

Permian Basin Royalty Trust

TAX INFORMATION 2018

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

2911 Turtle Creek Boulevard
Suite 850
Dallas, Texas 75219
Telephone Toll-Free 1-855-588-7839

February 28, 2019

IMPORTANT TAX INFORMATION

TO UNIT HOLDERS:

We enclose the following material, which provides Unit holders with some of the information necessary to compute the 2018 federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2018.
- (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 income tax reporting requirements and should not be construed as advice to any 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.

All Unit holders must compute their depletion deduction for federal tax reporting purposes. See Part I, Instruction 2 in the attached instructions. For your convenience, simple income/expense and cost depletion calculators are now available on the Permian Basin Royalty Trust website at www.pbt-permian.com on the home page.

Each Unit holder should consult his or her own tax adviser regarding any tax compliance matters relating to his or her Units.

Simmons Bank, Trustee

By:



Ron E. Hooper
Senior Vice President

Permian Basin Royalty Trust
EIN 75-6280532 CUSIP# 71423610
SCHEDULE A To
FORM 1041, GRANTOR TRUST
For Year Ended December 31, 2018

Federal and State Income Tax Information
See Instructions Before Filing

PART I
ROYALTY INFORMATION PER UNIT

<u>Source</u>	(a) Gross Income	(b) Severance Tax	(c) Net Royalty Payment	(d) Cost Depletion Factor	(e) Basis Allocation Factor*	(f) Production
WADDELL RANCH PROPERTIES – TEXAS						
1. Oil	\$0.285720	\$0.012747	\$0.272973	0.145076	0.251604	0.004898 BBLs
2. Gas	0.096893	0.003504	0.093389	0.163671	0.218702	0.028817 MCF
3. Total Oil and Gas for Year	<u>0.382613</u>	<u>0.016251</u>	<u>0.366362</u>			
ROYALTY PROPERTIES – TEXAS						
1. Oil	0.299106	0.010904	0.288202			0.005130 BBLs
2. Gas	0.035590	0.001696	0.033894			0.005423 MCF
3. Total Oil and Gas for year	<u>0.334696</u>	<u>0.012600</u>	<u>0.322096</u>	0.084867	0.529694	
TOTAL FOR YEAR	<u>\$0.717309</u>	<u>\$0.028851</u>	<u>\$0.688458</u> A		<u>1.000000</u>	

PART II
OTHER INCOME AND EXPENSE PER UNIT

<u>Item</u>	
1. Interest Income	\$0.000561 B
2. Administration Expense	\$0.028427 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)	\$0.660592
2. Reconciling Items	—
3. Cash Distribution Per Unit	<u>\$0.660592</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 determined by his taxable year and his method of accounting, not by the taxable year and method of accounting of the Trust. Therefore, a cash method Unit holder should report his pro rata share of income or expense received or paid by the Trust during his tax year. An accrual method Unit holder should report his pro rata share of income or expense accrued by the Trust 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, 2019 who owned the same number of Units throughout the fiscal year would combine the results of Schedules B-2 through B-12 for 2018 and Schedule B-1 for 2019. 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 individually 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 burdened by the Royalties from oil and gas produced in an earlier month, less 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 were incurred. The amount incurred and paid during such period 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 are required to file Form 1040 for 2018, 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 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 pages 6 and 7, we have reproduced Schedules B and E 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 2018, 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. Simmons Bank, EIN: 71-0407808, 2911 Turtle Creek Blvd., Suite 850, Dallas, Texas 75219, telephone number (855) 588-7839, email address trustee@pbt-permian.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-permian.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 separately compute both percentage depletion and cost depletion from each property and claim the greater of the two amounts as a deduction on his income tax return. Unlike cost depletion, the allowance for percentage depletion continues to be deductible after the Unit holder’s tax basis is reduced to zero. **The Trustee and its independent accountants have estimated the percentage depletion for January through December 2018, and it appears that, depending on the Unit holder’s individual circumstances, percentage depletion may exceed cost depletion.**

If available, percentage depletion is equal to 15% of the gross income attributable to a royalty, limited to 100% of the net income from such royalty. The amount of percentage depletion should then be compared to the amount of 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 14-17 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 B

SCHEDULE B
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return

Interest and Ordinary Dividends

▶ Go to www.irs.gov/ScheduleB for instructions and the latest information.
▶ Attach to Form 1040.

OMB No. 1545-0074

2018
Attachment
Sequence No. **08**

Your social security number

Interest Income →

Part I Interest				
<p>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 the instructions and list this interest first. Also, show that buyer's social security number and address ▶</p> <p>(See instructions and the instructions for Form 1040, line 2b.)</p> <p>Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.</p>	1	Amount		
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 2b . . . ▶				
Note: If line 4 is over \$1,500, you must complete Part III.				
Part II Ordinary Dividends				
<p>5 List name of payer ▶</p> <p>(See instructions and the instructions for Form 1040, line 3b.)</p> <p>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.</p>	5	Amount		
6 Add the amounts on line 5. Enter the total here and on Form 1040, line 3b . . . ▶				
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.				
<p>7a At any time during 2018, 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</p> <p>If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements</p> <p>b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶</p>	7a	Yes		
8 During 2018, 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				

SCHEDULE E

**SCHEDULE E
(Form 1040)**

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

OMB No. 1545-0074

2018

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040, 1040NR, or Form 1041.

▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

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

A Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) **Yes** **No**
B If "Yes," did you or will you file required Forms 1099? **Yes** **No**

1a Physical address of each property (street, city, state, ZIP code)
A _____
B _____
C _____

	Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A	_____		A		<input type="checkbox"/>
B	_____		B		<input type="checkbox"/>
C	_____		C		<input type="checkbox"/>

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)

Royalty Income →

Income:	Properties:	A	B	C
3 Rents received	3			
4 Royalties received	4			

Severance Tax →

Depletion →

Expenses:	Properties:	A	B	C
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 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21			
22 Deductible rental real estate loss after limitation, if any, on Form 6582 (see instructions)	22	()	(

Administrative Expense →

23a Total of all amounts reported on line 3 for all rental properties	23a			
b Total of all amounts reported on line 4 for all royalty properties	23b			
c Total of all amounts reported on line 12 for all properties	23c			
d Total of all amounts reported on line 18 for all properties	23d			
e Total of all amounts reported on line 20 for all properties	23e			
24 Income. Add positive amounts shown on line 21. Do not include any losses			24	
25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here			25	(
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2.			26	

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 Internal Revenue Code (“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 tax basis in each Royalty (reduced by the aggregate 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 make appropriate adjustments to 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 2018. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2018 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-permian.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 reduce cash distributions but 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 increase cash distributions but 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 2018, there were no increases or decreases to the cash reserve maintained by the Trust. Thus, there were no Reconciling Items for 2018.

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

5. Federal Income Tax Reporting of Units Sold. The sale, exchange, or other disposition of a Unit generally is a taxable transaction for federal income tax purposes. Gain or loss is computed under general 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 remaining 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 for 12 months or less.

6. Portfolio Income. Royalty Income is generally considered portfolio income under the passive activity loss rules enacted by the Tax Reform Act of 1986. Therefore, Unit holders should not treat the taxable income from the Trust as passive activity income in determining net passive activity 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 federal income tax under IRC Section 501 are subject to tax on certain types of business income defined in IRC Section 512 as unrelated business taxable 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 property 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 24 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 2018 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 “Payments” section of the Unit holder’s 2018 Form 1040.

9. **Investment Income Tax.** IRC Section 1411 imposes a 3.8% Medicare tax on certain investment income earned by individuals, estates, and trusts. For these purposes, investment income generally will include a Unit holder's allocable share of the Trust's interest and royalty income plus the gain recognized from a sale of Trust Units. In the case of an individual, the tax is imposed on the lesser of (i) the individual's net investment income from all investments, or (ii) the amount by which the individual's modified adjusted gross income exceeds specified threshold levels depending on such individual's federal income tax filing status (\$250,000 for married persons filing a joint return and \$200,000 in most other cases). In the case of an estate or trust, the tax is imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins (\$12,500 for 2018).

II. STATE TAX RETURNS

All revenues from the Trust are from sources within Texas, which has no individual income tax. Texas imposes a franchise tax at a rate of .75% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts and most other types of entities having limited liability protection, unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as "passive entities." The Trust has been and expects to continue to be exempt from Texas franchise tax as a passive entity. Because the Trust should be exempt from Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a taxable entity under the Texas franchise tax generally will be required to include its portion of Trust revenues in its own Texas franchise tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code providing that such income is sourced according to the principal place of business of the Trust, which is 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 letter 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 2018. 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 8 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, 2018, and sells these Units on November 10, 2018. 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	0.332992	×	1,000	=	\$332.99
Severance Tax	II	0.013363	×	1,000	=	13.36
Interest Income	III	0.000282	×	1,000	=	0.28
Administration Expense	IV	0.014354	×	1,000	=	14.35

Permian Basin Royalty Trust

Table I

2018 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 2018 for the month of:											
	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.065374	0.137045	0.217408	0.275136	0.335569	0.387979	0.449565	0.492122	0.549544	0.608128	0.661081	0.717309
FEBRUARY	_____	0.071671	0.152034	0.209762	0.270195	0.322605	0.384191	0.426748	0.48417	0.542754	0.595707	0.651935
MARCH	_____	_____	0.080363	0.138091	0.198524	0.250934	0.31252	0.355077	0.412499	0.471083	0.524036	0.580264
APRIL	_____	_____	_____	0.057728	0.118161	0.170571	0.232157	0.274714	0.332136	0.39072	0.443673	0.499901
MAY	_____	_____	_____	_____	0.060433	0.112843	0.174429	0.216986	0.274408	0.332992	0.385945	0.442173
JUNE	_____	_____	_____	_____	_____	0.05241	0.113996	0.156553	0.213975	0.272559	0.325512	0.38174
JULY	_____	_____	_____	_____	_____	_____	0.061586	0.104143	0.161565	0.220149	0.273102	0.32933
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.042557	0.099979	0.158563	0.211516	0.267744
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.057422	0.116006	0.168959	0.225187
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.058584	0.111537	0.167765
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.052953	0.109181
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.056228

Table II

2018 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 2018 for the month of:											
	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.002618	0.005538	0.00888	0.011228	0.013733	0.015896	0.018444	0.020263	0.022206	0.024591	0.026506	0.028851
FEBRUARY	_____	0.00292	0.006262	0.00861	0.011115	0.013278	0.015826	0.017645	0.019588	0.021973	0.023888	0.026233
MARCH	_____	_____	0.003342	0.00569	0.008195	0.010358	0.012906	0.014725	0.016668	0.019053	0.020968	0.023313
APRIL	_____	_____	_____	0.002348	0.004853	0.007016	0.009564	0.011383	0.013326	0.015711	0.017626	0.019971
MAY	_____	_____	_____	_____	0.002505	0.004668	0.007216	0.009035	0.010978	0.013363	0.015278	0.017623
JUNE	_____	_____	_____	_____	_____	0.002163	0.004711	0.00653	0.008473	0.010858	0.012773	0.015118
JULY	_____	_____	_____	_____	_____	_____	0.002548	0.004367	0.00631	0.008695	0.01061	0.012955
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.001819	0.003762	0.006147	0.008062	0.010407
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.001943	0.004328	0.006243	0.008588
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.002385	0.0043	0.006645
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.001915	0.00426
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.002345

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Table III

2018 Interest Income (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	2018											
	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 2018 for the month of:												
JANUARY	0.000041	0.000081	0.000118	0.00017	0.000222	0.000263	0.000313	0.000363	0.000414	0.000452	0.000506	0.000561
FEBRUARY		0.00004	0.000077	0.000129	0.000181	0.000222	0.000272	0.000322	0.000373	0.000411	0.000465	0.00052
MARCH			0.000037	0.000089	0.000141	0.000182	0.000232	0.000282	0.000333	0.000371	0.000425	0.00048
APRIL				0.000052	0.000104	0.000145	0.000195	0.000245	0.000296	0.000334	0.000388	0.000443
MAY					0.000052	0.000093	0.000143	0.000193	0.000244	0.000282	0.000336	0.000391
JUNE						0.000041	0.000091	0.000141	0.000192	0.00023	0.000284	0.000339
JULY							0.00005	0.0001	0.000151	0.000189	0.000243	0.000298
AUGUST								0.00005	0.000101	0.000139	0.000193	0.000248
SEPTEMBER									0.000051	0.000089	0.000143	0.000198
OCTOBER										0.000038	0.000092	0.000147
NOVEMBER											0.000054	0.000109
DECEMBER												0.000055

Table IV

2018 Trust Administration Expenses (Cumulative \$ per Unit)

For a Unit acquired of record during the month of	2018											
	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 2018 for the month of:												
JANUARY	0.003182	0.006336	0.008878	0.012138	0.015144	0.021353	0.022987	0.024633	0.025354	0.026492	0.027624	0.028427
FEBRUARY		0.003154	0.005695	0.008955	0.011962	0.018170	0.019805	0.021451	0.022171	0.023310	0.024442	0.025245
MARCH			0.002542	0.005802	0.008808	0.015017	0.016651	0.018297	0.019018	0.020156	0.021288	0.022091
APRIL				0.003260	0.006267	0.012475	0.014109	0.015755	0.016476	0.017614	0.018747	0.019549
MAY					0.003007	0.009215	0.010849	0.012495	0.013216	0.014354	0.015487	0.016289
JUNE						0.006208	0.007843	0.009488	0.010209	0.011348	0.012480	0.013282
JULY							0.001634	0.003280	0.004001	0.005139	0.006271	0.007074
AUGUST								0.001646	0.002367	0.003505	0.004637	0.005440
SEPTEMBER									0.000721	0.001859	0.002991	0.003794
OCTOBER										0.001138	0.002270	0.003073
NOVEMBER											0.001132	0.001935
DECEMBER												0.000803

Permian Basin Royalty Trust

2018 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	×		=		-		=		×		=		=
Waddell Ranch – Gas	×		=		-		=		×		=		=
Royalty Properties	×		=		-		=		×		=		=
Total											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 For Allocable Portion of Year	=	Cost Depletion
Waddell Ranch – Oil	×		=		-		=		×		=		=
Waddell Ranch – Gas	×		=		-		=		×		=		=
Royalty Properties	×		=		-		=		×		=		=
Total											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 generally be changed to reflect the fair market value of the Units on the date of death of the decedent. 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 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 subject to depletion 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), 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	1/12-12/12	1/13-12/13	1/14-12/14	1/15-12/15	1/16-12/16
Waddell Ranch – Oil	0.329649	0.246094	0.274327	0.300060	0.318616	0.333115	0.336120	0.391039	0.353665
Waddell Ranch – Gas	0.302271	0.268410	0.256273	0.283766	0.282267	0.261230	0.220360	0.136932	0.085025
Royalty Properties	0.368080	0.485496	0.469400	0.416174	0.399117	0.405656	0.443520	0.472030	0.561310

Royalties	Purchase Dates	
	1/17-12/17	1/18-12/18
Waddell Ranch – Oil	0.337623	0.251604
Waddell Ranch – Gas	0.093997	0.218702
Royalty Properties	0.568380	0.529694

For your convenience, a simple cost depletion calculator is now available on the Permian Basin Royalty Trust website at: www.pbt-permian.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 2018 AND SOLD DURING 2018.**

Example: A Unit holder acquired Units prior to 2018 that he sold in May 2018. To calculate his cost depletion for each of the three Royalties for 2018, the Unit holder would use the cost depletion factor for January through April 2018 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.060243. The factor would be 0.066299 from Table VI (Waddell Ranch – Gas) and 0.030285 from Table VII (Royalty Properties).

(b) **UNITS ACQUIRED AND SOLD DURING 2018.**

Example: A Unit holder acquired Units in July 2018 and sold them in September 2018. To calculate her cost depletion for each of the three Royalties for 2018, the Unit holder would use the cost depletion factor for July through August 2018 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.025434. The factor would be 0.029685 from Table VI (Waddell Ranch – Gas) and 0.021307 from Table VII (Royalty Properties).

(c) **UNITS ACQUIRED DURING 2018 AND STILL OWNED AT THE END OF 2018.**

Example: A Unit holder acquired Units in March 2018 and still owned them at the end of the year. To calculate his cost depletion for each of the three Royalties for 2018, the Unit holder would use the cost depletion factor for March 2018 through December 2018 for each such Royalty obtained from Tables V, VI, and VII. For example, using Table V (Waddell Ranch – Oil) the factor would be 0.114996. The factor would be 0.130335 from Table VI (Waddell Ranch – Gas) and 0.068214 from Table VII (Royalty Properties).

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Table V

2018 Cost Depletion Factors—Waddell Ranch – Oil (Cumulative)

For a Unit acquired of record during the month of	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.015807	0.030080	0.048763	0.060243	0.073551	0.082212	0.093124	0.098986	0.109586	0.122277	0.133115	0.145076
FEBRUARY		0.014273	0.032956	0.044436	0.057745	0.066405	0.077317	0.083179	0.093779	0.106470	0.117308	0.129269
MARCH			0.018683	0.030163	0.043471	0.052132	0.063044	0.068906	0.079506	0.092197	0.103035	0.114996
APRIL				0.011480	0.024789	0.033450	0.044362	0.050223	0.060823	0.073514	0.084352	0.096313
MAY					0.013309	0.021969	0.032881	0.038743	0.049343	0.062034	0.072872	0.084833
JUNE						0.008661	0.019573	0.025434	0.036034	0.048726	0.059563	0.071525
JULY							0.010912	0.016773	0.027373	0.040065	0.050902	0.062864
AUGUST								0.005861	0.016461	0.029153	0.039990	0.051952
SEPTEMBER									0.010600	0.023291	0.034129	0.046090
OCTOBER										0.012691	0.023529	0.035490
NOVEMBER											0.010838	0.022799
DECEMBER												0.011961

Table VI

2018 Cost Depletion Factors—Waddell Ranch – Gas (Cumulative)

For a Unit acquired of record during the month of	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.017255	0.033336	0.053611	0.066299	0.081174	0.090928	0.103901	0.110859	0.123558	0.136584	0.148437	0.163671
FEBRUARY		0.016081	0.036356	0.049043	0.063919	0.073673	0.086646	0.093604	0.106303	0.119329	0.131182	0.146415
MARCH			0.020275	0.032963	0.047838	0.057592	0.070566	0.077523	0.090222	0.103248	0.115101	0.130335
APRIL				0.012687	0.027563	0.037317	0.050290	0.057248	0.069947	0.082973	0.094826	0.110059
MAY					0.014875	0.024630	0.037603	0.044561	0.057259	0.070286	0.082138	0.097372
JUNE						0.009754	0.022727	0.029685	0.042384	0.055410	0.067263	0.082497
JULY							0.012973	0.019931	0.032630	0.045656	0.057509	0.072742
AUGUST								0.006958	0.019656	0.032683	0.044535	0.059769
SEPTEMBER									0.012699	0.025725	0.037578	0.052812
OCTOBER										0.013026	0.024879	0.040113
NOVEMBER											0.011853	0.027086
DECEMBER												0.015234

Table VII

**2018 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 2018 for the month of: _____

	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.006919	0.016653	0.023654	0.030285	0.036626	0.043724	0.051029	0.057933	0.064576	0.071116	0.078197	0.084867
FEBRUARY	_____	0.009734	0.016735	0.023366	0.029707	0.036805	0.044110	0.051014	0.057657	0.064197	0.071279	0.077948
MARCH	_____	_____	0.007001	0.013632	0.019974	0.027072	0.034377	0.041280	0.047923	0.054463	0.061545	0.068214
APRIL	_____	_____	_____	0.006631	0.012972	0.020070	0.027375	0.034279	0.040922	0.047462	0.054544	0.061213
MAY	_____	_____	_____	_____	0.006341	0.013439	0.020744	0.027648	0.034291	0.040831	0.047913	0.054582
JUNE	_____	_____	_____	_____	_____	0.007098	0.014403	0.021307	0.027949	0.034490	0.041571	0.048241
JULY	_____	_____	_____	_____	_____	_____	0.007305	0.014209	0.020851	0.027392	0.034473	0.041143
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.006904	0.013546	0.020087	0.027168	0.033838
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.006643	0.013183	0.020265	0.026934
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.006540	0.013622	0.020291
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.007082	0.013751
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.006669

Table VIII

**2018 Percentage Depletion Factors
(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 2018 for the month of: _____

	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
JANUARY	0.009806	0.020557	0.032611	0.041270	0.050335	0.058197	0.067435	0.073818	0.082432	0.091219	0.099162	0.107596
FEBRUARY	_____	0.010751	0.022805	0.031464	0.040529	0.048391	0.057629	0.064012	0.072626	0.081413	0.089356	0.097790
MARCH	_____	_____	0.012054	0.020714	0.029779	0.037640	0.046878	0.053262	0.061875	0.070662	0.078605	0.087040
APRIL	_____	_____	_____	0.008659	0.017724	0.025586	0.034824	0.041207	0.049820	0.058608	0.066551	0.074985
MAY	_____	_____	_____	_____	0.009065	0.016926	0.026164	0.032548	0.041161	0.049949	0.057892	0.066326
JUNE	_____	_____	_____	_____	_____	0.007862	0.017099	0.023483	0.032096	0.040884	0.048827	0.057261
JULY	_____	_____	_____	_____	_____	_____	0.009238	0.015621	0.024235	0.033022	0.040965	0.049400
AUGUST	_____	_____	_____	_____	_____	_____	_____	0.006384	0.014997	0.023784	0.031727	0.040162
SEPTEMBER	_____	_____	_____	_____	_____	_____	_____	_____	0.008613	0.017401	0.025344	0.033778
OCTOBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.008788	0.016731	0.025165
NOVEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.007943	0.016377
DECEMBER	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	0.008434

Permian Basin Royalty Trust

TAX INFORMATION
2018

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