

Permian Basin Royalty Trust

TAX INFORMATION 2011

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

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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, 2012

IMPORTANT TAX INFORMATION

TO UNIT HOLDERS:

We enclose the following material, which provides Unit holders with some of the information necessary to compute the 2011 federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2011.
- (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 Internal Revenue Service ("IRS") Forms 1099 and written tax statements issued by certain middlemen (discussed in more detail on pages 4 and 5) that hold Trust Units on your behalf.

To ensure compliance with Treasury Department Circular 230, Unit holders are hereby notified that any discussion of U.S. federal income tax issues in this booklet is not intended or written to be relied upon, and cannot be relied upon, by Unit holders for the purpose of avoiding penalties that may be imposed on such Unit holders under the Internal Revenue Code of 1986.

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, 2011

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	\$0.547044	\$0.022369	0.524675	0.103644	0.300060	0.006308 BBLs
2. Gas	0.281156	0.014961	0.266195	0.110185	0.283766	0.037805 MCF
3. Total Oil and Gas for Year	<u>0.828200</u>	<u>0.037330</u>	<u>0.790870</u>			
ROYALTY PROPERTIES – TEXAS						
1. Oil	0.527878	0.019513	0.508365			0.005948 BBLs
2. Gas	0.091309	0.004906	0.086403			0.008305 MCF
3. Total Oil and Gas for year	<u>0.619187</u>	<u>0.024419</u>	<u>0.594768</u>	0.067450	0.416174	
TOTAL FOR YEAR	<u>\$1.447387</u>	<u>\$0.061749</u>	<u>\$1.385638</u> A		<u>1.000000</u>	

PART II
OTHER INCOME AND EXPENSE PER UNIT

<u>Item</u>	
1. Interest Income	\$0.000014 B
2. Administration Expense	\$0.025204 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)	\$1.360448
2. Reconciling Items	—
3. Cash Distribution Per Unit	<u>\$1.360448</u>

* For information regarding basis allocation, see Note 2 of the Specific Instructions for Cost Depletion Worksheet

Permian Basin Royalty Trust

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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. Because 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.* Because 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, 2012 who owned the same number of Units throughout the fiscal year would combine the results of Schedules B-2 through B-12 for 2011 and Schedule B-1 for 2012. 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.* 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. Such net overriding royalty income is received by the Trustee on the last day of the monthly period.

(i) *Gross Income.* The gross amount of net overriding royalty income received by the Trust from each Royalty during the period is reported on a per-Unit basis in Column (a) of Part I.

(ii) *Severance Tax.* Severance tax paid by the Trust during the period covered is reported on a per-Unit basis in Column (b) of Part I.

(iii) *Interest Income.* Interest income received by the Trustee during the period covered is reported on a per-Unit basis as Item 1 of Part II.

(iv) *Administration Expenses.* 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 on a per-Unit basis as Item 2 of Part II.

(d) *Unit Multiplication.* Because each schedule shows results only on a per-Unit basis, each Unit holder must determine the aggregate amounts for all Units held by him to obtain the amounts to report on his tax return. Each Unit holder should 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 him during the applicable period. Income and deductions (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 2011, 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 3b, Part I, Schedule E
Depletion	Line 18, Part I, Schedule E
Severance Tax	Line 16, Part I, Schedule E
Interest Income	Line 1, Part I, Schedule B
Administration Expenses	Line 19, 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 2011, 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 in accordance with the attached schedules. In years when there are no reconciling items, the net taxable income before 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 customer in street name, referred to herein collectively as “middlemen”). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust (“WHFIT”) 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@pbtpermiabasintrust.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. Tax information is also posted by the Trustee at www.pbt-permiabasintrust.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 may be 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 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 2011, 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 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 deduction is then compared to the cost depletion deduction 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 13-15 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 17) should be used to compute such Unit holder’s depletion deduction.

SCHEDULE E
(Form 1040)

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

Department of the Treasury
Internal Revenue Service (IRS)

OMB No. 1545-0074

2011
Attachment
Sequence No. 13

▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ See separate instructions.

Your social security number

A Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) Yes No
 B If "Yes," did you or will you file all required Forms 1099? Yes No

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 instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

Caution. For each rental property listed on line 1, check the box in the last column only if you owned that property as a member of a qualified joint venture (QJV) reporting income not subject to self-employment tax.

1	Physical address of each property—street, city, state, zip	Type—from list below	2	For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions.	Fair Rental Days	Personal Use Days	QJV
A			A				
B			B				
C			C				

Type of Property:
 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:

3a	Merchant card and third party payments. For 2011, enter -0-	3b	Payments not reported to you on line 3a	4	Total not including amounts on line 3a that are not income (see instructions)

Expenses:

5	Advertising	5
6	Auto and travel (see instructions)	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 instructions)	12
13	Other interest	13
14	Repairs	14
15	Supplies	15
16	Taxes	16
17	Utilities	17
18	Depreciation expense or depletion	18
19	Other (list)	19
20	Total expenses. Add lines 5 through 19	20
21	Subtract line 20	21
22	Deductible rental on Form 8582 (if instructions to file)	22
23a	Total of all amounts on line 21	23a
b	Total of all amounts on line 22	b
c	Total of all amounts on line 23a	c
d	Total of all amounts on line 23b	d
e	Total of all amounts on line 23c	e
f	Total of all amounts on line 23d	f
24	Income. Add positive amounts on line 4	24
25	Losses. Add negative amounts on line 4	25
26	Total rental real estate income or loss (see instructions for Part I, III, IV, or Form 1040)	26

For Paperwork Reduction Act Notice, see your tax return instructions.

Name and Type of Royalty

Gross Royalty Income

Severance Tax

Depletion

Administration Expenses

SCHEDULE B
(Form 1040A or 1040)

Interest and Ordinary Dividends

Department of the Treasury
Internal Revenue Service (IRS)

OMB No. 1545-0074

2011
Attachment
Sequence No. 08

▶ Attach to Form 1040A or 1040. ▶ See instructions on back.

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 ▶

(See instructions on back and the instructions for Form 1040A or Form 1040 (line 9c).)

Note. If you received a Form 1099-INT, Form 1099-ORD, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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 9a ▶ 4

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

Part II Ordinary Dividends

5 List name of payer ▶

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9c.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

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.

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.

Part III Foreign Accounts and Trusts

7a At any time during 2011, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions

If "Yes," are you required to file Form TD F 90-22.1 to report that financial interest or signature authority? See Form TD F 90-22.1 and its instructions for filing requirements and exceptions to those requirements

b If you are required to file Form TD F 90-22.1, enter the name of the foreign country where the financial account is located ▶

8 During 2011, 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

Yes	No

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17145N Schedule B (Form 1040A or 1040) 2011

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 “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 quantity produced and sold during the period by the estimated quantity of reserves at the beginning of the year. 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 because 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 2011. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2011 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 is attributable to adjustments in Part III, Line 2, labeled Reconciling Items. The Reconciling Items consist of (i) items that are not currently deductible, such as increases in cash reserves established by the Trustee for the payment of future expenditures and capital items, and (ii) items that 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 2011, there were no increases or decreases to the cash reserve maintained by the Trust. Thus, there were no Reconciling Items for 2011.

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 that 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. The depletion recapture amount is an amount equal to the lesser of (i) the gain on such sale attributable to the disposition of the Royalty or (ii) the sum of the prior depletion deductions taken with respect to the Royalty (but not in excess of the initial basis of such Units allocated to the Royalty). The balance of any gain or any loss from the disposition of a Unit will be a capital gain or loss if such Unit was held by the Unit holder as a capital asset. The capital gain or loss will be long-term, if held more than 12 months, or short-term, if held less than 12 months.

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

7. **Unrelated Business Taxable Income.** Certain organizations that are generally exempt from tax under IRC Section 501 are subject to tax on certain types of business income defined in IRC Section 512 as unrelated business income. The income of the Trust should not be unrelated business taxable income to such organizations, so long as the Trust Units are not “debt-financed property” within the meaning of IRC Section 514(b). In general, a Trust Unit would be debt-financed if the Trust Unit holder incurs debt to acquire a Trust Unit or otherwise incurs or maintains a debt that would not have been incurred or maintained if the Trust Unit had not been acquired.

8. **Backup Withholding.** A payor is required under specified circumstances to withhold tax at the rate of 28 percent on “reportable interest or dividend payments” and “other reportable payments” (including certain oil and gas royalty payments). Generally, this “backup withholding” is required on payments if the payee has failed to furnish the payor a taxpayer identification number or if the payor is notified by the Secretary of the Treasury to withhold taxes on such payments with respect to the payee. Amounts withheld by payors pursuant to the backup withholding provisions are remitted to the IRS and are considered a credit against the payee’s federal income tax liability. If the payee does not incur a federal income tax liability for the year in which the taxes are withheld, the payee will be required to file the appropriate income tax return to claim a refund of the taxes withheld.

Unit holders, other than foreign taxpayers, who have had amounts withheld in 2011 pursuant to the federal backup withholding provisions should have received a Form 1099-MISC from the Trust. The Form 1099-MISC reflects the total federal income tax withheld from distributions. Unlike other Forms 1099 that you may receive, the amount reported on the Form 1099-MISC received from the Trust should not be included as additional income in computing taxable income, as such amount is already included in the per-Unit income items on the income and expense schedules included herein. The federal income tax withheld, as reported on the Form 1099-MISC, should be considered as a credit by the Unit holder in computing any federal income tax liability. Individual Unit holders should include the amount of backup withholding in the Payment section of the Unit holder’s 2011 Form 1040.

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 statutes. 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. Because 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 because 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.

III. CERTAIN FEDERAL INCOME TAX MATTERS

Under current law (i) the Trust should be treated as a grantor trust for federal income tax purposes, and the income of the Trust should be taxable to the Unit holders as if amounts owed or paid to the Trust were owed or paid directly to the Unit holders pro rata; and (ii) each Unit holder should be entitled to depletion deductions equal to the greater of cost depletion based on his basis in the Units or (under certain circumstances) percentage depletion. The IRS has issued private letter rulings and technical advice memoranda indicating that royalty trusts similar to the Trust are taxable as grantor trusts. However, no rulings have been issued to the Trust and private rulings issued to other taxpayers do not bind the IRS in connection with the Trust. Hence, there can be no assurance that the IRS will not challenge this treatment.

THE INFORMATION AND INSTRUCTIONS CONTAINED IN THIS BOOKLET ARE DESIGNED TO ASSIST UNIT HOLDERS WHO ARE U.S. CITIZENS IN COMPLYING WITH THEIR FEDERAL INCOME TAX AND TEXAS STATE TAX REPORTING REQUIREMENTS BASED ON THE TREATMENT OF THE TRUST AS A GRANTOR TRUST AND SHOULD NOT BE CONSTRUED AS TAX ADVICE TO ANY SPECIFIC UNIT HOLDER. A UNIT HOLDER SHOULD CONSULT THE UNIT HOLDER’S OWN TAX ADVISER REGARDING ALL TAX COMPLIANCE MATTERS RELATING TO SUCH UNIT HOLDER’S 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 2011. 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 17) 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, 2011, and sells these Units on November 10, 2011. 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 that 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	0.740918	×	1,000	=	\$ 740.92
Severance Tax	II	0.031808	×	1,000	=	31.81
Interest Income	III	0.000007	×	1,000	=	0.01
Administration Expense	IV	0.008670	×	1,000	=	8.67

Permian Basin Royalty Trust

Table I

2011 Gross Royalty Income (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of:											
	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.128624	0.232675	0.376417	0.491714	0.637413	0.788650	0.944896	1.069089	1.121987	1.232632	1.339577	1.447387
FEBRUARY		0.104051	0.247793	0.363090	0.508789	0.660026	0.816272	0.940465	0.993363	1.104008	1.210953	1.318763
MARCH			0.143742	0.259039	0.404738	0.555975	0.712221	0.836414	0.889312	0.999957	1.106902	1.214712
APRIL				0.115297	0.260996	0.412233	0.568479	0.692672	0.745570	0.856215	0.963160	1.070970
MAY					0.145699	0.296936	0.453182	0.577375	0.630273	0.740918	0.847863	0.955673
JUNE						0.151237	0.307483	0.431676	0.484574	0.595219	0.702164	0.809974
JULY							0.156246	0.280439	0.333337	0.443982	0.550927	0.658737
AUGUST								0.124193	0.177091	0.287736	0.394681	0.502491
SEPTEMBER									0.052898	0.163543	0.270488	0.378298
OCTOBER										0.110645	0.217590	0.325400
NOVEMBER											0.106945	0.214755
DECEMBER												0.107810

Table II

2011 Severance Tax (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of:											
	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.005534	0.009770	0.016005	0.020851	0.027018	0.033491	0.040244	0.045544	0.047575	0.052659	0.057208	0.061749
FEBRUARY		0.004236	0.010471	0.015317	0.021484	0.027957	0.034710	0.040010	0.042041	0.047125	0.051674	0.056215
MARCH			0.006235	0.011081	0.017248	0.023721	0.030474	0.035774	0.037805	0.042889	0.047438	0.051979
APRIL				0.004846	0.011013	0.017486	0.024239	0.029539	0.031570	0.036654	0.041203	0.045744
MAY					0.006167	0.012640	0.019393	0.024693	0.026724	0.031808	0.036357	0.040898
JUNE						0.006473	0.013226	0.018526	0.020557	0.025641	0.030190	0.034731
JULY							0.006753	0.012053	0.014084	0.019168	0.023717	0.028258
AUGUST								0.005300	0.007331	0.012415	0.016964	0.021505
SEPTEMBER									0.002031	0.007115	0.011664	0.016205
OCTOBER										0.005084	0.009633	0.014174
NOVEMBER											0.004549	0.009090
DECEMBER												0.004541

Permian Basin Royalty Trust

Table III

2011 Interest Income (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of:												
JANUARY	0.000002	0.000003	0.000004	0.000005	0.000006	0.000008	0.000009	0.000010	0.000011	0.000012	0.000013	0.000014
FEBRUARY		0.000001	0.000002	0.000003	0.000004	0.000006	0.000007	0.000008	0.000009	0.000010	0.000011	0.000012
MARCH			0.000001	0.000002	0.000003	0.000005	0.000006	0.000007	0.000008	0.000009	0.000010	0.000011
APRIL				0.000001	0.000002	0.000004	0.000005	0.000006	0.000007	0.000008	0.000009	0.000010
MAY					0.000001	0.000003	0.000004	0.000005	0.000006	0.000007	0.000008	0.000009
JUNE						0.000002	0.000003	0.000004	0.000005	0.000006	0.000007	0.000008
JULY							0.000001	0.000002	0.000003	0.000004	0.000005	0.000006
AUGUST								0.000001	0.000002	0.000003	0.000004	0.000005
SEPTEMBER									0.000001	0.000002	0.000003	0.000004
OCTOBER										0.000001	0.000002	0.000003
NOVEMBER											0.000001	0.000002
DECEMBER												0.000001

Table IV

2011 Trust Administration Expenses (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of:												
JANUARY	0.003215	0.005130	0.007288	0.014045	0.017235	0.018080	0.019102	0.020216	0.021305	0.022715	0.023372	0.025204
FEBRUARY		0.001915	0.004073	0.010830	0.014020	0.014865	0.015887	0.017001	0.018090	0.019500	0.020157	0.021989
MARCH			0.002158	0.008915	0.012105	0.012950	0.013972	0.015086	0.016175	0.017585	0.018242	0.020074
APRIL				0.006757	0.009947	0.010792	0.011814	0.012928	0.014017	0.015427	0.016084	0.017916
MAY					0.003190	0.004035	0.005057	0.006171	0.007260	0.008670	0.009327	0.011159
JUNE						0.000845	0.001867	0.002981	0.004070	0.005480	0.006137	0.007969
JULY							0.001022	0.002136	0.003225	0.004635	0.005292	0.007124
AUGUST								0.001114	0.002203	0.003613	0.004270	0.006102
SEPTEMBER									0.001089	0.002499	0.003156	0.004988
OCTOBER										0.001410	0.002067	0.003899
NOVEMBER											0.000657	0.002489
DECEMBER												0.001832

Permian Basin Royalty Trust

2011 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:

		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
	x	=	-	=	=	x	=
Waddell Ranch – Oil	x	=	-	=	=	x	=
Waddell Ranch – Gas	x	=	-	=	=	x	=
Royalty Properties	x	=	-	=	=	x	=
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:

		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 For Allocable Portion of Year	Cost Depletion
	x	=	-	=	=	x	=
Waddell Ranch – Oil	x	=	-	=	=	x	=
Waddell Ranch – Gas	x	=	-	=	=	x	=
Royalty Properties	x	=	-	=	=	x	=
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 that 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 the 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	1/11-12/11
Waddell Ranch – Oil	0.329649	0.246094	0.274327	0.300060
Waddell Ranch – Gas	0.302271	0.268410	0.256273	0.283766
Royalty Properties	0.368080	0.485496	0.469400	0.416174

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 2011 AND SOLD DURING 2011.**

Example: A Unit holder acquired Units prior to 2011 that he sold in May 2011. To calculate his cost depletion for each of the three Royalties for 2011, the Unit holder would use the cost depletion factor for January through April 2011 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.042246. The factor would be 0.048791 from Table VI (Waddell Ranch – Gas) and .021751 from Table VII (Royalty Properties).

(b) **UNITS ACQUIRED AND SOLD DURING 2011.**

Example: A Unit holder acquired Units in July 2011 and sold them in September 2011. To calculate her cost depletion for each of the three Royalties for 2011, the Unit holder would use the cost depletion factor for July through August 2011 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.019334. The factor would be 0.018713 from Table VI (Waddell Ranch – Gas) and .011222 from Table VII (Royalty Properties).

(c) **UNITS ACQUIRED DURING 2011 AND STILL OWNED AT THE END OF 2011.**

Example: A Unit holder acquired Units in March 2011 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 2011, the Unit holder would use the cost depletion factor for March 2011 through December 2011 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.080456. The factor would be 0.083553 from Table VI (Waddell Ranch – Gas) and .056677 from Table VII (Royalty Properties).

Permian Basin Royalty Trust

Table V

2011 Cost Depletion Factors—Waddell Ranch – Oil (Cumulative)

For a Unit acquired of record during the month of	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.013187	0.023188	0.033568	0.042246	0.052460	0.062193	0.073073	0.081527	0.081527	0.089756	0.096506	0.103644
FEBRUARY		0.010001	0.020381	0.029059	0.039273	0.049006	0.059886	0.068340	0.068340	0.076569	0.083319	0.090457
MARCH			0.010380	0.019058	0.029272	0.039005	0.049885	0.058339	0.058339	0.066568	0.073318	0.080456
APRIL				0.008678	0.018892	0.028625	0.039505	0.047959	0.047959	0.056188	0.062938	0.070076
MAY					0.010214	0.019947	0.030827	0.039281	0.039281	0.047510	0.054260	0.061398
JUNE						0.009733	0.020613	0.029067	0.029067	0.037296	0.044046	0.051184
JULY							0.010880	0.019334	0.019334	0.027563	0.034313	0.041451
AUGUST								0.008454	0.008454	0.016683	0.023433	0.030571
SEPTEMBER									0.000000	0.008229	0.014979	0.022117
OCTOBER										0.008229	0.014979	0.022117
NOVEMBER											0.006750	0.013888
DECEMBER												0.007138

Table VI

2011 Cost Depletion Factors—Waddell Ranch – Gas (Cumulative)

For a Unit acquired of record during the month of	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.015330	0.026632	0.038740	0.048791	0.061138	0.070725	0.081821	0.089438	0.089438	0.096744	0.102808	0.110185
FEBRUARY		0.011302	0.023410	0.033461	0.045808	0.055395	0.066491	0.074108	0.074108	0.081414	0.087478	0.094855
MARCH			0.012108	0.022159	0.034506	0.044093	0.055189	0.062806	0.062806	0.070112	0.076176	0.083553
APRIL				0.010051	0.022398	0.031985	0.043081	0.050698	0.050698	0.058004	0.064068	0.071445
MAY					0.012347	0.021934	0.033030	0.040647	0.040647	0.047953	0.054017	0.061394
JUNE						0.009587	0.020683	0.028300	0.028300	0.035606	0.041670	0.049047
JULY							0.011096	0.018713	0.018713	0.026019	0.032083	0.039460
AUGUST								0.007617	0.007617	0.014923	0.020987	0.028364
SEPTEMBER									0.000000	0.007306	0.013370	0.020747
OCTOBER										0.007306	0.013370	0.020747
NOVEMBER											0.006064	0.013441
DECEMBER												0.007377

Table VII

**2011 Cost Depletion Factors—Royalty Properties
(Cumulative)**

For a Unit acquired of record during the month of _____ And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of: _____

	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.005949	0.010772	0.016915	0.021751	0.027526	0.033230	0.038902	0.044452	0.049745	0.056026	0.061935	0.067450
FEBRUARY	_____	0.004823	0.010966	0.015802	0.021577	0.027281	0.032953	0.038503	0.043796	0.050077	0.055986	0.061500
MARCH	_____	_____	0.006143	0.010979	0.016754	0.022458	0.028130	0.033680	0.038973	0.045254	0.051163	0.056677
APRIL	_____	_____	_____	0.004836	0.010611	0.016315	0.021987	0.027537	0.032830	0.039111	0.045020	0.050534
MAY	_____	_____	_____	_____	0.005775	0.011479	0.017151	0.022701	0.027994	0.034275	0.040184	0.045698
JUNE	_____	_____	_____	_____	_____	0.005704	0.011376	0.016926	0.022219	0.028500	0.034409	0.039923
JULY	_____	_____	_____	_____	_____	_____	0.005672	0.011222	0.016515	0.022796	0.028705	0.034219
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.005550	0.010843	0.017124	0.023033	0.028547
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.005293	0.011574	0.017483	0.022997
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.006281	0.012190	0.017704
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.005909	0.011423
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.005514

Table VIII

**2011 Percentage Depletion Factors
(Cumulative)**

For a Unit acquired of record during the month of _____ And the last cash distribution on such Unit owned on the monthly record date in 2011 for the month of: _____

	2011											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.019293	0.034901	0.056462	0.073756	0.095611	0.118297	0.141734	0.160363	0.168298	0.184895	0.200937	0.217108
FEBRUARY	_____	0.015608	0.037169	0.054463	0.076318	0.099004	0.122441	0.141070	0.149005	0.165602	0.181644	0.197815
MARCH	_____	_____	0.021561	0.038855	0.060710	0.083396	0.106833	0.125462	0.133397	0.149994	0.166036	0.182207
APRIL	_____	_____	_____	0.017294	0.039149	0.061835	0.085272	0.103901	0.111836	0.128433	0.144475	0.160646
MAY	_____	_____	_____	_____	0.021855	0.044541	0.067978	0.086607	0.094542	0.111139	0.127181	0.143352
JUNE	_____	_____	_____	_____	_____	0.022686	0.046123	0.064752	0.072687	0.089284	0.105326	0.121497
JULY	_____	_____	_____	_____	_____	_____	0.023437	0.042066	0.050001	0.066598	0.082640	0.098811
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.018629	0.026564	0.043161	0.059203	0.075374
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.007935	0.024532	0.040574	0.056745
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.016597	0.032639	0.048810
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.016042	0.032213
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.016171

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Permian Basin Royalty Trust

TAX INFORMATION
2011

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