

TO UNITHOLDERS

For the quarter ended June 30, 2016, net profits income was \$1,391,073 compared to \$1,851,313 for second quarter 2015. This 25% decrease in net profits income is primarily the result of lower oil and gas prices (\$1.2 million) and net excess costs on the Texas and Oklahoma working interest properties in 2015 (\$0.8 million), partially offset by lower development costs (\$0.7 million), decreased production expense (\$0.4 million), increased gas production (\$0.3 million), and decreased taxes, transportation, and other costs (\$0.2 million). See “Net Profits Income” on the following page.

After considering interest income of \$183, administration expense of \$116,076 and additions to the cash reserve of \$300,000, distributable income for the quarter ended June 30, 2016 was \$975,180, or \$0.162530 per unit of beneficial interest. Administration expense for the quarter increased \$26,380 from the prior year quarter. For second quarter 2015, distributable income was \$1,736,628, or \$0.289438 per unit.

Distributions to unitholders for the quarter ended June 30, 2016 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 29, 2016	May 13, 2016	\$ 0.054363
May 31, 2016	June 14, 2016	0.047302
June 30, 2016	July 15, 2016	0.060865
		<u>\$ 0.162530</u>

For the six months ended June 30, 2016, net profits income was \$4,097,179 compared to \$4,675,684 for the same 2015 period.

This 12% decrease in net profits income is primarily the result of lower oil and gas prices (\$3.0 million) and net excess costs on the Texas and Oklahoma working interest properties in 2015 (\$0.7 million), partially offset by increased gas production (\$1.6 million), lower development costs (\$0.9 million) and decreased production expense (\$0.7 million). See “Net Profits Income” on the following page.

After considering interest income of \$241, administration expense of \$341,258 and additions to the cash reserve of \$600,000, distributable income for the six months ended June 30, 2016 was \$3,156,162, or \$0.526027 per unit of beneficial interest. Administration expense for the six months ended June 30, 2016 increased \$93,169 from the prior year six-month period. For the six months ended June 30, 2015, distributable income was \$4,302,618, or \$0.717103 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.crt-crosstimbers.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	
	2016	2015	2016	2015
Net Profits Income.....	\$ 1,391,073	\$ 1,851,313	\$ 4,097,179	\$ 4,675,684
Interest Income.....	183	11	241	23
Total Income.....	1,391,256	1,851,324	4,097,420	4,675,707
Administration Expense.....	116,076	89,696	341,258	248,089
Cash Reserves Withheld for Trust Expenses.....	300,000	25,000	600,000	125,000
Distributable Income	\$ 975,180	\$ 1,736,628	\$ 3,156,162	\$ 4,302,618
Distributable Income Per Unit (6,000,000 units)	\$ 0.162530	\$ 0.289438	\$ 0.526027	\$ 0.717103

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the Trust’s 2015 annual report. For further information, see the Trust’s quarterly report on Form 10-Q for the quarter ended June 30, 2016.

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, 2015, 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 2015 to second quarter 2016 and from the first six months of 2015 to the comparable period in 2016:

Sales Volumes

Oil. Oil sales volumes decreased 2% for second quarter 2016 and decreased 2% for the six-month period as compared with the same 2015 periods primarily because of natural production decline, partially offset by the timing of cash receipts.

Gas. Gas sales volumes increased 26% for second quarter 2016 and increased 61% for the six-month period as compared with the same 2015 periods primarily because of the timing of cash receipts related to purchaser payments covering production back to 2013, 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 decreased 35% to \$32.19 per Bbl for the second quarter and decreased 39% to \$34.20 per Bbl for the six-month period. Oil prices are expected to remain volatile. The second quarter 2016 oil price is primarily related to production from February through April 2016, when the average NYMEX price was \$36.57 per Bbl. The average NYMEX price for May and June 2016 was \$47.81 per Bbl. On July 18, 2016, the average NYMEX futures price for the following twelve months was \$48.19 per Bbl.

Gas. Gas prices for the second quarter decreased 28% to \$2.83 per Mcf and for the six-month period decreased 25% to \$3.65 per Mcf. Excluding the impact of the prior period production payments received in second quarter 2016 and six-months ended June 30, 2016 the adjusted gas price was \$2.53 and \$2.75 respectively. Natural gas prices are affected by natural gas liquids prices, the level of North American production, weather, crude oil 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 2016 gas price is primarily related to production from January through March 2016, when the average NYMEX price was \$2.09 per MMBtu. The average NYMEX price for April through June 2016 was \$1.95 per MMBtu. On July 18, 2016, the average NYMEX futures price for the following twelve months was \$3.03 per MMBtu.

Costs

Taxes, Transportation and Other. Taxes, transportation and other costs decreased 29% for the second quarter primarily because of lower oil and gas production taxes related to lower oil and gas revenues and decreased property taxes related to lower valuations. Taxes, transportation and other costs decreased 7% for the six-month period primarily because of lower oil production taxes related to lower oil revenues and decreased property taxes related to lower valuations, partially offset by increased other deductions as a percentage of oil and gas revenues and increased gas production taxes related to higher gas revenues.

Production Expense. Production expense decreased 34% for the second quarter and 27% for the six-month period primarily because of decreased outside operated and repairs and maintenance costs.

Development Costs. Development costs decreased 85% for the second quarter and 69% for the six-month period primarily because of decreased activity and costs related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interests.

Excess Costs

	Conveyances (Underlying)		
	TX WI	OK WI	Total
Cumulative excess costs remaining at 12/31/15	\$ 959,151	\$1,066,920	\$ 2,026,071
Net excess costs for the quarter ended 3/31/16	392,377	115,984	508,361
Net excess costs (recovery) for the quarter ended 6/30/16	163,954	(63,820)	100,134
Cumulative excess costs remaining at 6/30/16	<u>\$1,515,482</u>	<u>\$1,119,084</u>	<u>\$ 2,634,566</u>

If monthly costs exceed revenues for any conveyance, such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from other conveyances.

XTO Energy advised the trustee that continued lower oil prices resulted in net excess costs of \$163,954 (\$122,966 net to the Trust) for the quarter ended June 30, 2016 and \$392,377 (\$294,283 net to the Trust) for the quarter ended March 31, 2016 on properties underlying the Texas working interest.

XTO Energy advised the trustee that decreased costs and increasing oil prices resulted in the partial recovery of excess costs of \$63,820 (\$47,865 net to the Trust) for the quarter ended June 30, 2016 on properties underlying the Oklahoma working interest.

XTO Energy advised the trustee that lower oil prices resulted in net excess costs of \$115,984 (\$86,988 net to the Trust) for the quarter ended March 31, 2016 on properties underlying the Oklahoma working interest.

XTO Energy advised the trustee that lower oil prices and increased costs resulted in net excess costs of \$310,588 (\$232,941 net to the Trust) for the quarter ended June 30, 2015 and \$410,337 (\$307,753 net to the Trust) for the quarter ended March 31, 2015 on properties underlying the Texas working interest.

XTO Energy advised the trustee that lower oil prices, decreased oil production and increased costs resulted in net excess costs of \$807,158 (\$605,369 net to the Trust) for the quarter ended June 30, 2015 and \$43,414 (\$32,560 net to the Trust) for the quarter ended March 31, 2015 on properties underlying the Oklahoma working interest.

Cumulative excess costs for the Texas and Oklahoma working interest conveyances remaining as of June 30, 2016 totaled \$2,634,566 (\$1,975,925 net to the Trust).

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

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

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 JUNE 30 [A]			INCREASE (DECREASE)	SIX MONTHS ENDED JUNE 30 [A]			INCREASE (DECREASE)
	2016	2015			2016	2015		
Sales Volumes								
Oil (Bbl) [B]								
Underlying Properties.....	57,269	58,247	(2%)	116,135	118,130	(2%)		
Average Per Day.....	636	654	(3%)	638	653	(2%)		
Net Profits Interests	17,157	17,469	(2%)	33,372	38,226	(13%)		
Gas (Mcf) [B]								
Underlying Properties.....	432,502	343,498	26%	1,144,289	711,729	61%		
Average Per Day.....	4,753	3,817	25%	6,253	3,911	60%		
Net Profits Interests	402,610	297,916	35%	1,038,416	619,436	68%		
Average Sales Prices								
Oil (per Bbl)	\$ 32.19	\$ 49.36	(35%)	\$ 34.20	\$ 56.17	(39%)		
Gas (per Mcf)	\$ 2.83	\$ 3.92	(28%)	\$ 3.65	\$ 4.85	(25%)		
Revenues								
Oil sales	\$1,843,425	\$2,875,117	(36%)	\$3,971,864	\$6,635,762	(40%)		
Gas sales	1,222,849	1,347,953	(9%)	4,179,048	3,450,621	21%		
Total Revenues	3,066,274	4,223,070	(27%)	8,150,912	10,086,383	(19%)		
Costs								
Taxes, transportation and other.....	429,308	603,999	(29%)	1,257,370	1,345,562	(7%)		
Production expense [C]	1,014,786	1,530,991	(34%)	2,386,705	3,276,013	(27%)		
Development costs	176,677	1,148,812	(85%)	562,911	1,793,587	(69%)		
Excess costs	(100,134)	(1,117,746)	(91%)	(608,495)	(1,571,497)	(61%)		
Total Costs.....	1,520,637	2,166,056	(30%)	3,598,491	4,843,665	(26%)		
Net Proceeds.....	\$1,545,637	\$2,057,014	(25%)	\$4,552,421	\$5,242,718	(13%)		
Net Profits Income.....	\$1,391,073	\$1,851,313	(25%)	\$4,097,179	\$4,675,684	(12%)		

[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, 2016, this charge was \$37,200 per month (including a monthly overhead charge of \$5,314 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 13, 2016	June 14, 2016	July 15, 2016	Total
Gross Income.....	\$ 0.089316	\$ 0.086260	\$ 0.108400	\$ 0.283976
Less Severance Taxes.....	(0.014608)	(0.016176)	(0.021346)	(0.052130)
Interest Income.....	0.000010	0.000012	0.000008	0.000030
Less Administration Expenses.....	(0.003688)	(0.006127)	(0.009530)	(0.019345)
Reconciling Items.....	(0.016667)	(0.016667)	(0.016667)	(0.050001)
Net Cash Distribution.....	<u>\$ 0.054363</u>	<u>\$ 0.047302</u>	<u>\$ 0.060865</u>	<u>\$ 0.162530</u>
Cost Depletion Factors:				
Texas - 90%	0.011349	0.011669	0.010874	0.033892
Oklahoma - 90%.....	0.017350	0.014534	0.015637	0.047521
New Mexico - 90%	0.006097	0.006472	0.009774	0.022343
Texas - 75%	0.000000	0.000000	0.000000	0.000000
Oklahoma - 75%.....	0.000000	0.000000	0.000000	0.000000

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