



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 1, 2010

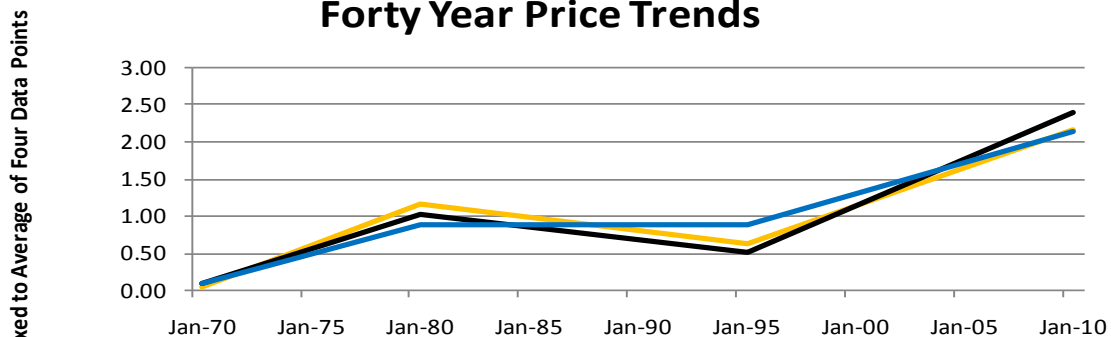
The Message of Gold Price

Summary and Recommendation

The steep rise in the price of gold during the past decade appears to ratify the trajectory of prices for oil and natural gas (see chart below Forty Year Price Trends). A further speculative move upward for gold price in U.S. dollars may prevail for the next two years until a possible reversal with a change in political leadership. Otherwise our most likely longer-term price case is that gold increases with U.S. dollar inflation, oil increases faster than inflation and natural gas increases faster than oil. We are also optimistic that the broader stock market is also headed upward after the long readjustment of the past decade (see chart Gold and the Stock Market). Meanwhile in the week to week situation measured in our regular valuation update, sixteen income stocks offer a median distribution yield of 7.5% and eight small cap growth stocks are priced at a median McDep Ratio of 0.93 (see Table 1 on page 3). The four buy-recommended income stocks and the two buy-recommended growth stocks have among the lowest McDep Ratios and have little to no debt (see Table 2 on page 4). Unlevered cash flow multiples generally increase with reserve life (see Table 3 on page 5). The McDep Ratio is more comprehensive as it further takes account of whether cash flow comes from oil or natural gas and whether reported reserve life understates future cash flow potential. Four buy recommendations are in stock price uptrends compared to their 200 day average. The two buy recommendations trading below are classified as Contrarian Buy (see Table 4 on page 6).

Kurt H. Wulff, CFA

Gold, Oil and Natural Gas Forty Year Price Trends



	Sep-70	Sep-80	Sep-95	Sep-10
Gold	0.06	1.16	0.63	2.15
Oil	0.09	1.01	0.51	2.39
Natural Gas	0.09	0.88	0.88	2.15



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Gold and the Stock Market, 1970-2010



Price Indicators: 1970, 1980, 1995, 2000

	Sep-70	Sep-80	Sep-95	Sep-10
Gold (\$/oz.)	35	700	380	1300
Oil (\$/bbl)	3	34	17	80
Natural Gas (\$/mmbtu)	0.16	1.6	1.6	3.9
Source: EIA, Bloomberg, McDep				



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Table 1

McDep Income and Small Cap Energy Portfolio Debt, Business Segments and Income Yield

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 CB (see below)	30-Sep 2010	Cap							
Canadian Income Trusts (US\$)									
Pengrowth Energy Trust	PGH	11.06	1.40	4,500	36	64	0.82	7.4	1.00
Penn West Energy Trust	PWE	20.07	1.37	12,100	22	78	1.05	5.2	0.90
Enerplus Resources Fund	ERF	25.75	1.22	5,600	41	59	2.10	8.2	0.88
Peyto Energy Trust	PEYUF	15.17	1.22	2,210	78	22	1.40	9.2	0.87
Canadian Oil Sands Trust	COSWF CB	24.75	1.12	13,400		100	1.95	7.9	0.68
<i>Total or Median</i>				37,800					0.88
Small Cap Independent Producers									
Denbury Resources Inc.	DNR	15.89	1.54	9,780	16	84	-	-	1.04
Whiting Petroleum Corporation	WLL	95.51	1.18	6,710	14	86	-	-	1.01
Petrohawk Energy Corporation	HK	16.14	1.68	7,760	96	4	-	-	0.97
Berry Petroleum Company	BRY	31.73	1.59	2,740	31	69	0.30	0.9	0.94
Range Resources	RRC	38.13	1.35	7,600	82	18	0.04	0.1	0.91
Cimarex Energy Company	XEC B	66.18	1.11	6,270	59	41	0.32	0.5	0.84
Ultra Petroleum	UPL	41.98	1.22	7,350	94	6	-	-	0.81
Birchcliff Energy Ltd. (US\$)	BIREF CB	8.51	1.25	1,350	68	32	-	-	0.66
<i>Total or Median</i>				49,600					0.93
Top Line Cash Payers									
Sabine Royalty Trust	SBR	53.02	1.00	770	50	50	3.28	6.2	1.18
Permian Basin RT	PBT	19.72	1.00	920	38	62	1.34	6.8	1.10
Cross Timbers Royalty Trust	CRT	35.65	1.00	210	75	25	2.16	6.0	1.05
Freehold Royalty Trust (US\$)	FRHLF	17.39	1.08	1,100	25	75	1.63	9.4	1.02
Dorchester Minerals, L.P.	DMLP B	26.89	1.02	840	66	34	1.64	6.1	1.00
<i>Total or Median</i>				3,800					1.05
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	31.96	1.43	6,690	47	53	2.52	7.9	1.32
Legacy Reserves LP.	LGCY	24.66	1.36	1,340	17	83	2.08	8.4	1.16
Encore Energy Partners, L.P. (52%)	ENP	18.94	1.28	570	25	75	2.00	10.6	1.09
San Juan Basin Royalty Trust	SJT B	24.71	1.00	1,150	100	-	1.10	4.5	0.99
Mesa Royalty Trust	MTR	46.25	1.00	86	75	25	3.54	7.6	0.96
Hugoton Royalty Trust	HGT B	19.99	1.00	800	90	10	1.26	6.3	0.95
<i>Total or Median</i>				10,600					1.04
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				88,400	50	50			0.95
<i>Equal Weighting</i>					54	46			0.98
<i>Equal Weighted Buys</i>					68	32			0.89

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 September 30, 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>30-Sep</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	
	<i>Rating</i>		<i>2010</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	
							<i>McDep</i>	
							<i>Ratio</i>	
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		11.06	290.0	3,210	11.00	1.00	
Penn West Energy Trust	PWE		20.07	439.6	8,820	23.00	0.90	
Enerplus Resources Fund	ERF		25.75	177.5	4,570	30.00	0.88	
Peyto Energy Trust	PEYUF		15.17	119.4	1,810	18.00	0.87	
Canadian Oil Sands Trust	COSWF	CB	24.75	484.0	11,980	38.00	0.68	
<i>Total or Median</i>					<i>30,400</i>		<i>0.16</i>	<i>0.88</i>
Small Cap Independent Producers								
Denbury Resources Inc.	DNR		15.89	401.0	6,370	15.00	1.04	
Whiting Petroleum Corporation	WLL		95.51	59.2	5,670	95.00	1.01	
Petrohawk Energy Corporation	HK		16.14	303.0	4,620	16.00	0.97	
Berry Petroleum Company	BRY		31.73	54.3	1,720	35.00	0.94	
Range Resources	RRC		38.13	158.5	5,630	40.00	0.91	
Cimarex Energy Company	XEC	B	66.18	85.6	5,670	80.00	0.84	
Ultra Petroleum	UPL		41.98	154.0	6,000	50.00	0.81	
Birchcliff Energy Ltd. (US\$)	BIREF	CB	8.51	127.0	1,080	14.00	0.66	
<i>Total or Median</i>					<i>36,760</i>		<i>0.20</i>	<i>0.93</i>
Top Line Cash Payers								
Sabine Royalty Trust	SBR		53.02	14.6	770	45.00	1.18	
Permian Basin RT	PBT		19.72	46.6	920	18.00	1.10	
Cross Timbers Royalty Trust	CRT		35.65	6.0	210	34.00	1.05	
Freehold Royalty Trust (US\$)	FRHLF		17.39	58.3	1,010	17.00	1.02	
Dorchester Minerals, L.P.	DMLP	B	26.89	30.7	830	27.00	1.00	
<i>Total or Median</i>					<i>3,740</i>		<i>1.05</i>	
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		31.96	146.5	4,680	21.00	1.32	
Legacy Reserves L.P.	LGCY		24.66	40.1	990	20.00	1.16	
Encore Energy Partners, L.P. (52%)	ENP		18.94	23.4	440	17.00	1.09	
San Juan Basin Royalty Trust	SJT	B	24.71	46.6	1,150	25.00	0.99	
Mesa RoyaltyTrust	MTR		46.25	1.9	86	48.00	0.96	
Hugoton RoyaltyTrust	HGT	B	19.99	40.0	800	21.00	0.95	
<i>Total or Median</i>					<i>8,150</i>		<i>1.04</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.



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Table 3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		30-Sep 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		15.17		1.08	21.5	13.9	12.1
	PWE		20.07		0.46	9.9	10.1	9.2
	COSWF	CB	24.75		0.64	27.4	12.5	8.4
	ERF		25.75		0.63	9.7	8.9	7.9
	PGH		11.06		0.54	9.3	7.3	7.3
	<i>Median</i>					9.9	10.1	8.4
Small Cap Independent Producers								
	RRC		38.13		-	12.1	14.2	13.0
	UPL		41.98		-	13.2	13.7	11.1
	BIREF	CB	8.51		-	21.4	14.8	9.7
	HK		16.14		-	7.1	10.0	9.7
	DNR		15.89		-	12.8	8.5	8.9
	BRY		31.73		-	11.9	8.6	8.1
	WLL		95.51		-	9.6	6.9	6.9
	XEC	B	66.18		-	6.3	7.1	6.0
	<i>Median</i>					12.0	9.3	9.3
Top Line Cash Payers								
	SBR		53.02	100	1.00	8.7	13.7	16.1
	CRT		35.65	84	0.96	13.7	15.1	15.8
	DMLP	B	26.89	77	0.89	6.8	14.7	14.6
	PBT		19.72	42	0.94	13.1	12.7	13.9
	FRHLF		17.39	71	0.95	8.2	9.9	10.1
	<i>Median</i>					8.7	13.7	14.6
Bottom Line Cash Payers								
	LINE		31.96		1.69	18.4	14.1	18.5
	SJT	B	24.71		0.74	14.1	16.7	16.5
	HGT	B	19.99		0.87	12.8	14.6	13.9
	MTR		46.25		0.94	9.0	12.7	12.2
	LGCY		24.66		1.03	12.2	9.9	11.5
	ENP		18.94		1.10	13.2	9.4	10.2
	<i>Median</i>					13.0	13.4	13.1

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 September 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).



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Table 4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		30-Sep 2010	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Canadian Income Trusts (US\$)									
	Enerplus Resources Fund	ERF	25.75	1.00	1.62	1.09	1.10	0.88	
	Peyto Energy Trust	PEYUF	15.17	0.97	1.46	1.05	1.09	0.87	
	Pengrowth Energy Trust	PGH	11.06	0.95	1.79	1.07	1.05	1.00	
	Penn West Energy Trust	PWE	20.07	0.92	1.28	1.03	1.03	0.90	
	Canadian Oil Sands Trust	COSWF	CB	24.75	0.75	1.06	0.98	0.92	0.68
	<i>Median</i>			<i>0.95</i>	<i>1.46</i>	<i>1.05</i>	<i>1.05</i>	<i>0.88</i>	
Small Cap Independent Producers									
	Whiting Petroleum Corporation	WLL	95.51	0.98	1.62	1.06	1.15	1.01	
	Berry Petroleum Company	BRY	31.73	0.95	1.17	1.04	1.05	0.94	
	Cimarex Energy Company	XEC	B	66.18	0.83	1.64	0.96	1.02	0.84
	Denbury Resources Inc.	DNR	15.89	0.87	1.16	1.01	1.00	1.04	
	Birchcliff Energy Ltd. (US\$)	BIREF	CB	8.51	0.83	1.23	0.95	0.96	0.66
	Ultra Petroleum	UPL	41.98	0.72	1.04	0.96	0.87	0.81	
	Petrohawk Energy Corporation	HK	16.14	0.66	1.06	0.97	0.84	0.97	
	Range Resources	RRC	38.13	0.66	1.07	0.98	0.83	0.91	
	<i>Median</i>			<i>0.83</i>	<i>1.17</i>	<i>0.98</i>	<i>0.98</i>	<i>0.93</i>	
Top Line Cash Payers									
	Permian Basin RT	PBT	19.72	0.99	1.68	1.04	1.12	1.10	
	Dorchester Minerals, L.P.	DMLP	B	26.89	0.96	1.33	1.06	1.11	1.00
	Sabine Royalty Trust	SBR	53.02	0.96	1.38	1.01	1.10	1.18	
	Freehold Royalty Trust (US\$)	FRHLF	17.39	0.97	1.30	1.08	1.09	1.02	
	Cross Timbers Royalty Trust	CRT	35.65	0.90	1.26	1.01	1.03	1.05	
	<i>Median</i>			<i>0.96</i>	<i>1.33</i>	<i>1.04</i>	<i>1.10</i>	<i>1.05</i>	
Bottom Line Cash Payers									
	Linn Energy, LLC	LINE	31.96	0.99	1.74	1.05	1.12	1.32	
	San Juan Basin Royalty Trust	SJT	B	24.71	0.87	1.50	1.03	1.09	0.99
	Hugoton Royalty Trust	HGT	B	19.99	0.90	1.33	1.02	1.08	0.95
	Legacy Reserves L.P.	LGCY	24.66	0.96	1.40	1.02	1.07	1.16	
	Mesa Royalty Trust	MTR	46.25	0.85	1.44	1.02	1.06	0.96	
	Encore Energy Partners, L.P. (52%)	ENP	18.94	0.89	1.64	1.00	0.99	1.09	
	<i>Median</i>			<i>0.90</i>	<i>1.47</i>	<i>1.02</i>	<i>1.07</i>	<i>1.04</i>	

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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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.