



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 30, 2009

COSWF Priced for a Deal

Summary and Recommendation

Buy-recommended **Canadian Oil Sands Trust (COSWF)** appears priced at a discount to facilitate a successful offering of new units to finance the purchase of ConocoPhillips' 9% interest in Syncrude. Its low McDep Ratio stands out and it was a rare stock to decline yesterday in a strong market. We don't know that the confidential preparations are underway for such a transaction, but they might as well be because a discount to move new supply of stock seems to have already occurred. As a result, investors can reckon that COSWF stock price can now go up if there is no deal or if there is a successful deal. Past experience suggests such a deal could be successful though past experience does not guarantee future results. In early 2003, COSWF increased its units outstanding by 36% to boost its ownership in Syncrude by 45% in acquiring Encana's 10% of Syncrude (see [February 6, 2003; Canadian Oil Sands Trust Increases Ownership in Syncrude, http://www.mcdep.com/cos30206.htm](http://www.mcdep.com/cos30206.htm)). We opined then that we would rather be the buyer of Encana's Syncrude asset than the seller even though we were recommending Encana stock. The same opinion applies today. We would rather be the buyer of ConocoPhillips' Syncrude asset than the seller even though we are recommending ConocoPhillips stock. Meanwhile the current hypothetical deal would be smaller in relative terms involving about a 25% increase in Syncrude ownership and perhaps a 20% increase in units. A potential plus this time could be a U.S. listing when COSWF loses trust status in 2011. Meanwhile it took about six months of patience after the deal in 2003 until oil prices started a long climb and COSWF stock climbed faster.

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	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)		
	H = Hold									
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	16.99	1.61	11,200	27	73	1.71	10.1	0.93	
Peyto Energy Trust	PEYUF	11.56	1.27	1,690	78	22	1.37	11.8	0.91	
Pengrowth Energy Trust	PGH	9.55	1.76	4,400	34	66	0.80	8.4	0.79	
Enerplus Resources Fund	ERF	22.84	1.24	4,700	48	52	2.05	9.0	0.76	
Canadian Oil Sands Trust	COSWF B	27.25	1.11	14,600		100	1.59	5.8	0.67	
<i>Total or Median</i>				36,600					0.79	
Small Cap Independent Producers										
Cimarex Energy Company	XEC B	41.47	1.25	4,240	62	38	0.24	0.6	0.92	
Bery Petroleum Company	BRY	27.61	1.92	2,380	31	69	0.30	1.1	0.88	
Encore Acquisition Company	EAC B	39.61	1.82	3,770	22	78	-	-	0.87	
Birchcliff Energy Ltd. (US\$)	BIREF	7.01	1.22	1,070	62	38	-	-	0.81	
<i>Total or Median</i>				11,460					0.88	
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	33.78	1.00	200	64	36	2.07	6.1	1.21	
Freehold Royalty Trust (US\$)	FRHLF	14.26	1.21	860	25	75	1.37	9.6	0.86	
Dorchester Minerals, L.P.	DMLP B	23.00	1.00	690	63	38	1.51	6.6	0.85	
Sabine Royalty Trust	SBR	41.89	1.00	610	38	63	3.13	7.5	0.76	
Permian Basin RT	PBT	13.31	1.00	620	27	73	0.97	7.3	0.74	
<i>Total or Median</i>				2,980					0.85	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	25.15	1.50	4,290	38	62	2.52	10.0	1.37	
Encore Energy Partners, L.P. (52%)	ENP	18.33	1.30	560	24	76	2.15	11.7	1.06	
San Juan Basin Royalty Trust	SJT B	17.98	1.00	840	100	-	1.28	7.1	0.86	
Mesa Royalty Trust	MTR	36.00	1.00	67	75	25	2.72	7.5	0.75	
Hugoton Royalty Trust	HGT B	16.95	1.00	680	89	11	1.17	6.9	0.74	
<i>Total or Median</i>				6,440					0.86	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				42,900	40	60			0.90	
<i>Equal Weighting</i>					50	50			0.89	
<i>Equal Weighted Buys</i>					52	48			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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October 30, 2009

Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		29-Oct 2009	(mm)				
Canadian Income Trusts (US\$)								
	PWE		16.99	411.0	6,980	19.00	0.35	0.93
	PEYUF		11.56	115.0	1,330	13.00	0.20	0.91
	PGH		9.55	260.0	2,480	14.00	0.34	0.79
	ERF		22.84	166.3	3,800	32.00	0.15	0.76
	COSWF	B	27.25	484.0	13,190	42.00	0.06	0.67
	<i>Total or Median</i>				27,800		0.20	0.79
Small Cap Independent Producers								
	XEC	B	41.47	82.0	3,400	46.00	0.18	0.92
	BRY		27.61	44.8	1,240	35.00	0.42	0.88
	EAC	B	39.61	52.3	2,070	50.00	0.39	0.87
	BIREF		7.01	124.0	870	9.00	0.15	0.81
	<i>Total or Median</i>				7,580		0.29	0.88
Top Line Cash Payers								
	CRT		33.78	6.0	200	28.00	-	1.21
	FRHLF		14.26	49.6	710	17.00	0.15	0.86
	DMLP	B	23.00	29.8	690	27.00	-	0.85
	SBR		41.89	14.6	610	55.00	-	0.76
	PBT		13.31	46.6	620	18.00	-	0.74
	<i>Total or Median</i>				2,830			0.85
Bottom Line Cash Payers								
	LINE		25.15	114.0	2,870	15.00	0.45	1.37
	ENP		18.33	23.2	430	17.00	0.25	1.06
	SJT	B	17.98	46.6	840	21.00	-	0.86
	MTR		36.00	1.9	67	48.00	-	0.75
	HGT	B	16.95	40.0	680	23.00	-	0.74
	<i>Total or Median</i>				4,890			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.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 30, 2009

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		29-Oct 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		11.56		1.30	18.0	12.4	11.3
	PWE		16.99		0.76	8.2	8.4	7.8
	COSWF	B	27.25		0.43	21.8	11.3	7.6
	ERF		22.84		0.59	9.4	9.1	6.9
	PGH		9.55		0.47	7.9	8.3	6.5
	<i>Median</i>					9.4	9.1	7.6
Small Cap Independent Producers								
	BIREF		7.01		-	10.1	12.9	10.5
	EAC	B	39.61		-	11.7	8.0	7.0
	BRY		27.61		-	12.1	7.7	6.7
	XEC	B	41.47		-	7.8	5.6	5.2
	<i>Median</i>					10.9	7.8	6.9
Top Line Cash Payers								
	CRT		33.78	84	0.94	13.3	12.6	15.3
	SBR		41.89	100	1.00	10.2	17.6	13.4
	DMLP	B	23.00	64	0.87	8.2	15.6	13.3
	PBT		13.31	32	0.89	11.7	16.6	12.3
	FRHLF		14.26	71	0.71	6.5	8.9	7.7
	<i>Median</i>					10.2	15.6	13.3
Bottom Line Cash Payers								
	LINE		25.15		2.15	18.2	12.8	17.6
	MTR		36.00		0.85	7.8	15.1	11.3
	SJT	B	17.98		0.78	9.1	12.8	10.9
	HGT	B	16.95		0.74	13.3	14.5	10.7
	ENP		18.33		1.09	13.1	8.6	9.1
	<i>Median</i>					13.1	12.8	10.9
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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 30, 2009

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