

Hugoton Royalty Trust

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

1st
Quarter Report

2016

Condensed Statements of Distributable Income (Unaudited)

	THREE MONTHS ENDED MARCH 31	
	2016	2015
Net Profits Income	\$ 63,562	\$ 4,136,842
Interest Income	82	69
Total Income	63,644	4,136,911
Administration Expense.....	343,847	270,911
Cash Reserves Withheld (Used) For Trust Expenses	(280,203)	100,000
DISTRIBUTABLE INCOME.....	\$ —	\$ 3,766,000
DISTRIBUTABLE INCOME PER UNIT (40,000,000 UNITS)	\$ 0.000000	\$ 0.094150

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the Trust's 2015 annual report. For further information, see the Trust's quarterly report on Form 10-Q for the quarter ended March 31, 2016.

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, 2015, 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, 2016, net profits income was \$63,562, as compared to \$4,136,842 for first quarter 2015. The 98% decrease in net profits income is primarily the result of lower oil and gas prices (\$5.7 million), partially offset by decreased taxes, transportation, and other costs (\$0.7 million), decreased production expense (\$0.6 million) and net excess costs on the underlying properties in 2016 (\$0.3 million). See "Net Profits Income" on the following page.

After adding interest income of \$82, deducting administration expense of \$343,847, and reducing the cash reserve \$280,203 for the payment of Trust expenses, distributable income for the quarter ended March 31, 2016 was \$0, or \$0.000000 per unit of beneficial interest. Administration expense for the quarter increased \$72,936 from the prior year quarter. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For first quarter 2015, distributable income was \$3,766,000 or \$0.094150 per unit.

Distributions to unitholders for the quarter ended March 31, 2016 were:

RECORD DATE	PAYMENT DATE	PER UNIT
January 29, 2016	February 12, 2016	\$ 0.000000
February 29, 2016	March 14, 2016	0.000000
March 31, 2016	April 14, 2016	<u>0.000000</u>
TOTAL		<u>\$ 0.000000</u>

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

First Quarter Report 2016

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 2015 to first quarter 2016:

Sales Volumes

Gas sales volumes increased 1% and oil sales volumes decreased 4% from first quarter 2015 to first quarter 2016. Increased gas sales volumes are primarily due to the completion of repairs at a third party gas processing system in the Hugoton area following a force majeure incident, partially offset by natural production decline. Decreased oil sales volumes are primarily due to natural production decline, partially offset by timing of cash receipts.

XTO Energy advised the trustee that repairs and maintenance in the first half of 2015 at a third party gas processing system in the Hugoton area following a force majeure incident resulted in decreased underlying gas volumes of approximately 5,000 Mcf per day. After being advised by the third party processor that the repairs were completed, XTO Energy then received notice that the force majeure event was being extended to the processing portion of the third party plant due to an equipment malfunction. The processor was able to bypass the plant and take gas; however, the plant was not able to process gas for NGLs or helium for a period of time. In late October, XTO Energy received notice that the plant returned to full capacity at the end of October 2015, including the processing of gas for NGLs and helium.

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 2016 average gas price was \$1.90 per Mcf, a 45% decrease from the first quarter 2015 average gas price of \$3.48 per Mcf. Excluding the effects of the natural gas liquids recoupment in February 2015, the average gas price was \$3.59 per Mcf in the first quarter of 2015. For more information

on the recoupment see "Other" on the following page. 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 2016 gas price is primarily related to production from November 2015 through January 2016, when the average NYMEX price was \$2.20 per MMBtu. The average NYMEX price for February and March 2016 was \$1.95 per MMBtu. At April 21, 2016, the average NYMEX futures price for the following twelve months was \$2.62 per MMBtu.

Oil. The first quarter 2016 average oil price was \$33.22 per Bbl, a 43% decrease from the first quarter 2015 average oil price of \$58.00 per Bbl. Oil prices are expected to remain volatile. The first quarter 2016 oil price is primarily related to production from November 2015 through January 2016, when the average NYMEX price was \$37.44 per Bbl. The average NYMEX price for February and March 2016 was \$34.11 per Bbl. At April 21, 2016, the average NYMEX futures price for the following twelve months was \$45.49 per Bbl.

Costs

Taxes, Transportation and Other. Taxes, transportation and other decreased 44% for the first quarter primarily because of decreased oil and gas production taxes and other deductions related to lower oil and gas revenues and decreased property taxes related to lower valuations.

Production Expense. Production expense decreased 16% for the first quarter primarily because of lower repairs and maintenance, fuel, compressor rental, water disposal and chemical costs.

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 2016 increased 13% from the prior year quarter.

At December 31, 2015, cumulative budgeted costs deducted exceeded cumulative actual costs by approximately \$0.2 million. In calculating net profits income for the quarter ended March 31, 2016, XTO Energy deducted budgeted development costs of \$0.7

First Quarter Report 2016

million. After considering actual development costs of \$0.5 million for the quarter, budgeted costs deducted exceeded cumulative actual costs by \$0.4 million. First quarter actual development costs primarily relate to disbursements for development activity in fourth quarter 2015.

XTO Energy has advised the trustee that revised 2016 budgeted development costs for the underlying properties are between \$2 million and \$4 million. The 2016 budget year generally coincides with the Trust distribution months from April 2016 through March 2017. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary, based on the 2016 budget and the timing and amount of actual expenditures.

Overhead. Overhead increased 3% for the first quarter primarily because of the annual rate adjustment based on an industry index.

Excess Costs

	Conveyances (Underlying)			Total
	KS	OK	WY	
Cumulative excess costs remaining at 12/31/15	\$1,141,452	\$ —	\$478,735	\$1,620,187
Net excess costs for the quarter ended 3/31/16	255,605	97,457	472,481	825,543
Cumulative excess costs remaining at 3/31/16	<u>\$1,397,057</u>	<u>\$97,457</u>	<u>\$951,216</u>	<u>\$2,445,730</u>

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.

XTO Energy advised the trustee that lower gas prices caused costs to exceed revenues by a total of \$255,605 (\$204,484 net to the Trust) on properties underlying the Kansas net profits interest for the quarter ended March 31, 2016.

XTO Energy advised the trustee that lower gas prices caused costs to exceed revenues by a total of \$97,457 (\$77,966 net to the Trust) on properties underlying the Oklahoma net profits interest for the quarter ended March 31, 2016.

XTO Energy advised the trustee that lower gas prices caused costs to exceed revenues by a total of \$472,481 (\$377,985 net to the

Trust) on properties underlying the Wyoming net profits interest for the quarter ended March 31, 2016.

XTO Energy advised the trustee that increased costs, decreased gas production and lower gas prices caused costs to exceed revenues by a total of \$338,668 (\$270,934 net to the Trust) on properties underlying the Kansas net profits interest for the quarter ended March 31, 2015.

XTO Energy advised the trustee that lower gas prices and increased costs caused costs to exceed revenues by a total of \$87,082 (\$69,666 net to the Trust) on properties underlying the Wyoming net profits interest for the quarter ended March 31, 2015.

Cumulative excess costs for the Kansas, Oklahoma and Wyoming conveyances remaining as of March 31, 2016 totaled \$2,445,730 (\$1,956,584 net to the Trust).

Other

XTO Energy advised the trustee that the February 2015 distribution included a one-time prior period adjustment for the recoupment of natural gas liquids revenue from the Trust in the amount of \$353,069 (\$282,455 net to the Trust) which was deducted from net proceeds for the first quarter of 2015.

Subsequent Event

XTO Energy has advised the trustee that net profits income for the May 2016 distribution will include a one-time reimbursement of approximately \$787,000 related to operated overhead corrections for the period January 2014 through February 2016. The reimbursement will affect the net profits income under the Kansas, Oklahoma and Wyoming conveyances by approximately \$186,000, \$319,000 and \$282,000, respectively. Any increase in net profits income will be used to recoup excess costs for that conveyance and to replenish the administration expense reserve to the \$1,000,000 level prior to the payment of any distributions.

Contingencies

In September 2008, a royalty 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. The case was removed 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; later reduced to

First Quarter Report 2016

Kansas. The case was certified as a class action in March 2012. XTO Energy filed an appeal of the class certification to the 10th Circuit Court of Appeals on April 11, 2012, which was granted on June 26, 2012. The court reversed the certification of the class and remanded the case back to the trial court for further proceedings. The case was previously stayed pending a final decision from the Kansas Supreme Court on the *Fawcett v. OPIK* appeal. Following the decision in *Fawcett*, the Judge in *Roderick* ordered new briefing on the pending motions. In its pleadings, the plaintiff has alleged damages in excess of \$40 million.

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. XTO Energy filed an appeal of the class certification to the 10th Circuit Court of Appeals on April 26, 2012, which was granted on June 26, 2012. The court 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 believes that XTO Energy has strong defenses to these lawsuits and intends to vigorously defend its position. However, XTO Energy has informed the trustee that it is cognizant of other, similar litigation. 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 the Trust should bear its 80% share of such settlement or judgment, including any future royalty adjustments that would reduce net proceeds. The trustee intends to review any claimed reductions in payment to the Trust based on the facts and circumstances of such settlement or judgment. In light of the arbitration tribunal's decision on the treatment of the *Fankhouser* settlement, to the extent that the claims in *Chieftain* or *Roderick* are similar to those in *Fankhouser*, the trustee would likely object to such claimed reductions. 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 for 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, if any, against the Trust's net profits interests, the matter will be resolved by binding arbitration through the American Arbitration Association under the terms of the Indenture creating the Trust.

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.

Administration Expense Reserve

Due to the current level of commodity prices, the Trust is receiving reduced cash distributions and excess costs have accumulated within all three conveyances of the Trust. As a result, the Trust did not receive cash distributions in excess of administrative expenses during first quarter 2016 and utilized a portion of the administrative expense reserve to cover these expenses. The trustee is exploring its options with regards to the payment of the Trust's obligations if and when the administrative expense reserve is depleted. This may include but is not limited to borrowing against the net profits interest of the Trust. The trustee believes that the current reserve combined with receipt of cash from the matter discussed in the "Subsequent Event" section will be sufficient to pay the Trust's 2016 obligations.

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) 2016	2015	INCREASE (DECREASE)
SALES VOLUMES			
Gas (Mcf) ^(b)			
Underlying Properties.....	3,763,967	3,714,450	1%
Average Per Day.....	40,913	40,374	1%
Net Profits Interests.....	28,555	953,182	(97%)
Oil (Bbl) ^(b)			
Underlying Properties.....	47,344	49,386	(4%)
Average Per Day.....	515	537	(4%)
Net Profits Interests.....	495	16,562	(97%)
AVERAGE SALES PRICES			
Gas (per Mcf).....	\$ 1.90	\$ 3.48	(45%)
Oil (per Bbl).....	\$ 33.22	\$ 58.00	(43%)
REVENUES			
Gas sales.....	\$ 7,157,625	\$ 12,908,609	(45%)
Oil sales.....	1,572,579	2,864,366	(45%)
TOTAL REVENUES.....	8,730,204	15,772,975	(45%)
COSTS			
Taxes, transportation and other.....	1,095,237	1,950,142	(44%)
Production expense.....	4,546,035	5,415,493	(16%)
Development costs.....	675,000	600,000	13%
Overhead.....	3,160,023	3,062,037	3%
Excess Costs.....	(825,543)	(425,750)	94%
TOTAL COSTS.....	8,650,752	10,601,922	(18%)
NET PROCEEDS.....	79,452	5,171,053	(98%)
NET PROFITS PERCENTAGE.....	80%	80%	
NET PROFITS INCOME.....	\$ 63,562	\$ 4,136,842	(98%)

(a) Because of the two-month interval between time of production and receipt of net profits income by the Trust, 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 12, 2016	March 14, 2016	April 14, 2016	Total
Gross Income.....	\$ 0.000334	\$ 0.001480	\$ 0.000000	\$ 0.001814
Less Severance Taxes.....	(0.000040)	(0.000185)	(0.000000)	(0.000225)
Interest Income.....	0.000000	0.000000	0.000000	0.000000
Less Administration Expenses.....	(0.003483)	(0.002368)	(0.002745)	(0.008596)
Reconciling Items.....	0.003189	0.001073	0.002745	0.007007
NET CASH DISTRIBUTION.....	\$ 0.000000	\$ 0.000000	\$ 0.000000	\$ 0.000000
Cost Depletion Factors:				
Kansas - 80%.....	0.000000	0.000000	0.000000	0.000000
Oklahoma - 80%.....	0.000443	0.002054	0.000000	0.002497
Wyoming - 80%.....	0.000000	0.000000	0.000000	0.000000

For information contact:

Hugoton Royalty Trust

Southwest Bank, Trustee

P.O. Box 962020

Fort Worth, Texas 76162-2020

(855) 588-7839

www.hgt-hugoton.com