

Texas Pacific Land Trust

REPORT

for the

Year Ended December 31, 2008

Texas Pacific Land Trust

REPORT

for the

Year Ended December 31, 2008

TEXAS PACIFIC LAND TRUST
1700 Pacific Avenue, Suite 2770
Dallas, Texas 75201

To Sub-share and Certificate Holders:

In the year 2008 the Trust received the highest oil and gas royalty income in its 121 year history, \$13,694,843. Total operating revenues and investment income were \$19,525,012, producing a net income of \$10,939,773. Earnings per sub-share were \$1.06.

Historically, the Trustees have declared a regular cash dividend at their meeting in February. A cash dividend of \$.18 per sub-share was declared February 22, 2008 and paid March 17, 2008. At their February 2009 meeting, the Trustees declared a regular cash dividend of \$.19 per sub-share, payable March 23, 2009 to sub-share holders of record at the close of business on March 12, 2009. This is the sixth consecutive year that the regular dividend has been increased.

Land sales during 2008 were \$823,440 compared to \$1,932,664 in 2007. These sales represented 4.2% of the Trust's total operating revenues and investment income in 2008, compared to 12.2% in 2007. The Trust sold a total of 2,218.6 acres located in four of the twenty counties in which surface ownership is held. Because land sales may vary significantly from year to year, the total dollar volume of land sales in any one year should not be assumed to be indicative of sales in the future.

During 2008, the Trust purchased 640 acres in Reeves County from the State of Texas. The land purchased was adjacent to land already owned by the Trust. It is the belief of the Trustees that this purchase will prove to be advantageous to the Trust. The cost of the land purchased was \$122 per acre.

Revenues and investment income, exclusive of land sales, were \$18,701,572 and consisted of the following:

- Oil and gas royalty revenue was \$13,694,843 in 2008 compared to \$10,022,709 in 2007, an increase of 36.6%. Total crude oil production was down 8.0%, but the average price of crude oil during 2008 was 57.3% higher than the average price during 2007. Total gas production increased 12.0%, and the average price of gas increased 5.0% in 2008 compared to 2007.
- Interest on notes receivable was \$1,361,364 and interest on investments was \$228,746 in 2008, compared to \$1,464,249 and \$370,000, respectively, in 2007.
- Other revenues totaled \$3,416,619 in 2008, consisting of \$482,193 from grazing lease rentals, and \$2,934,426 from easements and sundry income. Grazing lease income was essentially unchanged in 2008 compared to

2007. Easements and sundry income was up 87.4% from 2007. Easements and sundry income is unpredictable and may vary significantly from period to period.

The Trust received total cash principal payments on notes receivable of \$2,363,395 in 2008, which included \$1,025,354 of prepaid principal. At year end 2008, the principal amount of notes receivable from land sales was \$17,656,227 compared to \$19,625,622 at year end 2007.

Total expenses for 2008 were \$8,585,239, which includes Federal and state taxes of \$5,763,812. The comparable 2007 figures were \$7,585,423 and \$4,330,417, respectively.

The Trust purchased and retired 282,229 sub-shares at a cost of \$10,048,739, representing an average cost of \$35.60 per sub-share, during 2008. The number of sub-shares purchased and retired in 2008 amounted to 2.8% of the total number of sub-shares outstanding on December 31, 2008. The market price of sub-shares on the New York Stock Exchange ranged from a low of \$16.10 to a high of \$55.15 during 2008. As provided in Article Seventh of the Declaration of Trust, dated February 1, 1888, establishing the Trust, it will continue to be the practice of the Trustees to purchase and cancel outstanding certificates and sub-shares from time to time. These purchases are generally made in the open market and there is no arrangement, contractual or otherwise, with any person for any such purchase. The Trust may negotiate prices on unsolicited blocks of sub-shares which it may be offered from time to time.

The range of reported sales prices for sub-shares on the New York Stock Exchange for each calendar quarter during the past two years was as follows:

| | 2008 | | 2007 | |
|-----------------------|---------|---------|---------|---------|
| | High | Low | High | Low |
| 1st quarter | \$45.50 | \$30.40 | \$52.60 | \$41.25 |
| 2nd quarter | \$55.15 | \$39.44 | \$62.10 | \$41.08 |
| 3rd quarter | \$54.57 | \$36.52 | \$62.75 | \$45.48 |
| 4th quarter | \$39.01 | \$16.10 | \$54.65 | \$37.01 |

Certificates of proprietary interest and sub-shares are interchangeable in the ratio of one certificate for 3,000 sub-shares or 3,000 sub-shares for one certificate of proprietary interest.

There follows a report dated February 27, 2009 by Mr. Roy Thomas, the General Agent of the Trustees, showing the operations of the Trust for 2008.

Maurice Meyer III,

John R. Norris III,

James K. Norwood,

Trustees.

To Messrs.

Maurice Meyer III
John R. Norris III
James K. Norwood

}

Trustees,

GENTLEMEN:

The following is a report of the operations in connection with the properties of Texas Pacific Land Trust for the year 2008. A summary of land sales is shown in the table below:

LAND SALES — 2008

| <i>County</i> | <i>Acres</i> | <i>Consideration</i> | <i>Cash</i> | <i>Deferred Payments</i> |
|---------------------------------|--------------|----------------------|--------------|--------------------------|
| Land sales: | | | | |
| Jeff Davis | 834.75 | \$333,900.00 | \$ 83,900.00 | \$250,000.00 |
| Midland | 640.00 | 192,000.00 | 48,000.00 | 144,000.00 |
| Mitchell | 447.15 | 178,860.00 | 178,860.00 | — |
| Sterling | 282.85 | 113,140.00 | 113,140.00 | — |
| Total | 2,204.75 | \$817,900.00 | \$423,900.00 | \$394,000.00 |
| Town lot sale: | | | | |
| Mitchell | 87 lots | \$ 5,540.00 | \$ 5,540.00 | — |
| Total — land and lots | | \$823,440.00 | \$429,440.00 | \$394,000.00 |

NET CHANGES IN ACREAGE

| <i>County</i> | <i>Land Sales</i> | <i>Exchange of Property</i> | | <i>Land Purchase</i> | <i>Total</i> |
|----------------------|-------------------|-----------------------------|---------|----------------------|--------------|
| Glasscock | | 640.00+ | 640.00— | | |
| Jeff Davis | 834.75— | | | | 834.75— |
| Midland | 640.00— | | | | 640.00— |
| Mitchell | 447.15— | | | | 447.15— |
| Reeves | | | | 640.00+ | 640.00+ |
| Sterling | 282.85— | | | | 282.85— |
| Total | 2,204.75— | 640.00+ | 640.00— | 640.00+ | 1,564.75— |

Of the \$823,440 total the Trust received from land sales in 2008, \$429,440 (52.2%) was received in cash, with deferred balances, in the aggregate amount of \$394,000, payable in annual installments over fifteen years and bearing interest at a rate of 7.0% per annum.

It should be noted that the Trust purchased 640 acres of land in 2008. This range land, located in Reeves County, was purchased from the State of Texas and is contiguous to existing Trust holdings. In addition, the Trust exchanged 640 acres with a grazing lessee in Glasscock County for another 640 acres in the same county. The section received by the Trust in the exchange is contiguous to certain of the Trust's other holdings in the county, while the section disposed of in the exchange was not.

The Trust sold 2,204.75 acres of ranch type property located in Jeff Davis, Midland, Mitchell and Sterling counties. The sales prices ranged from \$300 to \$400 per acre. Included in one sale in Mitchell County were eighty-seven town lots from the totally undeveloped townsite of Iatan. These eighty-seven town lots comprised 13.85 acres and were sold at \$400 per acre. It should be noted that the Trust holds only a limited amount of land near any metropolitan area.

COMPARATIVE STATEMENT OF TAXES
For The Past Two Years

| Taxes | 2008 | 2007 | Percentage Increase + Decrease – |
|--|-------------|-------------|--|
| Federal income | \$4,597,891 | \$3,628,026 | 26.7+ |
| Ad valorem | 119,074 | 107,673 | 10.6+ |
| Crude oil and gas production | 731,070 | 547,075 | 33.6+ |
| Payroll and other taxes | 48,475 | 47,643 | 1.7+ |
| State franchise tax | 267,302 | — | 100.0+ |
| Total | \$5,763,812 | \$4,330,417 | 33.1+ |

GRAZING LEASES

Grazing rental revenue was \$482,193 in 2008, an average of 50.6¢ per acre, compared to \$479,908 in 2007, also an average of 50.6¢ per acre. At year end, grazing leases were in effect on 953,730 acres (99.0%) of the Trust's lands.

LOCATION OF UNSOLD LANDS AND NONPARTICIPATING
PERPETUAL ROYALTY INTERESTS
As of December 31, 2008

| <i>County</i> | <i>ACREAGE</i> | | |
|----------------------|----------------|--------------------------|-------------------------|
| | <i>Surface</i> | <i>1/128 Royalty</i> | <i>1/16 Royalty</i> |
| Callahan | | | 80.00 |
| Coke | 1,067.40 | | 1,183.50 |
| Crane | 4,418.96 | 264.65 | 5,198.15 |
| Culberson | 315,640.09 | | 124,723.75 |
| Ector | 20,488.66 | 33,633.45 | 11,792.88 |
| El Paso | 16,546.65 | | |
| Fisher | | | 320.00 |
| Glasscock | 25,746.99 | 3,600.00 | 11,110.91 |
| Howard | 7,000.45 | 3,098.54 | 2,320.00 |
| Hudspeth | 160,467.44 | | 1,008.00 |
| Jeff Davis | 14,304.87 | | 7,554.65 |
| Loving | 74,431.51 | 6,106.66 | 48,066.00 |
| Martin | | | 320.00 |
| Midland | 38,033.61 | 13,425.00 | 15,360.00 |
| Mitchell | 1,599.00 | 1,760.00 | 585.91 |
| Nolan | 1,600.00 | 2,487.73 | 3,157.43 |
| Palo Pinto | | | 800.00 |
| Pecos | 43,407.12 | 320.00 | 16,895.31 |
| Presidio | | | 3,200.00 |
| Reagan | 2,189.00 | 6,162.15 | 1,273.63 |
| Reeves | 194,750.28 | 3,013.34 | 116,690.98 |
| Stephens | | 2,817.33 | 160.00 |
| Sterling | 6,883.46 | 640.00 | 2,080.00 |
| Taylor | 689.73 | | 966.00 |
| Upton | 26,179.42 | 6,903.00 | 9,100.60 |
| Winkler | 7,803.69 | 1,181.75 | 3,040.00 |
| Total | 963,248.33 | 85,413.60 | 386,987.70 |

A map showing the general location of the above described surface acreage appears on the last page of this Report.

OIL AND GAS

Oil and gas royalty revenue of \$13,694,843 in 2008 was up 36.6% from \$10,022,709 in 2007. Oil royalty revenue was \$10,206,759, up 44.6%, and gas royalty revenue was \$3,488,084, up 17.6%, compared to 2007. Gas royalty revenue amounted to 25.5% of total oil and gas royalty revenue in 2008 compared to 29.6% in 2007.

Crude oil production from Trust royalty wells decreased 8.0% in 2008 compared to 2007. The average price received by the Trust during 2008 was \$102.80 per barrel compared to \$65.36 per barrel during 2007, up 57.3%. State oil and gas production taxes amounted to \$731,070 in 2008 compared to \$547,075 in 2007.

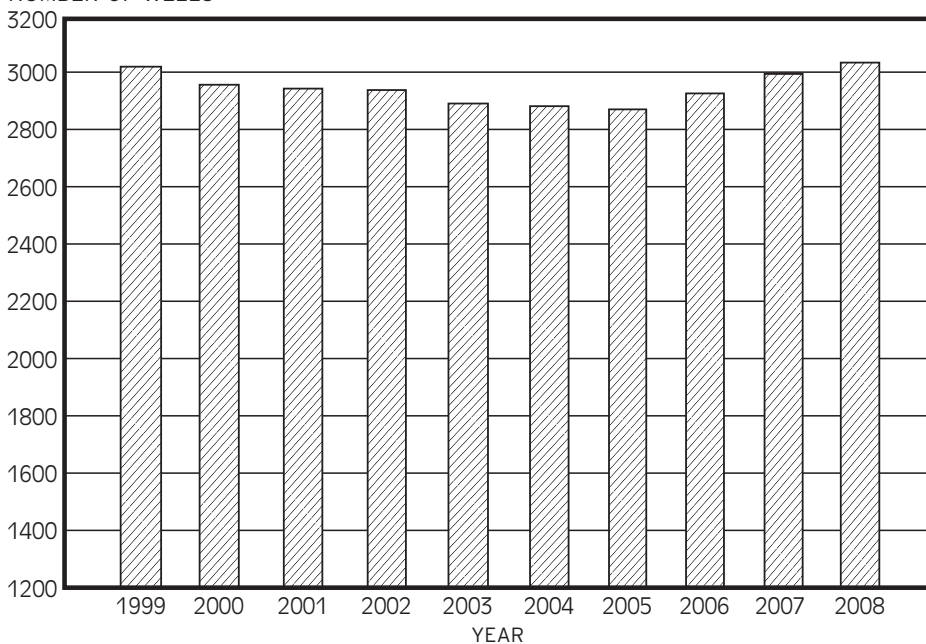
Total production from Trust royalty wells decreased 8,682 oil royalty barrels and 11,446 gas equivalent royalty barrels as shown in the two-year comparison of royalty barrels and royalty revenue.

| | <i>Royalty Production</i> | |
|-----------------------------|---------------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| Oil, Bbls. | 99,287 | 107,969 |
| Gas, Mcf. | 434,382 | 387,693 |
| Gas, Bbls. Equiv. | 33,931 | 45,377 |
| Total, Bbls. Equiv. | 133,218 | 153,346 |

| | <i>Royalty Revenue</i> | |
|----------------|------------------------|--------------|
| | <u>2008</u> | <u>2007</u> |
| Oil | \$10,206,759 | \$ 7,056,858 |
| Gas | \$ 3,488,084 | \$ 2,965,851 |
| Total. | \$13,694,843 | \$10,022,709 |

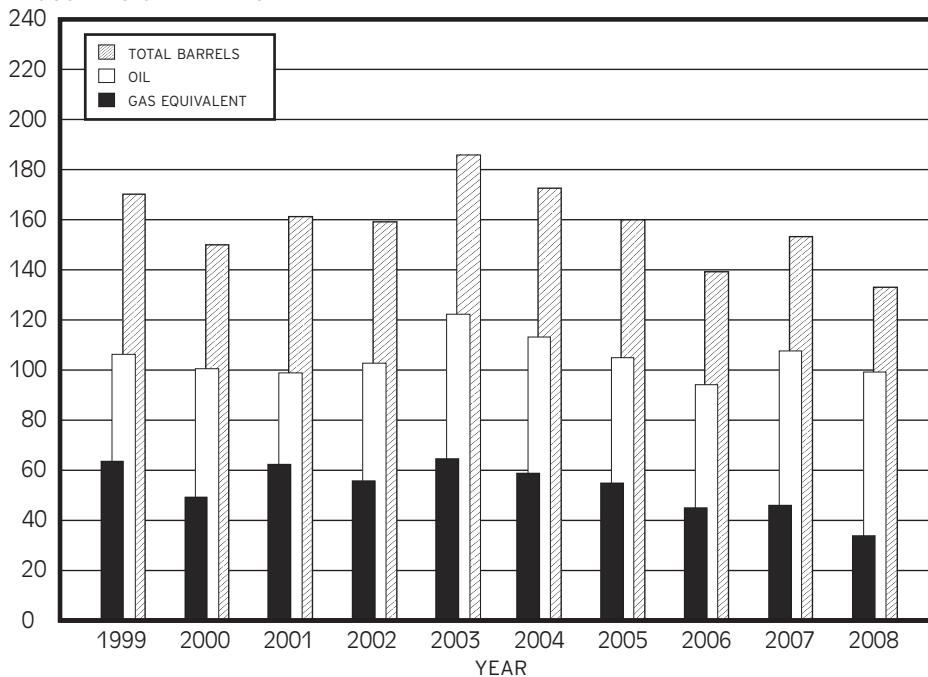
NUMBER OF WELLS

ROYALTY INTEREST WELLS

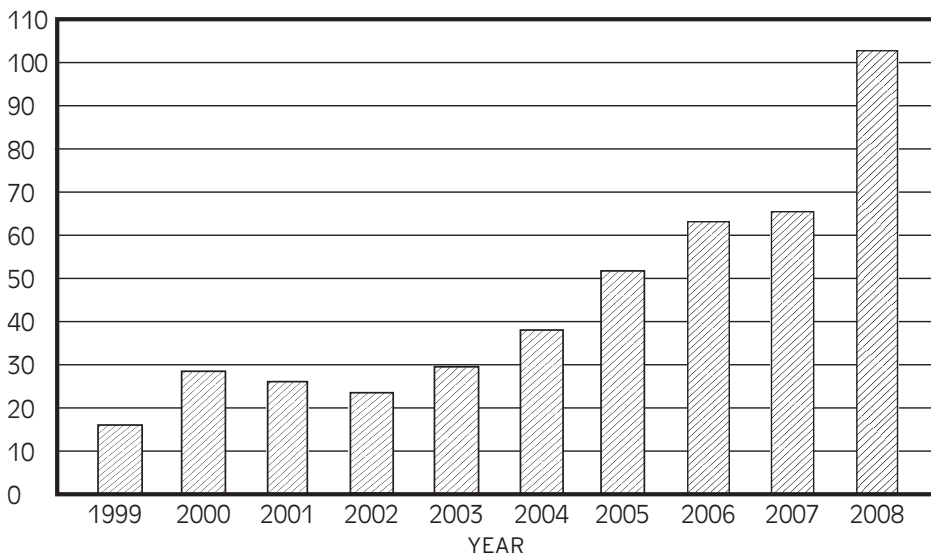


THOUSANDS OF BARRELS

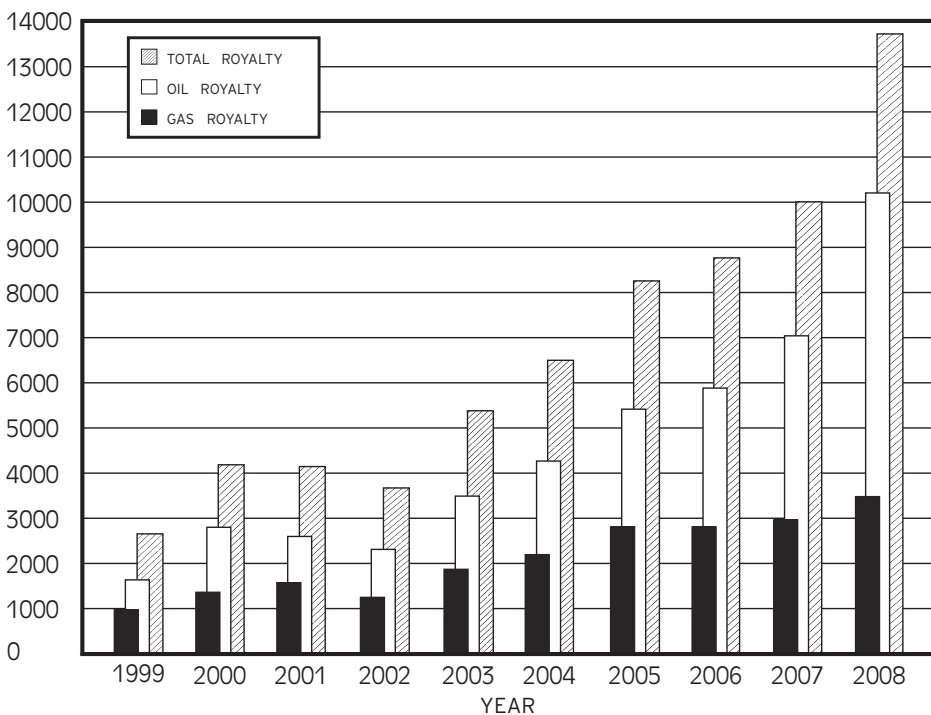
ROYALTY BARRELS



DOLLARS CRUDE OIL PRICE PER ROYALTY BARREL



THOUSANDS OF DOLLARS OIL AND GAS ROYALTY REVENUE



NEW WELLS DEVELOPED DURING 2008
SUBJECT TO THE TRUST'S NONPARTICIPATING
PERPETUAL ROYALTY INTEREST

| <i>County and Field</i> | NUMBER OF WELLS | |
|---|---------------------------|--------------------------|
| | <i>1/128* Royalty</i> | <i>1/16* Royalty</i> |
| CRANE COUNTY | | |
| Darlin — Strawn | | 1 |
| Edwards "04" — Bend | | 2 |
| Spraberry Trend Area | | 1 |
| ECTOR COUNTY | | |
| Goldsmith — Clearfork | 3 | 3 |
| Goldsmith, West — San Andres | 1 | |
| Penwell Field | 5 | |
| Spraberry Trend Area | | 1 |
| TXL — Clearfork | 3 | |
| TXL — Tubb Sand | 5 | |
| GLASSCOCK COUNTY | | |
| Spraberry Trend Area | | 1 |
| LOVING COUNTY | | |
| Grice — Delaware | | 2 |
| Haley — Morrow | | 1 |
| Jeanita — Red Bluff | | 1 |
| Tunstill Field | 1 | |
| MIDLAND COUNTY | | |
| Spraberry Trend Area | 4 | 3 |
| Virey, Wolfcamp — Upper | 2 | |
| MITCHELL COUNTY | | |
| Westbrook Field | 4 | |
| NOLAN COUNTY | | |
| Lake Trammel, West — Canyon | 2 | |
| REAGAN COUNTY | | |
| Spraberry Trend Area | 2 | |
| REEVES COUNTY | | |
| Ford, East — Delaware Sand | | 1 |
| Golden Corral | | 1 |
| Haley Field | | 1 |
| Rojo Caballos — Delaware | | 2 |
| Wildcat — 7,000' | | 1 |
| STEPHENS COUNTY | | |
| Stephens County Regular | 2 | |
| STERLING COUNTY | | |
| Conger, Southwest — Pennsylvanian | | 1 |
| UPTON COUNTY | | |
| Amacker — Tippet — Devonian | 1 | |
| Pegasus — Devonian | 1 | |
| Pegasus — Ellenburger | 1 | |
| Pegasus — Wolfcamp | 2 | |
| Spraberry Trend Area | 1 | 9 |
| | <u>40</u> | <u>32</u> |

* *Subject to adjustment for unitization or producing units.*

There were five gas wells and sixty-seven oil wells completed on Trust royalty acreage in 2008. The oil wells were completed at producing depths ranging from 2,818 feet to 11,195 feet and were assigned an average allowable of 68 barrels of oil per well per day. The gas wells were completed at depths from 3,549 feet to 17,291 feet and were assigned an average allowable of 170,000 cubic feet of gas per day.

Six oil wells located in Ector, Loving and Sterling counties were reworked and completed in different producing formations. Two gas wells located in Reeves County were reworked and completed in different producing formations. Nine depleted wells were plugged and abandoned.

At the end of the year, the Trust's royalty wells totaled 3,033, consisting of 61 gas and 812 oil wells subject to a 1/16 royalty interest and 65 gas and 2,095 oil wells subject to a 1/128 royalty interest.

Respectfully submitted,

ROY THOMAS,
General Agent

Dallas, Texas
February 27, 2009

FIVE YEAR STATEMENT OF INCOME AND SELECTED FINANCIAL DATA

Income:

| | |
|---|--|
| Oil and gas royalties | |
| Grazing lease rentals | |
| Land sales | |
| Interest income from notes receivable | |
| Easements and sundry income | |

Expenses:

| | |
|--|--|
| Taxes, other than income taxes | |
| Salaries and related employee benefits | |
| General expense, supplies and travel | |
| Basis in real estate sold | |
| Legal and professional fees | |
| Commissions to local agents | |
| Depreciation | |
| Trustees' compensation | |

| | |
|---|--|
| Operating income | |
| Interest income earned from investments | |
| Income before income taxes | |
| Income taxes | |
| Net income | |

Net income per Sub-share Certificate

Regular cash dividend per Sub-share Certificate

Special cash dividend per Sub-share Certificate

Total assets, exclusive of all property with no assigned value

Year Ended December 31,

| 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$13,694,843 | \$10,022,709 | \$ 8,773,512 | \$ 8,264,836 | \$ 6,534,455 |
| 482,193 | 479,908 | 484,759 | 486,156 | 244,103 |
| 823,440 | 1,932,664 | 8,201,447 | 3,700,116 | 20,277,226 |
| 1,361,364 | 1,464,249 | 1,349,909 | 1,503,671 | 1,066,395 |
| 2,934,426 | 1,565,581 | 3,651,571 | 1,207,004 | 946,519 |
| <u>19,296,266</u> | <u>15,465,111</u> | <u>22,461,198</u> | <u>15,161,783</u> | <u>29,068,698</u> |
| 898,619 | 702,391 | 659,305 | 648,814 | 603,301 |
| 890,077 | 890,843 | 892,372 | 847,684 | 818,757 |
| 572,947 | 579,690 | 555,367 | 487,231 | 442,646 |
| — | 693,455 | 3,374,023 | — | 715,712 |
| 1,313,600 | 1,047,019 | 617,266 | 1,163,146 | 741,092 |
| — | — | — | 51,247 | 493 |
| 36,803 | 35,999 | 37,134 | 28,791 | 38,174 |
| <u>8,000</u> | <u>8,000</u> | <u>8,000</u> | <u>8,000</u> | <u>8,000</u> |
| <u>3,720,046</u> | <u>3,957,397</u> | <u>6,143,467</u> | <u>3,234,913</u> | <u>3,368,175</u> |
| <u>15,576,220</u> | <u>11,507,714</u> | <u>16,317,731</u> | <u>11,926,870</u> | <u>25,700,523</u> |
| <u>228,746</u> | <u>370,000</u> | <u>561,284</u> | <u>245,858</u> | <u>71,912</u> |
| 15,804,966 | 11,877,714 | 16,879,015 | 12,172,728 | 25,772,435 |
| <u>4,865,193</u> | <u>3,628,026</u> | <u>5,309,153</u> | <u>3,660,141</u> | <u>8,359,477</u> |
| <u>\$10,939,773</u> | <u>\$ 8,249,688</u> | <u>\$11,569,862</u> | <u>\$ 8,512,587</u> | <u>\$17,412,958</u> |
| <u>\$1.06</u> | <u>\$.78</u> | <u>\$1.08</u> | <u>\$.78</u> | <u>\$1.58</u> |
| <u>\$.18</u> | <u>\$.16</u> | <u>\$.13</u> | <u>\$.11</u> | <u>\$.10</u> |
| <u>\$ —</u> | <u>\$ —</u> | <u>\$.42</u> | <u>\$ —</u> | <u>\$.35</u> |
| <u>\$30,785,034</u> | <u>\$32,656,735</u> | <u>\$32,467,548</u> | <u>\$32,304,893</u> | <u>\$31,149,178</u> |

BALANCE SHEETS

December 31, 2008 and 2007

ASSETS

| | <u>2008</u> | <u>2007</u> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents | \$ 9,654,379 | \$10,153,202 |
| Accrued receivables | 1,172,281 | 1,540,341 |
| Other assets | 79,986 | 82,373 |
| Prepaid Federal income taxes. | 982,350 | 62,914 |
| Notes receivable for land sales (\$1,263,871 due in 2009 and \$1,339,550 due in 2008) (note 2). | 17,656,227 | 19,625,622 |
| Water wells, leasehold improvements, furniture, and equipment — at cost less accumulated depreciation | 78,307 | 108,731 |
| Real estate acquired (notes 2 and 4) | 1,161,504 | 1,083,552 |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned (note 2): | | |
| Land (surface rights) situated in twenty counties in Texas — 952,455 acres in 2008 and 954,660 acres in 2007 | — | — |
| Town lots in Loraine and Morita, Texas — 541 lots in 2008 and 628 lots in Iatan, Loraine and Morita, Texas in 2007 | — | — |
| 1/16 nonparticipating perpetual royalty interest in 386,987.70 acres. | — | — |
| 1/128 nonparticipating perpetual royalty interest in 85,413.60 acres | <u>—</u> | <u>—</u> |
| Total assets | <u>\$30,785,034</u> | <u>\$32,656,735</u> |

(Continued)

BALANCE SHEETS

December 31, 2008 and 2007

LIABILITIES AND CAPITAL

| | <u>2008</u> | <u>2007</u> |
|---|----------------------------|----------------------------|
| Accounts payable and accrued expenses | \$ 786,848 | \$ 1,142,444 |
| Other taxes payable | 201,863 | 75,100 |
| Unearned revenue (note 2) | 438,374 | 413,811 |
| Deferred taxes (note 6) | 5,141,275 | 5,964,844 |
| Pension plan liability | <u>692,002</u> | <u>170,997</u> |
| Total liabilities | <u>7,260,362</u> | <u>7,767,196</u> |
| Capital (notes 1, 2 and 8): | | |
| Certificates of Proprietary Interest, par value \$100 each; | | |
| Outstanding 0 Certificates | — | — |
| Sub-share Certificates in Certificates of Proprietary Interest, par | | |
| value \$.03½ each; outstanding 10,206,146 Sub-shares in 2008 | | |
| and 10,488,375 Sub-shares in 2007 | — | — |
| Other comprehensive income (loss) | (629,075) | (257,842) |
| Net proceeds from all sources | <u>24,153,747</u> | <u>25,147,381</u> |
| Total capital | <u>23,524,672</u> | <u>24,889,539</u> |
| Total liabilities and capital | <u><u>\$30,785,034</u></u> | <u><u>\$32,656,735</u></u> |

See accompanying notes to financial statements.

STATEMENTS OF INCOME

Years Ended December 31, 2008, 2007 and 2006

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|---------------------|
| Income: | | | |
| Oil and gas royalties | \$13,694,843 | \$10,022,709 | \$ 8,773,512 |
| Grazing lease rentals | 482,193 | 479,908 | 484,759 |
| Land sales | 823,440 | 1,932,664 | 8,201,447 |
| Interest income from notes receivable | 1,361,364 | 1,464,249 | 1,349,909 |
| Easements and sundry income | <u>2,934,426</u> | <u>1,565,581</u> | <u>3,651,571</u> |
| | <u>19,296,266</u> | <u>15,465,111</u> | <u>22,461,198</u> |
| Expenses: | | | |
| Taxes, other than income taxes | 898,619 | 702,391 | 659,305 |
| Salaries and related employee benefits | 890,077 | 890,843 | 892,372 |
| General expense, supplies, and travel | 572,947 | 579,690 | 555,367 |
| Basis in real estate sold | — | 693,455 | 3,374,023 |
| Legal and professional fees | 1,313,600 | 1,047,019 | 617,266 |
| Depreciation | 36,803 | 35,999 | 37,134 |
| Trustees' compensation | <u>8,000</u> | <u>8,000</u> | <u>8,000</u> |
| | <u>3,720,046</u> | <u>3,957,397</u> | <u>6,143,467</u> |
| Operating income | <u>15,576,220</u> | <u>11,507,714</u> | <u>16,317,731</u> |
| Interest income earned from investments | <u>228,746</u> | <u>370,000</u> | <u>561,284</u> |
| Income before income taxes | 15,804,966 | 11,877,714 | 16,879,015 |
| Income taxes (note 6): | | | |
| Current | 5,488,866 | 4,114,374 | 5,527,613 |
| Deferred | <u>(623,673)</u> | <u>(486,348)</u> | <u>(218,460)</u> |
| | <u>4,865,193</u> | <u>3,628,026</u> | <u>5,309,153</u> |
| Net income | <u>\$10,939,773</u> | <u>\$ 8,249,688</u> | <u>\$11,569,862</u> |
| Net income per Sub-share Certificate | <u>\$1.06</u> | <u>\$0.78</u> | <u>\$1.08</u> |

See accompanying notes to financial statements.

STATEMENTS OF NET PROCEEDS FROM ALL SOURCES

Years Ended December 31, 2008, 2007 and 2006

| | Sub-share Certificates of Proprietary Interest | Accumulated Other Comprehensive Income (Loss) | Net Proceeds From All Sources | Total |
|---|--|--|--|----------------------|
| Balances at December 31, 2005 | 10,792,875 | \$ — | \$ 24,613,670 | \$ 24,613,670 |
| Net income | — | — | 11,569,862 | 11,569,862 |
| Provision for unfunded pension status; adopted SFAS No. 158, net of income taxes of \$(181,348) | — | (336,788) | — | (336,788) |
| Total comprehensive income | — | — | — | \$ 11,233,074 |
| Cost of 180,000 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (180,000) | — | (5,534,661) | (5,534,661) |
| Dividends paid — \$.55 per Sub-share Certificate | — | — | (5,872,681) | (5,872,681) |
| Balances at December 31, 2006 | 10,612,875 | (336,788) | 24,776,190 | 24,439,402 |
| Net income | — | — | 8,249,688 | 8,249,688 |
| Amortization of net actuarial costs and prior service costs, net of income taxes of \$11,042 | — | 20,506 | — | 20,506 |
| Net actuarial gain on pension plan, net of income taxes of \$31,468 | — | 58,440 | — | 58,440 |
| Total comprehensive income | — | — | — | \$ 8,328,634 |
| Cost of 124,500 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (124,500) | — | (6,181,717) | (6,181,717) |
| Dividends paid — \$.16 per Sub-share Certificate | — | — | (1,696,780) | (1,696,780) |
| Balances at December 31, 2007 | 10,488,375 | (257,842) | 25,147,381 | 24,889,539 |
| Net income | — | — | 10,939,773 | 10,939,773 |
| Amortization of net actuarial costs and prior service costs, net of income taxes of \$6,426 | — | 11,936 | — | 11,936 |
| Net actuarial loss on pension plan, net of income taxes of \$(206,322) | — | (383,169) | — | (383,169) |
| Total comprehensive income | — | — | — | \$ 10,568,540 |
| Cost of 282,229 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled | (282,229) | — | (10,048,739) | (10,048,739) |
| Dividends paid — \$.18 per Sub-share Certificate | — | — | (1,884,668) | (1,884,668) |
| Balances at December 31, 2008 | <u>10,206,146</u> | <u>\$(629,075)</u> | <u>\$ 24,153,747</u> | <u>\$ 23,524,672</u> |

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008, 2007 and 2006

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|----------------------------|----------------------------|----------------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 10,939,773 | \$ 8,249,688 | \$ 11,569,862 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Deferred taxes | (823,569) | (443,838) | (399,808) |
| Depreciation and amortization | 36,803 | 35,999 | 37,134 |
| Changes in operating assets and liabilities: | | | |
| Accrued receivables and other assets. | 370,447 | (375,940) | 188,628 |
| Prepaid Federal income taxes | (919,436) | (276,694) | 442,350 |
| Notes receivable for land sales | 1,969,395 | 1,176,510 | (1,718,284) |
| Real estate acquired | (77,952) | 693,455 | 61,318 |
| Accounts payable, accrued expenses and other liabilities | <u>(54,498)</u> | <u>475,614</u> | <u>186,163</u> |
| Net cash provided by operating activities. | <u>11,440,963</u> | <u>9,534,794</u> | <u>10,367,363</u> |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | <u>(6,379)</u> | <u>(27,272)</u> | <u>(62,828)</u> |
| Net cash used in investing activities . . . | <u>(6,379)</u> | <u>(27,272)</u> | <u>(62,828)</u> |
| Cash flows from financing activities: | | | |
| Purchase of Sub-share Certificates in | | | |
| Certificates of Proprietary Interest | (10,048,739) | (6,181,717) | (5,534,661) |
| Dividends paid | <u>(1,884,668)</u> | <u>(1,696,780)</u> | <u>(5,872,681)</u> |
| Net cash used in financing activities . . . | <u>(11,933,407)</u> | <u>(7,878,497)</u> | <u>(11,407,342)</u> |
| Net increase (decrease) in cash and cash equivalents | (498,823) | 1,629,025 | (1,102,807) |
| Cash and cash equivalents, beginning of period . . | <u>10,153,202</u> | <u>8,524,177</u> | <u>9,626,984</u> |
| Cash and cash equivalents, end of period | <u><u>\$ 9,654,379</u></u> | <u><u>\$10,153,202</u></u> | <u><u>\$ 8,524,177</u></u> |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008, 2007 and 2006

(1) NATURE OF OPERATIONS

Texas Pacific Land Trust (Trust) was organized under a Declaration of Trust, dated February 1, 1888, to receive and hold title to extensive tracts of land in the State of Texas, previously the property of the Texas and Pacific Railway Company, and to issue transferable Certificates of Proprietary Interest pro rata to the original holders of certain debt securities of the Texas and Pacific Railway Company.

The Trust is organized to manage land, including royalty interests, for the benefit of its owners. The Trust's income is derived primarily from land sales, oil and gas royalties, grazing and sundry leases, interest on notes receivable, and interest on investments.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The most significant accounting policies include the valuation of real estate and royalty interests assigned through the 1888 Declaration of Trust and revenue recognition policies.

(b) *Use of Estimates*

The preparation of financial statements in accordance with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Revenue Recognition*

Oil and gas royalties

Oil and gas royalties (royalties) are received in connection with royalty interests owned by the Trust. Royalties are recognized as revenue when crude oil and gas products are removed from the respective mineral reserve locations. Royalty payments are generally received one to three months after the crude oil and gas products are removed. An accrual is included in accrued receivables for amounts not received during the month removed based on historical trends.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The Trust has analyzed public reports of drilling activities by the oil companies with which it has entered into royalty interest leases in an effort to identify unpaid royalties associated with royalty interests owned by the Trust. Rights to certain royalties believed by the Trust to be due and payable may be subject to dispute with the oil company involved as a result of disagreements with respect to drilling and related engineering information. Disputed royalties are recorded when these contingencies are resolved. The Trust received income of \$24,080, \$288,634, and \$4,000 in 2008, 2007 and 2006, respectively, related to past production due to settlements of claims for unpaid oil and gas royalties.

Grazing lease rentals

The Trust leases land to the ranching industry for grazing purposes. Lease income is recognized when earned. These leases generally require fixed annual payments and terms range from three to five years. Lease cancellations are allowed. Advance lease payments are deferred (unearned revenue) and amortized over the appropriate accounting period. Lease payments not paid are recorded as accrued receivables.

Land sales

Income is recognized on land sales during the periods in which such sales are closed and sufficient amounts of cash down payments are received using the full accrual method of gain recognition. For income tax purposes, land sales are recognized on the installment method. The sales price of land sales are reflected as income and the cost (basis) of the respective parcels of land are reflected as expenses as these parcels of land are not primarily held as income-producing “operating” properties.

Interest income from notes receivable

Interest income is recognized when earned, using the simple interest method. Accrued interest not received is reflected in accrued receivables.

Easements and sundry income

Easement contracts represent contracts which permit companies to install pipe lines, pole lines and other equipment on land owned by the Trust. Easement income is recognized when the Trust receives a signed contract and when the Trust makes available the respective parcel of land to the grantee.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Sundry income represents sundry (diverse) leasing arrangements to companies in a wide array of industries, including: agricultural, oil and gas, construction, wind power and other industries. Lease income is recognized when earned. These leases generally require fixed annual payments or royalties. Lease terms generally range from month-to-month arrangements to ten years. Lease cancellations are allowed. Advance lease payments are deferred and amortized over the appropriate accounting period. Lease payments not paid are included in accrued receivables.

(d) *Statements of Cash Flows*

Cash and cash equivalents consist of U.S. Treasury Bills, certificates of deposits, bank deposit and savings accounts. The Trust considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Trust maintains its cash and cash equivalents in large financial institutions. The Trust monitors the credit quality of these institutions and does not anticipate any losses.

Cash disbursed for income taxes in 2008, 2007 and 2006 was \$6,408,302, \$4,391,068, and \$5,129,000, respectively. New loans made by the Trust in connection with land sales amounted to \$394,000, \$126,800, and \$4,834,897 for the years ended December 31, 2008, 2007 and 2006, respectively.

(e) *Accrued Receivables*

Accrued receivables consist primarily of amounts due under oil and gas royalty leases and unpaid interest on notes receivable for land sales. Accrued receivables are reflected at their net realizable value based on historical royalty and interest receipt information and other factors anticipated to affect valuation. A valuation allowance is recorded if amounts expected to be received are considered impaired. No allowance was considered necessary at December 31, 2008 and 2007.

(f) *Depreciation*

Provision for depreciation of depreciable assets is made by charges to income at straight-line and accelerated rates considered to be adequate to amortize the cost of such assets over their useful lives, which generally range from three to five years. Accumulated depreciation as of December 31, 2008 and 2007 is \$398,528 and \$388,503, respectively.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(g) *Notes Receivable for Land Sales*

Notes receivable for land sales (notes receivable) consists of installment notes received as partial payment on land sales and are reflected at the principal amounts due net of an allowance for loan losses, if any. The Trust generally receives cash payments on land sales of 25% or more. Thereafter, annual principal and interest payments are required by the Trust. Notes receivable bear interest rates ranging from 7.0% to 9.0% as of December 31, 2008 and are secured by first lien deeds of trust on the properties sold. The weighted average interest rate is 7.2% as of December 31, 2008. The annual installments on notes are generally payable over terms of 10 to 15 years. There is no penalty for prepayment of principal, and prepayments in 2008, 2007 and 2006 were \$1,025,354, \$51,562, and \$1,849,801, respectively. The interest rates on notes receivable are considered comparable with current rates on similar land sales and, accordingly, the carrying value of such notes receivable approximates fair value.

Management of the Trust monitors delinquencies to assess the propriety of the carrying value of its notes receivable. Accounts are considered delinquent thirty days after the contractual due dates. At the point in time that notes receivable become delinquent, management reviews the operations information of the debtor and the estimated fair value of the collateral held as security to determine whether an allowance for losses is required. There was no allowance for uncollectible notes receivable at December 31, 2008 and 2007.

Three customers represented approximately 85% and 83% of notes receivable at December 31, 2008 and 2007, respectively.

The maturities of notes receivable for each of the five years subsequent to December 31, 2008 are:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2009 | \$ 1,263,871 |
| 2010 | 1,345,621 |
| 2011 | 1,400,104 |
| 2012 | 1,495,318 |
| 2013 | 1,573,950 |
| Thereafter | <u>10,577,363</u> |
| | <u>\$17,656,227</u> |

NOTES TO FINANCIAL STATEMENTS — (Continued)

(h) *Real Estate Acquired*

While the Trust is generally not a purchaser of land, parcels are purchased from time to time at the discretion of the Trustees. Newly acquired real estate is recorded at cost.

Real estate acquired through foreclosure is recorded at the aggregate of the outstanding principal balance, accrued interest, past due ad valorem taxes, and other fees incurred relating to the foreclosure.

Real estate acquired is carried at the lower of cost or market. Valuations are periodically performed or obtained by management whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments, if any, are recorded by a charge to net income and a valuation allowance if the carrying value of the property exceeds its estimated fair value. Minimal, if any, real estate improvements are made to land.

(i) *Real Estate and Royalty Interests Assigned Through the 1888 Trust Indenture*

The fair market value of the Trust's land and royalty interests was not determined in 1888 when the Trust was formed; therefore, no value is assigned to the land, town lots, royalty interests, Certificates of Proprietary Interest, and Sub-share Certificates in Certificates of Proprietary Interest in the accompanying balance sheets. Consequently, in the statements of income, no allowance is made for depletion and no cost is deducted from the proceeds of original land sales. Even though the 1888 value of real properties cannot be precisely determined, it has been concluded that the effect of this matter can no longer be significant to the Trust's financial position or results of operations. For Federal income tax purposes, however, deductions are made for depletion, computed on the statutory percentage basis of income received from royalties. Minimal, if any, real estate improvements are made to land.

(j) *Net Income per Sub-share*

The cost of Sub-share Certificates purchased and retired is charged to net proceeds from all sources. Net income per Sub-share Certificate is based on the weighted average number of Sub-share Certificates in Certificates of Proprietary Interest and equivalent Sub-share Certificates of Proprietary Interest outstanding during each period (10,354,408 in 2008, 10,536,367 in 2007, and 10,695,644 in 2006).

NOTES TO FINANCIAL STATEMENTS — (Continued)

(k) *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The liability for unrecognized tax benefits is zero at December 31, 2008 and 2007.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

(l) *Recent Accounting Pronouncements*

SFAS No. 157 — In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. This statement applies when other accounting pronouncements require or permit assets or liabilities to be measured at fair value, but does not expand the use of fair value to new accounting transactions.

NOTES TO FINANCIAL STATEMENTS — (Continued)

SFAS No. 157 is effective for financial assets and liabilities in fiscal years beginning after November 15, 2007, and for non-financial assets and liabilities, generally, in fiscal years beginning after November 15, 2008. The Trust does not currently have any assets or liabilities that are required to be measured at fair value. As such, SFAS No. 157 did not effect any measurement or disclosure items in these financial statements.

SFAS No. 159 — In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 is effective for periods beginning after November 15, 2007 and permits companies to choose to record certain assets and liabilities at fair value, and record the related unrealized gains or losses. The Trust currently has no financial assets or liabilities that are included in the scope of SFAS No. 159 that the Trust has chosen to measure at fair value. Therefore, this statement did not have any effect on these financial statements.

No other effective or pending accounting pronouncements are expected to affect the Trust.

(m) *Comprehensive Income (Loss)*

Comprehensive income (loss) consists of net income and other gains and losses affecting capital that, under accounting principles generally accepted in the United States of America, are excluded from net income.

(3) SEGMENT INFORMATION

Segment information has been considered in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for the way public business enterprises are to report information about operating segments. SFAS No. 131 utilizes the management approach as a basis for identifying reportable segments. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. The Trust's management views its operations as one segment and believes the only significant activity is managing the land, which was conveyed to the Trust in 1888. Managing the land includes sales and leases of such land, and the retention of oil and gas royalties. The cost structure of the Trust is centralized and not segmented.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(4) REAL ESTATE ACQUIRED

Real estate acquired included the following activity for the years ended December 31, 2008 and 2007:

| | <i>2008</i> | | <i>2007</i> | |
|-----------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | <u><i>Acres</i></u> | <u><i>Book Value</i></u> | <u><i>Acres</i></u> | <u><i>Book Value</i></u> |
| Balance at January 1: | 10,153.23 | \$1,083,552 | 10,564.57 | \$1,777,007 |
| Additions | 640.00 | 77,952 | — | — |
| Sales | — | — | (411.34) | (693,455) |
| Balance at December 31: | <u>10,793.23</u> | <u>\$1,161,504</u> | <u>10,153.23</u> | <u>\$1,083,552</u> |

No valuation allowance was necessary at December 31, 2008 and 2007.

(5) EMPLOYEE BENEFIT PLANS

The Trust has a defined contribution plan available to all regular employees having one or more years of continuous service. Contributions are at the discretion of the Trustees of the Trust. The Trust contributed \$42,351, \$41,631, and \$40,334 in 2008, 2007, and 2006, respectively.

The Trust has a noncontributory pension plan (Plan) available to all regular employees having one or more years of continuous service. The Plan provides for normal retirement at age 65. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as services expected in the future. Plan assets consist primarily of investments in Banc of America Common Trust Fund.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table sets forth the Plan's changes in benefit obligation, changes in fair value of plan assets, and funded status as of December 31, 2008 and 2007 using a measurement date of December 31:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Change in projected benefits obligation: | | |
| Projected benefit obligation at beginning of year | \$2,594,903 | \$2,476,108 |
| Service cost | 90,497 | 87,351 |
| Interest cost | 157,328 | 144,896 |
| Actuarial gain | (34,039) | (15,803) |
| Benefits paid | <u>(93,229)</u> | <u>(97,649)</u> |
| Projected benefit obligation at end of year | <u>\$2,715,460</u> | <u>\$2,594,903</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$2,423,906 | \$2,197,017 |
| Actual return on plan assets | (457,219) | 224,538 |
| Contributions by employer | 150,000 | 100,000 |
| Benefits paid | <u>(93,229)</u> | <u>(97,649)</u> |
| Fair value of plan assets at end of year | <u>\$2,023,458</u> | <u>\$2,423,906</u> |
| Unfunded status at end of year | <u>\$ (692,002)</u> | <u>\$ (170,997)</u> |

The accumulated benefit obligation of the Plan was \$2,179,580 and \$2,045,243 as of December 31, 2008 and 2007, respectively.

Amounts recognized in the balance sheets as of December 31 consist of:

| | <u>2008</u> | <u>2007</u> |
|-----------------------|--------------------|--------------------|
| Assets | \$ — | \$ — |
| Liabilities | <u>(692,002)</u> | <u>(170,997)</u> |
| | <u>\$(692,002)</u> | <u>\$(170,997)</u> |

Amounts recognized in accumulated other comprehensive income (loss) consist of the following at December 31:

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| Net actuarial loss | \$ 911,223 | \$ 326,037 |
| Prior service cost | <u>56,586</u> | <u>70,643</u> |
| Amounts recognized in accumulated other comprehensive income (loss), before taxes | 967,809 | 396,680 |
| Income taxes | <u>(338,734)</u> | <u>(138,838)</u> |
| Amounts recognized in accumulated other comprehensive income (loss), after taxes | <u>\$ 629,075</u> | <u>\$ 257,842</u> |

NOTES TO FINANCIAL STATEMENTS — (Continued)

Net periodic benefit cost for the years ended December 31, 2008, 2007 and 2006 include the following components:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------|-------------------|-------------------|
| Components of net periodic benefit cost: | | | |
| Service cost | \$ 90,497 | \$ 87,351 | \$ 87,193 |
| Interest cost | 157,328 | 144,896 | 137,124 |
| Expected return on plan assets | (166,311) | (150,433) | (138,423) |
| Amortization of unrecognized gains | 4,305 | 17,492 | 26,363 |
| Amortization of prior service cost | <u>14,057</u> | <u>14,056</u> | <u>14,056</u> |
| Net periodic benefit cost | <u>\$ 99,876</u> | <u>\$ 113,362</u> | <u>\$ 126,313</u> |

The estimated net actuarial loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$68,931 and \$14,057, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the following ten year period:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2009 | \$ 97,900 |
| 2010 | 98,262 |
| 2011 | 121,944 |
| 2012 | 190,456 |
| 2013 | 187,484 |
| 2014 to 2018 | 1,116,349 |

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------|-------------|-------------|
| Weighted average assumptions used to determine benefit obligations as of December 31: | | | |
| Discount rate | 6.25% | 6.25% | 6.00% |
| Rate of compensation increase | 7.29 | 7.29 | 7.29 |
| Weighted average assumptions used to determine benefit costs for the years ended December 31: | | | |
| Discount rate | 6.25% | 6.00% | 5.75% |
| Expected return on plan assets | 7.00 | 7.00 | 7.00 |
| Rate of compensation increase | 7.29 | 7.29 | 7.29 |

NOTES TO FINANCIAL STATEMENTS — (Continued)

The Plan's asset allocations at December 31, 2008 and 2007 by asset category are as follows:

| Asset Category | Percentage of Plan Assets at December 31, | |
|-----------------------------|--|-------------|
| | <u>2008</u> | <u>2007</u> |
| Equity securities | 0% | 43% |
| Debt securities | 39 | 51 |
| Other (cash) | <u>61</u> | <u>6</u> |
| Total | <u>100%</u> | <u>100%</u> |

The Plan has a formal investment policy statement. The Plan's investment objective is balanced income, with a moderate risk tolerance. Generally, this objective has emphasized current income through a 60% to 80% allocation to fixed income securities, complemented by a secondary consideration for capital appreciation through an equity allocation in the range of 20% to 40%. Due to market conditions experienced in 2008, however, the Trust has temporarily reallocated the asset mix away from equities to minimize losses. Diversification is achieved through investment in mutual funds and bonds. The asset allocation is reviewed annually with respect to the target allocations and rebalancing adjustments and/or target allocation changes are made as appropriate. The Trust's current funding policy is to maintain the Plan's fully funded status on an ERISA minimum funding basis.

The expected return on plan assets assumption of 7.0% was selected by the Trust based on historical real rates of return for the current asset mix and an assumption with respect to future inflation. The rate was determined based on a long-term allocation of about two-thirds fixed income and one-third equity securities; historical real rates of return of about 2.5% and 8.5% for fixed income and equity securities, respectively; and assuming a long-term inflation rate of 2.5%.

Management intends to fund the minimum ERISA amount for 2009. The Trust may make some discretionary contributions to the Plan, the amounts of which have not yet been determined.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(6) INCOME TAXES

The Trust is taxed as if it were a corporation. Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before Federal income taxes as a result of the following:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|--------------------|--------------------|--------------------|
| Computed tax expense at the statutory rate | \$5,373,688 | \$4,038,423 | \$5,738,865 |
| Reduction in income taxes resulting from: | | | |
| Statutory depletion | (720,714) | (541,150) | (477,969) |
| State taxes | 267,302 | — | — |
| Other, net | <u>(55,083)</u> | <u>130,753</u> | <u>48,257</u> |
| | <u>\$4,865,193</u> | <u>\$3,628,026</u> | <u>\$5,309,153</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

| | <u>2008</u> | <u>2007</u> |
|---|--------------------|--------------------|
| Basis difference in pension plan liability | \$ 235,281 | \$ 59,849 |
| Total deferred tax assets | 235,281 | 59,849 |
| Basis differences in real estate acquired through foreclosure . . . | 226,378 | 226,378 |
| Deferred installment revenue on land sales for tax purposes . . . | <u>5,150,178</u> | <u>5,798,315</u> |
| Total deferred tax liability | <u>5,376,556</u> | <u>6,024,693</u> |
| Net deferred tax liability | <u>\$5,141,275</u> | <u>\$5,964,844</u> |

The Texas Franchise Tax was modified during 2007. The Trust had not previously been liable for the Texas Franchise Tax. The Trust began filing and paying the Texas Franchise Tax in 2008.

The Trust files a United States Federal income tax return. With few exceptions, the Trust is no longer subject to U.S. Federal income tax examination by tax authorities for years before 2005.

(7) LEASE COMMITMENTS

The Trust is a lessee under an operating lease in connection with its administrative offices located in Dallas, Texas. This lease agreement requires

NOTES TO FINANCIAL STATEMENTS — (Continued)

monthly rent of approximately \$5,867 and expires in October 2014. Future minimum lease payments were as follows at December 31, 2008:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2009 | \$ 70,400 |
| 2010 | 70,400 |
| 2011 | 70,400 |
| 2012 | 70,400 |
| 2013 | 70,400 |
| Thereafter | 58,667 |
| | <u>\$410,667</u> |

Rent expense amounted to \$60,253, \$53,226, and \$50,142 for the years ended December 31, 2008, 2007, and 2006, respectively.

(8) CAPITAL

Certificates of Proprietary Interest (Certificates) and Sub-share Certificates in Certificates of Proprietary Interest (Sub-shares) are exchangeable in the ratio of one Certificate to 3,000 Sub-shares. No Certificates were exchanged for Sub-shares in 2008 and 2007.

The number of Certificates authorized for issuance at a given date is the number then outstanding plus one/three-thousandth of the number of Sub-shares then outstanding. The number of Sub-shares authorized for issuance at a given date is the number then outstanding plus three thousand times the number of Certificates then outstanding.

On July 2, 2007, the Trust split all outstanding Sub-shares five-for-one, and in connection therewith changed the par value of the Sub-shares from \$.16 $\frac{2}{3}$ to \$.03 $\frac{1}{3}$. The split had no effect on certificates outstanding. All Sub-share and per Sub-share amounts for periods presented in the accompanying financial statements and notes thereto give effect to this split.

The Declaration of Trust was executed and delivered in New York. In the opinion of counsel for the Trust, under the laws of the State of New York, the Certificate and Sub-share Certificate holders are not subject to any personal liability for the acts or obligations of the Trust.

The assets of the Trust are located in Texas. In the opinion of Texas counsel, under the laws of the State of Texas, the Certificate and Sub-share Certificate holders may be held personally liable with respect to claims against the Trust, but only after the assets of the Trust first have been exhausted.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(9) OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The Trust's share of oil and gas produced, all of which is from royalty interests, was as follows for the years ended December 31, 2008, 2007 and 2006, respectively: oil (in barrels) — 99,287, 107,969, and 94,557, and gas (in thousands of cubic feet) — 434,382, 387,693, and 477,343. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

(10) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present unaudited financial data of the Trust for each quarter of 2008 and 2007:

| | Quarter Ended | | | |
|--------------------------------------|---------------------------|----------------------------|--------------------|--------------------|
| | Decem- ber 31, 2008 | Septem- ber 30, 2008 | June 30, 2008 | March 31, 2008 |
| Income | <u>\$3,019,609</u> | <u>\$6,034,178</u> | <u>\$5,435,698</u> | <u>\$5,035,527</u> |
| Income before income taxes | <u>\$1,939,986</u> | <u>\$5,131,670</u> | <u>\$4,554,350</u> | <u>\$4,178,960</u> |
| Net income | <u>\$1,197,880</u> | <u>\$3,593,514</u> | <u>\$3,217,622</u> | <u>\$2,930,757</u> |
| Net income per Sub-share | | | | |
| Certificate | <u>\$0.12</u> | <u>\$0.35</u> | <u>\$0.31</u> | <u>\$0.28</u> |

| | Quarter Ended | | | |
|--------------------------------------|---------------------------|----------------------------|--------------------|--------------------|
| | Decem- ber 31, 2007 | Septem- ber 30, 2007 | June 30, 2007 | March 31, 2007 |
| Income | <u>\$4,204,382</u> | <u>\$5,084,832</u> | <u>\$3,581,661</u> | <u>\$2,964,236</u> |
| Income before income taxes | <u>\$3,187,938</u> | <u>\$3,658,544</u> | <u>\$2,814,070</u> | <u>\$2,217,162</u> |
| Net income | <u>\$2,170,989</u> | <u>\$2,535,135</u> | <u>\$1,972,951</u> | <u>\$1,570,613</u> |
| Net income per Sub-share | | | | |
| Certificate | <u>\$0.21</u> | <u>\$0.24</u> | <u>\$0.19</u> | <u>\$0.15</u> |



Lane Gorman Trubitt, L.L.P.
Accountants & Advisors

Report of Independent Registered Public Accounting Firm

To the Trustees and Certificate Holders
Texas Pacific Land Trust

We have audited the accompanying balance sheets of Texas Pacific Land Trust (the Trust) as of December 31, 2008 and 2007 and the related statements of income, net proceeds from all sources, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Texas Pacific Land Trust as of December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

LANE GORMAN TRUBITT, L.L.P.

Dallas, Texas
February 26, 2009

TEXAS PACIFIC LAND TRUST

TRUSTEES

MAURICE MEYER III, *Chairman of the Trustees**
Private Investor
Jupiter, Florida

JOHN R. NORRIS III
Attorney at Law
Dallas, Texas

JAMES K. NORWOOD*
Real Estate Appraiser
Fort Worth, Texas

*Member of Audit Committee

OFFICERS

ROY THOMAS, *General Agent and Secretary, Chief Executive Officer*
Dallas, Texas

DAVID M. PETERSON, *Assistant General Agent, Chief Financial Officer*
Dallas, Texas

REGISTRAR

BNY MELLON SHAREOWNER SERVICES
Jersey City, N.J.

TRANSFER AGENT

BNY MELLON SHAREOWNER SERVICES
Jersey City, N.J.

PRINCIPAL MARKET FOR SUB-SHARE CERTIFICATES

NEW YORK STOCK EXCHANGE
Ticker Symbol — TPL

Copies of the Trust's Form 10-K Annual Report filed with the Securities and Exchange Commission will be made available to shareholders who request it, without charge (except for Exhibits). To obtain copies please write to Texas Pacific Land Trust, 1700 Pacific Avenue, Suite 2770, Dallas, TX 75201, or visit us on line at <http://www.TPLTrust.com>.



BNY MELLON SHAREOWNER SERVICES

Transfer Agent and Registrar

BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, New Jersey 07310-1900

Telephone: 1-877-296-3711

Web: www.bnymellon.com/shareowner/isd

As a Texas Pacific Land Trust shareholder, you are invited to take advantage of our convenient shareholder services or request more information about Texas Pacific Land Trust.

Shareholder Services

BNY Mellon Shareowner Services, our transfer agent, maintains the records for our registered shareholders and can help you with a variety of shareholder related services at no charge including:

- Change of name and/or address
- Consolidation of accounts
- Duplicate mailings
- Lost stock certificates
- Transfer of stock to another person
- Additional administrative services

Access your investor statements online 24 hours a day, 7 days a week with MLink. For more information, go to www.bnymellon.com/shareowner/isd.

