

# Devon Reconsiders Partnership

## Summary and Recommendation

Devon Energy (DVN)'s announcement to drop plans for its proposed master limited partnership (MLP) remind us that not all income investments are the same. Chairman Larry Nichols' past concerns may be resurfacing with regard to the conflicts of interest when a different entity operates the natural gas gathering and processing facilities closely linked to Devon's natural gas production operations. The business downstream of production also may be saturated with partnerships. By contrast, all but one of the income stocks in our coverage is concentrated on oil and gas production. There seems to be room for more income stocks in production provided general partner compensation is reasonable, accounting is truthful and debt is not excessive.

**Dorchester Hugoton (DMLP)** and **Encore Energy Partners (ENP)** meet those characteristics in our MLP group and also have the most attractive valuation for new investment.

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## Natural Gas and Oil Income Stocks - Rank by McDep Ratio

|                                                | Symbol/<br>Rating | Price<br>(\$/sh)<br>9-Nov<br>2007 | Shares<br>(mm) | Market<br>Cap<br>(\$mm) | Net<br>Present<br>Value<br>(\$/un) | Debt/<br>Present<br>Value | McDep<br>Ratio |
|------------------------------------------------|-------------------|-----------------------------------|----------------|-------------------------|------------------------------------|---------------------------|----------------|
| <b>U.S. Royalty Trusts</b>                     |                   |                                   |                |                         |                                    |                           |                |
| Sabine Royalty Trust                           | SBR               | 50.64                             | 14.6           | 740                     | 45.00                              | -                         | 1.12           |
| Mesa RoyaltyTrust                              | MTR               | 70.52                             | 1.9            | 130                     | 70.00                              | -                         | 1.00           |
| Permian Basin RT                               | PBT               | 15.42                             | 46.6           | 720                     | 16.50                              | -                         | 0.93           |
| San Juan Basin Royalty Trust                   | SJT               | 36.88                             | 46.6           | 1,720                   | 40.00                              | -                         | 0.92           |
| Cross Timbers Royalty Trust                    | CRT               | 39.50                             | 6.0            | 240                     | 46.00                              | -                         | 0.86           |
| Hugoton RoyaltyTrust                           | HGT               | 24.27                             | 40.0           | 970                     | 34.00                              | -                         | 0.71           |
| <i>Total or Median</i>                         |                   |                                   |                | 4,500                   |                                    |                           | 0.93           |
| <b>Canadian Income Trusts (US\$)</b>           |                   |                                   |                |                         |                                    |                           |                |
| Pengrowth Energy Trust                         | PGH               | 18.40                             | 246.0          | 4,530                   | 17.00                              | 0.29                      | 1.06           |
| Canadian Oil Sands Trust                       | COSWF             | 38.91                             | 479.0          | 18,640                  | 39.00                              | 0.07                      | 1.00           |
| Penn West Energy Trust                         | PWE               | 29.58                             | 242.6          | 7,180                   | 34.00                              | 0.23                      | 0.90           |
| Enerplus Resources Fund                        | ERF               | 44.87                             | 128.0          | 5,740                   | 52.00                              | 0.13                      | 0.88           |
| <i>Total or Median</i>                         |                   |                                   |                | 36,100                  |                                    | 0.18                      | 0.95           |
| <b>U.S. Master Limited Partnerships (MLPs)</b> |                   |                                   |                |                         |                                    |                           |                |
| Kinder Morgan Energy Partners, L.P.            | KMP               | 50.85                             | 178.3          | 9,070                   | 17.00                              | 0.54                      | 1.91           |
| Linn Energy, LLC                               | LINE              | 27.60                             | 114.0          | 3,150                   | 25.00                              | 0.31                      | 1.07           |
| Encore Energy Partners, L.P. (39%)             | ENP               | 18.21                             | 9.0            | 160                     | 18.00                              | 0.16                      | 1.01           |
| Dorchester Minerals, L.P.                      | DMLP              | 21.34                             | 28.2           | 600                     | 27.00                              | -                         | 0.79           |
| <i>Total or Median</i>                         |                   |                                   |                | 13,000                  |                                    | 0.24                      | 1.04           |

B = Buy, S = Sell

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

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

|                                                | Symbol/<br>Rating | Price<br>(\$/sh)<br>9-Nov<br>2007 | Adjstd<br>Resrvs/<br>Prod<br>NTM | PV/<br>Ebitda<br>NTM | EV/<br>Ebitda<br>NTM | P/E<br>NTM | Divd or<br>Distrib<br>NTM<br>(%) |
|------------------------------------------------|-------------------|-----------------------------------|----------------------------------|----------------------|----------------------|------------|----------------------------------|
| <b>U.S. Royalty Trusts</b>                     |                   |                                   |                                  |                      |                      |            |                                  |
| San Juan Basin Royalty Trust                   | SJT B             | 36.88                             | 10.3                             | 13.0                 | 12.0                 | 14.6       | 6.9                              |
| Sabine Royalty Trust                           | SBR               | 50.64                             | 9.6                              | 9.3                  | 10.5                 | 10.5       | 9.5                              |
| Mesa RoyaltyTrust                              | MTR               | 70.52                             | 21.9                             | 10.4                 | 10.4                 | 11.9       | 8.4                              |
| Cross Timbers Royalty Trust                    | CRT               | 39.50                             | 13.9                             | 12.0                 | 10.3                 | 10.9       | 9.1                              |
| Hugoton RoyaltyTrust                           | HGT B             | 24.27                             | 13.8                             | 11.2                 | 8.0                  | 11.7       | 8.6                              |
| Permian Basin RT                               | PBT               | 15.42                             | 8.1                              | 8.0                  | 7.4                  | 9.1        | 11.0                             |
| <i>Median</i>                                  |                   |                                   | 12.1                             | 10.8                 | 10.4                 | 11.3       | 8.9                              |
| <b>Canadian Income Trusts (US\$)</b>           |                   |                                   |                                  |                      |                      |            |                                  |
| Canadian Oil Sands Trust                       | COSWF B           | 38.91                             | 21.7                             | 8.4                  | 8.3                  | 9.8        | 8.2                              |
| Pengrowth Energy Trust                         | PGH               | 18.40                             | 7.1                              | 6.5                  | 6.9                  | 27.8       | 16.1                             |
| Enerplus Resources Fund                        | ERF               | 44.87                             | 9.4                              | 7.7                  | 6.8                  | 12.6       | 11.7                             |
| Penn West Energy Trust                         | PWE B             | 29.58                             | 7.8                              | 6.5                  | 5.9                  | 10.9       | 14.9                             |
| <i>Median</i>                                  |                   |                                   | 8.6                              | 7.1                  | 6.9                  | 11.8       | 13.3                             |
| <b>U.S. Master Limited Partnerships (MLPs)</b> |                   |                                   |                                  |                      |                      |            |                                  |
| Kinder Morgan Energy Partners, L.P.            | KMP S             | 50.85                             | 7.6                              | 7.9                  | 15.1                 | 31.8       | 6.9                              |
| Linn Energy, LLC                               | LINE              | 27.60                             | 21.1                             | 12.9                 | 13.8                 | 40.1       | 8.3                              |
| Dorchester Minerals, L.P.                      | DMLP              | 21.34                             | 9.1                              | 11.2                 | 8.8                  | 13.3       | 11.3                             |
| Encore Energy Partners, L.P.                   | ENP               | 18.21                             | 12.2                             | 7.3                  | 7.4                  | 41.5       | 7.7                              |
| <i>Median</i>                                  |                   |                                   | 10.7                             | 9.5                  | 11.3                 | 36.0       | 8.0                              |

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 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<br>Royalty<br>(%) | Natural<br>Gas/<br>Ebitda<br>(%) | Dist/<br>Ebitda | Dist/<br>Equity<br>Ebitda | NTM Distribution<br>(\$mm) | Dist.<br>Yield<br>(\$/un) | Dist.<br>Yield<br>(%) |
|------------------------------------------------|--------|---------------------------|----------------------------------|-----------------|---------------------------|----------------------------|---------------------------|-----------------------|
| <b>U.S. Royalty Trusts</b>                     |        |                           |                                  |                 |                           |                            |                           |                       |
| San Juan Basin Royalty Trust                   | SJT    | -                         | 98                               | 0.82            | 0.82                      | 118                        | 2.53                      | 6.9                   |
| Mesa RoyaltyTrust                              | MTR    | -                         | 67                               | 0.88            | 0.88                      | 11                         | 5.91                      | 8.4                   |
| Hugoton RoyaltyTrust                           | HGT    | -                         | 87                               | 0.69            | 0.69                      | 83                         | 2.08                      | 8.6                   |
| Cross Timbers Royalty Trust                    | CRT    | 84                        | 67                               | 0.94            | 0.94                      | 22                         | 3.61                      | 9.1                   |
| Sabine Royalty Trust                           | SBR    | 100                       | 53                               | 1.00            | 1.00                      | 70                         | 4.81                      | 9.5                   |
| Permian Basin RT                               | PBT    | 35                        | 32                               | 0.82            | 0.82                      | 79                         | 1.70                      | 11.0                  |
| <i>Total or Median</i>                         |        |                           | 67                               | 0.85            | 0.85                      | 400                        |                           | 8.9                   |
| <b>Canadian Income Trusts (US\$)</b>           |        |                           |                                  |                 |                           |                            |                           |                       |
| Canadian Oil Sands Trust                       | COSWF  | -                         | (6)                              | 0.64            | 0.68                      | 1,525                      | 3.18                      | 8.2                   |
| Enerplus Resources Fund                        | ERF    | -                         | 38                               | 0.67            | 0.78                      | 671                        | 5.24                      | 11.7                  |
| Penn West Energy Trust                         | PWE    | -                         | 30                               | 0.65            | 0.85                      | 1,071                      | 4.41                      | 14.9                  |
| Pengrowth Energy Trust                         | PGH    | -                         | 37                               | 0.80            | 1.14                      | 729                        | 2.96                      | 16.1                  |
| <i>Total or Median</i>                         |        |                           | 33                               | 0.66            | 0.81                      | 4,000                      |                           | 13.3                  |
| <b>U.S. Master Limited Partnerships (MLPs)</b> |        |                           |                                  |                 |                           |                            |                           |                       |
| Kinder Morgan Energy Partners, KMP             |        |                           | -                                | 0.75            | 1.64                      | 628                        | 3.52                      | 6.9                   |
| Encore Energy Partners, L.P.                   | ENP    |                           | 15                               | 0.48            | 0.57                      | 13                         | 1.40                      | 7.7                   |
| Linn Energy, LLC                               | LINE   |                           | 64                               | 0.81            | 1.17                      | 260                        | 2.28                      | 8.3                   |
| Dorchester Minerals, L.P.                      | DMLP   | 64                        | 69                               | 1.00            | 1.00                      | 68                         | 2.41                      | 11.3                  |
| <i>Total or Median</i>                         |        |                           | 39                               | 0.78            | 1.09                      | 1,000                      |                           | 8.0                   |

NTM = Next Twelve Months Ended September 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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