

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 15, 2006

IMPORTANT TAX INFORMATION


TO UNIT HOLDERS:

We enclose the following material which provides Unit holders with some of the information necessary to compute the 2005 Federal income tax consequences of Owning Units:

- (a) Grantor Trust Schedule A for 2005.
- (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
For Year Ended December 31, 2005

Federal and State Income Tax Information
See Instructions Before Filing

PART I
ROYALTY INFORMATION PER UNIT

<u>Source</u>	<u>(a)</u> <u>Gross</u> <u>Income</u>	<u>(b)</u> <u>Severance</u> <u>Tax</u>	<u>(c)</u> <u>Net</u> <u>Royalty</u> <u>Payment</u>	<u>(d)</u> <u>Cost</u> <u>Depletion</u> <u>Factor**</u>	<u>(e)</u> <u>Basis</u> <u>Allocation</u> <u>Factor*</u>	<u>(f)</u> <u>Production</u>
WADDELL RANCH PROPERTIES – TEXAS						
1. Oil	\$0.531010	\$0.021836	0.509174	0.139568	0.303084	0.010759 BBLs
2. Gas	0.451914	0.027983	0.423931	0.139604	0.316912	0.065484 MCF
3. Total Oil and Gas for Year	<u>0.982924</u>	<u>0.049819</u>	<u>0.933105</u>	<u>0.279172</u>	<u>0.619996</u>	
ROYALTY PROPERTIES – TEXAS						
1. Oil	0.339112	0.013154	0.325958			0.006990 BBLs
2. Gas	0.098229	0.006323	0.091906			0.011944 MCF
3. Total Oil and Gas for year	<u>0.437341</u>	<u>0.019477</u>	<u>0.417864</u>	0.073202	0.380002	
TOTAL FOR YEAR	<u>\$1.420265</u>	<u>\$0.069296</u>	<u>\$1.350969</u> A		<u>0.999998</u>	

PART II
OTHER INCOME AND EXPENSE PER UNIT

<u>Item</u>	<u>Total</u>
1. Interest Income	\$0.001369 B
2. Administrative Expense	\$0.016381 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)	\$1.335957
2. Reconciling Items	-
3. Cash Distribution Per Unit	<u>\$1.335957</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

** Percentage Depletion of \$.213040 per unit may be claimed for units purchased after October 11, 1990, if greater than cost depletion.

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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, 2006 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 2005 and Schedule B-1 for 2006. 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 2005, 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 2005, 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 2005 and it appears that percentage depletion may exceed cost depletion.**

To compute percentage depletion, each Unit holder who acquired units after October 11, 1990 should multiply his or her number of units by the gross royalty income for each property. This amount should then be multiplied by 15% to determine the percentage depletion deduction. The result should then be compared to the net income from the property (gross income minus expenses). The lesser of the percentage depletion and the net income is the allowable percentage depletion deduction. The percentage depletion is then compared to the cost depletion calculated using instructions in paragraph b. The greater of cost depletion or percentage depletion is the deduction to be taken on the unit holder's income tax return.

SCHEDULE E
(Form 1040)

Department of the Treasury
Internal Revenue Service (2005)

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

OMB No. 1545-0074
2005
Attachment
Sequence No. **13**

Name(s) shown on return _____ 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-3). Report farm rental income or loss from Form 4835 on page 2, line 40.

1 List the type and location of each rental real estate property:

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

2 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.)

	Yes	No
A		
B		
C		

Gross Royalty Income

Severance Tax

Administration Expenses

Depletion

Schedules A&B (Form 1040) 2005 OMB No. 1545-0074 Page **2**

Name(s) shown on Form 1040: Do not enter name and social security number if shown on other side. Your social security number _____

Schedule B—Interest and Ordinary Dividends Attachment Sequence No. **08**

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

	Amount
1	
2	
3	
4	

2 Add the amounts on line 1

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

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

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

Part II Ordinary Dividends

5 List name of payer

	Amount
5	
6	

6 Add the amounts on line 5. Enter the total here and on Form 1040, line 8a

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.

	Yes	No
7a At any time during 2005, 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.		
b If "Yes," enter the name of the foreign country		
8 During 2005, 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.		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Schedule B (Form 1040) 2005

Interest Income

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 Unitholder’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 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 2005. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2005 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 2005. 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, 2005, and sells these Units on November 10, 2005. 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	×	Units	=	Amount
Gross Royalty Income	I	.713438	×	1,000	=	\$713.44
Severance Tax	II	.034358	×	1,000	=	34.36
Interest Income	III	.000613	×	1,000	=	.61
Administration Expense	IV	.006511	×	1,000	=	6.51

Permian Basin Royalty Trust

Table I

2005 Gross Royalty Income (Cumulative \$ per Unit)

For a Unit acquired or record during the month of	2005											
And the last cash distribution on such Unit was attributable to the monthly record date for the month of:	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.109725	0.212621	0.305666	0.384299	0.483001	0.592538	0.698953	0.815181	0.953144	1.097737	1.255678	1.420265
FEBRUARY		0.102896	0.195941	0.274574	0.373276	0.482813	0.589228	0.705456	0.843419	0.988012	1.145953	1.310540
MARCH			0.093045	0.171678	0.270380	0.379917	0.486332	0.602560	0.740523	0.885116	1.043057	1.207644
APRIL				0.078633	0.177335	0.286872	0.393287	0.509515	0.647478	0.792071	0.950012	1.114599
MAY					0.098702	0.208239	0.314654	0.430882	0.568845	0.713438	0.871379	1.035966
JUNE						0.109537	0.215952	0.332180	0.470143	0.614736	0.772677	0.937264
JULY							0.106415	0.222643	0.360606	0.505199	0.663140	0.827727
AUGUST								0.116228	0.254191	0.398784	0.556725	0.721312
SEPTEMBER									0.137963	0.282556	0.440497	0.605084
OCTOBER										0.144593	0.302534	0.467121
NOVEMBER											0.157941	0.322528
DECEMBER												0.164587

Table II

2005 Severance Tax (Cumulative \$ per Unit)

For a Unit acquired or record during the month of	2005											
And the last cash distribution on such Unit was attributable to the monthly record date for the month of:	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.005423	0.010392	0.015355	0.018988	0.023731	0.028760	0.034194	0.039505	0.046312	0.053346	0.061182	0.069296
FEBRUARY		0.004969	0.009932	0.013565	0.018308	0.023337	0.028771	0.034082	0.040889	0.047923	0.055759	0.063873
MARCH			0.004963	0.008596	0.013339	0.018368	0.023802	0.029113	0.035920	0.042954	0.050790	0.058904
APRIL				0.003633	0.008376	0.013405	0.018839	0.024150	0.030957	0.037991	0.045827	0.053941
MAY					0.004743	0.009772	0.015206	0.020517	0.027324	0.034358	0.042194	0.050308
JUNE						0.005029	0.010463	0.015774	0.022581	0.029615	0.037451	0.045565
JULY							0.005434	0.010745	0.017552	0.024586	0.032422	0.040536
AUGUST								0.005311	0.012118	0.019152	0.026988	0.035102
SEPTEMBER									0.006807	0.013841	0.021677	0.029791
OCTOBER										0.007034	0.014870	0.022984
NOVEMBER											0.007836	0.015950
DECEMBER												0.008114

Permian Basin Royalty Trust

Table III

2005 Interest Income (Cumulative \$ per Unit)

For a Unit acquired or record during the month of	2005											
And the last cash distribution on such Unit was attributable to the monthly record date for the month of:	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.000068	0.000156	0.000245	0.000330	0.000419	0.000493	0.000596	0.000743	0.000788	0.000943	0.001158	0.001369
FEBRUARY		0.000088	0.000177	0.000262	0.000351	0.000425	0.000528	0.000675	0.000720	0.000875	0.001090	0.001301
MARCH			0.000089	0.000174	0.000263	0.000337	0.000440	0.000587	0.000632	0.000787	0.001002	0.001213
APRIL				0.000085	0.000174	0.000248	0.000351	0.000498	0.000543	0.000698	0.000913	0.001124
MAY					0.000089	0.000163	0.000266	0.000413	0.000458	0.000613	0.000828	0.001039
JUNE						0.000074	0.000177	0.000324	0.000369	0.000524	0.000739	0.000950
JULY							0.000103	0.000250	0.000295	0.000450	0.000665	0.000876
AUGUST								0.000147	0.000192	0.000347	0.000562	0.000773
SEPTEMBER									0.000045	0.000200	0.000415	0.000626
OCTOBER										0.000155	0.000370	0.000581
NOVEMBER											0.000215	0.000426
DECEMBER												0.000211

Table IV

2005 Trust Administration Expenses (Cumulative \$ per Unit)

For a Unit acquired or record during the month of	2005											
And the last cash distribution on such Unit was attributable to the monthly record date for the month of:	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.001359	0.004097	0.006408	0.008187	0.009908	0.011498	0.012760	0.013387	0.013910	0.014698	0.015548	0.016381
FEBRUARY		0.002738	0.005049	0.006828	0.008549	0.010139	0.011401	0.012028	0.012551	0.013339	0.014189	0.015022
MARCH			0.002311	0.004090	0.005811	0.007401	0.008663	0.009290	0.009813	0.010601	0.011451	0.012284
APRIL				0.001779	0.003500	0.005090	0.006352	0.006979	0.007502	0.008290	0.009140	0.009973
MAY					0.001721	0.003311	0.004573	0.005200	0.005723	0.006511	0.007361	0.008194
JUNE						0.001590	0.002852	0.003479	0.004002	0.004790	0.005640	0.006473
JULY							0.001262	0.001889	0.002412	0.003200	0.004050	0.004883
AUGUST								0.000627	0.001150	0.001938	0.002788	0.003621
SEPTEMBER									0.000523	0.001311	0.002161	0.002994
OCTOBER										0.000788	0.001638	0.002471
NOVEMBER											0.000850	0.001683
DECEMBER												0.000833

Permian Basin Royalty Trust

2005 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:

	<u>Original Basis (NOTE 1)</u>	×	<u>Basis Allocation Factors (NOTE 2)</u>	=	<u>Basis Allocated</u>	-	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Basis Allocated Less Cost Depletion Allowed or Allowable in Prior Years</u>	×	<u>Cost Depletion Factor</u>	=	<u>Cost Depletion</u>
Waddell Ranch – Oil		×		=		-		=		×	0.139568	=	
Waddell Ranch – Gas		×		=		-		=		×	0.139604	=	
Royalty Properties		×		=		-		=		×	0.073202	=	
											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:

	<u>Original Basis (NOTE 1)</u>	×	<u>Basis Allocation Factors (NOTE 2)</u>	=	<u>Basis Allocated</u>	-	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Basis Allocated Less Cost Depletion Allowed or Allowable in Prior Years</u>	×	<u>Partial Year Cost Depletion Factor (NOTE 3)</u>	=	<u>Cost Depletion</u>
Waddell Ranch – Oil		×		=		-		=		×		=	
Waddell Ranch – Gas		×		=		-		=		×		=	
Royalty Properties		×		=		-		=		×		=	
											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	3/03-2/04	3/04-2/05	3/05-12/05
Waddell Ranch—Oil	.431257	.470732	.400585	.445910	.370861	.439193	.462933	.413676	.357948	.357948	.376662	.382276	.317757	.326370	.319633	0.303084
Waddell Ranch—Gas	.150358	.199595	.223342	.230089	.295248	.218702	.208031	.327439	.248759	.248759	.272278	.318977	.297549	.318960	.305469	0.316912
Royalty Properties	.418365	.329673	.376073	.323101	.333891	.342105	.329036	.258885	.393293	.393293	.351160	.298746	.384693	.354660	.375602	0.380002

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

(a) **UNITS ACQUIRED PRIOR TO 2005 AND SOLD DURING 2005.**

Example: A Unit holder acquired Units prior to 2005 that he sold in May 2005. To calculate his cost depletion for each of the three Royalties for 2005, the Unit holder would use the cost depletion factor for January through April 2005 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch—Oil) the factor would be .0093002. The factor would be .043172 from Table VI (Waddell Ranch—Gas) and .024842 from Table VII (Royalty Properties).

(b) **UNITS ACQUIRED AND SOLD DURING 2005.**

Example: A Unit holder acquired Units in July 2005 and sold them in September 2005. To calculate her cost depletion for each of the three Royalties for 2005, the Unit holder would use the cost depletion factor for July through August 2005 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch—Oil) the factor would be .023911. The factor would be .023806 from Table VI (Waddell Ranch—Gas) and .012086 from Table VII (Royalty Properties).

(c) **UNITS ACQUIRED DURING 2005 AND STILL OWNED AT THE END OF 2005.**

Example: A Unit holder acquired Units in March 2005 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 2005, the Unit holder would use the cost depletion factor for March 2005 through December 2005 for such Royalty obtained from Table V, VI or VII. For example, using Table V (Waddell Ranch—Oil) the factor would be .115040. The factor would be .115189 from Table VI (Waddell Ranch—Gas) and .060063 from Table VII (Royalty Properties).

Permian Basin Royalty Trust

Table V

2005 Cost Depletion Factors – Waddell Ranch – Oil (Cumulative)

For a Unit acquired or record during the month of	2005											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.012714	0.024526	0.035211	0.043002	0.053358	0.063378	0.075217	0.086789	0.100576	0.113030	0.126008	0.139568
FEBRUARY		0.011812	0.022497	0.030288	0.040644	0.050664	0.062504	0.074075	0.087862	0.100316	0.113294	0.126854
MARCH			0.010685	0.018476	0.028832	0.038852	0.050691	0.062263	0.076050	0.088504	0.101482	0.115042
APRIL				0.007791	0.018147	0.028167	0.040006	0.051578	0.065365	0.077819	0.090797	0.104357
MAY					0.010356	0.020376	0.032215	0.043787	0.057574	0.070028	0.083006	0.096566
JUNE						0.010020	0.021860	0.033431	0.047218	0.059672	0.072650	0.086210
JULY							0.011839	0.023411	0.037198	0.049652	0.062630	0.076190
AUGUST								0.011572	0.025359	0.037813	0.050790	0.064350
SEPTEMBER									0.013787	0.026241	0.039219	0.052779
OCTOBER										0.012454	0.025432	0.038992
NOVEMBER											0.012978	0.026538
DECEMBER												0.013560

Table VI

2005 Cost Depletion Factors – Waddell Ranch – Gas (Cumulative)

For a Unit acquired or record during the month of	2005											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.012510	0.024415	0.035232	0.043172	0.053204	0.063210	0.075115	0.087016	0.100428	0.113492	0.126107	0.139604
FEBRUARY		0.011906	0.022722	0.030662	0.040695	0.050700	0.062605	0.074506	0.087918	0.100982	0.113597	0.127094
MARCH			0.010817	0.018756	0.028789	0.038794	0.050700	0.062600	0.076012	0.089076	0.101691	0.115189
APRIL				0.007940	0.017972	0.027978	0.039883	0.051784	0.065196	0.078260	0.090875	0.104372
MAY					0.010033	0.020038	0.031944	0.043844	0.057256	0.070320	0.082935	0.096433
JUNE						0.010005	0.021911	0.033812	0.047223	0.060287	0.072902	0.086400
JULY							0.011905	0.023806	0.037218	0.050282	0.062897	0.076394
AUGUST								0.011901	0.025313	0.038376	0.050992	0.064489
SEPTEMBER									0.013412	0.026476	0.039091	0.052588
OCTOBER										0.013064	0.025679	0.039176
NOVEMBER											0.012615	0.026113
DECEMBER												0.013497

Table VII

2005 Cost Depletion Factors – Royalty Properties (Cumulative)

For a Unit acquired or record during the month of	2005											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.006343	0.013139	0.019075	0.024824	0.030014	0.036897	0.042802	0.048984	0.055051	0.061221	0.067164	0.073202
FEBRUARY		0.006795	0.012731	0.018480	0.023670	0.030554	0.036459	0.042640	0.048708	0.054877	0.060821	0.066859
MARCH			0.005936	0.011685	0.016875	0.023759	0.029664	0.035845	0.041913	0.048082	0.054025	0.060063
APRIL				0.005749	0.010939	0.017823	0.023728	0.029909	0.035977	0.042146	0.048089	0.054127
MAY					0.005190	0.012074	0.017979	0.024160	0.030228	0.036397	0.042340	0.048378
JUNE						0.006884	0.012789	0.018970	0.025038	0.031207	0.037150	0.043188
JULY							0.005905	0.012086	0.018154	0.024323	0.030267	0.036304
AUGUST								0.006181	0.012249	0.018418	0.024362	0.030400
SEPTEMBER									0.006068	0.012237	0.018180	0.024218
OCTOBER										0.006169	0.012113	0.018150
NOVEMBER											0.005943	0.011981
DECEMBER												0.006038

