

Inventory Investment

Summary and Recommendation

Investors can own future inventory in buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWTFE)** as well as other royalty trusts in our coverage. A myopic focus on high inventories as an indicator of lower future commodity price may overlook the point that inventory investment creates value in a rising commodity price environment. Operators have had an incentive almost all of this century to hold higher oil and gas inventories because the cost of replenishment has been rising. *Just-in-case* may be more sensible inventory management for energy than *just-in-time*. Inventory myopia seems to have contributed to turning stock price momentum negative for U.S. royalty trusts. Willing to act before positive momentum returns, contrarian investors can own oil and gas inventory and receive high income in U.S. royalty trusts at a median McDep Ratio of 0.94, down from 1.11 in mid December. Latest declarations indicate a median distribution yield of 9.6% for Canadian trusts. We currently project a median distribution yield for the next twelve months ended March 31, 2007 of 8.9% for U.S. royalty trusts.

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Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 9-Mar 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	42.00	14.6	610	42.00	-	1.00
Permian Basin RT	PBT	14.76	46.6	690	15.00	-	0.98
San Juan Basin Royalty Trust	SJT	H 38.04	46.6	1,770	40.00	-	0.95
Cross Timbers Royalty Trust	CRT	42.57	6.0	260	45.00	-	0.94
Dorchester Minerals, L.P.	DMLP	23.80	28.2	670	26.00	-	0.92
Hugoton Royalty Trust (46%)	HGT	29.83	18.4	550	34.00	-	0.88
Mesa Royalty Trust	MTR	65.25	1.9	120	75.00	-	0.87
	<i>Total or Median</i>			4,700			0.94
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	22.44	160.0	3,590	18.00	0.16	1.21
Enerplus Resources Fund	ERF	48.73	114.2	5,560	42.00	0.15	1.14
Penn West Energy Trust	PWTFE	B 34.73	165.1	5,730	33.00	0.12	1.05
Canadian Oil Sands Trust (US\$)	COSWF	B 132.70	93.4	12,390	136.00	0.11	0.98
	<i>Total or Median</i>			27,300		0.13	1.09

B = Buy, H = Hold

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

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Natural Gas and Oil Royalty Trusts Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 9-Mar 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	42.00	11.6	11.2	11.2	11.2	8.9
Cross Timbers Royalty Trust	CRT	42.57	18.9	11.8	11.2	11.4	8.8
San Juan Basin Royalty Trust	SJT	H 38.04	12.2	11.1	10.5	11.8	8.4
Mesa RoyaltyTrust	MTR	65.25	20.0	11.5	10.1	11.0	9.1
Dorchester Minerals, L.P.	DMLP	23.80	11.7	10.0	9.2	14.3	9.9
Permian Basin RT	PBT	14.76	15.0	9.1	8.9	9.7	10.3
Hugoton RoyaltyTrust (46%)	HGT	29.83	13.6	10.1	8.9	11.6	8.6
	<i>Median</i>		<i>13.6</i>	<i>11.1</i>	<i>10.1</i>	<i>11.4</i>	<i>8.9</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	B 132.70	20.0	10.1	9.9	12.9	2.6
Enerplus Resources Fund	ERF	48.73	9.4	6.3	7.1	13.0	8.9
Pengrowth Energy Trust	PGH	22.44	7.2	5.8	7.0	11.0	11.6
Penn West Energy Trust	PWTFF	B 34.73	7.7	6.5	6.8	10.4	10.2
	<i>Median</i>		<i>8.6</i>	<i>6.4</i>	<i>7.1</i>	<i>11.9</i>	<i>9.6</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts 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	-	99	0.89	0.89	150	3.21
Hugoton RoyaltyTrust (46%)	HGT	-	91	0.76	0.76	47	2.56
Cross Timbers Royalty Trust	CRT	85	69	0.98	0.98	22	3.73
Sabine Royalty Trust	SBR	100	58	1.00	1.00	55	3.75
Mesa RoyaltyTrust	MTR	-	75	0.91	0.91	11	5.95
Dorchester Minerals, L.P.	DMLP	54	78	0.91	0.91	67	2.37
Permian Basin RT	PBT	30	38	0.92	0.92	71	1.51
	<i>Total or Median</i>		<i>75</i>	<i>0.91</i>	<i>0.91</i>	<i>400</i>	<i>8.9</i>
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	-	(8)	0.23	0.26	323	3.46
Enerplus Resources Fund	ERF	-	45	0.56	0.65	498	4.36
Penn West Energy Trust	PWTFF	-	40	0.61	0.70	582	3.53
Pengrowth Energy Trust	PGH	-	41	0.70	0.84	415	2.59
	<i>Total or Median</i>		<i>40</i>	<i>0.59</i>	<i>0.67</i>	<i>1,800</i>	<i>9.6</i>
Kinder Morgan Energy Partners	KMP			0.77	1.69		6.9

NTM = Next Twelve Months Ended March 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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