Hugoton Royalty Trust

1st
Quarter Report
2013

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U.S. Trust, Bank of America Private Wealth Management, Trustee • www.hugotontrust.com

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended March 31 2013	2012
Net Profits Income	$ 8,065,774	$ 10,073,319
Interest Income	154	220
Total Income	8,065,928	10,073,539
Administration Expense	247,808	248,099
DISTRIBUTABLE INCOME	**$ 7,818,120**	**$ 9,825,440**
DISTRIBUTABLE INCOME PER UNIT (40,000,000 UNITS)	**$ 0.195453**	**$ 0.245636**

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2012 Annual Report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended March 31, 2013.

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, 2012, 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.

To Unitholders:

For the quarter ended March 31, 2013, net profits income was $8,065,774, as compared to $10,073,319 for first quarter 2012. Decreased net profits income is primarily the result of decreased gas production ($1.4 million) and lower oil and gas prices ($1.0 million), partially offset by increased oil production ($0.3 million). See “Net Profits Income” on following page.

After adding interest income of $154 and deducting administration expense of $247,808, distributable income for the quarter ended March 31, 2013 was $7,818,120, or $0.195453 per unit of beneficial interest. Changes in interest income are attributable to fluctuations in net profits income and interest rates. Administration expense for the quarter decreased $291 from the prior year quarter. For first quarter 2012, distributable income was $9,825,440, or $0.245636 per unit.

Distributions to unitholders for the quarter ended March 31, 2013 were:

RECORD DATE	PAYMENT DATE	PER UNIT
January 31, 2013	February 14, 2013	$ 0.065536
February 28, 2013	March 14, 2013	0.068665
March 28, 2013	April 12, 2013	0.061252
TOTAL		**$ 0.195453**

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.hugotontrust.com.

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

Hugoton Royalty Trust
By: U.S. Trust Bank of America
Private Wealth Management, 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 first quarter 2012 to first quarter 2013:

Sales Volumes

Gas sales volumes decreased 9% and oil sales volumes increased 8% from first quarter 2012 to first quarter 2013. Decreased gas sales volumes are primarily due to natural production decline and the timing of cash receipts. Increased oil sales volumes are primarily due to the timing of cash receipts, 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

Gas. The first quarter 2013 average gas price was $3.87 per Mcf, a 3% decrease from the first quarter 2012 average gas price of $4.00 per Mcf. Natural gas prices are affected by the level of North American production, weather, crude oil and natural gas liquids prices, the U.S. economy, storage levels and import levels of liquefied natural gas. Natural gas prices are expected to remain volatile. The first quarter 2013 gas price is primarily related to production from November 2012 through January 2013, when the average NYMEX price was $3.51 per MMBtu. The average NYMEX price for February and March 2013 was $3.33 per MMBtu. At April 18, 2013, the average NYMEX futures price for the following twelve months was $4.52 per MMBtu.

Oil. The first quarter 2013 average oil price was $83.95 per Bbl, a 12% decrease from the first quarter 2012 average oil price of $95.36 per Bbl. Oil prices are expected to remain volatile. The first quarter 2013 oil price is primarily related to production from November 2012 through January 2013, when the average NYMEX price was $89.87 per Bbl. The average NYMEX price for February and March 2013 was $94.33 per Bbl. At April 18, 2013, the average NYMEX futures price for the following twelve months was $87.36 per Bbl.

Costs

Taxes, Transportation and Other. Taxes, transportation and other decreased 5% for the first quarter primarily because of decreased oil and gas production taxes and other deductions related to lower oil and gas revenues, partially offset by increased property taxes related to the timing of cash expenditures.

Production Expense. Production expense decreased 4% for the first quarter primarily because of decreased repairs and maintenance, fuel, and compressor costs, partially offset by increased water disposal and labor costs.

Overhead. Overhead increased 5% for the first quarter primarily because of the annual rate adjustment based on an industry index.

Development Costs. Development costs deducted in the calculation of net profits income are based primarily on the current level of development expenditures and the development budget. Development costs for first quarter 2013 were flat from the prior year quarter.

At December 31, 2012, cumulative actual costs exceeded cumulative budgeted costs deducted by approximately $0.3 million. In calculating net profits income for the quarter ended March 31, 2013, XTO Energy deducted budgeted development costs of $1.5 million. After considering actual development costs of $1.4 million for the quarter, actual costs exceeded cumulative budgeted costs deducted by $0.2 million. First quarter actual development costs primarily relate to disbursements for development activity in fourth quarter 2012.

XTO Energy has advised the trustee that total 2013 budgeted development costs for the underlying properties are between $6 million and $8 million. The 2013 budget year generally coincides with the trust distribution months from April 2013 through March 2014. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary, based on the 2013 budget and the timing and amount of actual expenditures.

Other. In accordance with the terms of the Hugoton Royalty Trust Indenture, XTO Energy has advised the trustee that on April 24, 2013 it sold properties underlying the Oklahoma net profits interests for approximately $1,188,430 ($950,744 net to the trust) pending any additional closing adjustments. This amount will be included in the May 2013 distribution which will be paid on June 14, 2013.

The trust is required to join in a sale of up to 1% of the value of the net profits interests in any calendar year, pursuant to notice from XTO Energy of its desire to sell the related underlying properties.

Contingencies. An amended petition for a class action lawsuit, *Beer, et al. v. XTO Energy Inc.*, was filed in January 2006 in the District Court of Texas County, Oklahoma by certain royalty owners of natural gas wells in Oklahoma and Kansas. The plaintiffs allege that XTO Energy has not properly accounted to the plaintiffs for the royalties to which they are entitled and seek an accounting regarding the natural gas and other products produced from their wells and the prices paid for the natural gas and other products produced, and for payment of the monies allegedly owed since June 2002, with a certain limited number of plaintiffs claiming monies owed for additional time. XTO Energy removed the case to federal district court in Oklahoma City. In April 2010, new counsel and representative parties, Fankhouser and Goddard, filed a motion to intervene and prosecute the *Beer* class, now styled *Fankhouser v. XTO Energy Inc.* This motion was granted on July 13, 2010. The new plaintiffs and counsel filed an amended complaint asserting new causes of action for breach of fiduciary duties and unjust enrichment. On December 16, 2010, the court certified the class. Cross motions for summary judgment were filed by the parties and ruled on by the court. XTO Energy has advised the trustee that after consideration of the rulings by the court in March and April 2012, some benefiting XTO Energy and some benefiting the plaintiffs, and with due regard to the vagaries of litigation and their uncertain outcomes, XTO Energy and the plaintiffs entered into settlement negotiations prior to trial and reached a tentative settlement of $37 million on April 23, 2012. XTO Energy has advised the trustee that $1.4 million of the settlement is attributable to Kansas claims which predate the Trust and therefore XTO Energy will not charge the Trust. The settlement also includes a new royalty calculation for future royalty payments. The hearing for formal court approval of the settlement was conducted on June 21, 2012 and preliminarily approved by the court on June 29, 2012. A fairness hearing was conducted on October 10, 2012 and the settlement was given final approval by the court. The court's order sets out the amount of attorneys' fees and costs awarded to the plaintiffs' counsel from the $37 million settlement. A third party administrator will make the distribution to the royalty owners as set out in the order approving the settlement.

XTO Energy has advised the trustee it believes that the terms of the conveyances covering the trust's net profits interests require the trust to bear its 80% interest in the settlement, or approximately $28.5 million, of which $23.4 million will affect the net proceeds from Oklahoma and $5.1 million will affect the net proceeds from Kansas. If so, this will adversely affect the net proceeds of the trust from Oklahoma and Kansas and will result in costs exceeding revenues on these properties. XTO Energy began deducting the settlement amount with the September 2012 distribution. Based on the revised settlement allocation between Oklahoma and Kansas and recent revenue and expense levels, the deductions XTO Energy has made, and will resume making if the Tribunal (as defined below) ultimately rules in XTO Energy's favor, will cause costs to exceed revenues for approximately 12 months on properties underlying the Oklahoma net profits interests and by approximately 7 years on properties underlying the Kansas net profits interests; however, changes in oil or natural gas prices or expenses could cause the time period to increase or decrease correspondingly. The net profits interest from Wyoming is unaffected and payments will continue to be made from those properties to the extent revenues exceed costs on such properties. XTO Energy has advised the trustee that the settlement would decrease the amount of net profits going forward for the Oklahoma and Kansas properties due to changes in the way costs (such as gathering, compression and fuel) associated with operating the properties will be allocated, resulting in a net gain to the royalty interest owners. XTO Energy has advised the trustee that this expected net upward revision for the royalty interest owners would reduce applicable net profits to XTO Energy and, correspondingly, to the trust. As of March 31, 2013, the revision would have reduced trust net proceeds by approximately $358,000 (this amount would have been reflected in the June 2012 through March 2013 distributions).

The trustee has advised XTO Energy that all or a portion of the settlement amount should not be deducted from trust revenues. The trustee further advised XTO that, notwithstanding the Fankhouser settlement, XTO should make no change in the manner in which it calculates payments to the trust on a go-forward basis. XTO Energy does not agree with the trustee's position, and to resolve this disagreement XTO Energy initiated binding arbitration on August 1, 2012 in accordance with the terms of the dispute resolution provisions of the Trust Indenture. On August 17, 2012 the trustee filed its response to XTO's arbitration claim. All issues in the arbitration will be decided by a panel of three arbitrators (the "Tribunal"). Each side selected one arbitrator and the third arbitrator was selected by the other two appointed arbitrators. The arbitration will be administered by the American Arbitration Association under its commercial rules. The arbitration hearing is scheduled to begin November 12, 2013 in Fort Worth, Texas if not sooner disposed of by the parties by agreement or by the Tribunal on motion. Because XTO Energy has advised the trustee that it began deducting the settlement in September, the trustee reserved a total of $900,000 from trust distributions to help fund potential legal and other expenses relating to the arbitration. The trustee believed that without such a reserve, the trust was likely to be left without adequate resources to fund the costs of the arbitration out of monthly trust revenues. Because the potential expenses of arbitration are uncertain, especially at this early stage of the arbitration, it is possible that the reserve may not be sufficient to cover all of such expenses.

The trustee requested that the Tribunal enjoin XTO Energy from continuing to deduct the Fankhouser settlement amount while the arbitration is pending. A hearing on the injunction was held on October 27, 2012. The Tribunal ordered that pending the issuance of a final award or further order of the Tribunal, XTO Energy should not treat any costs or expenses associated with the Fankhouser settlement as chargeable against the trust's net profits interest under the conveyances. The Tribunal denied the trust's request for an interim order directing XTO Energy to pay the trust the amounts offset against the trust's September and October 2012 distributions on the basis of the Fankhouser litigation. Based on this decision, deductions associated with the Fankhouser settlement were suspended starting in November 2012. XTO Energy has also informed the trustee that during the pendency of this action, no adjustment will be made to the net profits to the trust on a go-forward basis based on the changes in the way costs will be allocated to royalty owners in accordance with the Fankhouser settlement.

In September 2008, a class action lawsuit was filed against

XTO Energy styled *Wallace B. Roderick Revocable Living Trust, et al. v. XTO Energy Inc.* in the District Court of Kearny County, Kansas. XTO Energy removed the case to federal court in Wichita, Kansas. The plaintiffs allege that XTO Energy has improperly taken post-production costs from royalties paid to the plaintiffs from wells located in Kansas, Oklahoma and Colorado. The plaintiffs have filed a motion to certify the class, including only Kansas and Oklahoma wells not part of the Fankhouser matter. After filing the motion to certify, but prior to the class certification hearing, the plaintiff filed a motion to sever the Oklahoma portion of the case so it could be transferred and consolidated with a newly filed class action in Oklahoma styled *Chieftain Royalty Company v. XTO Energy Inc.* This motion was granted. The Roderick case now comprises only Kansas wells not previously included in the Fankhouser matter. The case was certified as a class action in March 2012. XTO Energy has filed an appeal of the class certification to the 10th Circuit Court of Appeals on April 11, 2012, believing the class certification was not proper. The appeal was granted on June 26, 2012. The matter has been fully briefed, and oral argument occurred May 8, 2013. The Court will rule at a time of its discretion.

In December 2010, a 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 expressly excludes those claims and wells being prosecuted in the Fankhouser case. The severed Roderick case claims related to the Oklahoma portion of the case were consolidated into *Chieftain*. The case was certified as a class action in April 2012. XTO Energy has filed an appeal of the class certification to the 10th Circuit Court of Appeals on April 26, 2012, believing the class certification was not proper. The appeal was granted on June 26, 2012. The matter has been fully briefed, and oral argument occurred May 8, 2013. The Court will rule at a time of its discretion.

XTO Energy has informed the trustee that it believes that XTO Energy has strong defenses to these lawsuits and intends to vigorously defend its position. However, XTO Energy is cognizant of other, similar litigation involving it, such as *Fankhouser*, and other, unrelated entities. As these cases develop XTO Energy will assess its legal position accordingly. If XTO Energy ultimately makes any settlement payments or receives a judgment against it in *Chieftain* or *Roderick*, XTO Energy has advised the trustee that it believes that the terms of the conveyances covering the trust's net profits interests require the trust to bear its 80% share of such settlement or judgment related to production from the underlying properties. Additionally, if the judgment or settlement increases the amount of future payments to royalty owners, XTO Energy has informed the trustee that the trust would bear its proportionate share of the increased payments through reduced net proceeds. In the event of any such settlement or judgment, the trustee intends to review any claimed reductions in payment to the trust based on the facts and circumstances of such settlement or judgment. 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 profit interests of the cases named above, as applicable, for several monthly distributions, depending on the size of the judgment or 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 of those net profits interests. If there is a settlement or judgment and should XTO Energy and the trustee disagree concerning the amount of the settlement or judgment to be charged against the trust's net profits interests, the matter will be resolved by binding arbitration under the terms of the Indenture creating the trust through the American Arbitration Association.

On September 12, 2012, a lawsuit was filed against Bank of America as trustee and XTO Energy styled *Harold Lamb v. Bank of America and XTO Energy Inc.*, in the U.S. District Court – Western District of Oklahoma. The plaintiff, Harold Lamb, is a unitholder in the trust and alleges that XTO Energy failed to properly pay and account to the trust under the terms of the net overriding royalty conveyance on certain Kansas and Oklahoma properties and that Bank of America, as trustee, failed to properly oversee such payment and accounting by XTO Energy. Additionally, the plaintiff alleges that Bank of America and XTO Energy have breached a fiduciary duty to the trust based on the allegations found in the *Fankhouser* class action discussed above. The plaintiffs are seeking unspecified amounts for actual/compensatory damages, punitive damages, disgorgement and injunctive relief. Subsequently, the plaintiff dismissed Bank of America from the lawsuit. The court granted XTO Energy's motion to transfer venue and has transferred the case to the U.S. District Court for the Northern District of Texas. XTO has also filed two motions to dismiss. XTO Energy has informed the trustee that it believes it has strong defenses to this lawsuit and intends to vigorously defend its position. However, XTO Energy is cognizant of other, similar litigation involving it, such as *Fankhouser*, and other, unrelated entities. As this case develops XTO Energy will assess its legal position accordingly.

Certain of the underlying properties are involved in various other lawsuits and certain 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.

Glossary of Terms

Bbl Barrel (of oil)
Mcf Thousand cubic feet (of natural gas)
MMBtu 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 MARCH 31 [(a)] 2013	2012	INCREASE (DECREASE)
SALES VOLUMES			
Gas (Mcf) [(b)]			
Underlying Properties	4,726,470	5,193,931	(9%)
Average Per Day	51,375	56,456	(9%)
Net Profits Interests	1,780,879	2,185,611	(19%)
Oil (Bbl) [(b)]			
Underlying Properties	55,819	51,627	8%
Average Per Day	607	561	8%
Net Profits Interests	23,526	23,765	(1%)
AVERAGE SALES PRICES			
Gas (per Mcf)	$ 3.87	$ 4.00	(3%)
Oil (per Bbl)	$ 83.95	$ 95.36	(12%)
REVENUES			
Gas sales	$ 18,293,765	$ 20,787,123	(12%)
Oil sales	4,685,822	4,923,178	(5%)
TOTAL REVENUES	**22,979,587**	**25,710,301**	**(11%)**
COSTS			
Taxes, transportation and other	2,837,181	2,971,051	(5%)
Production expense	5,737,914	5,955,895	(4%)
Development costs	1,500,000	1,500,000	--
Overhead	2,822,274	2,691,706	5%
TOTAL COSTS	**12,897,369**	**13,118,652**	**(2%)**
NET PROCEEDS	10,082,218	12,591,649	(20%)
NET PROFITS PERCENTAGE	80%	80%	
NET PROFITS INCOME	**$ 8,065,774**	**$ 10,073,319**	**(20%)**

(a) Because of the two-month interval between time of production and receipt of net profits income by the trust, (1) oil and gas sales for the quarter ended March 31 generally represent production for the period November through January.

(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.

Tax Information Per Unit

	MONTHLY DISTRIBUTIONS PAID ON: *($/UNIT EXCEPT COST DEPLETION FACTORS)*			
	February 14, 2013	**March 14, 2013**	**April 12, 2013**	**Total**
Gross Income	$ 0.078582	$ 0.078707	$ 0.069007	$ 0.226296
Less Severance Taxes	(0.009056)	(0.008434)	(0.007162)	(0.024652)
Interest Income	0.000001	0.000001	0.000001	0.000003
Less Administration Expenses	(0.005284)	(0.003499)	(0.003790)	(0.012573)
Reconciling Items	0.001293	0.001890	0.003196	0.006379
NET CASH DISTRIBUTION	**$ 0.065536**	**$ 0.068665**	**$ 0.061252**	**$ 0.195453**
Cost Depletion Factors:				
Kansas - 80%	0.004586	0.006012	0.005841	0.016439
Oklahoma - 80%	0.007293	0.007852	0.007169	0.022314
Wyoming - 80%	0.012906	0.008917	0.008391	0.030214

For information contact:

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