



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 28, 2013

Peyto Exploration and Development Corp. (PEYUF) Raise NPV to \$32 for Fracking Winner

<i>Symbol</i>	PEYUF	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$m)</i>	468
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (US\$/sh)</i>	26.57	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/27/13	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	145	<i>EV/Ebitda</i>	9.7
<i>Market Capitalization (US\$m)</i>	3,850	<i>PV/Ebitda</i>	11.4
<i>Debt (US\$m)</i>	690	<i>Undeveloped Reserves (%)</i>	42
<i>Enterprise Value (EV) (US\$m)</i>	4,540	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.43
<i>Present Value (PV) (US\$m)</i>	5,330	<i>Present Value Proven Reserves(US\$/boe)</i>	24.10
<i>Net Present Value (US\$/sh)</i>	32	<i>Oil and Gas Ebitda Margin (%)</i>	86
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.36
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	2.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.71
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\$100 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Peyto since 2009 see www.mcdep.com/5pey.htm			

Summary and Recommendation

Fracking skeptics might become fracking believers after studying the success of **Peyto Exploration (PEYUF)**, one of few stocks returning more than 15% a year from the peak before the global financial panic of 2008. Like Babe Ruth pointing to the bleachers in center field before hitting a home run, chief executive Darren Gee leaves a rich electronic record of anticipating opportunities, telegraphing his plans for Peyto and delivering high growth, profitable results. Expected volume growth of 23% in 2013 and proven reserves growth of 16% in 2012 drive our increase in estimated Net Present Value (NPV) to \$32 a share from \$27. A positive natural gas price trend multiplies the volume gains to deliver cash flow (Ebitda) growth of 59% in 2013 (see table [Financial Estimates](#) on page 2). The increase in reserves lengthens adjusted reserve life to support present value to cash flow multiple (PV/Ebitda) consistent with NPV of \$32 (see table [Present Value](#) on page 3). Practically any question relevant to the risk in Peyto stock has been addressed in Mr. Gee's Monthly Report on the company's website in written and statistical detail. Did the company's record spending in 2012 pay off? Mr. Gee thinks the new wells will generate an internal return of 24% a year over their life (see slide on page 3). Are the volume expectations reasonable? The company has analyzed its results for each year's program for more than ten years and, in our experience, usually delivers on projections given to investors. Until 2009, all of Peyto's wells were vertical and since 2010 all wells have been horizontal multi-fracs. Growth accelerated in 2010. Peyto's success is partly recognized in a McDep Ratio higher than the median while there remains potential for further appreciation (see [ISC-1](#) to [ISC-3](#) on pages 5-7).

Kurt H. Wulff, CFA



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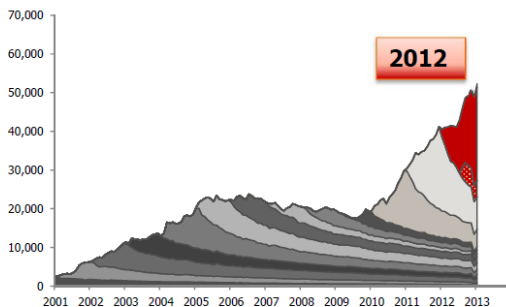
Peyto Exploration and Development Corp.									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/12</i>	<i>12/31/12</i>	<i>2012</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>2013E</i>	<i>Months</i>
									<i>3/31/14</i>
Volume									
Natural gas (bcf)	20.1	24.6	87.3	25.0	26.3	27.6	27.6	106.5	109.7
Natural Gas (mmcf/d)	221	267	239	278	289	300	300	292	300
Days	91	92	366	90	91	92	92	365	365
Oil (mmb)	0.4	0.5	1.7	0.5	0.5	0.6	0.6	2.2	2.3
Oil (mbd)	4.10	5.29	4.8	5.61	5.94	6.30	6.30	6.0	6.3
Total gas & oil (bcf)	22.3	27.5	97.8	28.0	29.5	31.1	31.1	119.8	123.5
Total gas & oil (mbd)	40.9	49.8	44.5	51.9	54.1	56.4	56.4	54.7	56.4
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	2.73	3.40	2.79	3.34	3.90	3.99	4.10	3.83	4.07
Currency (US\$/C\$)	1.00	1.01	1.00	0.98	0.98	0.98	0.98	0.98	0.98
Henry Hub (C\$/mmbtu)	2.73	3.37	2.78	3.42	4.00	4.09	4.20	3.93	4.17
Company (C\$/mcf)	2.67	3.31	2.62	3.35	3.92	4.01	4.12	3.87	4.09
Oil (\$/bbl)									
WTI Cushing (US\$)	102.93	88.18	94.16	94.35	94.84	95.09	94.09	94.59	94.20
WTI Cushing (C\$/bbl)	103.04	87.41	94.01	96.68	97.18	97.44	96.42	96.93	96.52
Company (C\$/bbl)	84.83	73.12	73.95	76.04	76.44	76.64	75.84	76.24	75.90
Total gas & oil (\$/mcf)	3.82	4.25	3.34	4.36	4.89	4.99	5.08	4.36	4.54
Revenue (\$mm)									
Natural Gas	53.7	81.3	228	83.8	103.1	110.9	113.9	412	449
Oil	31.7	35.6	129	38.4	41.3	44.4	44.0	168	175
Royalties	(8.8)	(9.2)	(31)	(12.2)	(14.4)	(15.5)	(15.8)	(58)	(62)
Total	76.5	107.7	327	110.0	130.0	139.8	142.1	522	561
Expense	9.9	13.2	46	15.9	18.9	20.3	20.6	76	81
Ebitda (\$mm)	66.6	94.5	281	94.0	111.2	119.5	121.5	446	480
Deprec., Deplet., & Amort.	40.0	49.4	172	47.6	50.2	52.9	52.9	204	210
Hedging and other	(13.7)	0.6	(42)	(5.0)	(5.0)	(5.0)	(5.0)	(20)	(20)
Ebit	40.4	44.5	150	51.4	66.0	71.7	73.6	263	290
Interest	5.1	5.4	21	5.4	5.4	5.4	5.4	22	22
Ebt	35.3	39.1	129	46.0	60.6	66.3	68.2	241	268
Income Tax	9.0	13.0	36	11.0	14.5	15.9	16.4	58	64
Net Income (\$mm)	26.3	26.1	93	35.0	46.0	50.4	51.8	183	204
Shares (millions)	138.3	145.0	141	145	145	145	145	145	145
Per share (\$)	0.19	0.18	0.66	0.24	0.32	0.35	0.36	1.26	1.41
Ebitda Margin - O&G	87%	88%	86%	86%	86%	86%	86%	86%	86%
Tax Rate	26%	33%	28%	24%	24%	24%	24%	24%	24%

Peyto Exploration and Development Corp.					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	337	10.0	12.2	4,100	77%
Oil	131	15.4	9.3	1,220	23%
	468	10.6	11.4	5,320	100%
Debt (US\$mm)					680
Net Present Value (US\$mm)					4,640
Shares (mm)					145
Net Present Value - Standard Estimate (US\$/sh)					32
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					34

Peyto's Returns

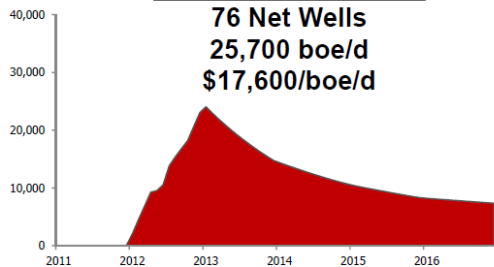
Returns Driven – Organic Activity

"The 2012 organic capital program (incl. wells, land, seismic & facilities) generated 24% IRR and turned \$373 MM into \$748MM PVs (\$578M PV₁₀) based on the engineering evaluation."



2012 Capital Program

76 Net Wells
25,700 boe/d
\$17,600/boe/d



\$373M → \$748M

Net Capital to PV₅

17%

Production/share growth*

13%

2P Reserves/share growth*

24%

IRR

22

3/15/2013

*Production and reserves per share growth includes the ONR acquisition.
Based on IPC is InSite Petroleum Consultants (formerly Paddock Lindstrom & Ass.) - Dec 31, 2012 Reserve Report.
Net Capital for 2012 equals \$452MM total capital investment less \$79MM of operating income generated in 2012



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Table ISC-1										
McDep Income and Small Cap Energy Portfolio										
Debt, Segments, Cash Flow, Income and McDep Ratio										
		Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.			
B = Buy	27-Mar	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
PDC Energy	PDCE	49.73	1.39	2,140	30	70	10.3	-	-	1.00
Range Resources	RRC B	82.08	1.25	16,480	68	32	15.2	0.16	0.2	0.93
Halcón Resources	HK	7.79	2.74	4,870	14	86	6.3	-	-	0.91
Continental Resources (32%)	CLR B	87.56	1.23	6,390	21	79	7.0	-	-	0.90
Peyto Exploration and Development Corp	PEYUF	26.57	1.18	4,540	77	23	9.7	0.71	2.7	0.85
Berry Petroleum Company	BRY	46.15	1.72	4,380	12	88	6.7	0.32	0.7	0.77
Birchcliff Energy Ltd.	BIREF B	8.38	1.37	1,870	67	33	9.7	-	-	0.76
Denbury Resources Inc.	DNR	18.99	1.35	9,790	5	95	6.1	-	-	0.74
Cimarex Energy Company	XEC B	75.74	1.19	7,840	41	59	5.6	0.56	0.7	0.73
Whiting Petroleum Corporation	WLL B	50.84	1.39	8,390	6	94	4.4	-	-	0.65
<i>Total or Median</i>			<i>1.36</i>	<i>66,700</i>	<i>26</i>	<i>74</i>	<i>6.8</i>			<i>0.81</i>
Leveraged Cash Payers										
Linn Energy, LLC	LINE	37.19	1.67	14,460	43	57	11.8	2.90	7.8	1.13
Vanguard Natural Resources, LLC	VNR	28.48	1.61	2,430	33	67	11.5	2.40	8.4	1.08
Legacy Reserves L.P.	LGCY	27.27	1.55	2,540	19	81	9.9	2.28	8.4	0.94
Enerplus Corporation	ERF	14.73	1.60	4,600	32	68	6.4	1.05	7.2	0.79
<i>Total or Median</i>			<i>1.60</i>	<i>24,000</i>	<i>32</i>	<i>68</i>	<i>10.7</i>		<i>8.1</i>	<i>1.01</i>
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	23.10	TL	1,590	27	73	11.1	1.64	7.1	1.10
Dorchester Minerals, L.P.	DMLP B	23.53	TL	720	61	39	11.4	2.01	8.5	0.87
Enduro Royalty Trust (40%)	NDRO	16.02	BL	210	48	52	7.6	1.59	9.9	0.76
San Juan Basin Royalty Trust	SJT B	15.39	BL	720	100	-	9.4	1.09	7.1	0.73
Sabine Royalty Trust	SBR	46.31	TL	680	45	55	11.4	4.07	8.8	0.71
Hugoton RoyaltyTrust	HGT	9.54	BL	380	89	11	8.6	0.45	4.7	0.68
Cross Timbers Royalty Trust	CRT	29.22	TL	180	80	20	12.2	2.13	7.3	0.66
Permian Basin RT	PBT	12.30	TL	570	31	69	7.5	0.94	7.6	0.61
Mesa RoyaltyTrust	MTR	24.25	BL	45	75	25	9.0	2.18	9.0	0.60
<i>Total or Median</i>				<i>5,100</i>	<i>61</i>	<i>39</i>	<i>9.4</i>		<i>7.6</i>	<i>0.71</i>
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 (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.										
Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		27-Mar 2013	(mm)				
Small Cap Independent Producers								
PDC Energy	PDCE		49.73	31.0	1,540	50.00	0.28	1.00
Range Resources	RRC	B	82.08	160.0	13,130	90.00	0.19	0.93
Halcón Resources	HK		7.79	228.0	1,780	10.00	0.58	0.91
Continental Resources (32%)	CLR	B	87.56	59.2	5,180	100.00	0.17	0.90
Peyto Exploration and Development Corp.	PEYUF		26.57	145.0	3,850	32.00	0.13	0.85
Berry Petroleum Company	BRY		46.15	55.3	2,550	70.00	0.32	0.77
Birchcliff Energy Ltd.	BIREF	B	8.38	163.0	1,370	12.00	0.20	0.76
Denbury Resources Inc.	DNR		18.99	383.0	7,270	28.00	0.19	0.74
Cimarex Energy Company	XEC	B	75.74	86.7	6,570	110.00	0.12	0.73
Whiting Petroleum Corporation	WLL	B	50.84	119.0	6,050	88.00	0.18	0.65
<i>Total or Median</i>					49,290		0.19	0.81
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.19	233.0	8,670	30.00	0.45	1.13
Vanguard Natural Resources, LLC	VNR		28.48	53.1	1,510	25.00	0.41	1.08
Legacy Reserves L.P.	LGCY		27.27	60.0	1,640	30.00	0.33	0.94
Enerplus Corporation	ERF		14.73	196.0	2,890	21.00	0.30	0.79
<i>Total or Median</i>					14,710		0.37	1.01
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		23.10	66.2	1,530	21.00	0.04	1.10
Dorchester Minerals, L.P.	DMLP	B	23.53	30.7	720	27.00	-	0.87
Enduro Royalty Trust (40%)	NDRO		16.02	13.2	210	21.00	-	0.76
San Juan Basin Royalty Trust	SJT	B	15.39	46.6	720	21.00	-	0.73
Sabine Royalty Trust	SBR		46.31	14.6	680	65.00	-	0.71
Hugoton Royalty Trust	HGT		9.54	40.0	380	14.00	-	0.68
Cross Timbers Royalty Trust	CRT		29.22	6.0	180	44.00	-	0.66
Permian Basin RT	PBT		12.30	46.6	570	20.00	-	0.61
Mesa Royalty Trust	MTR		24.25	1.9	45	40.00	-	0.60
<i>Total or Median</i>					5,040			0.71
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 \$100 a barrel for oil and \$6 a million btu for natural gas.								



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Table ISC-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		27-Mar 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	82.08		-	14.0	16.4	15.2
PDC Energy	PDCE		49.73		-	16.7	10.4	10.3
Birchcliff Energy Ltd.	BIREF	B	8.38		-	19.5	12.7	9.7
Peyto Exploration and Development Corp	PEYUF		26.57		0.25	10.6	11.4	9.7
Continental Resources (32%)	CLR	B	87.56		-	10.8	7.8	7.0
Berry Petroleum Company	BRY		46.15		-	12.1	8.7	6.7
Halcón Resources	HK		7.79		-	4.7	6.9	6.3
Denbury Resources Inc.	DNR		18.99		-	14.1	8.3	6.1
Cimarex Energy Company	XEC	B	75.74		-	7.9	7.8	5.6
Whiting Petroleum Corporation	WLL	B	50.84		-	8.8	6.7	4.4
	<i>Median</i>					11.4	8.5	6.8
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.19		1.01	13.9	10.4	11.8
Vanguard Natural Resources, LLC	VNR		28.48		1.02	13.2	10.6	11.5
Legacy Reserves L.P.	LGCY		27.27		0.80	11.0	10.5	9.9
Enerplus Corporation	ERF		14.73		0.40	6.7	8.1	6.4
	<i>Median</i>					12.1	10.5	10.7
RTF Cash Payers								
Cross Timbers Royalty Trust	CRT		29.22	95	0.90	13.0	18.5	12.2
Sabine Royalty Trust	SBR		46.31	100	1.00	9.1	16.0	11.4
Dorchester Minerals, L.P.	DMLP	B	23.53	77	0.97	6.4	13.0	11.4
Freehold Royalties Ltd.	FRHLF		23.10	88	0.79	4.6	10.1	11.1
San Juan Basin Royalty Trust	SJT	B	15.39		0.67	10.3	12.9	9.4
Mesa RoyaltyTrust	MTR		24.25		0.81	7.8	14.8	9.0
Hugoton RoyaltyTrust	HGT		9.54		0.40	12.4	12.5	8.6
Enduro Royalty Trust (40%)	NDRO		16.02		0.76	7.2	10.0	7.6
Permian Basin RT	PBT		12.30	58	0.57	12.7	12.1	7.5
	<i>Median</i>					9.1	12.9	9.4
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, 2014; 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).								

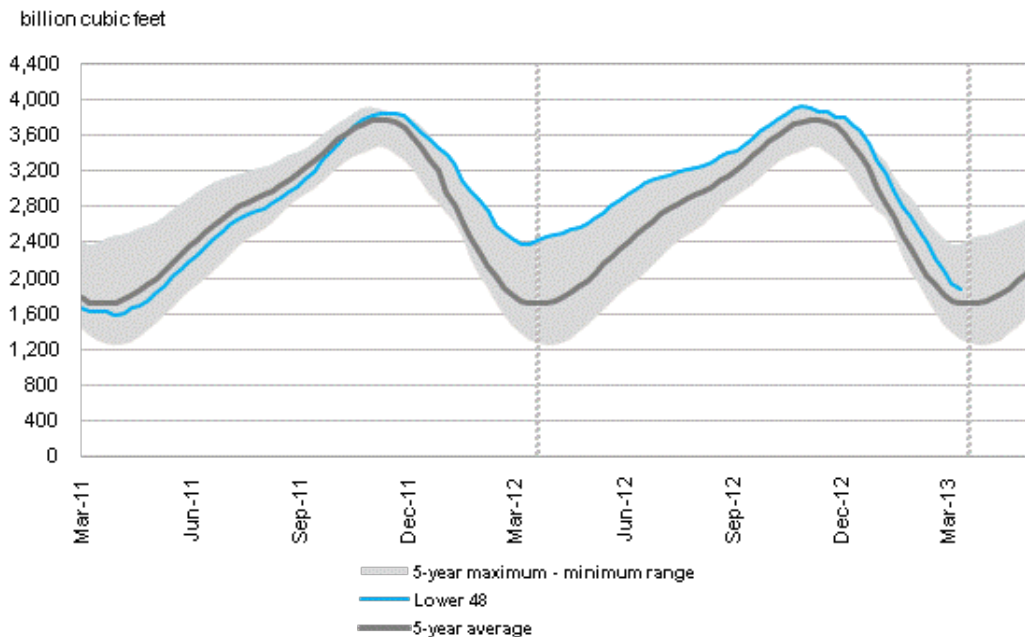


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Working gas in underground storage compared with the 5-year maximum and minimum



 Source: U.S. Energy Information Administration

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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