

**TO UNITHOLDERS**

For the quarter ended June 30, 2014, net profits income was \$3,859,488 compared to \$3,225,021 for second quarter 2013. This 20% increase in net profits income is the result of higher oil and gas prices (\$1.1 million), partially offset by increased taxes, transportation and other costs (\$0.3 million) and decreased oil production (\$0.2 million). See "Net Profits Income" on following page.

After considering interest income of \$65 and administration expense of \$93,299, distributable income for the quarter ended June 30, 2014 was \$3,766,254, or \$0.627709 per unit of beneficial interest. Administrative expense for the quarter decreased \$34,548 from the prior year quarter. For second quarter 2013, distributable income was \$3,097,230, or \$0.516205 per unit.

Distributions to unitholders for the quarter ended June 30, 2014 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 30, 2014	May 14, 2014	\$ 0.209127
May 30, 2014	June 13, 2014	0.250407
June 30, 2014	July 15, 2014	0.168175
		<u>\$ 0.627709</u>

For the six months ended June 30, 2014, net profits income was \$8,245,633 compared to \$6,017,619 for the same 2013 period. This 37% increase in net profits income is the result of higher oil and gas prices (\$1.9 million), increased oil

and gas production (\$0.9 million) and a one-time purchaser refund (\$0.5 million), partially offset by increased taxes, transportation and other costs (\$0.8 million) and increased development costs (\$0.3 million). See "Net Profits Income" on following page.

After considering interest income of \$122 and administration expense of \$275,541, distributable income for the six months ended June 30, 2014 was \$7,970,214, or \$1.328369 per unit of beneficial interest. Administrative expense for the six months ended June 30, 2014 increased \$14,511 from the prior year six-month period. For the six months ended June 30, 2013, distributable income was \$5,756,706, or \$0.959451 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.crosstimmerstrust.com](http://www.crosstimmerstrust.com).

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

Cross Timbers Royalty Trust  
By: Southwest Bank, Trustee



By: Nancy G. Willis  
Vice President

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Net Profits Income.....	\$ 3,859,488	\$ 3,225,021	\$ 8,245,633	\$ 6,017,619
Interest Income.....	65	56	122	117
<b>Total Income.....</b>	<b>3,859,553</b>	<b>3,225,077</b>	<b>8,245,755</b>	<b>6,017,736</b>
Administration Expense.....	93,299	127,847	275,541	261,030
<b>Distributable Income .....</b>	<b>\$ 3,766,254</b>	<b>\$ 3,097,230</b>	<b>\$ 7,970,214</b>	<b>\$ 5,756,706</b>
<b>Distributable Income Per Unit (6,000,000 units)</b>	<b>\$ 0.627709</b>	<b>\$ 0.516205</b>	<b>\$ 1.328369</b>	<b>\$ 0.959451</b>

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2013 Annual Report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended June 30, 2014.

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, 2013, 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 2013 to second quarter 2014 and from the first six months of 2013 to the comparable period in 2014:

### Sales Volumes

**Oil.** Oil sales volumes decreased 4% for second quarter 2014 as compared with the same 2013 period primarily because of natural production decline, partially offset by increased production from new wells and workovers. Oil sales volumes increased 8% for the six-month period as compared with the same 2013 period primarily because of the timing of cash receipts and increased production from new wells and workovers, partially offset by natural production decline.

**Gas.** Gas sales volumes increased 3% for second quarter 2014 and increased 5% for the six-month period as compared with the same 2013 periods primarily because of the timing of cash receipts, partially offset by 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 11% to \$94.30 per Bbl for the second quarter and 12% to \$92.09 per Bbl for the six-month period. Oil prices are expected to remain volatile. The second quarter 2014 oil price is primarily related to production from February through April 2014, when the average NYMEX price was \$101.12 per Bbl. The average NYMEX price for May and June 2014 was \$103.52 per Bbl. On July 21, 2014, the average NYMEX futures price for the following twelve months was \$99.19 per Bbl.

**Gas.** Gas prices for the second quarter increased 36% to \$8.33 per Mcf and for the six-month period increased 28% to \$7.58 per Mcf. Natural gas prices are affected by natural gas liquids prices, the level of North American production, weather, crude oil prices and the U.S. economy, storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The second quarter 2014 gas price is primarily related to production from January through March 2014, when the average NYMEX price was \$4.94 per MMBtu. The average NYMEX price for April through June 2014 was \$4.67 per MMBtu. On July 21, 2014, the average NYMEX futures price for the following twelve months was \$3.90 per MMBtu.

### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other increased 46% for the second quarter primarily because of increased gas production taxes and other deductions related to higher gas revenues. Taxes, transportation and other increased 41% for the six-month period primarily because of increased oil and gas production taxes and other deductions related to higher oil and gas revenues, partially offset by a one-time purchaser refund for coal seam gas deductions.

**Production Expense.** Production expense decreased 3% for the six-month period primarily because of decreased outside operated costs, partially offset by increased repairs and maintenance, labor and chemical and treating costs.

**Development Costs.** Development costs increased 21% for the second quarter and 32% 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 interests.

**Excess Costs.** XTO advised the trustee that a missing payment from a purchaser caused costs to exceed revenues by a total of \$166 (\$125 net to the trust) on properties underlying the Oklahoma working interest in June 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances.

Lower oil prices caused costs to exceed revenues by a total of \$42,061 (\$31,546 net to the trust) on properties underlying the Texas working interest in January 2014. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that higher oil prices and decreased costs led to the full recovery of excess costs, plus accrued interest, of \$42,177 (\$31,633 net to the trust) in February 2014.

Lower oil prices in January 2013 and increased costs related to the timing of cash expenditures in January and March 2013 caused costs to exceed revenues by a total of \$148,300 (\$111,225 net to the trust) in January and March 2013 on properties underlying the Texas working interest. XTO advised the trustee that increased costs related to the timing of cash expenditures caused costs to exceed revenues by a total of \$103,563 (\$77,672 net to the trust) in April 2013 on properties underlying the Texas working interest. However, these excess costs did not reduce net proceeds from the remaining conveyances. Decreased costs in February 2013 and May 2013 and increased oil prices in June 2013 led to the partial recovery of excess costs, plus accrued interest, of \$54,849 (\$41,137 net to the trust) in February 2013 and \$155,974 (\$116,980 net to the trust) in May and June 2013 on properties underlying the Texas working interest. Remaining excess costs totaled \$41,040 (\$30,780 net to the trust) for the period ended June 30, 2013.

### Other Proceeds

The calculation of net profits income for the quarter ended March 31, 2014 included \$519,071 (\$467,164 net to the trust), which includes interest of \$210,242 (\$189,218 net to the trust), related to a one-time purchaser refund for deductions attributable to coal seam gas wells located in the San Juan Basin for the period December 1997 through May 2006.

**Trustee Resignation**

U.S. Trust, Bank of America Private Wealth Management, a division of Bank of America, N.A., as trustee of the Cross Timbers Royalty Trust, announced that at the special meeting of trust's unitholders held on June 20, 2014, the unitholders of the trust voted to approve the proposal to appoint Southwest Bank as successor trustee of the trust once the resignation of the current trustee takes effect. The effective date of U.S. Trust's resignation as trustee of the trust and Southwest Bank's appointment as successor trustee will be August 29, 2014.

**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		INCREASE (DECREASE)
	JUNE 30 [A]		INCREASE (DECREASE)	JUNE 30 [A]		
	2014	2013			2014	2013
<b>Sales Volumes</b>						
Oil (Bbl) [B]						
Underlying Properties .....	49,706	51,786	(4%)	106,247	97,959	8%
Average Per Day.....	558	582	(4%)	587	541	9%
Net Profits Interests.....	20,749	21,106	(2%)	44,437	37,214	19%
Gas (Mcf) [B]						
Underlying Properties .....	371,333	359,322	3%	804,244	763,661	5%
Average Per Day.....	4,126	3,992	3%	4,419	4,196	5%
Net Profits Interests .....	328,571	313,852	5%	735,586	663,881	11%
<b>Average Sales Prices</b>						
Oil (per Bbl) .....	\$ 94.30	\$ 84.65	11%	\$ 92.09	\$ 81.93	12%
Gas (per Mcf) .....	\$ 8.33	\$ 6.12	36%	\$ 7.58	\$ 5.94	28%
<b>Revenues</b>						
Oil sales .....	\$4,687,193	\$ 4,383,424	7%	\$ 9,783,856	\$ 8,026,251	22%
Gas sales .....	3,093,013	2,199,236	41%	6,098,027	4,534,111	34%
Total Revenues.....	7,780,206	6,582,660	18%	15,881,883	12,560,362	26%
<b>Costs</b>						
Taxes, transportation and other .....	1,109,047	761,669	46%	2,044,162	1,454,863	41%
Production expense [C] .....	1,363,679	1,344,215	1%	2,798,230	2,896,313	(3%)
Development costs.....	865,724	717,609	21%	1,809,974	1,373,245	32%
Excess costs .....	(166)	52,411	(100%)	(50)	(41,040)	(100%)
Total Costs.....	3,338,284	2,875,904	16%	6,652,316	5,683,381	17%
<b>Other Proceeds</b>						
Interest income.....	—	—	—	210,242	—	—
<b>Net Proceeds.....</b>	<b>\$4,441,922</b>	<b>\$3,706,756</b>	<b>20%</b>	<b>\$ 9,439,809</b>	<b>\$ 6,876,981</b>	<b>37%</b>
<b>Net Profits Income.....</b>	<b>\$3,859,488</b>	<b>\$3,225,021</b>	<b>20%</b>	<b>\$ 8,245,633</b>	<b>\$ 6,017,619</b>	<b>37%</b>

[A] Because of the interval between time of production and receipt of royalty income by the trust, 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, 2014, this charge was \$36,845 per month (including a monthly overhead charge of \$5,264 which XTO Energy 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)			
	May 14, 2014	June 13, 2014	July 15, 2014	Total
Gross Income.....	\$ 0.263068	\$ 0.315982	\$ 0.200679	\$ 0.779729
Less Severance Taxes.....	(0.050490)	(0.057877)	(0.028114)	(0.136481)
Interest Income.....	0.000004	0.000003	0.000004	0.000011
Less Administration Expenses.....	(0.003455)	(0.007701)	(0.004394)	(0.015550)
Net Cash Distribution.....	<u>\$ 0.209127</u>	<u>\$ 0.250407</u>	<u>\$ 0.168175</u>	<u>\$ 0.627709</u>
Cost Depletion Factors:				
Texas - 90% .....	0.007408	0.009829	0.007585	0.024822
Oklahoma - 90% .....	0.011233	0.022487	0.010806	0.044526
New Mexico - 90% .....	0.004645	0.004484	0.004813	0.013942
Texas - 75% .....	0.004721	0.006165	0.008167	0.019053
Oklahoma - 75% .....	0.006724	0.006697	0.000000	0.013421

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