

Texas Pacific Land Trust

REPORT

for the

Year Ended December 31, 2014

Texas Pacific Land Trust

REPORT

for the

Year Ended December 31, 2014

TEXAS PACIFIC LAND TRUST

1700 Pacific Avenue, Suite 2770

Dallas, Texas 75201

To Sub-share and Certificate Holders:

The past year was extremely successful for Texas Pacific Land Trust. The Trust's net income was \$34,765,020, the highest in its 127 year history. Total operating revenues and investment income were \$55,216,753, a 25.1% increase over 2013. This produced a net income per sub-share of \$4.14, representing an increase of 31.0% over 2013 income per sub-share. These gains are due both to increased easements and sundry income and oil and gas royalty revenue. Domestic crude oil production was at its highest level in nearly 30 years and West Texas Intermediate (WTI) was priced between \$91.17 and \$107.95 per barrel throughout the first three quarters of 2014. Crude oil prices, however, fell dramatically in the fourth quarter of 2014. Though not included in 2014 results, the Trust made a sale of 19,607 acres, for a total of \$19,840,000. This sale closed on January 29, 2015.

For a number of years the Trustees have declared a cash dividend at their February meeting. A cash dividend of \$.27 per sub-share was paid on March 14, 2014. At their February 2015 meeting, the Trustees declared an annual cash dividend of \$.29 per sub-share, payable March 16, 2015 to sub-shareholders of record at the close of business on March 9, 2015. This is the twelfth consecutive year that the annual dividend has been increased.

Land sales of 1,949.77 acres and 310 town lots were made in 2014. These sales were located in eight of the eighteen counties in which surface ownership is held. The sales totaled \$3,698,312, compared to \$6,413,588 in 2013 and represented 6.7% of the Trust's total operating revenues and investment income, compared to 14.5% in 2013. Because land sales may vary significantly from year to year, the total dollar volume of such sales in any one year should not be assumed to be indicative of sales in the future.

Revenues and investment income in 2014, exclusive of land sales, were \$51,518,441 and consisted of the following:

- 2014 oil and gas royalty revenue was \$29,346,103 compared to \$24,496,851 in 2013, an increase of 19.8%. Crude oil production was up 19.8% and the average price per barrel was \$87.28. Total gas production increased 28.6% and the average price of gas was \$4.80 per MCF.
- Interest on notes receivable was \$140,291 and interest on investments was \$14,523. This compares to interest on notes receivable of \$484,238 and interest on investments of \$12,005 in 2013.

- Other revenues totaled \$22,017,524 in 2014, consisting of \$500,292 from grazing lease rentals and \$21,517,232 from easements and sundry income. Grazing lease rental income was up 1.2% compared to 2013. Easements and sundry income, which are unpredictable and vary significantly from year to year, increased 76.1% from 2013.

The Trust received total cash principal payments on notes receivable of \$2,964,791 in 2014, which included \$1,764,928 of prepaid principal. At 2014 year end, the principal amount of notes receivable outstanding from land sales was \$923,115 compared to \$3,887,906 at 2013 year end.

Total expenses for 2014 were \$20,451,733, which include Federal and state taxes of \$18,358,790. The comparable 2013 figures were \$16,902,571 and \$14,344,705, respectively.

In 2014, the Trust purchased and retired 150,803 sub-shares at a cost of \$22,963,786, representing an average cost of \$152.28 per sub-share. The number of sub-shares purchased and retired in 2014 amounted to 1.8% of the total number of sub-shares outstanding as of December 31, 2013. The market price of sub-shares on the New York Stock Exchange ranged from a low of \$93.00 to a high of \$242.00 during 2014. 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. These purchases are generally made in the open market and there is no arrangement, contractual or otherwise, with any person for any such purchase. As permitted by the Declaration, 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:

	2014		2013	
	High	Low	High	Low
1st quarter	\$147.80	\$ 93.00	\$ 70.91	\$51.14
2nd quarter	\$173.86	\$125.00	\$ 88.91	\$67.43
3rd quarter	\$242.00	\$157.98	\$ 93.75	\$79.60
4th quarter	\$193.70	\$103.57	\$101.39	\$82.44

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.

The Trustees of Texas Pacific Land Trust announced that as of December 1, 2014 Mr. Robert J. Packer was appointed Chief Financial Officer. Mr. Packer, a certified public accountant, has been associated with the Trust since March 2011 and previously served as the Accounting Supervisor.

A report showing the operations of the Trust for 2014, prepared by General Agent David M. Peterson, follows.

Maurice Meyer III,

John R. Norris III,

James K. Norwood,

Trustees.

To Messrs.

Maurice Meyer III	}	Trustees,
John R. Norris III		
James K. Norwood		

GENTLEMEN:

The following is a report of the operations in connection with the properties of Texas Pacific Land Trust for the year 2014. A summary of land sales is shown in the table below:

LAND TRANSACTIONS — 2014

<i>County</i>	<i>Acres</i>	<i>Consideration</i>	<i>Cash</i>	<i>Deferred Payments</i>
<i>Land sales:</i>				
Culberson	40.00	\$ 200,000.00	\$ 200,000.00	\$0.00
Glasscock	641.00	1,307,300.00	1,307,300.00	0.00
Howard	115.60	173,400.00	173,400.00	0.00
Loving	137.01	251,906.50	251,906.50	0.00
Midland	663.90	650,500.00	650,500.00	0.00
Reeves	5.03	50,300.00	50,300.00	0.00
Sterling	20.00	33,300.00	33,300.00	0.00
Upton	327.23	1,000,000.00	1,000,000.00	0.00
Total	1,949.77	\$3,666,706.50	\$3,666,706.50	\$0.00
<i>Town lot sale:</i>				
Howard	310 lots	\$ 31,605.00	\$ 31,605.00	\$0.00
Total - land and lots		\$3,698,311.50	\$3,698,311.50	\$0.00

NET CHANGES IN ACREAGE

<i>County</i>	<i>Land Sales</i>	<i>Resurveys</i>	<i>Total</i>
Culberson	40.0000-		40.0000-
El Paso		0.459-	0.4590-
Glasscock	641.0000-		641.0000-
Howard	115.6000-		115.6000-
Loving	137.0063-		137.0063-
Midland	663.9020-		663.9020-
Reeves	5.0300-		5.0300-
Sterling	20.0000-		20.0000-
Upton	327.2300-	7.230+	320.0000-
Total	1,949.7683-	6.771+	1,942.9973-

The total consideration for land sales in 2014, \$3,698,312, was received in cash with no deferred payments. Seven purchases were made by oil and gas companies for lands located in Culberson, Howard, Midland, Glasscock, Loving, Reeves and Upton counties. These sales totaled \$2,184,587 for 574.67 acres and 310 undeveloped town lots (totaling 21.07 acres), for an average of approximately \$3,801 per acre. The remaining sales were ranch type property located in Glasscock, Loving, Midland and Sterling counties, totaling 1,375.10 acres for \$1,513,725 (an average of \$1,101 per acre). The Trust holds only a limited amount of land near any metropolitan area.

COMPARATIVE STATEMENT OF TAXES
For The Past Two Years

Taxes	2014	2013	<i>Percentage Increase + Decrease -</i>
Income	\$16,666,534	\$12,924,070	29.0 +
Ad valorem	97,054	99,984	2.9 -
Crude oil and gas production	1,540,735	1,259,287	22.3 +
Payroll and other taxes	54,467	61,364	11.2 -
Total	\$18,358,790	\$14,344,705	28.0 +

GRAZING LEASES

Grazing lease rental revenue was \$500,292 in 2014, an average of 55.1¢ per acre, compared to \$494,210 in 2013 at an average of 54.4¢ per acre. At 2014 year end, grazing leases were in effect on 907,588 acres (99.8%) of the Trust’s lands.

LOCATION OF UNSOLD LANDS AND NONPARTICIPATING
PERPETUAL ROYALTY INTERESTS
As of December 31, 2014

<i>County</i>	<i>ACREAGE</i>		
	<i>Surface</i>	<i>1/128 Royalty</i>	<i>1/16 Royalty</i>
Callahan			80.00
Coke			1,183.50
Crane	4,007.56	264.65	5,198.15
Culberson	299,804.54		111,513.14
Ector	19,887.46	33,633.45	11,792.88
El Paso	16,628.40		
Fisher			320.00
Glasscock	20,712.70	3,600.00	11,110.91
Howard	4,848.04	3,098.54	2,320.00
Hudspeth	156,045.88		1,008.00
Jeff Davis	13,117.24		7,554.65
Loving	73,654.50	6,106.66	48,066.00
Martin			320.00
Midland	29,007.55	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		6,162.15	1,273.63
Reeves	185,849.85	3,013.34	116,690.98
Stephens		2,817.33	160.00
Sterling	5,212.46	640.00	2,080.00
Taylor	689.73		966.00
Upton	25,397.82	6,903.00	9,100.60
Winkler	7,803.69	1,181.75	3,040.00
Total	909,273.54	85,413.60	373,777.09

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 was \$29,346,103 in 2014, up 19.8% from 2013. Oil royalty revenue was \$22,766,264, up 14.2% and gas royalty revenue was \$6,579,839, up 44.1%.

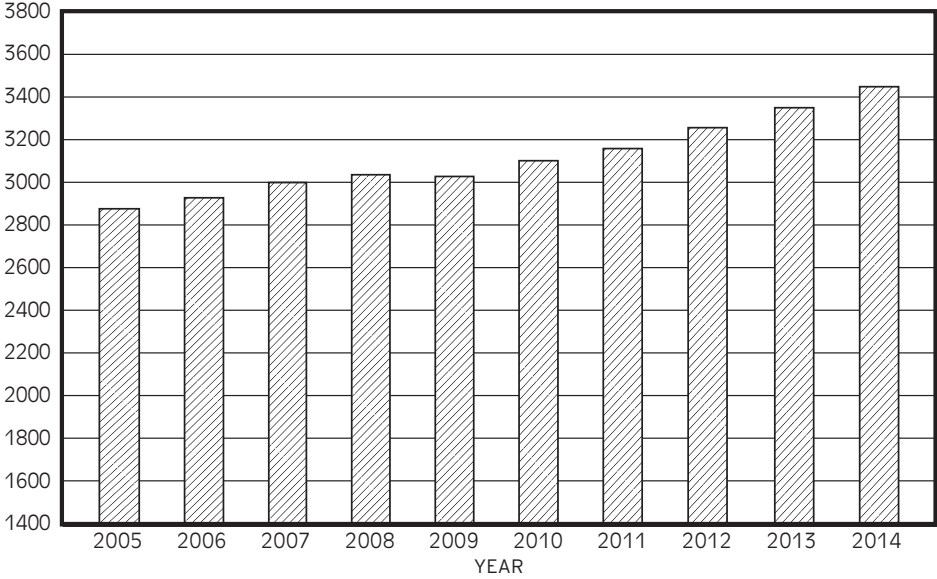
Crude oil production increased 19.8% in 2014 compared to 2013. The average price received by the Trust in 2014 was \$87.28 per barrel, compared to \$91.56 in 2013. Gas production increased 28.6% in 2014. The average price of gas increased to \$4.80 per MCF in 2014 from \$4.29 in 2013. State oil and gas production taxes were \$1,540,735 in 2014 compared to \$1,259,287 in 2013.

Total production increased by 43,147 oil royalty barrels and 25,507 gas equivalent royalty barrels, as shown in the two-year comparison of royalty production and royalty revenue below.

	<i>Royalty Production</i>	
	<i>2014</i>	<i>2013</i>
Oil, Bbls.	260,829	217,682
Gas, Mcf.	1,370,377	1,065,458
Gas, Bbls. Equiv.	75,384	49,877
Total, Bbls. Equiv.	336,213	267,559
	<i>Royalty Revenue</i>	
	<i>2014</i>	<i>2013</i>
Oil	\$22,766,264	\$19,930,212
Gas	\$ 6,579,839	\$ 4,566,639
Total	\$29,346,103	\$24,496,851

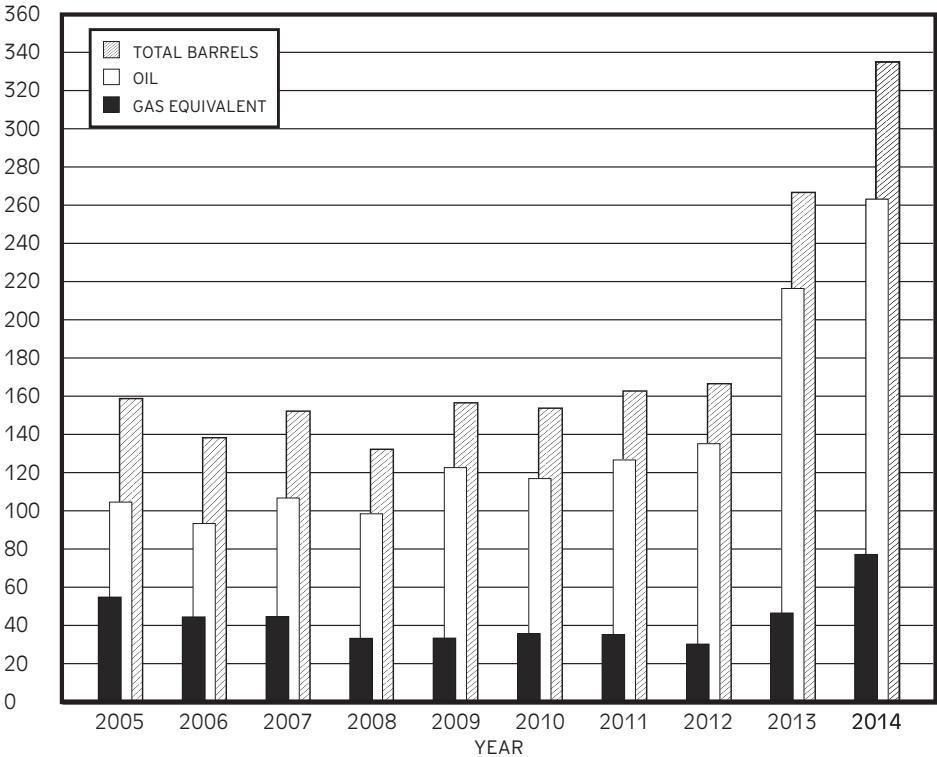
NUMBER OF WELLS

ROYALTY INTEREST WELLS

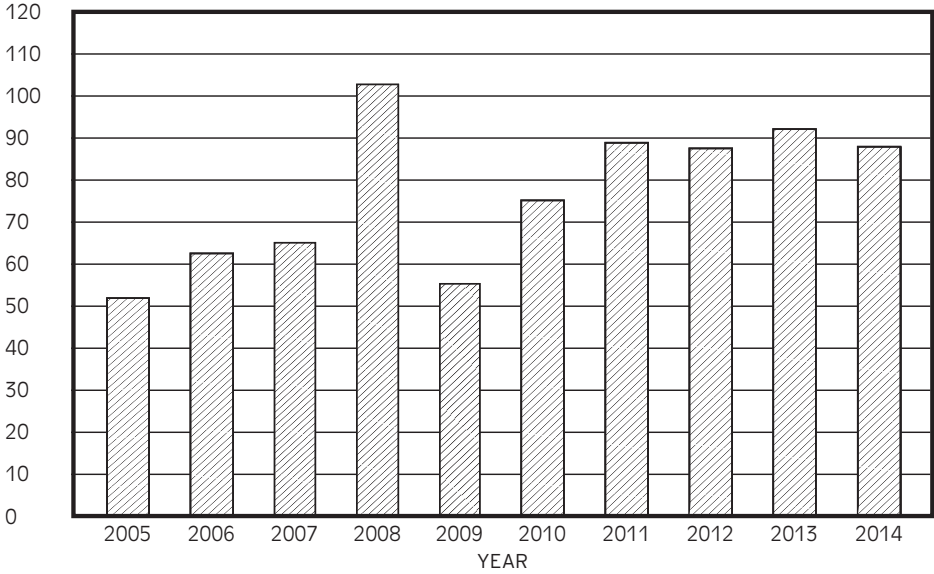


THOUSANDS OF BARRELS

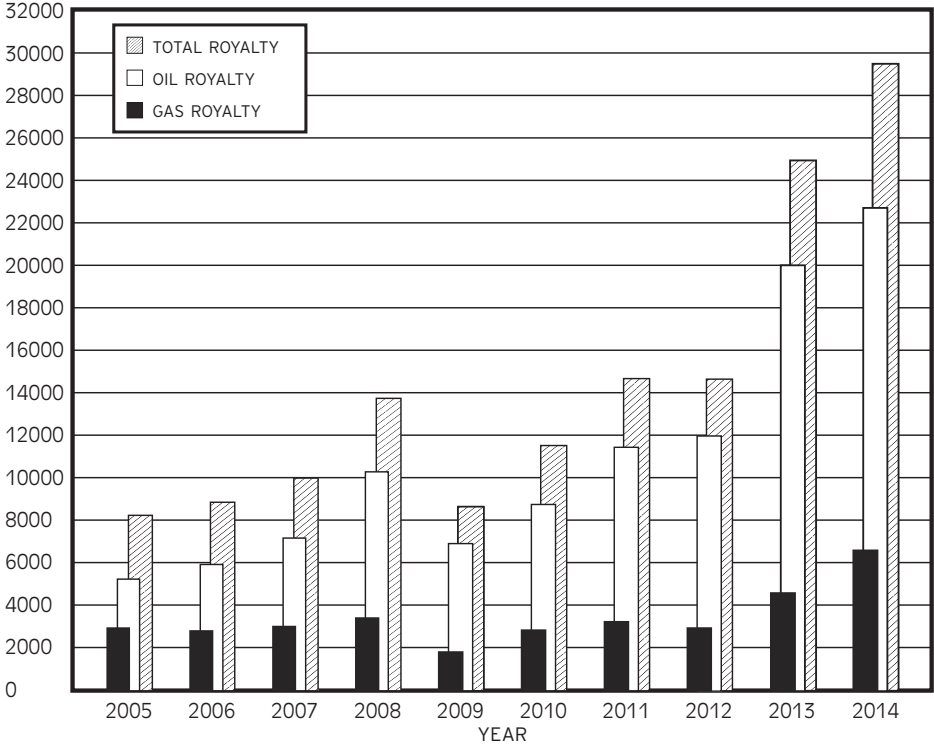
ROYALTY BARRELS



DOLLARS CRUDE OIL PRICE PER ROYALTY BARREL



THOUSANDS OF DOLLARS OIL AND GAS ROYALTY REVENUE



NEW WELLS DEVELOPED DURING 2014
SUBJECT TO THE TRUST'S NONPARTICIPATING
PERPETUAL ROYALTY INTEREST

<i>County and Field</i>	NUMBER OF WELLS	
	<i>1/128*</i> <i>Royalty</i>	<i>1/16*</i> <i>Royalty</i>
CRANE COUNTY		
Spraberry Trend Area		1
CULBERSON COUNTY		
Ford, West — Wolfcamp		5
ECTOR COUNTY		
Azalea — Strawn		1
Bradford Ranch — Strawn		1
Goldsmith — Clearfork	1	
Sallie Ann — Spraberry — Wolfcamp		9
Spraberry — Strawn		2
Spraberry Trend Area	5	8
TXL — Wichita	6	
GLASSCOCK COUNTY		
Spraberry Trend Area	1	2
LOVING COUNTY		
Phantom — Wolfcamp		2
Sandbar — Bonespring		5
MIDLAND COUNTY		
Dora Roberts — Consolidated	3	
Parks — Consolidated		3
Pegasus — Consolidated	5	
Spraberry Trend Area		2
REEVES COUNTY		
Brushy Draw — Cherry Canyon		2
Phantom — Wolfcamp		1
Wolfbone Trend Area		6
STEPHENS COUNTY		
Stephens County Regular	1	
UPTON COUNTY		
Amacker Tippet N — Strawn		1
Bradford Ranch — Strawn		3
Concho Bluff, North — Queen		1
Davis — Pennsylvanian		2
King Mountain North — Strawn		2
Pegasus — Consolidated	4	
Pegasus — Wolfcamp	1	
Spraberry — Strawn		1
Spraberry Trend Area	1	3
	<u>28</u>	<u>63</u>

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

Ninety-one oil wells were completed in 2014 at producing depths ranging from 3,259 feet to 20,100 feet and were assigned an average allowable of 178 barrels of oil per well per day. Two oil wells were plugged and abandoned.

At the end of the year, the Trust's royalty wells totaled 3,433 consisting of 1,109 oil wells and 60 gas wells, each subject to a 1/16 royalty interest, and 2,197 oil wells and 67 gas wells, each subject to a 1/128 royalty interest.

Respectfully submitted,

DAVID M. PETERSON,
General Agent

Dallas, Texas
February 25, 2015

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
 Depreciation
 Trustees' compensation

Operating income
 Interest income earned from investments
 Income before income taxes

Income taxes

Net income

Net income per Sub-share Certificate

Cash dividend per Sub-share Certificate

Total assets, exclusive of all property with no assigned value

Year Ended December 31,

2014	2013	2012	2011	2010
\$29,346,103	\$24,496,851	\$14,670,915	\$14,685,502	\$11,573,563
500,292	494,210	488,694	499,400	506,211
3,698,312	6,413,588	5,809,747	11,873,112	2,738,070
140,291	484,238	706,252	879,749	1,082,019
<u>21,517,232</u>	<u>12,220,187</u>	<u>10,911,848</u>	<u>6,362,745</u>	<u>4,166,102</u>
<u>55,202,230</u>	<u>44,109,074</u>	<u>32,587,456</u>	<u>34,300,508</u>	<u>20,065,965</u>
1,692,256	1,420,635	941,757	922,951	775,380
917,726	1,189,141	1,106,599	1,002,489	1,003,748
629,990	589,307	601,590	571,705	537,127
—	—	—	36,445	—
517,497	755,132	609,555	1,008,853	1,327,845
19,730	16,286	16,504	12,675	15,391
8,000	8,000	8,000	8,000	8,000
<u>3,785,199</u>	<u>3,978,501</u>	<u>3,284,005</u>	<u>3,563,118</u>	<u>3,667,491</u>
51,417,031	40,130,573	29,303,451	30,737,390	16,398,474
14,523	12,005	19,435	18,528	25,707
51,431,554	40,142,578	29,322,886	30,755,918	16,424,181
16,666,534	12,924,070	9,675,068	10,161,149	5,115,470
<u>\$34,765,020</u>	<u>\$27,218,508</u>	<u>\$19,647,818</u>	<u>\$20,594,769</u>	<u>\$11,308,711</u>
<u>\$ 4.14</u>	<u>\$ 3.16</u>	<u>\$ 2.20</u>	<u>\$ 2.21</u>	<u>\$ 1.17</u>
<u>\$.27</u>	<u>\$.00</u>	<u>\$.48*</u>	<u>\$.21</u>	<u>\$.20</u>
<u>\$33,102,488</u>	<u>\$22,356,948</u>	<u>\$21,186,872</u>	<u>\$27,432,257</u>	<u>\$24,989,360</u>

* Includes a cash dividend of \$.25 per sub-share which would customarily have been paid in 2013, but was accelerated into 2012.

BALANCE SHEETS
December 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	\$26,814,759	\$13,239,211
Accrued receivables	3,220,020	3,725,535
Other assets	114,491	298,105
Prepaid income taxes	815,937	—
Notes receivable for land sales (\$75,185 due in 2015 and \$1,203,812 due in 2014) (note 2)	923,115	3,887,906
Water wells, vehicles, furniture, and equipment — at cost less accumulated depreciation	89,107	81,132
Real estate acquired (notes 2 and 4)	1,125,059	1,125,059
Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned (note 2):		
Land (surface rights) situated in eighteen counties in Texas — 899,149 acres in 2014 and 901,092 acres in 2013	—	—
Town lots — No lots in 2014 and 310 lots in Morita in 2013	—	—
1/16 nonparticipating perpetual royalty interest in 373,777 acres ..	—	—
1/128 nonparticipating perpetual royalty interest in 85,414 acres ..	—	—
Total assets	\$33,102,488	\$22,356,948

LIABILITIES AND CAPITAL

Accounts payable and accrued expenses	\$ 828,672	\$ 862,364
Income taxes payable	406,945	354,687
Other taxes payable	159,301	158,779
Unearned revenue (note 2)	3,940,353	1,377,577
Deferred taxes (note 6)	293,140	1,673,875
Pension plan liability (note 5)	754,260	—
Total liabilities	6,382,671	4,427,282
Commitments and contingencies (note 7)	—	—
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 \$.03 1/3 each; outstanding 8,322,399 Sub-shares in 2014 and 8,473,202 Sub-shares in 2013	—	—
Accumulated other comprehensive income (loss)	(1,352,794)	(622,012)
Net proceeds from all sources	28,072,611	18,551,678
Total capital	26,719,817	17,929,666
Total liabilities and capital	\$33,102,488	\$22,356,948

See accompanying notes to financial statements.

STATEMENTS OF INCOME AND TOTAL COMPREHENSIVE INCOME

Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Income:			
Oil and gas royalties	\$29,346,103	\$24,496,851	\$14,670,915
Grazing lease rentals	500,292	494,210	488,694
Land sales	3,698,312	6,413,588	5,809,747
Interest income from notes receivable	140,291	484,238	706,252
Easements and sundry income	21,517,232	12,220,187	10,911,848
	<u>55,202,230</u>	<u>44,109,074</u>	<u>32,587,456</u>
Expenses:			
Taxes, other than income taxes	1,692,256	1,420,635	941,757
Salaries and related employee benefits	917,726	1,189,141	1,106,599
General expense, supplies, and travel	629,990	589,307	601,590
Legal and professional fees	517,497	755,132	609,555
Depreciation	19,730	16,286	16,504
Trustees' compensation	8,000	8,000	8,000
	<u>3,785,199</u>	<u>3,978,501</u>	<u>3,284,005</u>
Operating income	<u>51,417,031</u>	<u>40,130,573</u>	<u>29,303,451</u>
Interest income earned from investments	14,523	12,005	19,435
Income before income taxes	51,431,554	40,142,578	29,322,886
Income taxes (note 6):			
Current	17,641,531	13,708,995	10,287,844
Deferred	(974,997)	(784,925)	(612,776)
	<u>16,666,534</u>	<u>12,924,070</u>	<u>9,675,068</u>
Net income	<u>\$34,765,020</u>	<u>\$27,218,508</u>	<u>\$19,647,818</u>
Amortization of net actuarial costs and prior service costs, net of income taxes of \$18,109, \$39,093, and \$42,812 respectively	33,632	72,601	79,507
Net actuarial gain (loss) on pension plan net of income taxes of \$(423,848), \$145,211, and \$(109,244) respectively	(764,414)	259,352	(199,158)
Total other comprehensive gain (loss)	<u>(730,782)</u>	<u>331,953</u>	<u>(119,651)</u>
Total comprehensive income	<u>\$34,034,238</u>	<u>\$27,550,461</u>	<u>\$19,528,167</u>
Net income per Sub-share Certificate	<u>\$4.14</u>	<u>\$3.16</u>	<u>\$2.20</u>

See accompanying notes to financial statements.

STATEMENTS OF NET PROCEEDS FROM ALL SOURCES

Years Ended December 31, 2014, 2013 and 2012

	Sub-share Certificates of Proprietary Interest	Accumulated Other Comprehensive Income (Loss)	Net Proceeds From All Sources	Total
Balances at December 31, 2011	9,175,414	\$ (834,314)	\$ 21,381,548	\$ 20,547,234
Net income	—	—	19,647,818	19,647,818
Periodic pension costs, net of income taxes of \$66,432	—	(119,651)	—	(119,651)
Cost of 380,156 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled	(380,156)	—	(20,183,747)	(20,183,747)
Dividends paid — \$.48 per Sub-share Certificate	—	—	(4,295,509)	(4,295,509)
Balances at December 31, 2012	8,795,258	(953,965)	16,550,110	15,596,145
Net income	—	—	27,218,508	27,218,508
Periodic pension costs, net of income taxes of \$184,304	—	331,953	—	331,953
Cost of 322,056 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled	(322,056)	—	(25,216,940)	(25,216,940)
Dividends paid — \$.00 per Sub-share Certificate	—	—	—	—
Balances at December 31, 2013	8,473,202	(622,012)	18,551,678	17,929,666
Net income	—	—	34,765,020	34,765,020
Periodic pension costs, net of income taxes of \$405,739	—	(730,782)	—	(730,782)
Cost of 150,803 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled	(150,803)	—	(22,963,786)	(22,963,786)
Dividends paid — \$.27 per Sub-share Certificate	—	—	(2,280,301)	(2,280,301)
Balances at December 31, 2014	8,322,399	\$(1,352,794)	\$ 28,072,611	\$ 26,719,817

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 34,765,020	\$ 27,218,508	\$ 19,647,818
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred taxes	(1,380,735)	(600,621)	(679,207)
Depreciation and amortization	19,730	16,286	16,504
Loss on disposal of fixed assets	5,083	2,795	2,470
Changes in operating assets and liabilities:			
Accrued receivables and other assets	689,129	(1,240,703)	92,408
Income taxes payable	52,258	113,800	(1,139,325)
Prepaid income taxes	(815,937)	416,882	(416,882)
Notes receivable for land sales	2,964,791	4,483,078	1,983,119
Accounts payable, accrued expenses and other liabilities	2,553,084	(344,671)	404,585
Net cash provided by operating activities	38,852,423	30,065,354	19,911,490
Cash flows from investing activities:			
Proceeds from sale of fixed assets	21,000	20,500	13,500
Purchase of fixed assets	(53,788)	(54,610)	(50,405)
Net cash used in investing activities	(32,788)	(34,110)	(36,905)
Cash flows from financing activities:			
Purchase of Sub-share Certificates in Certificates of Proprietary Interest	(22,963,786)	(25,216,940)	(20,183,747)
Dividends paid	(2,280,301)	—	(4,295,509)
Net cash used in financing activities	(25,244,087)	(25,216,940)	(24,479,256)
Net increase (decrease) in cash and cash equivalents	13,575,548	4,814,304	(4,604,671)
Cash and cash equivalents, beginning of period	13,239,211	8,424,907	13,029,578
Cash and cash equivalents, end of period	\$ 26,814,759	\$ 13,239,211	\$ 8,424,907

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014, 2013 and 2012

(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, easements, 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 (GAAP). 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 oil and gas royalties which the Trust receives are dependent upon the market prices for oil and gas. The market prices for oil and gas are subject to national and international economic and political conditions and, in the past, have been subject to significant price fluctuations.

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.

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 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 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. At times the cash may exceed federally insured limits. The Trust maintains its cash and cash equivalents in two large financial institutions. The Trust monitors the credit quality of these institutions and does not anticipate any losses.

Cash disbursed for income taxes in 2014, 2013 and 2012 was \$18,405,210, \$13,178,312, and \$11,844,051, respectively. New loans made by the Trust in connection with land sales amounted to \$0, \$0, and \$613,800 for the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013.

(f) 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 7.5% as of December 31, 2014 and are secured by first lien deeds of trust on the

NOTES TO FINANCIAL STATEMENTS — (Continued)

properties sold. The weighted average interest rate is 7.3% as of December 31, 2014. 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 2014, 2013 and 2012 were \$1,764,928, \$2,736,616, and \$940,145, 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, 2014 and 2013.

Three customers represented approximately 90% of notes receivable at December 31, 2014 and 77% at December 31, 2013.

The maturities of notes receivable for each of the five years subsequent to December 31, 2014 are:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 75,185
2016	76,379
2017	81,894
2018	87,808
2019	94,124
Thereafter	<u>507,725</u>
	<u>\$923,115</u>

(g) *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, 2014 and 2013 is \$117,247 and \$109,631, respectively.

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 Declaration of Trust

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 and total comprehensive 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 Certificate

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 (8,397,314 in 2014, 8,601,171 in 2013 and 8,939,045 in 2012).

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 carry-forwards. 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, 2014 and 2013.

(l) *Recent Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, “*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*” (“ASU 2011-05”). ASU 2011-05 amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years beginning after December 15, 2011. We adopted the provisions of ASU

NOTES TO FINANCIAL STATEMENTS — (Continued)

2011-05 as of January 1, 2012 using the single continuous statement presentation. The adoption of this guidance did not have a material effect on our financial statements.

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Trust is currently evaluating the new guidance to determine the impact it will have on our 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.

(n) Significant Customers

Two customers represented 29.1%, 20.5% and 10.3% of the Trust's total revenues for the year ended December 31, 2014, 2013 and 2012 respectively.

(3) SEGMENT INFORMATION

Segment information has been considered in accordance with applicable accounting standards. GAAP suggests using a management approach 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, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Acres</u>	<u>Book Value</u>	<u>Acres</u>	<u>Book Value</u>
Balance at January 1:	10,124.78	\$1,125,059	10,124.78	\$1,125,059
Additions	—	—	—	—
Sales	—	—	—	—
Balance at December 31:	<u>10,124.78</u>	<u>\$1,125,059</u>	<u>10,124.78</u>	<u>\$1,125,059</u>

No valuation allowance was necessary at December 31, 2014 and 2013.

(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 \$41,172, \$49,327, and \$42,454, in 2014, 2013, and 2012, 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.

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, 2014 and 2013 using a measurement date of December 31:

	2014	2013
Change in projected benefits obligation:		
Projected benefit obligation at beginning of year	\$3,887,518	\$4,030,848
Service cost	100,480	104,920
Interest cost	189,163	166,865
Actuarial (gain) loss	1,134,525	(271,978)
Benefits paid	(218,606)	(143,137)
Projected benefit obligation at end of year	\$5,093,080	\$3,887,518
Change in plan assets:		
Fair value of plan assets at beginning of year	\$4,082,642	\$3,157,269
Actual return on plan assets	224,784	367,108
Contributions by employer	250,000	701,402
Benefits paid	(218,606)	(143,137)
Fair value of plan assets at end of year	\$4,338,820	\$4,082,642
Funded (unfunded) status at end of year	\$ (754,260)	\$ 195,124

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

	2014	2013
Assets	\$ —	\$195,124
Liabilities	(754,260)	—
	\$(754,260)	\$195,124

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

	2014	2013
Net actuarial loss	\$(2,086,396)	\$(944,305)
Prior service cost	(3,511)	(9,081)
Amounts recognized in accumulated other comprehensive income (loss), before taxes	(2,089,907)	(953,386)
Income tax benefit	737,113	331,374
Amounts recognized in accumulated other comprehensive income (loss), after taxes	\$(1,352,794)	\$(622,012)

NOTES TO FINANCIAL STATEMENTS — (Continued)

Net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 include the following components:

	2014	2013	2012
Components of net periodic benefit cost:			
Service cost	\$ 100,480	\$ 104,920	\$ 67,083
Interest cost	189,163	166,865	168,122
Expected return on plan assets	(278,521)	(234,523)	(209,999)
Amortization of net loss	46,171	104,854	113,723
Amortization of prior service cost	5,570	6,840	8,596
Net periodic benefit cost	\$ 62,863	\$ 148,956	\$ 147,525

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2014	2013	2012
Net actuarial (gain) loss	\$1,188,262	\$(404,563)	\$ 308,402
Recognized actuarial loss	(46,171)	(104,854)	(113,723)
Recognized prior service cost	(5,570)	(6,840)	(8,596)
Total recognized in other comprehensive income, before taxes	\$1,136,521	\$(516,257)	\$ 186,083
Total recognized in net benefit cost and other comprehensive income, before taxes	\$1,199,384	\$(367,301)	\$ 333,608

The Trust reclassified \$33,632, \$72,601 and \$79,507, net of income tax of \$18,109, \$39,093 and \$42,812, out of accumulated other comprehensive income (loss) for net periodic benefit cost in 2014, 2013 and 2012 respectively. This amount is reflected in our Statements of Income and Total Comprehensive Income within salaries and related employee benefits. The estimated net actuarial loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income (loss) into salaries and related employee benefits over the next fiscal year are \$144,026 and \$3,511, respectively.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table summarizes the projected benefit obligation in excess of Plan assets and the Plan assets in excess of accumulated benefit obligation at December 31, 2014, and the Plan assets in excess of projected benefit obligation and accumulated benefit obligation at December 31, 2013:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation in excess of Plan assets:		
Projected benefit obligation	\$5,093,080	\$3,887,518
Fair value of plan assets	\$4,338,820	\$4,082,642
Plan assets in excess of accumulated benefit obligation:		
Accumulated benefit obligation	\$4,157,653	\$3,312,631
Fair value of plan assets	\$4,338,820	\$4,082,642

The following are weighted-average assumptions used to determine benefit obligations and costs at December 31, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Weighted average assumptions used to determine benefit obligations as of December 31:			
Discount rate	4.00%	5.00%	4.25%
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	5.00%	4.25%	4.75%
Expected return on plan assets	7.00	7.00	7.00
Rate of compensation increase	7.29	7.29	7.29

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%.

The Plan has a formal investment policy statement. The Plan's investment objective is balanced income, with a moderate risk tolerance. This objective emphasizes current income through a 30% 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 60%. 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

NOTES TO FINANCIAL STATEMENTS — (Continued)

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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

The fair value accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs used in measuring fair value, as follows:

Level 1 – Inputs are based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since inputs are based on quoted prices that are readily and regularly available in an active market, Level 1 inputs require the least judgment.

Level 2 – Inputs are based on quoted prices for similar instruments in active markets, or are observable either directly or indirectly. Inputs are obtained from various sources including financial institutions and brokers.

Level 3 – Inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised by us in determining fair value is greatest for fair value measurements categorized in Level 3.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The fair values of plan assets by major asset category at December 31, 2014 and 2013, respectively, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents				
Money Markets	\$ 430,755	\$ 430,755	\$ —	\$ —
Equities	177,000	177,000	—	—
Mutual Funds				
Equity Funds	1,817,935	1,817,935	—	—
Fixed Income Funds	1,913,130	1,913,130	—	—
Total	<u>\$4,338,820</u>	<u>\$4,338,820</u>	<u>\$ —</u>	<u>\$ —</u>

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents				
Money Markets	\$ 722,888	\$ 722,888	\$ —	\$ —
Equities	109,989	109,989	—	—
Mutual Funds				
Equity Funds	1,628,020	1,628,020	—	—
Fixed Income Funds	1,621,745	1,621,745	—	—
Total	<u>\$4,082,642</u>	<u>\$4,082,642</u>	<u>\$ —</u>	<u>\$ —</u>

Management intends to fund the minimum ERISA amount for 2015. The Trust may make some discretionary contributions to the Plan, the amounts of which have not yet been determined.

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>
2015	\$ 211,312
2016	212,323
2017	210,159
2018	240,621
2019	265,253
2020 to 2024	1,357,259

NOTES TO FINANCIAL STATEMENTS — (Continued)

(6) INCOME TAXES

The income tax provision charged to operations for the years ended December 31, 2014, 2013 and 2012 was as follows:

	2014	2013	2012
Current:			
U.S. Federal	\$17,243,130	\$13,381,265	\$10,046,442
State and local	398,401	327,730	241,402
	17,641,531	13,708,995	10,287,844
Deferred expense	(974,997)	(784,925)	(612,776)
	\$16,666,534	\$12,924,070	\$ 9,675,068

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 35% to income before Federal income taxes as a result of the following:

	2014	2013	2012
Computed tax expense at the statutory rate	\$18,001,044	\$14,049,902	\$10,263,010
Reduction in income taxes resulting from:			
Statutory depletion	(1,569,762)	(1,317,177)	(799,957)
State taxes	379,283	312,340	227,718
Other, net	(144,031)	(120,995)	(15,703)
	\$16,666,534	\$12,924,070	\$ 9,675,068

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	2014	2013
Basis difference in pension plan liability	\$269,271	\$ (69,659)
Total deferred tax asset (liability)	269,271	(69,659)
Basis differences in real estate acquired through foreclosure	237,697	237,697
Deferred installment revenue on land sales for tax purposes	324,714	1,366,519
Total deferred tax liability	562,411	1,604,216
Net deferred tax liability	\$293,140	\$1,673,875

The Trust files a U.S. 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 2011.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(7) LEASE COMMITMENTS

The Trust is currently a lessee under a month-to-month operating lease in connection with its administrative offices located in Dallas, Texas. This lease agreement requires monthly rent of approximately \$5,867. Rent expense amounted to \$70,400 for each of the years ended December 31, 2014, 2013 and 2012, 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 2014 and 2013.

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.

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.

(9) SUBSEQUENT EVENTS

We evaluated events that occurred after the balance sheet date through the date these financial statements were issued, and the following events that met recognition or disclosure criteria was identified:

The Trust consummated a sale contract, on January 29, 2015, for approximately 19,607 acres in Upton and Crane counties, Texas for \$19,840,000.

At their February 2015 meeting, the Trustees declared a cash dividend of \$.29 per Sub-share, payable March 16, 2015 to Sub-share holders of record at the close of business on March 9, 2015.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(10) 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, 2014, 2013 and 2012, respectively: oil (in barrels) — 260,829, 217,682, and 135,561, and gas (in thousands of cubic feet) — 1,370,377, 1,065,458 and 721,560. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

(11) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present unaudited financial data of the Trust for each quarter of 2014 and 2013:

	Quarter ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Income	<u>\$13,295,068</u>	<u>\$14,756,468</u>	<u>\$15,583,264</u>	<u>\$11,581,953</u>
Income before income taxes . . .	<u>\$12,200,547</u>	<u>\$13,878,547</u>	<u>\$14,712,912</u>	<u>\$10,639,548</u>
Net income	<u>\$ 8,234,892</u>	<u>\$ 9,366,043</u>	<u>\$ 9,914,167</u>	<u>\$ 7,249,918</u>
Net income per Sub-share Certificate	<u>\$ 0.99</u>	<u>\$ 1.11</u>	<u>\$ 1.17</u>	<u>\$ 0.86</u>
	Quarter ended			
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Income	<u>\$12,503,683</u>	<u>\$14,936,609</u>	<u>\$ 9,953,933</u>	<u>\$ 6,726,854</u>
Income before income taxes . . .	<u>\$11,145,275</u>	<u>\$14,103,915</u>	<u>\$ 9,049,678</u>	<u>\$ 5,843,710</u>
Net income	<u>\$ 7,519,106</u>	<u>\$ 9,431,118</u>	<u>\$ 6,130,440</u>	<u>\$ 4,137,844</u>
Net income per Sub-share Certificate	<u>\$ 0.88</u>	<u>\$ 1.10</u>	<u>\$ 0.71</u>	<u>\$ 0.47</u>



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, 2014 and 2013 and the related statements of income and total comprehensive income, net proceeds from all sources, and cash flows for each of the three years in the period ended December 31, 2014. The Trust’s management is responsible for these financial statements. 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 statements referred to above present fairly, in all material respects, the financial position of Texas Pacific Land Trust as of December 31, 2014 and 2013 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Trust’s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015, expressed an unqualified opinion.

Lane Gorman Trubitt, PLLC

Dallas, Texas
February 27, 2015

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

DAVID M. PETERSON
General Agent and Secretary, Chief Executive Officer
Dallas, Texas

ROBERT J. PACKER
Chief Financial Officer
Dallas, Texas

REGISTRAR

COMPUTERSHARE
Jersey City, N.J.

TRANSFER AGENT

COMPUTERSHARE
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>.



Transfer Agent and Registrar

Shareholder correspondence should be mailed to:
Computershare
P.O. BOX 30170
College Station, TX 77842-3170

Overnight correspondence should be sent to:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder website
www.computershare.com/investor

Shareholder online inquiries
<https://www-us.computershare.com/investor/Contact>

In the U.S.

Phone: 1-800-522-6645

Outside the U.S.

Phone: 1-201-680-6578

For hearing impaired in the U.S.

Phone: 1-800-231-5469

For hearing impaired outside the U.S.

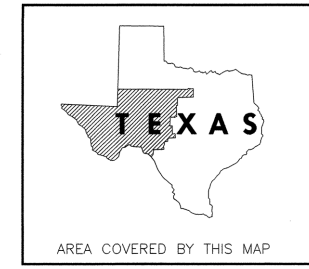
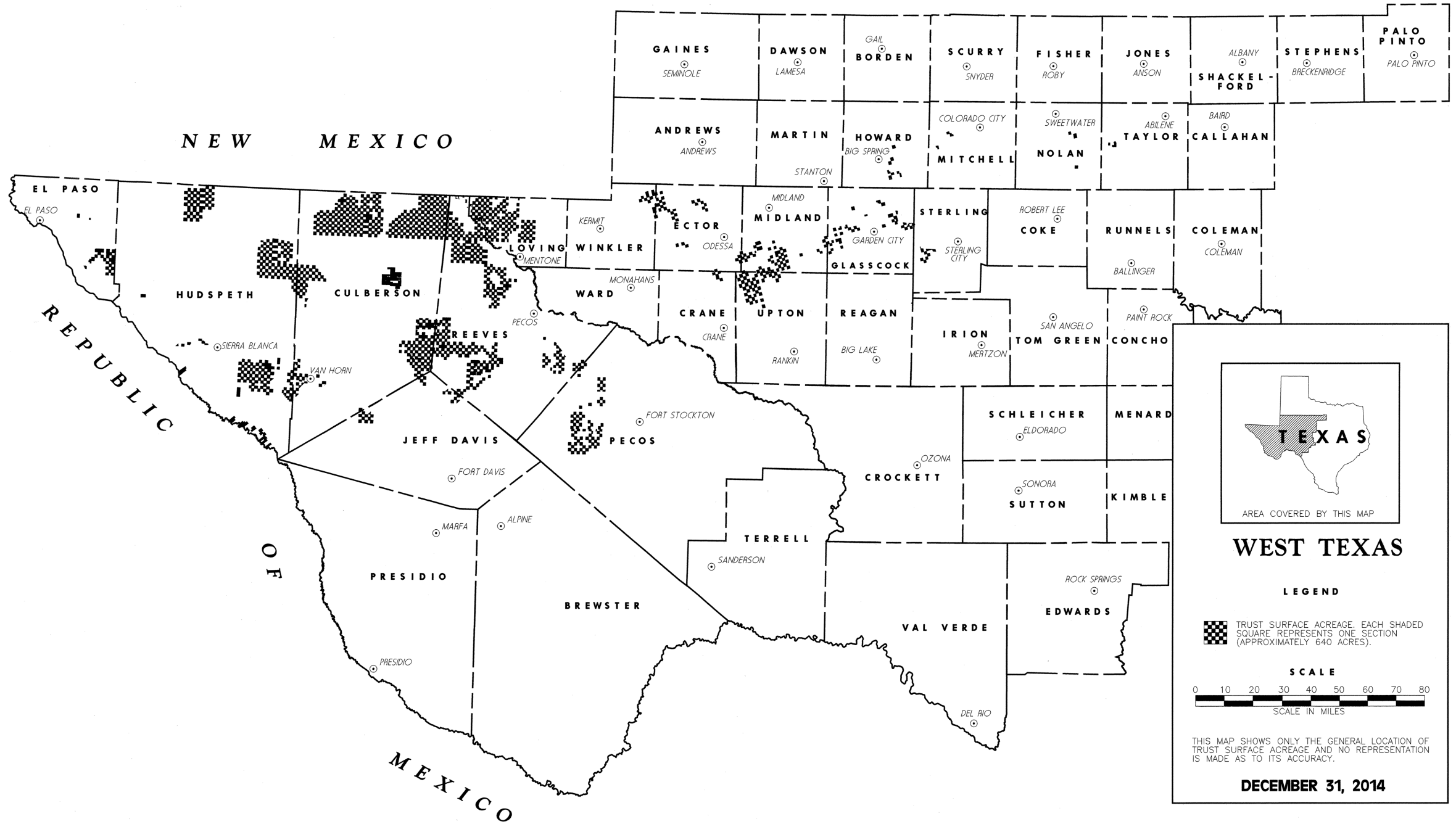
Phone: 1-201-680-6610

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.

Computershare

Computershare, 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

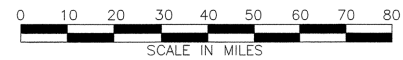


WEST TEXAS

LEGEND

 TRUST SURFACE ACREAGE. EACH SHADED SQUARE REPRESENTS ONE SECTION (APPROXIMATELY 640 ACRES).

SCALE



THIS MAP SHOWS ONLY THE GENERAL LOCATION OF TRUST SURFACE ACREAGE AND NO REPRESENTATION IS MADE AS TO ITS ACCURACY.

DECEMBER 31, 2014