

Hugoton

ROYALTY TRUST

SECOND QUARTER REPORT 2008

To Unitholders

For the quarter ended June 30, 2008, net profits income was \$33,899,248, as compared to \$21,251,246 for second quarter 2007. This 60% increase in net profits income is primarily the result of higher oil and gas prices and increased oil and gas sales volumes, partially offset by higher development costs and higher taxes, transportation and other costs. See "Net Profits Income" on the following page.

After adding interest income of \$18,965 and deducting administration expense of \$363,293, distributable income for the quarter ended June 30, 2008 was \$33,554,920, or \$0.838873 per unit of beneficial interest. Administration expense for the quarter was lower than the prior year quarter primarily because of the timing of expenditures. For second quarter 2007, distributable income was \$20,846,000, or \$0.521150 per unit. Distributions to unitholders for the quarter ended June 30, 2008 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 30, 2008	May 14, 2008	\$ 0.227840
May 30, 2008	June 13, 2008	0.303501
June 30, 2008	July 15, 2008	0.307532
TOTAL		<u>\$ 0.838873</u>

For the six months ended June 30, 2008, net profits income was \$55,935,102, compared with \$37,986,631 for the same 2007 period. This 47% increase in net profits income is primarily the result of higher oil and gas prices and increased oil and gas sales volumes, partially

offset by higher development costs and higher taxes, transportation and other costs. See "Net Profits Income" on the following page.

After adding interest income of \$42,751 and deducting administration expense of \$653,773, distributable income for the six months ended June 30, 2008 was \$55,324,080, or \$1.383102 per unit of beneficial interest. Administration expense for the first six months of 2008 was lower than in the first six months of 2007 primarily because of lower costs related to unitholder tax reporting, as a result of a decrease in the number of unitholders and the timing of expenditures. For the six months ended June 30, 2007, distributable income was \$37,088,280, or \$0.927207 per unit.

Individualized tax information is provided quarterly and 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: Bank of America, N.A., Trustee



By: Nancy G. Willis
Vice President

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net profits income	\$ 33,899,248	\$ 21,251,246	\$ 55,935,102	\$ 37,986,631
Interest income	<u>18,965</u>	<u>40,122</u>	<u>42,751</u>	<u>69,169</u>
Total income	33,918,213	21,291,368	55,977,853	38,055,800
Administration expense	<u>363,293</u>	<u>445,368</u>	<u>653,773</u>	<u>967,520</u>
DISTRIBUTABLE INCOME	<u>\$ 33,554,920</u>	<u>\$ 20,846,000</u>	<u>\$ 55,324,080</u>	<u>\$ 37,088,280</u>
DISTRIBUTABLE INCOME PER UNIT (40,000,000 UNITS)	<u>\$ 0.838873</u>	<u>\$ 0.521150</u>	<u>\$ 1.383102</u>	<u>\$ 0.927207</u>

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the trust's 2007 annual report. For further information, see the trust's quarterly report on Form 10-Q for the quarter ended June 30, 2008.

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, oil and gas prices and differentials to NYMEX prices, supply shortages, 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, 2007, 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 second quarter 2007 to second quarter 2008 and from the first six months of 2007 to the comparable period in 2008 as shown in the "Calculation of Net Profits Income" at the right:

Sales Volumes

Gas. Gas sales volumes increased 5% for the second quarter and 3% for the six-month period. Increased gas sales volumes are primarily because of increased production from new wells and workovers and the timing of cash receipts, partially offset by natural production decline.

Oil. Oil sales volumes increased 21% for the second quarter and 15% for the six-month period primarily because of increased production from new wells and workovers and the timing of cash receipts, partially offset by natural production decline. In addition, oil sales volumes increased for the six-month period because of prior period volume adjustments in 2007.

Sales Prices

Gas. The second quarter 2008 average gas price was \$8.26 per Mcf, a 33% increase from the second quarter 2007 average gas price of \$6.21 per Mcf. For the six-month period, the average gas price increased 21% to \$7.37 per Mcf in 2008 from \$6.07 per Mcf in 2007. Although the U.S. entered the winter with above average gas in storage, a normal winter and lower liquified natural gas imports led to normal gas storage levels. As a result of tighter storage levels and higher oil prices, recent gas prices have reached as high as \$13.00 per MMBtu. Prices will continue to be affected by weather, oil prices, the U.S. economy, the level of North American production and import levels of liquified natural gas. Natural gas prices are expected to remain volatile. The second quarter 2008 gas price is primarily related to production from February through April 2008, when the average NYMEX price was \$8.83 per MMBtu. The average NYMEX price for May and June 2008 was \$11.60 per MMBtu. At July 15, 2008, the average NYMEX futures price for the following twelve months was \$11.64 per MMBtu. Recent trust gas prices have averaged approximately 6% lower than the NYMEX price.

Oil. The second quarter 2008 average oil price was \$102.16 per Bbl, a 74% increase from the second quarter 2007 average oil price of \$58.60 per Bbl. The year-to-date average oil price increased 70% to \$98.69 per Bbl in 2008 from \$57.94 per Bbl in 2007. Oil prices have risen primarily because of increasing global demand and supply shortage concerns, inadequate sour crude refining capacity and political instability. In the last few months of 2007 and first half of 2008, continued tension in the Middle East, weakness in the U.S. dollar and strong demand caused prices to reach record levels of above \$147.00 per Bbl. Oil prices are expected to remain volatile. The second quarter 2008 oil price is primarily related to production from February through April 2008, when the average NYMEX price was \$104.21 per Bbl. The average NYMEX price for May and June 2008 was \$130.14 per Bbl. At July 15, 2008, the average NYMEX futures

price for the following twelve months was \$140.40 per Bbl. Recent trust oil prices have averaged approximately 1% lower than the NYMEX price.

Costs

Taxes, Transportation and Other. Taxes, transportation and other increased 30% for the quarter and 21% for the six-month period primarily because of increased production taxes related to higher oil and gas revenues.

Production. Production expense increased 14% for the quarter and 13% for the six-month period primarily because of increased repair and maintenance, labor and fuel costs, partially offset by mechanical and marketing rebates.

Development. Development costs deducted in the calculation of net profits income are based on the development budget. These development costs increased 45% for the second quarter and 11% for the six-month period primarily because of the timing of development activity. During the first half of 2008, 12 wells were completed on the underlying properties and 17 wells were pending completion at June 30.

As of December 31, 2007, cumulative actual costs exceeded cumulative budgeted costs deducted by approximately \$0.7 million. In calculating net profits income, XTO Energy deducted budgeted development costs of \$11.3 million for the quarter and \$22.5 million for the six-month period. After considering actual development costs of \$8.0 million for the quarter and \$17.1 million for the six-month period, cumulative budgeted costs deducted exceeded actual costs by approximately \$4.7 million at June 30, 2008.

XTO Energy has advised the trustee that total 2008 budgeted development costs for the underlying properties are approximately \$46.0 million. The 2008 budget year generally coincides with the trust distribution months from April 2008 through March 2009. Based on the development budget for 2008, the development cost deduction is expected to be maintained at \$3.75 million for the remainder of 2008. The monthly development cost deduction will be reevaluated by XTO Energy and revised as necessary, based on the 2008 budget and the timing and amount of actual expenditures.

Overhead. Overhead increased 8% for the quarter and 6% for the six-month period primarily because of the annual rate adjustment based on an industry index.

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 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

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)			Six Months Ended June 30 ^(a)		
	2008	2007	INCREASE (DECREASE)	2008	2007	INCREASE (DECREASE)
SALES VOLUMES						
Gas (Mcf) ^(b)						
Underlying properties	7,100,086	6,772,042	5%	14,267,674	13,858,793	3%
Average per day	78,890	76,090	4%	78,394	76,568	2%
Net profits interests	3,861,217	3,267,244	18%	6,938,696	5,917,208	17%
Oil (Bbls) ^(b)						
Underlying properties	94,807	78,597	21%	169,028	146,723	15%
Average per day	1,053	883	19%	929	811	15%
Net profits interests	50,066	40,089	25%	84,931	73,266	16%
AVERAGE SALES PRICES						
Gas (per Mcf)	\$ 8.26	\$ 6.21	33%	\$ 7.37	\$ 6.07	21%
Oil (per Bbl)	\$ 102.16	\$ 58.60	74%	\$ 98.69	\$ 57.94	70%
REVENUES						
Gas sales	\$ 58,622,294	\$ 42,048,589	39%	\$ 105,120,701	\$ 84,113,926	25%
Oil sales	9,685,436	4,605,736	110%	16,681,879	8,500,434	96%
TOTAL REVENUES	68,307,730	46,654,325	46%	121,802,580	92,614,360	32%
COSTS						
Taxes, transportation and other	5,986,350	4,588,818	30%	11,439,921	9,453,616	21%
Production expense	6,324,110	5,556,962	14%	12,394,124	11,015,529	13%
Development costs	11,250,000	7,750,000	45%	22,500,000	20,250,000	11%
Overhead	2,373,210	2,194,487	8%	4,686,099	4,411,926	6%
Excess costs	—	—	—	863,558	—	—
TOTAL COSTS	25,933,670	20,090,267	29%	51,883,702	45,131,071	15%
NET PROCEEDS	42,374,060	26,564,058	60%	69,918,878	47,483,289	47%
NET PROFITS PERCENTAGE	80%	80%	—	80%	80%	—
NET PROFITS INCOME	\$ 33,899,248	\$ 21,251,246	60%	\$ 55,935,102	\$ 37,986,631	47%

(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 June 30 generally represent production for the period February through April and (2) oil and gas sales for the six months ended June 30 generally represent production for the period November through April.

(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)			
	MAY 14, 2008	JUNE 13, 2008	JULY 15, 2008	TOTAL
Gross income	\$ 0.251746	\$ 0.336623	\$ 0.339250	\$ 0.927619
Less severance taxes	(0.021944)	(0.028602)	(0.029591)	(0.080137)
Interest income	0.000130	0.000147	0.000197	0.000474
Less administration expenses	<u>(0.002092)</u>	<u>(0.004667)</u>	<u>(0.002324)</u>	<u>(0.009083)</u>
NET CASH DISTRIBUTION	<u>\$ 0.227840</u>	<u>\$ 0.303501</u>	<u>\$ 0.307532</u>	<u>\$ 0.838873</u>
Cost depletion factors:				
Kansas - 80%	0.005591	0.006806	0.007323	0.019720
Oklahoma - 80%	0.004935	0.005947	0.005378	0.016260
Wyoming - 80%	0.005269	0.006857	0.006700	0.018826

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