

Cross Timbers Royalty Trust
Low Risk, Long Life

<i>Symbol</i>	CRT	<i>Ebitda Next Twelve Months ending 12/31/05 (US\$mm)</i>	19
<i>Rating</i>	None	<i>North American Natural Gas/Ebitda (%)</i>	75
<i>Price (US\$/sh)</i>	37.68	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/11/04	<i>Adjusted Reserves/Production NTM</i>	13.4
<i>Shares (mm)</i>	6.00	<i>EV/Ebitda</i>	12.0
<i>Market Capitalization (US\$mm)</i>	226	<i>PV/Ebitda</i>	10.2
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	2
<i>Enterprise Value (EV) (US\$mm)</i>	226	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.32
<i>Present Value (PV) (US\$mm)</i>	192	<i>Present Value Proven Reserves(US\$/boe)</i>	20.60
<i>Net Present Value (US\$/unit)</i>	32	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.40
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.09
<i>McDep Ratio - EV/PV</i>	1.18	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.09

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.

Summary and Recommendation

Units of small cap **Cross Timbers Royalty Trust (CRT)** offer a high quality income stream mostly determined by natural gas and oil price, mostly free of operating cost and entirely free of debt. About 79% of the value of the trust is in natural gas production, primarily a net revenue interest in the San Juan Basin of New Mexico. On those long-life properties the trust always receives its share of revenue regardless of costs incurred in operations. Investors in CRT get the management and professional expertise of operators **Burlington Resources (BR)** and **BP (BP)** free. For income investors an estimated 8.2% distribution yield for 2005 is a special attraction.

Natural Gas Volume Not Declining Lately

The standard caveat to investors is that royalty trusts are declining assets. However, for the high quality trusts that obvious characterization is not always true and the concern is often overstated. The fact that distribution yields are higher than fixed income market yields supposedly allows for a return of capital component. Yet if the base is declining only slowly as in a long-life trust there can be a lot of money to be made in rising commodity value before the trust is depleted.

The current decline rate for the trust's natural gas production is zero. That implies an indefinite life. The current decline rate for the trust's oil production is about 5% a year. At that rate oil production 20 years from now would still be a third of the current level.

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Futures Drive Distribution Expectations Higher

Natural gas price reached a low point in September 2004 and has climbed sharply since then. CRT's distribution declarations lag natural gas price by about three months. As a result projected distributions for April and May will reflect the high winter natural gas prices expected in January and February (see table Monthly Distributions).

**Cross Timbers Royalty Trust
Monthly Distributions**

	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Distribution (\$/unit)												
Declared	0.21	0.20	0.25	0.24								
Projected					0.22	0.22	0.25	0.24	0.27	0.28	0.27	0.28
Volume												
Natural Gas (bcf)	228	186	234	206	217	210	217	210	217	219	195	216
Natural Gas (mmcf/d)	7.35	6.00	7.80	6.65	7.00	6.99	6.99	7.00	6.98	7.07	6.97	6.97
Days	31	31	30	31	31	30	31	30	31	31	28	31
Oil (mb)	23.0	21.7	23.9	22.8	22.4	22.9	22.0	22.7	22.6	20.4	22.4	21.6
Oil (mbd)	0.74	0.72	0.77	0.74	0.75	0.74	0.73	0.73	0.73	0.73	0.72	0.72
Days	31	30	31	31	30	31	30	31	31	28	31	30
Total (bcf)	366	316	377	343	351	347	349	346	352	341	330	346
Price												
Natural gas industry quotes lagged three months (\$/mmbtu)												
Henry Hub Daily/Futures	5.71	6.30	6.29	5.93	5.44	5.11	6.39	6.20	7.24	7.94	7.99	7.75
CRT/Henry Hub	0.94	1.01	1.02	1.10	1.02	1.02	1.02	1.01	1.01	1.01	1.02	1.02
CRT (\$/mcf)	5.39	6.38	6.45	6.54	5.56	5.22	6.50	6.30	7.28	8.03	8.16	7.88
Oil (\$/bbl)												
WTI Cushing (lagged two n	40.29	38.04	40.79	44.94	45.95	53.10	49.04	47.53	47.70	47.58	47.34	47.00
CRT/WTI Cushing	0.91	0.93	0.90	0.93	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92
CRT	36.86	35.55	36.80	41.58	42.08	48.65	44.99	43.66	43.81	43.70	43.47	43.18
Total (\$/mcf)	5.67	6.19	6.33	6.70	6.12	6.37	6.88	6.68	7.29	7.76	7.79	7.62
Revenue (\$mm)												
Natural Gas	1.23	1.19	1.51	1.35	1.21	1.09	1.41	1.32	1.58	1.76	1.59	1.70
Oil	0.85	0.77	0.88	0.95	0.94	1.12	0.99	0.99	0.99	0.89	0.97	0.93
Total	2.08	1.96	2.39	2.30	2.15	2.21	2.40	2.31	2.57	2.65	2.57	2.64
Distributable income (\$mm)												
Natural Gas	0.88	0.84	1.08	0.97	0.86	0.78	1.00	0.94	1.12	1.26	1.14	1.21
Oil	0.36	0.35	0.43	0.49	0.46	0.56	0.50	0.49	0.49	0.44	0.48	0.46
Total	1.23	1.19	1.51	1.46	1.31	1.33	1.50	1.43	1.61	1.70	1.62	1.68
Natural Gas Income/Revenue	71	71	72	72	71	71	71	71	71	71	71	71
Oil Income/Revenue (%)	42	45	49	52	49	50	50	49	50	50	50	50
Latest Twelve Months												
Natural Gas (mmcf/d)	7.03	6.99	7.07	7.00	6.99	6.99	7.00	6.98	7.07	6.97	6.97	6.98
Oil (mbd)	0.79	0.79	0.79	0.76	0.76	0.75	0.75	0.75	0.75	0.74	0.74	0.74
CRT/Henry Hub	1.00	1.01	1.02	1.02	1.02	1.02	1.01	1.01	1.01	1.02	1.02	1.02
CRT/WTI Cushing	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92
Natural Gas Income/Revenue (%)			71	71	71	71	71	71	71	71	71	71
Oil Income/Revenue (%)			41	42	43	43	44	45	46	47	48	49

Monthly estimates are aggregated in the projection for the next twelve months (see table Distributable Income). Record levels of distribution are likely should actual conditions reflect estimates.

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**Cross Timbers Royalty Trust
Distributable Income**

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>12/31/05</i>
Highlights										
Distributable Income (\$mm)	3.05	3.56	3.93	4.11	14.64	4.54	5.00	4.56	4.44	18.54
Per unit	0.51	0.59	0.65	0.68	2.44	0.76	0.83	0.76	0.74	3.09
Units (millions)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Volume										
Natural Gas (bcf)	0.61	0.67	0.65	0.63	2.57	0.64	0.63	0.64	0.64	2.56
Natural Gas (mmcf)	6.7	7.4	7.1	6.9	7.0	7.0	7.0	7.0	7.0	7.0
Days	92	91	91	92	366	92	90	91	92	365
Oil (mb)	70	69	69	68	276	67	64	66	65	263
Oil (mbd)	0.76	0.77	0.75	0.74	0.75	0.73	0.72	0.71	0.71	0.72
Days	92	90	92	92	366	92	89	92	92	365
Total (bcf)	1.03	1.09	1.06	1.04	4.22	1.05	1.02	1.03	1.04	4.13
Price										
Natural Gas (HH lagged three months)										
Henry Hub (\$/mmbtu)	5.08	5.64	6.10	5.49	5.58	6.61	7.90	6.72	6.73	6.99
Differential (\$/mmbtu)	(0.11)	0.11	0.04	(0.28)	(0.06)	(0.09)	(0.12)	(0.11)	(0.11)	(0.10)
CRT (\$/mcf)	5.19	5.53	6.06	5.77	5.64	6.69	8.02	6.83	6.83	7.09
Oil (\$/bbl) (WTI lagged two months)										
WTI Cushing	32.47	36.06	39.71	48.00	39.06	48.09	47.31	46.20	45.05	46.66
CRT	29.68	33.15	36.42	44.13	35.79	46.01	43.44	44.20	41.37	43.78
Total (\$/mcf)	5.09	5.53	6.06	6.39	5.77	7.07	7.72	7.04	6.86	7.17
Revenue (\$mm)										
Natural Gas	3.19	3.71	3.92	3.65	14.47	4.31	5.06	4.35	4.40	18.12
Oil	2.08	2.29	2.50	3.00	9.87	3.10	2.80	2.90	2.70	11.50
Total	5.26	6.00	6.42	6.65	24.34	7.40	7.86	7.26	7.11	29.63
Cost (\$mm)										
Tax, transport & other										
Production	0.81	0.88	0.97	1.00	3.65	1.11	1.18	1.09	1.07	4.44
Total	0.78	0.79	0.80	0.80	3.17	0.80	0.80	0.80	0.80	3.20
Excess or other										
Total	1.59	1.67	1.77	1.80	6.82	1.91	1.98	1.89	1.87	7.64
Cash flow (\$mm)										
Development	3.67	4.34	4.66	4.86	17.52	5.49	5.88	5.37	5.24	21.99
Excess or other	0.10	0.16	0.02	0.02	0.31	0.08	0.08	0.08	0.08	0.31
Net proceeds (\$mm)										
Development	3.57	4.17	4.63	4.83	17.21	5.42	5.80	5.29	5.17	21.68
Royalty income (\$mm)										
Royalty/Net proceeds	3.12	3.66	4.02	4.20	14.99	4.63	5.09	4.64	4.53	18.89
Administration	87%	88%	87%	87%	87%	85%	88%	88%	88%	87%
Distributable income (\$mm)										
Tax and other/revenue	0.07	0.11	0.09	0.09	0.35	0.09	0.09	0.09	0.09	0.35
Distributable Inc/Rev (%)	3.05	3.56	3.93	4.11	14.64	4.54	5.00	4.56	4.44	18.54
Tax and other/revenue	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Distributable Inc/Rev (%)	58	59	61	62	60	61	64	63	62	63

Net Revenue Natural Gas and Net Profits Oil

The different functional characteristics of natural gas and oil are further amplified by different ownership rights. Natural gas rights consist primarily of the traditional royalty a landowner might receive that is a fixed percentage of the revenue from production before deducting operating or development cost. The trust's oil rights consist primarily of net profits interests after operating and development costs have been satisfied.

The important financial distinction is that proceeds from the traditional royalty fluctuate less than proceeds from the net profits interest just like revenue fluctuates less than net income for the typical business. As a result the lower risk traditional royalty should have

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more value in our analysis although we do not have a simple rule for measuring the increment.

Value Concentrated on North American Natural Gas

We have increased our estimate of present value to \$32 a unit from \$30 that we carried from March 2004 through July 2004 when we discontinued coverage temporarily. We believe the estimate is consistent with a constant real oil price of \$35 a barrel and it partly reflects a premium for percentage of revenue royalty. As we divide that value into a natural gas component and an oil component we show a higher present value multiple (PV/Ebitda) for the trust's natural gas resource (see table Functional Cash Flow and Present Value).

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>
				<i>(US\$mm)</i>
North American Natural Gas	14	13.5	10.8	151
Oil	5	13.3	8.6	41
	19	13.4	10.2	192
Debt (US\$mm)				-
Net Present Value (US\$mm)				192
Shares (mm)				6
Net Present Value (US\$/sh)				32

Real Value for a Real Asset

Despite our recognition of premium value for a premium resource investment, unit price of CRT exceeds present value as indicated by a McDep Ratio of 1.18. Though our Buy rated stocks have lower McDep Ratios, none offer as much current income and are as protected from rising costs.

Our continuing interest in the stock is probably best justified by a belief that natural gas and oil are cheap in dollar terms on a long-term basis. At the same time we see the high value the stock market places on a popular downstream partnership income stock that appears low in quality to us. It is also reassuring that Cross Timbers Royalty Trust has gone up in unit price to adjust for the 30% devaluation of the dollar in the past two years relative to the world's second most important currency. Finally if nothing else, we expect the trust to continue to deliver its real value as regular distributions.

Kurt H. Wulff, CFA

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