Hugoton Royalty Trust

2nd Quarter Report

2017

Hugoton Royalty Trust P.O. Box 962020, Fort Worth, Texas 76162-2020
855.588.7839 ■ Southwest Bank, Trustee ■ www.hgt-hugoton.com

Condensed Statements of Distributable Income (Unaudited)

	THREE MONTHS ENDED JUNE 30 2017	2016	SIX MONTHS ENDED JUNE 30 2017	2016
Net Profits Income	$1,324,846	$ 199,545	$3,548,472	$ 263,107
Interest Income	1,605	173	2,525	255
Total Income	1,326,451	199,718	3,550,997	263,362
Administration Expense	176,171	193,490	514,037	537,337
Cash Reserves Withheld/(Used) For Trust Expenses	--	6,228	--	(273,975)
DISTRIBUTABLE INCOME	$1,150,280	$ 0	$3,036,960	$ 0
DISTRIBUTABLE INCOME PER UNIT (40,000,000 UNITS)	$ 0.028757	$ 0.000000	$ 0.075924	$ 0.000000

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the Trust's 2016 annual report. For further information, see the Trust's quarterly report on Form 10-Q for the quarter ended June 30, 2017.

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, annual and monthly development, production and other costs and expenses, monthly development cost deductions, oil and gas prices and differentials to NYMEX prices, supply levels, future drilling, workover and restimulation plans, the outcome of litigation and impact on Trust proceeds, 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, 2016, 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.

For information contact:

Hugoton Royalty Trust

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To Unitholders:

For the quarter ended June 30, 2017, net profits income was $1,324,846, as compared to $199,545 for second quarter 2016. This increase in net profits income is primarily the result of increased gas and oil prices ($4.2 million), partially offset by decreased gas and oil production ($1.0 million), increased taxes, transportation, and other costs ($0.7 million), increased overhead ($0.7 million), net excess costs activity ($0.3 million), increased development costs ($0.3 million) and increased production expense ($0.1 million). See "Net Profits Income" on the following page.

After adding interest income of $1,605 and deducting administration expense of $176,171, distributable income for the quarter ended June 30, 2017 was $1,150,280, or $0.028757 per unit of beneficial interest. Administration expense for the quarter decreased $17,319 as compared to the prior year quarter, primarily related to the timing of receipt and payment of Trust expenses and terms of professional services. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For second quarter 2016, distributable income was $0, or $0.000000 per unit.

Distributions to unitholders for the quarter ended June 30, 2017 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 28, 2017	May 12, 2017	$ 0.012640
May 31, 2017	June 14, 2017	0.006021
June 30, 2017	July 17, 2017	0.010096
TOTAL		$ 0.028757

For the six months ended June 30, 2017, net profits income was $3,548,472 compared with $263,107 for the same 2016 period. This increase in net profits income is primarily the result of increased gas and oil prices ($8.5 million) and decreased production expense ($0.3 million), partially offset by decreased gas and oil production ($1.9 million), net excess costs activity ($1.5 million), increased taxes, transportation, and other ($1.5 million), increased overhead ($0.4 million) and increased development costs ($0.2 million). See "Net Profits Income" on the following page.

After adding interest income of $2,525 and deducting administration expense of $514,037, distributable income for the six months ended June 30, 2017 was $3,036,960, or $0.075924 per unit of beneficial interest. Administration expense for the six months ended June 30, 2017 decreased $23,300 as compared to the same 2016 period, primarily related to the timing of receipt and payment of Trust expenses and terms of professional services. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For the six months ended June 30, 2016, distributable income was $0, or $0.000000 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.hgt-hugoton.com.

This letter, and all communications to unitholders, includes information provided to the Trustee by XTO Energy Inc.

Hugoton Royalty Trust
By: Southwest Bank, Trustee

By: Nancy G. Willis
Vice President

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 and 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.

The following are explanations of significant variances on the underlying properties from second quarter 2016 to second quarter 2017 and from the first six months of 2016 to the comparable period in 2017:

Sales Volumes

Gas. Gas sales volumes decreased 8% for second quarter and 7% for the six-month period as compared with the same 2016 periods primarily due to natural production decline.

Oil. Oil sales volumes decreased 16% for second quarter and 17% for the six-month period as compared with the same 2016 periods primarily due to natural production decline and 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

Gas. The second quarter 2017 average gas price was $2.83 per Mcf, a 76% increase from the second quarter 2016 average gas price of $1.61 per Mcf. For the six-month period, the average gas price increased 70% to $3.00 per Mcf in 2017 from $1.76 per Mcf in 2016. The second quarter 2017 gas price is primarily related to production from February through April 2017, when the average NYMEX price was $3.06 per MMBtu.

Oil. The second quarter 2017 average oil price was $48.42 per Bbl, a 50% increase from the second quarter 2016 average oil price of $32.28 per Bbl. The year-to-date average oil price increased 45% to $47.50 per Bbl in 2017 from $32.75 per Bbl in 2016. The second quarter 2017 oil price is primarily related to production from February through April 2017, when the average NYMEX price was $51.45 per Bbl.

Costs

Taxes, Transportation and Other. Taxes, transportation and other costs increased 75% for the second quarter and 81% for the six-month period primarily because of increased production taxes related to higher gas and oil revenues and increased gas deductions related to higher gathering fees.

Production Expense. Production expense increased 5% for the second quarter primarily because of increased salt water disposal costs and maintenance activity, partially offset by a decrease in other field goods and services. Production expense decreased 5% for the six-month period primarily because of decreased labor and other field goods and services, partially offset by increased salt water disposal costs.

Development Costs. Development costs deducted are based on the current level of development expenditures, budgeted future development costs and the cumulative actual costs under (over) previous deductions. These development costs increased 140% for the second quarter and 30% for the six-month period. Cumulative actual costs exceeded budgeted costs deducted by approximately $83,000 at June 30, 2017. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary.

Overhead. Overhead increased 42% for the quarter and 10% for the six-month period primarily because of a one-time reimbursement related to operated overhead corrections in 2016, partially offset by the annual rate adjustment based on an industry index.

Excess Costs

If monthly costs exceed revenues for any of the three conveyances (one for each of the states of Kansas, Oklahoma and Wyoming), such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from other conveyances.

The following summarizes excess costs activity and cumulative balances by conveyance:

	Underlying		
	KS	WY	Total
Cumulative excess costs remaining at 12/31/16	$1,049,601	$1,158,205	$2,207,806
Net excess costs (recovery) for the quarter ended 3/31/17	(76,669)	(686,923)	(763,592)
Net excess costs (recovery) for the quarter ended 6/30/17	10,426	44,584	55,010
Cumulative excess costs remaining at 6/30/17	$ 983,358	$ 515,866	$1,499,224

	NPI		
	KS	WY	Total
Cumulative excess costs remaining at 12/31/16	$ 839,681	$ 926,564	$1,766,245
Net excess costs (recovery) for the quarter ended 3/31/17	(61,335)	(549,538)	(610,873)
Net excess costs (recovery) for the quarter ended 6/30/17	8,341	35,667	44,008
Cumulative excess costs remaining at 6/30/17	$ 786,687	$ 412,693	$1,199,380

Lower gas prices caused costs to exceed revenues on properties underlying the Kansas and Wyoming net profits interests for the quarter ended June 30, 2017.

Underlying cumulative excess costs for the Kansas and Wyoming conveyances remaining as of June 30, 2017 totaled $1,499,224 (NPI $1,199,380).

Impairment of Net Profits Interest. In light of lower long term prices used to develop projections of future cash flows, continued excess costs on two conveyances and zero distributions to unitholders for the quarter ended June 30, 2016, the Trustee concluded in the second quarter of 2016 that the events or circumstances indicated the carrying value may not be recoverable and an assessment of the forecasted net cash flows was performed for the NPI. The fair value of the NPI was developed using estimates for future oil and gas production attributable to the Trust, future crude oil and natural gas commodity prices published by third-party industry experts (adjusted for basis differentials), estimated taxes, development and operating expenses, and a risk-adjusted discount rate. The result of the assessment indicated that the estimated undiscounted future net cash flows from the NPI were below the carrying value of the NPI. The NPI was written down to its fair value of $28.8 million, resulting in a $57.3 million impairment charged directly to trust corpus, which did not affect distributable income. There was no impairment of the NPI during the quarter ended June 30, 2017.

Marketing. XTO Energy has advised the Trustee that, effective April 1, 2017, Cross Timbers Energy Services, Inc. (“CTES”), a wholly owned marketing subsidiary of XTO Energy, has assigned all gas sales contracts for production from the underlying properties to XTO Energy. XTO Energy will directly market and sell the gas to third parties. XTO Energy has advised the Trustee that there are no changes to the terms of the contracts related to the assignment and no impact on Trust distributions.

Contingencies. In December 2010, a royalty class action lawsuit was filed against XTO Energy styled *Chieftain Royalty Company v. XTO Energy Inc.* in Coal County District Court, Oklahoma. XTO Energy removed the case to federal court in the Eastern District of Oklahoma. The plaintiffs allege that XTO Energy wrongfully deducted fees from royalty payments on Oklahoma wells, failed to make diligent efforts to secure the best terms available for the sale of gas and its constituents, and demand an accounting to determine whether they have been fully and fairly paid gas royalty interests. The case was certified as a class action in April 2012; however, on appeal in June 2012, the 10th Circuit Court of Appeals reversed the certification of the class and remanded the case back to the trial court for further proceedings. XTO Energy has informed the Trustee that it has reached a tentative settlement for the matter.

The Trustee has requested the settlement amount from XTO Energy and has been informed that at this time, the amount that XTO Energy believes should be charged to the Trust has not been determined. XTO Energy has advised the Trustee that the settlement will be allocated to all of XTO Energy's Oklahoma wells, the majority of which are not properties in which the Trust owns an underlying net profits interest.

The Trustee has informed XTO Energy that it intends to review any claimed reductions in payment to the Trust based on the facts and circumstances of such settlement. In light of a 2014 arbitration decision in which a three panel tribunal decided that the settlement in *Fankhouser v. XTO Energy, Inc.*, including a new royalty calculation for future royalty payments, could not be charged to the Trust, to the extent that the claims in *Chieftain* are similar to those in *Fankhouser* the Trustee would likely object to such claimed reductions. Should there be a disagreement as to whether the Trust should bear its share of a settlement or judgment the matter will be resolved by binding arbitration through the American Arbitration Association under the terms of the Indenture creating the Trust. XTO Energy has informed the Trustee that, although the amount of any reduction in net proceeds is not presently determinable, in its management's opinion, the amount is not currently expected to be material to the Trust's financial position or liquidity though it could be material to the Trust's annual distributable income. Additionally, XTO Energy has advised the Trustee that any reductions would result in costs exceeding revenues on the properties underlying the net profits interests of the case, as applicable, for several monthly distributions, depending on the size of the settlement, if any, and the net proceeds being paid at that time, which would result in the net profits interest being limited until such time that the revenues exceed the costs for those net profit interests.

Certain of the underlying properties are involved in various other lawsuits and governmental proceedings arising in the ordinary course of business. XTO Energy has advised the Trustee that it does not believe that the ultimate resolution of these claims will have a material effect on the financial position or liquidity of the Trust, but may have an effect on annual distributable income.

Tax Information Per Unit

	MONTHLY DISTRIBUTIONS PAID ON: *($/UNIT EXCEPT COST DEPLETION FACTORS)*			
	May 12, 2017	**June 14, 2017**	**July 17, 2017**	**Total**
Gross Income	$ 0.017513	$ 0.009887	$ 0.013288	$ 0.040688
Less Severance Taxes	(0.003354)	(0.001851)	(0.002362)	(0.007567)
Interest Income	0.000011	0.000015	0.000014	0.000040
Less Administration Expenses	(0.001530)	(0.002030)	(0.000844)	(0.004404)
Reconciling Items	0.000000	0.000000	0.000000	0.000000
NET CASH DISTRIBUTION	$ 0.012640	$ 0.006021	$ 0.010096	$ 0.028757
Cost Depletion Factors:				
Kansas - 80%	0.000000	0.000000	0.000000	0.000000
Oklahoma - 80%	0.038814	0.027891	0.034420	0.101125
Wyoming - 80%	0.000000	0.000000	0.000000	0.000000

Glossary of Terms

Bbl Barrel (of oil)
Mcf Thousand cubic feet (of natural gas)
MMBtu One million British Thermal Units, a common energy measurement

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)] 2017	THREE MONTHS ENDED JUNE 30 [(a)] 2016	INCREASE (DECREASE)	SIX MONTHS ENDED JUNE 30 [(a)] 2017	SIX MONTHS ENDED JUNE 30 [(a)] 2016	INCREASE (DECREASE)
SALES VOLUMES						
Gas (Mcf) [(b)]						
Underlying Properties	3,399,989	3,693,407	(8%)	6,940,042	7,457,374	(7%)
Average Per Day	38,202	41,038	(7%)	38,343	40,975	(6%)
Net Profits Interests	421,422	103,592	307%	1,057,499	132,147	700%
Oil (Bbls) [(b)]						
Underlying Properties	39,596	47,291	(16%)	78,301	94,635	(17%)
Average Per Day	445	525	(15%)	433	520	(17%)
Net Profits Interests	7,281	1,827	299%	17,221	2,322	642%
AVERAGE SALES PRICES						
Gas (per Mcf)	$ 2.83	$ 1.61	76%	$ 3.00	$ 1.76	70%
Oil (per Bbl)	$ 48.42	$ 32.28	50%	$ 47.50	$ 32.75	45%
REVENUES						
Gas sales	$ 9,630,525	$ 5,964,005	61%	$20,820,167	$13,121,630	59%
Oil sales	1,917,419	1,526,739	26%	3,719,455	3,099,318	20%
TOTAL REVENUES	**11,547,944**	**7,490,744**	**54%**	**24,539,622**	**16,220,948**	**51%**
COSTS						
Taxes, transportation and other	2,131,068	1,215,472	75%	4,189,701	2,310,709	81%
Production expense	4,365,737	4,171,539	5%	8,316,224	8,717,574	(5%)
Development costs	600,000	250,000	140%	1,200,000	925,000	30%
Overhead	2,850,091	2,004,119	42%	5,689,525	5,164,142	10%
Excess Costs	(55,010)	(399,818)	(86%)	708,582	(1,225,361)	N/A
TOTAL COSTS	**9,891,886**	**7,241,312**	**37%**	**20,104,032**	**15,892,064**	**27%**
NET PROCEEDS	**1,656,058**	**249,432**	**564%**	**4,435,590**	**328,884**	**N/A**
NET PROFITS PERCENTAGE	**80%**	**80%**		**80%**	**80%**	
NET PROFITS INCOME	**$ 1,324,846**	**$ 199,545**	**564%**	**$ 3,548,472**	**$ 263,107**	**N/A**

(a) Because of the two-month interval between time of production and receipt of net profits income by the Trust, (1) gas and oil sales for the quarter ended June 30 generally represent production for the period February through April and (2) gas and oil sales for the six months ended June 30 generally represent production for the period November through April.

(b) Gas and oil sales volumes are allocated to the net profits interests by dividing Trust net cash inflows by average sales prices. As gas and oil prices change, the Trust's allocated production volumes are impacted as the quantity of production necessary to cover expenses changes inversely with price. As such, the underlying property production volume changes may not correlate with the Trust's allocated production volumes in any given period. Therefore, comparative discussion of gas and oil sales volumes is based on the underlying properties.