

Sub \$5 Natural Gas and CRT

Summary and Recommendation

Thinly traded **Cross Timbers Royalty Trust (CRT)** featured this week offers high quality, tax-advantaged income from natural gas and oil production. The debt-free “revenue” royalty trust gets full benefit without paying any of the costs of new drilling that keeps production up on its main property in the San Juan Basin. The largest natural gas field in the U.S. and the original long-life, “unconventional” natural gas resource, the San Juan Basin likely has its share of unbooked “probable” and “possible” resource that operators frequently cite for the geologic features that extend north from New Mexico to the Arctic. Meanwhile, the failures of hedge funds Amaranth and Mother Rock may be a sign of “blood running in the streets” creating turmoil in the natural gas markets and possibly signaling a turning point, at least seasonally. We attach our projections for monthly and quarterly distributions by CRT that depend on latest commodity price quotes as well as a discounted cash flow calculation of present value of \$46 a share that depends on a long-term natural gas price of \$10 a million btu. Finally, for all the royalty trusts in this weekly analysis, latest futures imply distributions of a median 8.0% annually for the U.S. stocks and current distributions indicate 9.6% annually for the Canadian stocks.

Kurt H. Wulff, CFA

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 21-Sep 2006</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								
Sabine Royalty Trust	SBR	43.88	14.6	640	45.00	-	0.98	
Cross Timbers Royalty Trust	CRT	44.46	6.0	270	46.00	-	0.97	
Permian Basin RT	PBT	15.83	46.6	740	16.50	-	0.96	
Dorchester Minerals, L.P.	DMLP	25.50	28.2	720	27.00	-	0.94	
San Juan Basin Royalty Trust	SJT	B	33.58	46.6	1,570	40.00	-	0.84
Mesa RoyaltyTrust	MTR		58.25	1.9	110	75.00	-	0.78
Hugoton RoyaltyTrust	HGT		25.36	40.0	1,010	34.00	-	0.75
	<i>Total or Median</i>			<i>5,100</i>			<i>0.94</i>	
Canadian Income Trusts (US\$)								
Enerplus Resources Fund	ERF	48.06	123.0	5,910	47.00	0.11	1.02	
Pengrowth Energy Trust	PGH	19.72	161.4	3,180	20.00	0.17	0.99	
Penn West Energy Trust	PWE	B	36.89	246.0	9,070	39.00	0.13	0.95
Canadian Oil Sands Trust	COSWF	B	26.25	466.1	12,240	35.00	0.09	0.77
	<i>Total or Median</i>			<i>30,400</i>		<i>0.12</i>	<i>0.97</i>	

B = Buy

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) 21-Sep 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	43.88	9.8	12.8	12.4	12.4	8.0	
Cross Timbers Royalty Trust	CRT	44.46	12.5	12.6	12.2	12.4	8.1	
Dorchester Minerals, L.P.	DMLP	25.50	8.3	11.8	11.2	18.1	8.5	
San Juan Basin Royalty Trust	SJT	B	33.58	14.6	12.7	10.6	13.6	7.3
Permian Basin RT	PBT		15.83	8.0	11.0	10.6	11.8	8.5
Mesa RoyaltyTrust	MTR		58.25	19.9	13.4	10.5	13.0	7.7
Hugoton RoyaltyTrust	HGT		25.36	13.8	11.4	8.5	13.9	7.2
	<i>Median</i>			12.5	12.6	10.6	13.0	8.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	26.25	24.4	12.5	9.6	13.1	7.2
Enerplus Resources Fund	ERF		48.06	9.4	8.1	8.2	18.6	9.4
Penn West Energy Trust	PWE	B	36.89	8.0	8.5	8.1	14.7	9.9
Pengrowth Energy Trust	PGH		19.72	7.9	7.2	7.1	11.4	13.6
	<i>Median</i>			8.7	8.3	8.2	13.9	9.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 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)	Dist. Yield (%)
U.S. Royalty Trusts								
Hugoton RoyaltyTrust	HGT	-	89	0.61	0.61	73	1.83	7.2
San Juan Basin Royalty Trust	SJT	-	98	0.78	0.78	115	2.47	7.3
Mesa RoyaltyTrust	MTR	-	73	0.80	0.80	8	4.48	7.7
Sabine Royalty Trust	SBR	100	54	1.00	1.00	51	3.53	8.0
Cross Timbers Royalty Trust	CRT	81	66	0.98	0.98	22	3.59	8.1
Permian Basin RT	PBT	29	34	0.89	0.89	62	1.34	8.5
Dorchester Minerals, L.P.	DMLP	56	73	0.95	0.95	61	2.17	8.5
	<i>Total or Median</i>		73	0.89	0.89	400		8.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.61	0.67	875	1.88	7.2
Enerplus Resources Fund	ERF	-	41	0.69	0.77	554	4.51	9.4
Penn West Energy Trust	PWE	-	37	0.69	0.80	898	3.65	9.9
Pengrowth Energy Trust	PGH	-	35	0.80	0.96	433	2.68	13.6
	<i>Total or Median</i>		36	0.69	0.79	2,800		9.6
Kinder Morgan Energy Partners	KMP			0.75	1.70			7.2

NTM = Next Twelve Months Ended September 30, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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Cross Timbers Royalty Trust Monthly Distributions

	Sep-05	Oct-05	Nov-05	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Distribution (\$/unit)									
Declared	0.35	0.44	0.28	0.31	0.34				
Projected						0.37	0.29	0.31	0.31
Volume									
Natural Gas (bcf)	183	200	196	186	289	234	222	224	219
Natural Gas (mmcf)	6.10	6.45	6.32	6.20	9.32	7.80	7.17	7.23	7.30
Days	30	31	31	30	31	30	31	31	30
Oil (mb)	22.8	22.6	21.5	24.6	18.2	26.0	23.2	22.5	23.3
Oil (mbd)	0.74	0.73	0.72	0.79	0.61	0.84	0.75	0.75	0.75
Days	31	31	30	31	30	31	31	30	31
Total (bcf)	320	336	325	334	398	390	361	359	359
Price									
Natural gas industry quotes lagged three months (\$/mmbtu)									
Henry Hub Daily/Futures	6.14	6.98	7.65	7.25	7.23	5.95	5.89	7.04	6.91
San Juan Monthly Index	5.38	6.05	5.98	5.54	5.71	4.76	5.07	5.93	5.78
CRT/Henry Hub	1.27	1.04	1.04	1.04	1.00	1.19	1.04	1.02	1.00
CRT/San Juan Index	1.45	1.20	1.33	1.36	1.27	1.49	1.21	1.21	1.20
CRT (\$/mcf)	7.81	7.24	7.97	7.51	7.26	7.09	6.12	7.17	6.93
Oil (\$/bbl)									
WTI Cushing (lagged two r	58.67	63.35	65.54	70.93	70.93	74.40	73.53	73.53	74.95
CRT/WTI Cushing	0.95	0.94	0.92	0.90	0.91	0.90	0.90	0.90	0.90
CRT	55.98	59.47	60.62	63.85	64.82	67.14	66.35	66.35	67.64
Total (\$/mcf)	10.56	10.94	8.82	8.90	8.23	8.73	8.02	8.63	8.62
Revenue (\$mm)									
Natural Gas	1.43	1.45	1.56	1.40	2.10	1.66	1.36	1.61	1.52
Oil	1.28	1.34	1.30	1.57	1.18	1.75	1.54	1.49	1.58
One-time	0.67	0.88							
Total	3.38	3.67	2.87	2.97	3.28	3.40	2.90	3.10	3.09
Distributable income (\$mm)									
Natural Gas	1.03	1.04	1.12	1.01	1.51	1.29	0.99	1.16	1.10
Oil	0.37	0.69	0.59	0.86	0.55	0.93	0.74	0.72	0.76
One-time	0.67	0.88							
Total	2.07	2.61	1.71	1.86	2.06	2.22	1.72	1.88	1.86
Natural Gas Income/Revenue	72	72	72	72	72	78	73	73	73
Oil Income/Revenue (%)	29	51	45	55	47	53	48	48	48
<i>Latest Twelve Months</i>									
Natural Gas (mmcf)	6.56	6.54	6.45	6.79	7.03	7.17	7.23	7.30	7.43
Oil (mbd)	0.75	0.74	0.74	0.75	0.74	0.75	0.75	0.75	0.75
CRT/Henry Hub	1.08	1.07	1.08	0.95	0.95	0.94	0.94	0.94	0.95
CRT/San Juan Index	1.24	1.24	1.26	1.19	1.20	1.21	1.21	1.20	1.19
CRT/WTI Cushing	0.91	0.91	0.92	0.90	0.90	0.90	0.90	0.89	0.89
Natural Gas Income/Revenue	72	72	72	72	72	73	73	73	73
Oil Income/Revenue (%)	46	46	46	46	46	48	48	48	47

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Cross Timbers Royalty Trust Distributable Income

	Q3	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
Highlights									
Distributable Income (\$mm)	5.04	5.06	6.15	5.46	23.73	5.04	5.57	5.73	21.81
Per unit	0.84	0.84	1.02	0.91	3.95	0.84	0.93	0.96	3.63
Units (millions)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Volume									
Natural Gas (bcf)	0.55	0.55	0.71	0.67	2.72	0.67	0.65	0.66	2.64
Natural Gas (mmcf)	6.0	6.1	7.8	7.2	7.5	7.2	7.2	7.2	7.2
Days	91	90	91	92	365	92	90	91	365
Oil (mb)	66	68	69	69	275	69	67	69	274
Oil (mbd)	0.71	0.77	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Days	92	89	92	92	365	92	89	92	365
Total (bcf)	0.94	0.96	1.12	1.08	4.37	1.08	1.05	1.07	4.28
Price									
Natural Gas (HH lagged three months)									
Henry Hub (\$/mmbtu)	6.76	8.97	6.81	6.58	8.84	6.05	7.85	7.17	6.91
Differential (\$/mmbtu)	(0.83)	0.49	(0.46)	(0.16)	0.86	-	-	-	(0.03)
CRT (\$/mcf)	7.58	8.48	7.27	6.74	7.99	6.05	7.85	7.17	6.95
Oil (\$/bbl) (WTI lagged two months)									
WTI Cushing	54.96	64.68	72.09	66.56	66.10	62.48	64.62	65.94	64.90
CRT	50.56	55.70	65.35	66.79	60.68	62.69	59.33	66.16	63.78
Total (\$/mcf)	7.94	8.82	8.60	8.42	8.79	7.74	8.63	8.66	8.36
Revenue (\$mm)									
Natural Gas	4.15	4.64	5.15	4.48	21.72	4.03	5.11	4.72	18.34
Oil	3.32	3.80	4.50	4.61	16.68	4.32	3.96	4.56	17.45
Total	7.47	8.44	9.65	9.09	38.40	8.35	9.07	9.28	35.79
Cost (\$mm)									
Tax, transport & other									
Production	0.87	1.06	1.06	1.06	4.24	1.06	1.06	1.06	4.24
Total	1.78	2.32	2.51	2.42	10.02	2.31	2.42	2.45	9.61
Cash flow (\$mm)									
Development	0.13	0.12	0.12	0.12	0.63	0.12	0.12	0.12	0.49
Excess or other	(0.42)				-				
Net proceeds (\$mm)	5.98	6.00	7.02	6.54	27.75	5.91	6.52	6.71	25.69
Royalty income (\$mm)									
Royalty/Net proceeds	85%	87%	89%	85%	87%	87%	87%	87%	87%
Administration	0.04	0.15	0.12	0.12	0.49	0.12	0.12	0.12	0.48
Distributable income (\$mm)									
Tax and other/revenue	0.12	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Distributable Inc/Rev (%)	67	60	64	60	62	60	61	62	61

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Cross Timbers Royalty Trust Present Value

Oil Volume Decline (%/yr):	11	Oil Price Post 2007 (2005\$/bbl)	60.00
Nat Gas Volume Decline (%/yr):	11	Nat Gas Price Post 2007 (2005\$/mcf)	10.00
Volume/Reserves - Oil:	1.3	Real Discount Rate (%/yr):	5.3
Volume/Reserves - Nat Gas:	1.2	PV/Volume (\$/mcf):	4.25
Variable Cost (%):	26	PV/EBITDA 2007:	12.4
Cumul. Vol/Prod 2007:	17.5	Capex/Cash Flow (%):	3

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2007 through 2036; years ending on 9/30												
	4.1	40			624	22	162	6	434	72.26	0.64	46.00
2007	0.24	2.29	63.78	6.95	31.1	0.7	8.1	0.4	21.8	3.63	0.97	3.54
2008	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.93	3.90
2009	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.88	3.70
2010	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.83	3.51
2011	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.79	3.34
2012	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.75	3.17
2013	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.71	3.01
2014	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.68	2.86
2015	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.64	2.71
2016	0.24	2.29	55.20	10.00	36.0	0.7	9.4	0.6	25.3	4.21	0.61	2.58
2017	0.21	2.05	55.20	10.00	32.2	0.7	8.4		23.1	3.84	0.58	2.23
2018	0.19	1.83	55.20	10.00	28.7	0.7	7.5		20.5	3.42	0.55	1.89
2019	0.17	1.63	55.20	10.00	25.6	0.7	6.7		18.2	3.04	0.52	1.59
2020	0.15	1.46	55.20	10.00	22.9	0.7	6.0		16.2	2.70	0.50	1.34
2021	0.13	1.30	55.20	10.00	20.5	0.7	5.3		14.4	2.40	0.47	1.13
2022	0.12	1.16	55.20	10.00	18.3	0.7	4.7		12.8	2.13	0.45	0.96
2023	0.11	1.04	55.20	10.00	16.3	0.7	4.2		11.3	1.89	0.43	0.81
2024	0.10	0.93	55.20	10.00	14.6	0.7	3.8		10.0	1.67	0.41	0.68
2025	0.09	0.83	55.20	10.00	13.0	0.7	3.4		8.9	1.48	0.38	0.57
2026	0.08	0.74	55.20	10.00	11.6	0.7	3.0		7.9	1.31	0.37	0.48
2027	0.07	0.66	55.20	10.00	10.4	0.7	2.7		6.9	1.16	0.35	0.40
2028	0.06	0.59	55.20	10.00	9.3	0.7	2.4		6.1	1.02	0.33	0.34
2029	0.05	0.53	55.20	10.00	8.3	0.7	2.2		5.4	0.90	0.31	0.28
2030	0.05	0.47	55.20	10.00	7.4	0.7	1.9		4.7	0.79	0.30	0.23
2031	0.04	0.42	55.20	10.00	6.6	0.7	1.7		4.1	0.69	0.28	0.19
2032	0.04	0.37	55.20	10.00	5.9	0.7	1.5		3.6	0.60	0.27	0.16
2033	0.03	0.33	55.20	10.00	5.3	0.7	1.4		3.1	0.52	0.25	0.13
2034	0.03	0.30	55.20	10.00	4.7	0.7	1.2		2.7	0.46	0.24	0.11
2035	0.03	0.27	55.20	10.00	4.2	0.7	1.1		2.4	0.39	0.23	0.09
2036	0.02	0.24	55.20	10.00	3.7	0.7	1.0		2.0	0.34	0.22	0.07

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