

Permian Basin Royalty Trust

TAX INFORMATION 2010

This booklet contains tax information relevant to ownership of Units of Permian Basin Royalty Trust and should be retained.

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 21, 2011

IMPORTANT TAX INFORMATION

TO UNIT HOLDERS:

We enclose the following material which provides Unit holders with some of the information necessary to compute the 2010 Federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2010.
- (b) Instructions for Schedules A and B-1 through B-12.
- (c) Supplemental Tax Tables and Worksheet.

Unit holders are encouraged to read all of the enclosed material very carefully and to retain it as part of their tax records. The information and instructions contained herein are designed to assist Unit holders who are U.S. citizens in complying with their Federal and state tax reporting requirements and should not be construed as advice to any specific Unit holder. Unit holders should also consult any IRS Forms 1099 and written tax statements issued by certain middlemen (discussed in more detail on page 4) that hold Trust Units on your behalf. Each Unit holder should consult the Unit holder's own tax adviser regarding all tax compliance matters relating to his Units.

U.S. Trust, Bank of America Private Wealth
Management, N.A., Trustee

Permian Basin Royalty Trust
EIN 75-6280532 CUSIP# 71423610
SCHEDULE A To
FORM 1041, GRANTOR TRUST
For Year Ended December 31, 2010

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	\$0.580926	\$0.022450	0.558476	0.157251	0.274327	0.007925 BBLs
2. Gas	0.349184	0.017358	0.331826	0.184095	0.256273	0.052701 MCF
3. Total Oil and Gas for Year	<u>0.930110</u>	<u>0.039808</u>	<u>0.890302</u>			
ROYALTY PROPERTIES – TEXAS						
1. Oil	0.440556	0.013147	0.427409			0.006017 BBLs
2. Gas	0.087179	0.004608	0.082571			0.009829 MCF
3. Total Oil and Gas for year	<u>0.527735</u>	<u>0.017755</u>	<u>0.509980</u>	0.068418	0.469400	
TOTAL FOR YEAR	<u>\$1.457845</u>	<u>\$0.057563</u>	<u>\$1.400282</u> A		<u>1.000000</u>	

PART II
OTHER INCOME AND EXPENSE PER UNIT

<u>Item</u>	
1. Interest Income	\$0.000024 B
2. Administrative Expense	\$0.024677 C

PART III
RECONCILIATION OF TAXABLE INCOME AND CASH DISTRIBUTION PER UNIT

<u>Item</u>	
1. Taxable Income per Unit, Excluding Depletion (A + B – C)	\$1.375629
2. Reconciling Items	—
3. Cash Distribution Per Unit	<u>\$1.375629</u>

* For information regarding basis allocation, see 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. Since the Trust is a grantor trust for Federal income tax purposes, proper classification of Trust income and expense will be dependent upon the relevant facts and circumstances of each Unit holder. Accordingly, Unit holders should consult their own tax advisors regarding all tax compliance matters related to the Units.

(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, 2011 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 2010 and Schedule B-1 for 2011. 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, and accordingly, Schedules B-1 through B-12 are not included herein. 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. See also Subsections (f) and (g) of this Paragraph 1 below for additional information relating to Units held by nominees, brokers and other middlemen.

(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 2010, 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 page 6, we have reproduced Schedules E and B of Form 1040 and identified the specific location of each item of income and expense listed above.

For the convenience of Unit holders who acquired or sold Units during 2010, 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 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. See also Subsection (g) of this Paragraph 1 below for additional information relating to Units held by nominees, brokers and other middlemen.

(g) *WHFIT Information.* The Trustee assumes that Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name, referred to herein collectively as "middlemen"). Therefore, the Trustee considers the Trust to be a widely held fixed investment trust ("WHFIT") classified as a non-mortgage widely held fixed investment trust ("NMWHIT") for U.S. federal income tax purposes. U.S. Trust, Bank of America Private Wealth Management, EIN: 56-0906609, 901 Main Street, Suite 1700, P.O. Box 830650, Dallas, Texas 75283-0650, (877) 228-5085, trustee@pbtpermianbasintrust.com, is the representative of the Trust that will provide tax information in accordance with the applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT and a NMWHIT. Tax information is also posted by the Trustee at www.pbt-permianbasintrust.com. Notwithstanding the foregoing, the middlemen, holding Trust Units on behalf of Unit holders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units, including the issuance of IRS Form 1099 and certain written tax statements. Unit holders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

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. Unlike cost depletion, the allowance for percentage depletion may continue after the Unit holder's basis is reduced to zero. **The Trustee and its independent accountants have estimated the percentage depletion for January through December 2010 and it appears that, depending on the Unit holder's individual circumstances, 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 Subsection (b) of this Paragraph 2. The greater of cost depletion or percentage depletion is the deduction to be taken on the Unit holder's income tax return. The worksheet and instructions provided on pages 12-14 assume a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VIII (on page 16) should be used to compute such Unit holder's depletion deduction.

SCHEDULE E (Form 1040) **Supplemental Income and Loss** OMB No. 1545-0074
 (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)
 Department of the Treasury Internal Revenue Service (IRS) Attach to Form 1040, 1040NR, or Form 1041. See Instructions for Schedule E (Form 1040). 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). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 4D.

1 List the type and address of each rental real estate property: **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)

	Properties			Totals (Add columns A, B, and C.)
	A	B	C	
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-5)	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-5)	20			20
21 Total expenses. A				
22 Income or (loss) estate or royalty. Subtract line 21 or line 4 (royalty a (loss), see page E-3) from line 3. B				
23 Deductible rental expense. Subtract line 22 from line 21. C				
24 Income. Add line 22 to line 23. D				
25 Losses. Add line 23 to line 24. E				
26 Total rental real estate income or (loss). Add line 24 or 25 to line 4. F				

Name of Royalty

Gross Royalty Income

Severance Tax
Administration Expenses

Depletion

Interest Income

SCHEDULE B (Form 1040A or 1040) **Interest and Ordinary Dividends** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (IRS) Attach to Form 1040A or 1040. See Instructions on back. Attachment Sequence No. 08
 Name(s) shown on return 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 instructions on back and list this interest first. Also, show that buyer's social security number and address ▶

	Amount
1	
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 1040A, or 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 ▶

	Amount
5	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, or 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; (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 2010, 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 instructions on back for exceptions and filing requirements for Form TD F 90-22.1		
b If "Yes," enter the name of the foreign country ▶		
8 During 2010, 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 instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17149N Schedule B (Form 1040A or 1040) 2010

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 “natural gas sold under a fixed contract” 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 factors 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 2010. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2010 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.

For your convenience, a simple cost depletion calculator is now available on the Permian Basin Royalty Trust website at: www.pbt-permianbasintrust.com.

3. Reconciliation of Net Income and Cash Distributions. The difference, if any, 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. In 2010, there were no increases or decreases to the cash reserve maintained by the Trust, and thus, there were no Reconciling Items for 2010.

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 TAX RETURNS

The State of Texas does not impose an individual income tax; therefore, no part of the income attributable to the Trust will be subject to state personal income tax in Texas. Texas imposes a franchise tax at a rate of 1% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statute. Entities subject to tax generally include trusts unless otherwise exempt, and most other types of entities having limited liability protection. Trusts that meet certain statutory requirements are generally exempt from the franchise tax as "passive entities." The Trust should be exempt from Texas franchise tax as a passive entity. Since the Trust is exempt from the Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a business entity subject to the Texas franchise tax would generally include its share of the Trust's revenue in its franchise tax computation. The source of such income to a Unit holder would be Texas since the Trust's day-to-day operations are conducted in Texas.

Unit holders should consult their own tax advisors concerning all Texas tax compliance matters relating to the Units.

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 eight tables and a Cost Depletion Worksheet.

For purposes of computing income and expenses (excluding cost and percentage depletion), Tables I-IV should only be used by calendar-year Unit holders who acquired, sold or exchanged Units during 2010. Unit holders who have a taxable year end 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.

This worksheet assumes a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VIII (on page 16) should be used to compute such Unit holder's depletion deduction. See pages 5 and 7 of this booklet for additional information regarding depletion deductions.

A brief example illustrating the computation of the income and expenses excluding cost and percentage depletion should be helpful. A Unit holder acquires 1,000 Units on May 7, 2010, and sells these Units on November 10, 2010. 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	0.755477	×	1,000	=	\$ 755.48
Severance Tax	II	0.029889	×	1,000	=	29.89
Interest Income	III	0.000016	×	1,000	=	0.02
Administration Expense	IV	0.012451	×	1,000	=	12.45

Permian Basin Royalty Trust

Table I

**2010 Gross Royalty Income
(Cumulative \$ per Unit)**

For a 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:**

	2010											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	\$0.117869	0.234307	0.370273	0.498282	0.642964	0.782246	0.904777	1.021997	1.140605	1.253759	1.353763	1.457845
FEBRUARY		0.116438	0.252404	0.380413	0.525095	0.664377	0.786908	0.904128	1.022736	1.135890	1.235894	1.339976
MARCH			0.135966	0.263975	0.408657	0.547939	0.670470	0.787690	0.906298	1.019452	1.119456	1.223538
APRIL				0.128009	0.272691	0.411973	0.534504	0.651724	0.770332	0.883486	0.983490	1.087572
MAY					0.144682	0.283964	0.406495	0.523715	0.642323	0.755477	0.855481	0.959563
JUNE						0.139282	0.261813	0.379033	0.497641	0.610795	0.710799	0.814881
JULY							0.122531	0.239751	0.358359	0.471513	0.571517	0.675599
AUGUST								0.117220	0.235828	0.348982	0.448986	0.553068
SEPTEMBER									0.118608	0.231762	0.331766	0.435848
OCTOBER										0.113154	0.213158	0.317240
NOVEMBER											0.100004	0.204086
DECEMBER												0.104082

Table II

**2010 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:

	2010											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	\$0.005057	0.010200	0.016073	0.021810	0.026641	0.032321	0.037462	0.042228	0.047050	0.051699	0.053086	0.057563
FEBRUARY		0.005143	0.011016	0.016753	0.021584	0.027264	0.032405	0.037171	0.041993	0.046642	0.048029	0.052506
MARCH			0.005873	0.011610	0.016441	0.022121	0.027262	0.032028	0.036850	0.041499	0.042886	0.047363
APRIL				0.005737	0.010568	0.016248	0.021389	0.026155	0.030977	0.035626	0.037013	0.041490
MAY					0.004831	0.010511	0.015652	0.020418	0.025240	0.029889	0.031276	0.035753
JUNE						0.005680	0.010821	0.015587	0.020409	0.025058	0.026445	0.030922
JULY							0.005141	0.009907	0.014729	0.019378	0.020765	0.025242
AUGUST								0.004766	0.009588	0.014237	0.015624	0.020101
SEPTEMBER									0.004822	0.009471	0.010858	0.015335
OCTOBER										0.004649	0.006036	0.010513
NOVEMBER											0.001387	0.005864
DECEMBER												0.004477

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Table III

2010 Interest 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:											
	2010											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	\$0.000001	0.000002	0.000003	0.000004	0.000005	0.000008	0.000011	0.000014	0.000017	0.000020	0.000022	0.000024
FEBRUARY		0.000001	0.000002	0.000003	0.000004	0.000007	0.000010	0.000013	0.000016	0.000019	0.000021	0.000023
MARCH			0.000001	0.000002	0.000003	0.000006	0.000009	0.000012	0.000015	0.000018	0.000020	0.000022
APRIL				0.000001	0.000002	0.000005	0.000008	0.000011	0.000014	0.000017	0.000019	0.000021
MAY					0.000001	0.000004	0.000007	0.000010	0.000013	0.000016	0.000018	0.000020
JUNE						0.000003	0.000006	0.000009	0.000012	0.000015	0.000017	0.000019
JULY							0.000003	0.000006	0.000009	0.000012	0.000014	0.000016
AUGUST								0.000003	0.000006	0.000009	0.000011	0.000013
SEPTEMBER									0.000003	0.000006	0.000008	0.000010
OCTOBER										0.000003	0.000005	0.000007
NOVEMBER											0.000002	0.000004
DECEMBER												0.000002

Table IV

2010 Trust Administration Expenses (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:											
	2010											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	\$0.002764	0.004053	0.008667	0.010020	0.011205	0.018528	0.019570	0.020118	0.021190	0.022471	0.023354	0.024677
FEBRUARY		0.001289	0.005903	0.007256	0.008441	0.015764	0.016806	0.017354	0.018426	0.019707	0.020590	0.021913
MARCH			0.004614	0.005967	0.007152	0.014475	0.015517	0.016065	0.017137	0.018418	0.019301	0.020624
APRIL				0.001353	0.002538	0.009861	0.010903	0.011451	0.012523	0.013804	0.014687	0.016010
MAY					0.001185	0.008508	0.009550	0.010098	0.011170	0.012451	0.013334	0.014657
JUNE						0.007323	0.008365	0.008913	0.009985	0.011266	0.012149	0.013472
JULY							0.001042	0.001590	0.002662	0.003943	0.004826	0.006149
AUGUST								0.000548	0.001620	0.002901	0.003784	0.005107
SEPTEMBER									0.001072	0.002353	0.003236	0.004559
OCTOBER										0.001281	0.002164	0.003487
NOVEMBER											0.000883	0.002206
DECEMBER												0.001323

Permian Basin Royalty Trust

2010 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 during the *entire year*, your cost depletion would be calculated as follows:

Original Basis (NOTE 1)	×	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	×	Cost Depletion Factor	=	Cost Depletion
Waddell Ranch – Oil	×		=		-		=		×	0.157251	=	
Waddell Ranch – Gas	×		=		-		=		×	0.184095	=	
Royalty Properties	×		=		-		=		×	0.068418	=	
								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)	×	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	×	Cost Depletion Factor	=	Cost Depletion
Waddell Ranch – Oil	×		=		-		=		×		=	
Waddell Ranch – Gas	×		=		-		=		×		=	
Royalty Properties	×		=		-		=		×		=	
								Total				=

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
Waddell Ranch—Oil	.431257	.470732	.400585	.445910	.370861	.439193	.462933	.413676	.357948
Waddell Ranch—Gas	.150358	.199595	.223342	.230089	.295248	.218702	.208031	.327439	.248759
Royalty Properties	.418365	.329673	.376073	.323101	.333891	.342105	.329036	.258885	.393293

Royalties	Purchase Dates								
	3/99-2/00	3/00-2/01	3/01-2/02	3/02-2/03	3/03-2/04	3/04-2/05	3/05-2/06	3/06-2/07	3/07-12/07
Waddell Ranch—Oil	.357948	.376662	.382276	.317757	.326370	.319633	0.303084	0.294110	0.291568
Waddell Ranch—Gas	.248759	.272278	.318977	.297549	.318960	.305469	0.316912	0.309450	0.308062
Royalty Properties	.393293	.351160	.298746	.384693	.354660	.375602	0.380002	0.396440	0.400370

Royalties	Purchase Dates		
	1/08-12/08	1/09-12/09	1/10-12/10
Waddell Ranch—Oil	0.329649	0.246094	0.274327
Waddell Ranch—Gas	0.302271	0.268410	0.256273
Royalty Properties	0.368080	0.485496	0.469400

For your convenience, a simple cost depletion calculator is now available on the Permian Basin Royalty Trust website at: www.pbt-permianbasintrust.com.

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 2010 AND SOLD DURING 2010.**

Example: A Unit holder acquired Units prior to 2010 that he sold in May 2010. To calculate his cost depletion for each of the three Royalties for 2010, the Unit holder would use the cost depletion factor for January through April 2010 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch-Oil) the factor would be 0.053820. The factor would be 0.060290 from Table VI (Waddell Ranch-Gas) and .021641 from Table VII (Royalty Properties).

(b) **UNITS ACQUIRED AND SOLD DURING 2010.**

Example: A Unit holder acquired Units in July 2010 and sold them in September 2010. To calculate her cost depletion for each of the three Royalties for 2010, the Unit holder would use the cost depletion factor for July through August 2010 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch-Oil) the factor would be 0.027569. The factor would be 0.032936 from Table VI (Waddell Ranch-Gas) and .011872 from Table VII (Royalty Properties).

(c) **UNITS ACQUIRED DURING 2010 AND STILL OWNED AT THE END OF 2010.**

Example: A Unit holder acquired Units in March 2010 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 2010, the Unit holder would use the cost depletion factor for March 2010 through December 2010 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch-Oil) the factor would be 0.131237. The factor would be 0.156676 from Table VI (Waddell Ranch-Gas) and .058397 from Table VII (Royalty Properties).

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Table V

2010 Cost Depletion Factors – Waddell Ranch – Oil (Cumulative)

For a Unit acquired or record during the month of	2010											
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	0.012778	0.026014	0.040399	0.053820	0.069685	0.084661	0.098593	0.112230	0.125551	0.137845	0.147554	0.157251
FEBRUARY		0.013236	0.027621	0.041042	0.056907	0.071883	0.085815	0.099452	0.112773	0.125067	0.134776	0.144473
MARCH			0.014385	0.027806	0.043671	0.058647	0.072579	0.086216	0.099537	0.111831	0.121540	0.131237
APRIL				0.013421	0.029286	0.044262	0.058194	0.071831	0.085152	0.097446	0.107155	0.116852
MAY					0.015865	0.030841	0.044773	0.058410	0.071731	0.084025	0.093734	0.103431
JUNE						0.014976	0.028908	0.042545	0.055866	0.068160	0.077869	0.087566
JULY							0.013932	0.027569	0.040890	0.053184	0.062893	0.072590
AUGUST								0.013637	0.026958	0.039252	0.048961	0.058658
SEPTEMBER									0.013321	0.025615	0.035324	0.045021
OCTOBER										0.012294	0.022203	0.031700
NOVEMBER											0.009709	0.019406
DECEMBER												0.009697

Table VI

2010 Cost Depletion Factors – Waddell Ranch – Gas (Cumulative)

For a Unit acquired or record during the month of	2010											
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	0.013682	0.027419	0.044492	0.060290	0.078834	0.096279	0.113004	0.129215	0.145262	0.160520	0.172854	0.184095
FEBRUARY		0.013737	0.030810	0.046608	0.065152	0.082597	0.099322	0.115533	0.131580	0.146838	0.159172	0.170413
MARCH			0.017073	0.032871	0.051415	0.068860	0.085585	0.101796	0.117843	0.133101	0.145435	0.156676
APRIL				0.015798	0.034342	0.051787	0.068512	0.084723	0.100770	0.116028	0.128362	0.139603
MAY					0.018544	0.035989	0.052714	0.068925	0.084972	0.100230	0.112564	0.123805
JUNE						0.017445	0.034170	0.050381	0.066428	0.081686	0.094020	0.105261
JULY							0.016725	0.032936	0.048983	0.064241	0.076575	0.087816
AUGUST								0.016211	0.032258	0.047516	0.059850	0.071091
SEPTEMBER									0.016047	0.031305	0.043639	0.054880
OCTOBER										0.015258	0.027592	0.038833
NOVEMBER											0.012334	0.023575
DECEMBER												0.011241

Table VII

2010 Cost Depletion Factors – Royalty Properties (Cumulative)

For a Unit acquired or record during the month of	2010											
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	0.005249	0.010022	0.015855	0.021641	0.027586	0.033398	0.039333	0.045270	0.051373	0.057021	0.063014	0.068418
FEBRUARY		0.004773	0.010606	0.016392	0.022337	0.028149	0.034084	0.040021	0.046124	0.051772	0.057765	0.063170
MARCH			0.005833	0.011619	0.017564	0.023376	0.029311	0.035248	0.041351	0.046999	0.052992	0.058397
APRIL				0.005786	0.011731	0.017543	0.023478	0.029415	0.035518	0.041166	0.047159	0.052564
MAY					0.005945	0.011757	0.017692	0.023629	0.029732	0.035380	0.041373	0.046778
JUNE						0.005812	0.011747	0.017684	0.023787	0.029435	0.035428	0.040833
JULY							0.005935	0.011872	0.017975	0.023623	0.029616	0.035021
AUGUST								0.005937	0.012040	0.017688	0.023681	0.029086
SEPTEMBER									0.006103	0.011751	0.017744	0.023149
OCTOBER										0.005648	0.011641	0.017046
NOVEMBER											0.005993	0.011398
DECEMBER												0.005405

Table VIII

**2010 Percentage Depletion Factors
(Cumulative \$ per unit)**

For a Unit
acquired or record
during the month of

And the last cash distribution on such Unit was
attributable to the monthly record date for the month of:

	2010											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	\$0.017680	0.035146	0.055541	0.074742	0.096444	0.117336	0.135716	0.153299	0.171090	0.188063	0.203064	0.218677
FEBRUARY	_____	0.017466	0.037861	0.057062	0.078764	0.099656	0.118036	0.135619	0.153410	0.170383	0.185384	0.200996
MARCH	_____	_____	0.020395	0.039596	0.061298	0.082190	0.100570	0.118153	0.135944	0.152917	0.167918	0.183530
APRIL	_____	_____	_____	0.019201	0.040903	0.061975	0.080175	0.097758	0.115549	0.132522	0.147523	0.163135
MAY	_____	_____	_____	_____	0.021702	0.042594	0.060974	0.078557	0.096348	0.113321	0.128322	0.143934
JUNE	_____	_____	_____	_____	_____	0.020892	0.039272	0.056855	0.074646	0.091619	0.106620	0.122232
JULY	_____	_____	_____	_____	_____	_____	0.018380	0.035963	0.053754	0.070727	0.085728	0.101340
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.017583	0.035374	0.052347	0.067348	0.082960
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.017791	0.034764	0.049765	0.065377
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.016973	0.031974	0.047586
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.015001	0.030613
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.015612

Permian Basin Royalty Trust

TAX INFORMATION
2010

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