

## TO UNITHOLDERS

For the quarter ended September 30, 2008, net profits income was \$9,163,997 compared to \$5,029,646 for third quarter 2007. This 82% increase in net profits income is primarily the result of higher oil and gas prices, partially offset by decreased gas sales volumes. See "Net Profits Income" on the following page.

After considering interest income of \$7,221 and administration expense of \$57,008, distributable income for the quarter ended September 30, 2008 was \$9,114,210, or \$1.519035 per unit of beneficial interest. For third quarter 2007, distributable income was \$4,982,640, or \$0.830440 per unit. Distributions to unitholders for the quarter ended September 30, 2008 were:

RECORD DATE	PAYMENT DATE	PER UNIT
July 31, 2008	August 14, 2008	\$ 0.411533
August 29, 2008	September 15, 2008	0.553319
September 30, 2008	October 15, 2008	<u>0.554183</u>
		<u>\$ 1.519035</u>

For the nine months ended September 30, 2008, net profits income was \$24,578,205 compared to \$14,951,668 for the same 2007 period. This 64% increase in net profits income is primarily the result of higher oil and gas prices and lawsuit settlement proceeds included in the first nine months of 2008, partially offset by decreased oil and gas sales volumes. See "Net Profits Income" and "Other Proceeds" on the following page.

After considering interest income of \$18,255 and administration expense of \$335,658, distributable income for the nine months ended September 30, 2008 was \$24,260,802, or \$4.043467 per unit of beneficial interest. Administrative expense for the nine months ended September 30, 2008 decreased 10% from the prior year nine-month period primarily because of the timing of expenditures. For the nine months ended September 30, 2007, distributable income was \$14,608,050, or \$2.434675 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 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 SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2008	2007	2008	2007
<b>Net Profits Income</b> .....	<b>\$ 9,163,997</b>	<b>\$ 5,029,646</b>	<b>\$ 24,578,205</b>	<b>\$ 14,951,668</b>
Interest income .....	<u>7,221</u>	<u>11,088</u>	<u>18,255</u>	<u>30,900</u>
<b>Total Income</b> .....	<b>9,171,218</b>	<b>5,040,734</b>	<b>24,596,460</b>	<b>14,982,568</b>
Administration expense.....	<u>57,008</u>	<u>58,094</u>	<u>335,658</u>	<u>374,518</u>
<b>Distributable Income</b> .....	<b>\$ 9,114,210</b>	<b>\$ 4,982,640</b>	<b>\$ 24,260,802</b>	<b>\$ 14,608,050</b>
<b>Distributable Income Per Unit (6,000,000 units)</b> ...	<b>\$ 1.519035</b>	<b>\$ 0.830440</b>	<b>\$ 4.043467</b>	<b>\$ 2.434675</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 September 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 third quarter 2007 to third quarter 2008 and from the first nine 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 remained relatively unchanged for third quarter 2008 as the timing of cash receipts was offset by natural production decline. Oil sales volumes decreased 8% for the nine-month period primarily because of natural production decline, partially offset by the timing of cash receipts.

**Gas.** Gas sales volumes decreased 6% for third quarter 2008 and 12% for the first nine months of 2008 as compared with the same 2007 periods primarily because of natural production decline and the timing of cash receipts, partially offset by prior period volume adjustments in 2007.

### Sales Prices

**Oil.** The average oil price increased 102% to \$123.68 per Bbl for the third quarter and 81% to \$100.96 per Bbl for the nine-month period. In the last few months of 2007 and the 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. However, rising crude oil supplies, the tightened credit markets and the potential for lower demand in slowing U.S. and global economies have caused recent oil prices to decline. Oil prices are expected to remain volatile. The third quarter 2008 oil price is primarily related to production from May through July 2008, when the average NYMEX price was \$131.56 per Bbl. The average NYMEX price for August and September 2008 was \$110.57 per Bbl. At October 15, 2008, the average NYMEX futures price for the following twelve months was \$76.66 per Bbl. Recent trust oil prices have averaged approximately 5% lower than the NYMEX price.

**Gas.** Gas prices for the third quarter increased 43% to \$12.69 per Mcf and for the nine-month period increased 45% to \$11.65 per Mcf. Excluding the effects of the lawsuit settlements in the first nine months of 2008, the average gas price was \$10.76 per Mcf. See "Other Proceeds" below. Although the U.S. entered

the winter with above average gas storage, a normal winter and lower liquefied natural gas imports led to normal storage levels. As a result of tighter storage levels and higher oil prices, gas prices reached as high as \$13.00 per MMBtu. Due to concerns of oversupply from shale gas development, falling oil prices and a mild summer which led to increased gas in storage, recent gas prices have declined. Prices will continue to be affected by weather, oil prices, the U.S. economy, the level of North American production and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The third quarter 2008 gas price is primarily related to production from April through June 2008, when the average NYMEX price was \$10.92 per MMBtu. The average NYMEX price for July and August 2008 was \$11.16 per MMBtu. At October 15, 2008, the average NYMEX futures price for the following twelve months was \$7.09 per MMBtu. Recent trust gas prices have been approximately 19% higher than the NYMEX price.

### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other increased 31% for the third quarter and 17% for the nine-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 increased 11% for the first nine months of 2008 primarily due to the timing of cash disbursements, increased power, fuel and workover costs, partially offset by decreased maintenance costs.

**Development.** Development costs decreased 29% for the third quarter and 28% for the nine-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 the first nine months of 2008, the calculation of net profits income included lawsuit settlements of \$2,430,326 related to underpayment of royalties on underlying properties in the San Juan Basin. Included in these settlements was interest of \$1,024,815 and additional gas revenue of \$1,405,511. The total settlements, net to the trust, were \$2,187,294, or \$0.36 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 SEPTEMBER 30 [A]			NINE MONTHS ENDED SEPTEMBER 30 [A]		
	2008	2007	INCREASE (DECREASE)	2008	2007	INCREASE (DECREASE)
<b>Sales Volumes</b>						
Oil (Bbls) [B]						
Underlying properties .....	<b>56,223</b>	56,012	—	<b>172,693</b>	187,765	(8%)
Average per day .....	<b>611</b>	609	—	<b>630</b>	688	(8%)
Net profits interests .....	<b>35,749</b>	23,716	51%	<b>103,249</b>	82,911	25%
Gas (Mcf) [B]						
Underlying properties .....	<b>527,589</b>	563,488	(6%)	<b>1,578,963</b>	1,799,729	(12%)
Average per day .....	<b>5,798</b>	6,192	(6%)	<b>5,763</b>	6,592	(13%)
Net profits interests .....	<b>468,863</b>	495,323	(5%)	<b>1,385,956</b>	1,573,090	(12%)
<b>Average Sales Prices</b>						
Oil (per Bbl) .....	<b>\$ 123.68</b>	\$ 61.32	102%	<b>\$ 100.96</b>	\$ 55.87	81%
Gas (per Mcf) [C] .....	<b>\$ 12.69</b>	\$ 8.90	43%	<b>\$ 11.65</b>	\$ 8.03	45%
<b>Revenues</b>						
Oil sales .....	<b>\$ 6,953,498</b>	\$ 3,434,851	102%	<b>\$17,435,366</b>	\$ 10,490,882	66%
Gas sales [C] .....	<b>6,694,294</b>	5,014,438	34%	<b>18,398,606</b>	14,447,716	27%
Total Revenues .....	<b>13,647,792</b>	8,449,289	62%	<b>35,833,972</b>	24,938,598	44%
<b>Costs</b>						
Taxes, transportation and other...	<b>1,531,571</b>	1,171,561	31%	<b>3,905,058</b>	3,326,363	17%
Production expense [D] .....	<b>989,266</b>	972,555	2%	<b>3,272,794</b>	2,946,643	11%
Development costs .....	<b>413,713</b>	580,812	(29%)	<b>1,192,910</b>	1,650,424	(28%)
Total Costs .....	<b>2,934,550</b>	2,724,928	8%	<b>8,370,762</b>	7,923,430	6%
<b>Other Proceeds</b>						
Interest Income [C] .....	—	—	—	<b>1,024,815</b>	—	—
<b>Net Proceeds</b> .....	<b>\$10,713,242</b>	<b>\$ 5,724,361</b>	87%	<b>\$28,488,025</b>	<b>\$ 17,015,168</b>	67%
<b>Net Profits Income</b> .....	<b>\$ 9,163,997</b>	<b>\$ 5,029,646</b>	82%	<b>\$24,578,205</b>	<b>\$ 14,951,668</b>	64%

[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. 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 the nine months ended September 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 \$0.89 for the nine months ended September 30, 2008. The total settlements, net to trust, were \$2,187,294, or \$0.36 per unit.

[D] Includes an overhead charge which is deducted and retained by XTO Energy. As of September 30, 2008, this charge was \$31,831 per month (including a monthly overhead charge of \$2,830 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)

	Aug. 14, 2008	Sep. 15, 2008	Oct. 15, 2008	Total
Gross Income.....	\$ 0.469832	\$ 0.631484	\$ 0.628834	\$ 1.730150
Less Severance Taxes.....	(0.057357)	(0.073092)	(0.072368)	(0.202817)
Interest Income.....	0.000380	0.000385	0.000439	0.001204
Less Administrative Expenses.....	(0.001322)	(0.005458)	(0.002722)	(0.009502)
Net Cash Distribution.....	<u>\$ 0.411533</u>	<u>\$ 0.553319</u>	<u>\$ 0.554183</u>	<u>\$ 1.519035</u>
Cost Depletion Factors:				
Texas - 90%.....	0.009953	0.011223	0.014660	0.035836
Oklahoma - 90%.....	0.007257	0.013754	0.003234	0.024245
New Mexico - 90%.....	0.005055	0.005814	0.004444	0.015313
Texas - 75%.....	0.004137	0.005912	0.004704	0.014753
Oklahoma - 75%.....	0.003567	0.007015	0.006745	0.017327

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