

## TO UNITHOLDERS

For the quarter ended June 30, 2008, net profits income was \$8,528,354 compared to \$5,222,836 for second quarter 2007. This 63% increase in net profits income is the result of higher oil and gas prices and lawsuit settlement proceeds included in second quarter 2008, partially offset by decreased oil and gas sales volumes. See "Net Profits Income" and "Other Proceeds" on following page.

After considering interest income of \$4,556 and administration expense of \$152,596, distributable income for the quarter ended June 30, 2008 was \$8,380,314, or \$1.396719 per unit of beneficial interest. For second quarter 2007, distributable income was \$5,076,960, or \$0.846160 per unit. Distributions to unitholders for the quarter ended June 30, 2008 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 30, 2008	May 14, 2008	\$ 0.326024
May 30, 2008	June 13, 2008	0.426042
June 30, 2008	July 15, 2008	0.644653
		<u>\$ 1.396719</u>

For the six months ended June 30, 2008, net profits income was \$15,414,208 compared to \$9,922,022 for the same 2007 period. This 55% increase in net profits income is the result of higher oil and gas prices and lawsuit settlement proceeds included in the first six months of 2008, partially offset by decreased oil and gas sales volumes. See "Net Profits Income" and "Other Proceeds" on following page.

After considering interest income of \$11,034 and administration expense of \$278,650, distributable income for the six months ended June 30, 2008 was \$15,146,592, or \$2.524432 per unit of beneficial interest. Administrative expense for the six months ended June 30, 2008 decreased 12% from the prior year six-month period primarily because of the timing of expenditures. For the six months ended June 30, 2007, distributable income was \$9,625,410, or \$1.604235 per unit.

Individualized tax information is provided quarterly and 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 web site 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: Bank of America, N.A., Trustee

By: 

Nancy G. Willis  
Vice President

## Condensed Statements of Distributable Income (Unaudited)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2008	2007	2008	2007
<b>Net Profits Income</b> .....	<b>\$ 8,528,354</b>	<b>\$ 5,222,836</b>	<b>\$ 15,414,208</b>	<b>\$ 9,922,022</b>
Interest income .....	<u>4,556</u>	<u>10,040</u>	<u>11,034</u>	<u>19,812</u>
<b>Total Income</b> .....	<b>8,532,910</b>	<b>5,232,876</b>	<b>15,425,242</b>	<b>9,941,834</b>
Administration expense.....	<u>152,596</u>	<u>155,916</u>	<u>278,650</u>	<u>316,424</u>
<b>Distributable Income</b> .....	<b>\$ 8,380,314</b>	<b>\$ 5,076,960</b>	<b>\$ 15,146,592</b>	<b>\$ 9,625,410</b>
<b>Distributable Income Per Unit (6,000,000 units) .....</b>	<b>\$ 1.396719</b>	<b>\$ 0.846160</b>	<b>\$ 2.524432</b>	<b>\$ 1.604235</b>

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2007 annual report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended June 30, 2008.

This report to unitholders includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this report 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, supply shortages, distributions to unitholders, the impact on future payments as a result of the reversion of properties under the reversion agreement 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, 2007, which is incorporated by this reference as though fully set forth herein. Although XTO Energy and the trustee believe that the expectations reflected in such forward-looking statements are reasonable, neither XTO Energy nor the trustee can give any assurance that such expectations will prove to be correct.

## 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, they generally bear no costs other than production and property taxes, related legal costs, and marketing and transportation charges. In addition to these costs, the 75% net profits interests are subject to production expense and development costs, since the properties underlying the 75% net profits interests are working interests.

The following are explanations of significant variances on the underlying properties from second quarter 2007 to second quarter 2008 and from the first six months of 2007 to the comparable period in 2008 as shown in the "Calculation of Net Profits Income" at the right:

### Sales Volumes

**Oil.** Oil sales volumes decreased 12% for second quarter 2008 and the first six months of 2008 as compared with the same 2007 periods. Decreased oil sales volumes for the quarter are primarily because of payout occurring under the reversion agreement and natural production decline, partially offset by the timing of cash receipts. Decreased oil sales volumes for the six-month period are primarily because of payout occurring under the reversion agreement, natural production decline and the timing of cash receipts. See "Reversion Agreement" below.

**Gas.** Gas sales volumes decreased 13% for second quarter 2008 and 15% for the first six months of 2008 as compared with the same 2007 periods primarily because of payout occurring under the reversion agreement, natural production decline and the timing of cash receipts. See "Reversion Agreement" below.

### Sales Prices

**Oil.** The average oil price increased 70% to \$94.30 per Bbl for the second quarter and 68% to \$90.00 per Bbl for the six-month period. Oil prices have risen primarily because of increasing global demand and supply shortage concerns, inadequate sour crude refining capacity and political instability. In the last few months of 2007 and first half of 2008, continued tension in the Middle East, weakness in the U.S. dollar and strong demand caused prices to reach record levels of above \$147.00 per Bbl. Oil prices are expected to remain volatile. The second quarter 2008 oil price is primarily related to production from February through April 2008, when the average NYMEX price was \$104.21 per Bbl. The average NYMEX price for May and June 2008 was \$130.14 per Bbl. At July 15, 2008, the average NYMEX futures price for the following twelve months was \$140.40 per Bbl. Recent trust oil prices have averaged approximately 6% lower than the NYMEX price.

**Gas.** Gas prices for the second quarter increased 49% to \$11.67 per Mcf and for the six-month period increased 46% to \$11.13 per Mcf. Excluding the effects of the lawsuit settlement in first and second quarters 2008, the average gas price was \$10.23 per Mcf in second quarter 2008 and \$9.80 per Mcf for the first six

months of 2008. See "Other Proceeds" below. Although the U.S. entered winter with above average gas in storage, a normal winter and lower liquified natural gas imports led to normal gas storage levels. As a result of tighter storage levels and higher oil prices, recent gas prices have reached as high as \$13.00 per MMBtu. Prices will continue to be affected by weather, oil prices, the U.S. economy, the level of North American production and import levels of liquified natural gas. Natural gas prices are expected to remain volatile. The second quarter 2008 gas price is primarily related to production from January through March 2008, when the average NYMEX price was \$8.03 per MMBtu. The average NYMEX price for May and June 2008 was \$11.60 per MMBtu. At July 15, 2008, the average NYMEX futures price for the following twelve months was \$11.64 per MMBtu. Recent trust gas prices have been approximately 40% higher than the NYMEX price.

### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other increased 12% for the second quarter and 10% for the six-month period primarily because of increased production taxes related to higher oil and gas revenues, partially offset by lower property taxes.

**Production Expense.** Production expense was 32% higher for the second quarter and 16% higher for the six-month period primarily because of increased power, fuel and labor costs as well as the timing of cash disbursements, partially offset by decreased maintenance costs.

**Development.** Development costs decreased 29% for the second quarter and 27% for the six-month period primarily because of decreased activity and costs related to Texas and Oklahoma properties underlying the 75% net profits interests.

### Contingencies

Several states have enacted legislation to require state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its state tax counsel, XTO Energy has advised the trustee that it believes the trust is not subject to these withholding requirements. However, regulations are subject to change by the various states, which could change this conclusion. Should the trust be required to withhold state taxes, distributions to the unitholders would be reduced by the required amount, subject to the unitholder's right to file a state tax return to claim any refund due.

### Reversion Agreement

Certain of the properties underlying the 90% net profits interests were subject to a reversion agreement between XTO Energy and an unrelated party. The agreement called for XTO Energy to transfer 25% of its interest in those properties to the third party when net amounts received by XTO Energy from the properties subject to the agreement equal the purchase price of the properties plus a 1% per month return on the unrecouped purchase price, known as payout. At the time payout occurred, net proceeds payable to the trust and trust distributions to unitholders were reduced. XTO Energy informed the trustee that payout occurred effective with the July 2007 distribution, which was paid on August 14, 2007, thereby reducing the July 2007 distribution and all future distributions by approximately 5%.

### Other Proceeds

In first quarter 2008, the calculation of net profits income included a lawsuit settlement of \$827,446 related to underpayment of royalties on underlying properties in the San Juan Basin. Included

in this settlement was interest of \$212,654 and additional gas revenue of \$614,792. The total settlement, net to the trust, was \$744,702, or \$0.12 per unit. Based on additional information received by XTO Energy in April 2008, the amount allocated to interest income was increased by \$136,262 in second quarter 2008. This reallocation did not change the total lawsuit settlement.

In second quarter 2008, the calculation of net profits income included another lawsuit settlement of \$1,602,880 related to underpayment of royalties on underlying properties in the

San Juan Basin. Included in this settlement was interest of \$675,899 and additional gas revenue of \$926,981. The total settlement, net to the trust, was \$1,442,592, or \$0.24 per unit.

## 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

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### Calculation of Net Profits Income

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

	THREE MONTHS ENDED JUNE 30 [A]			SIX MONTHS ENDED JUNE 30 [A]		
	2008	2007	INCREASE (DECREASE)	2008	2007	INCREASE (DECREASE)
<b>Sales Volumes</b>						
Oil (Bbls) [B]						
Underlying properties .....	<b>58,851</b>	66,748	(12%)	<b>116,470</b>	131,753	(12%)
Average per day .....	<b>654</b>	750	(13%)	<b>640</b>	728	(12%)
Net profits interests .....	<b>34,713</b>	29,727	17%	<b>67,500</b>	59,195	14%
Gas (Mcf) [B]						
Underlying properties .....	<b>547,615</b>	627,538	(13%)	<b>1,051,374</b>	1,236,241	(15%)
Average per day .....	<b>6,018</b>	6,973	(14%)	<b>5,745</b>	6,793	(15%)
Net profits interests .....	<b>468,719</b>	550,203	(15%)	<b>917,093</b>	1,077,767	(15%)
<b>Average Sales Prices</b>						
Oil (per Bbl) .....	<b>\$ 94.30</b>	\$ 55.37	70%	<b>\$ 90.00</b>	\$ 53.55	68%
Gas (per Mcf) [C] [D] .....	<b>\$ 11.67</b>	\$ 7.85	49%	<b>\$ 11.13</b>	\$ 7.63	46%
<b>Revenues</b>						
Oil sales .....	<b>\$ 5,549,772</b>	\$ 3,696,120	50%	<b>\$ 10,481,868</b>	\$ 7,056,031	49%
Gas sales [C] [D] .....	<b>6,390,629</b>	4,929,197	30%	<b>11,704,312</b>	9,433,278	24%
Total Revenues .....	<b>11,940,401</b>	8,625,317	38%	<b>22,186,180</b>	16,489,309	35%
<b>Costs</b>						
Taxes, transportation and other ....	<b>1,216,499</b>	1,083,431	12%	<b>2,373,487</b>	2,154,802	10%
Production expense [E] .....	<b>1,339,012</b>	1,010,758	32%	<b>2,283,528</b>	1,974,088	16%
Development costs .....	<b>425,536</b>	601,061	(29%)	<b>779,197</b>	1,069,612	(27%)
Total Costs .....	<b>2,981,047</b>	2,695,250	11%	<b>5,436,212</b>	5,198,502	5%
<b>Other Proceeds</b>						
Interest income [C] [D] .....	<b>812,161</b>	—	—	<b>1,024,815</b>	—	—
<b>Net Proceeds</b> .....	<b>\$ 9,771,515</b>	<b>\$ 5,930,067</b>	65%	<b>\$ 17,774,783</b>	<b>\$ 11,290,807</b>	57%
<b>Net Profits Income</b> .....	<b>\$ 8,528,354</b>	<b>\$ 5,222,836</b>	63%	<b>\$ 15,414,208</b>	<b>\$ 9,922,022</b>	55%

[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. Changes in any of these factors may result in disproportionate fluctuations in volumes allocated to the net profits interests. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

[C] In second quarter 2008, \$1,602,880 was received related to a lawsuit settlement for underpayment of royalties on certain San Juan Basin properties. Interest income for the quarter includes interest of \$675,899 from the settlement and \$136,262 reallocated from a settlement received in first quarter 2008. These settlements increased the average gas sales price by \$1.44 for the quarter ended June 30, 2008. The second quarter settlement, net to trust, was \$1,442,592, or \$0.24 per unit.

[D] In the six months ended June 30, 2008, \$2,430,326 was received related to lawsuit settlements for underpayment of royalties on certain San Juan Basin properties. Included in these settlements was interest of \$1,024,815. These settlements increased the average gas sales price by \$1.33 for the six months ended June 30, 2008. The total settlements, net to trust, were \$2,187,294, or \$0.36 per unit.

[E] Includes an overhead charge which is deducted and retained by XTO Energy. As of June 30, 2008, this charge was \$29,405 per month (including a monthly overhead charge of \$2,438 which XTO Energy deducts as operator of the Penwell Unit) and is subject to adjustment each May based on an oil and gas industry index.

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## Tax Information Per Unit

**MONTHLY DISTRIBUTIONS PAID ON:**  
(\$/UNIT EXCEPT COST DEPLETION FACTORS)

	May 14, 2008	June 13, 2008	July 15, 2008	Total
Gross Income.....	\$ 0.383853	\$ 0.425891	\$ 0.652287	\$ 1.462031
Less Severance Taxes.....	(0.046742)	(0.049510)	(0.066211)	(0.162463)
Interest Income.....	0.000217	0.058997	0.063370	0.122584
Less Administration Expenses.....	(0.011304)	(0.009336)	(0.004793)	(0.025433)
Net Cash Distribution.....	<u>\$ 0.326024</u>	<u>\$ 0.426042</u>	<u>\$ 0.644653</u>	<u>\$ 1.396719</u>
Cost Depletion Factors:				
Texas - 90%.....	0.010592	0.011229	0.017723	0.039544
Oklahoma - 90%.....	0.010095	0.007110	0.009307	0.026512
New Mexico - 90%.....	0.003998	0.004753	0.005089	0.013840
Texas - 75%.....	0.002637	0.003701	0.003054	0.009392
Oklahoma - 75%.....	0.004238	0.003958	0.004501	0.012697

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