

# Hugoton

ROYALTY TRUST

THIRD QUARTER REPORT 2009

## To Unitholders

For the quarter ended September 30, 2009, net profits income was \$8,533,583, as compared to \$43,741,409 for third quarter 2008. This 80% decrease in net profits income is primarily the result of lower oil and gas prices and decreased oil and gas production, partially offset by lower development costs, lower taxes, transportation and other costs and decreased production expense. See "Net Profits Income" on the following page.

After adding interest income of \$91 and deducting administration expense of \$162,074, distributable income for the quarter ended September 30, 2009 was \$8,371,600, or \$0.209290 per unit of beneficial interest. Changes in interest income are attributable to fluctuations in net profits and interest rates. Administration expense for the quarter was higher than the prior year quarter primarily because of the timing of expenditures. For third quarter 2008, distributable income was \$43,688,640, or \$1.092216 per unit. Distributions to unitholders for the quarter ended September 30, 2009 were:

RECORD DATE	PAYMENT DATE	PER UNIT
July 31, 2009	August 14, 2009	\$ 0.054192
August 31, 2009	September 15, 2009	0.062386
September 30, 2009	October 15, 2009	0.092712
<b>TOTAL</b>		<b>\$ 0.209290</b>

For the nine months ended September 30, 2009, net profits income was \$18,848,118 compared with \$99,676,511 for the same 2008 period. This 81% decrease in net profits income is primarily the result of lower oil and gas prices and decreased oil and gas production, partially offset by lower development costs, lower taxes, transportation

and other costs and decreased production expense. See "Net Profits Income" on the following page.

After adding interest income of \$359 and deducting administration expense of \$747,797, distributable income for the nine months ended September 30, 2009 was \$18,100,680, or \$0.452517 per unit of beneficial interest. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For the nine months ended September 30, 2008, distributable income was \$99,012,720, or \$2.475318 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.hugotontrust.com](http://www.hugotontrust.com).

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

**Hugoton 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	
	2009	2008	2009	2008
Net profits income	\$ 8,533,583	\$ 43,741,409	\$ 18,848,118	\$ 99,676,511
Interest income	91	31,050	359	73,801
Total income	8,533,674	43,772,459	18,848,477	99,750,312
Administration expense	162,074	83,819	747,797	737,592
<b>DISTRIBUTABLE INCOME</b>	<b>\$ 8,371,600</b>	<b>\$ 43,688,640</b>	<b>\$ 18,100,680</b>	<b>\$ 99,012,720</b>
<b>DISTRIBUTABLE INCOME PER UNIT (40,000,000 UNITS)</b>	<b>\$ 0.209290</b>	<b>\$ 1.092216</b>	<b>\$ 0.452517</b>	<b>\$ 2.475318</b>

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2008 annual report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended September 30, 2009.

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, annual and monthly development, production and other costs and expenses, recovery of excess costs, monthly development cost deductions, oil and gas prices and differentials to NYMEX prices, supply levels, future drilling, workover and restimulation plans, 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, 2008, 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 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 third quarter 2008 to third quarter 2009 and from the first nine months of 2008 to the comparable period in 2009 as shown in the “Calculation of Net Profits Income” at the right.

### Sales Volumes

**Gas.** Gas sales volumes decreased 8% for the third quarter and 6% for the nine-month period. Decreased gas sales volumes for the third quarter are primarily because of natural production decline and the timing of cash receipts, partially offset by increased production from new wells and workovers. Decreased gas sales volumes for the nine-month period are primarily because of natural production decline, partially offset by increased production from new wells and workovers.

**Oil.** Oil sales volumes decreased 24% for the third quarter and 22% for the nine-month period primarily because of the timing of cash receipts and natural production decline, partially offset by increased production from new wells and workovers.

### Sales Prices

**Gas.** The third quarter 2009 average gas price was \$3.09 per Mcf, a 70% decrease from the third quarter 2008 average gas price of \$10.15 per Mcf. For the nine-month period, the average gas price decreased 59% to \$3.36 per Mcf in 2009 from \$8.29 per Mcf in 2008. Due to higher than average gas in storage caused by shale gas development and declining demand due to the U.S. recession, gas prices have declined. Prices will continue to be affected by the level of North American production, weather, oil prices, the U.S. economy, storage levels and import levels of liquified natural gas. Natural gas prices are expected to remain volatile. The third quarter 2009 gas price is primarily related to production from May through July 2009, when the average NYMEX price was \$3.60 per MMBtu. The average NYMEX price for August and September 2009 was \$3.11 per MMBtu. At October 15, 2009, the average NYMEX futures price for the following twelve months was \$5.75 per MMBtu. Recent trust gas prices have averaged approximately 14% lower than the NYMEX price.

**Oil.** The third quarter 2009 average oil price was \$56.64 per Bbl, a 55% decrease from the third quarter 2008 average oil price of \$125.74 per Bbl. The year-to-date average oil price decreased 56% to \$47.50 per Bbl in 2009 from \$108.41 per Bbl in 2008. Lower demand as a result of the global economic situation and rising crude oil supplies caused oil prices to decline in the first part of 2009. However, signs of possible economic improvement have resulted in higher recent oil prices. Oil prices are expected to remain volatile. The third quarter 2009 oil price is primarily related to production from May through July 2009, when the average NYMEX price was \$64.49 per Bbl. The average NYMEX price for August and September 2009 was \$70.16 per Bbl. At October 15, 2009, the average NYMEX futures price for the following

twelve months was \$80.02 per Bbl. Recent trust oil prices have averaged approximately 7% lower than the NYMEX price.

### Costs

**Taxes, Transportation and Other.** Taxes, transportation and other decreased 53% for the quarter and 45% for the nine-month period primarily because of decreased production taxes related to lower oil and gas revenues, partially offset by increased other deductions as a percentage of oil and gas revenues and increased property taxes.

**Production.** Production expense decreased 38% for the quarter and 21% for the nine-month period primarily because of decreased repairs and maintenance, location and fuel costs. In addition, decreased production expense for the nine-month period was partially offset by increased compressor costs and mechanical and marketing rebates included in 2008.

**Development.** Development costs deducted in the calculation of net profits income are based on the development budget. These development costs decreased 78% for the third quarter and 43% for the nine-month period primarily because of decreased development activity and revisions to the 2009 development budget. During the first nine months of 2009, three wells were completed on the underlying properties and two wells were pending completion at September 30.

As of December 31, 2008, cumulative actual costs exceeded cumulative budgeted costs deducted by approximately \$7.3 million. In calculating net profits income, XTO Energy deducted budgeted development costs of \$2.5 million for the quarter and \$19.5 million for the nine-month period. After considering actual development costs of \$0.9 million for the quarter and \$10.0 million for the nine-month period, cumulative budgeted costs deducted exceeded actual costs by approximately \$2.1 million at September 30, 2009.

XTO Energy has advised the trustee that total 2009 budgeted development costs for the underlying properties are approximately \$10.0 million to \$12.0 million. The 2009 budget year generally coincides with the trust distribution months from April 2009 through March 2010. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary, based on the 2009 budget and the timing and amount of actual expenditures.

**Overhead.** Overhead increased 5% for the quarter and 9% for the nine-month period primarily because of the annual rate adjustment based on an industry index.

**Excess Costs.** Costs exceeded revenues by \$211,756 (\$169,405 net to the trust) on properties underlying the Kansas net profits interests in October 2009. Lower gas prices due to reduced demand as a result of the U.S. recession and excess supply caused costs to exceed revenues on properties underlying the Kansas net profits interests. However, these excess costs did not reduce net proceeds from the remaining conveyances. XTO Energy advised the trustee that even with the increase in recent gas prices, it will take several months to fully recover these excess costs.

Costs exceeded revenues by \$853,468 (\$682,774 net to the trust) on properties underlying the Wyoming net profits interests in November and December 2007. Limited pipeline capacity for shipping from the Rocky Mountain region and excess regional supply led to significantly lower realized regional gas prices for production. These lower gas prices

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caused costs to exceed revenues on properties underlying the Wyoming net profits interests, however, these excess costs did not reduce net proceeds from the remaining conveyances. XTO Energy advised the trustee that with the onset of winter demand and the completion of the first phase of a major pipeline expansion in January 2008, Rocky Mountain gas prices increased and the excess costs, plus accrued interest of \$10,090 (\$8,072 net to the trust), were fully recovered by February 2008.

## Glossary of Terms

<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

## 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 <sup>(a)</sup>			Nine Months Ended September 30 <sup>(a)</sup>		
	2009	2008	INCREASE (DECREASE)	2009	2008	INCREASE (DECREASE)
<b>SALES VOLUMES</b>						
Gas (Mcf) <sup>(b)</sup>						
Underlying properties	6,531,955	7,100,403	(8%)	20,104,957	21,368,077	(6%)
Average per day	71,000	77,178	(8%)	73,645	77,986	(6%)
Net profits interests	2,396,620	3,977,121	(40%)	5,272,303	10,915,817	(52%)
Oil (Bbls) <sup>(b)</sup>						
Underlying properties	71,949	94,751	(24%)	205,760	263,779	(22%)
Average per day	782	1,030	(24%)	754	963	(22%)
Net profits interests	31,150	55,308	(44%)	64,357	140,239	(54%)
<b>AVERAGE SALES PRICES</b>						
Gas (per Mcf)	\$ 3.09	\$ 10.15	(70%)	\$ 3.36	\$ 8.29	(59%)
Oil (per Bbl)	\$ 56.64	\$ 125.74	(55%)	\$ 47.50	\$ 108.41	(56%)
<b>REVENUES</b>						
Gas sales	\$ 20,188,374	\$ 72,074,994	(72%)	\$ 67,485,014	\$ 177,195,695	(62%)
Oil sales	4,075,392	11,913,831	(66%)	9,773,885	28,595,710	(66%)
<b>TOTAL REVENUES</b>	<b>24,263,766</b>	<b>83,988,825</b>	<b>(71%)</b>	<b>77,258,899</b>	<b>205,791,405</b>	<b>(62%)</b>
<b>COSTS</b>						
Taxes, transportation and other	3,369,253	7,187,902	(53%)	10,184,973	18,627,823	(45%)
Production expense	5,001,346	8,031,499	(38%)	16,113,262	20,425,623	(21%)
Development costs	2,500,000	11,500,000	(78%)	19,500,000	34,000,000	(43%)
Overhead	2,726,188	2,592,663	5%	7,900,516	7,278,762	9%
Excess costs	—	—	—	—	863,558	(100%)
<b>TOTAL COSTS</b>	<b>13,596,787</b>	<b>29,312,064</b>	<b>(54%)</b>	<b>53,698,751</b>	<b>81,195,766</b>	<b>(34%)</b>
<b>NET PROCEEDS</b>	<b>10,666,979</b>	<b>54,676,761</b>	<b>(80%)</b>	<b>23,560,148</b>	<b>124,595,639</b>	<b>(81%)</b>
<b>NET PROFITS PERCENTAGE</b>	<b>80%</b>	<b>80%</b>	<b>—</b>	<b>80%</b>	<b>80%</b>	<b>—</b>
<b>NET PROFITS INCOME</b>	<b>\$ 8,533,583</b>	<b>\$ 43,741,409</b>	<b>(80%)</b>	<b>\$ 18,848,118</b>	<b>\$ 99,676,511</b>	<b>(81%)</b>

(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 September 30 generally represent production for the period May through July and (2) oil and gas sales for the nine months ended September 30 generally represent production for the period November through July.

(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.

## Tax Information Per Unit

	MONTHLY DISTRIBUTIONS PAID ON:			
	(\$/UNIT EXCEPT COST DEPLETION FACTORS)			
	AUG. 14, 2009	SEPT. 15, 2009	OCT. 15, 2009	TOTAL
Gross income	\$ 0.062799	\$ 0.070800	\$ 0.106581	\$ 0.240180
Less severance taxes	(0.006529)	(0.007369)	(0.012942)	(0.026840)
Interest income	0.000000	0.000001	0.000001	0.000002
Less administrative expenses	(0.002078)	(0.001046)	(0.000928)	(0.004052)
<b>NET CASH DISTRIBUTION</b>	<b><u>\$ 0.054192</u></b>	<b><u>\$ 0.062386</u></b>	<b><u>\$ 0.092712</u></b>	<b><u>\$ 0.209290</u></b>
Cost depletion factors:				
Kansas - 80%	0.002722	0.002306	0.002643	0.007671
Oklahoma - 80%	0.004968	0.004852	0.006400	0.016220
Wyoming - 80%	0.000820	0.001458	0.004839	0.007117

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