

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the fiscal year ended: December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file No.: 1-737

TEXAS PACIFIC LAND TRUST  
(Exact Name of Registrant as Specified in its Charter)

Not Applicable  
(State or Other Jurisdiction of  
Incorporation or Organization)

75-0279735  
(I.R.S. Employer  
Identification Number)

1700 Pacific Avenue, Suite 1670  
Dallas, Texas  
(Address of Principal Executive Offices)

75201  
(Zip Code)

Registrant's telephone number, including area code: (214) 969-5530

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class  | Name of Each Exchange on Which Registered |
|--|---|
| Sub-shares in Certificate of Proprietary Interest<br>(par value \$.16-2/3 per share) | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2004) was approximately \$142,442,857.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding management's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding the Trust's future operations and prospects, the markets for real estate in the areas in which the Trust owns real estate, applicable zoning regulations, the markets for oil and gas, production limits on prorated oil and gas wells authorized by the Railroad Commission of Texas, expected

competition, management's intent, beliefs or current expectations with respect to the Trust's future financial performance and other matters. All forward-looking statements in this Report are based on information available to us as of the date this Report is filed with the Securities and Exchange Commission, and we assume no responsibility to update any such forward-looking statements, except as required by law. All forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the factors discussed in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## PART I

### Item 1. Business

(a) General Development of Business. The registrant (hereinafter called "Texas Pacific" or the "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 holders of certain debt securities of the Texas and Pacific Railway Company. The Trustees are empowered under the Declaration of Trust to manage the lands with all the powers of an absolute owner, and to use the lands and the proceeds of sale of the lands, either to pay dividends to the Certificate holders or to buy in and cancel outstanding Certificates. The Trust's income is derived primarily from land sales, oil and gas royalties, grazing leases, and interest on investments. This method of operation has continued through the present. During the last five years there has not been any reorganization, disposition of any material amount of assets not in the ordinary course of business (although in the ordinary course of business Texas Pacific does sell or lease large tracts of land owned by it), or any material change in the mode of conducting business.

Texas Pacific's income from oil and gas royalties has been limited in the past by the level of production authorized for prorated wells each year by the regulations of the Railroad Commission of Texas. The monthly percentage of allowable production has averaged 100% in recent years, but, because of the limited capacity of older wells and other operating problems, the percentage permitted by the Commission could not be produced by most operators.

(b) Financial Information about Industry Segments. Texas Pacific does not have identifiable industry segments, although, as shown in the Statements of Income included in the financial statements incorporated by reference in Item 8 of this Report on Form 10-K, land sales, oil and gas royalties and interest income are the major contributors to the income of Texas Pacific. 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. See the Statements of Income for additional sources of income for the last three (3) years of Texas Pacific.

(c) Narrative Description of Business. As previously indicated, the business done and intended to be done by Texas Pacific consists of sales and leases of land owned by it, retaining oil and gas royalties, temporary cash investments and the overall management of the land owned by it.

- (i) During the last three fiscal years the following items have accounted for more than fifteen percent (15%) of consolidated revenues.

|                       | 2004 | 2003 | 2002 |
|-----------------------|------|------|------|
| Land Sales            | 70%  | 16%  | 33%  |
| Oil and Gas Royalties | 22%  | 54%  | 41%  |

- (ii) Texas Pacific is not in the business of development of new products.
- (iii) Raw materials are not necessary to the business of Texas Pacific.
- (iv) Patents, trademarks, licenses, franchises or concessions held are not material to any business of Texas Pacific.
- (v) The business of Texas Pacific is not seasonal in nature, as that term is generally understood, although land sales may vary widely from year to year and quarter to quarter.
- (vi) The business of Texas Pacific does not require Texas Pacific to maintain any particular amount or item of working capital.
- (vii) During 2004, Texas Pacific received \$912,270, or 14 percent of its oil and gas royalty income, from 47 leases operated by Chevron U.S.A., Inc.
- (viii) Backlogs are not relevant to an understanding of Texas Pacific's business.
- (ix) No material portion of Texas Pacific's business is subject to renegotiation or termination at the election of the Government.
- (x) The Trust does not have competitors, as such, in that it sells, leases and generally manages land owned by it and, to that extent, any owner of property located in areas comparable to the Trust is a potential competitor.
- (xi) Research activities relating to the development of new products or services or to the improvement of existing products or services are not material to the Trust's business.
- (xii) Compliance with Federal, State and local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have had no material effect upon the capital expenditures, earnings and competitive position of Texas Pacific. To date, Texas Pacific has not been called upon to expend any funds for these purposes.
- (xiii) As of February 28, 2005, Texas Pacific had eight (8) full-time employees.

(d) Financial Information about Geographic Areas. Texas Pacific does not have any foreign operations. For each of its last three fiscal years, all of the Trust's revenues have been derived from, and all of its long-lived assets have been located in, the United States.

(e) Available Information. The Trust does not maintain an Internet website. Accordingly, it does not make its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available free of charge on or through an Internet website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). However, the Trust

will voluntarily provide electronic or paper copies free of charge upon written request addressed to: Texas Pacific Land Trust, 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201, Attention: General Agent.

**Item 2: Properties.**

Texas Pacific Land Trust owns the surface estate in 992,673 acres of land located in 20 counties in the western part of Texas. The Trust also owns a 1/128 nonparticipating perpetual oil and gas royalty interest under 85,414 acres of land and a 1/16 nonparticipating perpetual oil and gas royalty interest under 386,988 acres of land in the western part of Texas. At December 31, 2004, grazing leases were in effect on 99.5 percent or approximately 987,566 acres of the Trust's land. Approximately 12,023 acres of land were sold in 2004. The Trust leases office space in Dallas, Texas.

**Item 3: Legal Proceedings.**

Texas Pacific is not involved in any material pending legal proceedings.

**Item 4: Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

**PART II**

**Item 5: Market for Registrant's Common Equity, Related Security Holder Matters and Issuer Purchases of Equity Securities.**

The principal United States market on which Sub-shares in the Trust's Certificates of Proprietary Interest are traded is the New York Stock Exchange. The range of reported sales prices for Sub-shares on the New York Stock Exchange for each quarterly period during the past two fiscal years was as follows:

|             | 2004     |          | 2003     |          |
|-------------|----------|----------|----------|----------|
|             | High     | Low      | High     | Low      |
| 1st Quarter | \$ 63.00 | \$ 55.20 | \$ 45.90 | \$ 40.50 |
| 2nd Quarter | 68.55    | 61.00    | 51.25    | 43.20    |
| 3rd Quarter | 101.80   | 65.45    | 51.65    | 46.80    |
| 4th Quarter | 138.50   | 87.42    | 58.24    | 50.31    |

Certificates of Proprietary Interest and Sub-shares are interchangeable in the ratio of one Certificate for 600 Sub-shares or 600 Sub-shares for one Certificate of Proprietary Interest. Texas Pacific has paid a regular dividend once a year for the preceding 48 years. The regular dividend was \$.50 per Sub-share in 2004 and \$.40 per Sub-share in 2003 and was paid during the first quarter of each year. In addition, Texas Pacific paid special dividends of \$1.75 per Sub-share during the fourth quarter of 2004 and \$.35 per Sub-share during the third quarter of 2003. Texas Pacific is not a party to any agreement that would limit its ability to pay dividends in the

future, although any future dividends are subject to the discretion of the Board of Trustees and will depend upon the Trust's earnings, capital requirements and financial position, applicable requirements of law, general economic conditions and other factors considered relevant by the Board of Trustees.

The approximate numbers of holders of Certificates of Proprietary Interest and Sub-shares, respectively, as of January 31, 2005, were as follows:

|  |            |
|--|------------|
| Certificates of Proprietary Interest               | --         |
| Sub-shares in Certificates of Proprietary Interest | 596        |
| <b>TOTAL</b>                                       | <b>596</b> |

The Trust did not sell any equity securities during the year ended December 31, 2004.

During the fourth quarter of 2004, the Trust repurchased Sub-share certificates as follows:

| Period                                | Total Number of Sub-shares Purchased | Average Price Paid per Sub-share | Total Number of Sub-shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Sub-shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|--------------------------------------|----------------------------------|--|--|
| October 1, through October 31, 2004   | -                                    | -                                | -  | -  |
| November 1, through November 30, 2004 | -                                    | -                                | -  | -  |
| December 1, through December 31, 2004 | 2,900                                | \$ 105.02                        | -  | -  |
| Total                                 | 2,900*                               | \$ 105.02                        | -  | -  |

\* The Trust purchased and retired 2,900 Sub-shares in the open market.

**Item 6: Selected Financial Data.**

The selected financial data set forth below for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, were derived from our audited financial statements. The data presented below should be read in conjunction with Item 7 "Management's Discussion and Analysis of

Financial Condition and Results of Operations” and the Financial Statements and Notes thereto incorporated by reference in Item 8 “Financial Statements and Supplementary Data.”

|   | Year Ended December 31, |                      |                      |                      |                      |
|---|-------------------------|----------------------|----------------------|----------------------|----------------------|
|   | 2004                    | 2003                 | 2002                 | 2001                 | 2000                 |
| <b>Gross income</b>   | <b>\$ 29,140,610</b>    | <b>\$ 9,953,329</b>  | <b>\$ 9,122,098</b>  | <b>\$ 13,429,368</b> | <b>\$ 7,798,999</b>  |
| Expenses  | 3,368,175               | 2,358,086            | 2,028,478            | 3,385,347            | 2,456,242            |
| <b>Income before Federal income taxes</b>                         | <b>25,772,435</b>       | <b>7,595,243</b>     | <b>7,093,620</b>     | <b>10,044,021</b>    | <b>5,342,757</b>     |
| Federal income taxes  | 8,359,477               | 2,265,092            | 2,192,834            | 3,157,508            | 1,584,688            |
| <b>Net income</b>   | <b>\$ 17,412,958</b>    | <b>\$ 5,330,151</b>  | <b>\$ 4,900,786</b>  | <b>\$ 6,886,513</b>  | <b>\$ 3,758,069</b>  |
| Net income per Sub-share  | \$ 7.89                 | \$ 2.34              | \$ 2.09              | \$ 2.79              | \$ 1.47              |
| <b>Dividends per Sub-share</b>                                    | <b>\$ 2.25</b>          | <b>\$ .75</b>        | <b>\$ .40</b>        | <b>\$ .40</b>        | <b>\$ .40</b>        |
| Average number of Sub-shares outstanding                          | 2,208,190               | 2,274,212            | 2,347,467            | 2,464,162            | 2,555,062            |
|   | As of December 31,      |                      |                      |                      |                      |
|   | 2004                    | 2003                 | 2002                 | 2001                 | 2000                 |
| <b>Total assets, exclusive of property with no assigned value</b> | <b>\$ 31,149,178</b>    | <b>\$ 18,321,900</b> | <b>\$ 18,735,307</b> | <b>\$ 17,628,181</b> | <b>\$ 15,329,316</b> |

#### Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read together with the Financial Statements, including the Notes thereto, and the other financial information appearing elsewhere in this Report. Period-to-period comparisons of financial data are not necessarily indicative, and therefore should not be relied upon as indicators, of the Trust's future performance. Words or phrases such as "does not believe" and "believes," or similar expressions, when used in this Form 10-K or other filings with the SEC, are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

#### Results of Operations

The Trust's primary sources of income are revenue derived from sales of land, either for cash or a combination of cash and mortgage notes, and revenue derived from the Trust's land and mineral interests. Revenue from sales of land increased \$18,648,035 or 1,144.6% in 2004 compared to 2003. Oil and gas royalty income increased \$1,122,774 or 20.7% over the previous year. The Trust's gross income for 2004 increased by \$19,187,281 or 192.8% compared to 2003. The Trust's revenue for 2003 included \$264,578 of oil and gas royalties for past production resulting from an audit of an oil and gas lease and \$655,921 of sundry income resulting from

settlement of claims with respect to three other oil and gas leases. The Trust purchased and retired 54,100 Sub-shares during 2004, leaving 2,194,275 Sub-shares outstanding at December 31, 2004.

Earnings per Sub-share certificate for 2004 were \$7.89 compared to \$2.34 in 2003, and \$2.09 in 2002. Total revenues in 2004 were \$29,140,610, in 2003 \$9,953,329, and in 2002 \$9,122,098.

Land sales in 2004 were \$20,277,226 compared to \$1,629,191 in 2003 and \$3,050,784 in 2002. A total of 12,023 acres were sold in 2004 at an average price of \$1,687 per acre, compared to 7,841 acres in 2003 and 9,295 acres in 2002 at average prices per acre of \$208 and \$328, respectively. The significant increase in land sales in 2004 compared to 2003 and 2002 was due to a sale of approximately 1,429 acres of land suitable for development located in El Paso County for \$19,234,300. The Trust's remaining holdings of land suitable for development in metropolitan areas are limited.

Land sales vary widely from year to year and quarter to quarter. The total dollar amount, the average price per acre, and the number of acres sold in any one year or quarter should not be assumed to be indicative of land sales in the future. The Trust is a passive seller of land and does not actively solicit sales of land. The demand for, and the sales price of, any particular tract of the Trust's land is influenced by many factors, including, the national and local economies, the rate of residential and commercial development in nearby areas, livestock carrying capacity, and the condition of the local agricultural industry, which itself is influenced by range conditions and prices for livestock and other agricultural products. Approximately 99% of the Trust's land is classified as ranch land and intermingled with other ownerships to form ranching units. Ranch land sales are, therefore, largely dependent on the actions of the adjoining landowners.

Rentals, royalties and other income were \$8,863,384 in 2004, compared to \$8,324,138 in 2003 and \$6,071,314 in 2002.

Oil and gas royalty revenue in 2004 was \$6,534,455, compared to \$5,411,681 in 2003 and \$3,710,409 in 2002. As discussed above, the 2003 revenue figure includes \$264,578 related to past production which resulted from an audit of an oil and gas lease. Oil royalty revenue was \$4,303,704 and gas royalty revenue was \$2,230,751 in 2004. Crude oil production from Trust royalty wells decreased 5.8% in 2004, but this decrease in the volume of crude oil production was more than offset by a 29.6% increase in the average price for crude oil during 2004 compared to 2003. Total gas production increased 28.8% in 2004 which more than offset an 8.1% decrease in the average price of gas in 2004. The average price per royalty barrel of crude oil for 2004, 2003, and 2002 was \$37.82, \$29.18, and \$23.28, respectively. The Trust's oil and gas royalty income is from perpetual non-participating royalty interests. The Trust has no control over changes in production or prices of oil and gas.

Grazing lease income in 2004 was \$244,103, compared to \$477,664 in 2003. Prior to 2004, grazing lease rentals were recorded on the cash method which approximated the accrual method. For 2004, the Trust recorded a one-time charge in the amount of \$228,418 to record grazing lease rental on the accrual method. Since the amount is deemed immaterial to the financial statements as a whole, the financial statements for prior periods have not been restated.

Interest revenue was \$1,138,307 in 2004, compared to \$972,064 in 2003 and \$979,948 in 2002. Interest on notes receivable amounted to \$1,066,395 in 2004, compared to

\$924,228 in 2003, and \$925,453 in 2002. At year end 2004, notes receivable from land sales were \$22,251,684, compared to \$10,501,601 in 2003 and \$11,923,998 in 2002. Sundry interest amounted to \$71,912 in 2004, \$47,836 in 2003, and \$54,495 in 2002. Total principal cash payments on notes receivable were \$3,241,938 in 2004.

Easement and sundry income revenue in 2004 was \$946,519, compared to \$1,462,729 in 2003 and \$895,175 in 2002. Sundry revenue includes \$330,496 in 2004 and \$655,921 in 2003, respectively, related to the settlement of claims with respect to oil and gas leases.

Taxes, other than Federal income taxes were \$603,301 in 2004, compared to \$563,621 in 2003 and \$480,575 in 2002. Oil and gas production taxes were \$365,273 in 2004, compared to \$303,673 in 2003 and \$208,413 in 2002. Ad valorem taxes were \$194,236 in 2004, compared to \$218,748 in 2003 and \$232,689 in 2002. Basis in real estate sold was \$715,712 in 2004, \$232,372 in 2003, and \$98,165 in 2002. All other expenses were \$2,049,162 in 2004, \$1,562,093 in 2003, and \$1,449,738 in 2002.

### Liquidity

The Trust's principal sources of liquidity are its revenues from oil and gas royalties, lease rentals and receipts of interest and principal payments on the notes receivable arising from its sales of land. In the past these sources have generated more than adequate amounts of cash to meet the Trust's needs and, in the opinion of management, should continue to do so in the foreseeable future.

### Off-Balance Sheet Arrangements

The Trust has not engaged in any off-balance sheet arrangements.

### Tabular Disclosure of Contractual Obligations

As of December 31, 2004, the Trust's known contractual obligations were as follows:

| Contractual Obligations   | Payment Due by Period |                  |            |           |                   |
|---|-----------------------|------------------|------------|-----------|-------------------|
|   | Total                 | Less than 1 Year | 1-3 Years  | 3-5 Years | More than 5 Years |
| Long-term debt obligations  | \$ --                 | \$ --            | \$ --      | \$ --     | \$ --             |
| Capital lease obligations   | --                    | --               | --         | --        | --                |
| Operating lease obligations   | 230,982               | 48,498           | 155,358    | 27,126    | --                |
| Purchase obligations  | --                    | --               | --         | --        | --                |
| Other long-term liabilities reflected on the Trust's balance sheet under GAAP | --                    | --               | --         | --        | --                |
| Total   | \$ 230,982            | \$ 48,498        | \$ 155,358 | \$ 27,126 | \$ --             |

7

### Critical Accounting Policies

The preparation of financial statements in conformity with 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 at the date of the financial statements. It is our opinion that we fully disclose our significant accounting policies in the Notes to the Financial Statements. Consistent with our disclosure policies, we include the following discussion related to what we believe to be our most critical accounting policies that require our most difficult, subjective or complex judgment.

**Valuation of Notes Receivable** — Management of the Trust monitors delinquencies to assess the propriety of the carrying value of its notes receivable. 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. Any required allowance for losses is recorded in the period of determination. At December 31, 2004, and 2003, there were no significant delinquencies and, as such, no allowances for losses have been recorded.

**Valuation of Real Estate Acquired Through Foreclosure** — The value of real estate acquired through foreclosure is established at the lower of cost or fair value less disposition costs at the date of foreclosure. Cost is considered to be the aggregate of the outstanding principal and interest, past due ad valorem taxes and other fees associated with the foreclosure. Subsequent to the foreclosure date, valuations are periodically performed or obtained by management when events or changes in circumstances indicate that the full carrying amount may not be recoverable. At such time, a valuation allowance is established to reduce the carrying value to the estimated fair value. Valuation of the real estate is based on the estimates of management and is subject to judgment. At December 31, 2004 and 2003, no valuation allowances were recorded.

**Gain Recognition on Land Sales** — Accounting principles generally accepted in the United States of America dictate the manner in which the gain or loss on the sale of land is recorded. The Trust has established policies for the sale of land which result in the full accrual method of gain recognition. This policy generally requires that the Trust receive a minimum cash down payment of 25% of the sales price on each sale and that any related notes receivable require regular principal and interest payments, payable over terms from 5 to 15 years.

### Item 7A: Quantitative and Qualitative Disclosures About Market Risk.

The Trust's primary market risk exposure relates to changes in interest rates related to its notes receivable. To limit the impact of interest rate changes, the Trust enters into fixed rate notes receivable that approximate the current interest rate for land sales at the time. As a result, the Trust's only interest rate risk is the opportunity loss should interest rates increase. The following table summarizes expected maturities of the Trust's notes receivable. As the interest rates represent rates which management believes are current rates on similar land sales, the Trust believes the fair values of its notes receivable approximate the carrying amounts.

8

| Year Ending December 31 | Maturity     |
|-------------------------|--------------|
| 2005                    | \$ 1,310,899 |
| 2006                    | 1,414,598    |
| 2007                    | 1,478,617    |
| 2008                    | 1,575,223    |
| 2009                    | 1,601,806    |
| Thereafter              | 14,870,541   |

The Trust's remaining financial instruments consist of cash, temporary cash investments and accounts payable and other liabilities and the carrying amounts of these instruments approximate fair value due to the short-term nature of these instruments.

**Item 8: Financial Statements and Supplementary Data.**

See the Index to Financial Statements included in Item 15. The Financial Statements listed therein are incorporated herein by reference to pages F-1 through F-16 of this Report on Form 10-K.

**Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Information with respect to a change in the Trust's certifying accountant was previously reported in the Trust's Current Report on Form 8-K filed on October 13, 2004.

**Item 9A: Controls and Procedures.**

(a) Disclosure Controls and Procedures.

Pursuant to Rule 13a-15, management of the Trust under the supervision and with the participation of Roy Thomas, the Trust's Chief Executive Officer, and David M. Peterson, the Trust's Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of the end of the Trust's fiscal year covered by this Report on Form 10-K. Based upon that evaluation, Mr. Thomas and Mr. Peterson concluded that the Trust's disclosure controls and procedures are effective in timely alerting them to material information relating to the Trust required to be included in the Trust's periodic SEC filings.

(b) Management's Report on Internal Control over Financial Reporting.

Management of the Trust is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Management has assessed the effectiveness of the Trust's internal control over financial reporting as of December 31, 2004 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal*

9

*Control-Integrated Framework.* Based on that assessment, management believes that the Trust's internal control over financial reporting was effective as of December 31, 2004.

(c) Attestation Report of Registered Public Accounting Firm.

The Trust's independent public accountants have issued an audit report on management's assessment of the Trust's internal control over financial reporting. This audit report appears on page F-1 of this Report.

(d) Changes in Internal Control over Financial Reporting

There were no changes in the Trust's internal control over financial reporting during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

**Item 9B: Other Information.**

Not applicable.

**PART III**

**Item 10: Directors and Executive Officers of the Registrant.**

(a) Trustees:

| Name               | Age | Position and Offices Held With Registrant                              | Period During Which Person Has Served in Office   |
|--------------------|-----|--|---|
| Maurice Meyer III  | 69  | Trustee, Chairman of the Trustees and Member of Audit Committee        | Trustee since February 28, 1991; Chairman of Trustees since May 28, 2003.   |
| Joe R. Clark       | 77  | Trustee, Vice Chairman of the Trustees and Chairman of Audit Committee | Trustee since February 20, 1987; Vice Chairman of Trustees since May 28, 2003. Mr. Clark served as Chairman of the Trustees from June 7, 2000 through May 27, 2003. |
| John R. Norris III | 51  | Trustee  | Trustee since June 7, 2000.   |

10

(b) Executive Officers.

| Name              | Age | Position and Offices Held With Registrant            | Period During Which Person Has Served in Office  |
|-------------------|-----|--|--|
| Roy Thomas        | 58  | General Agent, Chief Executive Officer and Secretary | General Agent and Secretary of the Trust since January 1, 1995 and Chief Executive Officer since November 12, 2002. Mr. Thomas had previously served as Assistant General Agent from December 1, 1992 through December 31, 1994. |
| David M. Peterson | 39  | Assistant General Agent and Chief Financial Officer  | Assistant General Agent since January 1, 1997 and Chief Financial Officer since November 12, 2002.   |

The Trustees hold office until their death, resignation or disqualification. The General Agent, Chief Executive Officer and Secretary and the Assistant General Agent and Chief Financial Officer hold office until their death, resignation, discharge or retirement pursuant to the Texas Pacific Land Trust Employees' Pension Plan. No executive officer was selected to be an officer pursuant to any arrangement or understanding between him and any other person or persons other than the Trustees acting solely in their capacity as such.

- (c) Certain Significant Employees. The Trust does not employ any person who is not an executive officer who makes or is expected to make significant contributions to the business of the Trust.
- (d) Family Relations. There are no family relationships among any of the Trustees and executive officers of the Trust.
- (e) Business Experience.

| Name of Trustee or Executive Officer | Principal Occupation or Employment During the Past Five Years             |
|--------------------------------------|---|
| Maurice Meyer III                    | Former Vice Chairman of Henderson Brothers; personal investments          |
| Joe R. Clark                         | Former President of Texas Pacific Oil Company, Inc.; personal investments |

11

|                    |  |
|--------------------|--|
| John R. Norris III | Attorney; Calloway, Norris & Burdette, Dallas, Texas                             |
| Roy Thomas         | General Agent, Chief Executive Officer and Secretary of Texas Pacific Land Trust |
| David M. Peterson  | Assistant General Agent and Chief Financial Officer of Texas Pacific Land Trust  |

- (f) Involvement in Certain Legal Proceedings. During the past five years, no Trustee or executive officer has been involved in any event reportable under this caption.
- (g) Promoters and Control Persons. Not applicable.
- (h) Audit Committee Financial Expert. The Board of Trustees has determined that no current member of the Board of Trustees serving on the Trust's Audit Committee would meet the requirements of the definition of "audit committee financial expert" set forth in the applicable rules of the SEC. The terms of the Trust, which was established in 1888, and governing law would require an amendment of the Trust in order to add new Trustees who would satisfy the requirements of the definition. Any amendment of the Trust to do so would necessarily involve judicial proceedings and an expensive time-consuming process with no assurance that an individual meeting the requirements of the definition, who would be willing to serve as Trustee given the modest compensation offered (\$2,000 per annum, \$4,000 per annum for the Chairman), could be located. The Audit Committee consists of two independent Trustees, each of whom has been determined by the Board of Trustees to be qualified, in their judgment, to monitor the performance of management, the Trustee's internal accounting operations and the independent auditors and to be qualified to monitor the disclosures of the Trust. In addition, the Audit Committee has the ability to retain its own independent accountants, attorneys and other advisors, whenever it deems appropriate, to advise it. As a result, the Board of Trustees believes that the time and expense involved in an amendment of the Trust, with no assurance that an individual meeting the requirements of the definition of "audit committee financial expert" could be persuaded to become a member of the Board of Trustees, would not be in the best interests of the Trust at this time.
- (i) Audit Committee. The Trust has a standing Audit Committee of its Board of Trustees. The current members of the Audit Committee are Messrs. Meyer and Clark.
- (j) Changes in Procedures Regarding Nomination of Trustees. Not applicable.

#### Code of Ethics

The Trust has adopted a code of ethics applicable to its chief executive officer, chief financial officer and certain other employees. The Trust will provide a copy of the code of ethics free of charge to any person upon written request addressed to: Texas Pacific Land Trust, 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201, Attention: General Agent.

12

#### Item 11: Executive Compensation.

##### Summary Compensation Table

The following table sets forth information concerning compensation for services in all capacities awarded to, earned by, or paid to, the Trust's Chief Executive Officer and

its other most highly compensated executive officers (collectively, the "Named Executive Officers"):

| Name and Position                                    | Year | Annual Compensation |            |                                   |                           |
|--|------|---------------------|------------|-----------------------------------|---------------------------|
|  |      | Salary (\$)         | Bonus (\$) | Other Annual Compensation (\$)(1) | All Other Compensation(2) |
| Roy Thomas   | 2004 | \$ 170,417          | \$ 17,000  | --                                | \$ 10,225                 |
| General Agent, Chief Executive Officer and Secretary | 2003 | \$ 160,833          | --         | --                                | \$ 9,650                  |
|  | 2002 | \$ 154,500          | --         | --                                | \$ 9,270                  |
| David M. Peterson                                    | 2004 | \$ 100,833          | \$ 10,000  | --                                | \$ 6,050                  |
| Assistant General Agent and Chief Financial Officer  | 2003 | \$ 91,200           | --         | --                                | \$ 5,472                  |
|  | 2002 | \$ 87,283           | --         | --                                | \$ 5,237                  |

- (1) The aggregate value of the perquisites and other personal benefits, if any, received by the Named Executive Officers for all years presented have not been reflected in this table because the amount was below the Securities and Exchange Commission's threshold for disclosure (i.e., the lesser of \$50,000 or 10% of the total of annual salary and bonus for the Named Executive Officer for the year).
- (2) Represents contributions by the Trust to the account of the Named Executive Officer under the Trust's defined contribution retirement plan.

#### Retirement Plans

The registrant maintains the Texas Pacific Land Trust Employees' Pension Plan, a non-contributory defined benefit pension plan qualified under Section 401 of the Internal Revenue Code in which the employees, excluding the Trustees, participate. The amount of the registrant's contributions, payments or accruals with respect to Mr. Thomas and Mr. Peterson are not and cannot readily be separately or individually calculated by the regular actuaries for the Plan. Based upon the Plan formula of 1-1/2% of each covered year times the average salary of the last five years, Mr. Thomas is estimated to have retirement benefits of \$62,205.98 per year upon retirement at age 65, and Mr. Peterson is estimated to have retirement benefits of \$48,618.56 per year upon retirement at age 65. Total compensation paid during 2004 to the eight (8) employees covered by the Employees' Pension Plan was \$661,942. The remuneration covered by the plan is salary.

Effective January 1, 1998, the Trust implemented 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 amounts contributed to this Plan on behalf of Messrs. Thomas and Peterson are included in the Summary Compensation Table. During 2004, the Trust contributed an aggregate of \$37,347 on behalf of all employees, including Messrs. Thomas and Peterson.

13

#### Trustee Compensation

The Chairman of the Trustees receives the sum of \$4,000 per year as compensation for his services, and each of the other two Trustees receives the sum of \$2,000 per year for their services.

#### Employment Agreements

The Trust is not a party to any employment agreements with any of its Named Executive Officers. There is no compensation plan or arrangement with respect to any individual named in the Summary Compensation Table that results, or will result, from the resignation, retirement or any other termination of such individual's employment or from a change in control of Texas Pacific or from a change in the individual's responsibilities following a change in control of Texas Pacific.

#### Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Security Holder Matters.

The Trust does not maintain any compensation plans (or individual compensation arrangements) under which equity securities are authorized for issuance.

(a) Security Ownership of Certain Beneficial Owners The following table sets forth information as to all persons known to the Trust to be the beneficial owner of more than 5% of the Trust's voting securities (Certificates of Proprietary Interest and Sub-share Certificates). The Certificates of Proprietary Interest and Sub-share Certificates are freely interchangeable in the ratio of one Certificate of Proprietary Interest for six hundred Sub-shares or six hundred Sub-shares for one Certificate of Proprietary Interest, and are deemed to constitute a single class.

| Name and Address   | Number of Securities Beneficially Owned | Type of Securities     | Percent of Class |
|--|---|------------------------|------------------|
| Mercury Real Estate Advisors L.L.C.<br>100 Field Point Road<br>Greenwich, CT 06830 | 130,650                                 | Sub-share certificates | 5.9%             |

(1) The information set forth herein with respect to the securities beneficially owned by Mercury Real Estate Advisors L.L.C. ("Mercury") is based on a Schedule 13G filed by Mercury, dated January 6, 2005. The Schedule 13G indicates that it is a joint filing on behalf of Mercury and Messrs. David R. Jarvis and Malcolm F. MacLean IV. The Schedule 13G indicates that Mercury is an investment advisor and that the shares reported in the Schedule 13G are held by certain entities of which Mercury is the investment advisor. The Schedule 13G further indicates that Messrs. Jarvis and MacLean are the managing members of Mercury. The Schedule 13G states that Mercury, Mr. Jarvis and Mr. MacLean have shared voting and dispositive power with respect to all of the Sub-shares reported. The address of Messrs. Jarvis and MacLean is the same as the address of Mercury.

14

(b) Security Ownership of Management: The following table sets forth information as to equity securities (Certificates of Proprietary Interest and Sub-share Certificates) beneficially owned directly or indirectly by all Trustees, naming them, and by all Trustees and executive officers of the registrant, as a group:

| Title and Class (1)     | Name of Beneficial Owner             | Amount and Nature of Ownership on January 31, 2005 | Percent of Class |
|-------------------------|--------------------------------------|--|------------------|
| Sub-share certificates: | Maurice Meyer III                    | 14,950(2)  | *                |
| Sub-share certificates: | Joe R. Clark                         | 500  | *                |
| Sub-share certificates: | John R. Norris III                   | 200  | *                |
| Sub-share certificates: | Roy Thomas                           | 100  | *                |
| Sub-share certificates: | David M. Peterson                    | --   | --               |
| Sub-share certificates: | All Trustees and Officers as a Group | 15,750   | .72%             |

\*Indicates ownership of less than 1% of the class.

- (1) The Certificates of Proprietary Interest and Sub-share Certificates are freely interchangeable in the ratio of one Certificate of Proprietary Interest for six hundred Sub-shares or six hundred Sub-shares for one Certificate of Proprietary Interest, and are deemed to constitute a single class. The figures set forth in the table represent Sub-share certificates. On January 31, 2005, no trustee or executive officer was the beneficial owner, directly or indirectly, of any Certificates of Proprietary Interest.
- (2) Does not include 2,300 Sub-shares owned by the wife of Mr. Meyer in which Mr. Meyer disclaims any beneficial ownership.
- (c) Changes in Control. Texas Pacific has no knowledge of any arrangement that may result in any change of control of the Trust.

#### Item 13: Certain Relationships and Related Transactions.

- (a) Transactions with Management and Others. There are no reportable transactions or currently proposed transactions between Texas Pacific and any Trustee or executive officer of Texas Pacific or any security holder of Texas Pacific or any member of the immediate family of the foregoing persons.
- (b) Certain Business Relationships. No relationships exist with any Trustee that are required to be disclosed under this paragraph.
- (c) Indebtedness of Management. There are no persons indebted to Texas Pacific in an amount in excess of \$60,000 that are required to be disclosed under this paragraph.

15

- (d) Transactions with Promoters. Not applicable.

#### Item 14: Principal Accountant Fees and Services.

All professional services rendered by KPMG LLP ("KPMG") and Lane Gorman Trubitt L.L.P. ("Lane Gorman Trubitt") during 2004 and 2003 were furnished at customary rates. A summary of the fees which KPMG and Lane Gorman Trubitt billed the Trust for services provided in 2004 and 2003 is set forth below:

Audit Fees. KPMG billed the Trust approximately \$31,755 in 2004 and \$67,300 in 2003, respectively, in connection with its audits of the financial statements of the Trust in those years and its review of financial statements included in the Trust's quarterly reports on Form 10-Q in 2003 and the first two quarters of 2004. Lane Gorman Trubitt billed the Trust approximately \$50,000 in 2004 in connection with its audits of the financial statements and internal controls over financial reporting of the Trust in 2004 and its review of financial statements included in the Trust's quarterly report on Form 10-Q for the third quarter of 2004.

Audit-Related Fees. KPMG and Lane Gorman Trubitt did not bill the Trust any amount for audit-related services in either 2004 or 2003 not included in "Audit Fees", above.

Tax Fees. KPMG billed the Trust approximately \$12,300 in 2004 and \$12,300 in 2003, respectively, in connection with the preparation and review of the Trust's Federal income tax filings.

Other Fees. Neither KPMG nor Lane Gorman Trubitt billed the Trust any other fees in either 2004 or 2003.

The Audit Committee has established a policy requiring approval by it of all fees for audit and non-audit services to be provided by the Trust's independent accountants, prior to commencement of such services. Consideration and approval of fees generally occurs at the Committee's regularly scheduled meetings or, to the extent that such fees may relate to other matters to be considered at special meetings, at those special meetings.

None of the fees described above under the captions "Audit-Related Fees," "Tax Fees" and "Other Fees" were approved by the Committee pursuant to the "de minimis" exception set forth in Rule 2-01(c)(7)(i)(C) under SEC Regulation S-X.

### PART IV

#### Item 15: Exhibits, Financial Statement Schedules.

- (a) Financial Statements.

The following financial statements are filed as a part of this Report on Form 10-K and appear on pages F-1 through F-16 hereof:

Report of Lane Gorman Trubitt L.L.P.

16

Report of KPMG LLP

Balance Sheets - December 31, 2004 and 2003

Statements of Income - Years Ended December 31, 2004, 2003 and 2002

All schedules have been omitted because the required information is contained in the financial statements or related notes, or is not applicable or immaterial.

(b) Exhibits.

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Report on Form 10-K.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of March, 2005.

TEXAS PACIFIC LAND TRUST

By: /s/ Roy Thomas  
 Roy Thomas,  
 General Agent, Chief Executive  
 Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 16th day of March, 2005.

| Signature   | Title(s)   |
|---|--|
| <u>/s/ Roy Thomas</u><br>Roy Thomas                 | General Agent, Chief Executive Officer<br>and Secretary (Principal Executive Officer)                                    |
| <u>/s/ David M. Peterson</u><br>David M. Peterson   | Assistant General Agent and Chief<br>Financial Officer (Principal Financial<br>Officer and Principal Accounting Officer) |
| <u>/s/ Maurice Meyer III</u><br>Maurice Meyer III   | Chairman of the Trustees   |
| <u>/s/ Joe R. Clark</u><br>Joe R. Clark             | Trustee  |
| <u>/s/ John R. Norris III</u><br>John R. Norris III | Trustee  |

**Item 15(a): Financial Statements**

**Table of Contents**

|   | Page |
|---|------|
| Report of Lane Gorman Trubitt L.L.P   | F-1  |
| Report of KPMG LLP  | F-3  |
| Balance Sheets - December 31, 2004 and 2003   | F-4  |
| Statements of Income - Years Ended December 31, 2004, 2003 and 2002                           | F-5  |
| Statements of Net Proceeds From All Sources - Years Ended<br>December 31, 2004, 2003 and 2002 | F-6  |
| Statements of Cash Flows - Years Ended December 31, 2004, 2003 and 2002                       | F-7  |
| Notes to Financial Statements   | F-8  |

All schedules have been omitted because the required information is contained in the financial statements or related notes, or is not applicable or immaterial.

**Report of Independent Registered Public Accounting Firm**

To the Trustees and Certificate Holders  
 Texas Pacific Land Trust

We have audited the accompanying balance sheet of Texas Pacific Land Trust (the Trust) as of December 31, 2004 and the related statements of income, net proceeds from all sources, and cash flows for the year ended December 31, 2004. We have also audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Trust maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Trust's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Trust's internal control over financial reporting based on our audit.

We conducted our audit 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A trust's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A trust's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the trust; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the trust are being made only in accordance with authorizations of management and trustees of the trust; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the trust's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are

F-1

subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2004 and the results of its operations and its cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Trust maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by COSO. Furthermore, in our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

/s/ Lane Gorman Trubitt, L.L.P.

Dallas, Texas  
January 26, 2005

F-2

Report of Independent Registered Public Accounting Firm

The Trustees and Certificate Holders  
Texas Pacific Land Trust:

We have audited the accompanying balance sheet of Texas Pacific Land Trust (the Trust) as of December 31, 2003, and the related statements of income, net proceeds from all sources, and cash flows for each of the years in the two-year period ended December 31, 2003. 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, 2003, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/KPMG LLP

Dallas, Texas  
January 23, 2004

F-3

**TEXAS PACIFIC LAND TRUST**

**BALANCE SHEETS**

December 31, 2004 and 2003

|  | 2004       | 2003       |
|--|------------|------------|
| <b>ASSETS</b>  |            |            |
| Cash   | \$ 342,945 | \$ 163,250 |
| Temporary cash investments - at cost which approximates fair value                           | 5,600,000  | 4,350,000  |
| Notes receivable for land sales (\$1,310,899 due in 2005 and \$731,181 due in 2004) (note 1) | 22,251,684 | 10,501,601 |

|   |              |              |
|---|--------------|--------------|
| Prepaid insurance   | 100,859      | 57,423       |
| Other assets  | 1,211,287    | 929,317      |
| Prepaid Federal income taxes  | 42,870       | --           |
| Real estate acquired through foreclosure (note 3)   | 1,522,824    | 2,238,536    |
| Water wells, leasehold improvements, furniture, and equipment -<br>at cost less accumulated depreciation        | 76,709       | 81,773       |
| <b>Property, no value assigned (note 1):</b>  |              |              |
| Land (surface rights) situated in twenty counties in Texas -<br>986,101 acres in 2004 and 996,638 acres in 2003 | --           | --           |
| Town lots in Itan, Loraine, and Morita, Texas - 628 lots  | --           | --           |
| 1/16 nonparticipating perpetual royalty interest in<br>386,987.70 acres   | --           | --           |
| 1/128 nonparticipating perpetual royalty interest in<br>85,413.60 acres   | --           | --           |
| Total assets  | \$31,149,178 | \$18,321,900 |

#### LIABILITIES AND CAPITAL

|   |              |              |
|---|--------------|--------------|
| Accounts payable and other liabilities (note 1)   | \$ 562,855   | \$ 31,434    |
| Federal income taxes  | --           | 205,562      |
| Other taxes   | 43,421       | 34,521       |
| Deferred taxes (note 5)   | 7,837,643    | 4,059,410    |
| Total liabilities   | 8,443,919    | 4,330,927    |
| Capital (notes 1 and 6):  |              |              |
| Certificates of Proprietary Interest, par value \$100 each;<br>Outstanding 0 Certificates   | --           | --           |
| Sub-share Certificates in Certificates of Proprietary Interest,<br>par value \$.16 2/3 each; outstanding 2,194,275 Sub-shares<br>in 2004 and 2,248,375 Sub-shares in 2003 | --           | --           |
| Net proceeds from all sources   | 22,705,259   | 13,990,973   |
| Total capital   | 22,705,259   | 13,990,973   |
| Total liabilities and capital   | \$31,149,178 | \$18,321,900 |

F-4

### TEXAS PACIFIC LAND TRUST

#### STATEMENTS OF INCOME

Years Ended December 31, 2004, 2003 and 2002

|  | 2004         | 2003         | 2002         |
|--|--------------|--------------|--------------|
| Income:                                |              |              |              |
| Oil and gas royalties                  | \$ 6,534,455 | \$ 5,411,681 | \$ 3,710,409 |
| Grazing lease rentals                  | 244,103      | 477,664      | 485,782      |
| Land sales                             | 20,277,226   | 1,629,191    | 3,050,784    |
| Interest                               | 1,138,307    | 972,064      | 979,948      |
| Easements and sundry income            | 946,519      | 1,462,729    | 895,175      |
|  | 29,140,610   | 9,953,329    | 9,122,098    |
| Expenses:                              |              |              |              |
| Taxes, other than Federal income taxes | 603,301      | 563,621      | 480,575      |
| Salaries and related employee benefits | 818,757      | 657,475      | 680,889      |
| General expense, supplies, and travel  | 442,646      | 405,613      | 445,148      |
| Basis in real estate sold              | 715,712      | 232,372      | 98,165       |
| Legal and professional fees            | 741,092      | 390,563      | 265,048      |
| Commissions to local agents            | 493          | 49,513       | 688          |
| Depreciation                           | 38,174       | 50,929       | 49,965       |
| Trustees' compensation                 | 8,000        | 8,000        | 8,000        |
|  | 3,368,175    | 2,358,086    | 2,028,478    |
| Income before Federal income taxes     | 25,772,435   | 7,595,243    | 7,093,620    |
| Federal income taxes (note 5):         |              |              |              |
| Current                                | 4,581,244    | 2,792,133    | 2,008,864    |
| Deferred                               | 3,778,233    | (527,041)    | 183,970      |
|  | 8,359,477    | 2,265,092    | 2,192,834    |
| Net income                             | \$17,412,958 | \$ 5,330,151 | \$ 4,900,786 |
| Net income per Sub-share Certificate   | \$ 7.89      | \$ 2.34      | \$ 2.09      |

See accompanying notes to financial statements.

F-5

TEXAS PACIFIC LAND TRUST

STATEMENTS OF NET PROCEEDS FROM ALL SOURCES

Years Ended December 31, 2004, 2003 and 2002

|   | 2004                 | 2003                 | 2002                 |
|---|----------------------|----------------------|----------------------|
| Balance at beginning of year  | \$ 13,990,973        | \$ 13,983,119        | \$ 13,197,642        |
| Add: Net income for year  | 17,412,958           | 5,330,151            | 4,900,786            |
|   | <u>31,403,931</u>    | <u>19,313,270</u>    | <u>18,098,428</u>    |
| Deduct:   |                      |                      |                      |
| Cost of Sub-share Certificates in Certificates of Proprietary Interest purchased and cancelled - 54,100 Sub-shares in 2004, 73,612 Sub-shares in 2003 and 81,006 Sub-shares in 2002 | 3,737,308            | 3,604,427            | 3,158,314            |
| Dividends paid - per Certificate of Proprietary Interest - \$0 in 2004, 2003 and 2002; per Sub-share Certificate - \$2.25 in 2004, \$0.75 in 2003 and \$0.40 in 2002                | 4,961,364            | 1,717,870            | 956,995              |
|   | <u>8,698,672</u>     | <u>5,322,297</u>     | <u>4,115,309</u>     |
| Balance at end of year  | <u>\$ 22,705,259</u> | <u>\$ 13,990,973</u> | <u>\$ 13,983,119</u> |

See accompanying notes to financial statements.

F-6

TEXAS PACIFIC LAND TRUST

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004, 2003 and 2002

|   | 2004               | 2003               | 2002               |
|---|--------------------|--------------------|--------------------|
| Cash flows from operating activities:   |                    |                    |                    |
| Net income  | \$ 17,412,958      | \$ 5,330,151       | \$ 4,900,786       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                    |                    |
| Depreciation  | 38,174             | 50,929             | 49,965             |
| Deferred taxes  | 3,778,233          | (527,041)          | 183,970            |
| Basis in real estate sold   | 715,712            | 232,372            | 98,165             |
| Changes in assets and liabilities:  |                    |                    |                    |
| New notes receivable from land sales  | (14,992,021)       | (1,000,049)        | (2,023,413)        |
| Payments received on notes receivable   | 3,241,938          | 2,422,446          | 1,500,724          |
| Prepaid insurance and other assets  | (325,406)          | (96,567)           | (76,330)           |
| Accounts payable and other liabilities  | 531,421            | 21,314             | 2,583              |
| Federal income and other taxes payable  | (239,532)          | 84,466             | 284,764            |
|   | <u>10,161,477</u>  | <u>6,518,021</u>   | <u>4,921,214</u>   |
| Net cash provided by operating activities   |                    |                    |                    |
| Cash flows from investing activities:   |                    |                    |                    |
| Additions to water wells, leasehold improvements, furniture, and equipment        | (33,110)           | (30,220)           | (43,224)           |
|   | <u>(33,110)</u>    | <u>(30,220)</u>    | <u>(43,224)</u>    |
| Net cash used in investing activities   |                    |                    |                    |
| Cash flows from financing activities:   |                    |                    |                    |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest        | (3,737,308)        | (3,604,427)        | (3,158,314)        |
| Dividends   | (4,961,364)        | (1,717,870)        | (956,995)          |
|   | <u>(8,698,672)</u> | <u>(5,322,297)</u> | <u>(4,115,309)</u> |
| Net cash used in financing activities   |                    |                    |                    |
| Net increase in cash and temporary cash investments                               | 1,429,695          | 1,165,504          | 762,681            |

|   |              |              |              |
|---|--------------|--------------|--------------|
| Cash and temporary cash investments at beginning of year  | 4,513,250    | 3,347,746    | 2,585,065    |
| Cash and temporary cash investments at end of year  | \$ 5,942,945 | \$ 4,513,250 | \$ 3,347,746 |
| Supplemental disclosure of non-cash transactions:   |              |              |              |
| Conversion of notes receivable and accrued interest receivable to real estate acquired through foreclosure (note 3) | \$ --        | \$ --        | \$ 20,022    |

See accompanying notes to financial statements.

F-7

**TEXAS PACIFIC LAND TRUST**

Notes to Financial Statements

December 31, 2004, 2003 and 2002

**(1) Summary of Significant Accounting Policies**

**(a) General**

The fair market value of the Texas Pacific Land Trust's (Trust) 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 the real properties cannot be precisely determined, the Trustees have 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.

The preparation of financial statements in accordance with the accounting standards 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.

Critical accounting policies in general are those that require estimates that are more difficult for management to determine or have the potential to result in materially different statements under different assumptions and conditions. Our critical accounting policies outlined below include gain recognition on land sales and valuation of notes receivable (note 1(b)) and valuation of real estate acquired through foreclosure (note 3).

**(b) Revenue Recognition and Notes Receivable**

The Trust generally receives cash payments on land sales of 25% or more within the first year of such sales. Thereafter, annual principal and interest payments are required by the Trust. Accordingly, 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 Federal income tax purposes, such sales are recognized on the installment method. The installment method is also used for sales not meeting the minimum down payment requirements.

Notes receivable related to land sales bear interest rates ranging from 7.0% to 11.0% as of December 31, 2004 and are secured by first lien deeds of trust on the properties sold. The weighted average interest rate is 7.46% as of December 31, 2004. 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 2004, 2003 and 2002 were \$2,395,754, \$1,648,383, and \$651,178, respectively. The interest rates on notes receivable are considered

F-8

**TEXAS PACIFIC LAND TRUST**

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

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. 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 accounts at December 31, 2004, 2003, or 2002. One customer represented approximately 64% and 37% and another represented approximately 15% and 11% of the Trust's notes receivable balance at December 31, 2004 and 2003, respectively.

The maturities of notes receivable for each of the five years subsequent to December 31, 2004 are:

|                          |    |            |
|--------------------------|----|------------|
| Year ending December 31: |    |            |
| 2005                     | \$ | 1,310,899  |
| 2006                     |    | 1,414,598  |
| 2007                     |    | 1,478,617  |
| 2008                     |    | 1,575,223  |
| 2009 and thereafter      |    | 16,472,347 |
|                          | \$ | 22,251,684 |

As of December 31, 2004, there were no significant delinquencies in the Trust's notes receivable. The Trust reviews its aging, financial operations information on its debtors, and estimated fair value of collateral held as security to determine an appropriate allowance for delinquencies, if any.

The Trust received income in 2004 of \$330,496 due to settlement of claims for unpaid oil and gas royalties. The Trust received income in 2003 of \$264,578 for oil and gas royalties relating to past production due to an audit of an oil and gas lease and \$655,921 sundry income due to a settlement of claims on three oil and gas leases. The Trust's oil and gas royalty interest, and easement and sundry income are recorded on the cash basis, which approximates the accrual method. Prior to 2004, grazing lease and sundry lease rentals were recorded on the cash basis which approximated the accrual method. For 2004, the Trust recorded a one-time charge in the amount of \$228,418 to record grazing lease rentals and \$73,592 to record sundry lease rentals under the accrual method of accounting. The effect of this change in accounting method was to decrease 2004 grazing and sundry lease rentals revenue by \$302,010. Since the amount is deemed immaterial to the financial statements as a whole, the financial statements for prior periods have not been restated. The \$302,010 is included in accounts payable and other liabilities on the balance sheet at December 31, 2004.

F-9

## TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

**(c) 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 (2,208,190 in 2004, 2,274,212 in 2003, and 2,347,467 in 2002).

**(d) Cash Flows**

Temporary cash investments at December 31, 2004 and 2003 consist primarily of overnight investments in loan participations. For purposes of the statements of cash flows, the Trust considers all highly liquid debt instruments with original maturities of three months or less to be temporary cash investments. Cash disbursed for income taxes in 2004, 2003 and 2002 was \$4,829,676, \$2,711,767, and \$1,734,000, respectively.

**(e) 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.

**(f) Income Taxes**

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

**(g) New Accounting Standards and Pronouncements**

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets, — An amendment of APB Opinion No. 29," (FAS 153) which is effective for the Trust for asset-exchange transactions beginning July 1, 2005. Under APB 29, assets received in certain types of nonmonetary exchanges were permitted to be recorded at the carrying value of the assets that were exchanged (i.e., recorded on the carryover basis). As amended by FAS 153, assets received in some circumstances will have to be recorded instead at their fair values. In the past, the Trust has not engaged in a large number of nonmonetary asset exchanges for significant amounts. The Trust is evaluating the impact of FAS 153 on its financial statements for 2005.

F-10

## TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

**(2) Segment Information**

Segment information has been considered in accordance with Statement of Financial Accounting Standards (SFAS) No. 131 *Disclosures About Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for the way public business enterprises are to report information about operating segments. SFAS No. 131 utilizes the management approach as a basis for identifying reportable segments. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. The Trust's management views its operations as one segment and believes the only significant activity is managing the land, which was conveyed to the Trust in 1888. Managing the land includes sales and leases of such land, and the retention of oil and gas royalties.

**(3) Real Estate Acquired Through Foreclosure**

Real estate acquired through foreclosure is carried at the lower of cost or fair value less disposition costs at the date of foreclosure. Cost is considered to be the aggregate of the outstanding principal balance, accrued interest, past due ad valorem taxes, and other fees incurred relating to the foreclosure. Valuations are periodically performed or obtained by management whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and any further losses are recorded by a charge to operations and a valuation allowance (none at December 31, 2004, 2003 or 2002) if the carrying value of the property exceeds its estimated fair value.

Real estate acquired through foreclosure included the following activity for the years ended December 31, 2004 and 2003:

|                         | 2004       |              | 2003     |              |
|-------------------------|------------|--------------|----------|--------------|
|                         | Acres      | Book Value   | Acres    | Book Value   |
| Balance at January 1:   | 8,086.78   | \$ 2,238,536 | 8,089.24 | \$ 2,470,908 |
| Additions               | --         | --           | --       | --           |
| Sales                   | (1,514.86) | (715,712)    | (2.46)   | (232,372)    |
| Balance at December 31: | 6,571.92   | \$ 1,522,824 | 8,086.78 | \$ 2,238,536 |

F-11

### TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

#### (4) 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 \$37,346, \$35,336 and \$33,904 in 2004, 2003, and 2002, respectively.

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

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, 2004 and 2003 using a measurement date of December 21, 2004:

|   | 2004         | 2003         |
|---|--------------|--------------|
| Change in projected benefits obligation:          |              |              |
| Projected benefit obligation at beginning of year | \$ 2,012,135 | \$ 1,789,040 |
| Service cost                                      | 70,500       | 62,488       |
| Interest cost                                     | 124,316      | 113,840      |
| Actuarial loss                                    | 98,779       | 73,013       |
| Benefits paid                                     | (97,649)     | (91,031)     |
| Plan amendment                                    | --           | 64,785       |
| Projected benefit obligation at end of year       | \$ 2,208,081 | \$ 2,012,135 |
| Change in plan assets:                            |              |              |
| Fair value of plan assets at beginning of year    | \$ 1,588,017 | \$ 1,391,723 |
| Actual return on plan assets                      | 126,715      | 199,128      |
| Contributions by employer                         | 200,000      | 88,197       |
| Benefits paid                                     | (97,649)     | (91,031)     |
| Fair value of plan assets at end of year          | \$ 1,817,083 | \$ 1,588,017 |
| Funded (unfunded) status                          | \$ (390,998) | \$ (424,118) |
| Unrecognized net actuarial loss                   | 413,714      | 348,516      |
| Unrecognized prior service cost                   | 112,811      | 130,598      |
| Prepaid benefit cost                              | \$ 135,527   | \$ 54,996    |

F-12

### TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

Amounts recognized in the balance sheet consist of:

2004 2003

|  |                   |                   |
|--|-------------------|-------------------|
| Prepaid benefit cost                   | \$ 135,527        | \$ 54,996         |
| Accrued benefit cost                   | --                | --                |
| Intangible asset                       | --                | --                |
| Accumulated other comprehensive income | --                | --                |
|  | <u>          </u> | <u>          </u> |
| Net amounts recognized                 | \$ 135,527        | \$ 54,996         |
|  | <u>          </u> | <u>          </u> |

The accumulated benefit obligation of the Plan was \$1,711,334 and \$1,572,500 as of December 31, 2004 and 2003, respectively.

Net periodic benefit costs for the years ended December 31, 2004, 2003 and 2002 include the following components:

|   | 2004              | 2003              | 2002              |
|---|-------------------|-------------------|-------------------|
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Components of net periodic benefit costs<br>(benefits): |                   |                   |                   |
| Service cost  | \$ 70,500         | \$ 62,488         | \$ 53,232         |
| Interest cost   | 124,316           | 113,840           | 111,516           |
| Expected return on plan assets                          | (107,768)         | (94,276)          | (107,921)         |
| Amortization of the unrecognized<br>transition assets   | --                | --                | (23,211)          |
| Amortization of unrecognized gains                      | 14,634            | 18,579            | --                |
| Amortization of prior service cost                      | 17,787            | 13,466            | 13,466            |
| Termination benefits                                    | --                | --                | --                |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Net periodic benefit costs                              | \$ 119,469        | \$ 114,097        | \$ 47,082         |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

|   | 2004              | 2003              | 2002              |
|---|-------------------|-------------------|-------------------|
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Weighted average assumptions used to<br>determine benefit obligations as of<br>December 31:         |                   |                   |                   |
| Discount rate   | 6.00%             | 6.25%             | 6.50%             |
| Rate of compensation increase   | 7.29              | 7.29              | 7.29              |
| Weighted average assumptions used to<br>determine benefit costs for the years<br>ended December 31: |                   |                   |                   |
| Discount rate   | 6.25%             | 6.50%             | 7.25%             |
| Expected return on plan assets  | 7.00              | 7.00              | 7.00              |
| Rate of compensation increase   | 7.29              | 7.29              | 7.79              |

F-13

## TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

The Plan's Asset allocations at December 31, 2004, and 2003 by asset category are as follows:

| Asset Category    | Percentage of Plan<br>Assets at December 31 |                   |
|-------------------|---|-------------------|
|                   | 2004  | 2003              |
|                   | <u>          </u>                           | <u>          </u> |
| Equity securities | 31%   | 32%               |
| Debt securities   | 57  | 60                |
| Other (cash)      | 12  | 8                 |
|                   | <u>          </u>                           | <u>          </u> |
| Total             | 100%  | 100%              |
|                   | <u>          </u>                           | <u>          </u> |

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 and liquidity are achieved through investment in mutual funds rather than individual securities. The asset allocation is reviewed annually with respect to the target allocations and rebalancing adjustments and/or target allocation changes are made as appropriate. The Trust's current funding policy is to maintain the Plan's fully funded status on an ERISA minimum funding basis.

The expected return on plan assets assumption of 7% 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 required minimum contribution under ERISA is expected to be zero for 2005; however, the Trust may make some discretionary contributions to the Plan, the amounts of which have not yet been determined.

(5) **Federal Taxes on Income**

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:

|   | 2004                | 2003                | 2002                |
|---|---------------------|---------------------|---------------------|
| <b>Computed tax expense at the statutory rate</b> | \$ 8,762,628        | \$ 2,582,383        | \$ 2,411,831        |
| Reduction in income taxes resulting from:         |                     |                     |                     |
| <b>Statutory depletion</b>                        | (354,514)           | (297,114)           | (208,540)           |
| Other, net  | (48,637)            | (20,177)            | (10,457)            |
|   | <b>\$ 8,359,477</b> | <b>\$ 2,265,092</b> | <b>\$ 2,192,834</b> |

F-14

### TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities at December 31, 2004 and 2003 are as follows:

|  | 2004                | 2003                |
|--|---------------------|---------------------|
| <b>Basis differences in real estate acquired through foreclosure</b> | \$ 451,242          | \$ 657,854          |
| Deferred installment revenue on land sales for tax purposes          | 7,386,401           | 3,401,556           |
|  | <b>\$ 7,837,643</b> | <b>\$ 4,059,410</b> |

**(6) 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 600 Sub-shares. No Certificates were exchanged for Sub-shares in 2004 and 2003.

The number of Certificates authorized for issuance at a given date is the number then outstanding plus one/six-hundredth 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 six hundred 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.

**(7) 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, 2004, 2003 and 2002, respectively: oil (in barrels) – 113,794, 120,883, and 103,221, and gas (in thousands of cubic feet) – 528,614, 410,514, and 478,708. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

F-15

### TEXAS PACIFIC LAND TRUST

Notes to Financial Statements (continued)

December 31, 2004, 2003 and 2002

**(8) Selected Quarterly Financial Data (Unaudited)**

The following tables present unaudited financial data of the Trust for each quarter of 2004 and 2003:

|                                      | Quarter ended        |                       |                     |                     |
|--------------------------------------|----------------------|-----------------------|---------------------|---------------------|
|                                      | December 31,<br>2004 | September 30,<br>2004 | June 30,<br>2004    | March 31,<br>2004   |
| <b>Income</b>                        | \$ 2,672,496         | \$ 21,630,083         | \$ 2,600,247        | \$ 2,237,784        |
| Income before Federal income taxes   | \$ 1,819,609         | \$ 20,235,081         | \$ 2,069,821        | \$ 1,647,924        |
| <b>Net income</b>                    | <b>\$ 1,331,302</b>  | <b>\$ 13,446,147</b>  | <b>\$ 1,457,736</b> | <b>\$ 1,177,773</b> |
| Net income per Sub-share Certificate | \$0.61               | \$6.10                | \$0.65              | \$0.53              |

|                                      | December 31,<br>2003 | September 30,<br>2003 | June 30,<br>2003 | March 31,<br>2003 |
|--------------------------------------|----------------------|-----------------------|------------------|-------------------|
| <b>Income</b>                        | \$ 2,899,080         | \$ 2,654,935          | \$ 2,584,117     | \$ 1,815,197      |
| Income before Federal income taxes   | \$ 2,176,801         | \$ 2,140,863          | \$ 2,040,696     | \$ 1,236,883      |
| <b>Net income</b>                    | \$ 1,527,600         | \$ 1,506,993          | \$ 1,419,138     | \$ 876,420        |
| Net income per Sub-share Certificate | \$0.68               | \$0.66                | \$0.62           | \$0.38            |

F-16

#### INDEX OF EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.1               | Texas Pacific Land Trust, Declaration of Trust, dated February 1, 1888, by Charles J. Canda, Simeon J. Drake, and William Strauss, Trustees (incorporated herein by reference to Exhibit 3.1 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2002). |
| 10.1              | Option Agreement, dated December 7, 2004, between the Trust and Vaquero GP, LLC.  |
| 31.1              | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act.   |
| 31.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act.   |
| 32.1              | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2              | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

## CERTIFICATION

I, Roy Thomas, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2004 of Texas Pacific Land Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

By: /s/ Roy Thomas

\_\_\_\_\_  
Roy Thomas, General Agent and Chief  
Executive Officer

## CERTIFICATION

I, David M. Peterson, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2004 of Texas Pacific Land Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

By: /s/ David M. Peterson

\_\_\_\_\_  
David M. Peterson, Assistant General Agent  
and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Texas Pacific Land Trust (the "Trust") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Roy Thomas, Chief Executive Officer of the Trust, certifies, to the best of his knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust.

TEXAS PACIFIC LAND TRUST  
(Registrant)

Date: March 16, 2005

By: /s/ Roy Thomas  
Roy Thomas, General Agent and  
Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Texas Pacific Land Trust (the "Trust") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David M. Peterson, Chief Financial Officer of the Trust, certifies, to the best of his knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust.

TEXAS PACIFIC LAND TRUST  
(Registrant)

Date: March 16, 2005

By: /s/ David M. Peterson  
David M. Peterson, Assistant General Agent  
and Chief Financial Officer

## OPTION AGREEMENT

This Option Agreement is made this 7<sup>th</sup> day of December, 2004, at Dallas, Dallas County, Texas, by Texas Pacific Land Trust ("TPLT"), and Vaquero GP, LLC ("Vaquero").

## RECITALS

TPLT is the owner of lands and royalty interests in lands in the Permian Basin area of Texas. The mineral estate in much of those lands is owned by CUSA (as defined below). TPLT has asserted claims against CUSA for damages for breaches of CUSA's duties as mineral owner to TPLT as royalty owner, and for damages to TPLT's lands resulting from oil and gas operations on TPLT lands, and other claims. Vaquero desires to acquire by purchase some or all of CUSA's mineral interests. Vaquero also desires to obtain from TPLT an option to acquire by assignment some or all of TPLT's claims against CUSA. TPLT is willing to grant such option to Vaquero, on the terms and conditions set forth below.

## 1 DEFINITIONS

(a) **Effective Date** means the date when this agreement has been executed by all parties hereto. The Effective Date is set forth immediately above the parties' signatures below.

(b) **Exercise Date** means the date Vaquero exercises this option to acquire the Claims (or the date of TPLT's exercise of its right to require Vaquero to exercise its option under paragraph 9).

(c) **Claims** means all claims, uncollected judgments, and causes of action TPLT now has against CUSA which (i) arise out of or are related to the TPLT Property and (ii) for which the operative acts or omissions which underlie or give rise to the claim have occurred or occur prior to the Exercise Date, whether or not notice has been given as to such claims and whether asserted in an existing lawsuit or arbitration proceeding or not, and whether known or unknown, with the following exceptions:

(i) includes any claim for damages TPLT has against CUSA which were sustained prior to the Exercise Date for use of the surface estate by CUSA for pipelines, roads, salt water disposal or injection or other facilities or surface uses, or use of potable quality ground water, on lands the surface estate of which is owned by TPLT without any easement, lease or other permission or right of use, but does not include claims of future damages or suits to enjoin further unauthorized use, even though such use is a continuation of previous activity by CUSA.

(ii) "Claims" includes claims for past and future damages TPLT has against CUSA arising out of CUSA's breach of duties to TPLT as a royalty owner for failure to protect TPLT Properties against drainage from wells drilled prior to the Exercise Date, but does not include drainage claims attributable to wells drilled after the Exercise Date.

1

(iii) "Claims" includes claims for damages TPLT has against CUSA which were sustained prior to the Exercise Date for CUSA's failure to reasonably develop TPLT Properties or for failure to pool TPLT's royalty interest, but does not include claims TPLT may have in the future against Vaquero for its failure to develop or pool such lands after Vaquero's acquisition of such properties from CUSA.

(iv) "Claims" does not include claims TPLT may have against Vaquero, its Affiliates, or any other parties other than CUSA, even though such other parties may own mineral or leasehold interests with CUSA or may have acquired leasehold interests by lease or farmout from CUSA, or may be otherwise in privity of contract or estate with CUSA.

(v) "Claims" does not include claims TPLT may assert against CUSA, under state or federal laws, for contribution or indemnity resulting from claims hereafter made by third parties against TPLT for damages or injury to such third parties arising out of CUSA's activities on TPLT Properties.

A list of Claims which have to date been asserted is attached hereto as **Exhibit A**.

(d) **TPLT Property** means all lands in the State of Texas in which CUSA owns an interest and in which TPLT owns the surface estate and/or a royalty interest, an overriding royalty interest, a net profits interest or other interest in or relating to production on the effective date of this agreement.

(e) **Acquired Properties** means all mineral interests (including fee mineral estates, royalty interests, and leasehold mineral interests) in the State of Texas which Vaquero or any Affiliate of Vaquero acquire or contracts to acquire from CUSA at any time after the date of this agreement and before the Option Termination Date.

(f) **Affiliate of Vaquero** means the following entities for the purpose of this agreement: Guadalupe Shadows, LLC, a Texas limited liability company, MB Exploration, LLC, a Delaware limited liability company; J. Cleo Thompson and James Cleo Thompson, Jr., LP, a Texas limited partnership, Black Hill I, LP, a Texas limited partnership, Amistad Partners, LLC, a Texas limited liability company, GMB/Gringo Partners II, LP, a Texas limited partnership, and BP Capital LLC, a Delaware limited liability company, and any entity owned by Vaquero and/or any of the foregoing named entities.

(g) **CUSA** means Chevron USA, Inc., Texaco Inc., ChevronTexaco Inc., or Texaco Exploration and Production Inc., or any of such entities' wholly owned subsidiaries.

(h) **Option Termination Date** means the date which is the earlier of (i) one year from the date of Vaquero's exercise of this option or (ii) two years from the Effective Date of this Agreement.

(i) A **net mineral acre** is equivalent to 100% of the mineral estate in one acre of land. Royalty interests burdening the mineral estate in a tract shall not reduce the number of net mineral acres in the tract.

2

2 **Grant of Option.** For the consideration and subject to the terms hereafter provided, TPLT grants to Vaquero an option to acquire the Claims. The option to purchase shall commence on the Effective Date of this agreement and shall continue until five o'clock P.M. on the date which is twelve (12) months from the Effective Date (the "**Option Period**").

3 **Consideration for Option.** This option is granted in consideration of Vaquero's payment to TPLT of the sum of \$250,000.00 (the "**Option Fee**"), receipt of which is

hereby acknowledged. In addition, Vaquero agrees to reimburse TPLT for up to \$75,000 for legal and consulting fees and expenses incurred by TPLT in the negotiation of this agreement, immediately upon TPLT's submission of copies of invoices evidencing such fees and expenses.

4 **Exercise.** Vaquero may exercise this option at any time prior to its expiration by giving written notice to TPLT and by depositing the sum of One Million and No/100ths Dollars (\$1,000,000.00) (the "**Deposit**") in a joint account, which shall be held in the name of TPLT and Vaquero and established at Bank One, Dallas, N.A. The joint account shall be established in a manner so that the Deposit can only be released from the joint account by the signatures of a Trustee of TPLT and the President of Vaquero. All costs and expenses associated with establishing the joint account and distributing the Deposit upon joint signature of the above persons shall be the joint responsibility of TPLT and Vaquero. If Vaquero fails to provide such notice or make the Deposit Agent prior to expiration of the Option Period, then this agreement shall automatically terminate (subject to paragraph 9 below) and TPLT will retain the Option Fee.

5 **Consideration for Purchase of Claims.** The consideration to TPLT for Vaquero's purchase of the Claims shall consist of the following:

(a) Vaquero shall pay TPLT \$8,000,000.00, less one-half of the Option Fee, for a net cash amount of \$7,875,000.00, subject to further adjustment as provided in paragraph 10 below;

(b) Vaquero shall assign to TPLT those interests in the Acquired Properties described in paragraph 6 below; and

(c) Vaquero shall either (i) obtain a release of TPLT from any and all claims CUSA has against TPLT as of the date of Vaquero's exercise of its option, whether such claims have or have not been asserted, whether known or unknown to TPLT or CUSA, and which are in any way attributable to the Acquired Properties or oil or gas produced from the Acquired Properties or (ii) assume liability for, and provide defense and indemnity of TPLT against, any and all claims CUSA has against TPLT as of the date of Vaquero's exercise of its option, whether such claims have or have not been asserted, whether known or unknown to TPLT or CUSA, and which are in any way attributable to the Acquired Properties or oil or gas produced from the Acquired Properties.

6 **Vaquero's Assignment of Royalties in Acquired Properties.** If Vaquero exercises its option hereunder, or if TPLT exercises its option to require Vaquero to purchase its Claims as provided in paragraph 9 below, then at the closing of the sale of the Claims to Vaquero, Vaquero shall assign to TPLT the interests in the Acquired Properties described in (a), (b), (c) and (d) below. If, at any time within one year from the date of Vaquero's exercise of this option,

3

Vaquero acquires or contracts to acquire any additional Acquired Properties, then Vaquero shall within thirty (30) days from the date of the assignment to Vaquero assign to TPLT the interests described below in such additional Acquired Properties.

(a) With respect to interests acquired which (i) fall under the definition of Acquired Properties, and (ii) are mineral interest **not** subject to any oil and gas lease, option to acquire an oil and gas lease, farmout, or other agreement requiring the mineral owner to grant an oil and gas lease in effect at the time of its acquisition by Vaquero TPLT shall receive an assignment in the form attached hereto and incorporated herein as **Exhibit B**.

(b) With respect to interests acquired which (i) fall under the definition of Acquired Properties, and (ii) are mineral interests subject to an oil and gas lease in effect at the time of its acquisition by Vaquero, or subject to an option to acquire an oil and gas lease, farmout or other agreement requiring the mineral owner to grant an oil and gas lease in effect at the time of its acquisition by Vaquero, TPLT shall receive an assignment in the form attached hereto and incorporated herein as **Exhibit C**.

(c) With respect to any Acquired Property which is a leasehold or working interest, TPLT shall receive an assignment in the form attached hereto and incorporated herein as **Exhibit D**.

(d) With respect to any Acquired Property which is a royalty interest, overriding royalty interest or net profits interest, TPLT shall receive an assignment of 5% of the interest acquired by Vaquero.

The interests to be assigned as described above shall be in addition to any interests now owned by TPLT in the properties acquired by Vaquero.

7 **Conditions to Vaquero's Exercise of Option.** Vaquero may not exercise its option to purchase the Claims unless Vaquero and/or an Affiliate of Vaquero has acquired prior to, or simultaneously with the Closing of the sale of the Claims mineral interests from CUSA equal to at least one million net mineral acres. If Vaquero and/or an Affiliate of Vaquero acquires less than 100% of the mineral estate in any tract, then the number of net mineral acres acquired in such tract shall be equal to the number of acres in such tract multiplied by the fractional interest in the mineral estate acquired by Vaquero and/or an Affiliate of Vaquero. The fact that the mineral interest acquired by Vaquero and/or an Affiliate of Vaquero may be subject to an oil and gas lease or burdened by outstanding royalty interests shall not affect the number of net mineral acres in such tract acquired by Vaquero and/or an Affiliate of Vaquero. Prior to Closing, Vaquero shall fully disclose to TPLT all agreements, deeds, title reports and opinions and other documents evidencing the mineral interests acquired or to be acquired by Vaquero and/or an Affiliate of Vaquero from CUSA.

8 **Claims Excluded.** If Vaquero or an Affiliate of Vaquero does not acquire CUSA's interest in a TPLT Property, TPLT shall be entitled to exclude any Claim which arises from any such interest not so acquired ("Excluded Claim"). The fact that some Claims may be excluded from assignment to Vaquero shall not reduce or affect the consideration payable to TPLT at Closing. However, Vaquero shall not be required to obtain a release for, assume liability

4

for, or indemnify TPLT against, any counterclaims that CUSA may have asserted or may assert against TPLT in any lawsuit or other proceeding arising out of or related to the facts asserted in such Excluded Claim.

9 **TPLT's Right to Require Purchase of Claims.** If, at any time prior to the Option Termination Date, Vaquero and/or any Affiliate(s) of Vaquero acquire or enter into any agreement or agreements to cumulatively acquire mineral interests from CUSA in the following counties in the State of Texas: Andrews, Bailey, Borden, Brewster, Callahan, Cochran, Coke, Cottle, Crane, Crosby, Culberson, Dawson, Dickens, Ector, Edwards, El Paso, Fisher, Floyd, Gaines, Garza, Glasscock, Hale, Hockley, Howard, Hudspeth, Irion, Jeff Davis, Kent, King, Lamb, Loving, Lubbock, Lynn, Martin, Midland, Mitchell, Motley, Nolan, Palo Pinto, Pecos, Presidio, Reagan, Red River, Reeves, Scurry, Stephens, Sterling, Taylor, Upton, Ward, Winkler, and/or Winkler, then Vaquero and/or its Affiliate(s) shall fully disclose such acquisitions or agreements to TPLT. If such acquisitions or agreements result in Vaquero's and/or any Affiliate(s) of Vaquero's acquisition of not less than 50,000 net mineral acres in the State of Texas, then TPLT shall have the right, for a period of sixty (60) days after its receipt of full and complete information concerning such acquisition or agreement, to require Vaquero and/or any Affiliates of Vaquero to exercise Vaquero's option hereunder, to the same extent and with the same result and for the same consideration as if (i) this option were in full force and effect, (ii) Vaquero had exercised its option hereunder, and (iii) Vaquero had itself acquired such properties. Each such Affiliate shall be obligated to perform Vaquero's obligations with respect to the payment of cash consideration and execution and delivery of documents required of Vaquero in paragraphs 5 and 6 hereof.

10 **Prosecution of Claims During Option Period.** TPLT shall have the right, but no obligation, to pursue any or all of the Claims during the Option Period, at its sole discretion, and to settle any or all of the Claims upon such terms as it may elect, at its sole discretion. TPLT shall have no obligation or liability to Vaquero for failure to pursue Claims or failure to achieve a favorable result with respect to any Claim, or for failure to file a Claim to avoid the running of any applicable statute of limitation.

11 **Adjustment of Purchase Price.** The cash portion of the consideration paid by Vaquero for purchase of the Claims shall be reduced by the net amount of any monies received by TPLT from CUSA in settlement or collection of each Claim settled after the date of this agreement, after deducting any legal fees and expenses, expert and consulting fees and expenses and other expenses paid or incurred by TPLT in prosecution of such settled Claim. Prior to the Closing, TPLT shall furnish to Vaquero all

documents necessary to evidence adjustments to be made in accordance with this paragraph.

12 **Information; Disclosure.**

(a) **By TPLT.** Within thirty days after the Effective Date, TPLT will furnish to Vaquero copies of all pleadings filed in any court or arbitration proceeding with respect to any Claim. Thereafter, as additional pleadings are filed or received, TPLT will furnish Vaquero copies of such additional pleadings. TPLT also has provided a list and written information as to all other potential claims known to TPLT which have not yet been asserted by the filing of litigation or arbitration. Immediately after Closing, if the Claims are not released pursuant to

5

settlement prior to Closing, TPLT will provide to Vaquero copies of all documents and materials in its possession or control with respect to any asserted Claim acquired by Vaquero, including such documents as are subject to attorney-client or work-product privilege.

(b) **By Vaquero.** Vaquero will provide to TPLT, as soon as it becomes available, a copy of any agreements between Vaquero (or any Affiliate of Vaquero) and CUSA related to the purchase of any mineral or mineral leasehold interest owned by CUSA and located within the State of Texas entered into at any time prior to the Option Termination Date. Vaquero agrees that no agreement between it and CUSA will prohibit the disclosure of such agreement to TPLT. Within thirty days after the Closing, Vaquero will furnish TPLT with copies of any deeds from TPLT to The TXL Oil Corporation which Vaquero has in its possession and of any oil and gas leases covering TPLT Property which Vaquero has in its possession. Thereafter, as and when Vaquero acquires any such documents, Vaquero will provide copies to TPLT. In addition, Vaquero will timely provide to TPLT either copies of any farmout agreements, seismic options, or other documents relating to the development of the mineral estate on TPLT Property which are in Vaquero's possession, or descriptions of such agreements, identifying the lands covered, the parties, and the term of such agreements.

13 **Confidentiality.** Except as to CUSA, the parties agree to maintain the confidentiality of this agreement and of all non-public documents furnished by either party to the other pursuant to this agreement, and shall not disclose this agreement or such documents to any third person other than legal counsel, Affiliates of Vaquero, employees of the Vaquero or its Affiliates or TPLT, and consultants for such parties all of whom must agree in writing to be bound by the confidentiality requirements of this agreement; provided, however, Vaquero shall not disclose to CUSA any information as to any unasserted claims of which TPLT has informed Vaquero pursuant to Section 11(a). Notwithstanding the foregoing, the parties shall be entitled to disclose this agreement, or the terms thereof, to the extent necessary to comply with any law or regulation, including, without limitation, state or federal securities laws and regulations.

14 **Representations and Warranties of TPLT.** TPLT represents and warrants to Vaquero that the following matters are true and correct as of the execution date of this agreement and will also be true and correct as of the Closing date:

(a) **Authority.** TPLT is a trust duly formed, validly existing and in good standing.

(b) **Due Execution.** TPLT has the requisite power and authority to execute, deliver and perform this agreement. TPLT has duly authorized the execution, delivery and performance of this agreement. This agreement, assuming due authorization, execution and delivery by TPLT, constitutes the legal, valid, and binding obligation of TPLT enforceable against TPLT in accordance with its terms (except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other principles relating to or limiting the right of contracting parties generally) and does not violate the material provisions of any agreement to which TPLT is a party or to which it is subject.

(c) **Litigation.** To TPLT's Actual Knowledge (as defined below), TPLT has received no notice of any actions, suits or proceedings, pending or threatened, before

6

any judicial, administrative or other governmental authority with respect to the transfer or assignment of any of the Claims (or any portion thereof).

(d) **Governmental Notices.** To TPLT's Actual Knowledge, TPLT has received no written notice from any city, county, state or other government authority that the Claims are or will be affected by the assertion of a claim, assessment, intervention or lien, whether due to a material violation of the laws, rules or ordinances applicable to the TPLT Property underlying any Claim or otherwise.

(e) **Pleadings.** To TPLT's Actual Knowledge, the pleadings for each of the Claims to be provided for the review of Vaquero are a complete and accurate set of all pleadings relating to the Claims, as of the Effective Date, which disclosure shall be updated by TPLT prior to Closing, if necessary to make this representation correct, including the addition thereto of new pleadings filed after the date hereof through Closing.

(f) **Representation Agreements.** As of the Closing there will be no legal representation agreements affecting the Claims which cannot be terminated by notice and without any lien, and Vaquero shall have no liability under any of the legal representation agreements entered into by TPLT in connection with any of the Claims.

(g) **Further Statements.** The representations and warranties of TPLT set forth in this paragraph shall survive the Closing for a period of eighteen (18) months and shall terminate and be of no further force or effect eighteen (18) months following the Closing Date. Unless otherwise specified, all covenants and agreements herein shall survive indefinitely until fully performed or mutually released.

(h) **TPLT's Actual Knowledge.** For purposes of this agreement and each of the documents executed in connection herewith, "TPLT's Actual Knowledge" shall specifically mean and be limited to the actual knowledge, as of the Execution Date, or, if specifically stated, as of the Closing date, of any trustee or employee of TPLT and the manager of the TPLT Property, without any duty of inquiry or independent investigation on the part of TPLT or such individuals.

15 **Representations and Warranties of Vaquero.** Vaquero represents and warrants to TPLT that the following matters are true and correct as of the Effective Date and will also be true and correct as of the Closing date:

(a) **Authority.** Vaquero is a Texas limited liability company, validly existing under the laws of the State of Texas.

(b) **Membership.** The members of Vaquero are Guadalupe Shadows, LLC, a Texas limited liability company, and Amistad Partners, a limited liability company. The members of Guadalupe Shadows are MB Exploration, LLC, a Delaware limited partnership; J. Cleo Thompson and James Cleo Thompson, Jr., LP, a Texas limited partnership; Black Hill I, LP, a Texas limited partnership; and Texas Capital Bancshares, Inc.. The members of Amistad Partners, LLC are GMB/Gringo Partners, II, LP, a Texas limited partnership, and BP Capital LLC, a Delaware limited liability company.

7

(c) **Due Execution.** Vaquero has all requisite power and authority to execute, deliver and perform this agreement. Vaquero has obtained all requisite authorization for the execution, delivery and performance of this agreement. This agreement, assuming due authorization, execution and delivery by Vaquero, constitutes the legal, valid, and binding obligations of Vaquero enforceable against Vaquero in accordance with its terms (except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, moratorium and other principles relating to or limiting the right of contracting parties generally), and does not violate the material provisions of any agreement to which Vaquero is a party or to which it is subject.

(d) **Due Diligence Approvals.** Subject to and in accordance with the terms of this agreement, Vaquero confirms that it shall have had ample opportunity during the period prior to Closing to conduct its due diligence investigations of the Claims and review carefully all of the materials required for due diligence and complete all investigations, examinations and inspections of the Claims that Vaquero deems necessary, advisable or prudent to protect its interests in acquiring the Claims.

(e) **Knowledge of Claims.** Neither Vaquero nor any Affiliate of Vaquero has any knowledge of any Claims TPLT may have against CUSA except for those Claims TPLT has disclosed to Vaquero.

(f) **Further Statements.** The representations and warranties of Vaquero set forth in this agreement shall survive the Closing for a period of eighteen (18) months and shall terminate and be of no further force or effect eighteen (18) months following the Closing Date. Unless otherwise specified, all covenants and agreements herein shall survive indefinitely until fully performed or mutually released.

**No Representations. Purchase “As Is”.** EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER TPLT, NOR ANYONE ACTING FOR OR ON BEHALF OF TPLT, HAS MADE ANY REPRESENTATION, WARRANTY, PROMISE OR STATEMENT, EXPRESS OR IMPLIED, TO VAQUERO, OR TO ANYONE ACTING FOR OR ON BEHALF OF VAQUERO, CONCERNING THE CLAIMS, INCLUDING, WITHOUT LIMITATION, WHETHER ANY OF THE CLAIMS ARE BARRED BY LIMITATIONS, OR THE LIKELIHOOD OF A RECOVERY OR OF ANY PARTICULAR RESULT. VAQUERO FURTHER REPRESENTS AND WARRANTS THAT, IN ENTERING INTO THIS AGREEMENT, VAQUERO HAS NOT RELIED ON ANY REPRESENTATION, WARRANTY, PROMISE OR STATEMENT, EXPRESS OR IMPLIED, OF TPLT, OR ANYONE ACTING FOR OR ON BEHALF OF TPLT, OTHER THAN AS EXPRESSLY SET FORTH IN THIS AGREEMENT, AND THAT ALL MATTERS CONCERNING THE CLAIMS HAVE BEEN OR SHALL BE INDEPENDENTLY VERIFIED BY VAQUERO PRIOR TO THE CLOSING, AND THAT VAQUERO SHALL PURCHASE THE CLAIMS BASED ON VAQUERO’S OWN PRIOR DUE DILIGENCE INVESTIGATIONS, INSPECTIONS AND EXAMINATIONS OF THE CLAIMS (OR VAQUERO’S ELECTION NOT TO DO SO); AND THAT VAQUERO IS PURCHASING EACH OF THE CLAIMS “AS IS” AND “WITH ALL FAULTS”. VAQUERO DOES HEREBY WAIVE, AND TPLT DOES HEREBY

8

**DISCLAIM, ALL WARRANTIES OF ANY TYPE OR KIND WHATSOEVER WITH RESPECT TO THE CLAIMS, WHETHER EXPRESS OR IMPLIED.**

16 **Closing.** Closing of the sale of the Claims shall take place at the offices of TPLT in Dallas, Texas on a date mutually agreeable to the parties within thirty (30) days after Vaquero’s notice to TPLT of exercise of its option (or in the case of TPLT’s election to require Vaquero to exercise its option as provided in paragraph 9, the date of TPLT’s notice). At Closing:

(a) Vaquero shall deliver to TPLT, in cash or other immediately available funds, the cash portion of the purchase price, less the amount of the Deposit, adjusted as provided in paragraph 10;

(b) Both Parties shall take the appropriate action to cause Deposit, together with any interest earned thereon, to be delivered to TPLT;

(c) TPLT shall, at Vaquero’s election, either execute and deliver to Vaquero an Assignment of Claims in the form attached hereto as **Exhibit E**, assigning the Claims except for any Excluded Claims; or shall execute and deliver settlement documents evidencing the settlement and release of all such Claims, in return for appropriate settlement and release documents evidencing the release of any corresponding counterclaims of CUSA against TPLT;

(d) Vaquero shall execute and deliver to TPLT assignments in form and substance complying with the terms of paragraph 6 above;

(e) Vaquero shall either (i) obtain and deliver to TPLT a release from CUSA as to all Claims CUSA may have against TPLT related to the Acquired Properties as provided in paragraph 5(c), or (ii) execute and deliver to TPLT an Assumption and Indemnity Agreement, in the form attached hereto as **Exhibit F**, in compliance with paragraph 5(c), but excluding assumption and indemnity with respect to any Excluded Claims.

(f) TPLT shall deliver to Vaquero an appropriate certificate in standard form reasonably acceptable to Vaquero, signed by TPLT’s General Agent, dated as of the Closing Date, certifying to (i) the resolutions of TPLT’s trustees authorizing the sale of the assigned Claims and the other transactions contemplated hereby, and (ii) the authority and incumbency of the persons signing on behalf of TPLT.

(g) Vaquero shall deliver to TPLT an appropriate certificate in standard form reasonably acceptable to TPLT, signed by Vaquero’s President, certifying to (i) the resolutions of Vaquero’s members authorizing its purchase of the Claims and the other transactions contemplated hereby, and (ii) the authority and incumbency of the person signing on behalf of Vaquero.

#### 17 **Covenants of TPLT.**

(a) TPLT agrees that, as long as this agreement remains in effect and Vaquero has the option to purchase the Claims, no part of the Claims or any interest therein will be sold, encumbered or otherwise transferred.

9

(b) If Vaquero exercises its option hereunder, and if after closing TPLT has claims against CUSA or Vaquero for unauthorized surface use of any TPLT Property, and if Vaquero acquires mineral rights in such lands from CUSA, then TPLT agrees to grant to Vaquero easements, surface leases or other authorizations for Vaquero to continue such surface uses, such easements, surface leases or other authorizations to be granted in exchange for consideration paid to TPLT by Vaquero at market rates and upon such other terms as are reasonable and customary for such transaction.

(c) If Vaquero exercises its option hereunder, and if after closing TPLT has claims against CUSA for breach of duties to TPLT as a royalty owner, including without limitation claims for failure to reasonably develop or for failure to pool, and if Vaquero (or an Affiliate of Vaquero) acquires mineral rights in lands from CUSA so that Vaquero (or an Affiliate of Vaquero) owns the mineral interest appurtenant to such claim and would have the duty to TPLT which TPLT alleges is being breached, then TPLT agrees to stay prosecution of any of such claims against Vaquero (or its Affiliate) for up to one year from the date of Closing to allow Vaquero to evaluate such claims and take such actions as it may deem appropriate to respond to such claims, provided that Vaquero (or its Affiliate) agree that none of such claims, whether then subject to a lawsuit or not, will be barred by the passage of time or prejudiced in any other way during such year.

18 **Remedies.** If TPLT breaches this agreement, Vaquero at its option, and as its sole remedies, may elect either (i) to obtain return of the consideration paid by Vaquero for the granting of this option, or (ii) obtain specific performance of this agreement. If Vaquero or an Affiliate of Vaquero breaches this agreement, TPLT may seek any remedy allowed by law or in equity.

19 **Assignment.** The rights of the parties hereunder may not be assigned in whole or in part without the prior written consent of the non-assigning party.

20 **No Brokers.** Each party represents to the other that no brokerage fee or commission, finder’s fee or other compensation is due or payable to any third party with respect to the transactions contemplated herein, and each party agrees to defend, indemnify and hold harmless the other party against any losses, damages, costs and expenses, including attorneys’ fees, incurred by reason of any breach of such representation by such party.

21 **Joinder of Affiliates.** Each of the Affiliates of Vaquero named in paragraph 1(e) of this agreement joins in this agreement to evidence such Affiliate's agreement severally and not jointly, to be bound by paragraphs 7, 9, 13 and 15(e) of this agreement.

**Miscellaneous.**

(a) **Authority.** Each of Vaquero and TPLT hereby represents that the individuals and entity(ies) executing this agreement and each such individual or entity hereby represents and warrants that he, she or it on behalf of Vaquero and TPLT, respectively, has the capacity set forth on the signature pages hereof with full power and authority to bind the party on whose behalf he, she or it is executing this agreement to the terms hereof.

10

(b) **Entire Agreement.** This agreement and any other document executed by the parties contemporaneously herewith constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, whether oral or written, between the parties with respect to the matters contained in this agreement.

(c) **Counterparts.** This agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to any other counterpart identical thereto except having additional signature pages executed by other parties to this agreement attached thereto.

(d) **Time of Essence.** Time is of the essence in the performance of and compliance with each of the provisions and conditions of this agreement. All times provided in this agreement for the performance of any act shall be strictly construed.

(e) **Notices.** All notices provided for herein shall be in writing and may be telecopied (with machine verification of receipt), sent by Federal Express or other overnight courier service, personally delivered or mailed registered or certified mail, return receipt requested. If a notice is sent by telecopy, it shall be deemed given when transmission is complete if (i) transmitted before 5 pm, and (ii) a confirmation of successful transmission is contemporaneously printed by the transmitting telecopy machine and (iii) a copy of the notice is sent to the recipient by overnight courier for delivery on the Business Day next following the date of telecopy transmission. If a notice is personally delivered, sent by overnight courier service or sent by registered or certified mail, it shall be deemed given upon receipt or refusal of delivery. The addresses to be used in connection with notices are the following, or such other address as a party shall from time to time direct by notice given in accordance with this Section 22(e):

Vaquero: Vaquero GP, LLC  
5001 LBJ Freeway, Suite 370  
Dallas, Texas 75244  
Attention: Matthew Bob  
Telephone: 972-726-1835  
Telecopy: 972-726-8288

With a copy to: Miller Mentzer, P.C.  
2911 Turtle Creek, Suite 300  
Dallas, Texas 75219  
Attention: Lawrence B. Mentzer  
Telephone: 214-720-2222  
Telecopy: 214-720-0599

11

TPLT: Texas Pacific Land Trust  
1700 Pacific Avenue, Suite 1670  
Dallas, Texas 75201  
Attention: Roy Thomas, General Agent  
Telephone: 214-969-5530  
Telecopy: 214-871-7139

With a copy to: Graves Dougherty Heard & Moody  
401 Congress Avenue, Suite 2200  
Austin, Texas 78701  
Attention: John B. McFarland  
Telephone: 512-480-5618  
Telecopy: 512-480-5818

(f) **Further Assurances.** The parties agree to execute such instructions and such other instruments and to do such further acts as may be reasonably necessary to carry out the provisions of this agreement.

(g) **No Representations.** The making, execution and delivery of this agreement by the parties hereto has been induced by no representations, statements, warranties or agreements other than those expressly set forth herein.

(h) **Severability.** Wherever possible, each provision of this agreement shall be interpreted in such a manner as to be valid under applicable law, but, if any provision of this agreement shall be invalid or prohibited thereunder, such invalidity or prohibition shall be construed as if such invalid or prohibited provision had not been inserted herein and shall not affect the remainder of such provision or the remaining provisions of this agreement.

(i) **Construction.** The language in all parts of this agreement shall be in all cases construed simply according to its fair meaning and not strictly for or against any of the parties hereto. Section headings of this agreement are solely for convenience of reference and shall not govern the interpretation of any of the provisions of this agreement. References to "paragraphs" are to paragraphs of this agreement, unless otherwise specifically provided. Where the context so requires, the use of the singular shall include the plural and vice versa.

(j) **Attorneys' Fees.** If any action is brought by either party against the other party for the enforcement of this agreement or any document or instrument delivered pursuant hereto, the prevailing party shall be entitled to recover from the other party reasonable attorneys' fees, costs and expenses incurred in connection with the prosecution or defense of such action or any appeal thereof. For purposes of this agreement, the term "attorneys' fees" or "attorneys' fees and costs" shall mean the fees and expenses of counsel to the parties hereto, which may include expert witness fees, printing, duplicating and other expenses, delivery charges, and fees billed for law clerks, paralegals and other persons not admitted to the bar but performing services under the supervision of an attorney.

(k) **Relationship.** Notwithstanding anything to the contrary contained herein, this agreement shall not be deemed or construed to make the parties hereto partners or joint

12

venturers, or to render either party liable for any of the debts or obligations of the other, it being the intention of the parties to merely create the relationship of TPLT and Vaquero with respect to the Claims to be conveyed as contemplated hereby.

(l) **No Third Party Beneficiaries.** TPLT and Vaquero agree that it is their specific intent that no broker or any other third party shall be a party to or a third party beneficiary of this agreement or the escrow; and further that the consent of a broker or other third party shall not be necessary to any agreement, amendment, or document with respect to the transaction contemplated by this agreement.

(m) **No Waiver.** No waiver hereunder by any party of any breach hereunder shall be deemed a waiver of any other or subsequent breach.

(n) **Amendment.** Any waiver, amendment, modification, consent or acquiescence with respect to any provision of this agreement shall be set forth in writing and duly executed by the party to be bound thereby.

(o) **Expenses.** Except as expressly provided herein, each party hereto shall pay its own expenses incurred in connection with this agreement and the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties, acting through their duly authorized representatives, have executed this agreement to be effective as of December 7, 2004 (the "Effective Date").

Vaquero GP, LLC

Texas Pacific Land Trust

By: /s/ Matthew Bob

/s/ Maurice Meyer III

\_\_\_\_\_  
Matthew Bob, President

\_\_\_\_\_  
Maurice Meyer III, Trustee

Guadalupe Shadows, LLC

/s/ Joe R. Clark

\_\_\_\_\_  
Joe R. Clark, Trustee

By: /s/ Matthew R. Bob

/s/ John R. Norris III

\_\_\_\_\_  
Matthew R. Bob, Manager

\_\_\_\_\_  
John R. Norris III, Trustee

MB Exploration, LLC

By: /s/ Matthew R. Bob

\_\_\_\_\_  
Matthew R. Bob, President

13

J. Cleo Thompson and James Cleo Thompson, Jr., LP

By: /s/ James Cleo Thompson, Jr.

\_\_\_\_\_  
James Cleo Thompson  
Managing General Partner

Black Hill I, LP

By: /s/ Daniel A. Gillett

Daniel A. Gillett

Managing Partner

Amistad Partners, LLC

By: /s/ G. Michael Boswell

G. Michael Boswell, President

GMB/Gringo Partners II, LP

By: Old Gringo Inc., General Partner

By: /s/ G. Michael Boswell

G. Michael Boswell, President

BP Capital LLC

By: /s/ Boone Pickens

Boone Pickens, President

**EXHIBIT A TO THE OPTION AGREEMENT**

Partial List of Claims

| Field or Lease In Which TPLT Interest is Located | Additional Identification  | County                   | Court In Which Disagreement Has Been Filed                              |
|--|--|--------------------------|---|
| Toro Field                                       | Block 50, T-7S & T-8-S   | Reeves                   |   |
| Greasewood Field                                 | Sections 33 & 35, Blk 54, T-4-S  | Reeves                   |   |
| Midland "AO" Fee Lease                           | Section 25, Blk 39, T-4-S  | Midland                  |   |
| Midland "AP" Fee Lease                           | Section 19, Blk 39, T-4-S  | Midland                  |   |
| Glasscock "AB" Fee Lease                         | Section 45, Blk 42, T-5-S  | Glasscock                |   |
| Glasscock "U" Fee Lease                          | Section 39, Blk 42, T-4-S  | Glasscock                |   |
| S/2, Section 1, Block 39, T-4-S                  | Spraberry Trend Field  | Midland                  | Subject to voluntary arbitration.                                       |
| Section 35, Block 35, T-3-S                      | Blalock Lake, S.E. Field   | Glasscock                | Arbitration under the guidance of the                                   |
| Section 17, Block 40, T-3-S                      | Spraberry Trend Field  | Midland                  | 143rd Judicial District Court, Reeves                                   |
| Section 23, Block 32, T-1-S                      | Red Draw (Fusselman) Field   | Howard                   | County, in original Cause No.   |
| Section 5, Block 39, T-4-S                       | TXL "N" 5 - 1 offset drilled by Arco   | Midland                  | 03-03-17615-CVR   |
| Sections 3 & 9, Block 56, T-1-S                  | Red Bluff & Dam Site (Wolfcamp) Fields   | Loving                   |   |
| Slash Ranch Field                                | Section 15 & offsets to Section 40, Blk 53, T-2-S  | Loving                   |   |
| Howard "D" Fee Lease                             | Big Spring (Fusselman) Field   | Howard                   |   |
| Texaco Upton "M" Fee                             | Section 3, Blk 41, T-5-S   | Upton                    |   |
| Section 27, Block 41, T-5-S                      | Spraberry Trend Field  | Upton                    |   |
| Glasscock "P" Fee Lease                          | Section 29, Blk 35, T-3-S  | Glasscock                |   |
| Upton "Z"  | CUSA v. TPLT   | Upton                    | Cause No. 03-07-U3811--ANC, 112th Judicial District Court, Upton County |
| Upton "Z"  | TPLT's Counterclaim against CUSA   | Upton                    |   |
| Upton "Z" (Pita #1)                              | TPLT v. CUSA   | Crane                    | Cause No. 5532, 109th Judicial District Court, Crane County             |
| Nine Mile Draw (Fusselman)                       | TPLT v. CUSA   | Reeves                   | Cause No. 40117857-CVR, 143rd Judicial District Court, Reeves County    |
| Reeves "AQ" SWD                                  | TPLT v. CUSA, Apache, et al  | Reeves                   | Cause No. 04-02-17872-CVR, 143rd Judicial District Court, Reeves County |
| Sterling "E" SWD                                 | TPLT v. CUSA   | Sterling                 | Cause No. 2323, 51st Judicial District Court, Sterling County           |
| Class Action                                     | TPLT has no knowledge of the particulars of this lawsuit except it appears to be associated with a claim of underpayment of royalty. | Washita County, Oklahoma | Case No. CJ-2001-7  |

**EXHIBIT B TO THE OPTION AGREEMENT**

**ASSIGNMENT OF NON-PARTICIPATING PERPETUAL ROYALTY INTEREST**

STATE OF TEXAS

COUNTY OF \_\_\_\_\_

This assignment ("Assignment") is made on the \_\_\_ day of \_\_\_, 200\_\_\_, (the "Effective Date") by and between \_\_\_\_\_ ("Assignor"), and Texas Pacific Land Trust, with offices at 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201 ("Assignee").

Assignor, for ten dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, has GRANTED, BARGAINED, SOLD, ASSIGNED and CONVEYED and by these presents does GRANT, BARGAIN, SELL, ASSIGN and CONVEY, to Assignee an undivided five percent (5%) non-participating perpetual royalty interest ("NPRI") in and to all oil, gas and other minerals produced and saved from the land more particularly described in Exhibit "A" attached hereto and incorporated herein (the "Land"). If as to any tract described in Exhibit "A" Assignor owns less interest in the oil, gas and other minerals than the entire undivided fee simple mineral estate therein, whether or not such lesser interest is referred to or described in Exhibit "A", then the NPRI hereby assigned in such tract shall be proportionately reduced in the same proportion which Assignor's interest in such tract bears to the whole and undivided mineral fee.

It is the intent of Assignor and Assignee that the interests conveyed by this Assignment are non-participating royalty interests only. By this Assignment, Assignee acquires no rights to any payments of bonus consideration, delay rentals, any executive rights, or the right to negotiate any oil and gas lease on the lands that are the subject of this assignment. Further, Assignor reserves the right to pool or unitize the NPRI herein granted, to create pooled units or field-wide or secondary or tertiary recovery units, with allocation of production among tracts in such units to be on a reasonable basis.

The NPRI due to Assignee by virtue of this assignment shall be calculated and paid in the same manner as the royalties payable to Assignor under any oil and gas lease covering Assignor's mineral interest in the Land. If Assignor or its successors or assigns drills and produces oil or gas from the Land without granting any oil and gas lease thereon, then the NPRI due to Assignee hereunder shall be calculated and paid as provided below:

Assignor covenants and agrees:

(i) to deliver or cause to be delivered to the credit of Assignee, in the pipe line to which Assignor may connect its wells, five percent (5%) of all oil, condensate and liquid hydrocarbons produced and saved by Assignor from the premises, or from time to time, at the option of Assignee, Assignor shall sell Assignee's share of such oil with Assignor's share and shall pay Assignee five percent (5%) of the Gross Proceeds (as hereinafter defined) from the sale of all oil, condensate and liquid hydrocarbons produced and saved from the premises;

16

(ii) to pay Assignee on gas and casinghead gas produced from the premises

(1) when sold by Assignor in an arms-length sale to an unaffiliated third party, five percent (5%) of the Gross Proceeds received by Assignor from the sale of such gas and casinghead gas, or

(2) when used by Assignor or sold to a Subsidiary or Affiliate (as hereafter defined) of Assignor, five percent (5%) of the Gross Proceeds, computed at the point of sale, from the sale of such gas by such Subsidiary or Affiliate of Assignor; and

(3) when used by Assignor (other than for operations on the premises as hereafter provided) the market value at the point of use.

(iii) to pay Assignee on all other minerals mined and marketed or utilized by Assignor from the premises, five percent (5%) of the Gross Proceeds received at the point of sale.

For purposes of this assignment, a "Subsidiary or Affiliate of Assignor" is any corporation, firm or other entity in which Assignor, or any parent company, subsidiary or affiliate of Assignor, owns an interest of more than ten percent (10%), whether by stock ownership or otherwise, or over which Assignor or any parent company, Subsidiary or Affiliate of Assignor exercises any degree of control, directly or indirectly, by ownership, interlocking directorate, or in any other manner; and any corporation, firm or other entity which owns any interest in Assignor, whether by stock ownership or otherwise, or which exercises any degree of control, directly or indirectly, over Assignor, by stock ownership, interlocking directorate, or in any other manner.

For purposes of this Assignment, "Gross Proceeds" means the total consideration paid for oil and gas produced from the premises, with the following exceptions:

(i) Assignee's NPRI shall bear its proportionate part of severance taxes.

(ii) Assignee's NPRI shall bear Assignee's proportionate part of any costs of transporting oil, gas or liquid hydrocarbon products paid to any third party which is not a Subsidiary or Affiliate of Assignor.

(iii) If gas produced from the premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is not owned by Assignor or any Subsidiary or Affiliate of Assignor, Assignee's royalty shall be calculated based upon the consideration received by Assignor (or any subsidiary or affiliate of Assignor) from Assignor's (or Assignor's subsidiary's) sale of such liquefiable hydrocarbons and residue gas, less Assignor's proportionate part of severance taxes thereon.

(iv) If gas produced from the premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is owned by Assignor or a Subsidiary or Affiliate of Assignor, Assignee's NPRI shall be calculated based on (a) 75% of the

17

consideration received by Assignor (or any Subsidiary or Affiliate of Assignor) from the sale of all products extracted from such gas, plus (b) the total consideration received by Assignor (or any Subsidiary or Affiliate of Assignor) from the sale of all residue gas, less Assignor's proportionate part of severance taxes thereon.

(v) No royalty shall be payable on gas used on the premises for production operations or compression or dehydration of gas produced from the premises.

Assignor shall place oil and gas produced from the premises in marketable condition and shall market same for Assignee, at no cost to Assignee. Except as expressly provided above, Assignee's NPRI shall not be charged directly or indirectly with any of the following: expenses of production, gathering, dehydration, compression, manufacturing, processing, treating or marketing of gas, oil, or any liquefiable hydrocarbons extracted therefrom.

In addition to the NPRI hereby assigned, Assignor hereby agrees that the following covenants shall apply to all of the lands described in Exhibit "A", and shall be binding upon Assignor, its successors and assigns, and will inure to the benefit of Assignee, its successors and assigns:

(a) From the Effective Date of this Assignment, Assignor will not execute any oil, gas and/or mineral lease that exceeds one section in size covering any part of the land described in Exhibit "A" the surface estate of which is owned by Assignee on the date of such lease.

(b) Assignor will provide to Assignee a copy of any and all oil and gas leases hereafter executed by Assignor covering all or any part of the land described in Exhibit "A", immediately upon execution and delivery of such leases. Assignor will timely provide to Assignee either copies of any farmout agreements, seismic options, or other

documents relating to the development of the mineral estate on the land described in Exhibit "A", or descriptions of such agreements, identifying the lands covered, the parties, and the term of such agreements.

(c) Assignee shall have the right to inspect, copy and audit the books, accounts, contracts, records, and data of Assignor, its lessees and assigns, pertaining to the development, production, saving, transportation, sale, and marketing of the oil and gas produced from or attributable to the land described in Exhibit "A". Such right shall be limited to records and data for production occurring within four years of Assignee's request for audit.

(d) As to any part of the land described in Exhibit "A" in which Assignee owns the surface estate on the effective date of this Assignment, Assignor agrees that all such land shall be subject to the following covenant and limitation on the right of the mineral owner, and any lessee of the mineral owner, to use subsurface water: "useable quality groundwater" (as hereafter defined) from such land shall not be used for waterflood, pressure-maintenance, or other secondary or tertiary purposes in connection with oil and gas production operations, without prior written consent of the surface owner. For purposes of this covenant and limitation, "useable quality groundwater" shall mean (i) water from the Santa Rosa or Rustler Aquifers, and

18

(ii) subsurface water from any source containing total dissolved solids of less than 10,000 parts per million.

(e) If Assignor hereafter sells, assigns or leases any interest in any of the land described in Exhibit "A", and if Assignee owns an interest in the surface estate of such land at the time of such sale, assignment or lease, then Assignor agrees to provide written notice to such assignee or lessee of Assignee's surface ownership interest, at the time of such lease or assignment.

This assignment is delivered by Assignor to Assignee with warranty of title by, through, and under Assignor, but not otherwise.

In the event Assignee receives a bona fide offer from a third party to purchase all or a part of the royalty interest hereby assigned to Assignee, and if Assignee desires to accept the offer, Assignee shall notify Assignor in writing (by U.S. mail or personal delivery) of the existence of such third party offer. Assignor shall have a period of thirty days from the date of receipt of Assignor's written notice within which to elect to purchase the interest (upon which the third party offer has been made) on the same price, terms, and conditions contained in the third party offer. If Assignor fails to notify Assignee of its election to purchase the interest within the time period specified above, then it shall be deemed for the purposes of the exercise of this preferential right, that Assignor has elected not to purchase the interest. Should Assignor elect not to purchase the interest, Assignee shall be free to sell the interest on such terms and conditions, and such interest shall be sold by Assignee free of this right of first refusal. In the event the proposed sale of the interest to a third party is not consummated on such terms and conditions, Assignor's preferential right to purchase the interest shall apply as to any future third party offers to purchase the interest. Upon the timely and proper election by Assignor to purchase the interest, the execution and delivery of the assignment of the interest by Assignee, the payment of the purchase price by Assignor, and the closing of such transaction shall be scheduled by mutual agreement of Assignor and Assignee, but in any event within thirty (30) days of the exercise by Assignor of its election to purchase. Assignor's rights set forth in this paragraph shall be personal to Assignor, and shall not be appurtenant to the mineral interest from which the royalty assigned herein is paid. The right of first refusal herein granted shall terminate fifteen (15) years from the Effective Date of this Assignment, except as to any offers to purchase received by Assignee prior to such date.

No party ("Claiming Party") shall institute litigation or otherwise pursue any alleged claim or cause of action against the other party ("Breaching Party"), including without limitation any claim arising out of or related to this Assignment unless and until:

(a) the Claiming Party has first given written notice ("Claim Notice") to the Breaching Party of such alleged claim or cause of action which sets forth in reasonable detail the basis for such claim or cause of action and the actions that it alleges must be taken to cure or satisfy the breach or other grounds for such claim or cause of action; and

(b) the Breaching Party has failed to cure such claim or cause of action within thirty (30) days after receipt of such notice or, where such claim or cause of action cannot be reasonably be cured within said thirty (30) days, the Breaching Party has failed to commence actions to correct

19

or cure such claim or cause of action within said thirty (30) days or failed, once curative actions are commenced, to prosecute such curative actions with due diligence.

The statute of limitations shall be tolled with respect to any claim or cause of action set forth in a Claim Notice commencing upon the delivery of such Claim Notice to the Breaching Party and continuing thereafter until it is no longer barred by this section from instituting litigation or otherwise pursuing such claim or cause of action.

20

This agreement may be executed in counterpart.

Executed as of the Effective Date stated above.

ASSIGNOR: \_\_\_\_\_

ASSIGNEE: Texas Pacific Land Trust

By: \_\_\_\_\_

\_\_\_\_\_  
Maurice Meyer III, Trustee

\_\_\_\_\_  
Joe R. Clark, Trustee

\_\_\_\_\_  
John R. Norris III, Trustee

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_, 200\_\_\_, before me personally appeared \_\_\_\_\_, who being by me duly sworn, did say that he is the \_\_\_\_\_, and that he signed this instrument in the capacity stated, as the act of the \_\_\_\_\_, for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

\_\_\_\_\_  
State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Maurice Meyer III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

21

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Joe R. Clark, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared John R. Norris III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

22

EXHIBIT "A"

TO

ASSIGNMENT OF NON-PARTICIPATING ROYALTY INTEREST

LEGAL DESCRIPTION OF THE PROPERTY

23

**EXHIBIT C TO THE OPTION AGREEMENT**

**ASSIGNMENT OF NON-PARTICIPATING PERPETUAL ROYALTY INTEREST**

STATE OF TEXAS

COUNTY OF \_\_\_\_\_

This assignment ("Assignment") is made on the \_\_\_ day of \_\_\_\_, 200\_\_, (the "Effective Date") by and between \_\_\_\_\_ ("Assignor"), and Texas Pacific Land Trust, with offices at 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201 ("Assignee").

Assignor, for ten dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, has GRANTED, BARGAINED, SOLD, ASSIGNED and CONVEYED and by these presents does GRANT, BARGAIN, SELL, ASSIGN and CONVEY, to Assignee an undivided five percent (5%) non-participating perpetual royalty interest in and to all oil, gas and other minerals produced and saved from the land more particularly described in Exhibit "A" attached hereto and incorporated herein ("NPRI"). If as to any of the lands described in Exhibit "A" Assignor owns less interest in the oil, gas and other minerals than the entire undivided fee simple mineral estate therein, whether or not such lesser interest is referred to or described in Exhibit "A", then the NPRI hereby assigned in such tract shall be proportionately reduced in the same proportion which Assignor's interest in such tract bears to the whole and undivided mineral fee.

The lands described in Exhibit "A" are either (i) subject to an outstanding oil, gas and mineral lease now in effect, or (ii) subject to an agreement (an "Option Agreement") whereby Assignor is obligated, subject to certain conditions, to grant one or more oil and gas leases. The NPRI payable hereunder to Assignee shall be reduced, as to those lands described in Exhibit A which are now subject to an oil and gas lease, so that Assignee's share of the NPRI payable under and by virtue of production from such lease shall be five percent (5%) of the "Net Royalty" (as hereafter defined) payable to Assignor under such lease. As to any of the lands described in Exhibit A which hereafter become subject to an oil and gas lease by virtue of an Option Agreement in force and effect on the Effective Date of this Assignment, the NPRI payable hereunder to Assignee shall be reduced, so that Assignee's share of the royalty payable under and by virtue of production from such lease shall be five percent (5%) of the Net Royalty payable to Assignor under such lease. The term "Net Royalty" means the landowner's royalty reserved in the oil and gas lease, less the portion of such royalty payable to parties other than Assignor. At the expiration of any oil and gas lease covering any of the lands described in Exhibit A which is either now in effect or granted pursuant to an Option Agreement now in effect, Assignee's NPRI on the lands formerly subject to such lease shall thereafter be the original 5% NPRI granted above, proportionately reduced as herein above provided in the event that Assignor's mineral interest therein is less than the entire mineral estate.

It is the intent of the parties that the royalty interests hereby conveyed are present grants of a vested interest in the royalty in the oil, gas and other minerals in and under the lands described in Exhibit "A". In the event, however, that any part of this conveyance would, absent

24

this paragraph, violate the Rule Against Perpetuities, then the duration of the royalty interest herein granted which would violate the Rule shall be limited in duration to the date which is twenty years after the death of the last to die of the now living descendants of Joseph P. Kennedy, the father of the late President John F. Kennedy.

It is the intent of Assignor and Assignee that the interests conveyed by this Assignment are non-participating royalty interests only. By this Assignment, Assignee acquires no rights to any payments of bonus consideration, delay rentals, any executive rights, or the right to negotiate any oil and gas lease on the lands that are the subject of this assignment. Further, Assignor reserves the right to pool or unitize the NPRI herein granted, to create pooled units or field-wide or secondary or tertiary recovery units, with allocation of production among tracts in such units to be on a reasonable basis.

The royalties due to Assignee by virtue of this Assignment shall be calculated and paid in the same manner as the royalties payable to Assignor under any oil and gas lease covering Assignor's mineral interest in the land described in Exhibit "A". If Assignor or its successors or assigns drills and produces oil or gas from such land without granting any oil and gas lease thereon, then the royalties due to Assignee hereunder shall be calculated and paid as provided below:

Assignor covenants and agrees:

- (i) to deliver or cause to be delivered to the credit of Assignee, in the pipe line to which Assignor may connect its wells, five percent (5%) of all oil, condensate and liquid hydrocarbons produced and saved by Assignor from the premises, or from time to time, at the option of Assignee, Assignor shall sell Assignee's share of such oil with Assignor's share and shall pay Assignee five percent (5%) of the Gross Proceeds (as hereinafter defined) from the sale of all oil, condensate and liquid hydrocarbons produced and saved from the premises;
- (ii) to pay Assignee on gas and casinghead gas produced from the premises
  - (1) when sold by Assignor in an arms-length sale to an unaffiliated third party, five percent (5%) of the Gross Proceeds received by Assignor from the sale of such gas and casinghead gas, or
  - (2) when used by Assignor or sold to a Subsidiary or Affiliate (as hereafter defined) of Assignor, five percent (5%) of the Gross Proceeds, computed at the point of sale, from the sale of such gas by such Subsidiary or Affiliate of Assignor; and
  - (3) when used by Assignor (other than for operations on the premises as hereafter provided), the market value at the point of use.
- (iii) to pay Assignee on all other minerals mined and marketed or utilized by Assignor from the premises, five percent (5%) of the Gross Proceeds received at the point of sale or use, whichever is greater.

25

For purposes of this Assignment, a "Subsidiary or Affiliate of Assignor" is any corporation, firm or other entity in which Assignor, or any parent company, Subsidiary or Affiliate of Assignor, owns an interest of more than ten percent (10%), whether by stock ownership or otherwise, or over which Assignor or any parent company, Subsidiary or Affiliate of Assignor exercises any degree of control, directly or indirectly, by ownership, interlocking directorate, or in any other manner; and any corporation, firm or other entity which owns any interest in Assignor, whether by stock ownership or otherwise, or which exercises any degree of control, directly or indirectly, over Assignor, by stock ownership, interlocking directorate, or in any other manner.

For purposes of this Assignment, "Gross Proceeds" means the total consideration paid for oil and gas produced from the premises, with the following exceptions:

- (i) Assignee's NPRI shall bear its proportionate part of severance taxes.
- (ii) Assignee's NPRI shall bear Assignee's proportionate part of any costs of transporting oil, gas or liquid hydrocarbon products paid to any third party which is not a Subsidiary or Affiliate of Assignor.
- (iii) If gas produced from the premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is not owned by Assignor or any Subsidiary or Affiliate of Assignor, Assignee's NPRI shall be calculated based upon the consideration received by Assignor (or any Subsidiary or Affiliate of Assignor) from Assignor's (or Assignor's subsidiary's) sale of such liquefiable hydrocarbons and residue gas, less Assignor's proportionate part of severance taxes thereon.
- (iv) If gas produced from the premises is processed for the recovery of liquefiable hydrocarbon products prior to sale, and if such processing plant is owned by Assignor or a Subsidiary or Affiliate of Assignor, Assignee's NPRI shall be calculated based on (a) 75% of the consideration received by Assignor (or any Subsidiary or Affiliate of Assignor) from the sale of all products extracted from such gas, plus (b) the total consideration received by Assignor (or any Subsidiary or Affiliate of Assignor) from the sale of all residue gas, less Assignor's proportionate part of severance taxes thereon.
- (v) No royalty shall be payable on gas used on the premises for production operations or compression or dehydration of gas produced from the premises.

Assignor shall place oil and gas produced from the premises in marketable condition and shall market same for Assignee, at no cost to Assignee. Except as expressly provided above, Assignee's NPRI shall not be charged directly or indirectly with any of the following: expenses of production, gathering, dehydration, compression, manufacturing, processing, treating or marketing of gas, oil, or any liquefiable hydrocarbons extracted therefrom.

In addition to the royalty interest hereby assigned, Assignor hereby agrees that the following covenants shall apply to all of the lands described in Exhibit "A", and shall be binding upon Assignor, its successors and assigns, and will inure to the benefit of Assignee, its successors and assigns:

- (a) From the Effective Date of this Assignment, Assignor will not execute any oil, gas and/or mineral lease that exceeds one section in size covering any part of the land described in Exhibit "A" the surface estate of which is owned by Assignee on the date of such lease (except as may be required by any Option Agreement now in effect covering any of the land described in Exhibit "A").
- (b) Assignor will provide to Assignee a copy of any and all oil and gas leases hereafter executed by Assignor covering all or any part of the land described in Exhibit "A", immediately upon execution and delivery of such leases. Assignor will timely provide to Assignee either copies of any farmout agreements, seismic options, or other documents relating to the development of the mineral estate in the land described in Exhibit "A", or descriptions of such agreements, identifying the lands covered, the parties, and the term of such agreements.
- (c) Assignee shall have the right to inspect, copy and audit the books, accounts, contracts, records, and data of Assignor, its lessees and assigns, pertaining to the development, production, saving, transportation, sale, and marketing of the oil and gas produced from or attributable to the land described in Exhibit "A". Such right shall be limited to records and data for production occurring within four years of Assignee's request for audit.
- (d) As to any part of the land described in Exhibit "A" in which Assignee owns the surface estate on the effective date of this Assignment, Assignor agrees that Assignee's interest in such land shall be subject to the following covenant and limitation on the right of the mineral owner, and any lessee of the mineral owner, to use subsurface water: "useable quality groundwater" (as hereafter defined) from such land shall not be used for waterflood, pressure-maintenance, or other secondary or tertiary purposes in connection with oil and gas production operations, without prior written consent of the surface owner. For purposes of this covenant and limitation, "useable quality groundwater" shall mean (i) water from the Santa Rosa or Rustler Aquifers, and (ii) subsurface water from any source containing total dissolved solids of less than 10,000 parts per million. The provisions of this paragraph shall not apply, however, to any of the land described in Exhibit "A" now subject to an oil and gas lease, or to any of such land hereafter subject to an oil and gas lease granted pursuant to an option agreement now in effect, for as long as such lease remains in effect.
- (e) If Assignor hereafter sells, assigns or leases any of its interest in the land described in Exhibit "A", and if Assignee owns an interest in the surface estate of such land at the time of such sale, assignment or lease, then Assignor agrees to provide written notice to such assignee or lessee of Assignee's surface ownership interest, at the time of such lease or assignment.

This assignment is delivered by Assignor to Assignee with warranty of title by, through, and under Assignor, but not otherwise.

In the event Assignee receives a bona fide offer from a third party to purchase all or a part of the royalty interest hereby assigned to Assignee, and if Assignee desires to accept the offer, Assignee shall notify Assignor in writing (by U.S. mail or personal delivery) of the existence of such third party offer. Assignor shall have a period of thirty days from the date of receipt of Assignor's written notice within which to elect to purchase the interest (upon which the third party offer has been made) on the same price, terms, and conditions contained in the third party offer. If Assignor fails to notify Assignee of its election to purchase the interest within the time period specified above, then it shall be deemed for the purposes of the exercise of this preferential right, that Assignor has elected not to purchase the interest. Should Assignor elect not to purchase the interest, Assignee shall be free to continue negotiations for the sale of the interest, and if such negotiations result in a sale of the interest, such interest shall be sold by Assignee free of this right of first refusal. In the event the proposed sale of the interest to a third party is not consummated, Assignor's preferential right to purchase the interest shall be reinstated as to any future third party offers to purchase the interest. Upon the timely and proper election by Assignor to purchase the interest, the execution and delivery of the assignment of the interest by Assignee, the payment of the purchase price by Assignor, and the closing of such transaction shall be scheduled by mutual agreement of Assignor and Assignee, but in any event within thirty (30) days of the exercise by Assignor of its election to purchase. Assignor's rights set forth in this paragraph shall be personal to Assignor, and shall not be appurtenant to the mineral interest from which the royalty assigned herein is paid. The right of first refusal herein granted shall terminate fifteen (15) years from the Effective Date of this Assignment, except as to any offers to purchase received by Assignee prior to such date.

No party ("Claiming Party") shall institute litigation or otherwise pursue any alleged claim or cause of action against the other party ("Breaching Party"), including without limitation any claim arising out of or related to this Assignment unless and until:

- (a) the Claiming Party has first given written notice ("Claim Notice") to the Breaching Party of such alleged claim or cause of action which sets forth in reasonable detail the basis for such claim or cause of action and the actions that it alleges must be taken to cure or satisfy the breach or other grounds for such claim or cause of action; and
- (b) the Breaching Party has failed to cure such claim or cause of action within thirty (30) days after receipt of such notice or, where such claim or cause of action cannot be reasonably be cured within said thirty (30) days, the Breaching Party has failed to commence actions to correct or cure such claim or cause of action within said thirty (30) days or failed, once curative actions are commenced, to prosecute such curative actions with due diligence.

The statute of limitations shall be tolled with respect to any claim or cause of action set forth in a Claim Notice commencing upon the delivery of such Claim Notice to the Breaching Party and continuing thereafter until it is no longer barred by this section from instituting litigation or otherwise pursuing such claim or cause of action.

This agreement may be executed in counterpart.

Executed as of the Effective Date stated above.

ASSIGNOR: \_\_\_\_\_

ASSIGNEE: Texas Pacific Land Trust

By: \_\_\_\_\_

\_\_\_\_\_  
Maurice Meyer III, Trustee

\_\_\_\_\_  
Joe R. Clark, Trustee

\_\_\_\_\_  
John R. Norris III, Trustee

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared \_\_\_\_\_, who being by me duly sworn, did say that he is the \_\_\_\_\_, and that he signed this instrument in the capacity stated, as the act of the \_\_\_\_\_, for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Maurice Meyer III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Joe R. Clark, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared John R. Norris III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

EXHIBIT "A"  
TO  
ASSIGNMENT OF NON-PARTICIPATING ROYALTY INTEREST

LEGAL DESCRIPTION OF THE PROPERTY

**EXHIBIT D TO THE OPTION AGREEMENT**

**ASSIGNMENT OF OVERRIDING ROYALTY**

THE STATE OF TEXAS

COUNTY OF \_\_\_\_\_

This assignment ("Assignment") is made on the \_\_\_ day of \_\_\_\_, 200\_\_ (the "Effective Date") by and between \_\_\_\_\_ ("Assignor"), and Texas Pacific Land Trust, with offices at 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201 ("Assignee").

Assignor, for ten dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, has GRANTED, BARGAINED, SOLD, ASSIGNED and CONVEYED and by these presents does GRANT, BARGAIN, SELL, ASSIGN and CONVEY, to Assignee an overriding royalty equal to 5% of all oil, gas, and other minerals produced and saved from the oil and gas leases identified in Exhibit "A", as owned and received by Assignor, and proportionately reduced to the actual ownership received by Assignor. If any of said leases covers less than all of the fee mineral estate in the lands covered thereby, then the overriding royalty hereby assigned in

said lease shall be proportionately reduced, in the same proportion that the interest in the mineral estate covered by said lease bears to the entire fee mineral estate in said lands. The overriding royalty hereby assigned shall be calculated and paid in the same manner as the royalty reserved by the grantor in said leases. The overriding royalty hereby assigned shall also apply to any extension or renewal of any of said leases entered into within one (1) year after the termination of any lease.

In addition to the royalty interest hereby assigned, Assignor hereby agrees that the following covenants shall apply to all of the lands described in Exhibit "A", and shall be binding upon Assignor, its successors and assigns, and will inure to the benefit of Assignee, its successors and assigns:

(a) Assignee shall have the right to inspect, copy and audit the books, accounts, contracts, records, and data of Assignor, its lessees and assigns, pertaining to the development, production, saving, transportation, sale, and marketing of the oil and gas produced from or attributable to the land described in Exhibit "A". Such right shall be limited to records and data for production occurring within four years of Assignee's request for audit.

(b) As to any part of the land covered by the oil and gas leases described in Exhibit "A" in which Assignee owns the surface estate on the effective date of this Assignment, Assignor agrees that Assignee's interest in such land shall be subject to the following covenant and limitation on the right of Assignor, and any assignee of Assignor, to use subsurface water: "useable quality groundwater" (as hereafter defined) from such land shall not be used for waterflood, pressure-maintenance, or other secondary or tertiary purposes in connection with oil and gas production operations, without prior written consent of the surface owner; provided that such restriction shall not apply to any use of useable quality groundwater being made at the time of Assignor's acquisition of the oil and gas leases described in Exhibit "A". For purposes of this

covenant and limitation, "useable quality groundwater" shall mean (i) water from the Santa Rosa or Rustler Aquifers, and (ii) subsurface water from any source containing total dissolved solids of less than 10,000 parts per million.

In the event Assignee receives a bona fide offer from a third party to purchase all or a part of the royalty interest hereby assigned to Assignee, and if Assignee desires to accept the offer, Assignee shall notify Assignor in writing (by U.S. mail or personal delivery) of the existence of such third party offer. Assignor shall have a period of thirty days from the date of receipt of Assignor's written notice within which to elect to purchase the interest (upon which the third party offer has been made) on the same price, terms, and conditions contained in the third party offer. If Assignor fails to notify Assignee of its election to purchase the interest within the time period specified above, then it shall be deemed for the purposes of the exercise of this preferential right, that Assignor has elected not to purchase the interest. Should Assignor elect not to purchase the interest, Assignee shall be free to continue negotiations for the sale of the interest, and if such negotiations result in a sale of the interest, such interest shall be sold by Assignee free of this right of first refusal. In the event the proposed sale of the interest to a third party is not consummated, Assignor's preferential right to purchase the interest shall be reinstated as to any future third party offers to purchase the interest. Upon the timely and proper election by Assignor to purchase the interest, the execution and delivery of the assignment of the interest by Assignee, the payment of the purchase price by Assignor, and the closing of such transaction shall be scheduled by mutual agreement of Assignor and Assignee, but in any event within thirty (30) days of the exercise by Assignor of its election to purchase. Assignor's rights set forth in this paragraph shall be personal to Assignor, and shall not be appurtenant to the mineral interest from which the royalty assigned herein is paid. The right of first refusal herein granted shall terminate fifteen (15) years from the Effective Date of this Assignment, except as to any offers to purchase received by Assignee prior to such date.

No party ("Claiming Party") shall institute litigation or otherwise pursue any alleged claim or cause of action against the other party ("Breaching Party"), including without limitation any claim arising out of or related to this Assignment unless and until:

(a) the Claiming Party has first given written notice ("Claim Notice") to the Breaching Party of such alleged claim or cause of action which sets forth in reasonable detail the basis for such claim or cause of action and the actions that it alleges must be taken to cure or satisfy the breach or other grounds for such claim or cause of action; and

(b) the Breaching Party has failed to cure such claim or cause of action within thirty (30) days after receipt of such notice or, where such claim or cause of action cannot be reasonably be cured within said thirty (30) days, the Breaching Party has failed to commence actions to correct or cure such claim or cause of action within said thirty (30) days or failed, once curative actions are commenced, to prosecute such curative actions with due diligence.

The statute of limitations shall be tolled with respect to any claim or cause of action set forth in a Claim Notice commencing upon the delivery of such Claim Notice to the Breaching Party and continuing thereafter until it is no longer barred by this section from instituting litigation or otherwise pursuing such claim or cause of action.

This assignment is delivered by Assignor to Assignee with warranty of title by, through, and under Assignor, but not otherwise.

This agreement may be executed in counterpart.

Executed as of the Effective Date stated above.

ASSIGNOR: \_\_\_\_\_

ASSIGNEE: Texas Pacific Land Trust

By: \_\_\_\_\_

\_\_\_\_\_  
Maurice Meyer III, Trustee

\_\_\_\_\_  
Joe R. Clark, Trustee

\_\_\_\_\_  
John R. Norris III, Trustee

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared \_\_\_\_\_, who being by me duly sworn, did say that he is the \_\_\_\_\_, and that he signed this instrument in the capacity stated, as the act of the \_\_\_\_\_, for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared Maurice Meyer III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared Joe R. Clark, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared John R. Norris III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

EXHIBIT "A"  
TO  
ASSIGNMENT OF OVERRIDING ROYALTY INTEREST  
LEGAL DESCRIPTION OF THE LEASES

**EXHIBIT E TO THE OPTION AGREEMENT**

**ASSIGNMENT OF CLAIMS**

STATE OF TEXAS

COUNTY OF DALLAS

This assignment ("Assignment") is made on the \_\_\_ day of \_\_\_\_\_, 200\_\_, (the "Effective Date") by and between Texas Pacific Land Trust, with offices at 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201 ("Assignor"), and \_\_\_\_\_ ("Assignee").

Assignor, for ten dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, has GRANTED, BARGAINED, SOLD, ASSIGNED and CONVEYED and by these presents do GRANT, BARGAIN, SELL, ASSIGN and CONVEY to Assignee, free and clear of all liens and encumbrances, all right, title and interest of Assignor in all Claims (as hereafter defined) [save and except the Excluded Claims described in **Exhibit "B"** attached hereto]. "Claims" means all claims, uncollected judgments, and causes of action TPLT now has against Chevron USA, Inc., Texaco Inc., ChevronTexaco Inc., or Texaco Exploration and Production Inc., or any of such entities' wholly owned subsidiaries ("CUSA") which (i) arise out of or are related to the property described in **Exhibit "B" / "C"** (the "TPLP Property") and (ii) for which the operative acts or omissions which underlie or give rise to the claim have occurred or occur prior to the date hereof, whether or not notice has been given as to such claims and whether asserted in an existing lawsuit or arbitration proceeding or not, and whether known or unknown, with the following exceptions:

- (i) "Claims" includes any claim for damages Assignor has against CUSA which were sustained prior to \_\_\_\_\_ for use of the surface estate by CUSA for pipelines, roads, salt water disposal or injection or other facilities or surface uses, or use of potable quality ground water, on lands the surface estate of which is owned by Assignor without any easement, lease or other permission or right of use, but does not include claims of future damages or suits to enjoin further unauthorized use, even though such use is a continuation of previous activity by CUSA.

(ii) "Claims" includes claims for past and future damages Assignor has against CUSA arising out of CUSA's breach of duties to Assignor as a royalty owner for failure to protect TPLT Properties against drainage from wells drilled prior to \_\_\_\_\_, but does not include drainage claims attributable to wells drilled after \_\_\_\_\_.

(iii) "Claims" includes claims for damages Assignor has against CUSA which were sustained prior to \_\_\_\_\_ for CUSA's failure to reasonably develop TPLT Properties or for failure to pool Assignor's royalty interest, but does not include claims Assignor may have in the future against Vaquero for its failure to develop or pool such lands after Vaquero's acquisition of such properties from CUSA.

(iv) "Claims" does not include claims Assignor may have against Vaquero, its Affiliates, or any other parties other than CUSA, even though such other parties may own mineral or leasehold interests with CUSA or may have acquired leasehold interests by lease or farmout from CUSA, or may be otherwise in privity of contract or estate with CUSA.

(v) "Claims" does not include claims Assignor may assert against CUSA, under state or federal laws, for contribution or indemnity resulting from claims hereafter made by third parties against TPLT for damages or injury to such third parties arising out of CUSA's activities on TPLT Properties.

A complete list of Claims which are known to Assignor as of this date is attached hereto as **Exhibit "A"**.

This assignment conveys to Assignee the full right and power to maintain any of the Claims, in the name of Assignor or in its own name, to settle, compromise, or reassign any Claim, and to give a release in full discharge of liability of any such Claim. Assignor agrees to provide such information, documents, and testimony as are reasonably necessary to investigate and prosecute any Claim, and to execute and deliver any additional documents reasonably necessary to confirm the assignment of any Claim. Assignor will not settle or compromise any Claim or give any release or discharge of liability under any Claim, without the express written consent of Assignee.

Executed as of the Effective Date stated above.

ASSIGNOR: \_\_\_\_\_

ASSIGNEE: Texas Pacific Land Trust

By: \_\_\_\_\_

\_\_\_\_\_  
Maurice Meyer III, Trustee

\_\_\_\_\_  
Joe R. Clark, Trustee

\_\_\_\_\_  
John R. Norris III, Trustee

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared \_\_\_\_\_, who being by me duly sworn, did say that he is the \_\_\_\_\_, and that he signed this instrument in the capacity stated, as the act of the \_\_\_\_\_, for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

\_\_\_\_\_

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Maurice Meyer III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

\_\_\_\_\_

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_, 200\_\_, before me personally appeared Joe R. Clark, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

State of Texas

County of Dallas

On the \_\_\_ day of \_\_\_\_\_, 200\_\_, before me personally appeared John R. Norris III, who being by me duly sworn, did say that he is a Trustee of Texas Pacific Land Trust, and that he signed this instrument by proper authority in the capacity stated, and for the purposes and consideration expressed therein.

My commission expires:

\_\_\_\_\_  
Notary Public, State of Texas

39

EXHIBIT "A" TO THE ASSIGNMENT OF CLAIMS

LEGAL DESCRIPTION OF THE PROPERTY

40

EXHIBIT "B" TO THE ASSIGNMENT OF CLAIMS

LIST OF KNOWN CLAIMS

41

**EXHIBIT F TO THE OPTION AGREEMENT**

**ASSUMPTION AND INDEMNITY AGREEMENT**

STATE OF TEXAS

COUNTY OF DALLAS

This Agreement is made on the \_\_\_ day of \_\_\_\_\_, 200\_\_, (the "Effective Date") by and between Texas Pacific Land Trust, with offices at 1700 Pacific Avenue, Suite 1670, Dallas, Texas 75201 ("TPLT"), and \_\_\_\_\_.

TPLT, by an Assignment of Claims of even date herewith, a copy of which is attached hereto as Exhibit A, has assigned to \_\_\_\_\_ certain claims (the "TPLT Claims") which TPLT has against Chevron USA, Inc., Texaco Inc., ChevronTexaco Inc., or Texaco Exploration and Production Inc. ("CUSA"). As part of the consideration for such Assignment, \_\_\_\_\_ has agreed to provide certain indemnities to TPLT.

NOW, THEREFORE, in consideration of the premises, \_\_\_\_\_ hereby covenants and agrees to assume liability for, and to defend and indemnify of TPLT against, any and all claims (the "CUSA Claims") CUSA has against TPLT as of the Effective Date hereof which arise out of or are related to the TPLT Property (as defined in the Assignment of Claims attached hereto as Exhibit A), whether such claims have or have not been asserted, whether known or unknown to TPLT or CUSA [save and except those claims (the "Excluded Claims") described in **Exhibit "A"**]. \_\_\_\_\_ obligation to defend and indemnify TPLT against the CUSA Claims applies whether or not such CUSA Claims have been or hereafter are asserted by CUSA as counterclaims in suits or proceedings asserting the TPLT Claims, or by separate, independent suits brought by CUSA against TPLT. The CUSA claims specifically include claims for attorneys' fees incurred by CUSA in connection with CUSA's defense of TPLT Claims.

Executed by the parties to be effective as of the Effective Date first set forth above.

\_\_\_\_\_

Texas Pacific Land Trust

By: \_\_\_\_\_

\_\_\_\_\_  
Maurice Meyer III, Trustee

\_\_\_\_\_  
Joe R. Clark, Trustee

\_\_\_\_\_  
John R. Norris III, Trustee