Permian Basin Royalty Trust

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January 31, 2000

DEPLETION INFORMATION

Computation of Depletion. The Trust holds two net overriding royalties – one in oil and gas properties known as the Waddell Ranch Properties-Texas and the other in oil and gas properties known as the Royalty Properties-Texas (herein referred to collectively as the Royalties and severally as a Royalty). Each Unit holder's allowable depletion on Units acquired before October 12, 1990 is the amount of cost depletion with respect to each Royalty. For Units acquired after October 11, 1990 each Unit holder's allowable depletion is the greater of cost depletion or percentage depletion with respect to each Royalty.

(a) *Percentage Depletion.* The tax law allows percentage depletion on proven properties acquired after October 11, 1990. For Units acquired after such date the Unit holder should compute both percentage depletion and cost depletion from each property, and claim the larger amount as a deduction on his or her income tax return. **The Trustee and its independent accountants have estimated the percentage depletion for January through December 1999 and it appears that cost depletion will exceed percentage depletion for all Unit holders. Therefore, the Trust will not provide percentage depletion factors for 1999. The Trustee will continue to calculate percentage depletion and will provide such information at the time that percentage depletion exceeds the cost depletion attributable to a Unit.**

For Unit holders who acquired their Units before October 12, 1990, no percentage depletion is allowable under the exemption for independent producers and royalty owners provided by IRC Section 613A(c), because the Royalties were proven properties at the time of their transfer to the Trust. No percentage depletion is allowable under the exemption for certain gas wells provided by IRC Section 613A(b), because none of the gross income from the Royalties constitutes income from "fixed contract gas" under that section.

(b) *Cost Depletion and Apportionment of Basis.* To compute cost depletion, each Unit holder should multiply his basis in each Royalty (reduced by the prior years' depletion, if any) by the factor provided in Tables I, II, and III, which factor was obtained by dividing the estimated quantity of reserves at the beginning of the year into the quantity produced and sold during the period. A Unit holder's basis in each Royalty is determined by apportioning his basis in the Units among each Royalty in proportion to the relative fair market value of each on the date the Units were acquired by him. The following Specific Instructions set forth a factor for apportioning basis based on the Trustee's determination of the relative fair market value of the Royalties. In the case of the Royalty known as the Waddell Ranch Properties-Texas, a Unit holder's basis is further apportioned between oil and gas since both have significant value and substantially different production rates. A Unit holder should allocate his basis in accordance with the basis allocation factor in the following Specific Instructions for the month in which he purchases Units and should not thereafter reallocate his basis. The Trustee intends to redetermine the relative values of the Royalties annually, and change the basis allocation factor in the following Specific Instructions based on such redetermination.

A Cost Depletion Worksheet is enclosed to assist Unit holders in computing their cost depletion deduction. The Worksheet is divided into two parts. Part A pertains to Units that have been held the entire year, and Part B pertains to Units that were acquired or sold during the year. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in the year from Tables I, II and III. Notes are contained in the Specific Instructions for Cost Depletion Worksheet to explain certain aspects of the depletion calculation.

Federal Income Tax Reporting of Units Sold. The sale, exchange, or other disposition of a Unit is a taxable transaction for Federal income tax purposes. Gain or loss is computed under the usual tax principles as the difference between the selling price and the adjusted basis of the Unit. The adjusted basis in a Unit is the original cost or other basis of the Unit reduced (but not below zero) by any depletion which reduced the adjusted basis of the interest in the Royalty represented by such Unit. For Unit holders who acquired their Units after 1986, upon subsequent disposition of such Unit, a portion of the gain (if any) will be recaptured as ordinary income to the extent of the depletion which reduced the adjusted basis of such Unit. Unit holders should consult their tax advisers.

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1999 Cost Depletion Worksheet

The following may help you calculate your *cost depletion* to be reported on your Federal Income Tax Return.

A. If you *owned* the Units for the *entire year*, your cost depletion would be calculated as follows:

	Original Basis (NOTE 1)	x	Basis Allocation Factors (NOTE 2)	=	Basis Allocated	–	Cost Depletion Allowed or Allowable in Prior Years	=	Basis Allocated Less Cost Depletion Allowed or Allowable in Prior Years	x	Cost Depletion Factor (NOTE 3)	=	Cost Depletion
Waddell Ranch – Oil		x		=		–		=		x	.174685	=	
Waddell Ranch – Gas		x		=		–		=		x	.128969	=	
Royalty Properties		x		=		–		=		x	.140700	=	
											Total		

B. If you *sold* or *acquired* the Units during the year, your cost depletion for the portion of the year that you held the Units would be calculated as follows:

	Original Basis (NOTE 1)	x	Basis Allocation Factors (NOTE 2)	=	Basis Allocated	–	Cost Depletion Allowed or Allowable in Prior Years	=	Basis Allocated Less Cost Depletion Allowed or Allowable in Prior Years	x	Partial Year Cost Depletion Factor (NOTE 3)	=	Cost Depletion
Waddell Ranch – Oil		x		=		–		=		x		=	
Waddell Ranch – Gas		x		=		–		=		x		=	
Royalty Properties		x		=		–		=		x		=	
											Total		

(Notes 1, 2 and 3 are contained in the Specific Instructions for the Cost Depletion Worksheet.)

Specific Instructions for Cost Depletion Worksheet

Note 1: The original basis of your Units must be determined from your records and generally will be the amount paid for the Units including broker's commissions or the fair market value of such Units on the date they were distributed (November 3, 1980). However, there could be other taxable events which cause the original basis to be revised. For example, the original basis of Units passing through an estate will be changed to reflect the fair market value of the Units on date of death. Please consult your tax adviser concerning your original basis. The original basis should be entered in each blank of the first column of the Cost Depletion Worksheet.

Note 2: There are three basis allocation factors for the Permian Basin Royalty Trust because the Trust has three separate properties for depletion purposes. The Waddell Ranch and Royalty Properties are separate and distinct properties for tax purposes. Each property is depleting at a different rate. There are two different basis allocation factors for the Waddell Ranch because there are two different minerals – oil and gas. Each mineral has significant value and each mineral is depleting at a different rate.

The following basis allocation factors are to be used only in the year Units are purchased or acquired. Once the basis allocation factor is applied to the original basis of the Units acquired (cost or other basis), generally, the basis allocation is not changed again. By multiplying the original basis of the Units acquired by the basis allocation factors, a Unit holder has computed the portion of his original basis applicable to each depletable Royalty held by the Trust which will be depleted over the remaining productive life of that property.

	Purchase Dates												
Royalties	3/87-2/88	3/88-2/89	3/89-2/90	3/90-2/91	3/91-2/92	3/92-2/93	3/93-2/94	3/94-2/95	3/95-2/96	3/96-2/97	3/97-2/98	3/98-2/99	3/99-12/99
Waddell Ranch – Oil	.466012	.467831	.425376	.431257	.470732	.400585	.445910	.370861	.439193	.462933	.413676	.357948	.357948
Waddell Ranch – Gas	.164710	.142712	.173746	.150358	.199595	.223342	.230989	.295248	.218702	.208031	.327439	.248759	.248759
Royalty Properties	.369278	.389457	.400878	.418385	.329673	.376073	.323101	.333891	.342105	.329036	.258885	.393293	.393293

Note 3: When Units are acquired, sold or exchanged during the year, the cost depletion factor for each Royalty is calculated using *one* of the following procedures:

(a) UNITS *ACQUIRED* PRIOR TO 1999 AND *SOLD* DURING 1999.

Example: A Unit holder acquired Units prior to 1999 that he sold in May 1999. To calculate his cost depletion for each of the three Royalties for 1999, the Unit holder would use the cost depletion factor for January through April 1999 for such Royalty obtained from Table I, II or III. For example, using Table I (Waddell Ranch – Oil) the factor would be .033612. The factor would be .025658 from Table II (Waddell Ranch – Gas) and .026409 from Table III (Royalty Properties).

(b) UNITS *ACQUIRED* AND *SOLD* DURING 1999.

Example: A Unit holder acquired Units in July 1999 and sold them in September 1999. To calculate her cost depletion for each of the three Royalties for 1999, the Unit holder would use the cost depletion factor for July through August 1999 for such Royalty obtained from Table I, II or III. For example, using Table I (Waddell Ranch – Oil) the factor would be .039849. The factor would be .029280 from Table II (Waddell Ranch – Gas) and .014186 from Table III (Royalty Properties).

(c) UNITS *ACQUIRED* DURING 1999 AND *STILL OWNED* AT THE END OF 1999.

Example: A Unit holder acquired Units in March 1999 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 1999, the Unit holder would use the cost depletion factor for March 1999 through December 1999 for such Royalty obtained from Table I, II or III. For example, using Table I (Waddell Ranch – Oil) the factor would be .174685. The factor would be .126076 from Table II (Waddell Ranch – Gas) and .129781 from Table III (Royalty Properties).

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Table I

1999 Cost Depletion Factors – Waddell Ranch – Oil
(Cumulative)

For a Unit acquired of record during the month of:	And the last cash distribution on such Unit was attributable to the monthly record date for the month of:											
	1999											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	–	–	0.018056	0.033612	0.053245	0.072213	0.092704	0.112062	0.134138	0.154588	0.174685	0.174685
FEBRUARY		–	0.018056	0.033612	0.053245	0.072213	0.092704	0.112062	0.134138	0.154588	0.174685	0.174685
MARCH			0.018056	0.033612	0.053245	0.072213	0.092704	0.112062	0.134138	0.154588	0.174685	0.174685
APRIL				0.015556	0.035189	0.054157	0.074648	0.094006	0.116082	0.136532	0.156629	0.156629
MAY					0.019633	0.038601	0.059092	0.078450	0.100526	0.120976	0.141073	0.141073
JUNE						0.018968	0.039459	0.058817	0.080893	0.101343	0.121440	0.121440
JULY							0.020491	0.039849	0.061925	0.082375	0.102472	0.102472
AUGUST								0.019358	0.041434	0.061884	0.081981	0.081981
SEPTEMBER									0.022076	0.042526	0.062623	0.062623
OCTOBER										0.020450	0.040547	0.040547
NOVEMBER											0.020097	0.020097
DECEMBER												–

Table II

1999 Cost Depletion Factors – Waddell Ranch – Gas
(Cumulative)

For a Unit acquired of record during the month of:	And the last cash distribution on such Unit was attributable to the monthly record date for the month of:											
	1999											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	–	0.002893	0.015237	0.025658	0.039301	0.052708	0.067644	0.081988	0.098520	0.113851	0.128969	0.128969
FEBRUARY		0.002893	0.015237	0.025658	0.039301	0.052708	0.067644	0.081988	0.098520	0.113851	0.128969	0.128969
MARCH			0.012344	0.022765	0.036408	0.049815	0.064751	0.079095	0.095627	0.110958	0.126076	0.126076
APRIL				0.010421	0.024064	0.037471	0.052407	0.066751	0.083283	0.098614	0.113732	0.113732
MAY					0.013643	0.027050	0.041986	0.056330	0.072862	0.088193	0.103311	0.103311
JUNE						0.013407	0.028343	0.042687	0.059219	0.074550	0.089668	0.089668
JULY							0.014936	0.029280	0.045812	0.061143	0.076261	0.076261
AUGUST								0.014344	0.030876	0.046207	0.061325	0.061325
SEPTEMBER									0.016532	0.031863	0.046981	0.046981
OCTOBER										0.015331	0.030449	0.030449
NOVEMBER											0.015118	0.015118
DECEMBER												–

Table III

1999 Cost Depletion Factors – Royalty Properties
(Cumulative)

For a Unit acquired of record during the month of:	And the last cash distribution on such Unit was attributable to the monthly record date for the month of:											
	1999											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.004826	0.010919	0.016659	0.026409	0.032726	0.038632	0.046447	0.052818	0.059686	0.127656	0.133263	0.140700
FEBRUARY		0.006093	0.011833	0.021583	0.027900	0.033806	0.041621	0.047992	0.054860	0.122830	0.128437	0.135874
MARCH			0.005740	0.015490	0.021807	0.027713	0.035528	0.041899	0.048767	0.116737	0.122344	0.129781
APRIL				0.009750	0.016067	0.021973	0.029788	0.036159	0.043027	0.110997	0.116604	0.124041
MAY					0.006317	0.012223	0.020038	0.026409	0.033277	0.101247	0.106854	0.114291
JUNE						0.005906	0.013721	0.020092	0.026960	0.094930	0.100537	0.107974
JULY							0.007815	0.014186	0.021054	0.089024	0.094631	0.102068
AUGUST								0.006371	0.013239	0.081209	0.086816	0.094253
SEPTEMBER									0.006868	0.074838	0.080445	0.087882
OCTOBER										0.067970	0.073577	0.081014
NOVEMBER											0.005607	0.013044
DECEMBER												0.007437