



Oil & Gas Income Stocks

A Weekly Analysis

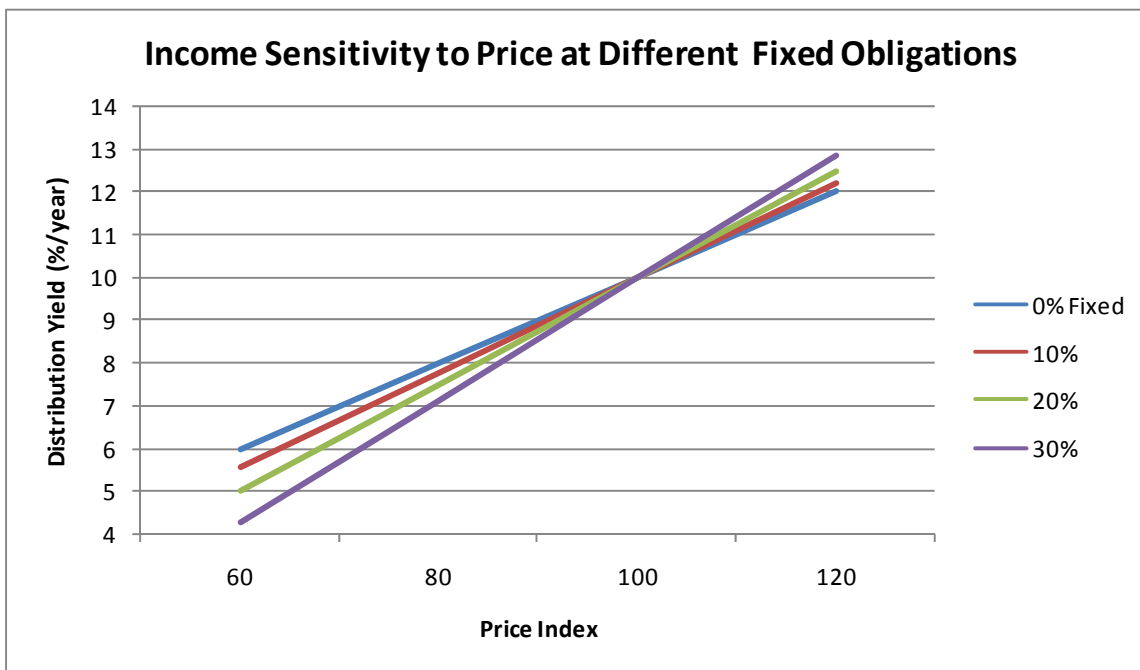
September 26, 2008

Income Sensitivity to Oil and Gas Price

Summary and Recommendation

In this world of excessive leverage, the sensitivity of income distributions to oil and gas price may appear surprisingly modest for oil and gas income investors. At a minimum, if the price of oil or gas is going to go up or down 20%, the ability to pay income would expand or contract by the same percentage. That is the relationship for stocks that receive cash from revenue royalties, have no debt, and have no hedges including **Cross Timbers Royalty Trust (CRT)** and **Dorchester Minerals (DMLP)**. Other stocks may be somewhat more sensitive depending mostly on the level of fixed obligations that must be met before distributing income (see chart below). The higher the amount of fixed obligation, the more the distribution would change with commodity price. For mature, conventional production the fixed component may be 10%. For oil sands, it might be 20%. Trusts that are paying out less than the full amount of cash flow have a cushion that might be used to dampen the impact of changes in sales price. Interest on debt increases sensitivity while hedging theoretically decreases sensitivity. The highest quality income providers do not borrow excessively and do not hedge.

Kurt H. Wulff, CFA





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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		25-Sep 2008	Shares (mm)				
U.S. Royalty Trusts								
Permian Basin RT	PBT		25.20	46.6	1,180	23.00	-	1.10
Sabine Royalty Trust	SBR		61.97	14.6	900	60.00	-	1.03
Cross Timbers Royalty Trust	CRT		52.08	6.0	310	57.00	-	0.91
San Juan Basin Royalty Trust	SJT		39.69	46.6	1,850	48.00	-	0.83
Mesa RoyaltyTrust	MTR		70.00	1.9	130	93.00	-	0.75
Hugoton RoyaltyTrust	HGT		28.90	40.0	1,160	42.00	-	0.69
<i>Total or Median</i>					5,500			0.87
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		16.64	248.0	4,130	24.00	0.27	0.78
Penn West Energy Trust	PWE		26.06	380.0	9,900	40.00	0.26	0.74
Canadian Oil Sands Trust	COSWF	B	40.70	481.0	19,580	57.00	0.04	0.73
Enerplus Resources Fund	ERF		38.50	164.5	6,330	63.00	0.13	0.66
<i>Total or Median</i>					39,900		0.20	0.73
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P. (32%)	ENP		21.96	10.0	220	29.00	0.17	0.80
Linn Energy, LLC	LINE		16.91	114.0	1,930	30.00	0.49	0.78
Dorchester Minerals, L.P.	DMLP		24.50	28.2	690	33.00	-	0.74
<i>Total or Median</i>					2,800		0.17	0.78
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		25-Sep 2008					
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT		39.69	10.6	13.7	11.3	13.9	7.2
Cross Timbers Royalty Trust	CRT		52.08	13.9	11.3	10.3	11.0	9.1
Permian Basin RT	PBT		25.20	8.6	9.1	10.0	10.4	9.7
Sabine Royalty Trust	SBR		61.97	8.9	9.5	9.8	9.8	10.2
Mesa RoyaltyTrust	MTR		70.00	21.1	11.7	8.8	10.1	9.9
Hugoton RoyaltyTrust	HGT		28.90	13.1	12.2	8.4	11.9	8.4
<i>Median</i>				11.8	11.5	9.9	10.7	9.4
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	40.70	21.6	10.5	7.7	8.9	12.3
Pengrowth Energy Trust	PGH		16.64	9.1	7.3	5.7		15.7
Enerplus Resources Fund	ERF		38.50	9.6	8.4	5.6	18.6	14.2
Penn West Energy Trust	PWE		26.06	7.5	7.3	5.4	12.3	15.1
<i>Median</i>				9.3	7.9	5.6	12.3	14.6
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP		24.50	8.5	11.9	8.9	12.1	11.3
Linn Energy, LLC	LINE		16.91	17.1	11.3	8.8	19.3	14.9
Encore Energy Partners, L.P.	ENP		21.96	11.9	7.8	6.2	21.6	10.2
<i>Median</i>				11.9	11.3	8.8	19.3	11.3
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield									
			Natural Gas/						
	Symbol	Royalty (%)	Ebitda (%)	Dist/ Ebitda	Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Yield (%)	
U.S. Royalty Trusts									
	San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	133	2.86	7.2
	Hugoton Royalty Trust	HGT	-	85	0.71	0.71	97	2.43	8.4
	Cross Timbers Royalty Trust	CRT	84	68	0.94	0.94	28	4.75	9.1
	Permian Basin RT	PBT	32	32	0.96	0.96	113	2.43	9.7
	Mesa Royalty Trust	MTR	-	63	0.88	0.88	13	6.94	9.9
	Sabine Royalty Trust	SBR	100	56	1.00	1.00	92	6.31	10.2
	<i>Total or Median</i>			66	0.91	0.91	500		9.4
Canadian Income Trusts (US\$)									
	Canadian Oil Sands Trust	COSWF	-	(6)	0.88	0.92	2,401	4.99	12.3
	Enerplus Resources Fund	ERF	-	41	0.63	0.73	897	5.45	14.2
	Penn West Energy Trust	PWE	-	27	0.53	0.72	1,498	3.94	15.1
	Pengrowth Energy Trust	PGH	-	30	0.58	0.79	647	2.61	15.7
	<i>Total or Median</i>			29	0.61	0.76	5,400		14.6
U.S. Master Limited Partnerships (MLPs)									
	Encore Energy Partners, L.P.	ENP		18	0.50	0.60	22	2.24	10.2
	Dorchester Minerals, L.P.	DMLP	64	67	1.00	1.00	78	2.76	11.3
	Linn Energy, LLC	LINE		43	0.49	0.95	287	2.52	14.9
	<i>Total or Median</i>			43	0.50	0.95	400		11.3
NTM = Next Twelve Months Ended September 30, 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.

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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.