

PermRock Royalty Trust

TAX INFORMATION 2019

This booklet contains tax information relevant to ownership of Units of PermRock Royalty Trust and should be retained.

PermRock Royalty Trust

P. O. Box 470727
Fort Worth, Texas 76147
Telephone Toll-Free: 1-855-588-7839
Website: www.permrock.com

February 10, 2020

IMPORTANT TAX INFORMATION

To Unit Holders:

The following material provides Unit holders with information necessary to compute the 2019 federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2019;
- (b) Information and Instructions for Schedule A, and Supplemental Tax Tables including Table VIII for Percentage Depletion; and
- (c) Instructions, Supplemental Tax Table IX and Worksheet for Cost Depletion.

Unit holders are encouraged to read all of the material very carefully and to retain it as part of their tax records. The information and instructions contained herein are designed to assist Unit holders who are U.S. citizens in complying with their federal and state income tax reporting requirements and should not be construed as tax advice to any specific Unit holder. Unit holders should also consult any Internal Revenue Service (“IRS”) Forms 1099 and written tax statements issued by certain middlemen (discussed in more detail on pages 4 and 5) that hold Trust Units on their behalf.

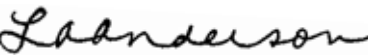
Unit holders will need to determine the following information from their records:

- Number of Units held in 2019 as of each monthly Record Date (the last business day of each month);
- Original basis (the total purchase price of the Units including any commissions paid);
- Dates Units were acquired or sold; and
- Amount of depletion allowed or allowable in prior years.

All Unit holders must compute their depletion deduction for federal tax reporting purposes. See “Computation of Depletion” on page 5 of the attached instructions. For your convenience, simple income/expense and cost depletion calculators are available on the home page and in the tax information section of the PermRock Royalty Trust website www.permrock.com.

Each Unit holder should consult his or her own tax adviser regarding tax compliance matters relating to his or her Units.

Simmons Bank, Trustee

By: 

Lee Ann Anderson
Senior Vice President

PERMROCK ROYALTY TRUST

EIN 82-6725102

Cusip 714254109

SCHEDULE A TO FORM 1041, GRANTOR TRUST
For Year Ended December 31, 2019

Federal and State Income Tax Information
 See Instructions Before Filing

PART I
ROYALTY INFORMATION PER UNIT

<u>ROYALTY PROPERTIES</u>	<u>Gross Income</u>	<u>Severance Tax</u>	<u>Net Royalty Payment</u>	<u>Cost Depletion Factor</u>	<u>Percentage Depletion Factor</u>	<u>Production</u>
TEXAS						
Oil	\$0.827116	\$0.057085	\$0.770031			0.014874 Bbls
Gas	<u>0.037716</u>	<u>0.004888</u>	<u>0.032827</u>			0.016130 Mcf
Total Oil & Gas	<u>0.864831</u>	<u>0.061973</u>	<u>0.802858</u>	0.030096	0.129725	
TOTAL FOR YEAR	<u><u>\$0.864831</u></u>	<u><u>\$0.061973</u></u>	<u><u>\$0.802858</u></u> A			

PART II
OTHER INCOME AND EXPENSE PER UNIT

	<u>Total</u>
Interest Income	\$0.000875 B
Administration Expense	\$0.083118 C
Salt Water Disposal Income	\$0.009930 D
Hedge Revenue	\$0.045279 E

PART III
**RECONCILIATION OF TAXABLE INCOME
 AND CASH DISTRIBUTION PER UNIT**

	<u>Total</u>
Taxable Income Per Unit, Excluding Depletion (A+B-C+D+E)	\$0.775824
Reconciling Items (Non-Tax Account)	<u>0.049319</u>
Cash Distribution Per Unit	<u><u>\$0.726505</u></u>

PermRock Royalty Trust

EIN: 82-6725102

P. O. Box 470727
Fort Worth, Texas 76147
Telephone Toll-Free 1-855-588-7839
Email: trustee@permrock.com
Website: www.permrock.com

I.

FEDERAL INCOME TAX INFORMATION

1. Reporting of Income and Deductions.

- (a) *Direct Ownership Reporting.* The PermRock Royalty Trust (the “Trust”) is a grantor trust for federal income tax purposes. Each Unit holder of the Trust is taxable on his pro rata share of the income and expenses of the Trust as if he were the direct owner of a pro rata share of the Trust income and assets. Thus, the taxable year for reporting a Unit holder’s share of the Trust’s income and expense is determined by his or her taxable year and his method of accounting, not by the taxable year and method of accounting of the Trust. Therefore, a cash method Unit holder should report his pro rata share of income or expense received or paid by the Trust during his tax year. An accrual method Unit holder should report his pro rata share of income or expense accrued by the Trust during his tax year. Because the Trust is a grantor trust for federal income tax purposes, proper classification of Trust income and expense will be dependent upon the relevant facts and circumstances of each Unit holder. Accordingly, Unit holders should consult their own tax advisors regarding all tax compliance matters related to the Units.
- (b) *Taxable Year.*
- Unit holders owning Units through a broker or nominee who report on a calendar year basis and who have owned the same number of Units throughout such calendar year should refer to Schedule A on page 2.
 - Unit holders who purchased or sold Units in the calendar year should refer to the information on pages 10 through 15.
 - Unit holders who report on the basis of a fiscal year other than the calendar year may contact the Trustee for further information.
- (c) *Types and Reporting of Trust Income and Deductions.* The Trust holds a net overriding royalty in oil and gas properties (the “Royalty”). In general, the net overriding royalty income is computed monthly based on proceeds realized in the preceding month by the owner of the interests burdened by the Royalty from oil and gas produced in an earlier month, less applicable costs and expenses. Such net overriding royalty income is received by the Trustee on the last day of the monthly period.
- (i) *Gross Income.* The gross amount of net overriding royalty income received by the Trust from the Royalty during the period is reported on a per-Unit basis in Part I, Schedule A.
 - (ii) *Severance Tax.* Severance tax paid by the Trust during the period covered is reported on a per-Unit basis in Part I, Schedule A.
 - (iii) *Interest Income.* Interest income received by the Trustee during the period covered is reported on a per-Unit basis in Part II, Schedule A.
 - (iv) *Administration Expenses.* Administration expenses are paid on the last day of the month in which they were incurred. The amount incurred and paid during such period is reported on a per-Unit basis in Part II, Schedule A.
 - (v) Salt water disposal income is reported on a per-Unit basis in Part II, Schedule A.
 - (vi) Proceeds from divestitures, if any, are reported on a per-Unit basis in Part II, Schedule A. There were no divestitures in 2019.
 - (vii) Hedge revenue is reported on a per-Unit basis in Part II, Schedule A.
- (d) *Unit Multiplication.* For the convenience of Unit holders who acquired or sold Units during 2019, Tables I through IX are enclosed to assist in the computation of gross royalty income, severance tax, interest income, administration expenses, salt water disposal income, proceeds from divestiture and hedge revenue. These tables are only for those Unit holders who have a calendar year as their taxable year. Because Schedule A and Tables I – IX show results only on a per-Unit basis, each Unit holder must determine the aggregate amounts for all Units held by him to obtain the amounts to report on his tax return. Each

Unit holder should multiply the gross royalty income and severance tax shown in Part I and the items in Part II by the number of Units owned by him during the applicable period. Income and deductions (other than depletion) may be computed directly from Schedule A or the appropriate tables. Depletion per Unit must be computed as provided in paragraph 2 below.

- (e) *Individual Taxpayers.* For Unit holders who hold the Units as an investment and who are required to file Form 1040 for 2019, it is suggested that the items of income and deduction computed from Schedule A or the appropriate tables be reported in the following manner:

<u>Item</u>	<u>Form 1040</u>
Gross Royalty Income	Line 4, Part I, Schedule E
Depletion	Line 18, Part I, Schedule E
Severance Tax	Line 16, Part I, Schedule E
Interest Income	Line 1, Part I, Schedule B
Administration Expenses	Line 19, Part I, Schedule E
Salt Water Disposal Income	Line 4, Part I, Schedule E
Hedge Revenue	Line 8, Schedule 1

On pages 6, 7 and 8, we have reproduced Schedules B and E, and Schedule 1 of Form 1040 and identified the specific location of each item of income and expense listed above.

- (f) *Nominee Reporting.* Nominees and brokers should report the distributions from the Trust as royalty income on Form 1099-MISC. The taxable amount before depletion should be reported in accordance with Schedule A or Tables I through IX. In years when there are no reconciling items, the net taxable income before depletion (see instruction 2) will equal the cash distributions from the Trust. See also Subsection (g) below for additional information relating to Units held by nominees, brokers and other middlemen.
- (g) *WHFIT Information.* The Trustee assumes that Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a customer in street name, referred to herein collectively as “middlemen”). Therefore, the Trust is considered to be a widely held fixed investment trust (“WHFIT”) classified as a non-mortgage widely held fixed investment trust for U.S. federal income tax purposes. Simmons Bank, EIN: 71-0162300, P. O. Box 470727, Fort Worth, Texas 76147, telephone number (855) 588-7839, email trustee@permrock.com, is the representative of the Trust that will provide tax information in accordance with the applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at www.permrock.com.
- (h) *Divestiture Properties.* There were no properties divested during 2019.

Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unit holders, and not the Trustee of the Trust, are solely responsible for complying with information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units, including the issuance of IRS Form 1099 and certain written tax statements. Unit holders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

2. **Computation of Depletion.** Each Unit holder's allowable depletion is the greater of cost depletion or percentage depletion with respect to the Royalty.

- (a) *Percentage Depletion.* Each Unit holder should separately compute both percentage depletion and cost depletion and claim the greater of the two amounts as a deduction on his or her income tax return. Unlike cost depletion, the allowance for percentage depletion continues to be deductible after the Unit holder's tax basis is reduced to zero. **The Trustee and its independent accountants have estimated the percentage depletion for 2019, and it appears that, depending on the Unit holder's individual circumstances, percentage depletion may exceed cost depletion.**

If available, percentage depletion is equal to 15% of the gross income attributable to a royalty, limited to 100% of the net income from such royalty. The amount of percentage depletion should then be compared to the amount of cost depletion calculated using instructions in Subsection (b) of this Paragraph 2. The greater of cost depletion or percentage depletion is the deduction to be taken on the Unit holder's income tax return. The worksheet and instructions provided on pages 14-15 assume a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VIII (on page 13) should be used to compute such Unit holder's depletion deduction.

- (b) *Cost Depletion.* To compute cost depletion, each Unit holder should multiply his tax basis in the Royalty (reduced by the aggregate prior years' depletion, if any) by the factor indicated in Part I, which factor was obtained by dividing the quantity produced and sold during the period by the estimated quantity of reserves at the beginning of the year.

A Cost Depletion Worksheet is enclosed to assist Unit holders in computing their cost depletion deduction. The Worksheet is divided into two parts. Part A pertains to Units that were held the entire calendar year, and Part B pertains to Units that were acquired or sold during 2019. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2019 from Table IX. Notes are contained in the Specific Instructions for the Cost Depletion Worksheet to explain certain aspects of the depletion calculation.

For your convenience, a simple cost depletion calculator is available on the PermRock Royalty Trust website at: www.permrock.com.

Individual Unit Holder's Specific Location of Interest Income on Schedule B

Interest Income

SCHEDULE B (Form 1040 or 1040-SR)		Interest and Ordinary Dividends		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		<p>► Go to www.irs.gov/ScheduleB for instructions and the latest information.</p> <p>► Attach to Form 1040 or 1040-SR.</p>		<div style="border: 1px solid black; padding: 2px; display: inline-block;"> 2019 Attachment Sequence No. 08 </div>	
Name(s) shown on return				Your social security number	
Part I				Amount	
<p>1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address ►</p> <p>(See instructions and the instructions for Forms 1040 and 1040-SR, line 2b.)</p> <p>Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.</p>	<p>1</p> <p>2</p> <p>3</p> <p>4</p>				
Part II				Amount	
<p>5 List name of payer ►</p> <p>(See instructions and the instructions for Forms 1040 and 1040-SR, line 3b.)</p> <p>Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.</p>	<p>5</p> <p>6</p>				
Part III				Yes No	
<p>Foreign Accounts and Trusts</p> <p>Caution: If required, failure to file FinCEN Form 114 may result in substantial penalties. See instructions.</p>		<p>You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.</p>			
<p>7a At any time during 2019, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions</p> <p>If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements</p>		<p>b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ►</p>			
<p>8 During 2019, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions</p>					
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 17146N	
				Schedule B (Form 1040 or 1040-SR) 2019	

Individual Unit Holder's Specific Location of Income and Expense on Schedule E

SCHEDULE E (Form 1040 or 1040-SR)	Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)	OMB No. 1545-0074 2019 Attachment Sequence No. 13
Department of the Treasury Internal Revenue Service (99)		
Name(s) shown on return		Your social security number
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041. ▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.		

Part I Income or Loss From Rental Real Estate and Royalties Note: If you are in the business of renting personal property, use Schedule C (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) Yes No
B If "Yes," did you or will you file required Forms 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A _____
B _____
C _____

Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A _____	A _____			<input type="checkbox"/>
B _____	B _____			<input type="checkbox"/>
C _____	C _____			<input type="checkbox"/>

- Type of Property:**
- | | | | |
|---------------------------|------------------------------|-------------|--------------------|
| 1 Single Family Residence | 3 Vacation/Short-Term Rental | 5 Land | 7 Self-Rental |
| 2 Multi-Family Residence | 4 Commercial | 6 Royalties | 8 Other (describe) |

Income: _____ **Properties:** **A** _____ **B** _____ **C** _____

3 Rents received **3** _____
4 Royalties received **4** _____

Expenses:

5 Advertising **5** _____
6 Auto and travel (see instructions) **6** _____
7 Cleaning and maintenance **7** _____
8 Commissions **8** _____
9 Insurance **9** _____
10 Legal and other professional fees **10** _____
11 Management fees **11** _____
12 Mortgage interest paid to banks, etc. (see instructions) **12** _____
13 Other interest **13** _____
14 Repairs **14** _____
15 Supplies **15** _____
16 Taxes **16** _____
17 Utilities **17** _____
18 Depreciation expense or depletion **18** _____
19 Other (list) ▶ **19** _____
20 Total expenses. Add lines 5 through 19 **20** _____

21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 **21** _____

22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) **22** () () ()

23a Total of all amounts reported on line 3 for all rental properties	23a _____	
b Total of all amounts reported on line 4 for all royalty properties	23b _____	
c Total of all amounts reported on line 12 for all properties	23c _____	
d Total of all amounts reported on line 18 for all properties	23d _____	
e Total of all amounts reported on line 20 for all properties	23e _____	

24 **Income.** Add positive amounts shown on line 21. Do not include any losses **24** _____

25 **Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here **25** ()

26 **Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040 or 1040-SR), line 5, or Form 1040-NR, line 18. Otherwise, include this amount in the total on line 41 on page 2 **26** _____

Gross Royalty Income
 Salt Water Disposal Income
 Severance Tax
 Depletion
 Administration Expenses

SCHEDULE 1
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

► Attach to Form 1040 or 1040-SR.
► Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2019
Attachment
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR _____ Your social security number _____

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes	1	
2a Alimony received	2a	
b Date of original divorce or separation agreement (see instructions) ► _____		
3 Business income or (loss). Attach Schedule C	3	
4 Other gains or (losses). Attach Form 4797	4	
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6 Farm income or (loss). Attach Schedule F	6	
7 Unemployment compensation	7	
8 Other income. List type and amount ► PermRock Hedge Revenue	8	
9 Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	

Hedge Revenue



Part II Adjustments to Income

10 Educator expenses	10	
11 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12 Health savings account deduction. Attach Form 8889	12	
13 Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14 Deductible part of self-employment tax. Attach Schedule SE	14	
15 Self-employed SEP, SIMPLE, and qualified plans	15	
16 Self-employed health insurance deduction	16	
17 Penalty on early withdrawal of savings	17	
18a Alimony paid	18a	
b Recipient's SSN		
c Date of original divorce or separation agreement (see instructions) ► _____		
19 IRA deduction	19	
20 Student loan interest deduction	20	
21 Tuition and fees. Attach Form 8917	21	
22 Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22	

3. **Reconciliation of Net Income and Cash Distributions.** The difference, if any, between the per-Unit taxable income for a period and the per-Unit cash distributions, if any, reported for such period is attributable to adjustments in Part III, Line 2, labeled Reconciling Items. The Reconciling Items consist of:
- (i) items that reduce cash distributions but are not currently deductible, such as increases in cash reserves established by the Trustee for the payment of future expenditures and capital items, and
 - (ii) items that increase cash distributions but do not constitute taxable income, such as reductions in previously established cash reserves.

In 2019, there were increases to the cash reserve maintained by the Trust. Thus, there are Reconciling Items for 2019. It is expected that normally the Reconciling Items will be negligible.

4. **Adjustments to Basis.** Each Unit holder should reduce his tax basis in the Royalty and in his units by the amount of depletion allowable with respect to the Royalty.
5. **Federal Income Tax Reporting of Units Sold.** The sale, exchange, or other disposition of a Unit generally is a taxable transaction for federal income tax purposes. Gain or loss is computed under general tax principles as the difference between the selling price and the adjusted basis of the Unit. The adjusted basis in a Unit is the original cost or other basis of the Unit reduced (but not below zero) by any depletion that reduced the adjusted basis of the interest in the Royalty represented by such Unit. The depletion recapture amount is an amount equal to the lesser of (i) the gain on such sale attributable to the disposition of the Royalty or (ii) the sum of the prior depletion deductions taken with respect to the Royalty (but not in excess of the initial basis of such Units allocated to the Royalty). The remaining gain or any loss from the disposition of a Unit will be a capital gain or loss if such Unit was held by the Unit holder as a capital asset. The capital gain or loss will be long-term, if held more than 12 months, or short-term, if held for 12 months or less. Unit holders should consult their tax advisors for further information.
6. **Portfolio Income.** Royalty Income is generally considered portfolio income under the passive activity loss rules enacted by the Tax Reform Act of 1986. Therefore, it appears that Unit holders should not treat the taxable income from the Trust as passive activity income in determining net passive activity income or loss. Unit holders should consult their tax advisors for further information.
7. **Unrelated Business Taxable Income.** In general, royalty income is not taxable as unrelated business taxable income. However, certain organizations that are generally exempt from federal income tax under IRC Section 501 are subject to tax on certain types of business income defined in IRC Section 512 as unrelated business taxable income. The income of the Trust should not be unrelated business taxable income to such organizations, so long as the Trust Units are not “debt-financed property” within the meaning of IRC Section 514(b). In general, a Trust Unit would be debt-financed property if the Trust Unit holder incurs debt to acquire a Trust Unit or otherwise incurs or maintains a debt that would not have been incurred or maintained if the Trust Unit had not been acquired.
8. **Backup Withholding.** A payor is required under specified circumstances to withhold tax at the rate of 24 percent on “reportable interest or dividend payments” and “other reportable payments” (including certain oil and gas royalty payments). Generally, this “backup withholding” is required on payments if the payee has failed to furnish the payor a taxpayer identification number or if the payor is notified by the Secretary of the Treasury to withhold taxes on such payments with respect to the payee. Amounts withheld by payors pursuant to the backup withholding provisions are remitted to the IRS and are considered a credit against the payee’s federal income tax liability. If the payee does not incur a federal income tax liability for the year in which the taxes are withheld, the payee will be required to file the appropriate income tax return to claim a refund of the taxes withheld.

Unit holders, other than foreign taxpayers, who have had amounts withheld in 2019 pursuant to the federal backup withholding provisions should have received a Form 1099-MISC from their broker or middleman. The Form 1099-MISC reflects the total federal income tax withheld from distributions. Unlike other Forms 1099 that you may receive, the amount reported on the Form 1099-MISC received relative to the Trust should not be included as additional income in computing taxable income, as such amount is already included in the per-Unit income items on the income and expense schedules included herein. The federal income tax withheld, as reported on the Form 1099-MISC, should be considered as a credit by the Unit holder in computing any federal income tax liability. Individual Unit holders should include the amount of backup withholding in the “Payments” section of the Unit holder’s 2019 Form 1040.

9. **Investment Income Tax.** IRC Section 1411 imposes a 3.8% Medicare tax on certain investment income earned by individuals, estates, and trusts. For these purposes, investment income generally will include a Unit holder’s allocable share of the Trust’s interest and royalty income plus the gain recognized from a sale of Trust Units. In the case of an individual, the tax is imposed on the lesser of (i) the individual’s net investment income from all investments, or (ii) the amount by which the individual’s modified adjusted gross income exceeds specified threshold levels depending on such individual’s federal income tax filing status (\$250,000 for married persons filing a joint return and \$200,000 in most other cases). In the case of an estate or trust, the tax is imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins (\$12,750 for 2019).

II. STATE TAX RETURNS

All revenues from the Trust are from sources within Texas, which has no individual income tax. Texas imposes a franchise tax at a rate of .75% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts and most other types of entities having limited liability protection, unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as “passive entities.” The Trust has been and expects to continue to be exempt from Texas franchise tax as a passive entity. Because the Trust should be exempt from Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a taxable entity under the Texas franchise tax generally will be required to include its portion of Trust revenues in its own Texas franchise tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code providing that such income is sourced according to the principal place of business of the Trust, which is Texas.

Unit holders should consult their own tax advisors concerning all Texas tax compliance matters relating to the Units.

III. CERTAIN FEDERAL INCOME TAX MATTERS

Under current law (i) the Trust should be treated as a grantor trust for federal income tax purposes, and the income of the Trust should be taxable to the Unit holders as if amounts owed or paid to the Trust were owed or paid directly to the Unit holders pro rata; and (ii) each Unit holder should be entitled to depletion deductions equal to the greater of cost depletion based on his basis in the Units or (under certain circumstances) percentage depletion. The IRS has issued private letter rulings and technical advice memoranda indicating that royalty trusts similar to the Trust are taxable as grantor trusts. However, no rulings have been issued to the Trust and private letter rulings issued to other taxpayers do not bind the IRS in connection with the Trust. Hence, there can be no assurance that the IRS will not challenge this treatment.

THE INFORMATION AND INSTRUCTIONS CONTAINED IN THIS BOOKLET ARE DESIGNED TO ASSIST UNIT HOLDERS WHO ARE U.S. CITIZENS IN COMPLYING WITH THEIR FEDERAL INCOME TAX AND TEXAS STATE TAX REPORTING REQUIREMENTS BASED ON THE TREATMENT OF THE TRUST AS A GRANTOR TRUST AND SHOULD NOT BE CONSTRUED AS TAX ADVICE TO ANY SPECIFIC UNIT HOLDER. A UNIT HOLDER SHOULD CONSULT THE UNIT HOLDER’S OWN TAX ADVISER REGARDING ALL TAX COMPLIANCE MATTERS RELATING TO SUCH UNIT HOLDER’S UNITS.

IV. SUPPLEMENTAL TAX TABLES AND WORKSHEET

For calendar-year Unit holders who acquired, sold or exchanged Units during 2019, Supplemental Tax Tables I-IX should be used to compute income, expenses, and if applicable, percentage depletion. Unit holders who have a taxable year other than December 31 should contact the Trustee by email at trustee@permrock.com. Unit holders who have held the same number of Units the entire year and report on the calendar year should use Schedule A on page 2 of this booklet.

To assist all Unit holders in calculating their cost depletion deduction, Table IX and the Cost Depletion Worksheet are provided on pages 14 and 15. Notes are contained in the Specific Instructions for the Cost Depletion Worksheet to explain and assist in calculating a Unit holder’s cost depletion deduction. This worksheet assumes a Unit holder will take the cost depletion deduction. Some Unit holders may be entitled to a percentage depletion deduction in lieu of a cost depletion deduction, in which case Table VIII should be used to compute such Unit holder’s depletion deduction.

Note: Simple income/expense and cost depletion calculators are posted on the PermRock Royalty Trust website: www.Permrock.com

EXAMPLE:

A brief example to illustrate the computation of the income, expenses, and depletion deduction may be helpful. Assume a Unit holder purchased 1,000 Units for \$8,650 (the holder's Basis) on May 10, 2019 and sold these Units on November 14, 2019. For these Units the Unit holder received cash distributions for May through October; therefore, the income, expenses, and depletion deduction attributable to these Units will be for this same period.

To use each table (I-IX) for this example, a Unit holder should go down the left-hand column to the specific month when the Units were purchased and then across the page to the column which corresponds to the month or record date for which the last cash distribution was received. In the above example, the Unit holder should go down the left-hand column to the fifth line (May) and across the page to the column titled October. This procedure would be repeated on each of the nine tables. **The income, expense and depletion deduction calculations for the above example are summarized below:**

EXAMPLE – FOR ILLUSTRATION ONLY

<u>DESCRIPTION</u>	<u>TABLE</u>	<u>AMOUNT PER UNIT</u>	<u>X</u>	<u>UNITS OR BASIS</u>	<u>=</u>	<u>AMOUNT \$</u>
Gross Royalty Income	I	0.502916	x	1,000 Units	=	\$502.92
Interest Income	II	0.000407	x	1,000 Units	=	.41
Salt Water Disposal Income	III	0.004925	x	1,000 Units	=	4.92
Proceeds from Divestiture	IV	0.000000	x	1,000 Units	=	0
Hedge Revenue	V	0.000000	x	1,000 Units	=	0
Severance Tax	VI	0.020861	x	1,000 Units	=	20.86
Administration Expense	VII	0.041124	x	1,000 Units	=	41.12
Percentage Depletion *	VIII	0.075437	x	1,000 Units	=	75.44
Cost Depletion **	IX	0.017235	x	\$8,650 Basis	=	149.08

* Percentage Depletion may be claimed if greater than Cost Depletion. The Unit holder should compute both percentage depletion and cost depletion and claim the larger amount. Taxpayers should consult their tax advisors regarding deductibility of percentage depletion.

** See Specific Instructions for Cost Depletion Worksheet on page 14 and the Cost Depletion Worksheet on page 15.

Table I Gross Royalty Income

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.052197	0.110484	0.163357	0.236011	0.328806	0.422063	0.508079	0.592440	0.681369	0.738927	0.794320	0.864831
February		0.058287	0.111161	0.183815	0.276609	0.369867	0.455882	0.540243	0.629173	0.686730	0.742123	0.812635
March			0.052874	0.125528	0.218322	0.311580	0.397595	0.481956	0.570886	0.628444	0.683837	0.754348
April				0.072654	0.165449	0.258706	0.344721	0.429082	0.518012	0.575570	0.630963	0.701474
May					0.092795	0.186052	0.272068	0.356428	0.445358	0.502916	0.558309	0.628820
June						0.093257	0.179273	0.263634	0.352563	0.410121	0.465514	0.536025
July							0.086015	0.170376	0.259306	0.316864	0.372257	0.442768
August								0.084361	0.173291	0.230848	0.286241	0.356753
September									0.088930	0.146487	0.201880	0.272392
October										0.057558	0.112951	0.183462
November											0.055393	0.125904
December												0.070511

Table II Interest Income

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000075	0.000187	0.000260	0.000304	0.000331	0.000383	0.000473	0.000614	0.000630	0.000711	0.000793	0.000875
February		0.000112	0.000184	0.000229	0.000256	0.000308	0.000398	0.000539	0.000555	0.000635	0.000718	0.000799
March			0.000072	0.000117	0.000144	0.000196	0.000286	0.000427	0.000443	0.000523	0.000606	0.000687
April				0.000044	0.000072	0.000123	0.000214	0.000354	0.000370	0.000451	0.000534	0.000615
May					0.000027	0.000079	0.000170	0.000310	0.000326	0.000407	0.000489	0.000571
June						0.000052	0.000142	0.000283	0.000299	0.000379	0.000462	0.000543
July							0.000090	0.000231	0.000247	0.000328	0.000410	0.000492
August								0.000141	0.000157	0.000237	0.000320	0.000401
September									0.000016	0.000097	0.000179	0.000261
October										0.000081	0.000163	0.000245
November											0.000082	0.000164
December												0.000082

Table III Salt Water Disposal Income

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000853	0.002253	0.002763	0.003267	0.003747	0.004468	0.005481	0.006364	0.007312	0.008192	0.009109	0.009930
February		0.001399	0.001910	0.002414	0.002893	0.003615	0.004627	0.005511	0.006459	0.007339	0.008255	0.009077
March			0.000511	0.001014	0.001494	0.002216	0.003228	0.004111	0.005059	0.005940	0.006856	0.007678
April				0.000504	0.000983	0.001705	0.002717	0.003601	0.004549	0.005429	0.006345	0.007167
May					0.000480	0.001201	0.002214	0.003097	0.004045	0.004925	0.005842	0.006663
June						0.000722	0.001734	0.002617	0.003565	0.004446	0.005362	0.006184
July							0.001012	0.001896	0.002844	0.003724	0.004640	0.005462
August								0.000883	0.001831	0.002712	0.003628	0.004450
September									0.000948	0.001828	0.002745	0.003566
October										0.000880	0.001797	0.002618
November											0.000916	0.001738
December												0.000822

Table IV Proceeds from Divestiture

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
February		0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
March			0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
April				0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
May					0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
June						0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
July							0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
August								0.000000	0.000000	0.000000	0.000000	0.000000
September									0.000000	0.000000	0.000000	0.000000
October										0.000000	0.000000	0.000000
November											0.000000	0.000000
December												0.000000

Table V Hedge Revenue

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279	0.045279
February		0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
March			0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
April				0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
May					0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
June						0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
July							0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
August								0.000000	0.000000	0.000000	0.000000	0.000000
September									0.000000	0.000000	0.000000	0.000000
October										0.000000	0.000000	0.000000
November											0.000000	0.000000
December												0.000000

Table VI Severance Tax

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.007123	0.013813	0.020436	0.027909	0.015735	0.022681	0.029453	0.035217	0.042311	0.048770	0.055308	0.061973
February		0.006690	0.013313	0.020786	0.008612	0.015557	0.022330	0.028093	0.035188	0.041647	0.048185	0.054850
March			0.006623	0.014096	0.001922	0.008867	0.015640	0.021403	0.028498	0.034957	0.041495	0.048160
April				0.007473	-0.004701	0.002244	0.009017	0.014781	0.021875	0.028334	0.034872	0.041537
May					-0.012174	-0.005229	0.001544	0.007308	0.014402	0.020861	0.027399	0.034064
June						0.006946	0.013718	0.019482	0.026576	0.033035	0.039573	0.046238
July							0.006773	0.012536	0.019630	0.026089	0.032627	0.039292
August								0.005764	0.012858	0.019317	0.025855	0.032520
September									0.007094	0.013553	0.020091	0.026756
October										0.006459	0.012997	0.019662
November											0.006538	0.013203
December												0.006665

Table VII Administration Expense

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.003603	0.015756	0.021007	0.031746	0.041787	0.050316	0.056675	0.061789	0.069806	0.072869	0.077171	0.083118
February		0.012153	0.017404	0.028143	0.038185	0.046714	0.053072	0.058186	0.066204	0.069266	0.073568	0.079515
March			0.005251	0.015990	0.026032	0.034561	0.040919	0.046033	0.054051	0.057114	0.061416	0.067363
April				0.010739	0.020781	0.029309	0.035668	0.040782	0.048800	0.051862	0.056164	0.062111
May					0.010042	0.018571	0.024929	0.030043	0.038061	0.041124	0.045426	0.051373
June						0.008529	0.014888	0.020001	0.028019	0.031082	0.035384	0.041331
July							0.006359	0.011472	0.019490	0.022553	0.026855	0.032802
August								0.005114	0.013131	0.016194	0.020496	0.026443
September									0.008018	0.011081	0.015383	0.021330
October										0.003063	0.007365	0.013312
November											0.004302	0.010249
December												0.005947

Table VIII Percentage Depletion

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for:											
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.007830	0.016573	0.024504	0.035402	0.049321	0.063309	0.076212	0.088866	0.102205	0.110839	0.119148	0.129725
February		0.008743	0.016674	0.027572	0.041491	0.055480	0.068382	0.081036	0.094376	0.103010	0.111318	0.121895
March			0.007931	0.018829	0.032748	0.046737	0.059639	0.072293	0.085633	0.094267	0.102575	0.113152
April				0.010898	0.024817	0.038806	0.051708	0.064362	0.077702	0.086335	0.094644	0.105221
May					0.013919	0.027908	0.040810	0.053464	0.066804	0.075437	0.083746	0.094323
June						0.013989	0.026891	0.039545	0.052885	0.061518	0.069827	0.080404
July							0.012902	0.025556	0.038896	0.047530	0.055839	0.066415
August								0.012654	0.025994	0.034627	0.042936	0.053513
September									0.013339	0.021973	0.030282	0.040859
October										0.008634	0.016943	0.027519
November											0.008309	0.018886
December												0.010577

Specific Instructions for Cost Depletion Worksheet

Note 1: The original basis of your Units must be determined from your records and generally will be the amount paid for the Units, including broker's commissions. However, there could be other taxable events that cause the original basis to be revised. For example, the original basis of Units passing through an estate will generally be changed to reflect the fair market value of the Units on the date of death. The original basis should be entered in each blank of the first column of the Cost Depletion Worksheet. Please consult your tax adviser concerning your original basis.

Note 2: For your convenience, a simple cost depletion calculator is now available on the PermRock Trust website at: www.permrock.com.

Note 3: When Units are acquired, sold or exchanged during the year, the cost depletion factor for each Royalty is calculated using one of the following procedures:

(a) **UNITS ACQUIRED AND SOLD DURING 2019.**

Example: A Unit holder acquired Units in July 2019 and sold them in September 2019. To calculate cost depletion for 2019, the Unit holder would use the cost depletion factor for July through August 2019 for each such Royalty obtained from Table IX. For example, using Table IX the factor would be 0.005923.

(b) **UNITS ACQUIRED DURING 2019 AND STILL OWNED AT THE END OF 2019.**

Example: A Unit holder acquired Units on May 20, 2019 and still owned them at the end of the year. To calculate his cost depletion for 2019, the Unit holder would use the cost depletion factor for May through December obtained from Table IX. For example, using Table IX the factor would be 0.021368.

PermRock Royalty Trust

Supplemental Tax Tables

EIN 82-6725102

2019

Table IX Cost Depletion Factor – TX Royalty

For a unit acquired of record during the month of:	And the last cash distribution on such unit was attributable to the monthly record date for the month of:											
	January	February	March	April	May	June	July	August	September	October	November	December
January _____	0.001777	0.004109	0.006257	0.008728	0.012351	0.015140	0.017905	0.021063	0.024029	0.025962	0.027715	0.030096
February _____	0.002332	0.004480	0.006951	0.010574	0.013363	0.016128	0.019286	0.022252	0.024185	0.025938	0.028319	0.028319
March _____	0.002147	0.004618	0.008241	0.011030	0.013796	0.016953	0.019920	0.021853	0.023606	0.025986	0.025986	0.025986
April _____	0.002471	0.006094	0.008883	0.011648	0.014806	0.017772	0.019706	0.021458	0.023839	0.023839	0.023839	0.023839
May _____	0.003623	0.006412	0.009177	0.012335	0.015301	0.017235	0.018988	0.021368	0.021368	0.021368	0.021368	0.021368
June _____	0.002789	0.005554	0.008712	0.011678	0.013612	0.015365	0.017745	0.017745	0.017745	0.017745	0.017745	0.017745
July _____	0.002765	0.005923	0.008889	0.010823	0.012576	0.014956	0.014956	0.014956	0.014956	0.014956	0.014956	0.014956
August _____	0.003158	0.006124	0.008057	0.009810	0.012191	0.012191	0.012191	0.012191	0.012191	0.012191	0.012191	0.012191
September _____	0.002966	0.004900	0.006653	0.009033	0.009033	0.009033	0.009033	0.009033	0.009033	0.009033	0.009033	0.009033
October _____	0.001933	0.003686	0.006067	0.006067	0.006067	0.006067	0.006067	0.006067	0.006067	0.006067	0.006067	0.006067
November _____	0.001753	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133	0.004133
December _____	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380	0.002380

PermRock Royalty Trust
2019 Cost Depletion Worksheet

The following may help you calculate your cost depletion to be reported on your federal income tax return.

For your convenience, a cost depletion calculator is available on the PermRock Royalty Trust website: www.permrock.com

A. If you *owned* the Units *since January 1, 2019*, your cost depletion would be calculated as follows:

	<u>Original Basis (Note 1)</u>	—	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Original Basis Less Cost Depletion Allowed or Allowable in Prior Years</u>	X	<u>Cost Depletion Factor</u>	=	<u>Cost Depletion</u>
PermRock Royalty Trust		—		=		X	0.030096	=	

B. If you *sold* or *acquired* Units *during the year*, your cost depletion for the portion of the year the Units were held would be calculated as follows:

	<u>Original Basis (Note 1)</u>	—	<u>Cost Depletion Allowed or Allowable in Prior Years</u>	=	<u>Original Basis Less Cost Depletion Allowed or Allowable in Prior Years</u>	X	<u>Partial Year Cost Depletion Factor (Note 3)</u>	=	<u>Cost Depletion</u>
PermRock Royalty Trust		—		=		X		=	

Notes 1 and 3 are contained in the Specific Instructions for the Cost Depletion Worksheet on page 14

2019

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