



Permian Basin Royalty Trust Annual Report & Form 10-K 2002





## The Trust

The Permian Basin Royalty Trust's (the "Trust") principal assets are comprised of a 75% net overriding royalty interest carved out by Southland Royalty Company ("Southland") from its fee mineral interest in the Waddell Ranch properties in Crane County, Texas ("Waddell Ranch properties"), and a 95% net overriding royalty interest carved out by Southland from its major producing royalty properties in Texas ("Texas Royalty properties"). The interests out of which the Trust's net overriding royalty interests were carved were in all cases less than 100%. The Trust's net overriding royalty interests represent burdens against the properties in favor of the Trust without regard to ownership of the properties from which the overriding royalty interests were carved. The net overriding royalties above are collectively referred to as the "Royalties." The properties and interests from which the Royalties were carved and which the Royalties now burden are collectively referred to as the "Underlying Properties."

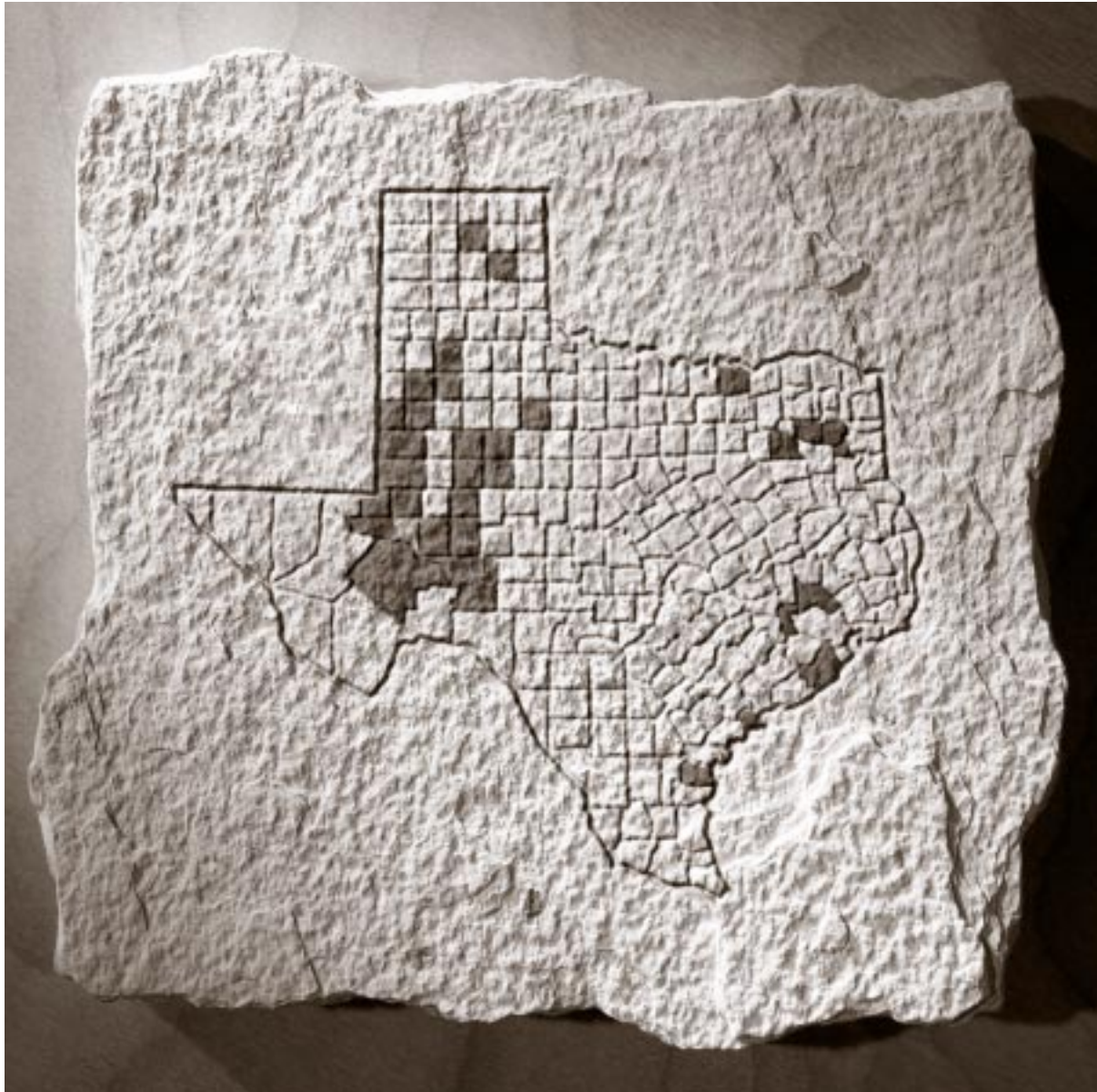
The Trust has been advised that effective January 1, 1996, Southland was merged with and into Meridian Oil Inc. ("Meridian"), a Delaware corporation, with Meridian being the surviving corporation. Meridian succeeded to the ownership of all the assets, has the rights, powers and privileges, and assumed all of the liabilities and obligations of Southland. Effective July 11, 1996, Meridian changed its name to Burlington Resources Oil & Gas Company ("BROG"). Any reference to BROG hereafter for periods prior to the occurrence of the aforementioned name change or merger should, as applicable, be construed to be a reference to Meridian or Southland. Further, BROG notified the Trust that, on February 14, 1997, the Texas Royalty properties that are subject to the Net Overriding Royalty Conveyance dated November 1, 1980 ("Texas Royalty Conveyance"), were sold to Riverhill Energy Corporation ("Riverhill Energy") of Midland, Texas.

### Units of Beneficial Interest

Units of Beneficial Interest ("Units") of the Trust are traded on the New York Stock Exchange with the symbol PBT. Quarterly high and low sales prices and the aggregate amount of monthly distributions paid each quarter during the Trust's two most recent years were as follows:

<u>2002</u>	<u>High</u>	<u>Low</u>	<u>Distributions Paid</u>
First Quarter _____	\$5.650	\$4.970	\$.094796
Second Quarter _____	5.950	5.000	.118491
Third Quarter _____	5.350	4.500	.133892
Fourth Quarter _____	6.400	5.070	.155203
Total for 2002 _____			<u>\$.502382</u>
<u>2001</u>			
First Quarter _____	\$6.700	\$5.625	\$.256445
Second Quarter _____	6.850	5.000	.256094
Third Quarter _____	6.530	5.500	.179718
Fourth Quarter _____	5.950	5.200	.154651
Total for 2001 _____			<u>\$.846908</u>

Approximately 2,363 Unit holders of record held the 46,608,796 Units of the Trust at December 31, 2002.



**Texas Royalty properties are located in 33 Texas counties.**

Andrews	Crockett	Grayson	Hutchinson	Pecos	Upshur	Winkler
Borden	Ector	Gregg	Lubbock	Reagan	Upton	Wood
Brazoria	Gaines	Hale	Mitchell	Scurry	Van Zandt	Yoakum
Calhoun	Glasscock	Hockley	Montgomery	Stonewall	Waller	
Crane	Gray	Howard	Nueces	Terry	Ward	

**Waddell Ranch properties are located in Crane County.**





## To Unit Holders

We are pleased to present the twenty-third Annual Report of the Trust. The report includes a copy of the Trust's Annual Report on Form 10-K to the Securities and Exchange Commission for the year ended December 31, 2002, without exhibits. Both the report and accompanying Form 10-K contain important information concerning the Trust's properties, including the oil and gas reserves attributable to the Royalties owned by the Trust. Production figures, drilling activity and certain other information included in this report have been provided to the Trust by BROG (formerly Meridian and Southland).

As more particularly explained in the Notes to the Financial Statements appearing in this report and in Item 1 of the accompanying Form 10-K, Bank of America, N.A., as Trustee, has the primary function under the Trust Indenture of collecting the monthly net proceeds attributable to the Royalties and making monthly distributions to the Unit holders, after deducting Trust administrative expenses and any amounts necessary for cash reserves.

Royalty income received by the Trustee for the year ended December 31, 2002, was \$23,830,604 and interest income earned for the same period was \$17,140. General and administrative expenses amounted to \$432,338. A total of \$23,415,406 or \$.502382 per Unit was distributed to Unit holders during 2002. A discussion of factors affecting the distributions for 2002 may be found in the Trustee's Discussion and Analysis section of this report and the accompanying Form 10-K.

As of December 31, 2002, the Trust's proved reserves were estimated at 7,497,000 Bbls of oil and 28,506,000 Mcf of gas. The estimated future net revenues from proved reserves at December 31, 2002, amount to \$294,576,000 or \$6.32 per Unit. The present value of estimated future net revenues discounted at 10% at December 31, 2002, was \$161,875,000 or \$3.47 per Unit. The computation of future net revenues is made following guidelines prescribed by the Financial Accounting Standards Board (explained in Item 2 of the accompanying Form 10-K) based on year-end prices and costs.

As has been previously reported, Southland advised the Trust that it became operator of record of the Waddell Ranch properties on May 1, 1991. Meridian, as successor by merger, became the operator of record effective January 1, 1996. Meridian changed its name to Burlington Resources Oil & Gas Company in 1996. All field, technical and accounting

operations, however, have been carried out by Schlumberger Technology Corporation ("STC") and Riverhill Capital Corporation ("Riverhill Capital"), but remain under the direction of BROG.

As was previously reported, in February 1997, BROG sold its interest in the Texas Royalty properties that are subject to the Texas Royalty Conveyance to Riverhill Energy, which at the time was a wholly-owned subsidiary of Riverhill Capital and an affiliate of STC. Subsequently, the Trustee was advised that STC acquired all of the shares of Riverhill Capital. The Trustee has been advised that, as part of this transaction, ownership of Riverhill Energy's interests in the Texas Royalty properties referenced above remain in Riverhill Energy, which was owned by the former shareholders of Riverhill Capital. STC will continue to perform all accounting operations pertaining to the Texas Royalty properties under the direction of Riverhill Energy.

Percentage depletion is allowed on proven properties acquired after October 11, 1990. For Units acquired after such date, Unit holders would normally compute both percentage depletion and cost depletion from each property, and claim the larger amount as a deduction on their income tax returns. The Trustee and its accountants have estimated the percentage depletion for January through December 2002, and it appears that cost depletion will exceed percentage depletion for all Unit holders.

Royalty income is generally considered portfolio income under the passive loss rules. Therefore, in general, it appears that Unit holders should not consider the taxable income from the Trust to be passive income in determining net passive income or loss. Unit holders should consult their tax advisors for further information.

Unit holders of record will continue to receive an individualized tax information letter for each of the quarters ending March 31, June 30 and September 30, 2003, and for the year ending December 31, 2003. Unit holders owning Units in nominee name may obtain monthly tax information from the Trustee upon request.

Bank of America, N.A., Trustee

By: 

Ron E. Hooper  
Senior Vice President

## Description of the Properties

The net overriding royalty interests held by the Trust are carved out of high-quality producing oil and gas properties located primarily in West Texas. A production index for oil and gas properties is the number of years derived by dividing remaining reserves by current production. The production index for the Trust properties based on the reserve report prepared by independent petroleum engineers as of December 31, 2002, is approximately 6.26 years.

The net profits/overriding royalty interest in the Waddell Ranch properties is the largest asset of the Trust. The mineral interests in the Waddell Ranch, from which such net royalty interests are carved, vary from 37.5% (Trust net interest) to 50% (Trust net interest) in 76,922 gross acres and 33,276 net acres, containing 765 gross (339 net) productive oil wells, 184 gross (88 net) productive gas wells and 324 gross (141 net) injection wells.

Six major fields on the Waddell Ranch properties account for more than 90% of the total production. In the six fields, there are 12 producing zones ranging in depth from 2,800 to 10,600 feet. Most prolific of these zones are the Grayburg and San Andres, which produce from depths between 2,800 and 3,400 feet. Productive from the San Andres are the Sand Hills (Judkins) gas field and the Sand Hills (McKnight) oil field.

The Dune and Waddell oil fields are productive from both the Grayburg and San Andres formations. The Sand Hills (Tubb) oil fields produce from the Tubb formation at depths averaging 4,300 feet, and the University Waddell (Devonian) oil field is productive from the Devonian formation between 8,400 and 9,200 feet.

All of the major oil fields on the Waddell Ranch properties are currently being water flooded. Engineering studies and 3-D seismic evaluations on these fields indicate the potential for increased production through infill drilling, modifications of existing water flood techniques, installation of larger capacity pumping equipment and tertiary recovery projects. Capital expenditures for remedial and maintenance activities during 2002 totaled approximately \$9.9 million.

The Texas Royalty properties, out of which the other net overriding royalty was carved, are located in 33 counties across Texas. The Texas Royalty properties consist of approximately 125 separate royalty interests containing approximately 303,000 gross (51,000 net) producing acres. Approximately 41% of the future net revenues discounted at 10% attributable to Texas Royalty properties are located in the Wasson and Yates fields.

BROG has informed the Trustee that the 2003 capital expenditures budget should total approximately \$13.207 million gross, of which \$1.940 million gross is attributable to drilling, \$9.909 million gross to workovers and \$1.358 million gross to facilities.

### COMPUTATION OF ROYALTY INCOME RECEIVED BY THE TRUST

The Trust's royalty income is computed as a percentage of the net profit from the operation of the properties in which the Trust owns net overriding royalty interests. The percentages of net profits are 75% and 95% in the cases of the Waddell Ranch properties and the Texas Royalty properties, respectively. Royalty income received by the Trust for the five years ended December 31, 2002, was computed as shown in the table on the next page.





	Year Ended December 31,									
	2002		2001		2000		1999		1998	
	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties	Waddell Ranch Properties	Texas Royalty Properties
Gross Proceeds of Sales From the Underlying Properties:										
Oil Proceeds	\$20,543,224	\$ 7,785,749	\$26,477,679	\$ 9,524,586	\$31,289,829	\$ 9,770,732	\$18,667,382	\$ 5,261,863	\$18,821,076	\$ 5,404,598
Gas Proceeds	14,861,094	2,245,648	26,068,379	3,771,184	18,342,926	2,701,298	12,794,695	1,760,499	13,769,872	1,880,571
Other Payments (a)	-	-	-	-	-	-	-	-	-	540,543
Total	<u>35,404,318</u>	<u>10,031,397</u>	<u>52,546,058</u>	<u>13,295,770</u>	<u>49,632,755</u>	<u>12,472,030</u>	<u>31,462,077</u>	<u>7,022,362</u>	<u>32,590,948</u>	<u>7,825,712</u>
Less:										
Severance Tax										
Oil	863,299	302,665	1,108,968	374,204	1,288,522	373,643	726,944	186,846	725,100	196,770
Gas	813,581	159,431	1,160,095	239,337	1,189,617	146,512	773,689	77,379	(1,299,730)	104,759
Other	72,396	-	-	-	26,991	-	44,839	16,000	-	-
Lease Operating Expense and Property Tax										
Oil and Gas	9,424,724	933,646	9,086,468	605,125	9,318,915	442,523	9,687,476	525,035	14,096,881	790,246
Other Payments	-	-	50,000	-	-	-	132,166	180,000	-	-
Capital Expenditures	<u>3,394,674</u>	<u>-</u>	<u>3,350,003</u>	<u>-</u>	<u>4,606,227</u>	<u>-</u>	<u>1,052,769</u>	<u>-</u>	<u>15,874,193</u>	<u>-</u>
Total	<u>14,568,674</u>	<u>1,395,742</u>	<u>14,755,534</u>	<u>1,218,666</u>	<u>16,430,272</u>	<u>962,678</u>	<u>12,417,883</u>	<u>985,260</u>	<u>29,396,444</u>	<u>1,091,775</u>
Net Profits	20,835,643	8,635,655	37,790,525	12,077,104	33,202,483	11,509,352	19,044,194	6,037,102	3,194,504	6,733,937
Net Overriding Royalty Interest	75%	95%	75%	95%	75%	95%	75%	95%	75%	95%
Royalty Income	15,626,732	8,203,852	28,342,893	11,473,248	24,901,862	10,933,884	14,284,146	5,735,247	2,395,878	6,397,240
Negative Revenue (b)	-	-	-	-	-	-	1,218,732	-	1,218,732	-
Litigation Settlement (c)	-	-	-	-	-	-	-	-	766,051	-
Total Royalty Income for Distribution	<u>\$15,626,732</u>	<u>\$ 8,203,852</u>	<u>\$28,342,893</u>	<u>\$11,473,248</u>	<u>\$24,901,862</u>	<u>\$10,933,884</u>	<u>\$13,064,414</u>	<u>\$ 5,735,247</u>	<u>\$ 4,380,661</u>	<u>\$ 6,397,240</u>

(a) The Trust received funds in 1998 from BROG which represented the Trust's portion of amounts that had been previously held in suspense by BROG relating to the Texas Royalty properties. The Trustee was advised that these amounts relate to revenues received by BROG prior to the conveyance of its interest in the Texas Royalty properties to Riverhill Energy in February 1997.

(b) In calculating Trust royalty income for the months of June through December 1998, costs exceeded revenues for the Waddell Ranch properties underlying the Waddell Ranch Net Overriding Royalty Conveyance dated effective November 1, 1980 ("Waddell Ranch Conveyance"), by \$1,218,732. Pursuant to the Waddell Ranch Conveyance, excess costs plus accrued interest must be recovered from future net proceeds relating to the underlying Waddell Ranch properties before the properties can again contribute to Trust royalty income. Cumulative excess amounts were fully recovered in February 1999.

(c) In November 1998, the Trust received its portion of settlement proceeds totaling \$766,051 from a class-action lawsuit.

## Discussion and Analysis

TRUSTEE'S DISCUSSION AND ANALYSIS FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

### Critical Accounting Policies and Estimates

The trust's financial statements reflect the selection and application of accounting policies that require the Trust to make significant estimates and assumptions. The following are some of the more critical judgment areas in the application of accounting policies that currently affect the Trust's financial condition and results of operations.

#### 1. Revenue Recognition

Revenues from Royalty Interests are recognized in the period in which amounts are received by the Trust. Royalty income received by the Trust in a given calendar year will generally reflect the proceeds, on an entitlement basis, from natural gas produced for the twelve-month period ended September 30th in that calendar year.

#### 2. Reserve Recognition

Independent petroleum engineers estimate the net proved reserves attributable to the Royalty Interest. In accordance with Statement of Financial Standards No. 69, "Disclosures About Oil and Gas Producing Activities," estimates of future net revenues from proved reserves have been prepared using year-end contractual gas prices until additional information becomes available. The reserves actually recovered and the timing of production may be substantially different from the reserve estimates and related costs. Numerous uncertainties are inherent in estimating volumes and the value of proved reserves and in projecting future production rates and the timing of development of non-producing reserves.

#### 3. Contingencies

Contingencies related to the Underlying Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders.

#### 4. New Accounting Pronouncements

Statement of Financial Accounting Standard ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," was issued by the Financial Accounting Standards Board ("FASB") in June 2001 and will be adopted by the Trust on January 1, 2003. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The effect of adopting SFAS No. 143 will not have a material impact on the Trust's financial statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued in April 2002 and is effective for fiscal years beginning after May 15, 2002. This Statement includes the rescission of FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment to FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The effect of adopting SFAS No. 145 will not have a material impact on the Trust's financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued in June 2002 and will be effective for exit or disposal activities subsequent to December 31, 2002. The Trust anticipates no material impact on its financial statements from the adoption of this accounting standard.

SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123," was issued in December 2002 and provides new transition methods if an entity adopts the fair value based method of valuing stock-based compensation suggested in SFAS No. 123, "Accounting for Stock-Based Compensation," as well as requiring additional disclosures in interim and annual financial statements. The Trust has no options or other stock-based instruments and accordingly, the impact of this new Standard is not expected to be material to the financial statements of the Trust.





## Discussion and Analysis (continued)

FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires disclosures beginning with financial statements ending after December 15, 2002, and requires liability recognition beginning January 1, 2003. The Trust had no such guarantees outstanding as of December 31, 2002.

FIN No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," applies immediately to variable interest entities created after January 31, 2003, and applies to the first period beginning after June 15, 2003, to entities acquired before February 1, 2003. This FIN does not affect the Trust as it has no unconsolidated subsidiaries accounted for under the equity method of accounting.

### LIQUIDITY AND CAPITAL RESOURCES

As stipulated in the Trust Agreement, the Trust is intended to be passive in nature and the Trustee does not have any control over or any responsibility relating to the operation of the Underlying Properties. The Trustee has powers to collect and distribute proceeds received by the Trust and pay Trust liabilities and expenses, and its actions have been limited to those activities. The Trust is a passive entity, and other than the Trust's ability to periodically borrow money as necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust, the Trust is prohibited from engaging in borrowing transactions. As a result, other than such borrowings, if any, the Trust has no source of liquidity or capital resources other than the Royalties.

### RESULTS OF OPERATIONS

Royalty income received by the Trust for the three-year period ended December 31, 2002, is reported in the following table:

<u>Royalties</u>	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Total Revenue _____	\$23,830,604	\$39,816,141	\$35,835,746
	100%	100%	100%
Oil Revenue _____	15,013,280	22,466,757	24,901,862
	63%	56%	70%
Gas Revenue _____	8,817,324	17,349,384	10,933,884
	37%	44%	32%
Total Revenue/Unit _____	\$ .511289	\$ .854327	\$ .768862



Royalty income of the Trust for the calendar year is associated with actual oil and gas production for the period November of the prior year through October of the current year. Oil and gas sales for 2002, 2001 and 2000 for the Royalties and the Underlying Properties, excluding portions attributable to the adjustments discussed hereafter, are presented in the following table:

<u>Royalties</u>	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Oil Sales (Bbls) _____	<b>728,313</b>	941,202	919,429
Gas Sales (Mcf) _____	<b>3,192,175</b>	3,875,586	3,346,445
<u>Underlying Properties</u>			
Oil			
Total Oil Sales (Bbls) _____	<b>1,272,923</b>	1,434,983	1,486,110
Average Per Day (Bbls) _____	<b>3,489</b>	3,931	4,072
Average Price/Bbl _____	<b>\$22.31</b>	\$24.88	\$27.66
Gas			
Total Gas Sales (Mcf) _____	<b>6,189,015</b>	6,441,298	5,890,023
Average Per Day (Mcf) _____	<b>16,956</b>	17,593	16,137
Average Price/Mcf _____	<b>\$2.74</b>	\$4.70	\$3.63

The average price of oil decreased to \$22.21 per barrel in 2002, down from \$24.88 per barrel in 2001. In addition, the average price of gas declined from \$4.70 per Mcf in 2001 to \$2.76 per Mcf in 2002.

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), production amounts do not necessarily provide a meaningful comparison. Total oil production decreased approximately 11% from 2002 to 2001 primarily due to lower capital expenditures in previous years. Total gas sales decreased approximately 4% from 2002 to 2001 primarily due to a decrease in capital expenditures for gas wells.

Total capital expenditures in 2002 used in the net overriding royalty calculation were approximately \$9.9 million compared to \$3.4 million in 2001 and \$4.6 million in 2000. During 2002, there were 4 gross (1.75 net) wells drilled and completed on the Waddell Ranch properties. At December 31, 2002, there were no wells in progress on the Waddell Ranch properties.

In 2002, lease operating expense and property taxes on the Waddell Ranch properties amounted to approximately \$9.4 million, which amount was approximately the same as in 2001.

The Trustee has been advised by BROG that for the period August 1, 1993, through June 30, 2003, the oil from the Waddell Ranch was sold under a competitive bid to a third party.

During 2002, the monthly royalty receipts were invested by the Trustee in U.S. Treasury securities until the monthly distribution date, and earned interest totaled \$17,140. Interest income for 2001 and 2000 was \$77,977 and \$85,348, respectively.

General and administrative expenses in 2002 were \$432,338 compared to \$420,723 in 2001 and \$375,953 in 2000.

Distributable income for 2002 was \$23,415,406, or \$.502382 per Unit. Distributable income for 2001 was \$39,473,395 or \$.846908 per Unit. Distributable income for 2000 was \$35,545,141 or \$.762627 per Unit.





## Results of the Fourth Quarters of 2002 and 2001

Royalty income received by the Trust for the fourth quarter of 2002 amounted to \$7,296,142 or \$.155203 per Unit. For the fourth quarter of 2001, the Trust received royalty income of \$7,247,490 or \$.154651 per Unit. Interest income for the fourth quarter of 2002 amounted to \$4,929 compared to \$9,925 for the fourth quarter of 2001. The decrease in interest income can be attributed primarily to a decrease in interest rates. General and administrative expenses totaled \$67,256 for

the fourth quarter of 2002 compared to \$49,388 for the fourth quarter of 2001.

Royalty income for the Trust for the fourth quarter is associated with actual oil and gas production during August through October from the Underlying Properties. Oil and gas sales attributable to the Royalties and the Underlying Properties for the quarter and the comparable period for 2001 are as follows:

<u>Fourth Quarter</u>	<u>2002</u>	<u>2001</u>	<u>Fourth Quarter</u>	<u>2002</u>	<u>2001</u>
<b>Royalties</b>			<b>Underlying Properties</b>		
Oil Sales (Bbls) _____	<b>185,131</b>	226,307	Total Oil Sales (Bbls) _____	<b>309,368</b>	350,921
Gas Sales (Mcf) _____	<b>874,957</b>	943,738	Average Per Day (Bbls) _____	<b>3,363</b>	3,814
			Average Price/Bbls _____	<b>\$26.53</b>	\$22.52
			Total Gas Sales (Mcf) _____	<b>1,593,780</b>	1,610,652
			Average Per Day (Mcf) _____	<b>17,324</b>	17,507
			Average Price/Mcf _____	<b>\$3.13</b>	\$2.63

The posted price of oil increased for the fourth quarter of 2002 compared to the fourth quarter of 2001, resulting in an average price per barrel of \$26.53 compared to \$22.52 in the same period of 2001. The average price of gas increased for the fourth quarter of 2002 compared to the same period in 2001, resulting in an average price per Mcf of \$3.13 compared to \$2.63 in the fourth quarter of 2001.

The Trustee has been advised that oil sales decreased in

2002 compared to the same period in 2001 primarily due to decreased capital expenditures in prior periods and natural production declines. Gas sales from the Underlying Properties decreased in the fourth quarter of 2002 compared to the same period in 2001 due to the same factors. The Trust has been advised that no wells were drilled and completed during the three months ended December 31, 2002, and there were no wells in progress.

## Permian Basin Royalty Trust Financial Statements

### Statements of Assets, Liabilities and Trust Corpus December 31, 2002 and 2001

Assets	2002	2001
Cash and Short-term Investments _____	<b>\$2,371,387</b>	\$1,842,420
Net Overriding Royalty Interests in Producing Oil and Gas Properties – Net (Notes 2 and 3) _____	<u>2,172,393</u>	<u>2,371,187</u>
	<b><u>\$4,543,780</u></b>	<b><u>\$4,213,606</u></b>
 <b>Liabilities and Trust Corpus</b>		
Distribution Payable to Unit Holders _____	<b>\$2,371,387</b>	\$1,842,420
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding _____	<u>2,172,393</u>	<u>2,371,187</u>
	<b><u>\$4,543,780</u></b>	<b><u>\$4,213,606</u></b>

### Statements of Distributable Income for the Three Years Ended December 31, 2002

	2002	2001	2000
Royalty Income (Notes 2 and 3) _____	<b>\$23,830,604</b>	\$39,816,141	\$35,835,746
Interest Income _____	<u>17,140</u>	<u>77,977</u>	<u>85,348</u>
	<b>23,847,744</b>	39,894,118	35,921,094
Expenditures – General and Administrative _____	<u>432,338</u>	<u>420,723</u>	<u>375,953</u>
Distributable Income _____	<b><u>\$23,415,406</u></b>	<b><u>\$39,473,395</u></b>	<b><u>\$35,545,141</u></b>
Distributable Income per Unit (46,608,796 Units) _____	<b><u>\$.502382</u></b>	<b><u>\$.846908</u></b>	<b><u>\$.762627</u></b>

### Statements of Changes in Trust Corpus for the Three Years Ended December 31, 2002

	2002	2001	2000
Trust Corpus, Beginning of Period _____	<b>\$ 2,371,187</b>	\$ 2,595,254	\$ 2,889,978
Amortization of Net Overriding Royalty Interests (Notes 2 and 3) _____	<b>(198,794)</b>	(224,067)	(294,724)
Distributable Income _____	<b>23,415,406</b>	39,473,395	35,545,141
Distributions Declared _____	<b><u>(23,415,406)</u></b>	<b><u>(39,473,395)</u></b>	<b><u>(35,545,141)</u></b>
Trust Corpus, End of Period _____	<b><u>\$ 2,172,393</u></b>	<b><u>\$ 2,371,187</u></b>	<b><u>\$ 2,595,254</u></b>

The accompanying Notes to Financial Statements are an integral part of these statements.





## Notes to Financial Statements

### 1. Trust Organization and Provisions

The Permian Basin Royalty Trust ("Trust") was established as of November 1, 1980. Bank of America, N.A. ("Trustee") is Trustee for the Trust. Southland Royalty Company ("Southland") conveyed to the Trust (1) a 75% net overriding royalty in Southland's fee mineral interest in the Waddell Ranch in Crane County, Texas ("Waddell Ranch properties") and (2) a 95% net overriding royalty carved out of Southland's major producing royalty properties in Texas ("Texas Royalty properties"). The net overriding royalties above are collectively referred to as the "Royalties."

On November 3, 1980, Units of Beneficial Interest ("Units") in the Trust were distributed to the Trustee for the benefit of Southland shareholders of record as of November 3, 1980, who received one Unit in the Trust for each share of Southland common stock held. The Units are traded on the New York Stock Exchange.

The terms of the Trust Indenture provide, among other things, that:

- the Trust shall not engage in any business or commercial activity of any kind or acquire any assets other than those initially conveyed to the Trust;
- the Trustee may not sell all or any part of the Royalties unless approved by holders of 75% of all Units outstanding in which case the sale must be for cash and the proceeds promptly distributed;
- the Trustee may establish a cash reserve for the payment of any liability which is contingent or uncertain in amount;
- the Trustee is authorized to borrow funds to pay liabilities of the Trust; and
- the Trustee will make monthly cash distributions to Unit holders (see Note 2).

### 2. Net Overriding Royalty Interests and Distribution to Unit Holders

The amounts to be distributed to Unit holders ("Monthly Distribution Amounts") are determined on a monthly basis. The Monthly Distribution Amount is an amount equal to the sum of cash received by the Trustee during a calendar month attributable to the Royalties, any reduction in cash reserves and any other cash receipts of the Trust, including interest,

reduced by the sum of liabilities paid and any increase in cash reserves. If the Monthly Distribution Amount for any monthly period is a negative number, then the distribution will be zero for such month. To the extent the distribution amount is a negative number, that amount will be carried forward and deducted from future monthly distributions until the cumulative distribution calculation becomes a positive number, at which time a distribution will be made. Unit holders of record will be entitled to receive the calculated Monthly Distribution Amount for each month on or before 10 business days after the monthly record date, which is generally the last business day of each calendar month.

The cash received by the Trustee consists of the amounts received by owners of the interest burdened by the Royalties from the sale of production less the sum of applicable taxes, accrued production costs, development and drilling costs, operating charges and other costs and deductions, multiplied by 75% in the case of the Waddell Ranch properties and 95% in the case of the Texas Royalty properties.

The initial carrying value of the Royalties (\$10,975,216) represented Southland's historical net book value at the date of the transfer to the Trust. Accumulated amortization as of December 31, 2002 and 2001, aggregated \$8,802,823 and \$8,604,029, respectively.

### 3. Basis of Accounting

The financial statements of the Trust are prepared on the following basis:

- Royalty income recorded is the amount computed and paid by the working interest owner to the Trustee on behalf of the Trust.
- Trust expenses recorded are based on liabilities paid and cash reserves established out of cash received or borrowed funds for liabilities and contingencies.
- Distributions to Unit holders are recorded when declared by the Trustee.

The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America because revenues are not accrued in the month of production and certain cash reserves may be established for contingencies

which would not be accrued in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Amortization of the Royalties calculated on a unit-of-production basis is charged directly to trust corpus.

#### 4. New Accounting Pronouncements

Statement of Financial Accounting Standard ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," was issued by the Financial Accounting Standards Board ("FASB") in June 2001 and will be adopted by the Trust on January 1, 2003. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The effect of adopting SFAS No. 143 will not have a material impact on the Trust's financial statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued in April 2002 and is effective for fiscal years beginning after May 15, 2002. This Statement includes the rescission of FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment to FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The effect of adopting SFAS No. 145 will not have a material impact on the Trust's financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued in June 2002 and will be effective for exit or disposal activities subsequent to December 31, 2002. The Trust anticipates no material impact on its financial statements from the adoption of this accounting standard.

SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123," was issued in December 2002 and provides new transition methods if an entity adopts the fair value based method of valuing stock-based compensation suggested in SFAS No. 123, "Accounting for Stock-Based Compensation," as well as requiring additional disclosures in interim and annual financial statements. The Trust has no options or other

stock-based instruments and accordingly, the impact of this new Standard is not expected to be material to the financial statements of the Trust.

FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires disclosures beginning with financial statements ending after December 15, 2002, and requires liability recognition beginning January 1, 2003. The Trust had no such guarantees outstanding as of December 31, 2002.

FIN No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," applies immediately to variable interest entities created after January 31, 2003, and applies to the first period beginning after June 15, 2003, to entities acquired before February 1, 2003. This FIN does not affect the Trust as it has no unconsolidated subsidiaries accounted for under the equity method of accounting.

#### 5. Federal Income Tax

For federal income tax purposes, the Trust constitutes a fixed investment trust which is taxed as a grantor trust. A grantor trust is not subject to tax at the trust level. The Unit holders are considered to own the Trust's income and principal as though no trust were in existence. The income of the Trust is deemed to have been received or accrued by each Unit holder at the time such income is received or accrued by the Trust rather than when distributed by the Trust.

The Royalties constitute "economic interests" in oil and gas properties for federal income tax purposes. Unit holders must report their share of the revenues of the Trust as ordinary income from oil and gas royalties and are entitled to claim depletion with respect to such income.

The Trust has on file technical advice memoranda confirming the tax treatment described above.

The classification of the Trust's income for purposes of the passive loss rules may be important to a Unit holder. Royalty income generally is treated as portfolio income and does not offset passive losses.

Unit holders should consult their tax advisors for further information.





### 6. Significant Customers

Information as to significant purchasers of oil and gas production attributable to the Trust's economic interests is included in Item 2 of the Trust's Annual Report on Form 10-K which is included in this report.

### 7. Proved Oil and Gas Reserves (Unaudited)

Proved oil and gas reserve information is included in Item 2 of the Trust's Annual Report on Form 10-K which is included in this report.

### 8. Quarterly Schedule of Distributable Income (Unaudited)

The following is a summary of the unaudited quarterly schedule of distributable income for the two years ended December 31, 2002 (in thousands, except per Unit amounts):

	Royalty Income	Distributable Income	Distributable Income and Distribution Per Unit
<b>2002</b>			
First Quarter _____	\$ 4,574	\$ 4,418	\$.094796
Second Quarter _____	5,654	5,523	.118491
Third Quarter _____	6,306	6,241	.133892
Fourth Quarter _____	<u>7,297</u>	<u>7,233</u>	<u>.155203</u>
Total _____	<u>\$23,831</u>	<u>\$23,415</u>	<u>\$.502382</u>
<b>2001</b>			
First Quarter _____	\$12,092	\$11,953	\$.256445
Second Quarter _____	12,043	11,936	.256094
Third Quarter _____	8,433	8,376	.179718
Fourth Quarter _____	<u>7,247</u>	<u>7,208</u>	<u>.154651</u>
Total _____	<u>\$39,816</u>	<u>\$39,473</u>	<u>\$.846908</u>

## Independent Auditors' Report

BANK OF AMERICA, N.A., AS TRUSTEE FOR THE PERMIAN BASIN ROYALTY TRUST:

We have audited the accompanying statements of assets, liabilities and trust corpus of the Permian Basin Royalty Trust (the "Trust") as of December 31, 2002 and 2001, and the related statements of distributable income and changes in trust corpus for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

As described in Note 3 to the financial statements, these statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the assets, liabilities and trust corpus of the Trust at December 31, 2002 and 2001, and the distributable income and changes in trust corpus for each of the three years in the period ended December 31, 2002, on the basis of accounting described in Note 3.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Dallas, Texas

March 25, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(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, 2002

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-8033

**Permian Basin Royalty Trust**

*(Exact name of registrant as specified in the Permian Basin Royalty Trust Indenture)*

**Texas**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**75-6280532**  
*(I.R.S. Employer  
Identification No.)*

**Bank of America, N.A.  
Trust Department  
P.O. Box 830650  
Dallas, Texas 75202**

*(Address of Principal Executive Offices; Zip Code)*

**(214) 209-2400**

*(Registrant's Telephone Number, Including Area Code)*

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

Title of Each Class

Name of Each Exchange on Which Registered

Units of Beneficial Interest

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 Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The aggregate market value of the registrant's units of beneficial interest outstanding (based on the closing sale price on the New York Stock Exchange) held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$73,943,659.85.

At March 21, 2003, there were 46,608,796 Units of Beneficial Interest of the Trust outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

"Units of Beneficial Interest" at page 1; "Trustee's Discussion and Analysis for the Three-Year Period Ended December 31, 2002" at pages 7 through 10; "Results of the 4th Quarters of 2002 and 2001" at page 9; and "Statements of Assets, Liabilities and Trust Corpus," "Statements of Distributable Income," "Statements of Changes in Trust Corpus," "Notes to Financial Statements" and "Independent Auditors' Report" at page 11 et seq., in registrant's Annual Report to security holders for fiscal year ended December 31, 2002 are incorporated herein by reference for Item 5, Item 7 and Item 8 of Part II of this Report.

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## FORWARD LOOKING INFORMATION

Certain information included in this report contains, and other materials filed or to be filed by the Trust with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Trust) may contain or include, forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward looking statements may be or may concern, among other things, capital expenditures, drilling activity, development activities, production efforts and volumes, hydrocarbon prices and the results thereof, and regulatory matters. Although the Trustee believes that the expectations reflected in such forward looking statements are reasonable, such expectations are subject to numerous risks and uncertainties and the Trustee can give no assurance that they will prove correct. There are many factors, none of which is within the Trustee's control, that may cause such expectations not to be realized, including, among other things, factors such as actual oil and gas prices and the recoverability of reserves, capital expenditures, general economic conditions, actions and policies of petroleum-producing nations and other changes in the domestic and international energy markets. Such forward looking statements generally are accompanied by words such as "estimate," "expect," "anticipate," "goal," "should," "assume," "believe," or other words that convey the uncertainty of future events or outcomes.

## PART I

### Item 1. *Business*

The Permian Basin Royalty Trust (the "Trust") is an express trust created under the laws of the state of Texas by the Permian Basin Royalty Trust Indenture (the "Trust Indenture") entered into on November 3, 1980, between Southland Royalty Company ("Southland Royalty") and The First National Bank of Fort Worth, as Trustee. Bank of America, N.A., a banking association organized under the laws of the United States, as the successor of The First National Bank of Fort Worth, is now the Trustee of the Trust. The principal office of the Trust (sometimes referred to herein as the "Registrant") is located at 901 Main Street, Dallas, Texas (telephone number 214/209-2400).

On October 23, 1980, the stockholders of Southland Royalty approved and authorized that company's conveyance of net overriding royalty interests (equivalent to net profits interests) to the Trust for the benefit of the stockholders of Southland Royalty of record at the close of business on the date of the conveyance consisting of a 75% net overriding royalty interest carved out of that company's fee mineral interests in the Waddell Ranch properties in Crane County, Texas and a 95% net overriding royalty interest carved out of that company's major producing royalty properties in Texas. The conveyance of these interests (the "Royalties") was made on November 3, 1980, effective as to production from and after November 1, 1980 at 7:00 a.m. The properties and interests from which the Royalties were carved and which the Royalties now burden are collectively referred to herein as the "Underlying Properties." The Underlying Properties are more particularly described under "Item 2. Properties" herein.

The function of the Trustee is to collect the income attributable to the Royalties, to pay all expenses and charges of the Trust, and then distribute the remaining available income to the Unit holders. The Trust is not empowered to carry on any business activity and has no employees, all administrative functions being performed by the Trustee.

The Royalties constitute the principal asset of the Trust and the beneficial interests in the Royalties are divided into that number of Units of Beneficial Interest (the "Units") of the Trust equal to the number of shares of the common stock of Southland Royalty outstanding as of the close of business on November 3, 1980. Each stockholder of Southland Royalty of record at the close of business on November 3, 1980, received one Unit for each share of the common stock of Southland Royalty then held.

In 1985, Southland Royalty became a wholly-owned subsidiary of Burlington Northern Inc. ("BNI"). In 1988, BNI transferred its natural resource operations to Burlington Resources Inc. ("BRI") as a result of which Southland Royalty became a wholly-owned indirect subsidiary of BRI. As a result of these transactions,

El Paso Natural Gas Company (“El Paso”) also became an indirect subsidiary of BRI. In March 1992, El Paso completed an initial public offering of 5,750,000 newly issued shares of El Paso common stock, thereby decreasing BRI’s ownership of El Paso to approximately eighty-five percent (85%). On June 30, 1992, BRI distributed all of the shares of El Paso common stock owned by BRI to BRI’s stockholders of record as of June 15, 1992. See “Pricing Information” under “ITEM 2. Properties” herein.

Effective January 1, 1996, Southland Royalty, a wholly-owned subsidiary of Meridian Oil Inc. (“MOI”) was merged with and into MOI, by which action the separate corporate existence of Southland Royalty ceased and MOI survived and succeeded to the ownership of all of the assets of Southland Royalty and has assumed all of its rights, powers and privileges, and all of its liabilities and obligations. In 1996, MOI changed its name to Burlington Resources Oil & Gas Company (“BROG”).

The term “net proceeds” as used in the above described conveyance means the excess of “gross proceeds” received by BROG during a particular period over “production costs” for such period. “Gross proceeds” means the amount received by BROG (or any subsequent owner of the Underlying Properties) from the sale of the production attributable to the Underlying Properties, subject to certain adjustments. “Production costs” means, generally, costs incurred on an accrual basis in operating the Underlying Properties, including both capital and non-capital costs; for example, development drilling, production and processing costs, applicable taxes, and operating charges. If production costs exceed gross proceeds in any month, the excess is recovered out of future gross proceeds prior to the making of further payment to the Trust, but the Trust is not liable for any production costs or liabilities attributable to these properties and interests or the minerals produced therefrom. If at any time the Trust receives more than the amount due from the Royalties, it shall not be obligated to return such overpayment, but the amounts payable to it for any subsequent period shall be reduced by such overpaid amount, plus interest, at a rate specified in the conveyance.

To the extent it has the legal right to do so, BROG is responsible for marketing the production from such properties and interests, either under existing sales contracts or under future arrangements at the best prices and on the best terms it shall deem reasonably obtainable in the circumstances. BROG also has the obligation to maintain books and records sufficient to determine the amounts payable to the Trustee. BROG, however, can sell its interests in the Underlying Properties.

Proceeds from production in the first month are generally received by BROG in the second month, the net proceeds attributable to the Royalties are paid by BROG to the Trustee in the third month and distribution by the Trustee to the Unit holders is made in the fourth month. The identity of Unit holders entitled to a distribution will generally be determined as of the last business day of each calendar month (the “monthly record date”). The amount of each monthly distribution will generally be determined and announced ten days before the monthly record date. Unit holders of record as of the monthly record date will be entitled to receive the calculated monthly distribution amount for each month on or before ten business days after the monthly record date. The aggregate monthly distribution amount is the excess of (i) net revenues from the Trust properties, plus any decrease in cash reserves previously established for contingent liabilities and any other cash receipts of the Trust over (ii) the expenses and payments of liabilities of the Trust plus any net increase in cash reserves for contingent liabilities.

Cash held by the Trustee as a reserve for liabilities or contingencies (which reserves may be established by the Trustee in its discretion) or pending distribution is placed, at the Trustee’s discretion, in obligations issued by (or unconditionally guaranteed by) the United States or any agency thereof, repurchase agreements secured by obligations issued by the United States or any agency thereof, or certificates of deposit of banks having a capital surplus and undivided profits in excess of \$50,000,000, subject, in each case, to certain other qualifying conditions.

The income to the Trust attributable to the Royalties is not subject in material respects to seasonal factors nor in any manner related to or dependent upon patents, licenses, franchises or concessions. The Trust conducts no research activities. The Trust has no employees since all administrative functions are performed by the Trustee.

BROG has advised the Trustee that it believes that comparable revenues could be obtained in the event of a change in purchasers of production.

### **Website/SEC Filings**

Our Internet address is <http://www.pbt-permianbasintrust.com>. You can review the filings the Trust has made with respect to its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We shall post these reports as soon as reasonably practicable after we electronically file them with, or furnish them to the SEC.

### **Item 2. Properties**

The net overriding royalties conveyed to the Trust include: (1) a 75% net overriding royalty carved out of BROG's (as successor to Southland Royalty) fee mineral interests in the Waddell Ranch in Crane County, Texas (the "Waddell Ranch properties"); and (2) a 95% net overriding royalty carved out of BROG's (as successor to Southland Royalty) major producing royalty interests in Texas (the "Texas Royalty properties"). The net overriding royalty for the Texas Royalty properties is subject to the provisions of the lease agreements under which such royalties were created. References below to "net" wells and acres are to the interests of BROG (from which the Royalties were carved) in the "gross" wells and acres.

The following information under this ITEM 2 is based upon data and information furnished to the Trustee by BROG.

#### **PRODUCING ACREAGE, WELLS AND DRILLING**

*Waddell Ranch Properties.* The Waddell Ranch properties consist of 78,175 gross (34,205 net) producing acres. A majority of the proved reserves are attributable to six fields: Dune, Sand Hills (Judkins), Sand Hills (McKnight), Sand Hills (Tubb), University-Waddell (Devonian) and Waddell. At December 31, 2002, the Waddell Ranch properties contained 765 gross (339 net) productive oil wells, 184 gross (88 net) productive gas wells and 324 gross (141 net) injection wells.

BROG is operator of record of the Waddell Ranch properties. All field, technical and accounting operations have been contracted by an agreement between the working interest owners and Coastal Management Corporation ("CMC") but remain under the direction of BROG.

The Waddell Ranch properties are mature producing properties, and all of the major oil fields are currently being waterflooded for the purpose of facilitating enhanced recovery. Proved reserves and estimated future net revenues attributable to the properties are included in the reserve reports summarized below. BROG does not own the full working interest in any of the tracts constituting the Waddell Ranch properties and, therefore, implementation of any development programs will require approvals of other working interest holders as well as BROG. In addition, implementation of any development programs will be dependent upon oil and gas prices currently being received and anticipated to be received in the future. There were 4 gross (1.75 net) wells drilled and completed on the Waddell Ranch properties during 2002. At December 31, 2002 there were no wells in progress on the Waddell Ranch properties. During 2001 there were 11 gross (.76 net) wells drilled and completed on the Waddell Ranch properties. At December 31, 2001 there were 8 gross (3.75 net) wells in progress on the Waddell Ranch properties. During 2000 there were no wells drilled on the Waddell Ranch properties. At December 31, 2000 there were 10 gross (4.88 net) wells in progress on the Waddell Ranch properties.

BROG has advised the Trustee that the total amount of capital expenditures for 2002 with regard to the Waddell Ranch properties totalled \$9.9 million. Capital expenditures include the cost of remedial and maintenance activities. This amount spent is approximately \$.1 million less than the budgeted amount projected by BROG for 2002. BROG has advised the Trustee that the capital expenditures budget for 2003 totals approximately \$10.0 million, of which approximately \$1.1 is attributable to the 2003 drilling program,

and \$8.9 million to workovers and recompletions. Accordingly, there is a minor increase in capital expenditures for 2003 as compared with the 2002 capital expenditures.

*Texas Royalty Properties.* The Texas Royalty properties consist of royalty interests in mature producing oil fields, such as Yates, Wasson, Sand Hills, East Texas, Kelly-Snyder, Panhandle Regular, N. Cowden, Todd, Keystone, Kermit, McElroy, Howard-Glasscock, Seminole and others. The Texas Royalty properties contain approximately 303,000 gross (approximately 51,000 net) producing acres. Detailed information concerning the number of wells on royalty properties is not generally available to the owners of royalty interests. Consequently, an accurate count of the number of wells located on the Texas Royalty properties cannot readily be obtained.

In February 1997, BROG sold its interests in the Texas Royalty properties that are subject to the Net Overriding Royalty Conveyance to the Trust dated effective November 1, 1980 (“Texas Royalty Conveyance”) to Riverhill Energy Corporation (“Riverhill Energy”), which was then a wholly-owned subsidiary of Riverhill Capital Corporation (“Riverhill Capital”) and an affiliate of CMC. At the time of such sale, Riverhill Capital was a privately owned Texas corporation with offices in Bryan and Midland, Texas. The Trustee was informed by BROG that, as required by the Texas Royalty Conveyance, Riverhill Energy succeeded to all of the requirements upon and the responsibilities of BROG under the Texas Royalty Conveyance with regard to the Texas Royalty properties. BROG and Riverhill Energy further advised the Trustee that all accounting operations pertaining to the Texas Royalty properties were being performed by CMC under the direction of Riverhill Energy. BROG indicated to the Trustee that BROG will work together with CMC and Riverhill Energy in an effort to assure that various administrative functions and reporting requirements assumed by Riverhill Energy are met. The Trustee has been advised that independent auditors representing Riverhill Energy and CMC are PriceWaterhouseCoopers.

The Trustee has been advised that in the first quarter of 1998 Schlumberger Technology Corporation (“Schlumberger”), acquired all of the shares of stock of Riverhill Capital. Prior to such acquisition by Schlumberger, CMC and Riverhill Energy were wholly-owned subsidiaries of Riverhill Capital. The Trustee has further been advised that in connection with Schlumberger’s acquisition of Riverhill Capital, the shareholders of Riverhill Capital acquired ownership of all of the shares of stock of Riverhill Energy. Thus, the ownership in the Texas Royalty properties referenced above remained in Riverhill Energy, the stock ownership of which was acquired by the former shareholders of Riverhill Capital. Accounting operations pertaining to the Texas Royalty properties are being performed by CMC under the direction of Riverhill Energy. CMC also currently conducts all field, technical and accounting operations on behalf of BROG with regard to the Waddell Ranch properties.

*Well Count and Acreage Summary.* The following table shows as of December 31, 2002, the gross and net producing wells and acres for the Company Interests. The net wells and acres are determined by multiplying the gross wells or acres by the Company Interests Owner’s working interest in the wells or acres. There is very little undeveloped Acreage held by the Trust, and all this is held by production.

	Number of Wells		Acres	
	Gross	Net	Gross	Net
Company Interests .....	1,273	568	76,992	33,276

## OIL AND GAS PRODUCTION

The Trust recognizes production during the month in which the related distribution is received. Production of oil and gas attributable to the Royalties and the Underlying Properties and the related average

sales prices attributable to the Underlying Properties for the three years ended December 31, 2002, excluding portions attributable to the adjustments discussed below, were as follows:

	Waddell Ranch Properties			Texas Royalty Properties			Total		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Royalties:									
Production									
Oil (barrels) . . . . .	426,719	577,243	584,269	301,594	363,959	335,160	728,313	941,202	919,429
Gas (Mcf) . . . . .	2,440,678	3,109,734	2,654,731	751,497	765,852	691,714	3,192,175	3,875,586	3,346,445
Underlying Properties:									
Production									
Oil (barrels) . . . . .	922,766	1,032,678	1,119,835	350,157	402,305	366,275	1,272,923	1,434,983	1,486,110
Gas (Mcf) . . . . .	5,310,364	5,572,143	5,134,829	878,651	869,155	755,194	6,189,015	6,441,298	5,890,023
Average Price									
Oil/barrel . . . . .	\$ 22.44	\$ 25.64	\$ 28.28	\$ 22.12	\$ 23.68	\$ 26.58	\$ 22.31	\$ 24.88	\$ 27.66
Gas/Mcf . . . . .	\$ 2.80	\$ 4.68	\$ 3.65	\$ 2.55	\$ 4.34	\$ 3.58	\$ 2.74	\$ 4.70	\$ 3.63

Since the oil and gas sales attributable to the Royalties are based on an allocation formula that is dependent on such factors as price and cost (including capital expenditures), production amounts do not necessarily provide a meaningful comparison.

### PRODUCTION COST

Waddell Ranch total lease operating expense for 2002 was \$22.318 million gross and \$7.703 million net. The lease operating expense increased 5% from 2001 to 2002 primarily because of the increase in well maintenance operations and abandonment of shut in non-economic wellbores. Waddell Ranch lifting cost on a barrel of oil equivalent (BOE) basis was \$5.20/bbl. The lifting cost on a barrel of total fluid produced (BTF) basis was \$.41/bbl.

### PRICING INFORMATION

Reference is made to “Regulation” for information as to federal regulation of prices of natural gas. The following paragraphs provide information regarding sales of oil and gas from the Waddell Ranch properties. As a royalty owner, BROG is not furnished detailed information regarding sales of oil and gas from the Texas Royalty properties.

*Oil.* The Trustee has been advised by BROG that for the period August 1, 1993 through June 30, 2003, the oil from the Waddell Ranch properties is being sold under a competitive bid to independent third parties.

*Gas.* The gas produced from the Waddell Ranch properties is processed through a natural gas processing plant and sold at the tailgate of the plant. Plant products are marketed by Burlington Resources Hydrocarbons Inc., an indirect subsidiary of BRI. The processor of the gas (Warren Petroleum Company, L.P.) receives 15% of the liquids and residue gas as a fee for gathering, compression, treating and processing the gas.

### OIL AND GAS RESERVES

The following are definitions adopted by the Securities and Exchange Commission (“SEC”) and the Financial Accounting Standards Board which are applicable to terms used within this Item:

“Proved reserves” are those estimated quantities of crude oil, natural gas and natural gas liquids, which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions.

“Proved developed reserves” are those proved reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.

“Proved undeveloped reserves” are those proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required.

“Estimated future net revenues” are computed by applying current prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements and allowed by federal regulation) to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet presented, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves, and assuming continuation of existing economic conditions.

“Estimated future net revenues” are sometimes referred to herein as “estimated future net cash flows.”

“Present value of estimated future net revenues” is computed using the estimated future net revenues and a discount factor of 10%.

The independent petroleum engineers’ reports as to the proved oil and gas reserves attributable to the Royalties conveyed to the Trust were obtained from Cawley, Gillespie & Associates, Inc. The following table presents a reconciliation of proved reserve quantities from January 1, 2000 through December 31, 2002 (in thousands):

	Waddell Ranch Properties		Texas Royalty Properties		Total	
	Oil (BBls)	Gas (Mcf)	Oil (BBls)	Gas (Mcf)	Oil (BBls)	Gas (Mcf)
January 1, 2000	5,486	23,004	4,145	5,628	9,631	28,632
Extensions, discoveries, and other additions	314	1,106	0	0	314	1,106
Revisions of previous estimates	1,095	9,088	97	1,012	1,192	10,099
Production	(584)	(2,655)	(335)	(692)	(919)	(3,346)
December 31, 2000	6,311	30,543	3,907	5,948	10,218	36,491
Extensions, discoveries, and other additions	0	0	0	0	0	0
Revisions of previous estimates	(1,960)	(7,311)	60	613	(1,900)	(6,698)
Production	(577)	(3,110)	(364)	(766)	(941)	(3,876)
December 31, 2001	3,774	20,122	3,603	5,795	7,377	25,917
Extensions, discoveries, and other additions	0	0	0	0	0	0
Revisions of previous estimates	700	5,259	138	521	837	5,782
Production	(427)	(2,441)	(302)	(751)	(728)	(3,192)
December 31, 2002	<u>4,047</u>	<u>22,940</u>	<u>3,439</u>	<u>5,565</u>	<u>7,486</u>	<u>28,507</u>

Estimated quantities of proved developed reserves of crude oil and natural gas as of December 31, 2002, 2001 and 2000 were as follows (in thousands):

	Crude Oil (BBls)	Natural Gas (Mcf)
December 31, 2002	6,851	26,927
December 31, 2001	6,614	23,280
December 31, 2000	8,937	31,665

The Financial Accounting Standards Board requires supplemental disclosures for oil and gas producers based on a standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities. Under this disclosure, future cash inflows are computed by applying year-end prices of oil and gas relating to the enterprise’s proved reserves to the year-end quantities of those reserves. Future price changes are only considered to the extent provided by contractual arrangements in existence at year end. The

standardized measure of discounted future net cash flows is achieved by using a discount rate of 10% a year to reflect the timing of future cash flows relating to proved oil and gas reserves.

Estimates of proved oil and gas reserves are by their very nature imprecise. Estimates of future net revenue attributable to proved reserves are sensitive to the unpredictable prices of oil and gas and other variables.

The 2002, 2001 and 2000 change in the standardized measure of discounted future net cash flows related to future royalty income from proved reserves discounted at 10% is as follows (in thousands):

	Waddell Ranch Properties			Texas Royalty Properties			Total		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
January 1 . . . . .	\$ 59,283	\$ 214,029	\$102,088	\$34,519	\$ 65,784	\$ 52,126	\$ 93,802	\$ 279,813	\$154,214
Extensions, discoveries, and other additions . . . .	0	0	10,281	0	0	0	0	0	10,281
Accretion of discount	5,928	21,403	10,209	3,452	6,578	5,213	9,380	27,981	15,422
Revisions of previous estimates and other	67,650	(147,806)	116,353	26,205	(26,370)	19,379	93,855	(174,176)	135,732
Royalty income . . . . .	<u>(15,627)</u>	<u>(28,343)</u>	<u>(24,902)</u>	<u>(8,204)</u>	<u>(11,473)</u>	<u>(10,934)</u>	<u>(23,831)</u>	<u>(39,816)</u>	<u>(35,836)</u>
December 31 . . . . .	<u>\$117,234</u>	<u>\$ 59,283</u>	<u>\$214,029</u>	<u>\$55,972</u>	<u>\$ 34,519</u>	<u>\$ 65,784</u>	<u>\$173,206</u>	<u>\$ 93,802</u>	<u>\$279,813</u>

Oil and gas prices of \$31.88 and \$28.95 per barrel and \$3.80 and \$3.79 per Mcf were used to determine the estimated future net revenues from the Waddell Ranch properties and the Texas Royalty properties, respectively, at December 31, 2002. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties are due to increase in oil and gas prices from 2001 to 2002.

Oil and gas prices of \$17.05 and \$17.62 per barrel and \$2.15 and \$1.93 per Mcf, respectively, were used to determine the estimated future net revenues from the Waddell Ranch properties and the Texas Royalty properties, respectively, at December 31, 2001. The extension, discoveries and other additions for the Waddell Ranch properties are proved reserves related to the Waddell (Greyburg) and Running WN (Wolfcamp) fields. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties are due to increases in oil and gas prices from 2000 to 2001.

Oil and gas prices of \$24.65 and \$26.46 per barrel and \$8.98 and \$7.03 per Mcf, respectively, were used to determine the estimated future net revenues from the Waddell Ranch properties and the Texas Royalty properties at December 31, 2000. The extension, discoveries and other additions for the Waddell Ranch properties are proved developed producing reserves related to the RM (Clearfork) field. The upward revisions of both reserves and discounted future net cash flows for the Waddell Ranch properties and the Texas Royalty properties were due to increases in oil and gas prices from 1999 to 2000.

The following presents estimated future net revenue and the present value of estimated future net revenue, for each of the years ended December 31, 2002, 2001 and 2000 (in thousands except amounts per Unit):

	2002		2001		2000	
	Estimated Future Net Revenue	Present Value at 10%	Estimated Future Net Revenue	Present Value at 10%	Estimated Future Net Revenue	Present Value at 10%
Total Proved						
Waddell Ranch properties . . . . .	\$204,776	\$117,234	\$102,860	\$59,283	\$405,530	\$214,029
Texas Royalty properties . . . . .	<u>114,777</u>	<u>55,972</u>	<u>71,482</u>	<u>34,519</u>	<u>138,860</u>	<u>65,784</u>
Total . . . . .	<u>\$319,553</u>	<u>\$173,206</u>	<u>\$174,342</u>	<u>\$93,102</u>	<u>\$544,390</u>	<u>\$279,813</u>
Total Proved per Unit . . .	<u>\$ 6.85</u>	<u>\$ 3.72</u>	<u>\$ 3.74</u>	<u>\$ 2.01</u>	<u>\$ 11.68</u>	<u>\$ 6.00</u>
Proved Developed						
Waddell Ranch properties . . . . .	\$179,798	\$105,903	\$ 84,996	\$52,778	\$334,734	\$187,575
Texas Royalty properties . . . . .	<u>114,777</u>	<u>55,972</u>	<u>71,482</u>	<u>34,519</u>	<u>138,860</u>	<u>65,784</u>
Total . . . . .	<u>\$294,575</u>	<u>\$161,875</u>	<u>\$156,478</u>	<u>\$87,297</u>	<u>\$473,594</u>	<u>\$253,359</u>

Reserve quantities and revenues shown in the preceding tables for the Royalties were estimated from projections of reserves and revenue attributable to the combined Southland Royalty and Trust interests in the Waddell Ranch properties and Texas Royalty properties. Reserve quantities attributable to the Royalties were estimated by allocating to the Royalties a portion of the total estimated net reserve quantities of the interests, based upon gross revenue less production taxes. Because the reserve quantities attributable to the Royalties are estimated using an allocation of the reserves, any changes in prices or costs will result in changes in the estimated reserve quantities allocated to the Royalties. Therefore, the reserve quantities estimated will vary if different future price and cost assumptions occur.

Proved reserve quantities are estimates based on information available at the time of preparation and such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of those reserves may be substantially different from the original estimate. Moreover, the present values shown above should not be considered as the market values of such oil and gas reserves or the costs that would be incurred to acquire equivalent reserves. A market value determination would include many additional factors.

## REGULATION

Many aspects of the production, pricing, transportation and marketing of crude oil and natural gas are regulated by federal and state agencies. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden on affected members of the industry.

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled and the plugging and abandonment of wells. Natural gas and oil operations are also subject to various conservation laws and regulations that regulate the size of drilling and spacing units or proration units and the density of wells which may be drilled and unitization or pooling of oil and gas properties. In addition, state conservation laws establish maximum allowable production from natural gas and oil wells, generally prohibit the venting or



flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations is to limit the amounts of natural gas and oil that can be produced, potentially raise prices, and to limit the number of wells or the locations which can be drilled.

### **Federal Natural Gas Regulation**

The Federal Energy Regulatory Commission (the “FERC”) is primarily responsible for federal regulation of natural gas. The interstate transportation and sale for resale of natural gas is subject to federal governmental regulation, including regulation of transportation and storage tariffs and various other matters, by FERC. Wellhead sales of domestic natural gas are not subject to regulation. January 1, 1993. Consequently, sales of natural gas may be made at market prices, subject to applicable contract provisions.

Sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation remain subject to extensive federal and state regulation. Several major regulatory changes have been implemented by Congress and the FERC from 1985 to the present that affect the economics of natural gas production, transportation, and sales. In addition, the FERC continues to promulgate revisions to various aspects of the rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies, that remain subject to the FERC’s jurisdiction. These initiatives may also affect the intrastate transportation of gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry and these initiatives generally reflect more light-handed regulation of the natural gas industry. The ultimate impact of the rules and regulations issued by the FERC since 1985 cannot be predicted. In addition, many aspects of these regulatory developments have not become final but are still pending judicial and FERC final decisions.

New proposals and proceedings that might affect the natural gas industry are considered from time to time by Congress, the FERC, state regulatory bodies and the courts. The Trust cannot predict when or if any such proposals might become effective, or their effect, if any, on the Trust. The natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less stringent regulatory approach recently pursued by the FERC and Congress will continue.

Sales of crude oil, condensate and gas liquids are not currently regulated and are made at market prices. Crude oil prices are affected by a variety of factors. Since domestic crude price controls were lifted in 1981, the principal factors influencing the prices received by producers of domestic crude oil have been the pricing and production of the members of the Organization of Petroleum Export Countries (OPEC).

### **State Regulation**

The various states regulate the production and sale of oil and natural gas, including imposing requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells and the prevention of waste of oil and gas resources. The rates of production may be regulated and the maximum daily production allowables from both oil and gas wells may be established on a market demand or conservation basis, or both.

### **Other Regulation**

The petroleum industry is also subject to compliance with various other federal, state and local regulations and laws, including, but not limited to, environmental protection, occupational safety, resource conservation and equal employment opportunity. The Trustee does not believe that compliance with these laws by the operating parties will have any material adverse effect on Unit holders.

### **Item 3. *Legal Proceedings***

There are no material pending legal proceedings to which the Trust is a party or of which any of its property is the subject.

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

No matters were submitted to a vote of Unit holders, through the solicitation of proxies or otherwise, during the fourth quarter ended December 31, 2002.

**PART II**

**Item 5. *Market for Units of the Trust and Related Security Holder Matters***

The information under “Units of Beneficial Interest” at page 1 of the Trust’s Annual Report to security holders for the year ended December 31, 2002, is herein incorporated by reference.

The Trust has no equity compensation plans.

**Item 6. *Selected Financial Data***

	For the Year Ended December 31,				
	2002	2001	2000	1999	1998
Royalty income . . . . .	\$23,830,604	\$39,816,141	\$35,835,746	\$18,799,659	\$10,777,901
Distributable income . . . . .	23,415,406	39,473,395	35,545,141	18,471,842	10,414,382
Distributable income per Unit . . . . .	0.502382	0.846908	0.762627	0.396317	0.223443
Distributions per Unit . . . . .	0.502382	0.846908	0.762627	0.396317	0.223443
Total assets, December 31 . . . . .	\$ 4,543,780	\$ 4,213,606	\$ 5,651,376	\$ 5,305,223	\$ 3,861,776

**Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operation***

The “Trustee’s Discussion and Analysis for the Three Year Period Ended December 31, 2002” and “Results of the 4th Quarters of 2002 and 2001” at pages 7 through 10 of the Trust’s Annual Report to security holders for the year ended December 31, 2002 is herein incorporated by reference.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

The Trust is a passive entity and other than the Trust’s ability to periodically borrow money as necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust, the Trust is prohibited from engaging in borrowing transactions. The amount of any such borrowings is unlikely to be material to the Trust. The Trust periodically holds short-term investments acquired with funds held by the Trust pending distribution to Unit holders and funds held in reserve for the payment of Trust expenses and liabilities. Because of the short-term nature of these borrowings and investments and certain limitations upon the types of such investments which may be held by the Trust, the Trustee believes that the Trust is not subject to any material interest rate risk. The Trust does not engage in transactions in foreign currencies which could expose the Trust or Unit holders to any foreign currency related market risk. The Trust invests in no derivative financial instruments and has no foreign operations or long-term debt instruments.

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

The Financial Statements of the Trust and the notes thereto at page 11 et seq. of the Trust’s Annual Report to security holders for the year ended December 31, 2002, are herein incorporated by reference.

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

There have been no changes in accountants and no disagreements with accountants on any matter of accounting principles or practices or financial statement disclosures during the twenty-four months ended December 31, 2002.

**PART III**

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

**TRUSTEE**

The Trust has no directors or executive officers. The Trustee is a corporate trustee which may be removed, with or without cause, at a meeting of the Unit holders, by the affirmative vote of the holders of a majority of all the Units then outstanding.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Trust's directors, officers or beneficial owners of more than ten percent of a registered class of the Trust's equity securities to file reports of ownership and changes in ownership with the SEC and to furnish the Trust with copies of all such reports.

The Trust has no directors or officers and based solely on its review of the reports received by it, the Trust believes that during the fiscal year of 2002, no person who was a beneficial owner of more than ten percent the Trust's Units failed to file on a timely basis any report required by Section 16(a).

**Item 11. Executive Compensation**

During the years ended December 31, 2002, 2001 and 2000, the Trustee received total remuneration as follows:

<u>Name of Individual or Number of Persons in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation</u>	<u>Year</u>
Bank of America, N.A. ....	Trustee	\$45,062(1)	2002
		\$53,796(1)	2001
		\$57,680(1)	2000

(1) Under the Trust Indenture, the Trustee is entitled to an administrative fee for its administrative services, preparation of quarterly and annual statements with attention to tax and legal matters of: (i) 1/20 of 1% of the first \$100 million and (ii) Trustee's standard hourly rate in excess of 300 hours annually. The administrative fee is subject to reduction by a credit for funds provision.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

(a) *Security Ownership of Certain Beneficial Owners.* The following table sets forth as of March 1, 2003, information with respect to each person known to own beneficially more than 5% of the outstanding Units of the Trust [PLEASE CONFIRM]:

<u>Name and Address</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Burlington Resources Oil & Gas Company LP(1) ..... 5051 Westheimer, Suite 1400 Houston, Texas 77056-2124	27,577,741 Units	59.17%
McMorgan & Company(2) ..... One Bush Street, Suite 800 San Francisco, CA 94104	5,000,000 Units	10.73%

(1) This information was provided to the Securities and Exchange Commission and to the Trust in a Form 4 dated January 6, 1994, filed with the Securities and Exchange Commission by Southland Royalty, a wholly-owned subsidiary of BRI, and in Amendment 5 to Schedule 13D and Schedule 13E-3 dated December 28, 1993, filed with the Securities and Exchange Commission by Southland Royalty and BRI. Such Units were reported to be owned directly by Southland Royalty, now BROG.

The Form 4 filed by Southland Royalty and the Schedule 13D and Schedule 13E-3 filed by Southland Royalty and BRI with the Securities and Exchange Commission may be reviewed for more detailed information concerning the matters summarized herein.

- (2) This information was provided to the Securities and Exchange Commission and to the Trust in a Schedule 13G filed with the Securities and Exchange Commission on July 12, 1999 on behalf of McMorgan & Company, an investment adviser registered under the Investment Advisers Act of 1940, (McMorgan), Thomas Allan Morton (“Morton”), and Terry Allen O’Toole (“O’Toole”). Such Schedule 13G reports that McMorgan, Morton, and O’Toole have beneficial ownership of such Units. It is reported in such Schedule 13G that McMorgan, Morton, and O’Toole have sole voting and sole dispositive power with regard to such Units. Morton and O’Toole filed in their capacities as control persons of McMorgan and disclaimed beneficial ownership to such Units involved in such Schedule 13G. The address of Morton and O’Toole is One Bush Street, Suite 800, San Francisco, California 94104.

The Schedule 13G filed with the Securities and Exchange Commission on behalf of McMorgan, Morton, and O’Toole may be reviewed for more detailed information concerning the matters summarized herein.

(b) Security Ownership of Management. The Trustee does not beneficially own any securities of the Trust. In various fiduciary capacities, Bank of America, N.A. owned as of March 1, 2003, an aggregate of 192,621 Units with no right to vote all of these Units, shared right to vote none of these Units and sole right to vote none of these Units. Bank of America, N.A., disclaims any beneficial interests in these Units. The number of Units reflected in this paragraph includes Units held by all branches of Bank of America, N.A. (1)

(c) Change In Control. The Trustee knows of no arrangements which may subsequently result in a change in control of the Trust.

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

The Trust has no directors or executive officers. See Item 11 for the remuneration received by the Trustee during the years ended December 31, 2002, 2001 and 2000 and Item 12(b) for information concerning Units owned by Bank of America, N.A. in various fiduciary capacities.

### **Item 14. *Controls and Procedures***

Within the 90 days prior to the date of this report, the trustee carried out an evaluation of the effectiveness of the design and operation of the Trust’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Trustee concluded that the Trust’s disclosure controls and procedures are effective in timely alerting the trustee to material information relating to the Trust required to be included in the Trust’s periodic filings with the Securities and Exchange Commission. In its evaluation of disclosure controls and procedures, the trustee has relied, to the extent considered reasonable, on information provided by Burlington Resources Oil & Gas Company and River Hill Energy Corporation. No significant changes in the Trust’s internal controls or other factors that could affect these controls have occurred subsequent to the date of such evaluation.

## **PART IV**

### **Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K***

The following documents are filed as a part of this Report:

#### **1. *Financial Statements***

Included in Part II of this Report by reference to the Annual Report of the Trust for the year ended December 31, 2002:

Independent Auditors’ Report

Statements of Assets, Liabilities and Trust Corpus at December 31, 2002 and 2001

Statements of Distributable Income for Each of the Three Years in the Period Ended December 31, 2002

Statements of Changes in Trust Corpus for Each of the Three Years in the Period Ended December 31, 2002

Notes to Financial Statements

## 2. Financial Statement Schedules

Financial statement schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

## 3. Exhibits

Exhibit  
Number

Exhibit

- (4) (a) — Permian Basin Royalty Trust Indenture dated November 3, 1980, between Southland Royalty Company and The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, heretofore filed as Exhibit (4) (a) to the Trust's Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980, is incorporated herein by reference.\*
- (b) — Net Overriding Royalty Conveyance (Permian Basin Royalty Trust) from Southland Royalty Company to The First National Bank of Fort Worth (now Bank of America, N.A.), as Trustee, dated November 3, 1980 (without Schedules), heretofore filed as Exhibit (4) (b) to the Trust's Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 1980, is incorporated herein by reference.\*
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- (13) — Registrant's Annual Report to security holders for fiscal year ended December 31, 2002.\*\*
- (23) — Consent of Cawley, Gillespie & Associates, Inc., reservoir engineer.\*\*
- (99.1) — Certificate by Bank of America, Trustee of Permian Basin Royalty Trust, dated March 25, 2003 as required by 10 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

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\* A copy of this Exhibit is available to any Unit holder, at the actual cost of reproduction, upon written request to the Trustee, Bank of America, N.A., P.O. Box 830650, Dallas, Texas 75283-0650.

\*\* Filed herewith.

## REPORTS ON FORM 8-K

During the last quarter of the Trust's fiscal year ended December 31, 2002, there were no reports on Form 8-K filed by the Trust.

**SIGNATURE**

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.

PERMIAN BASIN ROYALTY TRUST

By: BANK OF AMERICA, N.A., Trustee

By                     /s/ RON E. HOOPER                      
Ron E. Hooper  
*Senior Vice President*

Date: March 25, 2003

(The Trust has no directors or executive officers.)

## CERTIFICATION

I, Ron Hooper, certify that:

1. I have reviewed this Annual Report on Form 10-K of Permian Basin Royalty Trust, for which Bank of America, N.A., acts as Trustee;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, distributable income and changes in trust corpus of the registrant as of, and for, the periods presented in this annual report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14), or for causing such procedures to be established and maintained, for the registrant and I have:

a) designed such disclosure controls and procedures, or caused such controls and procedures to be designed, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves persons who have a significant role in the registrant's internal controls; and

6. I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

In giving the certifications in paragraphs 4, 5 and 6 above, I have relied to the extent I consider reasonable on information provided to me by Burlington Resources Oil & Gas Company and River Hill Energy Corporation.

By: \_\_\_\_\_ /s/ RON HOOPER  
Ron Hooper  
Senior Vice President and Administrator  
Bank of America, N.A.,

Date: March 25, 2003

## INDEX TO EXHIBITS

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\*\* Filed herewith.



Permian Basin Royalty Trust  
901 Main Street, Suite 1700  
P.O. Box 830650  
Dallas, Texas 75202  
Bank of America, N.A., Trustee

**Auditors**

Deloitte & Touche LLP  
Dallas, Texas

**Legal Counsel**

Thompson & Knight L.L.P.  
Dallas, Texas

**Tax Counsel**

Winstead Sechrest & Minick, P.C.  
Houston, Texas

**Transfer Agent**

Mellon Investor Services, L.L.C.  
Ridgefield Park, New Jersey



