



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 3, 2012

Cross Timbers Royalty Trust (CRT)

Firm Oil Balances Soft Natural Gas

<i>Symbol</i>	CRT	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$mm)</i>	16
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	55
<i>Price (US\$/sh)</i>	45.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/2/12	<i>Adjusted Reserves/Production NTM</i>	14.4
<i>Shares (mm)</i>	6.00	<i>EV/Ebitda</i>	17.0
<i>Market Capitalization (US\$mm)</i>	274	<i>PV/Ebitda</i>	16.3
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	274	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.58
<i>Present Value (PV) (US\$mm)</i>	264	<i>Present Value Proven Reserves(US\$/boe)</i>	43.59
<i>Net Present Value (US\$/unit)</i>	44	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.60
<i>McDep Ratio - EV/PV</i>	1.04	<i>Price/Earnings Next Twelve Months</i>	18
<i>Distribution Yield (%/year)</i>	5.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.60
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.			
For historical analysis of CRT since 2000 see www.mcdep.com/4crt.htm			

Summary and Recommendation

Top Line Cash Payer **Cross Timbers Royalty Trust (CRT)** at a McDep Ratio of 1.04 appears priced close to Net Present Value (NPV) where the long term return would be 7% a year unlevered and after inflation. As a result, CRT remains an attractive long-term holding, while price sensitive investors might wait for a lower McDep Ratio to make new commitments. Patient investors have been rewarded as CRT delivered a total return of 18% a year since it was created in 1992 and 6% in the past 12 months compared to 8% and 4% for the S&P 500 index for the same periods, according to Bloomberg. Over the years we have been most attracted to CRT's top line revenue royalty on San Juan Basin natural gas produced by ExxonMobil, BP plc and ConocoPhillips. Despite the softening in natural gas price this winter, CRT's royalties decline only in proportion to price since the costs of operation are borne by the operating companies. At the same time, fortunately, we have been surprised at the strength of CRT's oil properties. We had minimized the importance of those properties in part because CRT is also responsible for operating costs on half its oil interests. Instead we see that oil price has increased to some 5 times the heating equivalent of natural gas at the extreme and fracking advances have unlocked new oil supply in old areas. Oil properties in West Texas are operated by, among others, Occidental, who only last month announced a further increase in Permian Basin drilling. Accordingly, we have revised the oil portion of NPV to 30% from 13% previously (see tables Functional Cash Flow and Present Value on page 2 and Next Twelve Months Operating and Financial Estimates on page 2). Finally, CRT distributes cash at an estimated rate of 5.7% a year, has no debt and stock price is above its 200-day average (see Tables ISC-1 to ISC-4).

Kurt H. Wulff, CFA



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Cross Timbers Royalty Trust					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	9	14.8	20.6	184	70%
Oil	7	13.7	11.1	80	30%
	16	14.4	16.3	264	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					264
Shares (mm)					6
Net Present Value (US\$/sh)					44
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					37
(CRT reserves and Ebitda understated)					

Cross Timbers Royalty Trust									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next
	12/31/10	9/30/11	12/31/11	2011E	3/31/12	6/30/12	9/30/11	12/31/12	Twelve
									Months
									12/31/12
Volume									
Natural Gas (mmcf)	6.0	5.1	5.3	5.1	5.2	5.2	5.1	5.1	5.1
Oil (mbd)	0.53	0.55	0.50	0.54	0.50	0.49	0.49	0.48	0.49
Total (bcf)	0.84	0.77	0.76	3.05	0.75	0.73	0.73	0.73	2.95
Price									
Natural Gas (HH lagged three months)									
Henry Hub (\$/mmbtu)	4.38	4.32	4.19	4.11	3.55	3.64	2.82	2.99	3.25
Differential (%)	(50)	(87)	(82)	(79)	(82)	(82)	(82)	(82)	(82)
CRT (\$/mcf)	6.58	8.07	7.64	7.36	6.47	6.63	5.13	5.46	5.93
Oil (\$/bbl) (WTI lagged two months)									
WTI Cushing	77.93	98.33	86.13	93.25	98.74	93.70	97.60	98.41	97.11
CRT	72.50	92.61	82.23	86.87	94.27	89.46	93.18	93.95	92.73
Total (\$/mcf)	8.50	10.98	9.84	10.11	9.82	9.61	8.93	9.16	9.38
Revenue (\$mm)									
Natural Gas	3.61	3.77	3.71	13.79	3.11	3.12	2.39	2.54	11.16
Oil	3.55	4.72	3.78	17.03	4.29	3.95	4.16	4.15	16.55
Total	7.16	8.49	7.49	30.81	7.40	7.06	6.55	6.69	27.70
Cost (\$mm)									
Tax, transport & other	0.96	1.14	1.05	4.20	1.04	0.99	0.92	0.94	3.88
Production	1.11	1.10	1.10	4.35	1.10	1.10	1.10	1.10	4.40
Total	2.07	2.24	2.15	8.55	2.14	2.09	2.02	2.04	8.28
Cash flow (\$mm)									
Development	0.23	0.12	0.20	0.62	0.20	0.20	0.20	0.20	0.80
Excess or other				-					
Net proceeds (\$mm)									
	4.86	6.13	5.14	21.64	5.06	4.77	4.33	4.46	18.63
Royalty income (\$mm)									
	4.12	5.26	4.25	18.42	4.35	4.11	3.72	3.83	16.02
Royalty/Net proceeds	85%	86%	83%	85%	86%	86%	86%	86%	86%
Administration	0.04	0.09	0.11	0.47	0.11	0.11	0.11	0.11	0.44
Distributable income (\$mm)									
	4.08	5.17	4.14	17.95	4.24	4.00	3.61	3.72	15.58
Units (millions)									
	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Per unit									
	0.68	0.86	0.69	2.99	0.71	0.67	0.60	0.62	2.60



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price			Enterprise		PV(%)			
Symbol/Rating		(US\$/sh)	EV/	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2012	Cap		(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
Small Cap Independent Producers											
Birchcliff Energy Ltd.	BIREF	B	13.97	1.23	2,240	56	44	13.6	-	-	0.89
Range Resources	RRC	CB	58.38	1.24	11,480	66	34	15.0	0.16	0.3	0.86
PDC Energy	PETD		31.47	1.50	1,120	55	45	6.7	-	-	0.85
Peyto Exploration and Development	PEYUF		18.79	1.22	3,050	75	25	9.9	0.72	3.8	0.81
Berry Petroleum Company	BRY		44.27	1.59	3,860	17	83	6.1	0.32	0.7	0.73
Denbury Resources Inc.	DNR		18.59	1.33	9,980	4	96	6.4	-	-	0.72
Whiting Petroleum Corporation	WLL	CB	48.87	1.28	7,430	9	91	4.6	-	-	0.61
Cimarex Energy Company	XEC	CB	59.77	1.15	5,910	41	59	4.7	0.40	0.7	0.58
<i>Total or Median</i>					45,100			6.5			0.77
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		45.74	1.00	270	70	30		2.60	5.7	1.04
Permian Basin RT	PBT		20.12	1.00	940	37	63		1.49	7.4	1.01
Freehold Royalties Ltd.	FRHLF		20.99	1.06	1,300	14	86		1.68	8.0	1.00
Sabine Royalty Trust	SBR		62.10	1.00	910	55	45		4.03	6.5	0.95
Dorchester Minerals, L.P.	DMLP	CB	21.93	1.00	670	57	43		1.80	8.2	0.81
<i>Total or Median</i>					4,100					7.4	1.00
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.62	1.45	9,590	29	71	13.8	2.76	7.3	1.16
Vanguard Natural Resources, LLC	VNR		27.81	1.54	2,080	26	74	10.3	2.31	8.3	1.07
Legacy Reserves L.P.	LGCY		28.13	1.42	1,740	19	81	8.5	2.18	7.7	0.95
Enduro Royalty Trust (40%)	NDRO		19.75	1.00	260	45	55	7.0	1.71	8.6	0.94
San Juan Basin Royalty Trust	SJT	CB	19.29	1.00	900	100	-	13.4	1.11	5.7	0.92
Hugoton Royalty Trust	HGT		15.46	1.00	620	87	13	14.0	0.97	6.2	0.91
Mesa Royalty Trust	MTR		42.75	1.00	80	75	25	11.8	3.21	7.5	0.89
Enerplus Corporation	ERF	CB	24.04	1.21	5,700	26	74	6.8	2.16	9.0	0.74
<i>Total or Median</i>					21,000			11.1		7.6	0.93
Composite											
<i>Enterprise Value Weighting</i>					70,100	35	65				0.79
<i>Equal Weighting</i>						46	54				0.88
<i>Equal Weighted Buys</i>						42	58				0.77

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2012. Enterprise Value = Market Cap and Debt.



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Table ISC-2

McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>2-Feb</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
Birchcliff Energy Ltd.	BIREF	B	13.97	131.0	1,830	16.00	0.16	0.89
Range Resources	RRC	CB	58.38	159.0	9,280	70.00	0.17	0.86
PDC Energy	PETD		31.47	23.8	750	40.00	0.28	0.85
Peyto Exploration and Development Cor	PEYUF		18.79	133.1	2,500	24.00	0.15	0.81
Berry Petroleum Company	BRY		44.27	54.7	2,420	70.00	0.27	0.73
Denbury Resources Inc.	DNR		18.59	403.0	7,490	28.00	0.18	0.72
Whiting Petroleum Corporation	WLL	CB	48.87	119.0	5,820	88.00	0.13	0.61
Cimarex Energy Company	XEC	CB	59.77	86.2	5,150	110.00	0.07	0.58
<i>Total or Median</i>					<i>35,240</i>		<i>0.16</i>	<i>0.77</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.74	6.0	270	44.00	-	1.04
Permian Basin RT	PBT		20.12	46.6	940	20.00	-	1.01
Freehold Royalties Ltd.	FRHLF		20.99	58.8	1,240	21.00	0.05	1.00
Sabine Royalty Trust	SBR		62.10	14.6	910	65.00	-	0.95
Dorchester Minerals, L.P.	DMLP	CB	21.93	30.7	670	27.00	-	0.81
<i>Total or Median</i>					<i>4,030</i>			<i>1.00</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.62	176.0	6,620	30.00	0.36	1.16
Vanguard Natural Resources, LLC	VNR		27.81	48.8	1,360	25.00	0.37	1.07
Legacy Reserves L.P.	LGCY		28.13	43.6	1,230	30.00	0.28	0.95
Enduro Royalty Trust (40%)	NDRO		19.75	13.2	260	21.00	-	0.94
San Juan Basin Royalty Trust	SJT	CB	19.29	46.6	900	21.00	-	0.92
Hugoton Royalty Trust	HGT		15.46	40.0	620	17.00	-	0.91
Mesa Royalty Trust	MTR		42.75	1.9	80	48.00	-	0.89
Enerplus Corporation	ERF	CB	24.04	196.0	4,710	34.00	0.13	0.74
<i>Total or Median</i>					<i>15,780</i>			<i>0.93</i>

B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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 \$6 a million btu for natural gas.



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Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		2-Feb 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	CB	58.38		-	15.2	17.4	15.0
Birchcliff Energy Ltd.	BIREF	B	13.97		-	19.3	15.2	13.6
Peyto Exploration and Development Corp	PEYUF		18.79		0.37	12.9	12.2	9.9
PDC Energy	PETD		31.47		-	8.2	7.9	6.7
Denbury Resources Inc.	DNR		18.59		-	12.6	8.8	6.4
Berry Petroleum Company	BRY		44.27		-	11.4	8.3	6.1
Cimarex Energy Company	XEC	CB	59.77		-	6.9	8.2	4.7
Whiting Petroleum Corporation	WLL	CB	48.87		-	10.2	7.5	4.6
	<i>Median</i>					12.0	8.5	6.5
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.74	80	0.96	14.4	16.3	16.9
Sabine Royalty Trust	SBR		62.10	100	1.00	7.3	16.1	15.4
Permian Basin RT	PBT		20.12	32	0.98	17.2	13.2	13.2
Freehold Royalties Ltd.	FRHLF		20.99	71	0.87	6.7	10.8	10.8
Dorchester Minerals, L.P.	DMLP	CB	21.93	77	0.84	6.1	12.7	10.3
	<i>Median</i>					7.3	13.2	13.2
Bottom Line Cash Payers								
Hugoton Royalty Trust	HGT		15.46		0.87	14.0	15.4	14.0
San Juan Basin Royalty Trust	SJT	CB	19.29		0.77	8.5	14.5	13.4
Linn Energy, LLC	LINE		37.62		1.09	16.2	11.9	13.8
Mesa Royalty Trust	MTR		42.75		0.88	13.9	13.2	11.8
Vanguard Natural Resources, LLC	VNR		27.81		0.89	8.7	9.6	10.3
Legacy Reserves L.P.	LGCY		28.13		0.65	9.9	8.9	8.5
Enduro Royalty Trust (40%)	NDRO		19.75		0.61	5.7	7.5	7.0
Enerplus Corporation	ERF	CB	24.04		0.58	8.1	9.1	6.8
	<i>Median</i>					9.3	10.8	11.1
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended December 31, 2012; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		2-Feb 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
	DNR		18.59	0.77	1.51	1.09	1.05	0.72
	BIREF	B	13.97	0.92	1.31	1.05	1.04	0.89
	PEID		31.47	0.72	1.53	0.96	1.02	0.85
	BRY		44.27	0.81	1.24	1.03	0.98	0.73
	RRC	CB	58.38	0.79	1.20	0.95	0.97	0.86
	WLL	CB	48.87	0.70	1.47	1.01	0.96	0.61
	PEYUF		18.79	0.77	1.05	0.86	0.88	0.81
	XEC	CB	59.77	0.54	1.15	0.96	0.83	0.58
	<i>Median</i>			<i>0.77</i>	<i>1.28</i>	<i>0.99</i>	<i>0.97</i>	<i>0.77</i>
Top Line Cash Payers								
	FRHLF		20.99	0.87	1.50	1.09	1.07	1.00
	CRT		45.74	0.90	1.21	0.96	1.01	1.04
	SBR		62.10	0.88	1.31	0.97	0.97	0.95
	PBT		20.12	0.86	1.12	1.00	0.96	1.01
	DMLP	CB	21.93	0.73	1.05	0.97	0.88	0.81
	<i>Median</i>			<i>0.87</i>	<i>1.21</i>	<i>0.97</i>	<i>0.97</i>	<i>1.00</i>
Bottom Line Cash Payers								
	LINE		37.62	0.94	1.14	1.01	1.00	1.16
	VNR		27.81	0.88	1.16	1.01	0.99	1.07
	LGCY		28.13	0.88	1.18	1.01	0.99	0.95
	MTR		42.75	0.86	1.18	1.04	0.98	0.89
	ERF	CB	24.04	0.77	1.09	0.98	0.88	0.74
	SJT	CB	19.29	0.69	1.08	0.87	0.82	0.92
	HGT		15.46	0.63	1.12	0.83	0.72	0.91
	<i>Median</i>			<i>0.86</i>	<i>1.14</i>	<i>1.01</i>	<i>0.98</i>	<i>0.92</i>

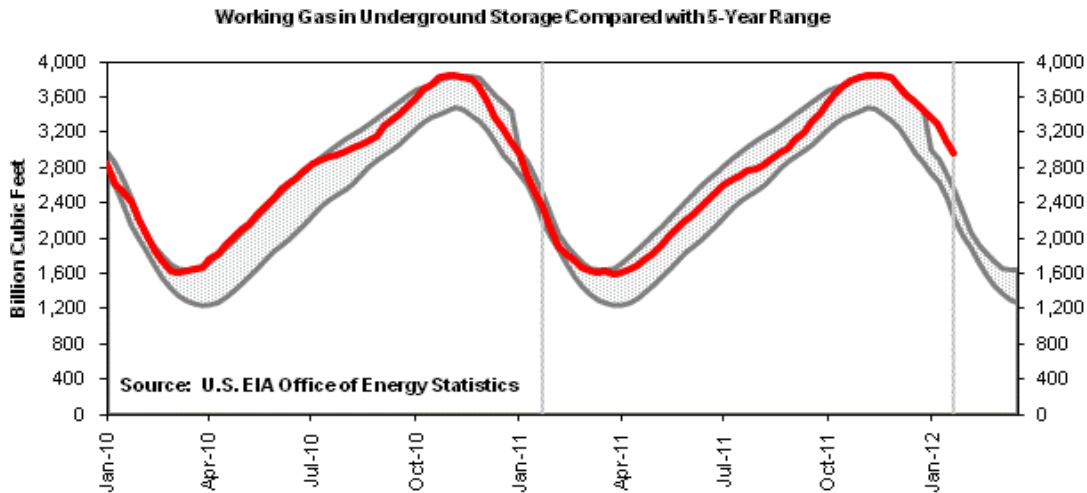
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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