14.36	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/12/10	<i>Adjusted Reserves/Production NTM</i>	21.5
<i>Units (mm)</i>	119	<i>EV/Ebitda</i>	10.5
<i>Market Capitalization (US\$mm)</i>	1,710	<i>PV/Ebitda</i>	12.7
<i>Debt (US\$mm)</i>	390	<i>Probable Reserves (%)</i>	25
<i>Enterprise Value (EV) (US\$mm)</i>	2,110	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.73
<i>Present Value (PV) (US\$mm)</i>	2,540	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	12.71
<i>Net Present Value (US\$/unit)</i>	18	<i>Oil and Gas Ebitda Margin (%)</i>	84
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/un)</i>	1.13
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	13
<i>Distribution Yield (%/year)</i>	9.6	<i>Indicated Annual Distribution (US\$/un)</i>	1.38
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.			
For historical analysis of Peyto Energy Trust see www.mcdep.com/5pey.htm			

Summary and Recommendation

Units of Canadian Deep Basin natural gas producer **Peyto Energy Trust (PEYUF)** offer unlevered appreciation potential of 20% to our new estimate of Net Present Value (NPV) of US\$18. On the basis of continued success with horizontal multistage fracturing, we raise NPV from US\$15 a unit. Second quarter volume was up 8% from the first quarter and 23% from the previous year (see table [Next Twelve Months Operating and Financial Estimates](#)). Further quarterly gains seem likely at the rate the trust is drilling though we hold volume constant in our projection. The technological success on a classically valuable resource base contributes to our comfort with a high multiple of present value to cash flow normally implied by the extra long reserve life Peyto reports (see table [Functional Cash Flow and Present Value](#)).

The ability of Peyto and other successful producers to increase volume has helped the supply of natural gas keep up with demand and hold price down. Last week for the first time this summer, inventory of natural gas in storage for the coming winter dipped below the upper limit and into the range for the past five years (see chart from the U.S. EIA on page 3). At least for one week, supply growth slowed relative to demand growth, implying the need for higher price in the short term. Long term demand for natural gas is practically unlimited considering the enormous volumes of coal burned every day in the U.S. and China, which ought to be replaced by cleaner fuel, in our opinion. The market potential is also large in transportation, but it will take longer. At the same time, low natural gas price accentuates the inefficiency of subsidies to wind and solar that over-leveraged economies can ill afford. We like the income and small cap investment opportunities in growing, clean energy offered by Peyto and peer stocks (see [Tables 1-3](#)).

Kurt H. Wulff, CFA



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Peyto Energy Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/11</i>
	<i>6/30/09</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>6/30/11</i>
Volume									
Natural Gas (mmcf)	90.2	103.9	112.4	112.4	112.4	110	112.4	112.4	112
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	2.95	3.33	3.47	3.47	3.47	3.4	3.47	3.47	3.5
Total gas & oil (bcf)	9.8	11.1	12.1	12.3	12.3	47.8	12.0	12.1	48.6
Total gas & oil (mbd)	18.0	20.6	22.2	22.2	22.2	21.8	22.2	22.2	22.2
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	3.50	5.32	4.09	4.62	4.61	4.66	4.94	4.82	4.75
Currency (US\$/C\$)	0.86	0.96	0.97	0.96	0.96	0.96	0.96	0.96	0.96
Henry Hub (C\$/mmbtu)	4.08	5.53	4.21	4.82	4.81	4.84	5.15	5.03	4.95
Company (C\$/mcf)	3.99	5.71	4.14	4.82	4.81	4.85	5.15	5.03	4.95
Oil (\$/bbl)									
WTI Cushing (US\$)	59.52	78.67	77.85	79.78	82.46	79.69	83.73	84.90	82.72
WTI Cushing (C\$/bbl)	69.38	81.82	80.05	83.30	86.10	82.84	87.43	88.65	86.37
Company (C\$/bbl)	43.42	68.93	65.58	68.24	70.53	68.32	72.11	73.12	70.99
Total gas & oil (\$/mcf)	4.52	6.64	5.20	5.84	5.90	5.03	6.23	6.15	5.12
Revenue (\$mm)									
Natural Gas	32.7	53.4	42.3	49.8	49.8	195	52.1	51.5	203
Oil	11.7	20.7	20.7	21.8	22.5	86	22.5	23.1	90
Royalties	(5.4)	(9.2)	(9.7)	(10.7)	(10.8)	(40)	(11.2)	(11.2)	(44)
Total	39.0	64.9	53.3	60.9	61.4	240	63.4	63.4	249
Expense	7.2	7.8	7.3	9.7	9.8	35	10.1	10.1	40
Ebitda (\$mm)	31.8	57.1	46.0	51.1	51.6	206	53.3	53.2	209
Deprec., Deplet., & Amort.	17.7	20.4	21.9	18.6	18.6	80	18.6	18.6	74
Hedging and other	(20.4)	(3.7)	(5.4)	(6.9)	(6.9)	(23)	(5.9)	(6.2)	(26)
Ebit	34.5	40.4	29.5	39.4	39.9	149	40.5	40.9	161
Interest	3.9	4.4	5.0	5.0	5.0	19	5.0	5.0	20
Ebt	30.6	36.0	24.5	34.4	34.9	130	35.5	35.9	141
Income Tax	0.8	(0.9)	(0.6)			(2)			-
Net Income (\$mm)	29.8	36.9	25.1	34.4	34.9	131	35.5	35.9	141
Shares (millions)	106.3	115.2	119.4	119.4	119.4	118	119.4	119.4	119
Per share (\$)	0.28	0.32	0.21	0.29	0.29	1.11	0.30	0.30	1.18
Ebitda Margin - O&G	82%	88%	86%	84%	84%	86%	84%	84%	84%
Tax Rate	3%	-3%	-2%	0%	0%	-1%	0%	0%	0%
Distribution (\$mm)	39	41	43	43	43	170	43	43	172
Per share (\$)	0.37	0.36	0.36	0.36	0.36	1.44	0.36	0.36	1.44

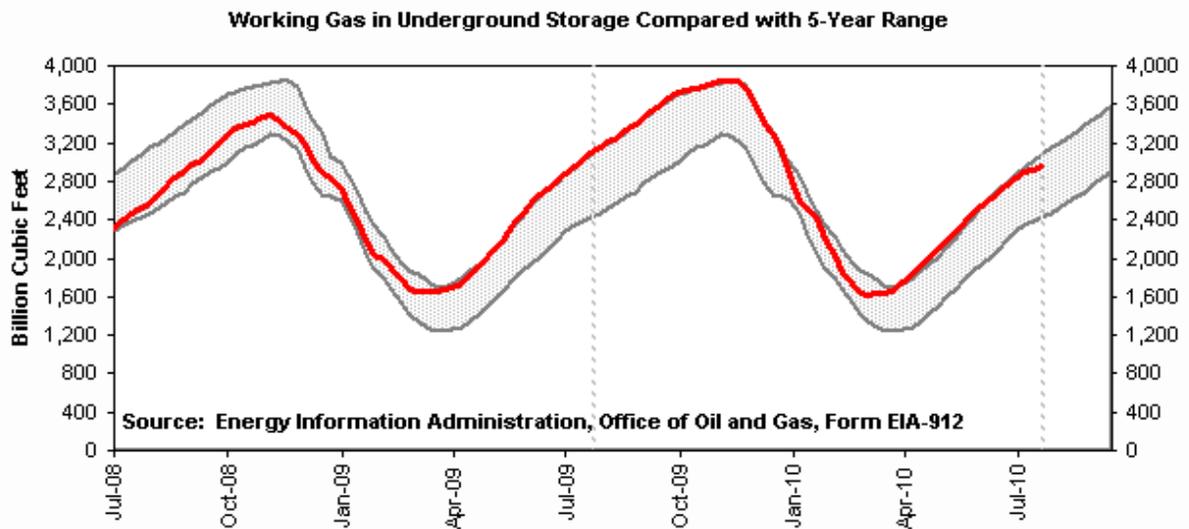


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Peyto Energy Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	139	21.5	14.4	2,000	79%
Oil	61	21.5	8.9	540	21%
	200	21.5	12.7	2,540	100%
Debt (US\$mm)					390
Net Present Value (US\$mm)					2,150
Shares (mm)					119
Net Present Value - Standard Estimate (US\$/sh)					18
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					25





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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
				N.Amer. Natural Gas	Oil Prod'n				
B = Buy CB (see below)	12-Aug 2010	Cap							
Canadian Income Trusts (US\$)									
Pengrowth Energy Trust	PGH	9.49	1.47	4,000	36	64	0.82	8.6	0.90
Penn West Energy Trust	PWE	18.97	1.39	11,600	22	78	1.75	9.2	0.87
Peyto Energy Trust	PEYUF	14.36	1.23	2,100	79	21	1.38	9.6	0.83
Enerplus Resources Fund	ERF	22.51	1.25	5,000	41	59	2.10	9.3	0.79
Canadian Oil Sands Trust	COSWF CB	25.32	1.11	13,600		100	1.95	7.7	0.69
<i>Total or Median</i>				36,300					0.83
Small Cap Independent Producers									
Petrohawk Energy Corporation	HK	16.32	1.60	8,410	96	4	-	-	1.05
Denbury Resources Inc.	DNR	15.82	1.54	9,750	16	84	-	-	1.03
Whiting Petroleum Corporation	WLL	86.97	1.19	6,530	14	86	-	-	0.98
Range Resources	RRC	36.33	1.32	8,120	82	18	0.08	0.2	0.98
Berry Petroleum Company	BRY	28.55	1.66	2,570	31	69	0.30	1.1	0.88
Ultra Petroleum	UPL	41.50	1.21	7,880	94	6	-	-	0.87
Cimarex Energy Company	XEC B	66.03	1.11	6,250	59	41	0.32	0.5	0.84
Birchcliff Energy Ltd. (US\$)	BIREF B	8.81	1.23	1,380	68	32	-	-	0.68
<i>Total or Median</i>				50,900					0.93
Top Line Cash Payers									
Sabine Royalty Trust	SBR	52.32	1.00	760	50	50	3.44	6.6	1.16
Cross Timbers Royalty Trust	CRT	34.92	1.00	210	75	25	2.33	6.7	1.03
Permian Basin RT	PBT	18.46	1.00	860	38	62	1.52	8.3	1.03
Dorchester Minerals, L.P.	DMLP B	25.08	1.02	790	66	34	1.83	7.3	0.93
Freehold Royalty Trust (US\$)	FRHLF	15.51	1.09	990	25	75	1.64	10.5	0.92
<i>Total or Median</i>				3,600					1.03
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	29.05	1.47	6,260	47	53	2.52	8.7	1.23
Legacy Reserves LP.	LGCY	22.88	1.39	1,270	17	83	2.08	9.1	1.10
Encore Energy Partners, L.P. (52%)	ENP	18.12	1.30	550	25	75	2.00	11.0	1.05
San Juan Basin Royalty Trust	SJT B	24.10	1.00	1,120	100	-	1.45	6.0	0.96
Mesa Royalty Trust	MTR	45.40	1.00	85	75	25	3.79	8.3	0.95
Hugoton Royalty Trust	HGT B	19.55	1.00	780	90	10	1.59	8.2	0.93
<i>Total or Median</i>				10,100					1.01
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				87,300	51	49			0.94
<i>Equal Weighting</i>					54	46			0.96
<i>Equal Weighted Buys</i>					62	38			0.87

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>12-Aug</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2010</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH		9.49	290.0	2,750	11.00	0.29
Penn West Energy Trust	PWE		18.97	439.6	8,340	23.00	0.24
Peyto Energy Trust	PEYUF		14.36	119.4	1,710	18.00	0.15
Enerplus Resources Fund	ERF		22.51	177.5	4,000	30.00	0.16
Canadian Oil Sands Trust	COSWF	CB	25.32	484.0	12,250	38.00	0.07
<i>Total or Median</i>					29,100		0.16
Small Cap Independent Producers							
Petrohawk Energy Corporation	HK		16.32	303.0	5,270	16.00	0.39
Denbury Resources Inc.	DNR		15.82	401.0	6,340	15.00	0.36
Whiting Petroleum Corporation	WLL		86.97	59.2	5,490	95.00	0.16
Range Resources	RRC		36.33	158.5	6,150	40.00	0.24
Berry Petroleum Company	BRY		28.55	54.3	1,550	35.00	0.35
Ultra Petroleum	UPL		41.50	154.0	6,530	50.00	0.15
Cimarex Energy Company	XEC	B	66.03	85.6	5,650	80.00	0.08
Birchcliff Energy Ltd. (US\$)	BIREF	B	8.81	127.0	1,120	14.00	0.13
<i>Total or Median</i>					38,100		0.20
Top Line Cash Payers							
Sabine Royalty Trust	SBR		52.32	14.6	760	45.00	-
Cross Timbers Royalty Trust	CRT		34.92	6.0	210	34.00	-
Permian Basin RT	PBT		18.46	46.6	860	18.00	-
Dorchester Minerals, L.P.	DMLP	B	25.08	30.7	770	27.00	0.02
Freehold Royalty Trust (US\$)	FRHLF		15.51	58.2	900	17.00	0.08
<i>Total or Median</i>					3,500		1.03
Bottom Line Cash Payers							
Linn Energy, LLC	LINE		29.05	146.5	4,260	21.00	0.39
Legacy Reserves L.P.	LGCY		22.88	40.1	920	20.00	0.31
Encore Energy Partners, L.P. (52%)	ENP		18.12	23.4	420	17.00	0.24
San Juan Basin Royalty Trust	SJT	B	24.10	46.6	1,120	25.00	-
Hugoton Royalty Trust	HGT	B	19.55	40.0	780	21.00	-
Mesa Royalty Trust	MTR		45.40	1.9	85	48.00	-
<i>Total or Median</i>					7,590		1.01

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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			<i>Price</i> <i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Adjstd</i>		
	<i>Symbol/</i>		<i>12-Aug</i>	<i>Royalty</i>	<i>Equity</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>
						<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		14.36		0.97	21.5	12.7	10.5
Canadian Oil Sands Trust	COSWF	CB	25.32		0.62	32.1	12.2	8.4
Penn West Energy Trust	PWE		18.97		0.73	9.9	9.6	8.3
Enerplus Resources Fund	ERF		22.51		0.59	9.7	8.4	6.6
Pengrowth Energy Trust	PGH		9.49		0.51	9.3	6.9	6.2
	<i>Median</i>					9.9	9.6	8.3
Small Cap Independent Producers								
Range Resources	RRC		36.33		-	12.4	13.4	13.1
Ultra Petroleum	UPL		41.50		-	13.2	12.3	10.7
Birchcliff Energy Ltd. (US\$)	BIREF	B	8.81		-	23.0	14.6	9.9
Petrohawk Energy Corporation	HK		16.32		-	7.2	9.1	9.6
Denbury Resources Inc.	DNR		15.82		-	12.8	8.1	8.4
Berry Petroleum Company	BRY		28.55		-	11.9	8.2	7.2
Whiting Petroleum Corporation	WLL		86.97		-	9.6	6.6	6.4
Cimarex Energy Company	XEC	B	66.03		-	6.3	6.6	5.5
	<i>Median</i>					12.1	8.6	9.0
Top Line Cash Payers								
Sabine Royalty Trust	SBR		52.32	100	1.00	8.7	13.1	15.2
Cross Timbers Royalty Trust	CRT		34.92	84	0.96	13.6	14.0	14.4
Dorchester Minerals, L.P.	DMLP	B	25.08	77	0.89	6.8	13.2	12.2
Permian Basin RT	PBT		18.46	42	0.97	13.0	11.5	11.8
Freehold Royalty Trust (US\$)	FRHLF		15.51	71	0.90	8.2	9.4	8.6
	<i>Median</i>					8.7	13.1	12.2
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		29.05		1.58	18.4	13.2	16.3
San Juan Basin Royalty Trust	SJT	B	24.10		0.80	13.6	13.9	13.4
Mesa RoyaltyTrust	MTR		45.40		0.92	8.9	11.7	11.1
Hugoton RoyaltyTrust	HGT	B	19.55		0.90	12.5	11.9	11.1
Legacy Reserves L.P.	LGCY		22.88		0.98	12.2	9.5	10.4
Encore Energy Partners, L.P.	ENP		18.12		1.04	13.1	8.8	9.3
	<i>Median</i>					12.8	11.8	11.1
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).								

Please see disclosures on the final page.

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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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