

Texas Pacific Land Trust

REPORT

for the

Year Ended December 31, 2010

Texas Pacific Land Trust

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Year Ended December 31, 2010

TEXAS PACIFIC LAND TRUST

1700 Pacific Avenue, Suite 2770

Dallas, Texas 75201

To Sub-share and Certificate Holders:

In 2010, Texas Pacific Land Trust had earnings per sub-share of \$1.17, the highest of any year since 2004. Operating revenue and investment income totaled \$20,091,672, up from \$13,138,287 in 2009, an increase of 52.9%. Net income was \$11,308,711 versus \$6,914,043 the previous year.

In the past, the Trustees have declared a cash dividend at their February meeting. A cash dividend of \$.20 per sub-share was declared February 24, 2010 and paid March 12, 2010. At their February 2011 meeting, the Trustees declared a cash dividend of \$.21 per sub-share, payable March 11, 2011 to sub-share holders of record at the close of business on March 4, 2011. This is the eighth consecutive year that the dividend declared in February has been increased.

Land sales for 2010 were \$2,738,070 compared to \$523,010 in 2009. These sales represented 13.6% of the Trust's total operating revenues and investment income in 2010, compared to 4.0% in 2009. The Trust sold a total of 2,424.15 acres and 223 town lots. These sales were located in three 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 such sales in any one year should not be assumed to be indicative of sales in the future.

2010 operating revenues and investment income, exclusive of land sales, were \$17,353,602 and consisted of the following:

- Oil and gas royalty revenue was \$11,573,563.

This compared to \$8,686,187 in 2009, an increase of 33.2%. Crude oil production was down 4.6%, but the average price of crude oil in 2010 was 35.4% above the average price in 2009. Total gas production increased 19.1%, and the average price of gas increased 24.3% in 2010 compared to 2009.

- Interest on notes receivable was \$1,082,019 and interest on investments was \$25,707.

This compares to interest on notes receivable of \$1,216,480 and interest on investments of \$53,427 in 2009.

- Other revenues totaled \$4,672,313.

These revenues consisted of \$506,211 from grazing lease rentals, and \$4,166,102 from easements and sundry income. Grazing lease rental income was up 2.7% compared to 2009. Easements and sundry income, which are unpredictable and may vary significantly from period to period, were up 92.3% from 2009.

The Trust received total cash principal payments on notes receivable of \$1,386,027 in 2010, which included \$60,417 of prepaid principal. At year end 2010, the principal amount of notes receivable from land sales was \$14,342,898 compared to \$15,728,925 at year end 2009.

Total expenses for 2010 were \$8,782,961, which includes Federal and state taxes of \$5,890,850. The comparable 2009 figures were \$6,224,244 and \$3,742,168, respectively.

The Trust purchased and retired 346,070 sub-shares at a cost of \$10,715,046, representing an average of \$30.96 per sub-share, during 2010. The number of sub-shares purchased and retired in 2010 amounted to 3.5% of the total number of sub-shares outstanding on December 31, 2009. The market price of sub-shares on the New York Stock Exchange ranged from a low of \$25.15 to a high of \$43.97 during 2010. 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. The Trust may negotiate prices on unsolicited blocks of sub-shares which it may be offered.

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:

	2010		2009	
	High	Low	High	Low
1st quarter	\$30.99	\$25.15	\$30.65	\$16.30
2nd quarter	\$30.57	\$25.60	\$37.70	\$23.99
3rd quarter	\$40.29	\$25.58	\$37.02	\$27.50
4th quarter	\$43.97	\$35.00	\$32.97	\$27.10

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 22, 2011 by Mr. Roy Thomas, the General Agent of the Trustees, showing the operations of the Trust for 2010.

Maurice Meyer III,

John R. Norris III,

James K. Norwood,

Trustees.

To Messrs.

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

The following is a report of the operations in connection with the properties of Texas Pacific Land Trust for the year 2010. A summary of land sales is shown in the table below:

LAND TRANSACTIONS — 2010

<i>County</i>	<i>Acres</i>	<i>Consideration</i>	<i>Cash</i>	<i>Deferred Payments</i>
Land sales:				
Howard	1,380.60	\$ 350,240.00	\$ 350,240.00	\$0.00
Midland	403.55	2,242,750.00	2,242,750.00	0.00
Reeves	640.00	128,000.00	128,000.00	0.00
Total	2,424.15	\$2,720,990.00	\$2,720,990.00	\$0.00
Town lot sale:				
Howard	223 lots	\$ 17,080.00	\$ 17,080.00	\$0.00
Total — land and lots		\$2,738,070.00	\$2,738,070.00	\$0.00

NET CHANGES IN ACREAGE

<i>County</i>	<i>Land Sales</i>	<i>Reversion Stipulation</i>	<i>Resurvey</i>	<i>Total</i>
El Paso		15.00+	67.00+	82.00+
Howard	1,380.60-			1,380.60-
Midland	403.55-		5.15+	398.40-
Reeves	640.00-			640.00-
Total	2,424.15-	15.00+	72.15+	2,337.00-

The \$2,738,070 in 2010 land sales was all cash with no deferred payments. The land sold in 2010 included 403.55 acres of commercial land in Midland County at an average price of \$5,558 per acre. The remaining sales were rural ranch type property located in Howard and Reeves counties totaling 2,020.6 acres at an average price of \$237 per acre, and 223 town lots in Howard County (totaling 42.7 acres) at a price of \$400 per acre. The town lots were undeveloped ranch land adjacent to ranch acreage sold in Howard County. 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	2010	2009	<i>Percentage Increase + Decrease -</i>
Income	\$5,115,470	\$3,130,720	63.4+
Ad valorem	112,531	108,326	3.9+
Crude oil and gas production	612,362	453,569	35.0+
Payroll and other taxes	50,487	49,553	1.9+
Total	\$5,890,850	\$3,742,168	57.4+

GRAZING LEASES

Grazing lease rental revenue was \$506,211 in 2010, an average of 53.3¢ per acre, compared to \$492,802 in 2009, an average of 51.7¢ per acre. At year end, grazing leases were in effect on 950,615.56 acres (99.0%) of the Trust's lands.

LOCATION OF UNSOLD LANDS AND NONPARTICIPATING
PERPETUAL ROYALTY INTERESTS
As of December 31, 2010

<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	4,240.56	264.65	5,198.15
Culberson	315,640.09		124,723.75
Ector	20,433.06	33,633.45	11,792.88
El Paso	16,628.65		
Fisher			320.00
Glasscock	25,746.99	3,600.00	11,110.91
Howard	5,619.85	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	37,635.21	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	194,110.28	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	25,717.82	6,903.00	9,100.60
Winkler	7,803.69	1,181.75	3,040.00
Total	960,215.73	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 was \$11,573,563 in 2010 compared to \$8,686,187 in 2009, up 33.2%. Oil royalty revenue was \$8,815,689, up 29.2%, and gas royalty revenue was \$2,757,874, up 48.1%, compared to 2009. Gas royalty revenue amounted to 23.8% of total oil and gas royalty revenue in 2010 compared to 21.4% in 2009.

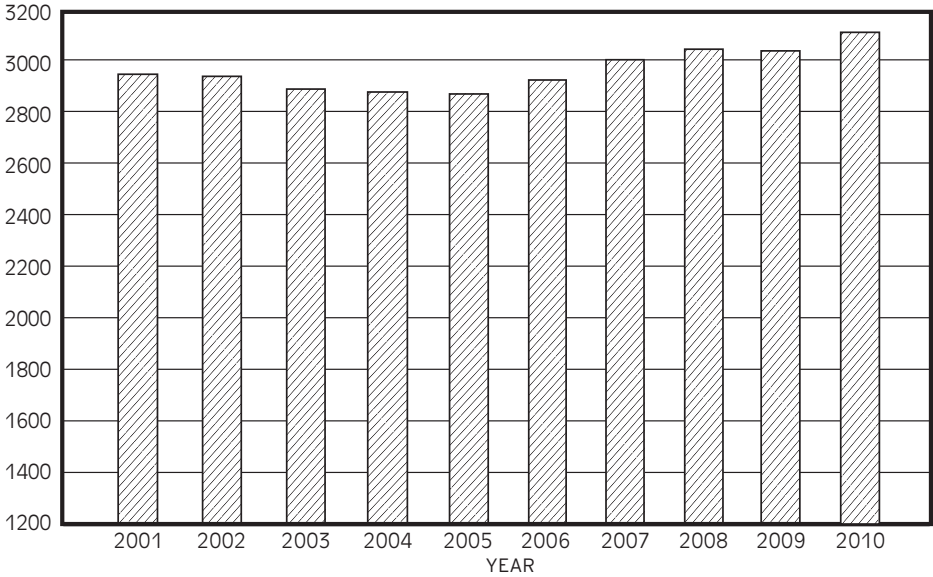
Crude oil production from royalty wells decreased 4.6% in 2010 compared to 2009. The average price received in 2010 was \$74.57 per barrel compared to \$55.06 in 2009, up 35.4%. Gas production from Trust royalty wells increased 19.1%. The average price of gas increased from \$4.44 to \$5.52 per MCF, up 24.3%. State oil and gas production taxes amounted to \$612,362 in 2010 compared to \$453,569 in 2009.

Total production from royalty wells decreased 5,715 oil royalty barrels and increased 3,160 gas equivalent royalty barrels as shown in the two-year comparison of royalty barrels and royalty revenue.

	<i>Royalty Production</i>	
	<i>2010</i>	<i>2009</i>
Oil, Bbls.	118,220	123,935
Gas, Mcf.	499,615	419,440
Gas, Bbls. Equiv.	36,984	33,824
Total, Bbls. Equiv.	155,204	157,759
	<i>Royalty Revenue</i>	
	<i>2010</i>	<i>2009</i>
Oil.	\$ 8,815,689	\$6,823,871
Gas	\$ 2,757,874	\$1,862,316
Total	\$11,573,563	\$8,686,187

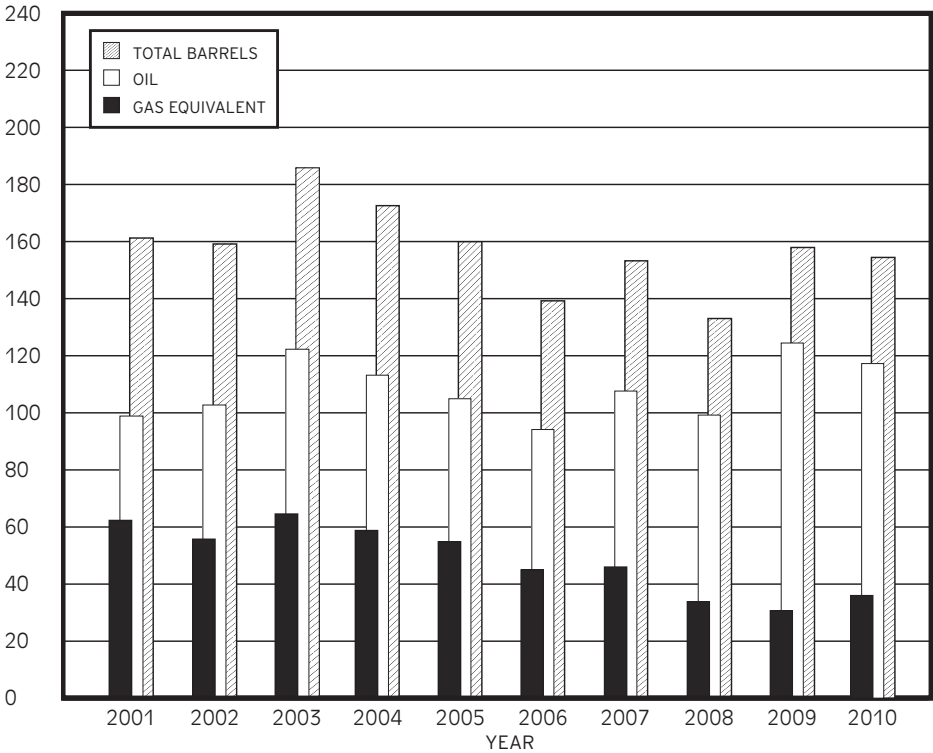
NUMBER OF WELLS

ROYALTY INTEREST WELLS

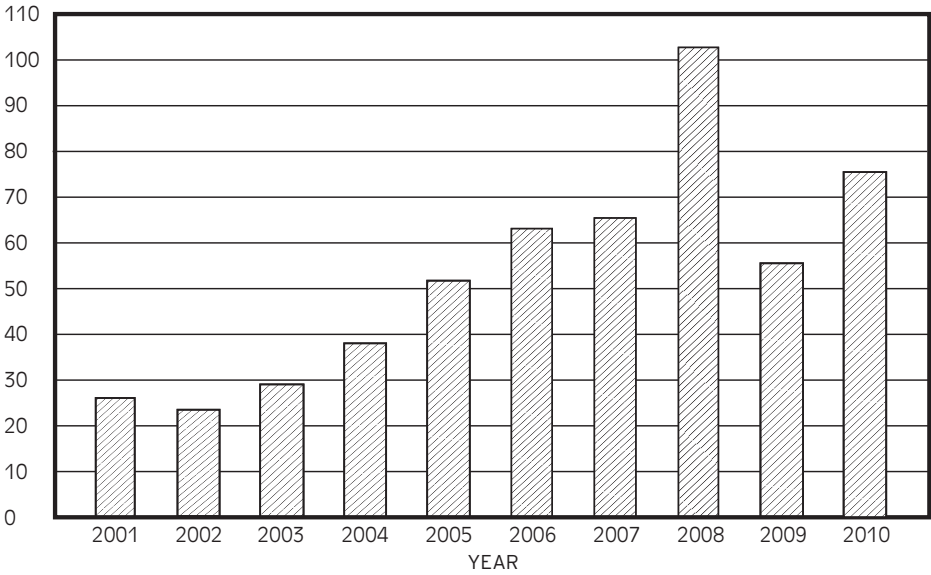


THOUSANDS OF BARRELS

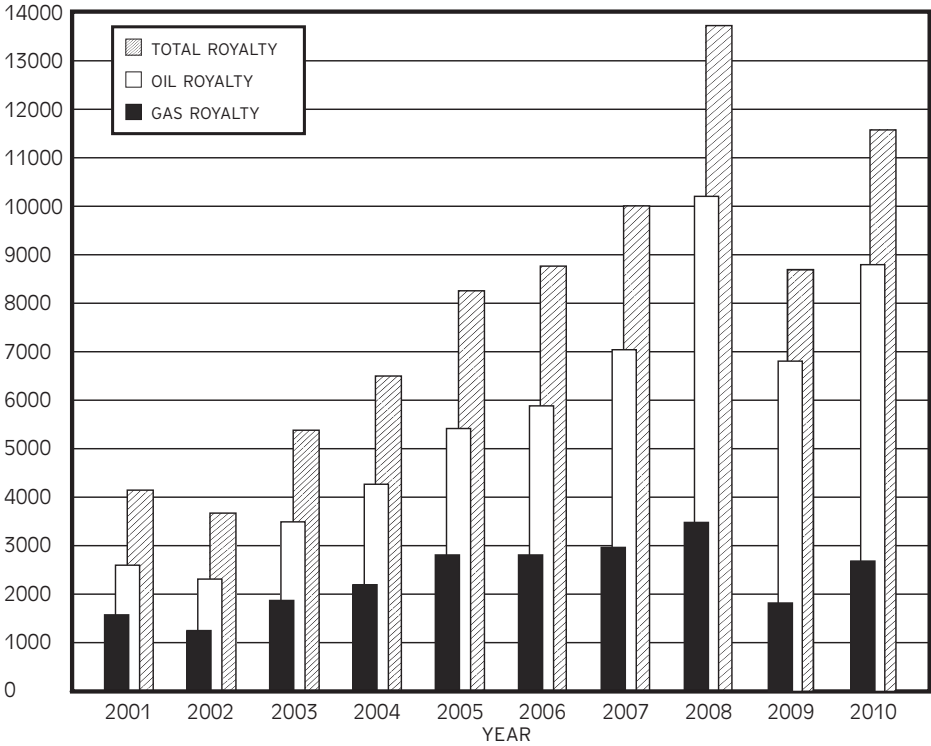
ROYALTY BARRELS



DOLLARS CRUDE OIL PRICE PER ROYALTY BARREL



THOUSANDS OF DOLLARS OIL AND GAS ROYALTY REVENUE



NEW WELLS DEVELOPED DURING 2010
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>
CULBERSON COUNTY		
Ford, West-4,100' — Cherry Canyon Sand		6
ECTOR COUNTY		
Goldsmith — Clearfork	15	13
Goldsmith, East — Glorieta	2	
Sallie Ann — Spraberry — Wolfcamp		4
Spraberry Trend Area	1	
TXL — Silurian	1	
TXL — Tubb Sand	12	
HOWARD COUNTY		
Howard Glasscock Field	2	
LOVING COUNTY		
Grice — Delaware		1
Haley Field		1
Tunstill Field	1	
Wildcat — 14,000'		1
MIDLAND COUNTY		
Spraberry Trend Area	1	6
MITCHELL COUNTY		
Westbrook Field	1	
REEVES COUNTY		
Ford, East — Delaware Sand		4
Hoban — Bone Springs		1
UPTON COUNTY		
Pegasus — Wolfcamp	2	
Spraberry Trend Area	2	8
	<u>40</u>	<u>45</u>

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

Eighty-four oil wells and one gas well was completed on royalty acreage in 2010. The oil wells were completed at producing depths ranging from 2,502 feet to 12,358 feet and were assigned an average allowable of 71 barrels of oil per well per day. The gas well was completed at a depth of 16,100 feet and was assigned an allowable of 5,453,000 cubic feet of gas per day.

Twenty-one wells located in Ector, Howard, Loving, Midland, Reeves and Sterling counties were reworked and completed in different producing formations. Two gas wells in Loving County were converted to oil wells. One oil well in Loving County was converted to a gas well. Seventeen depleted wells were plugged and abandoned.

At the end of the year, the Trust's royalty wells totaled 3,094, consisting of 875 oil and 61 gas wells subject to a 1/16 royalty interest and 2,091 oil and 67 gas wells subject to a 1/128 royalty interest.

Respectfully submitted,

ROY THOMAS,
General Agent

Dallas, Texas
February 22, 2011

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

Special cash dividend per Sub-share Certificate

Total assets, exclusive of all property with no assigned value

Year Ended December 31,

2010	2009	2008	2007	2006
\$11,573,563	\$ 8,686,187	\$13,694,843	\$10,022,709	\$ 8,773,512
506,211	492,802	482,193	479,908	484,759
2,738,070	523,010	823,440	1,932,664	8,201,447
1,082,019	1,216,480	1,361,364	1,464,249	1,349,909
<u>4,166,102</u>	<u>2,166,381</u>	<u>2,934,426</u>	<u>1,565,581</u>	<u>3,651,571</u>
<u>20,065,965</u>	<u>13,084,860</u>	<u>19,296,266</u>	<u>15,465,111</u>	<u>22,461,198</u>
775,380	611,448	898,619	702,391	659,305
1,003,748	999,116	890,077	890,843	892,372
537,127	519,613	572,947	579,690	555,367
—	—	—	693,455	3,374,023
1,327,845	913,206	1,313,600	1,047,019	617,266
15,391	42,141	36,803	35,999	37,134
<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
<u>3,667,491</u>	<u>3,093,524</u>	<u>3,720,046</u>	<u>3,957,397</u>	<u>6,143,467</u>
<u>16,398,474</u>	<u>9,991,336</u>	<u>15,576,220</u>	<u>11,507,714</u>	<u>16,317,731</u>
<u>25,707</u>	<u>53,427</u>	<u>228,746</u>	<u>370,000</u>	<u>561,284</u>
16,424,181	10,044,763	15,804,966	11,877,714	16,879,015
<u>5,115,470</u>	<u>3,130,720</u>	<u>4,865,193</u>	<u>3,628,026</u>	<u>5,309,153</u>
<u>\$11,308,711</u>	<u>\$ 6,914,043</u>	<u>\$10,939,773</u>	<u>\$ 8,249,688</u>	<u>\$11,569,862</u>
<u>\$1.17</u>	<u>\$.69</u>	<u>\$1.06</u>	<u>\$.78</u>	<u>\$1.08</u>
<u>\$.20</u>	<u>\$.19</u>	<u>\$.18</u>	<u>\$.16</u>	<u>\$.13</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$.42</u>
<u>\$24,989,360</u>	<u>\$26,787,620</u>	<u>\$30,785,034</u>	<u>\$32,656,735</u>	<u>\$32,467,548</u>

BALANCE SHEETS

December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 7,149,552	\$ 8,151,209
Accrued receivables	2,164,842	1,630,220
Other assets	73,259	73,245
Prepaid income taxes	57,893	—
Notes receivable for land sales (\$1,434,436 due in 2011 and \$1,378,718 due in 2010) (note 2)	14,342,898	15,728,925
Water wells, leasehold improvements, furniture, and equipment — at cost less accumulated depreciation	39,412	42,517
Real estate acquired (notes 2 and 4)	1,161,504	1,161,504
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 — 949,423 acres in 2010 and 951,760 acres in 2009	—	—
Town lots in Loraine and Morita, Texas — 318 lots in 2010 and 541 lots in 2009	—	—
1/16 nonparticipating perpetual royalty interest in 386,987.70 acres	—	—
1/128 nonparticipating perpetual royalty interest in 85,413.60 acres	—	—
 Total assets	 <u>\$24,989,360</u>	 <u>\$26,787,620</u>

(Continued)

BALANCE SHEETS

December 31, 2010 and 2009

LIABILITIES AND CAPITAL

	<u>2010</u>	<u>2009</u>
Accounts payable and accrued expenses	\$ 976,202	\$ 753,328
Income taxes payable	149,233	198,087
Other taxes payable	87,424	65,774
Unearned revenue (note 2)	755,199	767,233
Deferred taxes (note 6)	4,282,733	4,727,506
Pension plan liability	<u>436,343</u>	<u>571,695</u>
Total liabilities	<u>6,687,134</u>	<u>7,083,623</u>
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 \$.03½ each; outstanding 9,548,444 Sub-shares in 2010 and 9,894,514 Sub-shares in 2009	—	—
Accumulated other comprehensive income (loss)	(515,724)	(488,348)
Net proceeds from all sources	<u>18,817,950</u>	<u>20,192,345</u>
Total capital	<u>18,302,226</u>	<u>19,703,997</u>
Total liabilities and capital	<u><u>\$24,989,360</u></u>	<u><u>\$26,787,620</u></u>

See accompanying notes to financial statements.

STATEMENTS OF INCOME

Years Ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income:			
Oil and gas royalties	\$11,573,563	\$ 8,686,187	\$13,694,843
Grazing lease rentals	506,211	492,802	482,193
Land sales	2,738,070	523,010	823,440
Interest income from notes receivable	1,082,019	1,216,480	1,361,364
Easements and sundry income	<u>4,166,102</u>	<u>2,166,381</u>	<u>2,934,426</u>
	<u>20,065,965</u>	<u>13,084,860</u>	<u>19,296,266</u>
Expenses:			
Taxes, other than income taxes	775,380	611,448	898,619
Salaries and related employee benefits	1,003,748	999,116	890,077
General expense, supplies, and travel	537,127	519,613	572,947
Legal and professional fees	1,327,845	913,206	1,313,600
Depreciation	15,391	42,141	36,803
Trustees' compensation	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
	<u>3,667,491</u>	<u>3,093,524</u>	<u>3,720,046</u>
Operating income	<u>16,398,474</u>	<u>9,991,336</u>	<u>15,576,220</u>
Interest income earned from investments	<u>25,707</u>	<u>53,427</u>	<u>228,746</u>
Income before income taxes	16,424,181	10,044,763	15,804,966
Income taxes (note 6):			
Current	5,545,503	3,620,265	5,488,866
Deferred	<u>(430,033)</u>	<u>(489,545)</u>	<u>(623,673)</u>
	<u>5,115,470</u>	<u>3,130,720</u>	<u>4,865,193</u>
Net income	<u>\$11,308,711</u>	<u>\$ 6,914,043</u>	<u>\$10,939,773</u>
Net income per Sub-share Certificate	<u>\$1.17</u>	<u>\$0.69</u>	<u>\$1.06</u>

See accompanying notes to financial statements.

STATEMENTS OF NET PROCEEDS FROM ALL SOURCES

Years Ended December 31, 2010, 2009 and 2008

	Sub-share Certificates of Proprietary Interest	Accumulated Other Comprehensive Income (Loss)	Net Proceeds From All Sources	Total
Balances at December 31, 2007	10,488,375	\$(257,842)	\$ 25,147,381	<u>\$ 24,889,539</u>
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)	—	<u>(383,169)</u>
Total comprehensive income	—	—	—	<u>\$ 10,568,540</u>
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)	<u>(1,884,668)</u>
Balances at December 31, 2008	10,206,146	(629,075)	24,153,747	<u>23,524,672</u>
Net income	—	—	6,914,043	6,914,043
Amortization of net actuarial costs and prior service costs, net of income taxes of \$27,956	—	51,918	—	51,918
Net actuarial gain on pension plan, net of income taxes of \$47,820	—	88,809	—	<u>88,809</u>
Total comprehensive income	—	—	—	<u>\$ 7,054,770</u>
Cost of 311,632 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled	(311,632)	—	(8,945,001)	(8,945,001)
Dividends paid — \$.19 per Sub-share Certificate	—	—	(1,930,444)	<u>(1,930,444)</u>
Balances at December 31, 2009	9,894,514	(488,348)	20,192,345	<u>19,703,997</u>
Net income	—	—	11,308,711	11,308,711
Amortization of net actuarial costs and prior service costs, net of income taxes of \$20,989	—	38,979	—	38,979
Net actuarial loss on pension plan, net of income taxes of \$(35,729)	—	(66,355)	—	<u>(66,355)</u>
Total comprehensive income	—	—	—	<u>\$ 11,281,335</u>
Cost of 346,070 Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled	(346,070)	—	(10,715,045)	(10,715,045)
Dividends paid — \$.20 per Sub-share Certificate	—	—	(1,968,061)	<u>(1,968,061)</u>
Balances at December 31, 2010	<u>9,548,444</u>	<u>\$(515,724)</u>	<u>\$ 18,817,950</u>	<u>\$ 18,302,226</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:			
Net income	\$ 11,308,711	\$ 6,914,043	\$ 10,939,773
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred taxes	(444,773)	(413,769)	(823,569)
Depreciation and amortization	15,391	42,142	36,803
Loss on disposal of fixed assets	2,884	14,311	8,235
Changes in operating assets and liabilities:			
Accrued receivables and other assets	(534,636)	(451,198)	370,447
Income taxes payable	(48,854)	198,087	—
Prepaid income taxes	(57,893)	982,350	(919,436)
Notes receivable for land sales	1,386,027	1,927,302	1,969,395
Real estate acquired	—	—	(77,952)
Accounts payable, accrued expenses and other liabilities	<u>69,762</u>	<u>179,670</u>	<u>(54,498)</u>
Net cash provided by operating activities	<u>11,696,619</u>	<u>9,392,938</u>	<u>11,449,198</u>
Cash flows from investing activities:			
Proceeds from sale of fixed assets	12,500	9,000	14,000
Purchase of fixed assets	<u>(27,670)</u>	<u>(29,663)</u>	<u>(28,614)</u>
Net cash used in investing activities	<u>(15,170)</u>	<u>(20,663)</u>	<u>(14,614)</u>
Cash flows from financing activities:			
Purchase of Sub-share Certificates in Certificates of Proprietary Interest	(10,715,045)	(8,945,001)	(10,048,739)
Dividends paid	<u>(1,968,061)</u>	<u>(1,930,444)</u>	<u>(1,884,668)</u>
Net cash used in financing activities	<u>(12,683,106)</u>	<u>(10,875,445)</u>	<u>(11,933,407)</u>
Net decrease in cash and cash equivalents	(1,001,657)	(1,503,170)	(498,823)
Cash and cash equivalents, beginning of period	<u>8,151,209</u>	<u>9,654,379</u>	<u>10,153,202</u>
Cash and cash equivalents, end of period	<u>\$ 7,149,552</u>	<u>\$ 8,151,209</u>	<u>\$ 9,654,379</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010, 2009 and 2008

(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.

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.

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

NOTES TO FINANCIAL STATEMENTS — (Continued)

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 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. At times the cash may exceed federally insured limits. 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 2010, 2009 and 2008 was \$5,652,250, \$2,589,441, and \$6,408,302, respectively. New loans made by the Trust in connection with land sales amounted to \$0, \$0, and \$394,000 for the years ended December 31, 2010, 2009 and 2008, 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, 2010 and 2009.

(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, 2010 and 2009 is \$100,763 and \$100,743, respectively.

(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

NOTES TO FINANCIAL STATEMENTS — (Continued)

receivable bear interest rates ranging from 7.0% to 9.0% as of December 31, 2010 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, 2010. 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 2010, 2009 and 2008 were \$60,417, \$665,604, and \$1,025,354, 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, 2010 and 2009.

Three customers represented approximately 86% of notes receivable at December 31, 2010 and 2009, respectively.

The maturities of notes receivable for each of the five years subsequent to December 31, 2010 are:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 1,434,436
2012	1,539,430
2013	1,627,183
2014	1,646,641
2015	1,766,693
Thereafter	<u>6,328,515</u>
	<u>\$14,342,898</u>

(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.

NOTES TO FINANCIAL STATEMENTS — (Continued)

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 (9,679,921 in 2010, 10,018,028 in 2009, 10,354,408 in 2008).

(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

NOTES TO FINANCIAL STATEMENTS — (Continued)

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, 2010 and 2009.

(l) *Recent Accounting Pronouncements*

In May 2009, the FASB issued guidance that established accounting and reporting standards for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance was effective for the period ended December 31, 2009 and the adoption did not have a significant impact on the Trust's financial statements.

In June 2009, the FASB issued guidance that designated the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this accounting standard did not have a material impact on the Trust's financial position, results of operations and cash flows.

In July 2010, the FASB issued guidance on enhancing disclosures with respect to the credit quality of financing receivables and the allowance for

NOTES TO FINANCIAL STATEMENTS — (Continued)

credit losses. The adoption of this accounting standard did not have a material impact on the Trust's 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 the 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.

(4) REAL ESTATE ACQUIRED

Real estate acquired included the following activity for the years ended December 31, 2010 and 2009:

	<i>2010</i>		<i>2009</i>	
	<i>Acres</i>	<i>Book Value</i>	<i>Acres</i>	<i>Book Value</i>
Balance at January 1:	10,793.23	\$1,161,504	10,793.23	\$1,161,504
Additions	—	—	—	—
Sales	—	—	—	—
Balance at December 31:	10,793.23	\$1,161,504	10,793.23	\$1,161,504

No valuation allowance was necessary at December 31, 2010 and 2009.

(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

NOTES TO FINANCIAL STATEMENTS — (Continued)

are at the discretion of the Trustees of the Trust. The Trust contributed \$43,824, \$43,071, and \$42,351 in 2010, 2009, and 2008, 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.

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, 2010 and 2009 using a measurement date of December 31:

	<u>2010</u>	<u>2009</u>
Change in projected benefits obligation:		
Projected benefit obligation at beginning of year	\$2,796,056	\$2,715,460
Service cost	96,251	93,366
Interest cost	169,460	161,591
Actuarial (gain) loss	99,013	(87,321)
Benefits paid	<u>(87,040)</u>	<u>(87,040)</u>
Projected benefit obligation at end of year	<u>\$3,073,740</u>	<u>\$2,796,056</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$2,224,361	\$2,023,458
Actual return on plan assets	150,076	187,943
Contributions by employer	350,000	100,000
Benefits paid	<u>(87,040)</u>	<u>(87,040)</u>
Fair value of plan assets at end of year	<u>\$2,637,397</u>	<u>\$2,224,361</u>
Unfunded status at end of year	<u>\$ (436,343)</u>	<u>\$ (571,695)</u>

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

	<u>2010</u>	<u>2009</u>
Assets	\$ —	\$ —
Liabilities	<u>(436,343)</u>	<u>(571,695)</u>
	<u>\$ (436,343)</u>	<u>\$ (571,695)</u>

NOTES TO FINANCIAL STATEMENTS — (Continued)

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

	2010	2009
Net actuarial loss	\$(760,309)	\$(708,778)
Prior service cost	(33,113)	(42,529)
Amounts recognized in accumulated other comprehensive income (loss), before taxes	(793,422)	(751,307)
Income taxes	277,698	262,959
Amounts recognized in accumulated other comprehensive income (loss), after taxes	\$(515,724)	\$(488,348)

Net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 include the following components:

	2010	2009	2008
Components of net periodic benefit cost:			
Service cost	\$ 96,251	\$ 93,366	\$ 90,497
Interest cost	169,460	161,591	157,328
Expected return on plan assets	(153,147)	(138,635)	(166,311)
Amortization of unrecognized gains	50,553	65,816	4,305
Amortization of prior service cost	9,416	14,057	14,057
Net periodic benefit cost	\$ 172,533	\$ 196,195	\$ 99,876

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:

	2010	2009	2008
Net actuarial (gain) loss	\$102,084	\$(136,629)	\$589,491
Recognized actuarial loss	(50,553)	(65,816)	(4,305)
Recognized prior service cost	(9,416)	(14,057)	(14,057)
Total recognized in other comprehensive income, before taxes	\$ 42,115	\$(216,502)	\$571,129
Total recognized in net benefit cost and other comprehensive income, before taxes	\$214,648	\$ (20,307)	\$671,005

The estimated net actuarial loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$58,443 and \$50,313, respectively.

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following table summarizes the projected benefit obligations in excess of Plan assets and the accumulated benefit obligation in which the accumulated benefit obligation exceeds Plan assets at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Projected benefit obligation in excess of plan assets:		
Projected benefit obligation	\$3,073,740	\$2,796,056
Fair value of plan assets	\$2,637,397	\$2,224,361
Accumulated benefit obligation in excess of plan assets:		
Accumulated benefit obligation	\$2,559,433	\$2,285,280
Fair value of plan assets	\$2,637,397	\$2,224,361

The following are weighted-average assumptions used to determine benefit obligations and costs at December 31, 2010, 2009, and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Weighted average assumptions used to determine benefit obligations as of December 31:			
Discount rate	5.75%	6.25%	6.25%
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	6.25%	6.25%	6.00%
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 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%. 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.

NOTES TO FINANCIAL STATEMENTS — (Continued)

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 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 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, 2010 and 2009, respectively, are as follows:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and Cash Equivalents				
Money Markets	\$ 117,480	\$ 117,480	\$ —	\$ —
Equities				
Unit Investment Trusts . . .	—	—	—	—
Mutual Funds				
Income Growth Funds . . .	514,254	514,254	—	—
Corporate Bond Funds . . .	—	—	—	—
Fixed Income Funds	<u>2,005,663</u>	<u>2,005,663</u>	—	—
Total	<u>\$2,637,397</u>	<u>\$2,637,397</u>	<u>\$ —</u>	<u>\$ —</u>

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and Cash Equivalents				
Money Markets	\$ 8,479	\$ 8,479	\$ —	\$ —
Equities				
Unit Investment Trusts . . .	341,070	—	341,070	—
Mutual Funds				
Income Growth Funds . . .	412,653	412,653	—	—
Corporate Bond Funds . . .	347,188	347,188	—	—
Fixed Income Funds	<u>1,114,971</u>	<u>1,114,971</u>	—	—
Total	<u>\$2,224,361</u>	<u>\$1,883,291</u>	<u>\$341,070</u>	<u>\$ —</u>

Management intends to fund the minimum ERISA amount for 2011. The Trust may make some discretionary contributions to the Plan, the amounts of which have not yet been determined.

NOTES TO FINANCIAL STATEMENTS — (Continued)

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>
2011	\$ 110,454
2012	172,374
2013	170,632
2014	200,633
2015	197,603
2016 to 2020	1,148,099

(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>2010</u>	<u>2009</u>	<u>2008</u>
Computed tax expense at the statutory rate	\$5,584,222	\$3,415,219	\$5,373,688
Reduction in income taxes resulting from:			
Statutory depletion	(614,358)	(467,834)	(720,714)
State taxes	140,559	197,767	267,302
Other, net	<u>5,047</u>	<u>(14,432)</u>	<u>(55,083)</u>
	<u>\$5,115,470</u>	<u>\$3,130,720</u>	<u>\$4,865,193</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Basis difference in pension plan liability	<u>\$ 148,357</u>	<u>\$ 200,093</u>
Total deferred tax assets	148,357	200,093
Basis differences in real estate acquired through foreclosure	226,378	233,036
Deferred installment revenue on land sales for tax purposes	<u>4,204,712</u>	<u>4,694,563</u>
Total deferred tax liability	<u>4,431,090</u>	<u>4,927,599</u>
Net deferred tax liability	<u>\$4,282,733</u>	<u>\$4,727,506</u>

NOTES TO FINANCIAL STATEMENTS — (Continued)

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 2008.

(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 monthly rent of approximately \$5,867 and expires in October 2014. Future minimum lease payments were as follows at December 31, 2010:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 70,400
2012	70,400
2013	70,400
2014	58,667
Thereafter	<u>—</u>
	<u>\$269,867</u>

Rent expense amounted to \$70,400, \$70,400, and \$60,253 for the years ended December 31, 2010, 2009, and 2008, 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 2010 and 2009.

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,

NOTES TO FINANCIAL STATEMENTS — (Continued)

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 March 11, 2011, the date these financial statements were issued, and the following event that met recognition or disclosure criteria was identified:

At their February 2011 meeting, the Trustees declared a cash dividend of \$.21 per sub-share, payable March 11, 2011 to sub-share holders of record at the close of business on March 4, 2011.

(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, 2010, 2009 and 2008, respectively: oil (in barrels) — 118,220, 123,935, and 99,287, and gas (in thousands of cubic feet) — 499,615, 419,440, and 434,382. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

NOTES TO FINANCIAL STATEMENTS — (Continued)

(11) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present unaudited financial data of the Trust for each quarter of 2010 and 2009:

	Quarter Ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Income	<u>\$5,465,308</u>	<u>\$3,894,375</u>	<u>\$6,480,591</u>	<u>\$4,251,398</u>
Income before income taxes . .	<u>\$4,125,314</u>	<u>\$3,211,679</u>	<u>\$5,594,027</u>	<u>\$3,493,161</u>
Net income	<u>\$2,832,533</u>	<u>\$2,228,177</u>	<u>\$3,805,534</u>	<u>\$2,442,467</u>
Net income per Sub-share Certificate	<u>\$0.30</u>	<u>\$0.23</u>	<u>\$0.39</u>	<u>\$0.25</u>
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Income	<u>\$3,642,204</u>	<u>\$3,370,119</u>	<u>\$4,259,887</u>	<u>\$1,866,077</u>
Income before income taxes . .	<u>\$2,516,078</u>	<u>\$2,806,404</u>	<u>\$3,508,751</u>	<u>\$1,213,530</u>
Net income	<u>\$1,769,342</u>	<u>\$1,953,704</u>	<u>\$2,428,849</u>	<u>\$ 762,152</u>
Net income per Sub-share Certificate	<u>\$0.18</u>	<u>\$0.19</u>	<u>\$0.24</u>	<u>\$0.07</u>



Lane Gorman Trubitt, PLLC
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, 2010 and 2009 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, 2010. 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 statements referred to above present fairly, in all material respects, the financial position of Texas Pacific Land Trust as of December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Lane Gorman Trubitt, PLLC

Dallas, Texas
March 11, 2011

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.

