

Permian Basin Royalty Trust

901 Main Street, Suite 1700
Post Office Box 830650
Dallas, Texas 75283-0650
Telephone Toll-Free 1-877-228-5085

February 13, 2004

IMPORTANT TAX INFORMATION

TO UNIT HOLDERS:

We enclose the following material which provides Unit holders with some of the information necessary to compute the 2003 Federal income tax consequences of Owning Units:

- (a) Grantor Trust Schedule A for 2003.
- (b) Instructions for Schedules A and B-1 through B-12.
- (c) Supplemental Tax Tables and Worksheet.

Bank of America, N.A., Trustee

By: 

Ron E. Hooper
Senior Vice President

Permian Basin Royalty Trust

EIN 75-6280532

SCHEDULE A to Form 1041, GRANTOR TRUST Year Ended December 31, 2003

Federal and State Income Tax Information
See Instructions Before Filing

PART I ROYALTY INFORMATION PER UNIT

| <u>Source</u> | (a) <u>Gross Income</u> | (b) <u>Severance Tax</u> | (c) <u>Net Royalty Payment</u> | (d) <u>Cost Depletion Factor</u> | (e) <u>Basis Allocation Factor*</u> | (f) <u>Production</u> |
|---|--------------------------------|---------------------------------|---|---|--|--------------------------|
| WADDELL RANCH PROPERTIES – TEXAS | | | | | | |
| 1. Oil | \$0.239586 | \$0.010266 | \$0.229320 | 0.098639 | 0.326370 | \$0.013340 BBLs |
| 2. Gas | 0.248479 | 0.016079 | 0.232400 | 0.111503 | 0.318960 | \$0.053872 MCF |
| 3. Total Oil and Gas for Year | <u>0.488065</u> | <u>0.026345</u> | <u>0.461720</u> | <u>0.210142</u> | <u>0.645330</u> | – |
| ROYALTY PROPERTIES – TEXAS | | | | | | |
| 1. Oil | 0.180099 | 0.006673 | 0.173426 | – | – | \$0.006527 BBLs |
| 2. Gas | 0.068548 | 0.004336 | 0.064212 | – | – | \$0.013945 MCF |
| 3. Total Oil and Gas for Year | <u>0.248647</u> | <u>0.011009</u> | <u>0.237638</u> | 0.069204 | 0.354680 | – |
| TOTAL FOR YEAR | <u>\$0.736712</u> | <u>\$0.037354</u> | <u>\$0.699358</u> A | – | <u>1.000010</u> | – |

PART II OTHER INCOME AND EXPENSE PER UNIT

| <u>Item</u> | <u>Total</u> |
|-------------------------------------|---------------------|
| 1. Interest Income | \$0.000298 B |
| 2. Administration Expense | \$0.010662 C |
| 3. Litigation Settlement | – |

PART III RECONCILIATION OF TAXABLE INCOME AND CASH DISTRIBUTION PER UNIT

| <u>Item</u> | <u>Total</u> |
|--|-------------------|
| 1. Taxable Income Per Unit, Excluding Depletion (A + B - C) | \$0.688994 |
| 2. Reconciling Items | – |
| 3. Cash Distribution Per Unit | <u>\$0.688994</u> |

*For Unit holders who acquired Units in January or February, use the basis allocation factor in Note 2 of the Specific Instructions for Cost Depletion Worksheet.

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Instructions for Schedules A and B-1 Through B-12

I.

FEDERAL INCOME TAX INFORMATION

1. Reporting of Income and Deductions.

(a) *Direct Ownership Reporting.* The Permian Basin Royalty Trust (the "Trust") is a Grantor Trust for Federal income tax purposes. Each Unit holder of the Trust is taxable on his pro rata share of the income and expenses of the Trust as if he were the direct owner of a pro rata share of the Trust income and assets. Thus, the taxable year for reporting a Unit holder's share of the Trust's income and expense is controlled by his taxable year and his method of accounting, not by the taxable year and method of accounting of the Trust. Therefore, a cash-basis Unit holder would report his pro rata share of income or expense of the Trust, received or paid by the Trust, during his tax year. An accrual-basis Unit holder should report his pro rata share of income or expense of the Trust accrued during his tax year.

(b) *Taxable Year.* Since the Trust distributes its income monthly to Unit holders of record at the end of each month, Schedules B-1 through B-12 are prepared for each month during the year to permit Unit holders to develop their own tax data by computing the relevant information for each month the Unit holder owned Units during his taxable year. For example, a Unit holder with a fiscal year ending January 31, 2004, and who has owned the same number of Units throughout the fiscal year would combine the results of Schedules B-2 through B-12 for 2003 and Schedule B-1 for 2004. For the convenience of Unit holders who report on the calendar year and who have owned the same number of Units throughout the calendar year, Schedule A, which combines the results of Schedules B-1 through B-12, is attached. Schedules B-1 through B-12 are unnecessary for most Unit holders as individualized schedules are provided summarizing taxable income for the calendar year. Unit holders whose Units are held by a nominee or broker, or any other Unit holders requiring Schedules B-1 through B-12, may contact the Trustee.

(c) *Types and Reporting of Trust Income and Deductions.*

(i) 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). In general, the net overriding royalty income is computed monthly based on proceeds realized in the preceding month by the owner of the interests from which the Royalties were created from oil and gas produced in an earlier month less the applicable costs and expenses, and is received by the Trustee on the last day of the monthly period. The gross amount of net overriding royalty income received by the Trust from each Royalty during the period is reported in Column (a) of Part I.

(ii) Severance tax paid by the Trust during the period covered is reported in Column (b) of Part I.

(iii) Interest income received by the Trustee during the period covered is reported as Item 1 of Part II.

(iv) Administration expenses are paid on the last day of the month in which they accrue. The amount so accrued and paid during the period covered is reported as Item 2 of Part II.

(d) *Unit Multiplication.* Because each schedule shows only results on a per-Unit basis, it will be necessary to multiply the gross royalty income, and severance tax shown in Part I and the interest income and administration expense shown in Part II by the number of Units owned by a Unit holder during the applicable period to obtain the amount to be reported on his tax return. Income and expenses (other

than depletion) may be computed directly from the appropriate schedules. Depletion per Unit must be computed as provided in paragraph 2 below.

(e) *Individual Taxpayers.* For Unit holders who hold the Units as an investment and who file Form 1040 for a period beginning in 2003, it is suggested that the items of income and deduction computed from the appropriate schedules be reported in the following manner:

| Item | Form 1040 |
|-------------------------|-----------------------------|
| Gross Royalty Income | Line 4, Part I, Schedule E |
| Depletion | Line 20, Part I, Schedule E |
| Severance Tax | Line 16, Part I, Schedule E |
| Interest Income | Line 1, Part I, Schedule B |
| Administration Expenses | Line 18, Part I, Schedule E |

On the following pages, we have reproduced Schedules E and B of Form 1040 and identified the specific location of each item of income and expense listed above. These pages are entitled "Individual Unit Holder's Specific Location of Items of Income and Expense on Schedules E and B (Form 1040)."

For the convenience of Unit holders who acquired or sold Units during 2003, Tables I through IV are enclosed to assist in the computation of Gross Royalty Income, Severance Tax, Interest Income, and Administration Expenses. These tables are only for those Unit holders who have a calendar year as their taxable year.

(f) *Nominee Reporting.* Nominees and brokers should report the distributions from the Trust as royalty income on Form 1099-MISC. The taxable amount before depletion should be reported per the attached schedules. In years where there are no reconciling items, the net taxable income excluding depletion, see instruction 2, will equal the cash distributions from the Trust.

2. Computation of Depletion. 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 2003 and it appears that cost depletion will exceed percentage depletion for all Unit holders. Therefore, the Trust will not provide percentage depletion factors for 2003. 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. 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 indicated on Column (d) of Part I, 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. Note 2 of the Specific Instructions to the enclosed Cost Depletion Worksheet and Column (e) of Part I 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 Note 2 of the

Individual Unit Holder's Specific Location of Items of Income, Expense and Credit on Schedules E and B (Form 1040)

SCHEDULE E
(Form 1040)

Supplemental Income and Loss
(From rental real estate, royalties, partnerships,
S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074
2003
Attachment
Sequence No. 13

Department of the Treasury Internal Revenue Service (99) Name(s) shown on return **Attach to Form 1040 or Form 1041. See Instructions for Schedule E (Form 1040).** Your social security number

Part I Income or Loss From Rental Real Estate and Royalties Note. If you are in the business of renting personal property, use Schedule C or C-EZ (see page E-2). Report farm rental income or loss from Form 4835 on page 2, line 40.

| 1 | Show the kind and location of each rental real estate property: | 2 | Yes | No |
|---|---|---|-----|----|
| A | | For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of: • 14 days or • 10% of the total days rented at fair rental value? (See page E-3.) | A | |
| B | | | B | |
| C | | | C | |

| | | Properties | | | | Totals |
|------------------|--|------------|---|---|----------------------------|--------|
| | | A | B | C | (Add columns A, B, and C.) | |
| Income: | | | | | | |
| 3 | Rents received | 3 | | | | 3 |
| 4 | Royalties received | 4 | | | | 4 |
| Expenses: | | | | | | |
| 5 | Advertising | 5 | | | | |
| 6 | Auto and travel (see page E-4) | 6 | | | | |
| 7 | Cleaning and maintenance | 7 | | | | |
| 8 | Commissions | 8 | | | | |
| 9 | Insurance | 9 | | | | |
| 10 | Legal and other professional fees | 10 | | | | |
| 11 | Management fees | 11 | | | | |
| 12 | Mortgage interest paid to banks, etc. (see page E-4) | 12 | | | | 12 |
| 13 | Other interest | 13 | | | | |
| 14 | Repairs | 14 | | | | |
| 15 | Supplies | 15 | | | | |
| 16 | Taxes | 16 | | | | |
| 17 | Utilities | 17 | | | | |
| 18 | Other (list) ▶ | 18 | | | | |
| 19 | Add lines 5 through 18 | 19 | | | | 19 |
| 20 | Depreciation expense or depletion (see page E-4) | 20 | | | | 20 |

Gross Royalty Income

Severance Tax
Administration Expenses

Depletion

Interest Income

Schedule B—Interest and Ordinary Dividends

OMB No. 1545-0074 Page 2
Attachment Sequence No. 08

Names shown on Form 1040. Do not enter name and social security number if shown on other side. Your social security number

Part I Interest

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address ▶

| Name of payer | Amount |
|---------------|--------|
| 1 | |
| 2 | |
| 3 | |
| 4 | |

2 Add the amounts on line 1 2

3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 3

4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶ 4

Note. If line 4 is over \$1,500, you must complete Part III.

Part II Ordinary Dividends

5 List name of payer ▶

| Name of payer | Amount |
|---------------|--------|
| 5 | |
| 6 | |

6 Add the amounts on line 5. Enter the total here and on Form 1040, line 9a ▶ 6

Note. If line 6 is over \$1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; or (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

| Question | Yes | No |
|--|--------------------------|--------------------------|
| 7a At any time during 2003, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1 | <input type="checkbox"/> | <input type="checkbox"/> |
| b If "Yes," enter the name of the foreign country ▶ | | |
| 8 During 2003, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See page B-2 | <input type="checkbox"/> | <input type="checkbox"/> |

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule B (Form 1040) 2003
U.S. GPO: 2003-495-548

Specific Instructions to the enclosed Cost Depletion Worksheet or in Column (e) of Part I in the monthly Grantor Trust Schedule (B-1 through B-12) 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 Note 2 of the Specific Instructions to the enclosed Cost Depletion Worksheet or in Column (e) of Part I 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 calendar year, and Part B pertains to Units that were acquired or sold during 2003. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2003 from Tables V, VI, and VII. Notes are contained in the Specific Instructions for the Cost Depletion Worksheet to explain certain aspects of the depletion calculation.

3. Reconciliation of Net Income and Cash Distributions. The difference between the per-Unit taxable income for a period and the per-Unit cash distributions, if any, reported for such period (even though distributed in a later period) is attributable to adjustments in Part III, Line 2, labelled Reconciling Items. The Reconciling Items consist of items which are not currently deductible, such as increases in cash reserves established by the Trustee for the payment of future expenditures, capital items and items which do not constitute taxable income such as reductions in previously established cash reserves. It is expected that normally the Reconciling Items will be negligible.

4. Adjustments to Basis. Each Unit holder should reduce his tax basis in each Royalty by the amount of depletion allowable with respect to such Royalty and in his Units by the amount of depletion allowable with respect to the Royalties.

5. 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.

6. Portfolio Income. Royalty Income is generally considered portfolio income under the passive loss rules enacted by the Tax Reform Act of 1986. Therefore, it appears that Unit holders should not consider the taxable income from the Trust to be passive income in determining net passive income or loss. Unit holders should consult their tax advisers for further information.

II. STATE INCOME TAX RETURNS

All revenues from the Trust are from sources within Texas, which has no individual income tax. However, the franchise tax imposed by the state of Texas on corporations includes a computation based on Federal taxable income. Additionally, each Unit holder who is not a resident of Texas should consult his tax adviser regarding the requirements for filing state income tax returns for his state of residence.

III. TAX ISSUES

All major Federal Income Tax issues relating to the Trust have been resolved by the Internal Revenue Service in a manner consistent with the tax consequences described in these instructions.

Supplemental Tax Tables and Worksheet

In addition to Schedule A and Instructions, the Supplemental Tax Tables and Worksheet are provided for certain Unit holders. The Supplemental Tax Tables and Worksheet are comprised of seven tables and a Cost Depletion Worksheet.

For purposes of computing income and expenses (excluding cost depletion), Tables I-IV should only be used by calendar-year Unit holders who acquired, sold or exchanged Units during 2003. Unit holders who have a taxable year other than December 31 should continue to use Schedules B-1 through B-12. Unit holders who have held Units the entire year should use Schedule A.

To assist all Unit holders in calculating their cost depletion deduction, Tables V-VII and the Cost Depletion Worksheet are provided. Notes are contained in the Specific Instructions for the Cost Depletion Worksheet to explain and assist in preparing a Unit holder's cost depletion deduction.

A brief example illustrating the computation of the income and expenses excluding cost depletion should be helpful. A Unit holder acquires 1,000 Units on May 7, 2003, and sells these Units on November 10, 2003. For these Units the Unit holder received cash distributions for May through October; therefore, the income and expenses attributable to these Units will be for this same period. To use each table (I-IV) a Unit holder should go down the left-hand column to the specific month when the Units were purchased and across the page to the column which corresponds to the month for which the last cash distribution was received. In the above example, the Unit holder should go down the left-hand column to the fifth line and across the page to the column titled October. This procedure would be done on each of the four tables. The income and expense in the above example are summarized below.

| Description | Table | Per Unit | x | Units | = | Amount |
|------------------------|--------------|-----------------|----------|--------------|----------|---------------|
| Gross Royalty Income | I | .390293 | x | 1,000 | = | \$390.29 |
| Severance Tax | II | .019631 | x | 1,000 | = | 19.63 |
| Interest Income | III | .000150 | x | 1,000 | = | .15 |
| Administration Expense | IV | .003898 | x | 1,000 | = | 3.90 |

Permian Basin Royalty Trust

Table I

2003 Gross Royalty Income (Cumulative \$ per Unit)

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:

| | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.053467 | 0.097532 | 0.158008 | 0.216667 | 0.292246 | 0.351880 | 0.409318 | 0.474819 | 0.548069 | 0.606960 | 0.671321 | 0.736712 |
| FEBRUARY | | 0.044065 | 0.104541 | 0.163200 | 0.238779 | 0.298413 | 0.355851 | 0.421352 | 0.494602 | 0.553493 | 0.617854 | 0.683245 |
| MARCH | | | 0.060476 | 0.119135 | 0.194714 | 0.254348 | 0.311786 | 0.377287 | 0.450537 | 0.509428 | 0.573789 | 0.639180 |
| APRIL | | | | 0.058659 | 0.134238 | 0.193872 | 0.251310 | 0.316811 | 0.390061 | 0.448952 | 0.513313 | 0.578704 |
| MAY | | | | | 0.075579 | 0.135213 | 0.192651 | 0.258152 | 0.331402 | 0.390293 | 0.454654 | 0.520045 |
| JUNE | | | | | | 0.059634 | 0.117072 | 0.182573 | 0.255823 | 0.314714 | 0.379075 | 0.444466 |
| JULY | | | | | | | 0.057438 | 0.122939 | 0.196189 | 0.255080 | 0.319441 | 0.384832 |
| AUGUST | | | | | | | | 0.065501 | 0.138751 | 0.197642 | 0.262003 | 0.327394 |
| SEPTEMBER | | | | | | | | | 0.073250 | 0.132141 | 0.196502 | 0.261893 |
| OCTOBER | | | | | | | | | | 0.058891 | 0.123252 | 0.188643 |
| NOVEMBER | | | | | | | | | | | 0.064361 | 0.129752 |
| DECEMBER | | | | | | | | | | | | 0.065391 |

Table II

2003 Severance Tax (Cumulative \$ per Unit)

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:

| | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.002699 | 0.005362 | 0.008179 | 0.011154 | 0.015252 | 0.018193 | 0.020684 | 0.024075 | 0.027886 | 0.030785 | 0.034023 | 0.037354 |
| FEBRUARY | | 0.002663 | 0.005480 | 0.008455 | 0.012553 | 0.015494 | 0.017985 | 0.021376 | 0.025187 | 0.028086 | 0.031324 | 0.034655 |
| MARCH | | | 0.002817 | 0.005792 | 0.009890 | 0.012831 | 0.015322 | 0.018713 | 0.022524 | 0.025423 | 0.028661 | 0.031992 |
| APRIL | | | | 0.002975 | 0.007073 | 0.010014 | 0.012505 | 0.015896 | 0.019707 | 0.022606 | 0.025844 | 0.029175 |
| MAY | | | | | 0.004098 | 0.007039 | 0.009530 | 0.012921 | 0.016732 | 0.019631 | 0.022869 | 0.026200 |
| JUNE | | | | | | 0.002941 | 0.005432 | 0.008823 | 0.012634 | 0.015533 | 0.018771 | 0.022102 |
| JULY | | | | | | | 0.002491 | 0.005882 | 0.009693 | 0.012592 | 0.015830 | 0.019161 |
| AUGUST | | | | | | | | 0.003391 | 0.007202 | 0.010101 | 0.013339 | 0.016670 |
| SEPTEMBER | | | | | | | | | 0.003811 | 0.006710 | 0.009948 | 0.013279 |
| OCTOBER | | | | | | | | | | 0.002899 | 0.006137 | 0.009468 |
| NOVEMBER | | | | | | | | | | | 0.003238 | 0.006569 |
| DECEMBER | | | | | | | | | | | | 0.003331 |

Permian Basin Royalty Trust

Table III

**2003 Interest Income
(Cumulative \$ per Unit)**

For a Unit
acquired of record **And the last cash distribution on such Unit was**
during the month of: **attributable to the monthly record date for the month of:**

| | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.000025 | 0.000052 | 0.000077 | 0.000096 | 0.000122 | 0.000149 | 0.000178 | 0.000200 | 0.000223 | 0.000246 | 0.000271 | 0.000298 |
| FEBRUARY | | 0.000027 | 0.000052 | 0.000071 | 0.000097 | 0.000124 | 0.000153 | 0.000175 | 0.000198 | 0.000221 | 0.000246 | 0.000273 |
| MARCH | | | 0.000025 | 0.000044 | 0.000070 | 0.000097 | 0.000126 | 0.000148 | 0.000171 | 0.000194 | 0.000219 | 0.000246 |
| APRIL | | | | 0.000019 | 0.000045 | 0.000072 | 0.000101 | 0.000123 | 0.000146 | 0.000169 | 0.000194 | 0.000221 |
| MAY | | | | | 0.000026 | 0.000053 | 0.000082 | 0.000104 | 0.000127 | 0.000150 | 0.000175 | 0.000202 |
| JUNE | | | | | | 0.000027 | 0.000056 | 0.000078 | 0.000101 | 0.000124 | 0.000149 | 0.000176 |
| JULY | | | | | | | 0.000029 | 0.000051 | 0.000074 | 0.000097 | 0.000122 | 0.000149 |
| AUGUST | | | | | | | | 0.000022 | 0.000045 | 0.000068 | 0.000093 | 0.000120 |
| SEPTEMBER | | | | | | | | | 0.000023 | 0.000046 | 0.000071 | 0.000098 |
| OCTOBER | | | | | | | | | | 0.000023 | 0.000048 | 0.000075 |
| NOVEMBER | | | | | | | | | | | 0.000025 | 0.000052 |
| DECEMBER | | | | | | | | | | | | 0.000027 |

Table IV

**2003 Trust Administration Expenses
(Cumulative \$ per Unit)**

For a Unit
acquired of record **And the last cash distribution on such Unit was**
during the month of: **attributable to the monthly record date for the month of:**

| | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.000697 | 0.003211 | 0.004666 | 0.006042 | 0.006937 | 0.007835 | 0.008594 | 0.008891 | 0.009373 | 0.009940 | 0.010236 | 0.010662 |
| FEBRUARY | | 0.002514 | 0.003969 | 0.005345 | 0.006240 | 0.007138 | 0.007897 | 0.008194 | 0.008676 | 0.009243 | 0.009539 | 0.009965 |
| MARCH | | | 0.001455 | 0.002831 | 0.003726 | 0.004624 | 0.005383 | 0.005680 | 0.006162 | 0.006729 | 0.007025 | 0.007451 |
| APRIL | | | | 0.001376 | 0.002271 | 0.003169 | 0.003928 | 0.004225 | 0.004707 | 0.005274 | 0.005570 | 0.005996 |
| MAY | | | | | 0.000895 | 0.001793 | 0.002552 | 0.002849 | 0.003331 | 0.003898 | 0.004194 | 0.004620 |
| JUNE | | | | | | 0.000898 | 0.001657 | 0.001954 | 0.002436 | 0.003003 | 0.003299 | 0.003725 |
| JULY | | | | | | | 0.000759 | 0.001056 | 0.001538 | 0.002105 | 0.002401 | 0.002827 |
| AUGUST | | | | | | | | 0.000297 | 0.000779 | 0.001346 | 0.001642 | 0.002068 |
| SEPTEMBER | | | | | | | | | 0.000482 | 0.001049 | 0.001345 | 0.001771 |
| OCTOBER | | | | | | | | | | 0.000567 | 0.000863 | 0.001289 |
| NOVEMBER | | | | | | | | | | | 0.000296 | 0.000722 |
| DECEMBER | | | | | | | | | | | | 0.000426 |

Permian Basin Royalty Trust

2003 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 | = | Cost Depletion |
|---------------------|--|-------------------------------|---|--|---|--------------------|---|---|---|--|---|-----------------------------|---|-------------------|
| Waddell Ranch – Oil | | | x | | = | | - | | = | | x | .098639 | = | |
| Waddell Ranch – Gas | | | x | | = | | - | | = | | x | .111503 | = | |
| Royalty Properties | | | x | | = | | - | | = | | x | .069204 | = | |
| 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.

| Royalties | Purchase Dates | | | | | | | | | | | | | |
|---------------------|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| | 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 | 3/99-2/00 | 3/00-2/01 | 3/01-2/02 | 3/02-2/03 | 3/03-12/03 |
| Waddell Ranch – Oil | .431257 | .470732 | .400585 | .445910 | .370861 | .439193 | .462933 | .413676 | .357948 | .357948 | .376562 | .382276 | .317757 | .326370 |
| Waddell Ranch – Gas | .150358 | .199595 | .223342 | .230989 | .295248 | .218702 | .208031 | .327439 | .248759 | .248759 | .272278 | .318977 | .297549 | .318960 |
| Royalty Properties | .418385 | .329673 | .376073 | .323101 | .333891 | .342105 | .329036 | .258885 | .393293 | .393293 | .351160 | .298746 | .384693 | .354680 |

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 2003 AND SOLD DURING 2003.**

Example: A Unit holder acquired Units prior to 2003 that he sold in May 2003. To calculate his cost depletion for each of the three Royalties for 2003, the Unit holder would use the cost depletion factor for January through April 2003 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch – Oil) the factor would be .028215. The factor would be .031107 from Table VI (Waddell Ranch – Gas) and .023154 from Table VII (Royalty Properties).

(b) **UNITS ACQUIRED AND SOLD DURING 2003.**

Example: A Unit holder acquired Units in July 2003 and sold them in September 2003. To calculate her cost depletion for each of the three Royalties for 2003, the Unit holder would use the cost depletion factor for July through August 2003 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch – Oil) the factor would be .016634. The factor would be .018487 from Table VI (Waddell Ranch – Gas) and .011544 from Table VII (Royalty Properties).

(c) **UNITS ACQUIRED DURING 2003 AND STILL OWNED AT THE END OF 2003.**

Example: A Unit holder acquired Units in March 2003 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 2003, the Unit holder would use the cost depletion factor for March 2003 through December 2003 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch – Oil) the factor would be .084083. The factor would be .094903 from Table VI (Waddell Ranch – Gas) and .058163 from Table VII (Royalty Properties).

Permian Basin Royalty Trust

Table V

2003 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:

| | | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.008337 | 0.014556 | 0.021996 | 0.028215 | 0.037376 | 0.045713 | 0.054121 | 0.062346 | 0.072350 | 0.079659 | 0.088862 | 0.098639 | |
| FEBRUARY | | 0.006219 | 0.013659 | 0.019878 | 0.029039 | 0.037376 | 0.045784 | 0.054009 | 0.064014 | 0.071322 | 0.080525 | 0.090302 | |
| MARCH | | | 0.007440 | 0.013659 | 0.022820 | 0.031157 | 0.039565 | 0.047790 | 0.057794 | 0.065103 | 0.074306 | 0.084083 | |
| APRIL | | | | 0.006219 | 0.015380 | 0.023716 | 0.032125 | 0.040350 | 0.050354 | 0.057662 | 0.066865 | 0.076643 | |
| MAY | | | | | 0.009161 | 0.017498 | 0.025906 | 0.034131 | 0.044135 | 0.051444 | 0.060647 | 0.070424 | |
| JUNE | | | | | | 0.008337 | 0.016745 | 0.024970 | 0.034974 | 0.042283 | 0.051486 | 0.061263 | |
| JULY | | | | | | | 0.008408 | 0.016634 | 0.026638 | 0.033946 | 0.043149 | 0.052927 | |
| AUGUST | | | | | | | | 0.008225 | 0.018230 | 0.025538 | 0.034741 | 0.044518 | |
| SEPTEMBER | | | | | | | | | 0.010004 | 0.017313 | 0.026515 | 0.036293 | |
| OCTOBER | | | | | | | | | | 0.007308 | 0.016511 | 0.026289 | |
| NOVEMBER | | | | | | | | | | | 0.009203 | 0.018980 | |
| DECEMBER | | | | | | | | | | | | | 0.009778 |

Table VI

2003 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:

| | | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.009632 | 0.016600 | 0.024382 | 0.031107 | 0.041463 | 0.050452 | 0.059265 | 0.068939 | 0.080791 | 0.089529 | 0.100185 | 0.111503 | |
| FEBRUARY | | 0.006968 | 0.014750 | 0.021475 | 0.031831 | 0.040820 | 0.049632 | 0.059307 | 0.071159 | 0.079897 | 0.090553 | 0.101870 | |
| MARCH | | | 0.007782 | 0.014507 | 0.024863 | 0.033852 | 0.042665 | 0.052340 | 0.064192 | 0.072929 | 0.083585 | 0.094903 | |
| APRIL | | | | 0.006725 | 0.017081 | 0.026070 | 0.034883 | 0.044558 | 0.056410 | 0.065147 | 0.075804 | 0.087121 | |
| MAY | | | | | 0.010356 | 0.019345 | 0.028158 | 0.037833 | 0.049685 | 0.058422 | 0.069078 | 0.080396 | |
| JUNE | | | | | | 0.008989 | 0.017802 | 0.027477 | 0.039328 | 0.048066 | 0.058722 | 0.070040 | |
| JULY | | | | | | | 0.008812 | 0.018487 | 0.030339 | 0.039077 | 0.049733 | 0.061050 | |
| AUGUST | | | | | | | | 0.009675 | 0.021527 | 0.030264 | 0.040921 | 0.052238 | |
| SEPTEMBER | | | | | | | | | 0.011852 | 0.020589 | 0.031246 | 0.042563 | |
| OCTOBER | | | | | | | | | | 0.008737 | 0.019394 | 0.030711 | |
| NOVEMBER | | | | | | | | | | | 0.010656 | 0.021974 | |
| DECEMBER | | | | | | | | | | | | | 0.011317 |

Table VII

2003 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:

| | | 2003 | | | | | | | | | | | |
|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | | January | February | March | April | May | June | July | August | September | October | November | December |
| JANUARY | 0.006001 | 0.011041 | 0.017536 | 0.023154 | 0.028848 | 0.034814 | 0.040493 | 0.046358 | 0.052138 | 0.058524 | 0.063966 | 0.069204 | |
| FEBRUARY | | 0.005040 | 0.011536 | 0.017154 | 0.022848 | 0.028813 | 0.034492 | 0.040357 | 0.046137 | 0.052523 | 0.057965 | 0.063204 | |
| MARCH | | | 0.006495 | 0.012114 | 0.017808 | 0.023773 | 0.029452 | 0.035317 | 0.041097 | 0.047483 | 0.052925 | 0.058163 | |
| APRIL | | | | 0.005618 | 0.011312 | 0.017278 | 0.022956 | 0.028821 | 0.034602 | 0.040988 | 0.046430 | 0.051668 | |
| MAY | | | | | 0.005694 | 0.011659 | 0.017338 | 0.023203 | 0.028983 | 0.035369 | 0.040812 | 0.046050 | |
| JUNE | | | | | | 0.005965 | 0.011644 | 0.017509 | 0.023289 | 0.029675 | 0.035117 | 0.040356 | |
| JULY | | | | | | | 0.005679 | 0.011544 | 0.017324 | 0.023710 | 0.029152 | 0.034390 | |
| AUGUST | | | | | | | | 0.005865 | 0.011645 | 0.018031 | 0.023473 | 0.028712 | |
| SEPTEMBER | | | | | | | | | 0.005780 | 0.012166 | 0.017608 | 0.022847 | |
| OCTOBER | | | | | | | | | | 0.006386 | 0.011828 | 0.017067 | |
| NOVEMBER | | | | | | | | | | | 0.005442 | 0.010681 | |
| DECEMBER | | | | | | | | | | | | | 0.005238 |