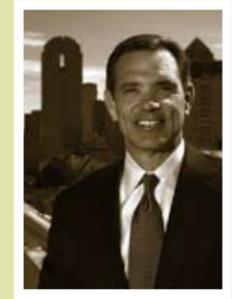


*Charting Our  
Continuing Growth*



CROSSTEX

2006 ANNUAL REPORT



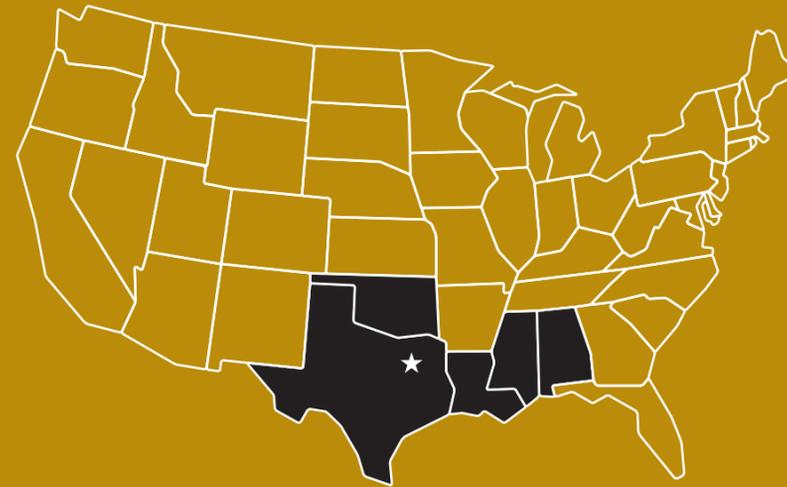
*Dear Fellow Stakeholders,*

**C**ROSSTEX ENERGY EXPERIENCED TREMENDOUS GROWTH IN 2006. Aggressive exploration for natural gas in the Barnett Shale play created unprecedented opportunities for midstream companies. We continued to strengthen our role as a key player in the region. We developed targeted organic projects like our 144-mile North Texas Pipeline. In addition, we forged new alliances with solid business partners such as Devon Energy. The result is that Crosstex is positioned today like never before: an industry leader in the delivery of natural gas and natural gas products throughout Texas, the Gulf Coast and the nation. Additionally, our organic projects and key acquisitions have strengthened our expansive portfolio of midstream services. Moreover, they've helped to improve our already top-notch customer service and to ensure our ongoing success.

In 2006, Crosstex celebrated its tenth anniversary of delivering success. When we formed our company in 1996, it would have been hard to imagine that we would come so far in such a short time. However, our employee-owners today possess the same tireless commitment to excellence that we did in the beginning, and they are by far the largest contributing factor to our success and the success of our customers. Our insistence on providing the highest level of service gives Crosstex an enviable competitive advantage.

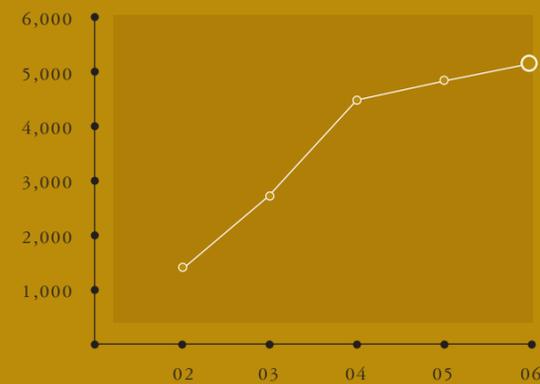
This annual report is the story of our company: the people, places, events, strategies and successes that define Crosstex. We'll look at where we've been in 2006, and we'll look forward to where we're headed. We'll look at the people and the passions that have made us who we are today and that will carry us into the future.

We have great confidence that we will continue to grow and prosper. We appreciate that you are making this journey with us. As stewards of your capital, we will continue to earn your trust in 2007 and beyond.



*Crosstex at a Glance:*

MILES OF PIPELINE



- *Founded in 1996*
- *Based in Dallas, Texas*
- *Approximately 600 employees*
- *Approximately 5,000 miles of pipeline*
- *12 gas processing plant locations with approximately 3.1 billion cubic feet per day of capacity*
- *Over 160 amine treating plants in operation*
- *Manage approximately 3.1 billion cubic feet of gas per day of total throughput = About 6% of total U.S. production*
- *Two publicly traded companies; NASDAQ symbols: XTEX (MLP), XTXI (Corporation)*

## Where We've Been

### Chief Acquisition Expands Crosstex's Footprint in the Barnett Shale

In June, Crosstex acquired the midstream assets of Chief Holdings, LLC for \$480 million. At the transaction's closing, Chief's assets included approximately 250 miles of pipeline covering nine North Texas counties. We have since been expanding the system. Ultimately, we anticipate a 650-mile pipeline system that will provide services to Devon Energy Corporation and other key producers in the area.

As part of the same transaction, Devon purchased Chief's oil and gas production and acreage in the Barnett Shale play, which they have dedicated to Crosstex. This established a new alliance with Devon, the largest gas producer in the prolific Barnett Shale, which is the largest active natural gas play in the continental United States.

Current natural gas production in the Barnett Shale averages 1.8 billion cubic feet of gas per day (Bcf/d), with an increase projected by industry analysts to about 4 Bcf/d or more. We are well positioned to gather a significant portion of this production growth on our North Texas Gathering System (NTGS). We believe that large volumes of this gas will require processing, and we have committed to adding new processing capacity in the region. By the end of 2007, we expect to have more than 250 million cubic feet per

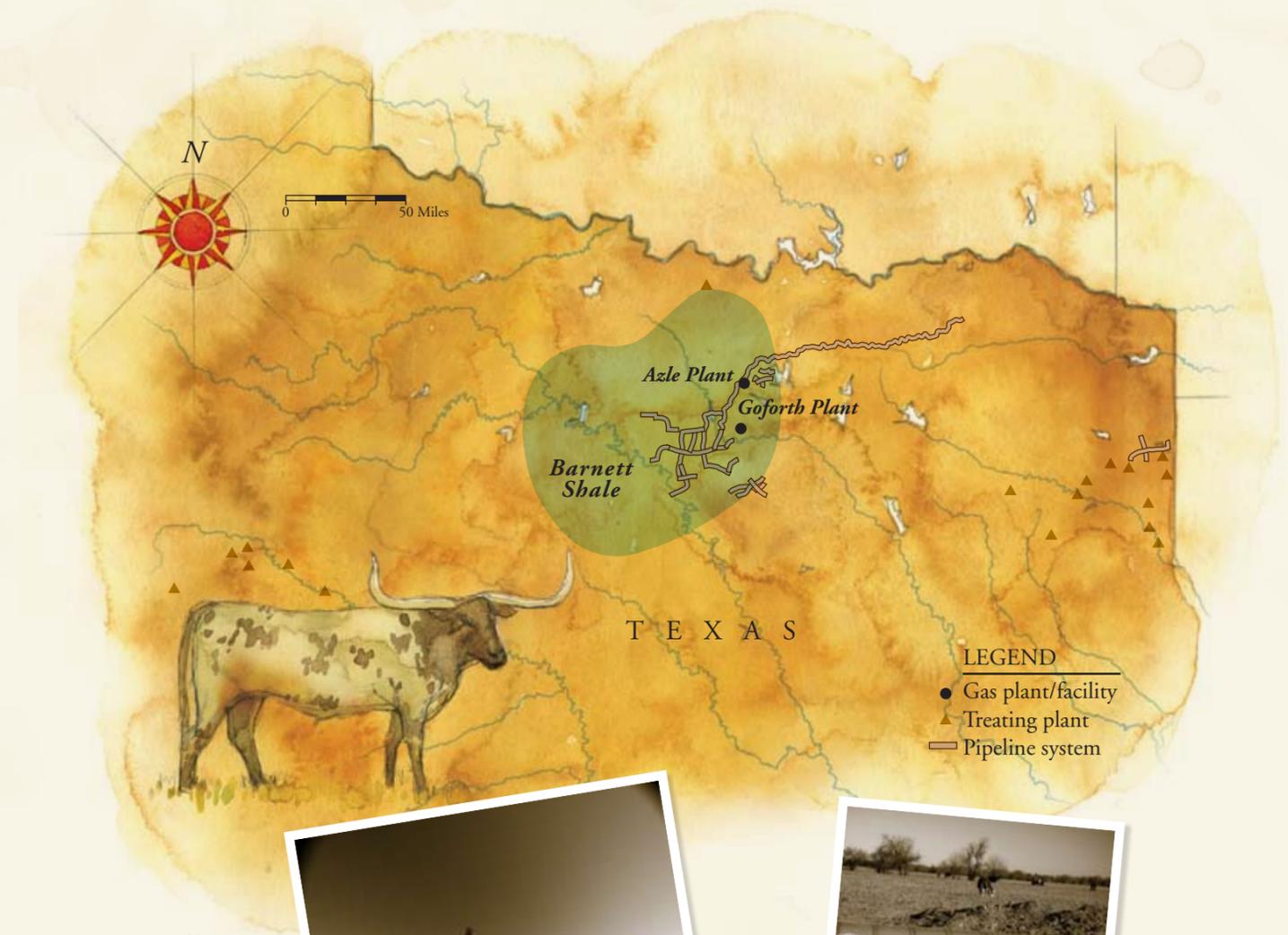
day (MMcf/d) of processing capacity connected to the NTGS. We also will be able to deliver growing volumes from the Chief assets into our North Texas Pipeline.

### Construction of the North Texas Pipeline Completed

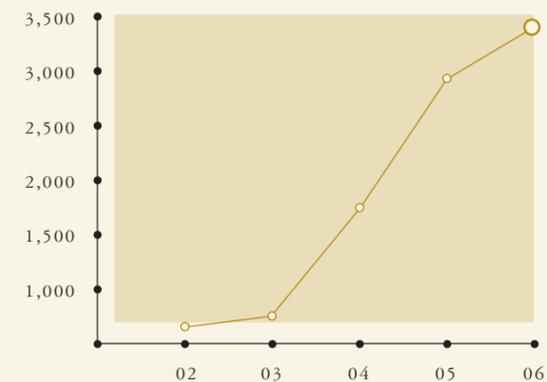
In April, we completed construction of our \$115 million 144-mile North Texas Pipeline (NTPL). The 24-inch diameter pipeline, which traverses six North Texas counties, marked Crosstex's first major organic project in the Barnett Shale. The NTPL allows us to access delivery points on other major intrastate and interstate pipelines that serve markets across Texas and the country.

Our commitment to a new transportation project in the Barnett Shale began in earnest in 2004. Producers in the play were seeking new options for transporting their gas to market. Attractive pricing, combined with advances in drilling technology and techniques, was accelerating Barnett Shale exploration, production and development. Increasing gas volumes gave us an unprecedented opportunity to expand our business.

The best solution was a new Crosstex pipeline that would connect the production area with industrial and retail consumers. We sought to provide producers with a reliable means for delivering gas to consumers, and the NTPL was born. We received commitments



TOTAL THROUGHPUT  
(000's MMcf/d)

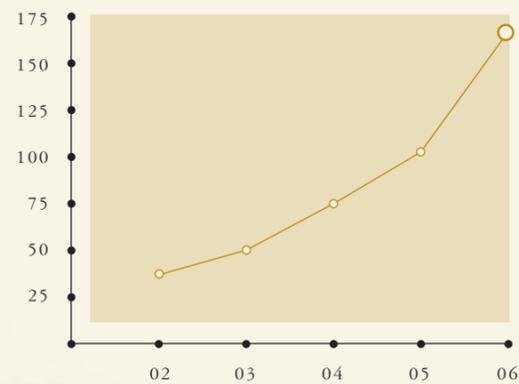


## North Texas

With the closing of the Chief acquisition in mid-2006, we added 250 miles of pipeline to our North Texas Gathering System and connected 328 wells from Devon Energy and other producers. We also added 26,000 horsepower of compression and had volumes on the system increase from approximately 125 MMcf/d to over 158 MMcf/d by year's end. Volumes are expected to more than double in 2007 as producers execute their development plans in the Barnett Shale.



TREATING PLANTS IN SERVICE



### Treating

In 2006, Crosstex continued to grow as the industry leader in natural gas treating services. The acquisition of Hanover's treating rental assets in January and the Cardinal treating business in October added 56 amine plants and 12 dew point control plants to our fleet. We've solidified our strong treating presence in our areas of operation and expanded our portfolio of treating services.

### Where We've Been

( Cont. from page 2 )

from producers before construction of the NTPL began, and we will be working to market its expanded capacity in 2007.

In October 2005, we began construction of the NTPL, the largest project ever undertaken by Crosstex. Thanks to the perseverance, hard work and expertise of our Crosstex employees and 400 construction workers, a portion of the NTPL began flowing gas in February 2006, while the remainder of the system was put into service in April 2006. Initially, the pipeline had a capacity of 250 MMcf/d. Through added compression, we expect to increase capacity to 375 MMcf/d in the second quarter of 2007.

The NTPL and our North Texas Gathering System position Crosstex to be influential in the development of the Barnett Shale for many years to come. We are thankful to our employees and business partners for helping Crosstex become a vital midstream player in the Barnett Shale, a milestone for our company. We remain dedicated to fulfilling this role and delivering success for our customers, as more producers and consumers recognize the Barnett Shale as an important natural gas resource.

#### Treating Acquisitions Validate Our Strategy

Crosstex entered the gas treating business in 1998 when we acquired eight amine plants from WRA, Inc. Since then, we have pursued our straightforward strategy:

- Treat gas to remove CO<sub>2</sub> and other impurities to ensure it meets pipeline-quality specifications
- Add to our plant inventory in or near our operational areas

Initially, we grew our business through the refurbishment and installation of underutilized treating plants. Since then, we have purchased six treating companies, expanding our business to become the industry leader in gas treating and treating services. At year end, we had over 160 amine treating plants in operation.

In 2006, Crosstex made two new significant treating acquisitions. In January, we acquired the amine treating rental assets from a subsidiary of Hanover Compressor Company for \$51.5 million. The transaction included 48 amine treating plants and solidified our strong treating presence in South and West Texas.

In October, Crosstex announced the purchase of the amine treating business of Cardinal Gas Solutions Limited. We added eight amine treating plants and 12 dew point control plants to our fleet. With this transaction, we've expanded our portfolio of treating services and further improved our market responsiveness.

## Where We're Going

### Crosstex Committed to Organic Growth

At Crosstex, we believe in a well-balanced approach to growing our business. Since 2000, we have completed projects valued at more than \$1.7 billion through a strategy of acquisitions, organic growth or enhancement. Our success has created a significant "footprint" of assets that provides opportunities for new organic projects. In fact, we expect to invest \$250 million in 2007 on new development projects.

We believe that grassroots projects, such as our North Texas Gathering System, North Texas Pipeline, Parker County processing plants and North Louisiana Pipeline expansion, are the foundation for sustained expansion in the future. We expect to continue to focus on:

- Expanding our asset base through construction of new facilities and/or consolidating previously independent assets through acquisition
- Increasing throughput with aggressive development of supply and markets
- Enhancing margins and fees by providing additional services
- Reducing operating and overhead costs

Why organic growth? These internally generated opportunities offer lower risk and can provide higher returns compared with acquisitions of similar assets. In addition, using our existing asset base as a platform for progress allows us to maximize the return on the capital we invest in our system.

We've assembled the best team in the business to focus on organic growth, and we see great potential in:

- New production areas that require additional infrastructure to bring gas to market
- New LNG (liquefied natural gas) landings that will necessitate takeaway facilities
- Demand growth for natural gas that will be used for power generation, which will continue to drive a need for new midstream infrastructure

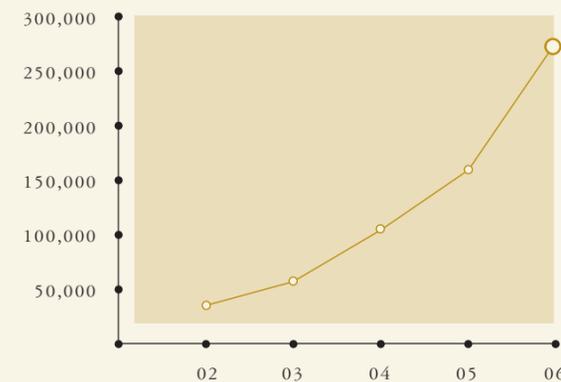
In addition, we believe that the dynamic environment across the energy industry will help us develop new business. Favorable commodity prices are creating advantageous conditions in the near term. Greater demand for natural gas will require significant additional transportation infrastructure. New production areas will create increasing transport bottlenecks that Crosstex can help to alleviate. In addition, we expect that deepwater drilling activity in the Gulf of Mexico will continue to accelerate.

### Crosstex Dedicated to Success in Louisiana

We expanded our business in Louisiana in late 2005 with the acquisition of our South Louisiana Processing (SLP) assets from El Paso Corporation for \$481 million. These assets added 2.3 Bcf/d of processing capacity, 66,000 barrels per day of fractionation capacity and over 400 miles of liquids transport lines to our Louisiana infrastructure. This transaction opened the door to incremental development and organic growth opportunities across Louisiana.



**GROSS MARGIN**  
(\$ in thousands)



## Louisiana

A great example of our business strategy's success in 2006 was the outstanding performance of our Eastern Region, which encompasses our Louisiana operations. Since acquiring the Louisiana Intrastate Gas system in 2004, we have increased volumes on the system from 561,000 MMBtu/d to 746,000 MMBtu/d, an increase of over 30%.

# The Barnett Shale Explained

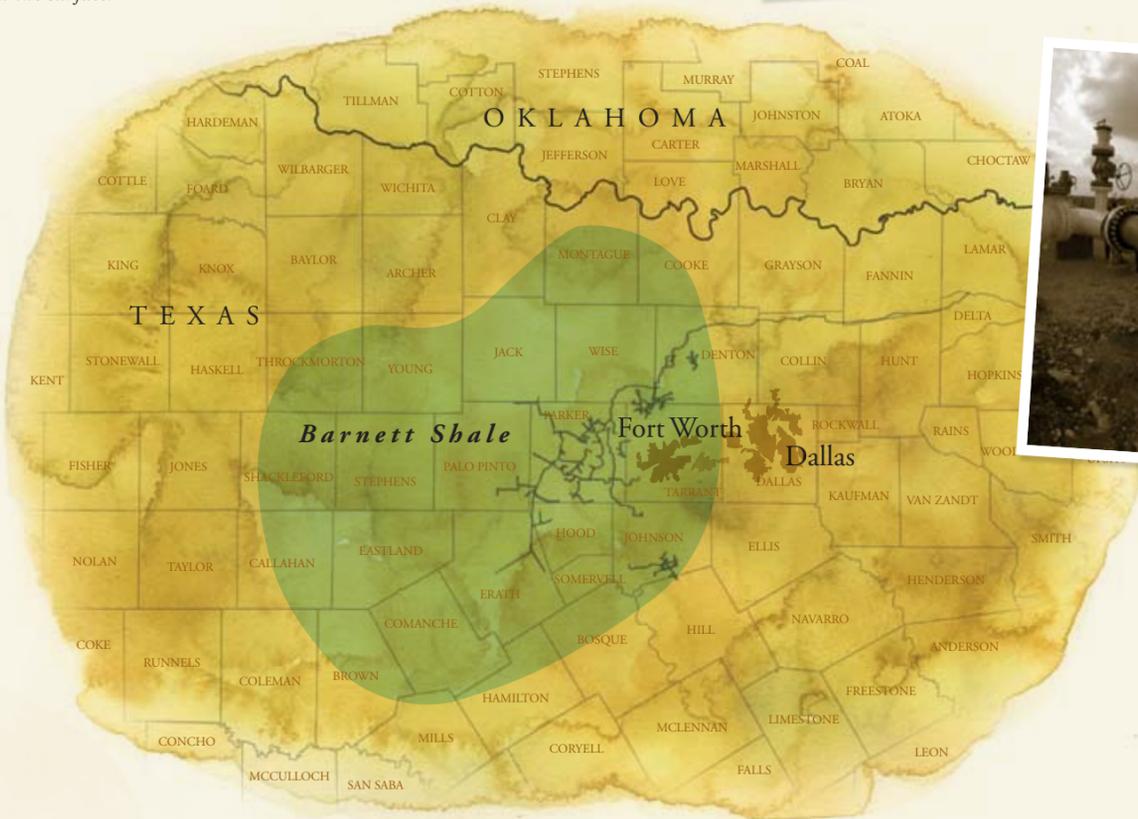
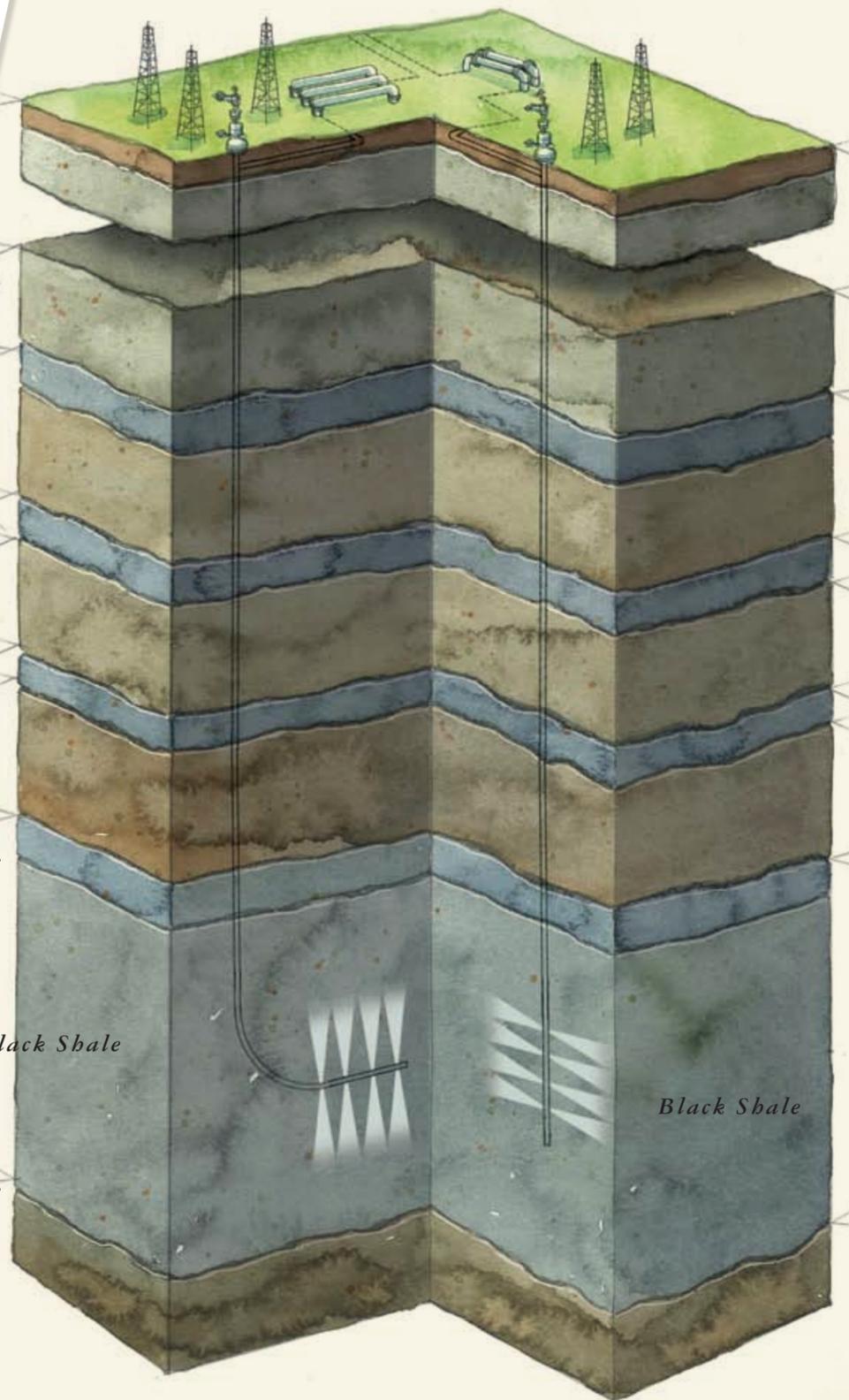
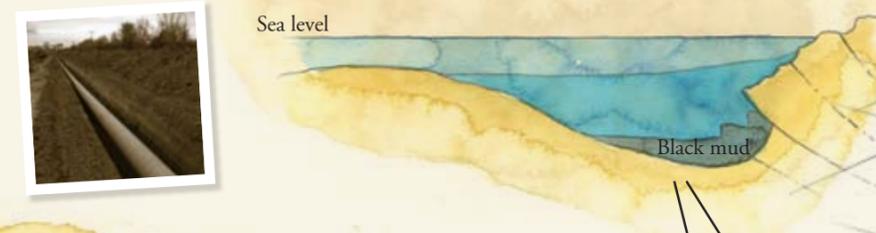
The Barnett Shale was formed approximately 375 million years ago in a time of marine transgression, when the encroaching sea covered the land. Great quantities of living material were deposited at the bottom of the inland sea, eventually decomposing and forming deposits of black mud. The collision of vast continental plates created new mountain ranges in North Texas that deposited sediment on top of the black mud. Under tremendous pressure, the buried organic material generated great heat. Carbohydrates were converted into hydrocarbons, the organic chemical compounds that are the basis of petroleum and related by-products. The black mud became black shale. Over time, the North Texas mountain ranges succumbed to erosion, but the black shale remained beneath the surface.

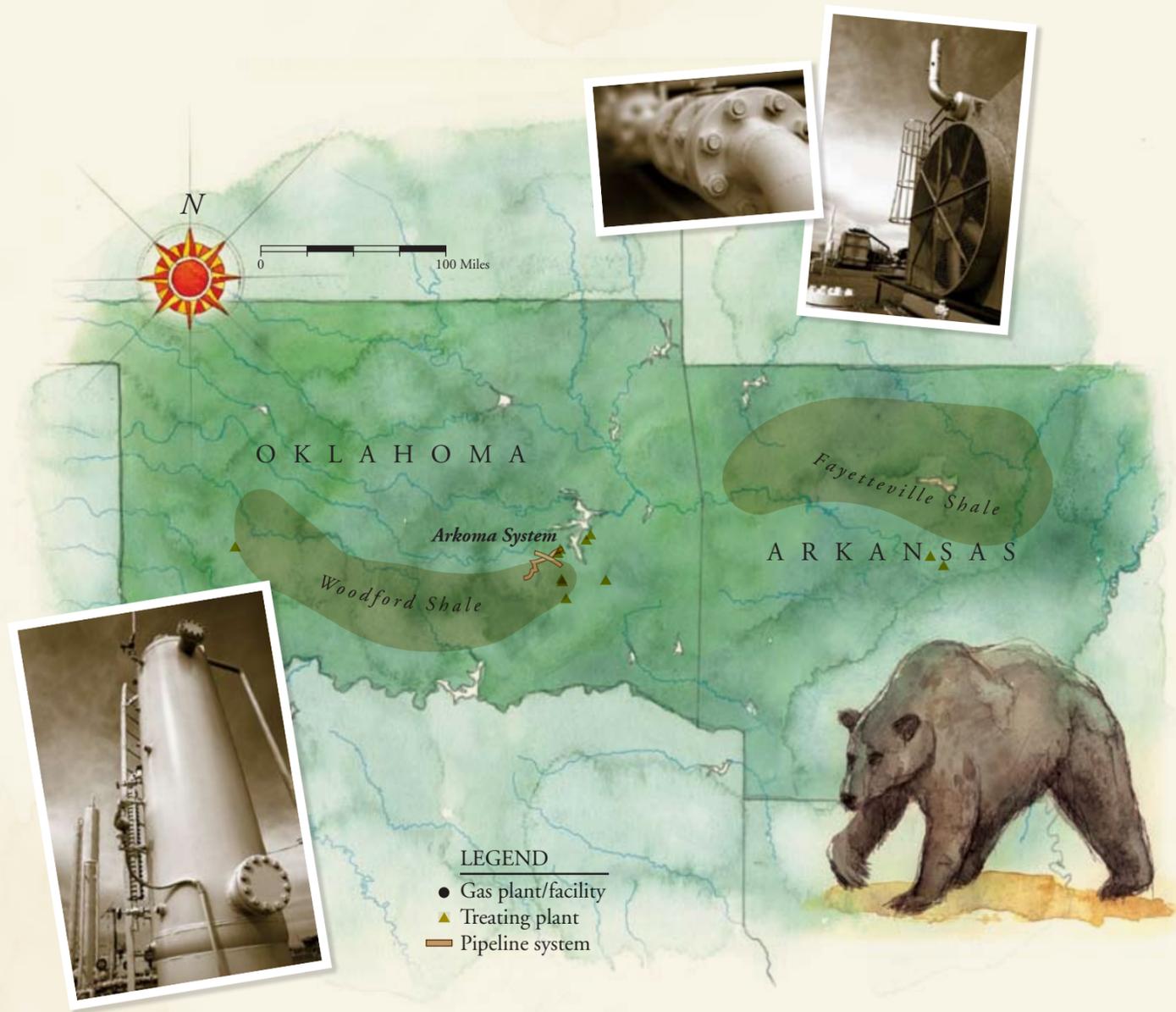


BEFORE



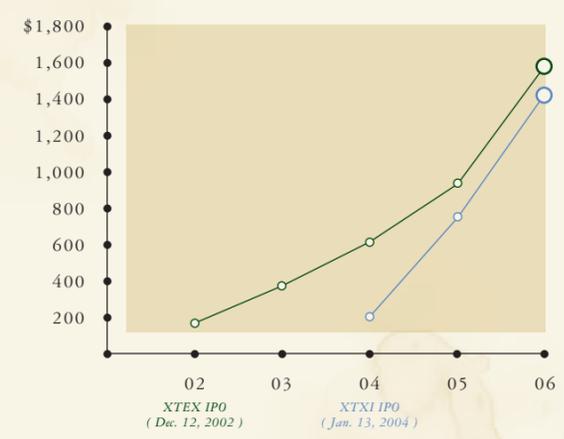
AFTER





**LEGEND**  
 ● Gas plant/facility  
 ▲ Treating plant  
 — Pipeline system

**XTEX & XTXI  
 MARKET CAPITALIZATION**  
 (\$ in millions)



*Three-for-One Split*

By year-end 2006, the stock price of Crosstex Energy, Inc., our general partner (NASDAQ: XTXI), had risen to the high \$90s, and we wanted to make the company's shares more accessible to retail investors. In addition, we wanted to improve the liquidity of the stock. As a result, in late 2006 the Board of Directors approved a 3-for-1 split of the company's stock. Stockholders of the general partner received two additional shares of common stock for every share they owned.

*Where We're Going*

( Cont. from page 6 )

Crosstex's SLP assets provide us with significant prospects for:

- Increasing volumes from deepwater Gulf of Mexico production
- Establishing a substantial presence in the natural gas liquids marketing business
- Positioning us to benefit from future liquefied natural gas (LNG) imports

In addition, the SLP assets offer cost savings and operational efficiencies in conjunction with our existing Louisiana Intrastate Gas (LIG) system.

During 2006, volumes at our SLP facilities remained challenged by hurricanes Katrina and Rita and their aftermath. The storms severely disrupted gas production from the Gulf of Mexico. (As you might recall, we announced the acquisition of the SLP assets in August 2005, just prior to the storms hitting the Gulf Coast.)

Over the past year, we've sharpened our pencils and put our entrepreneurial spirit to the test. We continue to work creatively to weather the trials we face at our SLP assets. I'm happy to report that we've assembled our team and are working hard to provide additional volumes of gas for these plants. We are also developing new strategies to enhance cash flow from these assets.

I sincerely thank the men and women at our SLP facilities for their tireless efforts in minimizing the impact of the hurricanes and maximizing current volumes, while also dealing with the dramatic effects the storms have had on their personal lives.

Over the long term, we believe that the Gulf of Mexico will be an increasingly important resource for supplying domestic energy needs. The Energy

Information Agency recently forecasted offshore Gulf production to increase by approximately 35% from 2005 to 2015. This growth in production, combined with our efforts, should provide volume increases in our affected plants.

**Ready, Willing and Able to Build on Our Success**

At Crosstex, we're never satisfied with the status quo. We always have an eye toward business improvement and growth. Our diverse asset base, industry knowledge, technical know-how and team of top-notch professionals provide us with the ability to diversify into new geographical regions, as well as grow in our established areas.

Outside our core area, we continue to evaluate opportunities in many areas of emerging production activity, such as the Rocky Mountains, the Woodford and Fayetteville shales and West Texas. In these areas, and many others, producers are drilling successful gas wells. Production is climbing, providing Crosstex with potential growth opportunities. As these volumes increase and transportation bottlenecks occur, exploration and production players will require innovative transportation options to move their product to market. In addition, we can provide valuable treating, processing and other services along the midstream chain.

Crosstex is committed to building on our successes no matter where we do business. Our strategy in the Barnett Shale and across our systems is and always has been to improve the quality of business for our customers. Our experience and knowledge allow us to do just that. Delivering Success: It's what we do at Crosstex. It's our commitment and our promise to our investors, partners, customers and employees alike.

## What Remains the Same

### Who We Are

At Crosstex, delivering success begins with a clear focus on what we do best: We move natural gas from the wellhead to the burner tip. We provide crucial services along the midstream value chain.

We operate approximately 5,000 miles of pipeline, moving approximately 3.1 Bcf of natural gas per day. This amounts to about 6% of marketed U.S. daily production, giving Crosstex a significant role in meeting America's energy needs.

We aim to be the premier midstream energy services company in the industry by efficiently operating and developing our assets while remaining true to our core values established by our founders in 1996 – Excellence, Employee Focus, Ethics and Enthusiasm – or what we call our “E<sup>4</sup> Values.”

An entrepreneurial spirit imbues Crosstex. Each employee makes a valuable contribution to the bottom line, because each has a significant stake in what we do and how we do it. Our employees think like owners; they make independent, creative business decisions and are accountable for them. We are a team of committed partners, going above and beyond our everyday responsibilities and passionately pursuing our common goal of creating something significant: a great company that will last.

Our work and its quality are of the utmost importance to us. We endeavor to provide the best

possible service to our customers so they can focus on what *they* do best. We also seek to improve the scope and efficiency of our operations so that we can maximize our customers' success.

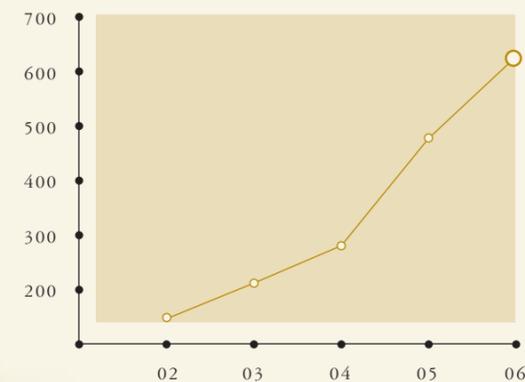
Crosstex's strong culture of employee ownership, accountability, entrepreneurial spirit and customer service is among the best in the industry. One of our top priorities is ensuring that we maintain and grow this culture throughout our entire company.

We are passionate about living our values and delivering on our promises by:

- Seeking new natural gas supplies
- Connecting customers' wells with our pipeline systems for transport to market
- Treating natural gas to remove impurities and to ensure that it meets pipeline quality specifications
- Processing gas for extraction of natural gas liquids
- Transporting pipeline-quality natural gas to a variety of downstream markets

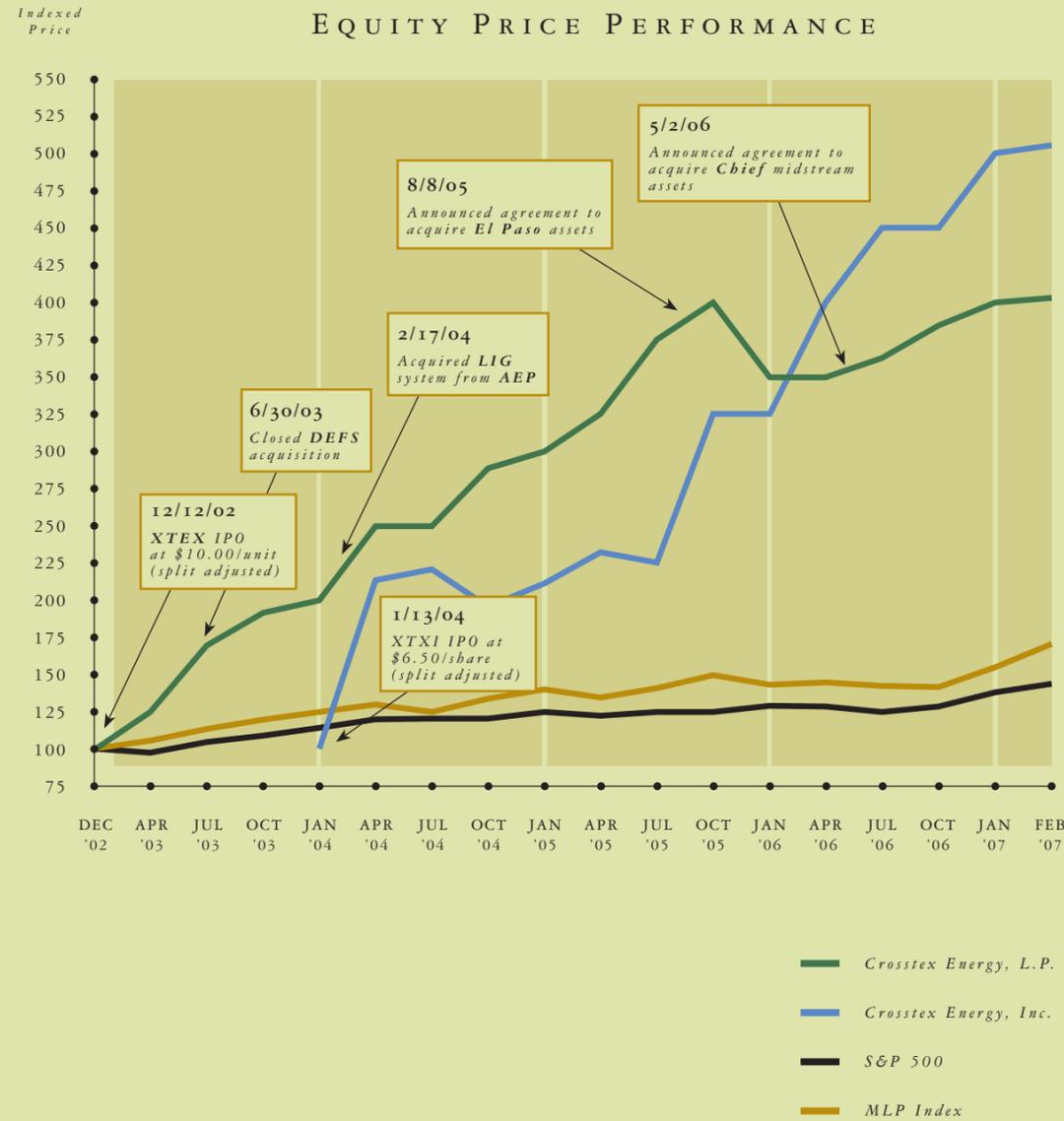


EMPLOYEE GROWTH



## Mississippi / Alabama

Our strong track record for operational enhancement speaks for itself. Since the acquisition of our Mississippi assets in 2003, we have made considerable improvements to the system. Today we are flowing approximately 100 MMcf/d of gas through the system, compared with approximately 80 MMcf/d when we purchased the facilities. Our Mississippi System is the largest intrastate pipeline in the state.



*Where We're Going*

( Cont. from page 12 )

Organic growth, critical acquisitions and asset enhancement are the primary drivers of our business strategy. They provide the springboard for our continued growth. We work hard to strengthen our existing asset base, maximize the return on invested capital and find acquisitions that are a "best fit" for our company. With a strong asset base in place, we can aggressively seek new areas of business. We can make business contacts and enhance existing relationships, knowing we have the experience, the portfolio and the people to back them up.

**Growth, Prosperity Ahead for Crosstex**

During Crosstex's 10-year history, we've built growth, value and return for our investors – a true success story.

We are confident that the company will continue to prosper. We believe that we are well positioned to meet our business objectives and to capitalize on the exciting developments throughout our system, particularly in the Barnett Shale and North Texas. We appreciate your trust as an investor in Crosstex, and we thank you for your commitment to us. As we move forward into 2007 and beyond, we will strive to maintain your confidence and enhance the value of your investment in us.

BARRY E. DAVIS  
President & Chief Executive Officer

CROSSTEX MANAGEMENT



**BARRY E. DAVIS**  
*President &  
Chief Executive Officer*



**A. CHRIS AULDS**  
*Executive Vice President –  
Public & Industry Affairs*



**JOE A. DAVIS**  
*Executive Vice President  
& General Counsel*



**WILLIAM W. DAVIS**  
*Executive Vice President  
& Chief Financial Officer*



**JACK M. LAFIELD**  
*Executive Vice President –  
Corporate Development*



**ROBERT S. PURGASON**  
*Executive Vice President  
& Chief Operating Officer*



**JAMES R. WALES**  
*Executive Vice President –  
Commercial*



**DANNY L. THOMPSON**  
*Senior Vice President –  
Engineering & Operations*



**JENNIFER K. JOHNSON**  
*Vice President –  
Human Resources  
& Organizational Development*

CROSSTEX DIRECTORS

**BRYAN H. LAWRENCE**  
*Chairman of the Board  
{ XTXI, XTEX }*

**RHYS J. BEST**  
*Director  
{ XTEX }*

**FRANK M. BURKE, JR.**  
*Director  
{ XTXI, XTEX }*

**JAMES C. CRAIN**  
*Director  
{ XTXI, XTEX }*

**BARRY E. DAVIS**  
*Director, President & CEO  
{ XTXI, XTEX }*

**SHELDON B. LUBAR**  
*Director  
{ XTXI, XTEX }*

**CECIL E. MARTIN, JR.**  
*Director  
{ XTXI, XTEX }*

**ROBERT F. MURCHISON**  
*Director  
{ XTXI, XTEX }*

**KYLE D. VANN**  
*Director  
{ XTEX }*

This Annual Report is distributed with the SEC Form 10-K for Crosstex Energy, Inc. and Crosstex Energy, L.P., which are incorporated in this Annual Report by this reference. This Annual Report is subject to the SEC Form 10-K reports, each of which includes a more complete description of each company's business and factors that may affect each company, specifically including those matters described in the section titled "Risk Factors." If the SEC Form 10-K reports are not included, copies are available at the Company's web site ([www.crosstexenergy.com](http://www.crosstexenergy.com)) or by contacting Crosstex's Investor Relations Department.

UNITHOLDER & STOCKHOLDER INFORMATION

EXCHANGE LISTING

Crosstex Energy, Inc. common shares are listed on the NASDAQ national market under the symbol XTXI.

Crosstex Energy, LP common units are listed on the NASDAQ national market under the symbol XTEX.

TRANSFER AGENT, UNITHOLDER & STOCKHOLDER RECORDS

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New York, NY 10038  
212.936.5100  
[www.amstock.com](http://www.amstock.com)

AUDITORS

KPMG LLP

INVESTOR INFORMATION

Copies of annual reports, press releases and other publications are available without charge from:

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Investor Relations  
2501 Cedar Springs, Suite 100  
Dallas, Texas 75201  
214.953.9500  
214.953.9501 FAX

WEB ADDRESS

[www.crosstexenergy.com](http://www.crosstexenergy.com)

Refer to our web site for:

- Company News
- Earnings Calls Schedules
- Press Releases
- K-1 Information
- Distribution & Dividend Information

K-1's were mailed to unitholders in February 2007.



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