

Permian Basin Royalty Trust Financial Statements

Condensed Statements of Assets, Liabilities and Trust Corpus

	June 30, 2017 <i>(Unaudited)</i>	December 31, 2016
Assets		
Cash and Short-term Investments.....	\$ 2,968,037	\$ 3,795,604
Net overriding royalty interests in producing oil and gas properties (net of accumulated amortization of \$10,409,169 and \$10,372,097 at June 30, 2017 and December 31, 2016, respectively)	566,047	603,119
TOTAL ASSETS	\$ 3,534,084	\$ 4,398,723
Liabilities and Trust Corpus		
Distribution Payable to Unit Holders	\$ 1,918,037	\$ 2,745,604
Reserves for Expenses.....	1,050,000	1,050,000
Trust Corpus – 46,608,796 Units of Beneficial Interest		
Authorized and Outstanding.....	566,047	603,119
TOTAL LIABILITIES AND TRUST CORPUS	\$ 3,534,084	\$ 4,398,723

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Royalty Income	\$ 7,473,738	\$ 4,379,766	\$ 17,025,961	\$ 7,149,802
Interest Income.....	3,056	232	5,338	316
	7,476,794	4,379,998	17,031,299	7,150,118
Reserves for Expenses.....	—	(150,000)	—	(300,000)
General and Administrative Expenditures	(504,997)	(565,013)	(870,545)	(879,847)
Distributable Income	\$ 6,971,797	\$ 3,664,985	\$ 16,160,845	\$ 5,970,271
Distributable Income per Unit (46,608,796 Units).	\$.15	\$.08	\$.35	\$.13

Condensed Statements of Change in Trust Corpus (Unaudited)

	Six Months Ended June 30,	
	2017	2016
Trust Corpus, Beginning of Period	\$ 603,119	\$ 680,686
Amortization of Net Overriding Royalty Interests.....	(37,072)	(25,613)
Distributable Income.....	16,160,845	5,970,271
Distributions Declared.....	(16,160,845)	(5,970,271)
Trust Corpus, End of Period	\$ 566,047	\$ 655,073
Distributions per Unit	\$.35	\$.13

**PERMIAN BASIN
ROYALTY TRUST**

2nd
Quarter Report

2017

To Unit Holders:

For the quarter ended June 30, 2017, royalty income received by the Trust amounted to \$7,473,738 compared to royalty income of \$4,379,766 during the second quarter of 2016. The increase in royalty income is primarily attributable to a reduction of capital expenditures by the operator and an increase in oil and gas prices for the quarter ending June 30, 2017, as compared to the quarter ended June 30, 2016. Average oil and gas prices were \$47.14 and \$3.13 for the quarter ending June 30, 2017, compared to \$32.71 and \$1.81 for the quarter ended June 30, 2016.

Interest income for the quarter ended June 30, 2017, was \$3,056 compared to \$232 during the second quarter of 2016. The increase in interest income is primarily attributable to substantially increased amounts of funds available for investment, primarily the reserve of \$1,050,000 in the Trust account. Total expenses during the second quarter of 2017 amounted to \$504,997 compared to \$565,013 during the second quarter of 2016. The decrease in total expenses can be primarily attributed to decreased expense for professional services and no additional reserve for expenses.

These transactions resulted in distributable income for the quarter ended June 30, 2017, of \$6,971,797 or \$0.15 per Unit of beneficial interest. Distributions of \$0.056259, \$0.052169 and \$0.041151 per Unit were made to Unit holders of record as of April 28, 2017, May 31, 2017, and June 30, 2017, respectively. For the second quarter of 2016, distributable income was \$3,664,985 or \$.08 per Unit of beneficial interest.

Royalty income for the Trust for the second quarter of the calendar year is associated with actual oil and gas production for the period of February, March and April 2017 from the properties from

which the Trust's net overriding royalty interests ("Royalties") were carved. Oil and gas sales attributable to the Royalties and the properties from which the Royalties were carved are as follows:

SECOND QUARTER	2017	2016
ROYALTIES:		
Oil sales (Bbls)	138,456	124,037
Gas sales (Mcf)	490,380	366,634
PROPERTIES FROM WHICH THE ROYALTIES WERE CARVED:		
<i>Oil:</i>		
Total oil sales (Bbls)	238,581	301,428
Average per day (Bbls)	2,651	3,349
Average price per Bbl	\$ 47.14	\$ 32.71
<i>Gas:</i>		
Total gas sales (Mcf)	1,057,527	1,324,086
Average per day (Mcf)	11,570	15,062
Average price per Mcf	\$ 3.13	\$ 1.81

The average received price of oil increased to an average price per barrel of \$47.14 per Bbl in the second quarter of 2017, compared to \$32.71 per Bbl in the second quarter of 2016 due to worldwide market variables. The Trustee has been advised by ConocoPhillips that for the period of August 1, 1993, through June 30, 2017, the oil from the Waddell Ranch properties was being sold under a competitive bid to a third party. The average price of gas (including natural gas liquids) increased from \$1.81 per Mcf in the second quarter of 2016 to \$3.13 per Mcf in the second quarter of 2017 due to change in overall market variables.

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), the production amounts in the Royalties section of the above table do not provide a meaningful comparison. Oil sales volumes decreased and gas sales volumes

decreased from the Underlying Properties (as defined in the Trust's Annual Report on Form 10-K for the year ended December 31, 2016) for the applicable period in 2017 compared to 2016.

Capital expenditures for drilling, remedial and maintenance activities on the Waddell Ranch properties during the second quarter of 2017 totaled \$517,000 as compared to \$710,000 for the second quarter of 2016. ConocoPhillips has informed the Trustee that the 2017 capital expenditures budget has been approved at \$3.2 million (gross) for the Waddell Ranch properties. The total amount of capital expenditures for 2016 with regard to the Waddell Ranch properties totaled \$11.55 million (gross).

The Trustee has been advised that there were 0 workover wells completed, 0 new wells completed, 0 new wells in progress and 0 workover wells in progress during the three months ended June 30, 2017, as compared to 0 workover wells completed, 0 new wells completed, 0 new wells in progress and 0 workover wells in progress for the three months ended June 30, 2016, on the Waddell Ranch properties. There were various facility projects in progress for the second quarter of 2017.

Lease operating expenses and property taxes totaled \$4.0 million (gross) for the second quarter of 2017, compared to \$5.5 million (gross) for the same period in 2016 on the Waddell Ranch properties due to decreased maintenance work and reduction of property taxes.

Six Months Ended June 30, 2017

For the six months ended June 30, 2017, royalty income received by the Trust amounted to \$17,025,961 compared to royalty income of \$7,149,802 for the six months ended June 30, 2016. The increase in royalty income is primarily

attributable to a reduction of capital expenditures by the operator and an increase in oil and gas prices for the six months ending June 30, 2017, as compared to the six months ended June 30, 2016. Average oil and gas prices were \$46.69 and \$3.15 for the six months ending June 30, 2016 compared to \$33.61 and \$1.95 for the six months ended June 30, 2016.

Interest income for the six months ended June 30, 2017, was \$5,338 compared to \$316 during the six months ended June 30, 2016. The increase in interest income is primarily attributable to substantially increased amounts of funds available for investment, including the reserve for expense. Total expenses during the six months ending June 30, 2017, amounted to \$870,454 compared to \$879,847 during the six months ended June 30, 2016. The decrease in total expenses can be primarily attributed to decreased expense for professional services and no additional reserve for expenses.

These transactions resulted in distributable income for the six months ended June 30, 2017 of \$16,160,845, or \$.35 per Unit. For the six months ended June 30, 2016, distributable income was \$5,970,271, or \$.13 per Unit.

Southwest Bank, Trustee

By:



Ron E. Hooper

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Royalty Trust Management