

**TO UNITHOLDERS**

For the quarter ended September 30, 2012, net profits income was \$3,320,147 compared to \$5,257,619 for third quarter 2011. This 37% decrease in net profits income is primarily the result of lower gas and oil prices (\$1.8 million) and increased development costs (\$0.3 million). See "Net Profits Income" on following page.

After considering interest income of \$80 and administration expense of \$52,621, distributable income for the quarter ended September 30, 2012 was \$3,267,606, or \$0.544601 per unit of beneficial interest. Administrative expense for the quarter decreased \$39,207 from the prior year quarter. For third quarter 2011, distributable income was \$5,165,922, or \$0.860987 per unit. Distributions to unitholders for the quarter ended September 30, 2012 were:

RECORD DATE	PAYMENT DATE	PER UNIT
July 31, 2012	August 14, 2012	\$ 0.218544
August 31, 2012	September 17, 2012	0.184914
September 28, 2012	October 15, 2012	0.141143
		<u>\$ 0.544601</u>

For the nine months ended September 30, 2012, net profits income was \$11,658,423 compared to \$14,177,476 for the same 2011 period. This 18% decrease in net profits income is primarily the result of lower gas prices (\$1.5 million), decreased oil and gas production (\$0.8 million) and increased development costs

(\$0.5 million), partially offset by higher oil prices (\$0.3 million). See "Net Profits Income" on following page.

After considering interest income of \$242 and administration expense of \$318,593, distributable income for the nine months ended September 30, 2012 was \$11,340,072, or \$1.890012 per unit of beneficial interest. Administrative expense for the nine months ended September 30, 2012 decreased \$38,931 from the prior year nine-month period. For the nine months ended September 30, 2011, distributable income was \$13,820,226, or \$2.303371 per unit.

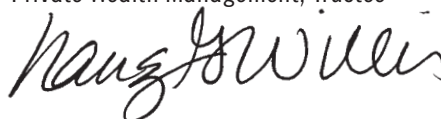
Individualized tax information is provided annually to unitholders of record. Unitholders owning units in nominee name may obtain monthly tax information from the trustee upon request or from the trust's website at [www.crosstimerstrust.com](http://www.crosstimerstrust.com).

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 SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	2012	2011
<b>Net Profits Income</b> .....	<b>\$ 3,320,147</b>	\$ 5,257,619	<b>\$ 11,658,423</b>	\$ 14,177,476
Interest Income .....	<b>80</b>	131	<b>242</b>	274
<b>Total Income</b> .....	<b>3,320,227</b>	5,257,750	<b>11,658,665</b>	14,177,750
Administration Expense.....	<b>52,621</b>	91,828	<b>318,593</b>	357,524
<b>Distributable Income</b> .....	<b>\$ 3,267,606</b>	\$ 5,165,922	<b>\$ 11,340,072</b>	\$ 13,820,226
<b>Distributable Income Per Unit</b> (6,000,000 units).....	<b>\$ 0.544601</b>	\$ 0.860987	<b>\$ 1.890012</b>	\$ 2.303371

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 September 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 third quarter 2011 to third quarter 2012 and from the first nine months of 2011 to the comparable period in 2012:

#### Sales Volumes

**Oil.** Oil sales volumes decreased 4% for third quarter 2012 as compared with the same 2011 period primarily because of natural production decline, partially offset by the timing of cash receipts. Oil sales volumes decreased 4% for the first nine months of 2012 as compared with the same 2011 period primarily because of natural production decline.

**Gas.** Gas sales volumes increased 6% for third quarter 2012 as compared with the same 2011 period primarily because of the timing of cash receipts, partially offset by natural production decline. Gas sales volumes decreased 4% for the first nine months of 2012 as compared with the same 2011 period primarily because of natural production decline, partially offset by the timing of cash receipts.

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 12% to \$81.86 per Bbl for the third quarter and increased 3% to \$90.74 per Bbl for the nine-month period. Oil prices are expected to remain volatile. The third quarter 2012 oil price is primarily related to production from May through July 2012, when the average NYMEX price was \$88.33 per Bbl. The average NYMEX price for August and September 2012 was \$94.52 per Bbl. At October 12, 2012, the average NYMEX futures price for the following twelve months was \$93.64 per Bbl.

**Gas.** Gas prices for the third quarter decreased 39% to \$4.91 per Mcf and for the nine-month period decreased 16% to \$6.09 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 third quarter 2012 gas price is primarily related to production from April through June 2012, when the average NYMEX price was \$2.22 per MMBtu. The average NYMEX price for July through September 2012 was \$2.81 per MMBtu. At October 12, 2012, the average NYMEX futures price for the following twelve months was \$3.94 per MMBtu.

#### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other decreased 18% for the third quarter primarily because of decreased oil and gas production taxes and other deductions related to lower oil and gas revenues and decreased property taxes related to the timing of cash expenditures. Taxes, transportation and other decreased 10% for the nine-month period 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.

**Production Expense.** Production expense increased 13% for the third quarter primarily because of the timing of cash expenditures and increased outside operated and maintenance costs. Production expense increased 22% for the nine-month period primarily because of the timing of cash expenditures and increased maintenance, outside operated and fuel costs, partially offset by decreased labor costs.

**Development.** Development costs increased 400% for the third quarter and 159% for the nine-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.

#### Excess Costs

XTO advised the trustee that lower oil prices and increased production expenses related to the timing of cash disbursements caused costs to exceed revenues on properties underlying the Texas working interest in August 2012 by \$218,168 (\$163,626 net to the trust). However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO advised the trustee that increased oil prices and decreased production expenses led to the partial recovery of excess costs, plus accrued interest, on the properties underlying the Texas working interest in September 2012. Remaining excess costs totaled \$171,978 (\$128,984 net to the trust) at the end of third quarter 2012.

#### 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			NINE MONTHS ENDED		
	SEPTEMBER 30 [A]		INCREASE (DECREASE)	SEPTEMBER 30 [A]		INCREASE (DECREASE)
	2012	2011		2012	2011	
<b>Sales Volumes</b>						
Oil (Bbl) [B]						
Underlying Properties.....	49,011	50,994	(4%)	144,813	150,292	(4%)
Average Per Day.....	533	554	(4%)	529	551	(4%)
Net Profits Interests.....	21,797	29,514	(26%)	70,237	84,999	(17%)
Gas (Mcf) [B]						
Underlying Properties.....	494,084	467,079	6%	1,329,077	1,387,085	(4%)
Average Per Day.....	5,429	5,133	6%	4,851	5,081	(5%)
Net Profits Interests.....	433,141	413,280	5%	1,175,499	1,224,361	(4%)
<b>Average Sales Prices</b>						
Oil (per Bbl).....	\$ 81.86	\$ 92.53	(12%)	\$ 90.74	\$ 88.27	3%
Gas (per Mcf).....	\$ 4.91	\$ 8.07	(39%)	\$ 6.09	\$ 7.27	(16%)
<b>Revenues</b>						
Oil sales.....	\$ 4,012,023	\$ 4,718,348	(15%)	\$13,139,885	\$13,266,380	(1%)
Gas sales.....	2,425,653	3,769,185	(36%)	8,092,133	10,080,154	(20%)
Total Revenues.....	6,437,676	8,487,533	(24%)	21,232,018	23,346,534	(9%)
<b>Costs</b>						
Taxes, transportation and other.....	941,308	1,144,178	(18%)	2,837,280	3,162,677	(10%)
Production expenses [C].....	1,244,444	1,103,132	13%	3,960,869	3,256,477	22%
Development costs.....	580,656	116,207	400%	1,068,006	412,210	159%
Excess costs.....	(171,978)	—	—	(171,978)	—	—
Total Costs.....	2,594,430	2,363,517	10%	7,694,177	6,831,364	13%
<b>Net Proceeds</b> .....	<u>\$ 3,843,246</u>	<u>\$6,124,016</u>	(37%)	<u>\$13,537,841</u>	<u>\$16,515,170</u>	(18%)
<b>Net Profits Income</b> .....	<u>\$ 3,320,147</u>	<u>\$5,257,619</u>	(37%)	<u>\$11,658,423</u>	<u>\$14,177,476</u>	(18%)

[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 September 30 generally represent oil production for the period May through July and gas production for the period April through June and (2) oil and gas sales for the nine-months ended September 30 generally represent oil production for the period November through July and gas production for the period October through June.

[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 September 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
	August 14, 2012	September 17, 2012	October 15, 2012	
Gross Income.....	\$ 0.264089	\$ 0.224497	\$ 0.171354	\$ 0.659940
Less Severance Taxes.....	(0.040310)	(0.038077)	(0.028196)	(0.106583)
Interest Income.....	0.000005	0.000004	0.000004	0.000013
Less Administration Expenses.....	(0.005240)	(0.001510)	(0.002019)	(0.008769)
Net Cash Distribution.....	<u>\$ 0.218544</u>	<u>\$ 0.184914</u>	<u>\$ 0.141143</u>	<u>\$ 0.544601</u>
Cost Depletion Factors:				
Texas - 90%.....	0.008954	0.008912	0.007597	0.025463
Oklahoma - 90%.....	0.007245	0.008612	0.008962	0.024819
New Mexico - 90%.....	0.004603	0.007377	0.005038	0.017018
Texas - 75%.....	0.006420	0.000000	0.000000	0.006420
Oklahoma - 75%.....	0.010944	0.004291	0.004617	0.019852

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