

**PERMIAN BASIN
ROYALTY TRUST**

ANNUAL REPORT & FORM 10-K

2000

FUELING A NEW MILLENNIUM



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

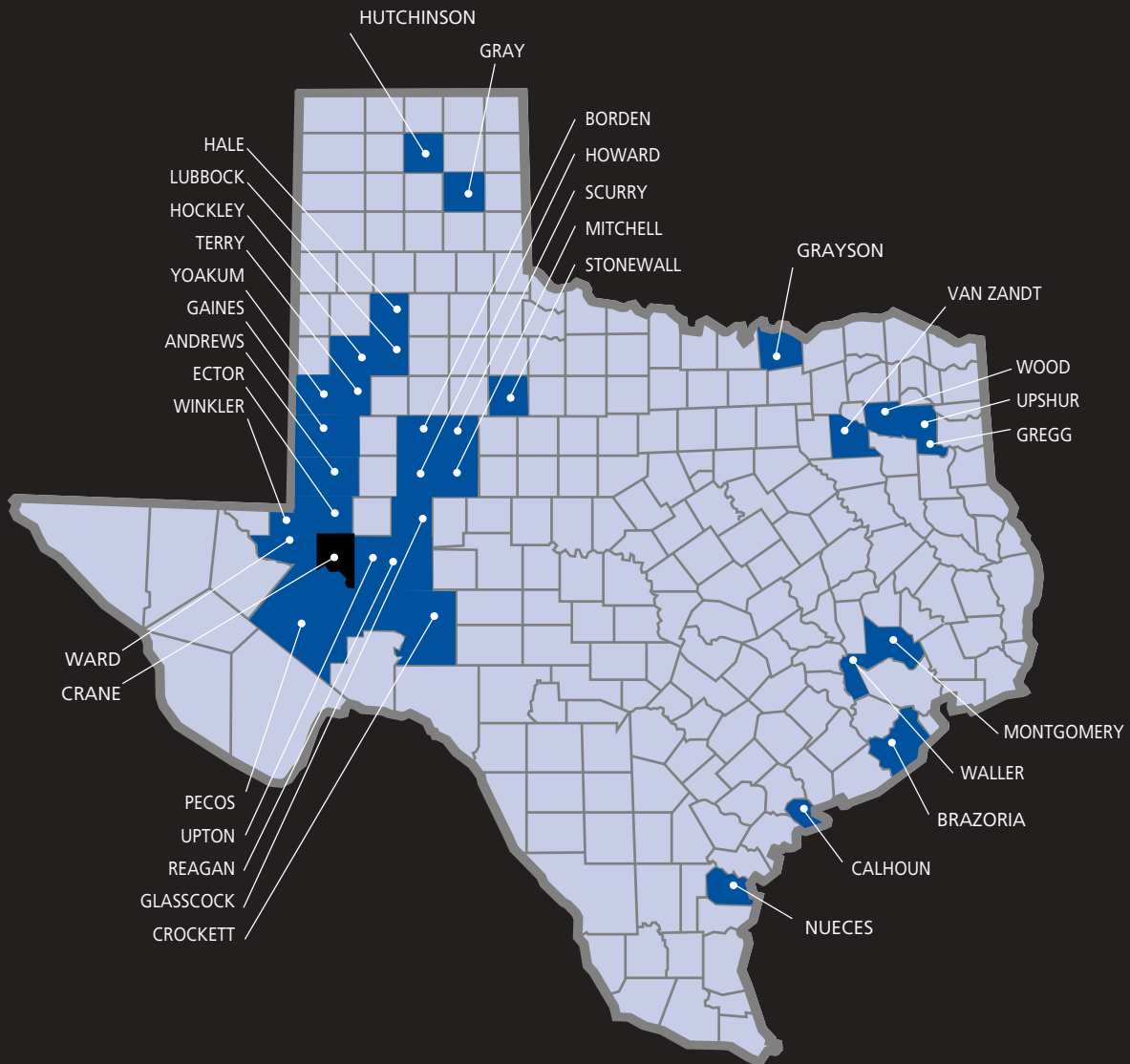
Units of Beneficial Interest ("Units") of the Trust are traded on the New York Stock Exchange with the symbol PBT. Quarterly high and low sales prices and the aggregate amount of monthly distributions paid each quarter during the Trust's two most recent years were as follows:

	<u>High</u>	<u>Low</u>	<u>Distributions Paid</u>
2000			
First Quarter _____	\$5.625	\$4.313	\$.134440
Second Quarter _____	5.125	4.250	.190844
Third Quarter _____	5.813	4.750	.203032
Fourth Quarter _____	6.625	5.250	.234311
Total for 2000 _____			<u>\$.762627</u>
1999			
First Quarter _____	\$4.500	\$3.875	\$.035064
Second Quarter _____	4.563	3.938	.082509
Third Quarter _____	5.938	4.063	.127116
Fourth Quarter _____	5.875	4.938	.151628
Total for 1999 _____			<u>\$.396317</u>

Approximately 2,473 Unit holders of record held the 46,608,796 Units of the Trust at December 31, 2000.



IT ALL BEGINS WITH THE LAND



TEXAS ROYALTY PROPERTIES ARE LOCATED IN 33 TEXAS COUNTIES.

WADDELL RANCH PROPERTIES ARE LOCATED IN CRANE COUNTY.

TO UNIT HOLDERS

We are pleased to present the twenty-first 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, 2000, 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, 2000, was \$35,835,746 and interest income earned for the same period was \$85,348. General and administrative expenses amounted to \$375,953. A total of \$35,545,141 or \$.762627 per Unit was distributed to Unit holders during 2000. A discussion of factors affecting the distributions for 2000 may be found in the Trustee's Discussion and Analysis section of this report and the accompanying Form 10-K.

As of December 31, 2000, the Trust's proved reserves were estimated at 10,218,000 Bbls of oil and 36,491 Mcf of gas. The estimated future net revenues from proved reserves at December 31, 2000, amount to \$544,340,000 or \$11.70 per Unit. The present value of estimated future net revenues discounted at 10% at December 31, 2000, was \$279,813,000 or \$6.00 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 Coastal Management Corporation ("CMC") 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 CMC. Subsequently, the Trustee was advised that Schlumberger Technology Corporation ("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. CMC will continue to perform all accounting operations pertaining to the Texas Royalty properties under the direction of Riverhill Energy.

The Omnibus Budget Reconciliation Act of 1990 allows percentage depletion 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. However, the Trustee and its accountants have estimated the percentage depletion for January through December 2000, 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 enacted by the Tax Reform Act of 1986. 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, 2001, and for the year ending December 31, 2001. Unit holders owning Units in nominee name may obtain monthly tax information from the Trustee upon request.

Bank of America, N.A.

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, 2000, is approximately 10.3 years.

The net 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 overriding royalty interest was carved, vary from 37.5% to 50.0% in 78,175 gross (34,205 net) acres, containing 792 gross (328 net) productive oil wells, 175 gross (73 net) productive gas wells and 336 gross (133 net) injection wells.

WADDELL RANCH

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 2000 totaled approximately \$8.6 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 2001 capital expenditures budget should total approximately \$11 million, of which \$4.7 million is attributable to the drilling program and \$5.5 million to workovers and recompletions.

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 (the "Underlying 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, 2000, was computed as shown in the table on the next page.



	2000		1999		Year Ended December 31, 1998		1997		1996	
	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 _____	\$31,289,829	\$9,770,732	\$18,667,382	\$5,261,863	\$18,821,076	\$5,404,598	\$27,099,891	\$8,427,062	\$26,720,538	\$8,249,254
Gas Proceeds _____	18,342,926	2,701,298	12,794,695	1,760,499	13,769,872	1,880,571	17,105,677	2,318,393	14,056,885	1,898,423
Other Payments (a) _____	-	-	-	-	-	540,543	-	-	-	-
Total _____	49,632,755	12,472,030	31,462,077	7,022,362	32,590,948	7,825,712	44,205,568	10,745,455	40,777,423	10,147,677
Less:										
Severance Tax										
Oil _____	1,288,522	373,643	726,944	186,846	725,100	196,770	1,037,862	320,447	1,103,059	315,491
Gas _____	1,189,617	146,512	773,689	77,379	(1,299,730)	104,759	1,232,298	135,717	1,041,208	114,812
Other _____	26,991	-	44,839	16,000	-	-	-	-	63,954	24,970
Lease Operating Expense and Property Tax										
Oil and Gas _____	9,318,915	442,523	9,687,476	525,035	14,096,881	790,246	12,239,689	597,508	12,209,663	1,637,143
Other Payments _____	-	-	132,166	180,000	-	-	50,297	-	-	-
Capital Expenditures _____	4,606,227	-	1,052,769	-	15,874,193	-	11,789,849	-	9,989,064	-
Total _____	16,430,272	962,678	12,417,883	985,260	29,396,444	1,091,775	26,349,995	1,053,672	24,406,948	2,092,416
Net Profits _____	33,202,483	11,509,352	19,044,194	6,037,102	3,194,504	6,733,937	17,855,573	9,691,783	16,370,475	8,055,261
Net Overriding Royalty Interest _____	75%	95%	75%	95%	75%	95%	75%	95%	75%	95%
Royalty Income _____	24,901,862	10,933,884	14,284,146	5,735,247	2,395,878	6,397,240	13,391,679	9,207,194	12,277,856	7,652,498
Negative Revenues (b) _____	-	-	1,218,732	-	1,218,732	-	-	-	-	-
Litigation Settlement (c) _____	-	-	-	-	766,051	-	-	-	-	-
Total Royalty Income for Distribution	\$24,901,862	\$10,933,884	\$13,064,414	\$5,735,247	\$4,380,661	\$6,397,240	\$13,391,679	\$9,207,194	\$12,277,856	\$7,652,498

(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, 2000

Royalty income received by the Trust for the three-year period ended December 31, 2000, is reported in the following table:

ROYALTIES	Year Ended December 31,		
	2000	1999	1998
Total Revenue _____	\$35,835,746	\$18,799,659	\$10,777,901
	100%	100%	100%
Oil Revenue _____	24,901,862	12,202,023	5,788,953
	70%	65%	54%
Gas Revenue _____	10,933,884	6,597,626	3,709,381
	30%	35%	34%
Other Payments _____	-	-	513,516
	-	-	5%
Litigation Payment _____	-	-	766,051
	-	-	7%
Total Revenue/Unit _____	\$.768862	\$.403350	\$.231242

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 2000, 1999 and 1998 for the Royalties and the Underlying Properties, excluding portions attributable to the adjustments discussed hereafter, are presented in the following table:

ROYALTIES	Year Ended December 31,		
	2000	1999	1998
Oil Sales (Bbls) _____	919,429	909,352	457,010
Gas Sales (Mcf) _____	3,346,445	3,464,208	1,432,949
<u>UNDERLYING PROPERTIES</u>			
Oil			
Total Oil Sales (Bbls) _____	1,486,110	1,674,898	1,909,702
Average Per Day (Bbls) _____	4,072	4,589	5,232
Average Price/Bbl _____	\$27.66	\$14.29	\$12.69
Gas			
Total Gas Sales (Mcf) _____	5,890,023	6,907,167	7,373,436
Average Per Day (Mcf) _____	16,137	18,924	20,201
Average Price/Mcf _____	\$3.63	\$2.11	\$2.12

The average price of oil increased to \$27.66 per barrel in 2000, up from \$14.29 per barrel in 1999. During this period, oil prices climbed to decade record highs from low levels in 1998. In addition, the average price of gas rose dramatically from \$2.11 per Mcf in 1999 to \$3.63 per Mcf in 2000.

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. As discussed below, during 1998, there were certain months in which costs exceeded revenues on the Waddell Ranch properties. As a result, no royalty

income was received for those months. Production attributable to the Trust is calculated based on net royalty income. As there was no royalty income, no production was reported for the Waddell Ranch properties at the Trust level for those months. Production at the Trust level for the Waddell Ranch properties was not recorded again until February 1999 when the cumulative excess amounts had been recovered. Total oil production decreased approximately 11% from 1999 to 2000 primarily due to lower capital expenditures in previous years. Total gas sales decreased approximately 15% from 1999 to 2000 primarily due to a decrease in capital expenditures in previous years and natural production decline.

DISCUSSION AND ANALYSIS, CONTINUED

In the calculation of royalty income for the months of June through December 1998, costs exceeded revenues for the Waddell Ranch properties by \$1,218,732. This impacted the January 1999 distributions to Unit holders. 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 they could again contribute to Trust royalty income. Increased capital expenditures and declining oil and gas prices contributed to this situation. Subsequently, in February 1999, BROG and CMC notified the Trustee that revenues exceeded the cumulative excess costs by \$22,506 and that the underlying Waddell Ranch properties were again contributing to Trust royalty income and production.

Total capital expenditures in 2000 used in the net overriding royalty calculation were approximately \$5.1 million compared to \$1.1 million in 1999 and \$15.9 million in 1998. During 2000, there were no wells drilled and completed on the Waddell Ranch properties. At December 31, 2000, there were 10 gross (4.88 net) wells in progress on the Waddell Ranch properties.

In 2000, lease operating expense and property taxes on the Waddell Ranch properties amounted to approximately \$9.3 million, which amount is approximately the same as in 1999.

The Trustee has been advised by BROG that for the period August 1, 1993, through June 30, 2000, the oil from the Waddell Ranch was sold under a competitive bid to a third party.

During 2000, the monthly royalty receipts were invested by the Trustee in U.S. Treasury securities until the monthly distribution date, and earned interest totaled \$85,348. Interest income for 1999 and 1998 was \$27,331 and \$27,825, respectively.

General and administrative expenses in 2000 were \$375,953 compared to \$355,148 in 1999 and \$391,344 in 1998.

Distributable income for 2000 was \$35,545,141 or \$.762627 per Unit. Distributable income for 1999 was \$18,471,842 or \$.396317 per Unit. Distributable income for 1998 was \$10,414,382 or \$.223443 per Unit.

RESULTS OF THE FOURTH QUARTERS OF 2000 AND 1999

Royalty income received by the Trust for the fourth quarter of 2000 amounted to \$10,938,461 or \$.234686 per Unit. For the fourth quarter of 1999, the Trust received royalty income of \$7,100,864 or \$.152350 per Unit. Interest income for the fourth quarter of 2000 amounted to \$28,872 compared to \$12,509 for the fourth quarter of 1999. The increase in interest income can be attributed primarily to an increase in funds available for investment. General and administrative expenses totaled \$46,306 for the fourth quarter of 2000 compared to \$46,173 for the fourth quarter of 1999.

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 1999 are as follows:

Fourth Quarter	2000	1999	Fourth Quarter	2000	1999
ROYALTIES			UNDERLYING PROPERTIES		
Oil Sales (Bbls) _____	261,030	235,216	Total Oil Sales (Bbls) _____	376,705	379,585
Gas Sales (Mcf) _____	873,994	946,780	Average Per Day (Bbls) _____	4,095	4,126
			Average Price/Bbls _____	\$29.18	\$20.47
			Total Gas Sales (Mcf) _____	1,360,733	1,623,387
			Average Per Day (Mcf) _____	14,791	17,646
			Average Price/Mcf _____	\$4.45	\$2.79

The posted price of oil increased for the fourth quarter of 2000 compared to the fourth quarter of 1999, resulting in an average price per barrel of \$29.18 compared to \$20.47 in the same period of 1999. The average price of gas increased for the fourth quarter of 2000 compared to the same period in 1999, resulting in an average price per Mcf of \$4.45 compared to \$2.79 in the fourth quarter of 1999.

Trustee has been advised that oil sales decreased in 2000 compared to the same period in 1999 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 2000 compared to the same period in 1999 due to the same factors.

The Trust has been advised that no wells were drilled and completed during the three months ended December 31, 2000, and there were 10 gross (4.88 net) wells in progress.

PERMIAN BASIN ROYALTY TRUST

STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS DECEMBER 31, 2000 AND 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Cash and Short-term Investments _____	\$3,056,122	\$2,415,245
Net Overriding Royalty Interests in Producing Oil and Gas Properties – Net (Notes 2 and 3) _____	<u>2,595,254</u>	<u>2,889,978</u>
	<u>\$5,651,376</u>	<u>\$5,305,223</u>
 <u>LIABILITIES AND TRUST CORPUS</u>		
Distribution Payable to Unit Holders _____	\$3,056,122	\$2,415,245
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding _____	<u>2,595,254</u>	<u>2,889,978</u>
	<u>\$5,651,376</u>	<u>\$5,305,223</u>

STATEMENTS OF DISTRIBUTABLE INCOME FOR THE THREE YEARS ENDED DECEMBER 31, 2000

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Royalty Income (Notes 2 and 3) _____	\$35,835,746	\$18,799,659	\$10,777,901
Interest Income _____	<u>85,348</u>	<u>27,331</u>	<u>27,825</u>
	35,921,094	18,826,990	10,805,726
Expenditures – General and Administrative _____	<u>375,953</u>	<u>355,148</u>	<u>391,344</u>
Distributable Income _____	<u>\$35,545,141</u>	<u>\$18,471,842</u>	<u>\$10,414,382</u>
Distributable Income per Unit (46,608,796 Units) _____	<u>\$.762627</u>	<u>\$.396317</u>	<u>\$.223443</u>

STATEMENTS OF CHANGES IN TRUST CORPUS FOR THE THREE YEARS ENDED DECEMBER 31, 2000

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Trust Corpus, Beginning of Period _____	\$ 2,889,978	\$ 3,336,583	\$ 3,496,594
Amortization of Net Overriding Royalty Interests (Notes 2 and 3) _____	(294,724)	(446,605)	(160,011)
Distributable Income _____	35,545,141	18,471,842	10,414,382
Distributions Declared _____	<u>35,545,141</u>	<u>(18,471,842)</u>	<u>(10,414,382)</u>
Trust Corpus, End of Period _____	<u>\$ 2,595,254</u>	<u>\$ 2,889,978</u>	<u>\$ 3,336,583</u>

The accompanying Notes to Financial Statements are an integral part of these 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 ten 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, 2000 and 1999, aggregated \$8,379,962 and \$8,085,238, 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.

The Financial Accounting Standards Board (“FASB”) issued, in June 1998, Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133,” and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133,” which establishes accounting and reporting standards for derivative instruments. These standards are effective for the Trust January 1, 2001. The Trustee does not believe the adoption of these standards has had or will have an impact on the financial statements of the Trust.

4. 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. As a result of the Tax Reform Act of 1986, royalty income will generally be treated as portfolio income and will not offset passive losses.

5. 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.

6. 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.

7. 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, 2000 (in thousands, except per Unit amounts):

	Royalty Income	Distributable Income	Distributable Income and Distribution Per Unit
2000			
First Quarter _____	\$ 6,373	\$ 6,266	\$.134440
Second Quarter ____	9,037	8,895	.190844
Third Quarter _____	9,487	9,463	.203032
Fourth Quarter ____	10,939	10,921	.234311
Total _____	<u>\$35,836</u>	<u>\$35,545</u>	<u>\$.762627</u>
1999			
First Quarter _____	\$ 1,776	\$ 1,634	\$.035064
Second Quarter ____	3,957	3,846	.082509
Third Quarter _____	5,966	5,925	.127116
Fourth Quarter ____	7,101	7,067	.151628
Total _____	<u>\$18,800</u>	<u>\$18,472</u>	<u>\$.396317</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, 2000 and 1999, and the related statements of distributable income and changes in trust corpus for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999, and the distributable income and changes in trust corpus for each of the three years in the period ended December 31, 2000, on the basis of accounting described in Note 3.

Deloitte & Touche LLP

Deloitte & Touche LLP
Dallas, Texas
March 20, 2001



PERMIAN BASIN ROYALTY TRUST

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