

**TO UNITHOLDERS**

For the quarter ended September 30, 2016, net profits income was \$1,513,537 compared to \$1,894,473 for third quarter 2015. This 20% decrease in net profits income is primarily the result of lower oil and gas prices (\$0.8 million) and net excess costs in 2015 (\$0.3 million), partially offset by decreased production expenses (\$0.4 million) and decreased development costs (\$0.3 million). See "Net Profits Income" on following page.

After considering interest income of \$356, administration expense of \$88,981 and additions to the cash reserve of \$125,000, distributable income for the quarter ended September 30, 2016 was \$1,299,912, or \$0.216652 per unit of beneficial interest. Administration expense for the quarter decreased \$44,836 from the prior year quarter. For third quarter 2015, distributable income was \$1,760,664, or \$0.293444 per unit.

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

RECORD DATE	PAYMENT DATE	PER UNIT
July 29, 2016	August 12, 2016	\$ 0.054416
August 31, 2016	September 15, 2016	0.088673
September 30, 2016	October 17, 2016	0.073563
		<u>\$ 0.216652</u>

For the nine months ended September 30, 2016, net profits income was \$5,610,716 compared to \$6,570,157 for the same 2015 period. This 15% decrease in net profits income is primarily the result of lower oil and gas prices (\$2.8 million) and net excess costs in 2015 (\$1.0 million), partially offset by

lower development costs (\$1.2 million), decreased production expenses (\$1.0 million) and increased gas production (\$0.7 million). See "Net Profits Income" on the following page.

After considering interest income of \$597, administration expense of \$430,239 and additions to the cash reserve of \$725,000, distributable income for the nine months ended September 30, 2016 was \$4,456,074, or \$0.742679 per unit of beneficial interest. Administration expense for the nine months ended September 30, 2016 increased \$48,333 from the prior year nine-month period. For the nine months ended September 30, 2015, distributable income was \$6,063,282, or \$1.010547 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](http://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 SEPT. 30		NINE MONTHS ENDED SEPT. 30	
	2016	2015	2016	2015
Net Profits Income.....	\$ 1,513,537	\$ 1,894,473	\$ 5,610,716	\$ 6,570,157
Interest Income.....	356	8	597	31
<b>Total Income.....</b>	<b>1,513,893</b>	<b>1,894,481</b>	<b>5,611,313</b>	<b>6,570,188</b>
Administration Expense.....	88,981	133,817	430,239	381,906
Cash Reserves Withheld for Trust Expenses.....	125,000	—	725,000	125,000
<b>Distributable Income.....</b>	<b>\$ 1,299,912</b>	<b>\$ 1,760,664</b>	<b>\$ 4,456,074</b>	<b>\$ 6,063,282</b>
<b>Distributable Income Per Unit (6,000,000 units)</b>	<b>\$ 0.216652</b>	<b>\$ 0.293444</b>	<b>\$ 0.742679</b>	<b>\$ 1.010547</b>

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 September 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 third quarter 2015 to third quarter 2016 and from the first nine months of 2015 to the comparable period in 2016:

## Sales Volumes

**Oil.** Oil sales volumes decreased 4% for third quarter and 2% for the first nine months of 2016 primarily because of natural production decline, partially offset by the timing of cash receipts.

**Gas.** Gas sales volumes were relatively flat for third quarter 2016 as natural production decline was offset by the timing of cash receipts. Gas sales volumes increased 39% for the first nine months of 2016 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 22% to \$42.06 per Bbl for the third quarter and decreased 34% to \$36.73 per Bbl for the nine-month period. Oil prices are expected to remain volatile. The third quarter 2016 oil price is primarily related to production from May through July 2016, when the average NYMEX price was \$46.89 per Bbl. The average NYMEX price for August and September 2016 was \$45.00 per Bbl. At October 19, 2016, the average NYMEX futures price for the following twelve months was \$53.05 per Bbl.

**Gas.** Gas prices for the third quarter decreased 12% to \$3.37 per Mcf and for the nine-month period decreased 20% to \$3.58 per Mcf. Excluding the impact of the prior period production payments received in third quarter 2016 and nine-months ended September 30, 2016 the adjusted gas price was \$2.82 and \$2.83 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 third quarter 2016 gas price is primarily related to production from April through June 2016, when the average NYMEX price was \$1.95 per MMBtu. The average NYMEX price for July through September 2016 was \$2.81 per MMBtu. At October 19, 2016, the average NYMEX futures price for the following twelve months was \$3.37 per MMBtu.

## Costs

**Taxes, Transportation and Other.** Taxes, transportation and other costs decreased 19% for the third quarter and 11% for the nine-month period primarily because of lower oil and gas production taxes related to lower oil and gas revenues and decreased property taxes related to lower

valuations, partially offset by increased other deductions as a percentage of oil and gas revenues.

**Production Expense.** Production expense decreased 32% for the third quarter and 29% for the nine-month period primarily because of decreased outside operated and repairs and maintenance costs.

**Development Costs.** Development costs decreased 63% for the third quarter and 67% for the nine-month period primarily because of decreased activity and costs related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interest.

## 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
Net excess costs (recovery) for the quarter ended 9/30/16 .....	23,597	(316,303)	(292,706)
Cumulative excess costs remaining at 9/30/16 .....	\$1,539,079	\$ 802,781	\$ 2,341,860

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 \$23,597 (\$17,698 net to the Trust) for the quarter ended September 30, 2016, \$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 improved oil prices and decreased costs resulted in the partial recovery of excess costs of \$316,303 (\$237,227 net to the Trust) for the quarter ended September 30, 2016, and \$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 caused costs to exceed revenues by a total of \$108,730 (\$81,548 net to the Trust) on properties underlying the Texas working interest for the quarter ended September 30, 2015. XTO Energy advised the trustee that decreased costs in August 2015 led to the partial recovery of excess costs of \$20,126 (\$15,095 net to the Trust) for the quarter ended September 30, 2015. XTO Energy advised the trustee that lower oil prices caused costs to exceed revenues by a total of \$310,588 (\$232,941 net to the Trust) on properties underlying the Texas working interest for the quarter ended June 30, 2015. XTO Energy advised the trustee that lower oil prices and increased costs caused costs to exceed revenues by a total of \$410,337 (\$307,753 net to the Trust) on properties underlying the Texas working interest for the quarter ended March 31, 2015.

XTO Energy advised the trustee that a missing payment from a purchaser, lower oil prices and decreased oil production caused costs to exceed revenues by a total of \$155,439 (\$116,579 net to the Trust) on properties underlying the Oklahoma working interest for the quarter ended September 30, 2015. XTO Energy advised the trustee that increased oil production and decreased costs in August 2015 led to the partial recovery of excess costs of \$145,804 (\$109,353 net to the Trust) for the quarter ended September 30, 2015. XTO Energy advised the trustee that lower oil prices, decreased oil production and increased costs caused costs to exceed revenues by a total of \$807,158 (\$605,369 net to the Trust) on properties underlying the Oklahoma working interest for the quarter ended June 30, 2015. Lower oil prices caused costs to exceed revenues by a total of \$43,414 (\$32,560 net to the Trust) on properties underlying the Oklahoma working interest for the quarter ended March 31, 2015.

Cumulative excess costs for the Texas and Oklahoma working interest conveyances remaining as of September 30, 2016 totaled \$2,341,860 (\$1,756,395 net to the Trust).

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.

### 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

### 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

### 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 SEPTEMBER 30 [A]		INCREASE (DECREASE)	NINE MONTHS ENDED SEPTEMBER 30 [A]		INCREASE (DECREASE)
	2016	2015		2016	2015	
<b>Sales Volumes</b>						
Oil (Bbl) [B]						
Underlying Properties.....	55,091	57,308	(4%)	171,226	175,438	(2%)
Average Per Day.....	599	623	(4%)	625	643	(3%)
Net Profits Interests .....	16,547	15,864	4%	49,919	54,090	(8%)
Gas (Mcf) [B]						
Underlying Properties.....	394,678	395,003	—	1,538,967	1,106,732	39%
Average Per Day.....	4,337	4,341	—	5,617	4,054	39%
Net Profits Interests .....	370,848	342,106	8%	1,409,264	961,542	47%
<b>Average Sales Prices</b>						
Oil (per Bbl) .....	\$ 42.06	\$ 54.07	(22%)	\$ 36.73	\$ 55.49	(34%)
Gas (per Mcf) .....	\$ 3.37	\$ 3.82	(12%)	\$ 3.58	\$ 4.48	(20%)
<b>Revenues</b>						
Oil sales .....	\$2,317,262	\$3,098,844	(25%)	\$ 6,289,126	\$9,734,606	(35%)
Gas sales .....	1,331,763	1,507,409	(12%)	5,510,811	4,958,030	11%
Total Revenues .....	3,649,025	4,606,253	(21%)	11,799,937	14,692,636	(20%)
<b>Costs</b>						
Taxes, transportation and other.....	510,328	629,976	(19%)	1,767,698	1,975,538	(11%)
Production expense [C] .....	966,039	1,431,122	(32%)	3,352,744	4,707,135	(29%)
Development costs .....	198,244	538,424	(63%)	761,155	2,332,011	(67%)
Excess costs .....	292,706	(98,239)	N/A	(315,789)	(1,669,736)	(81%)
Total Costs.....	1,967,317	2,501,283	(21%)	5,565,808	7,344,948	(24%)
<b>Net Proceeds.....</b>	<b>\$1,681,708</b>	<b>\$2,104,970</b>	<b>(20%)</b>	<b>\$ 6,234,129</b>	<b>\$7,347,688</b>	<b>(15%)</b>
<b>Net Profits Income.....</b>	<b>\$1,513,537</b>	<b>\$1,894,473</b>	<b>(20%)</b>	<b>\$ 5,610,716</b>	<b>\$6,570,157</b>	<b>(15%)</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 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, 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)			
	August 12, 2016	September 15, 2016	October 17, 2016	Total
Gross Income.....	\$ 0.097175	\$ 0.122736	\$ 0.100597	\$ 0.320508
Less Severance Taxes.....	(0.019602)	(0.031622)	(0.017028)	(0.068252)
Interest Income.....	0.000014	0.000020	0.000025	0.000059
Less Administration Expenses.....	(0.002338)	(0.002461)	(0.010031)	(0.014830)
Reconciling Items.....	(0.020833)	0.000000	0.000000	(0.020833)
Net Cash Distribution.....	<u>\$ 0.054416</u>	<u>\$ 0.088673</u>	<u>\$ 0.073563</u>	<u>\$ 0.216652</u>
Cost Depletion Factors:				
Texas - 90% .....	0.010445	0.010357	0.010354	0.031156
Oklahoma - 90%.....	0.013163	0.035234	0.017356	0.065753
New Mexico - 90% .....	0.005344	0.006826	0.006327	0.018497
Texas - 75% .....	0.000000	0.000000	0.000000	0.000000
Oklahoma - 75%.....	0.000000	0.000000	0.000000	0.000000

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