

Oil and Gas Income Stocks

A Weekly Analysis

April 11, 2008



Dorchester Minerals, L.P. High Quality Inflation-Protected Income

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$m)</i>	85
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	70
<i>Price (US\$/sh)</i>	23.12	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/10/08	<i>Adjusted Reserves/Production NTM</i>	8.6
<i>Shares (mm)</i>	28.24	<i>EV/Ebitda</i>	7.7
<i>Market Capitalization (US\$m)</i>	653	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	653	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	8.84
<i>Present Value (PV) (US\$m)</i>	762	<i>Present Value Proven Reserves(US\$/boe)</i>	55.39
<i>Net Present Value (US\$/unit)</i>	27	<i>Present Value Proven Reserves(US\$/mcf)</i>	9.23
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.27
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	10
<i>Distribution Yield (%/year)</i>	13.1	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.02
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 share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$80 a barrel and natural gas, \$11 a million btu.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

Units of **Dorchester Minerals (DMLP)** offer high estimated distribution yield and low McDep Ratio among the 14 oil and gas income stocks in our weekly analysis. When the Henry Hub natural gas price index was \$6.87 a million btu in 2007, income distributions were \$2.01 a unit. Recent futures prices are \$10.23 for the year ended March 31, 2008, up 49%, and our estimate of distributions for the same period is \$3.02, up 50% (see table, Distributable Income). Most of our estimated Net Present Value (NPV) of \$27 a unit is supported by the relationship of cash flow multiple and reserve life (see table, Functional Cash Flow and Present Value). The difference is more than justified by DMLP's conservative reporting that excludes commonly reported undeveloped reserves and by the low-cost, preferential status of valuable royalty interests and mineral rights. The partnership has a treasure trove of documents conveying mineral rights that in some cases date from the 19th century. In the hot Fayetteville Shale trend in Arkansas, DMLP's mineral rights have been turned into royalty interests and working interests that are just beginning to produce.

Hidden Value in Mineral Rights

Mineral owners typically are the original holders of subsurface oil and gas rights that are usually leased by operating companies. DMLP is the successor owner of mineral rights acquired by pioneers of the oil and gas industry throughout major producing areas of the U.S. Most of its more than 300,000 net acres are not now under lease to operating

Oil and Gas Income Stocks

A Weekly Analysis

April 11, 2008



companies, but new technology and higher oil and gas price are sparking interest in a broad range of plays. Some of the acreage may be prospective for natural gas in the Marcellus shale in Appalachia as well as for oil in the Bakken formation in North Dakota, to mention two areas in the news. Two years ago the partnership leased 10,000 acres in the Fayetteville Shale Trend of Arkansas to operating companies who are actively drilling.

The Fayetteville leases may lead to natural gas reserves of some 120 billion cubic feet (bcf) to be developed over perhaps ten years. DMLP has retained a 25% royalty interest that would give it the revenue from 25% of production without any obligation to pay development or operating costs. Royalty interests have a premium value, say, \$2 a thousand cubic feet in this case for purposes of analysis. In that event, the Fayetteville royalty interest may be worth \$2 a unit to DMLP.

The remaining 90 bcf in our illustration constitutes the working interest through which the operating company earns its return. On two thirds of its Fayetteville land, DMLP retained the option to participate in the working interest at the rate of about 25%. Thus in our illustration, DMLP might have a 25% working interest in two-thirds of 90 bcf for a net 15 bcf worth perhaps a nominal \$0.50 a unit.

When DMLP elects to participate as a working interest owner, the general partner (GP) advances the funds for investment and recoups that investment from production before any cash is distributed to the limited partners. In actual practice the GP rolls over recoupment into new investment such that there is a rapidly building backlog of production about to generate cash and reserves for limited partners that does not yet show in the financial statements of the partnership. At the end of 2007, the GP made a cumulative investment of \$7 million in new wells on the limited partners' behalf.

Once royalty interests start producing, the cash flow stream can go on indefinitely in the higher quality properties. Royalty interest accounted for 47% of last year's natural gas production and 95% of oil production. Those properties are analogous to the assets of **Sabine Royalty Trust (SBR)**, which are still pumping out record cash flow more than 25 years after SBR was formed.

All royalty cash flow is "free" cash flow after maintenance investment. Similarly, unlevered cash flow multiples (EV/Ebitda) will look high for royalty production because no portion of the cash flow needs to be held back for reinvestment to maintain production. In their own wisdom, income investors may take a simpler approach and reckon that if DMLP is paying 13% and it has sound operations and capable management, it ought to be a decent investment.

Kurt H. Wulff, CFA

Oil and Gas Income Stocks

A Weekly Analysis

April 11, 2008



Dorchester Minerals, L.P.									
Distributable Income									
									<i>Next</i>
									<i>Twelve</i>
	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Months</i>
	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>3/31/09</i>
Volume									
Natural Gas (bcf)	2.07	7.76	1.93	1.93	1.95	1.95	7.78	1.91	7.76
Natural Gas (mmcf)	22.5	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2
Days	92	365	91	91	92	92	366	90	365
Oil (mb)	0.07	0.3	0.08	0.08	0.08	0.08	0.3	0.08	0.3
Oil (mbd)	0.80	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87
Total (bcfe)	2.5	9.7	2.4	2.4	2.4	2.4	9.7	2.4	9.7
Total (mmcf)	27	26	26	26	26	26	26	26	26
Price									
Henry Hub (\$/mmbtu)	6.97	6.87	8.02	9.73	10.00	10.36	9.53	10.82	10.23
Differential (\$/mmbtu)	0.53	0.24	0.28	0.34	0.70	0.73	0.51	0.58	0.59
Company (\$/mcf)	6.45	6.63	7.74	9.39	9.30	9.64	9.02	10.24	9.64
WTI Cushing (\$/bbl)	90.67	72.28	98.01	108.91	107.24	105.47	104.91	103.89	106.38
Differential	4.10	4.80	6.51	7.24	7.13	7.01	6.97	6.90	7.06
Company	86.58	67.48	91.49	101.67	100.12	98.46	97.94	97.00	99.32
Total (\$/mcf)	7.86	7.54	9.21	10.87	10.75	10.97	10.45	11.41	11.00
Revenue (\$mm)									
Natural Gas	13.3	51.5	15.0	18.2	18.2	18.8	70.1	19.6	74.8
Oil	6.4	21.3	7.2	8.0	8.0	7.8	31.0	7.6	31.4
Other	(1.4)	(7.4)	(2.3)	(2.7)	(2.7)	(2.7)	(10.3)	(2.8)	(10.8)
Total	18.3	65.4	19.9	23.5	23.5	24.0	90.9	24.4	95.3
Expense									
Operating	1.0	3.9	1.1	1.3	1.3	1.4	5.1	1.4	5.4
General and administrative	1.1	3.6	1.1	1.1	1.1	1.1	4.6	1.1	4.6
Total	2.2	7.5	2.3	2.5	2.5	2.5	9.7	2.5	10.0
Ebitda									
Deprec., Deplet., & Amort.	3.9	15.6	4.8	4.8	4.9	4.9	19.4	4.8	19.3
Other Non Cash	(0.0)	(0.7)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)
Ebit									
	12.2	43.1	12.8	16.2	16.2	16.6	61.8	17.1	66.1
Ebt									
	12.2	43.1	12.8	16.2	16.2	16.6	61.8	17.1	66.1
General Partner	0.4	1.3	0.4	0.5	0.5	0.5	1.9	0.5	2.0
Net Income (\$mm)									
	11.9	41.8	12.5	15.7	15.7	16.1	60.0	16.6	64.1
Per Share (\$)	0.42	1.48	0.44	0.56	0.56	0.57	2.12	0.59	2.27
Shares (millions)									
	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Distribution (\$/unit)									
	0.51	2.01	0.62	0.74	0.74	0.76	2.87	0.77	3.02

Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	60	7.9	9.2	550	72%
Oil	25	11.4	8.4	210	28%
	85	8.6	8.9	760	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					760
Shares (mm)					28
Net Present Value - Standard Estimate (US\$/sh)					27
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					24

Oil and Gas Income Stocks

A Weekly Analysis

April 11, 2008



Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		10-Apr 2008	(mm)				
U.S. Royalty Trusts								
Permian Basin RT	PBT		24.80	46.6	1,160	18.00	-	1.38
Sabine Royalty Trust	SBR		54.29	14.6	790	48.00	-	1.13
Cross Timbers Royalty Trust	CRT		50.76	6.0	310	47.00	-	1.08
Mesa RoyaltyTrust	MTR		70.30	1.9	130	70.00	-	1.00
San Juan Basin Royalty Trust	SJT	B	37.95	46.6	1,770	40.00	-	0.95
Hugoton RoyaltyTrust	HGT	B	28.60	40.0	1,140	34.00	-	0.84
<i>Total or Median</i>					5,300			1.04
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		19.26	247.0	4,760	19.00	0.27	1.01
Canadian Oil Sands Trust	COSWF	B	43.39	479.0	20,780	45.00	0.05	0.97
Enerplus Resources Fund	ERF		44.35	153.0	6,790	52.00	0.16	0.88
Penn West Energy Trust	PWE	B	28.72	372.6	10,700	37.00	0.23	0.83
<i>Total or Median</i>					43,000		0.19	0.92
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.45	179.9	10,150	17.00	0.56	2.03
Encore Energy Partners, L.P. (32%)	ENP		20.10	10.2	210	20.00	0.24	1.00
Linn Energy, LLC	LINE		22.66	114.0	2,580	27.00	0.34	0.89
Dorchester Minerals, L.P.	DMLP		23.12	28.2	650	27.00	-	0.86
<i>Total or Median</i>					13,600		0.29	0.95
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM (%)
	Symbol/ Rating		10-Apr 2008	NTM	NTM	NTM	NTM	
U.S. Royalty Trusts								
Permian Basin RT	PBT		24.80	8.2	7.1	9.8	10.5	9.5
Sabine Royalty Trust	SBR		54.29	9.4	8.4	9.5	9.5	10.6
Cross Timbers Royalty Trust	CRT		50.76	13.4	8.7	9.4	9.8	10.2
San Juan Basin Royalty Trust	SJT	B	37.95	10.2	8.7	8.3	10.1	9.9
Mesa RoyaltyTrust	MTR		70.30	21.1	8.1	8.1	9.2	10.8
Hugoton RoyaltyTrust	HGT	B	28.60	13.1	8.0	6.7	8.6	11.6
<i>Median</i>				11.6	8.2	8.8	9.7	10.4
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	43.39	23.1	8.8	8.5	10.0	8.1
Pengrowth Energy Trust	PGH		19.26	8.7	6.2	6.3	12.6	13.8
Enerplus Resources Fund	ERF		44.35	9.6	7.0	6.1	9.0	11.2
Penn West Energy Trust	PWE	B	28.72	7.3	6.0	5.0	11.8	14.0
<i>Median</i>				9.2	6.6	6.2	10.9	12.5
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.45	8.5	7.9	15.9	29.4	6.5
Linn Energy, LLC	LINE		22.66	19.1	9.4	8.4	(3.4)	11.1
Encore Energy Partners, L.P.	ENP		20.10	12.4	7.7	7.8	(45.4)	7.7
Dorchester Minerals, L.P.	DMLP		23.12	8.6	8.9	7.7	10.2	13.1
<i>Median</i>				10.5	8.4	8.1	3.4	9.4
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

Oil and Gas Income Stocks

A Weekly Analysis

April 11, 2008



Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural					
		Revenue	Gas/		Dist/			Dist.
	Symbol	Royalty	Ebitda	Dist/	Equity	NTM Distribution		Yield
		(%)	(%)	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)
U.S. Royalty Trusts								
Permian Basin RT	PBT	32	37	0.93	0.93	110	2.35	9.5
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	175	3.75	9.9
Cross Timbers Royalty Trust	CRT	84	71	0.95	0.95	31	5.15	10.2
Sabine Royalty Trust	SBR	100	57	1.00	1.00	84	5.73	10.6
Mesa Royalty Trust	MTR	-	69	0.88	0.88	14	7.61	10.8
Hugoton Royalty Trust	HGT	-	88	0.78	0.78	133	3.33	11.6
<i>Total or Median</i>			70	0.90	0.90	500		10.4
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(7)	0.65	0.68	1,675	3.50	8.1
Enerplus Resources Fund	ERF	-	48	0.56	0.67	760	4.96	11.2
Pengrowth Energy Trust	PGH	-	38	0.63	0.87	657	2.66	13.8
Penn West Energy Trust	PWE	-	34	0.50	0.66	1,498	4.02	14.0
<i>Total or Median</i>			36	0.60	0.67	4,600		12.5
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners,	KMP		-	0.75	1.70	662	3.68	6.5
Encore Energy Partners, L.P.	ENP		26	0.46	0.60	16	1.55	7.7
Linn Energy, LLC	LINE		67	0.58	0.88	287	2.52	11.1
Dorchester Minerals, L.P.	DMLP	64	70	1.00	1.00	85	3.02	13.1
<i>Total or Median</i>			47	0.67	0.94	1,100		9.4
NTM = Next Twelve Months Ended March 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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 does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

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.