



False Alarm

Summary and Recommendation

A sharp interest rate cut by the U.S. Federal Reserve Bank and apparent action on fiscal stimulus by the U.S. government strengthen the outlook for energy prices and the distribution prospects for low McDep Ratio income stocks. Ironically, a false alarm may have triggered steep global stock market declines that prompted Federal action. Massive selling of stocks by a French bank after the discovery of a monumental trading loss seemed to be the extraneous catalyst. One reassuring factor was that the violence of stock markets did not seem to carry over as strongly to commodity markets. Six-year crude oil is currently quoted at \$85 a barrel, down \$0.35 on the week, and down from a high of \$90 early in 2008, while remaining in a well-defined upward trend above the 40-week average of \$76. Six-year natural gas currently at \$8.11 a million btu oscillates around a 40-week average of \$8.11. The oil equivalent of more than \$14 points to future potential for natural gas. U.S. Royalty Trusts have no debt and are expected to distribute 8 to 12% of stock price over the next twelve months. Canadian trusts with low to moderate debt are expected to distribute 9 to 16% in the year ahead.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 24-Jan 2008</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Permian Basin RT	PBT	16.76	46.6	780	18.00	-	0.93
Cross Timbers Royalty Trust	CRT	42.49	6.0	260	47.00	-	0.90
San Juan Basin Royalty Trust	SJT	B	35.52	46.6	1,660	40.00	0.89
Sabine Royalty Trust	SBR	40.24	14.6	590	48.00	-	0.84
Mesa RoyaltyTrust	MTR	55.80	1.9	100	70.00	-	0.80
Hugoton RoyaltyTrust	HGT	B	24.57	40.0	980	34.00	0.72
<i>Total or Median</i>				<i>4,400</i>			<i>0.86</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	16.90	247.0	4,170	19.00	0.24	0.92
Penn West Energy Trust	PWE	B	25.47	280.0	7,130	37.00	0.28
Canadian Oil Sands Trust	COSWF	B	34.16	479.0	16,360	45.00	0.06
Enerplus Resources Fund	ERF	37.08	129.4	4,800	52.00	0.13	0.75
<i>Total or Median</i>				<i>32,500</i>		<i>0.19</i>	<i>0.77</i>
U.S. Master Limited Partnerships (MLPs)							
Kinder Morgan Energy Partners, L.P.	KMP	S	55.94	179.4	10,040	17.00	0.56
Encore Energy Partners, L.P. (39%)	ENP	19.50	12.5	240	20.00	0.24	0.98
Linn Energy, LLC	LINE	22.36	114.0	2,550	27.00	0.30	0.88
Dorchester Minerals, L.P.	DMLP	19.36	28.2	550	27.00	-	0.72
<i>Total or Median</i>				<i>13,400</i>		<i>0.27</i>	<i>0.93</i>

B = Buy, S = Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating	Price (\$/sh) 24-Jan 2008	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	B	35.52	10.3	11.6	10.3	12.5	8.0
Cross Timbers Royalty Trust	CRT		42.49	13.1	10.9	9.9	10.5	9.5
Sabine Royalty Trust	SBR		40.24	9.2	9.9	8.3	8.3	12.0
Permian Basin RT	PBT		16.76	8.2	8.9	8.3	9.4	10.7
Mesa RoyaltyTrust	MTR		55.80	21.1	10.0	8.0	9.1	11.0
Hugoton RoyaltyTrust	HGT	B	24.57	13.6	10.9	7.9	11.1	9.0
	<i>Median</i>			<i>11.7</i>	<i>10.4</i>	<i>8.3</i>	<i>9.9</i>	<i>10.1</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	34.16	23.2	10.5	8.1	9.7	9.5
Pengrowth Energy Trust	PGH		16.90	7.4	6.8	6.2	16.0	15.6
Enerplus Resources Fund	ERF		37.08	9.7	7.9	5.9	9.4	13.2
Penn West Energy Trust	PWE	B	25.47	7.4	6.0	4.6	11.6	15.6
	<i>Median</i>			<i>8.6</i>	<i>7.3</i>	<i>6.1</i>	<i>10.6</i>	<i>14.4</i>
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.94	7.9	7.8	15.8	29.0	6.6
Linn Energy, LLC	LINE		22.36	20.8	13.7	12.0	33.2	10.2
Encore Energy Partners, L.P.	ENP		19.50	12.4	9.5	9.3	88.9	7.9
Dorchester Minerals, L.P.	DMLP		19.36	9.2	11.4	8.2	12.2	12.2
	<i>Median</i>			<i>10.8</i>	<i>10.4</i>	<i>10.7</i>	<i>31.1</i>	<i>9.1</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)	
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	133	2.85	8.0
Hugoton RoyaltyTrust	HGT	-	87	0.71	0.71	89	2.21	9.0
Cross Timbers Royalty Trust	CRT	84	66	0.94	0.94	24	4.04	9.5
Permian Basin RT	PBT	35	34	0.89	0.89	83	1.79	10.7
Mesa RoyaltyTrust	MTR	-	65	0.88	0.88	11	6.14	11.0
Sabine Royalty Trust	SBR	100	52	1.00	1.00	71	4.84	12.0
	<i>Total or Median</i>		<i>65</i>	<i>0.88</i>	<i>0.88</i>	<i>400</i>		<i>10.1</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(7)	0.72	0.76	1,562	3.26	9.5
Enerplus Resources Fund	ERF	-	38	0.65	0.74	635	4.91	13.2
Pengrowth Energy Trust	PGH	-	36	0.71	0.94	649	2.63	15.6
Penn West Energy Trust	PWE	-	30	0.46	0.64	1,112	3.97	15.6
	<i>Total or Median</i>		<i>33</i>	<i>0.68</i>	<i>0.75</i>	<i>4,000</i>		<i>14.4</i>
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.75	1.70	660	3.68	6.6
Encore Energy Partners, L.P.	ENP	-	20	0.56	0.73	19	1.55	7.9
Linn Energy, LLC	LINE	-	66	0.80	1.15	260	2.28	10.2
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	67	2.36	12.2
	<i>Total or Median</i>		<i>43</i>	<i>0.78</i>	<i>1.08</i>	<i>1,000</i>		<i>9.1</i>

NTM = Next Twelve Months Ended December 31, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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