

**TO UNITHOLDERS**

For the quarter ended June 30, 2012, net profits income was \$3,961,296 compared to \$4,569,004 for second quarter 2011. This 13% decrease in net profits income is the result of lower gas prices (\$0.3 million), increased development costs (\$0.2 million) and decreased gas production (\$0.1 million). See "Net Profits Income" on the following page.

After considering interest income of \$76 and administration expense of \$138,130, distributable income for the quarter ended June 30, 2012 was \$3,823,242, or \$0.637207 per unit of beneficial interest. Administrative expense for the quarter decreased \$793 from the prior year quarter. For second quarter 2011, distributable income was \$4,430,130, or \$0.738355 per unit. Distributions to unitholders for the quarter ended June 30, 2012 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 30, 2012	May 14, 2012	\$ 0.228452
May 31, 2012	June 14, 2012	0.196170
June 29, 2012	July 16, 2012	0.212585
		<u>\$ 0.637207</u>

For the six months ended June 30, 2012, net profits income was \$8,338,276 compared to \$8,919,857 for the same 2011 period. This 7% decrease in net profits income is the result of decreased oil and gas production (\$0.8 million) and increased production

expense (\$0.4 million), partially offset by higher oil prices (\$0.7 million). See "Net Profits Income" on following page.

After considering interest income of \$162 and administration expense of \$265,972, distributable income for the six months ended June 30, 2012 was \$8,072,466, or \$1.345411 per unit of beneficial interest. Administrative expense for the six months ended June 30, 2012 increased \$276 from the prior year six-month period. For the six months ended June 30, 2011, distributable income was \$8,654,304, or \$1.442384 per unit.

Individualized tax information is provided annually to unitholders of record. Unitholders owning units in nominee name may obtain monthly tax information from the trustee upon request or from the trust's website at [www.crosstimberstrust.com](http://www.crosstimberstrust.com).

This letter, and all communications to unitholders, includes information provided to the trustee by XTO Energy Inc.

Cross Timbers Royalty Trust  
By: U.S. Trust Bank of America  
Private Wealth Management, Trustee



By: Nancy G. Willis  
Vice President

**CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)**

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
<b>Net Profits Income</b> .....	<b>\$ 3,961,296</b>	\$ 4,569,004	<b>\$ 8,338,276</b>	\$ 8,919,857
Interest Income .....	<b>76</b>	49	<b>162</b>	143
<b>Total Income</b> .....	<b>3,961,372</b>	4,569,053	<b>8,338,438</b>	8,920,000
Administration Expense.....	<b>138,130</b>	138,923	<b>265,972</b>	265,696
<b>Distributable Income</b> .....	<b>\$ 3,823,242</b>	\$ 4,430,130	<b>\$ 8,072,466</b>	\$ 8,654,304
<b>Distributable Income Per Unit</b> (6,000,000 units).....	<b>\$ 0.637207</b>	\$ 0.738355	<b>\$ 1.345411</b>	\$ 1.442384

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2011 annual report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended June 30, 2012.

Statements in this report to unitholders relating to future plans, predictions, events or conditions are forward-looking statements. All statements other than statements of historical fact included in this report to unitholders including, without limitation, statements regarding the net profits interests, underlying properties, development activities, development, production and other costs and expenses, oil and gas prices and differentials to NYMEX prices, distributions to unitholders and industry and market conditions, are forward-looking statements that are subject to risks and uncertainties which are detailed in Part I, Item 1A of the trust's Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated by this reference as though fully set forth herein. XTO Energy and the trustee assume no duty to update these statements as of any future date.

### Net Profits Income

Net profits income is recorded when received by the trust, which is the month following receipt by XTO Energy and generally two months after oil production and three months after gas production. Net profits income is generally affected by three major factors:

- oil and gas sales volumes,
- oil and gas sales prices, and
- costs deducted in the calculation of net profits income.

Because properties underlying the 90% net profits interests are royalty and overriding royalty interests, the calculation of net profits income from these interests only includes deductions for production and property taxes, legal costs, and marketing and transportation charges. In addition to these costs, the calculation of net profits income from the 75% net profits interests includes deductions for production expense and development costs since the related underlying properties are working interests.

The following are explanations of significant variances on the underlying properties from second quarter 2011 to second quarter 2012 and from the first six months of 2011 to the comparable period in 2012:

### Sales Volumes

**Oil.** Oil sales volumes were relatively flat for second quarter 2012 as compared with the same 2011 period primarily because natural production decline was offset by the timing of cash receipts. Oil sales volumes decreased 4% for the first six months of 2012 as compared with the same 2011 period primarily because of natural production decline.

**Gas.** Gas sales volumes decreased 5% for second quarter 2012 as compared with the same 2011 period primarily because of natural production decline, partially offset by the timing of cash receipts. Gas sales volumes decreased 9% for the first six months of 2012 as compared with the same 2011 period primarily because of natural production decline.

The estimated rate of natural production decline on the underlying oil and gas properties is approximately 6% to 8% a year.

### Sales Prices

**Oil.** The average oil price increased 4% to \$97.27 per Bbl for the second quarter and 11% to \$95.28 per Bbl for the six-month period. Oil prices are expected to remain volatile. The second quarter 2012 oil price is primarily related to production from February through April 2012, when the average NYMEX price was \$104.01 per Bbl. The average NYMEX price for May and June 2012

was \$88.53 per Bbl. At July 16, 2012, the average NYMEX futures price for the following twelve months was \$90.41 per Bbl.

**Gas.** Gas prices for the second quarter decreased 12% to \$6.20 per Mcf and for the six-month period decreased 1% to \$6.79 per Mcf. Natural gas prices are affected by the level of North American production, weather, crude oil and natural gas liquids prices, the U.S. economy, storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The second quarter 2012 gas price is primarily related to production from January through March 2012, when the average NYMEX price was \$2.74 per MMBtu. The average NYMEX price for April through June 2012 was \$2.22 per MMBtu. At July 16, 2012, the average NYMEX futures price for the following twelve months was \$3.26 per MMBtu.

### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other decreased 13% for the second quarter primarily because of decreased gas production taxes and other deductions related to lower gas revenues and decreased property taxes related to the timing of cash expenditures. Taxes, transportation and other decreased 6% for the six-month period primarily because of decreased gas production taxes and other deductions related to lower gas revenues, partially offset by increased oil production taxes related to higher oil revenues.

**Production Expense.** Production expense increased 23% for the second quarter primarily because of increased outside operated and maintenance costs. Production expense increased 26% for the six-month period primarily because of increased maintenance, outside operated and fuel costs, partially offset by decreased labor costs.

**Development.** Development costs increased 277% for the second quarter and 65% for the six-month period primarily because of the timing of expenditures and increased activity and costs related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interest.

### Contingencies

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the trustee believes that it is not required to withhold on payments made to the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the trust or unitholders for such amount.

## GLOSSARY

<b>Bbl</b>	Barrel (of oil)
<b>Mcf</b>	Thousand cubic feet (of natural gas)
<b>MMBtu</b>	One million British Thermal Units, a common energy measurement

## CROSS TIMBERS ROYALTY TRUST

## CALCULATIONS OF NET PROFITS INCOME

The following is a summary of the calculation of the net profits income received by the trust:

	THREE MONTHS ENDED			SIX MONTHS ENDED		
	2012	2011	INCREASE (DECREASE)	2012	2011	INCREASE (DECREASE)
<b>Sales Volumes</b>						
Oil (Bbl) [B]						
Underlying Properties.....	46,417	46,469	—	95,802	99,298	(4%)
Average Per Day.....	516	522	(1%)	526	549	(4%)
Net Profits Interests.....	22,725	26,438	(14%)	48,440	55,485	(13%)
Gas (Mcf) [B]						
Underlying Properties.....	430,245	451,570	(5%)	834,993	920,006	(9%)
Average Per Day.....	4,728	5,017	(6%)	4,563	5,055	(10%)
Net Profits Interests.....	382,106	397,962	(4%)	742,358	811,081	(8%)
<b>Average Sales Prices</b>						
Oil (per Bbl).....	\$ 97.27	\$ 93.79	4%	\$ 95.28	\$ 86.08	11%
Gas (per Mcf).....	\$ 6.20	\$ 7.04	(12%)	\$ 6.79	\$ 6.86	(1%)
<b>Revenues</b>						
Oil sales.....	\$ 4,514,726	\$ 4,358,283	4%	\$ 9,127,862	\$ 8,548,032	7%
Gas sales.....	2,668,248	3,177,894	(16%)	5,666,480	6,310,969	(10%)
Total Revenues.....	7,182,974	7,536,177	(5%)	14,794,342	14,859,001	—
<b>Costs</b>						
Taxes, transportation and other.....	926,770	1,064,470	(13%)	1,895,972	2,018,499	(6%)
Production expenses [C].....	1,270,288	1,029,347	23%	2,716,425	2,153,345	26%
Development costs.....	381,521	101,311	277%	487,350	296,003	65%
Total Costs.....	2,578,579	2,195,128	17%	5,099,747	4,467,847	14%
<b>Net Proceeds</b> .....	<b>\$ 4,604,395</b>	<b>\$ 5,341,049</b>	<b>(14%)</b>	<b>\$ 9,694,595</b>	<b>\$ 10,391,154</b>	<b>(7%)</b>
<b>Net Profits Income</b> .....	<b>\$ 3,961,296</b>	<b>\$ 4,569,004</b>	<b>(13%)</b>	<b>\$ 8,338,276</b>	<b>\$ 8,919,857</b>	<b>(7%)</b>

[A] Because of the interval between time of production and receipt of royalty income by the trust, (1) oil and gas sales for the quarter ended June 30 generally represent oil production for the period February through April and gas production for the period January through March and (2) oil and gas sales for the six-months ended June 30 generally represent oil production for the period November through April and gas production for the period October through March.

[B] Oil and gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and gas prices and the total amount of production expense and development costs. As product prices change, the trust's share of the production volumes is impacted as the quantity of production to cover expenses in reaching the net profits break-even level changes inversely with price. As such, the underlying property production volume changes may not correlate with the trust's net profit share of those volumes in any given period. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

[C] Production expense is primarily from seven working interest properties in the 75% net profits interest. Six of these properties are not operated by XTO Energy or ExxonMobil. Production expense includes an overhead charge which is deducted and retained by the operator. As of June 30, 2012, this charge was \$33,470 per month (including monthly overhead charges of \$4,781 which ExxonMobil deducts as operator of the Hewitt Unit) and is subject to adjustment each May based on an oil and gas industry index.

## TAX INFORMATION PER UNIT

	MONTHLY DISTRIBUTIONS PAID ON: (\$/UNIT EXCEPT COST DEPLETION FACTORS)			Total
	May 14, 2012	June 14, 2012	July 16, 2012	
Gross Income.....	\$ 0.280892	\$ 0.231777	\$ 0.252436	\$ 0.765105
Less Severance Taxes.....	(0.041912)	(0.031154)	(0.031823)	(0.104889)
Interest Income.....	0.000004	0.000004	0.000004	0.000012
Less Administration Expenses.....	(0.010532)	(0.004457)	(0.008032)	(0.023021)
Net Cash Distribution.....	<u>\$ 0.228452</u>	<u>\$ 0.196170</u>	<u>\$ 0.212585</u>	<u>\$ 0.637207</u>
Cost Depletion Factors:				
Texas - 90%.....	0.008495	0.008266	0.010267	0.027028
Oklahoma - 90%.....	0.008450	0.007886	0.011939	0.028275
New Mexico - 90%.....	0.005168	0.004515	0.004373	0.014056
Texas - 75%.....	0.007410	0.004713	0.002586	0.014709
Oklahoma - 75%.....	0.007364	0.006162	0.003997	0.017523

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