

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019

or

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

Commission File Number: 1-737

Exact name of registrant as specified in its charter:

Texas Pacific Land Trust

State or other jurisdiction of incorporation or organization:
NOT APPLICABLE

IRS Employer Identification No.:
75-0279735

Address of principal executive offices:
1700 Pacific Avenue, Suite 2900
Dallas, Texas 75201

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

Former name, former address and former fiscal year, if changed since last report:
1700 Pacific Avenue, Suite 2770
Dallas, Texas 75201

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer (Do not check if a smaller reporting company) | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Sub-shares in Certificates of Proprietary Interest (par value \$0.03-1/3 per share) | TPL | New York Stock Exchange |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2019, the Registrant had 7,756,156 Sub-share Certificates outstanding.

TEXAS PACIFIC LAND TRUST
Form 10-Q
Quarter Ended June 30, 2019

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PART I. FINANCIAL INFORMATION

Item 1. Financial
StatementsTEXAS PACIFIC LAND TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and per share amounts)

| | June 30, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 155,401 | \$ 119,647 |
| Accrued receivables | 68,011 | 48,750 |
| Tax like-kind exchange escrow | 35,120 | 3,799 |
| Other assets | 2,781 | 3,884 |
| Prepaid income taxes | — | 9,398 |
| Property, plant and equipment, net of accumulated depreciation of \$5,575 and \$3,012 as of June 30, 2019 and December 31, 2018, respectively | 84,792 | 64,802 |
| Real estate acquired | 84,902 | 10,492 |
| Royalty interests acquired | 29,320 | 24,303 |
| Operating lease right-of-use assets | 3,285 | — |
| Real estate and royalty interests assigned through the 1888 Declaration of Trust, no value assigned: | | |
| Land (surface rights) | — | — |
| 1/16th nonparticipating perpetual royalty interest | — | — |
| 1/128th nonparticipating perpetual royalty interest | — | — |
| Total assets | <u>\$ 463,612</u> | <u>\$ 285,075</u> |
| LIABILITIES AND CAPITAL | | |
| Accounts payable and accrued expenses | \$ 22,899 | \$ 10,505 |
| Income taxes payable | 7,329 | 1,607 |
| Deferred taxes payable | 30,178 | 14,903 |
| Unearned revenue | 16,321 | 13,369 |
| Operating lease liabilities | 3,491 | — |
| Total liabilities | <u>80,218</u> | <u>40,384</u> |
| Commitments and contingencies | — | — |
| Capital: | | |
| Certificates of Proprietary Interest, par value \$100 each; none outstanding | — | — |
| Sub-share Certificates in Certificates of Proprietary Interest, par value \$.03 1/3 each; outstanding 7,756,156 and 7,762,414 Sub-share Certificates as of June 30, 2019 and December 31, 2018, respectively | — | — |
| Accumulated other comprehensive loss | (1,060) | (1,078) |
| Net proceeds from all sources | <u>384,454</u> | <u>245,769</u> |
| Total capital | <u>383,394</u> | <u>244,691</u> |
| Total liabilities and capital | <u>\$ 463,612</u> | <u>\$ 285,075</u> |

See accompanying notes to condensed consolidated financial statements.

TEXAS PACIFIC LAND TRUST
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND TOTAL COMPREHENSIVE INCOME
(in thousands, except shares and per share amounts)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | |
| Oil and gas royalties | \$ 39,641 | \$ 30,278 | \$ 72,854 | \$ 56,825 |
| Easements and other surface-related income | 22,357 | 27,799 | 53,724 | 44,777 |
| Water sales and royalties | 20,430 | 15,643 | 43,413 | 29,250 |
| Land sales | 4,774 | — | 108,399 | 2,750 |
| Other operating revenue | 108 | 124 | 244 | 249 |
| Total revenues | 87,310 | 73,844 | 278,634 | 133,851 |
| Expenses: | | | | |
| Salaries and related employee expenses | 7,741 | 3,835 | 14,205 | 6,399 |
| Water service-related expenses | 5,723 | 2,588 | 10,301 | 3,894 |
| General and administrative expenses | 2,095 | 1,013 | 4,237 | 1,692 |
| Legal and professional fees | 7,858 | 420 | 9,641 | 1,067 |
| Depreciation and amortization | 1,451 | 483 | 2,655 | 813 |
| Total operating expenses | 24,868 | 8,339 | 41,039 | 13,865 |
| Operating income | 62,442 | 65,505 | 237,595 | 119,986 |
| Other income | 437 | 160 | 830 | 290 |
| Income before income taxes | 62,879 | 65,665 | 238,425 | 120,276 |
| Income tax expense (benefit): | | | | |
| Current | 19,018 | 13,162 | 33,566 | 23,982 |
| Deferred | (5,725) | — | 15,275 | — |
| Total income tax expense | 13,293 | 13,162 | 48,841 | 23,982 |
| Net income | \$ 49,586 | \$ 52,503 | \$ 189,584 | \$ 96,294 |
| Other comprehensive income — periodic pension costs, net of income taxes of \$2, \$3, \$5 and \$7, respectively | | | | |
| | 9 | 13 | 18 | 26 |
| Total comprehensive income | \$ 49,595 | \$ 52,516 | \$ 189,602 | \$ 96,320 |
| Weighted average number of Sub-share Certificates outstanding | 7,756,156 | 7,803,162 | 7,757,199 | 7,808,064 |
| Net income per Sub-share Certificate — basic and diluted | \$ 6.39 | \$ 6.73 | \$ 24.44 | \$ 12.33 |
| Cash dividends per Sub-share Certificate | \$ — | \$ — | \$ 6.00 | \$ 4.05 |

See accompanying notes to condensed consolidated financial statements.

TEXAS PACIFIC LAND TRUST
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|------------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income | \$ 189,584 | \$ 96,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred taxes | 15,275 | — |
| Depreciation and amortization | 2,655 | 813 |
| Changes in operating assets and liabilities: | | |
| Operating assets, excluding income taxes | (21,518) | (18,109) |
| Prepaid income taxes | 9,398 | 1,202 |
| Operating liabilities, excluding income taxes | 18,855 | 6,958 |
| Income taxes payable | 5,722 | 2,071 |
| Cash provided by operating activities | <u>219,971</u> | <u>89,229</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of fixed assets | 30 | — |
| Acquisition of land | (74,410) | (2,663) |
| Acquisition of royalty interests | (5,017) | — |
| Purchase of fixed assets | (22,600) | (31,564) |
| Cash used in investing activities | <u>(101,997)</u> | <u>(34,227)</u> |
| Cash flows from financing activities: | | |
| Purchase of Sub-share Certificates in Certificates of Proprietary Interest | (4,353) | (17,035) |
| Dividends paid | (46,546) | (31,652) |
| Cash used in financing activities | <u>(50,899)</u> | <u>(48,687)</u> |
| Net increase in cash, cash equivalents, and restricted cash | 67,075 | 6,315 |
| Cash, cash equivalents and restricted cash, beginning of period | 123,446 | 79,580 |
| Cash, cash equivalents, and restricted cash, end of period | <u>\$ 190,521</u> | <u>\$ 85,895</u> |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | <u>\$ 18,451</u> | <u>\$ 21,951</u> |

See accompanying notes to condensed consolidated financial statements.

TEXAS PACIFIC LAND TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Description of Business Segments

Texas Pacific Land Trust (which, together with its subsidiaries as the context requires, may be referred to as “Texas Pacific”, the “Trust”, “our”, “we” or “us”) is one of the largest landowners in the State of Texas with approximately 900,000 acres of land in West Texas. Texas Pacific was organized under a Declaration of Trust, dated February 1, 1888, to receive and hold title to extensive tracts of land in the State of Texas, previously the property of the Texas and Pacific Railway Company, and to issue transferable Certificates of Proprietary Interest pro rata to the original holders of certain debt securities of the Texas and Pacific Railway Company.

The Trust is organized to manage land, including royalty interests, for the benefit of its owners. The Trust’s income is derived primarily from oil, gas and water royalties, sales of water and land, easements and commercial leases of the land.

We operate our business in two segments: Land and Resource Management and Water Services and Operations. Our segments provide management with a comprehensive financial view of our key businesses. The segments enable the alignment of strategies and objectives of the Trust and provide a framework for timely and rational allocation of resources within businesses. See [Note 9, “Business Segment Reporting”](#) for further information regarding our segments.

2. Summary of Significant Accounting Policies

Interim Unaudited Financial Information

The results for the interim periods shown in this report are not necessarily indicative of future financial results. The accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position of the Trust as of June 30, 2019 and the results of its operations for the three and six months ended June 30, 2019 and 2018, respectively, and its cash flows for the six months ended June 30, 2019 and 2018, respectively. Such adjustments are of a normal recurring nature.

Principles of Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include our accounts and the accounts of our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Trust’s Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on February 28, 2019. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from this report.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain financial information on the condensed consolidated balance sheets as of December 31, 2018 and condensed consolidated statements of income for the six months ended June 30, 2018 has been revised to conform to the current year presentation. These revisions include, but are not limited to, the classification of the tax like-kind exchange escrow from other assets to a separate balance sheet line item and certain expense items from one expense line item to another expense line item. Total assets and expenses were not affected by these reclassifications.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|----------------------|--------------------------|
| Cash and cash equivalents | \$ 155,401 | \$ 119,647 |
| Tax like-kind exchange escrow | 35,120 | 3,799 |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | <u>\$ 190,521</u> | <u>\$ 123,446</u> |

Recently Adopted Accounting Guidance

Leases

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases (Topic 842)*" which amended the existing lease accounting guidance to require lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms greater than twelve months. We adopted the new leasing standard and all related amendments on January 1, 2019. We elected the optional transition method provided by ASU No. 2018-11, "*Leases (Topic 842): Targeted Improvements*" and as a result, have not restated our condensed consolidated financial statements for prior periods presented. We also elected the practical expedients permitted under the transition guidance that retain the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. In addition, we have not reassessed the accounting treatment of contracts entered into prior to adoption of the new lease guidance.

As of June 30, 2019, we have recorded right-of-use assets of \$3.3 million and lease liabilities for \$3.5 million primarily related to operating leases in connection with our administrative offices located in Dallas and Midland, Texas. The office lease agreements require monthly rent payments and expire in December 2025 and August 2022, respectively. Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease cost for the three and six months ended June 30, 2019 was \$0.2 million and \$0.3 million, respectively.

Future minimum lease payments under these operating leases are as follows as of June 30, 2019 (in thousands):

| | | |
|---|-----------|--------------|
| 2019 (excluding the six months ended June 30) | \$ | 336 |
| 2020 | | 781 |
| 2021 | | 802 |
| 2022 | | 705 |
| 2023 | | 546 |
| Thereafter | | 701 |
| Total lease payments | | <u>3,871</u> |
| Less: imputed interest | | (380) |
| Total operating lease liabilities | <u>\$</u> | <u>3,491</u> |

3. Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, "*Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework — Changes to Disclosure Requirements for Defined Benefit Plans.*" The ASU eliminates requirements for certain disclosures and requires additional disclosures under defined benefit pension plans and other post-retirement plans. The ASU is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Trust is currently evaluating the impact that ASU 2018-14 will have on our consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-15, "*Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*" The ASU requires a customer in a cloud computing arrangement that is a service contract to follow existing

internal-use software guidance to determine which implementation costs to capitalize as an asset. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted, and may be applied retrospectively or as of the beginning of the period of adoption. The Trust is currently evaluating the impact that ASU 2018-15 will have on our consolidated financial statements and disclosures.

4. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following as of June 30, 2019 and December 31, 2018 (in thousands):

| | June 30, 2019 | | December 31, 2018 | |
|---|---------------|---------|-------------------|---------|
| Property, plant and equipment: | | | | |
| Water service-related assets ⁽¹⁾ | \$ | 83,955 | \$ | 62,919 |
| Furniture, fixtures and equipment | | 5,814 | | 4,297 |
| Other | | 598 | | 598 |
| Property, plant and equipment at cost | | 90,367 | | 67,814 |
| Less: accumulated depreciation | | (5,575) | | (3,012) |
| Property, plant and equipment, net | \$ | 84,792 | \$ | 64,802 |

(1) Water service-related assets reflect assets related to water sourcing and water re-use projects.

Depreciation expense was \$1.4 million and \$0.5 million for the three months ended June 30, 2019 and 2018, respectively. Depreciation expense was \$2.6 million and \$0.8 million for the six months ended June 30, 2019 and 2018, respectively.

5. Real Estate Activity

As of June 30, 2019 and December 31, 2018, the Trust owned the following land and real estate (in thousands, except number of acres):

| | June 30, 2019 | | December 31, 2018 | |
|--|-----------------|----------------|-------------------|----------------|
| | Number of Acres | Net Book Value | Number of Acres | Net Book Value |
| Land (surface rights) | 855,553 | \$ — | 877,462 | \$ — |
| Real estate acquired | 46,386 | 84,902 | 24,715 | 10,492 |
| Total real estate situated in 19 counties in Texas | 901,939 | \$ 84,902 | 902,177 | \$ 10,492 |

No valuation allowance was necessary at June 30, 2019 and December 31, 2018.

Land Sales

For the six months ended June 30, 2019, the Trust sold approximately 21,909 acres (13,180 acres in Loving County, 5,598 acres in Culberson County, 1,651 acres in Hudspeth County, 843 acres in Reeves County, 636 acres in Midland County and approximately 1 acre in Glasscock County) of land in Texas for an aggregate sales price of approximately \$108.4 million, with an average of approximately \$4,948 per acre.

For the six months ended June 30, 2018, the Trust sold approximately 120 acres (80 acres in Culberson County and 40 acres in Loving County) of land in Texas for an aggregate sales price of approximately \$2.8 million, with an average of approximately \$22,917 per acre.

Land Acquisitions

For the six months ended June 30, 2019, the Trust acquired approximately 21,671 acres (Culberson, Glasscock, Loving and Reeves Counties) of land in Texas for an aggregate purchase price of approximately \$74.4 million, with an average of approximately \$3,434 per acre.

For the six months ended June 30, 2018, the Trust acquired approximately 2,884 acres (Mitchell and Upton County) of land in Texas for an aggregate purchase price of approximately \$2.7 million, with an average of approximately \$924 per acre.

6. Royalty Interests

As of June 30, 2019 and December 31, 2018, the Trust owned the following oil and gas royalty interests (in thousands, except number of interests):

| | Net Book Value | |
|--|----------------|-------------------|
| | June 30, 2019 | December 31, 2018 |
| 1/16th nonparticipating perpetual royalty interests | \$ — | \$ — |
| 1/128th nonparticipating perpetual royalty interests | — | — |
| Royalty interests acquired | 29,320 | 24,303 |
| Total royalty interests | \$ 29,320 | \$ 24,303 |

No valuation allowance was necessary at June 30, 2019 and December 31, 2018.

For the six months ended June 30, 2019, the Trust acquired oil and gas royalty interests in approximately 1,247 net royalty acres (normalized to 1/8th) for an aggregate purchase price of \$4.7 million, an average price of approximately \$3,800 per net royalty acre.

There were no oil and gas royalty interest transactions for the six months ended June 30, 2018.

7. Income Taxes

Effective January 1, 2018, the statutory Federal income tax rate for the Trust decreased from 35% to 21%. The Trust's effective Federal income tax rate is less than the 21% statutory rate because taxable income is reduced by statutory percentage depletion allowed on mineral royalty income.

The Trust structured the \$100.0 million land sale consummated in January 2019 as a §1031 exchange for federal income tax purposes. As a result, the current federal income tax liability and expense were each reduced by approximately \$15.3 million during the six months ended June 30, 2019, while the deferred federal income tax liability and expense increased by the same amount.

8. Capital

The Sub-share Certificates ("Sub-shares") and the Certificates of Proprietary Interest are freely interchangeable in the ratio of one Certificate of Proprietary Interest for 3,000 Sub-shares or 3,000 Sub-shares for one Certificate of Proprietary Interest.

Dividends

On March 15, 2019, we paid \$46.5 million in dividends representing a regular cash dividend of \$1.75 per Sub-share and a special dividend of \$4.25 per Sub-share for sub-shareholders of record at the close of business on March 8, 2019.

On March 16, 2018, we paid \$31.7 million in dividends representing a regular cash dividend of \$1.05 per Sub-share and a special dividend of \$3.00 per Sub-share for sub-shareholders of record at the close of business on March 9, 2018.

Repurchases of Sub-shares

During the six months ended June 30, 2019, we purchased and retired 6,258 Sub-shares. During the six months ended June 30, 2018, we purchased and retired 29,062 Sub-shares.

9. Business Segment Reporting

During the periods presented, we reported our financial performance based on the following segments: Land and Resource Management and Water Services and Operations. Our segments provide management with a comprehensive financial view of our key businesses. The segments enable the alignment of strategies and objectives of the Trust and provide a framework for timely and rational allocation of resources within businesses. We eliminate any inter-segment revenues and expenses upon consolidation.

The Land and Resource Management segment encompasses the business of managing approximately 900,000 acres of land and related resources in West Texas owned by the Trust. The revenue streams of this segment consist primarily of royalties from oil and gas, revenues from easements and commercial leases, and land and material sales.

The Water Services and Operations segment encompasses the business of providing a full-service water offering to operators in the Permian Basin as well as managing agreements with energy companies and oilfield service businesses to allow such companies to explore for water, drill water wells, construct water-related infrastructure and purchase water sourced from land that we own. The revenue streams of this segment consist of revenue generated from direct sales of sourced and treated water as well as revenues from royalties on water service-related activity.

Segment financial results were as follows for the three and six months ended June 30, 2019 and 2018 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|--------------------------------|------------------|------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| <i>Revenues:</i> | | | | |
| Land and resource management | \$ 58,688 | \$ 52,376 | \$ 219,147 | \$ 95,129 |
| Water services and operations | 28,622 | 21,468 | 59,487 | 38,722 |
| Total consolidated revenues | <u>\$ 87,310</u> | <u>\$ 73,844</u> | <u>\$ 278,634</u> | <u>\$ 133,851</u> |
| <i>Net income:</i> | | | | |
| Land and resource management | \$ 37,194 | \$ 40,505 | \$ 160,311 | \$ 73,315 |
| Water services and operations | 12,392 | 11,998 | 29,273 | 22,979 |
| Total consolidated net income | <u>\$ 49,586</u> | <u>\$ 52,503</u> | <u>\$ 189,584</u> | <u>\$ 96,294</u> |
| <i>Capital expenditures:</i> | | | | |
| Land and resource management | \$ 881 | \$ 303 | \$ 1,415 | \$ 1,555 |
| Water services and operations | 12,472 | 19,420 | 21,185 | 30,009 |
| Total capital expenditures | <u>\$ 13,353</u> | <u>\$ 19,723</u> | <u>\$ 22,600</u> | <u>\$ 31,564</u> |
| <i>Depreciation and amortization:</i> | | | | |
| Land and resource management | \$ 261 | \$ 100 | \$ 438 | \$ 170 |
| Water services and operations | 1,190 | 383 | 2,217 | 643 |
| Total depreciation and amortization | <u>\$ 1,451</u> | <u>\$ 483</u> | <u>\$ 2,655</u> | <u>\$ 813</u> |

The following table presents total assets and property, plant and equipment, net by segment as of June 30, 2019 and December 31, 2018 (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| <i>Assets:</i> | | |
| Land and resource management | \$ 337,941 | \$ 198,922 |
| Water services and operations | 125,671 | 86,153 |
| Total consolidated assets | <u>\$ 463,612</u> | <u>\$ 285,075</u> |
| <i>Property, plant and equipment, net:</i> | | |
| Land and resource management | \$ 4,739 | \$ 3,720 |
| Water services and operations | 80,053 | 61,082 |
| Total consolidated property, plant and equipment, net | <u>\$ 84,792</u> | <u>\$ 64,802</u> |

10. Oil and Gas Producing Activities

There are a number of oil and gas wells that have been drilled but are not yet completed (“DUC”) where the Trust has a royalty interest. Currently, the Trust has identified 297 DUC wells subject to our royalty interest. The process of identifying these wells is ongoing and we anticipate updates going forward to be affected by a number of factors including, but not limited to, ongoing changes/updates to our identification process, changes/updates by Drilling Info (our main source of information in identifying these wells) in their identification process, the eventual completion of these DUC wells, and additional wells drilled but not completed by companies operating where we have a royalty interest.

11. Subsequent Events

We evaluate events that occur after the balance sheet date but before consolidated financial statements are, or are available to be issued to determine if a material event requires our amending the consolidated financial statements or disclosing the event. We evaluated subsequent events through the filing date we issued these consolidated financial statements and identified the following subsequent event requiring disclosure.

On July 30, 2019, the Trust and current Trustees John R. Norris III and David E. Barry entered into a settlement agreement (the “Settlement Agreement”) with Horizon Kinetics LLC, Horizon Kinetics Asset Management LLC, Murray Stahl, SoftVest, L.P., SoftVest Advisors, LLC, Eric L. Oliver, ART-FGT Family Partners Limited, Tessler Family Limited Partnership and Allan R. Tessler (the “Investor Group”) with respect to the previous proxy contest mounted by the Investor Group and the pending litigation between the parties. Pursuant to the Settlement Agreement, the parties agreed: (i) to dismiss the pending litigation captioned Case 3:19-cv-01224-B Texas Pacific Land Trust et al v. Oliver in the U.S. District Court for the Northern District of Texas in Dallas, (ii) that the third Trustee position will remain vacant at least until the end of the Restricted Period (as defined in the Settlement Agreement), (iii) to add three new members, including Mr. Stahl and Mr. Oliver, to the Conversion Exploration Committee (the “Committee”), which was formed in June, 2019 to evaluate the conversion of the Trust into a C-corporation (the “Conversion”), (iv) the Committee will continue to be governed by its charter dated June 23, 2019, as amended and restated on July 30, 2019, and will complete its work by December 31, 2019, unless the Committee otherwise determines, (v) if the Committee recommends a plan of Conversion and proposes the approval of the Trust’s sub-shareholders, the Investor Group will be required to (1) vote all of the Sub-shares beneficially owned by it in favor of such Conversion at a special meeting called therefor by the Trustees, and (2) privately and publicly support such Conversion through a press release as an exempt solicitation, (vi) if the Trustees decide to implement such plan of Conversion in the form recommended by the Committee in all material respects, (1) the Investor Group will be prohibited from challenging such Conversion in court or otherwise prior to the end of the Restricted Period, and (2) the parties will grant mutual general releases in one another’s favor upon completion of such Conversion, and (vii) to other customary terms of settlement. The foregoing description of the Settlement Agreement is qualified by the full text of such agreement, which is attached as an exhibit to the Trust’s Current Report on Form 8-K filed, filed with the SEC on July 31, 2019 and incorporated by reference herein.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding management's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include statements regarding the Trust's future operations and prospects, the markets for real estate in the areas in which the Trust owns real estate, applicable zoning regulations, the markets for oil and gas, production limits on prorated oil and gas wells authorized by the Railroad Commission of Texas, expected competition, the pending proxy contest, the impacts thereof and other possible changes in composition of the Trustees, management's intent, beliefs or current expectations with respect to the Trust's future financial performance and other matters. All forward-looking statements in this Report are based on information available to us as of the date this Report is filed with the Securities and Exchange Commission (the "SEC"), and we assume no responsibility to update any such forward-looking statements, except as required by law. All forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the factors discussed in Item 1A. "Risk Factors" of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, and in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" of this Quarterly Report on Form 10-Q.

The following discussion and analysis should be read together with (i) the factors discussed in Item 1A. "Risk Factors" of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, (ii) the factors discussed in Part II, Item 1A. "Risk Factors," if any, of this Quarterly Report on Form 10-Q and (iii) the Financial Statements, including the Notes thereto, and the other financial information appearing elsewhere in this Report. Period-to-period comparisons of financial data are not necessarily indicative, and therefore should not be relied upon as indicators, of the Trust's future performance. Words or phrases such as "expects" and "believes", or similar expressions, when used in this Form 10-Q or other filings with the SEC, are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Overview

Texas Pacific Land Trust (which together with its subsidiaries as the context requires, may be referred to as "Texas Pacific", the "Trust", "our", "we" or "us") is one of the largest landowners in the State of Texas with approximately 900,000 acres of land in West Texas. We were organized under a Declaration of Trust, dated February 1, 1888, to receive and hold title to extensive tracts of land in the State of Texas, previously the property of the Texas and Pacific Railway Company. Our Trustees are empowered under the Declaration of Trust to manage the lands with all the powers of an absolute owner.

Our revenues are derived primarily from oil, gas and water-related royalties, sales of water and land, easements and commercial leases. Due to the nature of our operations, our revenue is subject to substantial fluctuations from quarter to quarter and year to year. The demand for, and sale price of, particular tracts of land is influenced by many factors beyond our control, including general economic conditions, the rate of development in nearby areas and the suitability of the particular tract for commercial uses prevalent in western Texas.

We are not an oil and gas producer. Rather, our oil and gas revenue is derived from our oil and gas royalty interests. Thus, in addition to being subject to fluctuations in response to the market prices for oil and gas, our oil and gas royalty revenues are also subject to decisions made by the owners and operators of the oil and gas wells to which our royalty interests relate as to investments in and production from those wells. We monitor production reports from the operators, the Texas Railroad Commission, and other private data providers to assure that we are being paid the appropriate royalties.

Our revenue from easements is primarily generated from pipelines transporting oil, gas and related hydrocarbons, power line and utility easements, and subsurface wellbore easements. Since the second quarter of 2016, our easements typically have a ten-year term. Commercial lease revenue is derived primarily from processing, storage and compression facilities and roads.

In prior years, we entered into agreements with energy companies and oilfield service businesses to allow such companies to explore for water, drill water wells, construct water-related infrastructure and purchase water sourced from land that we own. Energy businesses use water for their oil and gas projects while non-energy businesses (i.e., water management service companies) operate water facilities to produce and sell water to energy businesses. We collect revenue from royalties and water sales under these legacy agreements.

Demand for water solutions is expected to grow as drilling and completion activity in the Permian Basin continues to increase. In response to that anticipated demand, the Trust formed Texas Pacific Water Resources LLC (“TPWR”) in June 2017. TPWR, a single member LLC and wholly owned subsidiary of the Trust, focuses on providing full-service water offerings to operators in the Permian Basin. These services include, but are not limited to, water sourcing, produced-water gathering/treatment/recycling, infrastructure development, disposal solutions, water tracking, analytics and well testing services. TPWR is committed to sustainable water development with significant focus on the large-scale implementation of recycled water operations.

During the six months ended June 30, 2019, the Trust invested approximately \$21.0 million in TPWR projects to develop water sourcing and water re-use assets.

Results of Operations

We operate our business in two segments: Land and Resource Management and Water Services and Operations. We eliminate any inter-segment revenues and expenses upon consolidation.

We analyze financial results for each of our reportable segments. The reportable segments presented are consistent with our reportable segments discussed in [Note 9, “Business Segment Reporting”](#) in [Item 1. Financial Statements](#) in this Quarterly Report on Form 10-Q. We monitor our reporting segments based upon revenue and net income calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

For the three months ended June 30, 2019 as compared to the three months ended June 30, 2018

Revenues. Revenues increased \$13.5 million, or 18.2%, to \$87.3 million for the three months ended June 30, 2019 compared to \$73.8 million for the three months ended June 30, 2018. Net income decreased \$2.9 million, or 5.6%, to \$49.6 million for the three months ended June 30, 2019 compared to \$52.5 million for the three months ended June 30, 2018.

The following is an analysis of our operating results for the comparable periods by reportable segment (in thousands):

| | Three Months Ended June 30, | | | |
|--|-----------------------------|-------------|------------------|-------------|
| | 2019 | | 2018 | |
| <i>Revenues:</i> | | | | |
| Land and resource management: | | | | |
| Oil and gas royalties | \$ 39,641 | 46% | \$ 30,278 | 41% |
| Easements and other surface-related income | 14,165 | 16% | 21,974 | 30% |
| Land sales and other operating revenue | 4,882 | 6% | 124 | —% |
| | 58,688 | 68% | 52,376 | 71% |
| Water services and operations: | | | | |
| Water sales and royalties | 20,430 | 23% | 15,643 | 21% |
| Easements and other surface-related income | 8,192 | 9% | 5,825 | 8% |
| | 28,622 | 32% | 21,468 | 29% |
| <i>Total consolidated revenues</i> | <u>\$ 87,310</u> | <u>100%</u> | <u>\$ 73,844</u> | <u>100%</u> |
| <i>Net income:</i> | | | | |
| Land and resource management | \$ 37,194 | 75% | \$ 40,505 | 77% |
| Water services and operations | 12,392 | 25% | 11,998 | 23% |
| <i>Total consolidated net income</i> | <u>\$ 49,586</u> | <u>100%</u> | <u>\$ 52,503</u> | <u>100%</u> |

Land and Resource Management

Land and Resource Management segment revenues increased \$6.3 million, or 12.1%, to \$58.7 million for the three months ended June 30, 2019 as compared with \$52.4 million for the comparable period of 2018.

Oil and gas royalties. Oil and gas royalty revenue was \$39.6 million for the three months ended June 30, 2019 compared to \$30.3 million for the three months ended June 30, 2018. Oil royalty revenue was \$33.1 million for the three months ended June 30, 2019, an increase of 34.0% over the three months ended June 30, 2018 when oil royalty revenue was \$24.7 million. This increase in oil royalty revenue is principally due to a 41.3% increase in crude oil production subject to the Trust's royalty interest, partially offset by a 4.8% decrease in the average price per royalty barrel of crude oil received during the three months ended June 30, 2019 compared to the same period in 2018. Gas royalty revenue was \$6.5 million for the three months ended June 30, 2019, an increase of 17.3% over the three months ended June 30, 2018 when gas royalty revenue was \$5.6 million. This increase in gas royalty revenue resulted principally from a volume increase of 120.2% for the three months ended June 30, 2019 as compared to the same period of 2018, partially offset by a 43.5% decrease in the average price received over the same period.

Easements and other surface-related income. Easements and other surface-related income was \$14.2 million for the three months ended June 30, 2019, a decrease of 35.5% compared to \$22.0 million for the three months ended June 30, 2018. Easements and other surface-related income includes pipeline, power line and utility easements, commercial leases, material sales, and seismic and temporary permits. The decrease in easements and other surface-related income is principally related to a 41.6% decrease in pipeline easement income to \$9.9 million for the three months ended June 30, 2019 from \$16.9 million for the three months ended June 30, 2018. Easements and other surface-related income is unpredictable and may vary significantly from period to period.

Land sales and other operating revenue. Land sales and other operating revenue includes revenue generated from land sales and grazing leases. For the three months ended June 30, 2019, we sold approximately 658 acres of land for total consideration of \$4.8 million, or approximately \$7,260 per acre. There were no land sales for the three months ended June 30, 2018.

Net income. Net income for the Land and Resource Management segment was \$37.2 million for the three months ended June 30, 2019 compared to \$40.5 million for the three months ended June 30, 2018. As discussed above, revenues for the Land and Resource Management segment increased \$6.3 million for the three months ended June 30, 2019 compared to the same period of 2018. Expenses, including income tax expense, for the Land and Resource Management segment were \$21.5 million and \$11.9 million for the three months ended June 30, 2019 and 2018, respectively. The increase in expenses was principally related to approximately \$6.7 million of expenses related to the proxy contest to elect a new Trustee for the three months ended June 30, 2019. No such expenses were incurred for the three months ended June 30, 2018. The remaining increase was principally related to salaries and related employee expenses as discussed further below under "Other Financial Data — Consolidated."

Water Services and Operations

Water Services and Operations segment revenues increased 33.3% to \$28.6 million for the three months ended June 30, 2019 as compared with \$21.5 million for the comparable period of 2018.

Water sales and royalties. Water sales and royalty revenue was \$20.4 million for the three months ended June 30, 2019, an increase of \$4.8 million or 30.6%, compared with the three months ended June 30, 2018 when water sales and royalty revenue was \$15.6 million. This increase was principally due to a 39.8% sales increase in the number of barrels of sourced and treated water sold in the three months ended June 30, 2019 as compared to the same period in 2018.

Easements and other surface-related income. Easements and other surface-related income for the Water Services and Operations segment includes pipeline easement royalties, commercial lease royalties and income from temporary permits. For the three months ended June 30, 2019, the combined income from these revenue streams was \$8.2 million, an increase of 40.6%, as compared to \$5.8 million for the three months ended June 30, 2018.

Net income. Net income for the Water Services and Operations segment was \$12.4 million for the three months ended June 30, 2019 compared to \$12.0 million for the three months ended June 30, 2018. As discussed above, revenues for the Water Services and Operations segment increased 33.3% for the three months ended June 30, 2019 compared to the same period of 2018. Expenses, including income tax expense, for the Water Services and Operations segment were \$16.2 million for the three months ended June 30, 2019 as compared to \$9.5 million for the three months ended June 30, 2018. The increase in expenses during 2019 is principally related to increased water service operating expenses, primarily fuel and equipment rental related to increased sourcing and transfer of water. The remaining increase was principally related to increased salaries and related employee expenses and depreciation and amortization expense as discussed further below under "Other Financial Data — Consolidated."

Other Financial Data — Consolidated

Salaries and related employee expenses. Salaries and related employee expenses were \$7.7 million for the three months ended June 30, 2019 compared to \$3.8 million for the comparable period of 2018. The increase in salaries and related employee expenses is directly related to the increase in the number of employees from 47 employees as of June 30, 2018 to 78 as of June 30, 2019 and additional contract labor expenses for the three months ended June 30, 2019 compared to the same period of 2018.

Water service-related expenses. Water service-related expenses were \$5.7 million for the three months ended June 30, 2019 compared to \$2.6 million for the comparable period of 2018. This increase in expenses was principally the result of an increase in equipment rental and fuel to source and transfer water.

General and administrative expenses. General and administrative expenses increased \$1.1 million to \$2.1 million for the three months ended June 30, 2019 from \$1.0 million for the same period of 2018. The increase in general and administrative expenses is primarily due to increased expenses related to a change in our principal independent contractor service provider and \$0.2 million of expenses related to the proxy contest to elect a new Trustee during the three months ended June 30, 2019.

Legal and professional expenses. Legal and professional fees were \$7.9 million for the three months ended June 30, 2019 compared to \$0.4 million for the comparable period of 2018. The increase in legal and professional fees for the three months ended June 30, 2019 compared to 2018 is principally due to approximately \$6.5 million of legal and professional fees related to the proxy contest to elect a new Trustee.

Depreciation and amortization. Depreciation and amortization was \$1.5 million for the three months ended June 30, 2019 compared to \$0.5 million for the three months ended June 30, 2018. The increase in depreciation and amortization is principally related to the Trust's investment in water service-related assets placed in service in 2019 and the latter half of 2018.

For the six months ended June 30, 2019 as compared to the six months ended June 30, 2018

Revenues. Revenues more than doubled, from \$133.9 million for the six months ended June 30, 2018 to \$278.6 million for the six months ended June 30, 2019. Net income increased \$93.3 million, or 96.9%, to \$189.6 million for the six months ended June 30, 2019 compared to \$96.3 million for the six months ended June 30, 2018.

The following is an analysis of our operating results for the comparable periods by reportable segment (in thousands):

| | Six Months Ended June 30, | | | |
|--|---------------------------|-------------|-------------------|-------------|
| | 2019 | | 2018 | |
| <i>Revenues:</i> | | | | |
| Land and resource management: | | | | |
| Oil and gas royalties | \$ 72,854 | 25% | \$ 56,825 | 43% |
| Easements and other surface-related income | 37,650 | 14% | 35,305 | 26% |
| Land sales and other operating revenue | 108,643 | 39% | 2,999 | 2% |
| | <u>219,147</u> | <u>78%</u> | <u>95,129</u> | <u>71%</u> |
| Water services and operations: | | | | |
| Water sales and royalties | 43,413 | 16% | 29,250 | 22% |
| Easements and other surface-related income | 16,074 | 6% | 9,472 | 7% |
| | <u>59,487</u> | <u>22%</u> | <u>38,722</u> | <u>29%</u> |
| <i>Total consolidated revenues</i> | <u>\$ 278,634</u> | <u>100%</u> | <u>\$ 133,851</u> | <u>100%</u> |
| <i>Net income:</i> | | | | |
| Land and resource management | \$ 160,311 | 85% | \$ 73,315 | 76% |
| Water services and operations | 29,273 | 15% | 22,979 | 24% |
| <i>Total consolidated net income</i> | <u>\$ 189,584</u> | <u>100%</u> | <u>\$ 96,294</u> | <u>100%</u> |

Land and Resource Management

Land and Resource Management segment revenues increased \$124.0 million, or 130.4%, to \$219.1 million for the six months ended June 30, 2019 as compared with \$95.1 million for the comparable period of 2018.

Oil and gas royalties. Oil and gas royalty revenue was \$72.9 million for the six months ended June 30, 2019 compared to \$56.8 million for the six months ended June 30, 2018. Oil royalty revenue was \$59.5 million for the six months ended June 30, 2019, an increase of 32.6% over the six months ended June 30, 2018 when oil royalty revenue was \$44.9 million. This increase in oil royalty revenue is principally due to a 49.0% increase in crude oil production subject to the Trust's royalty interest, partially offset by a 10.5% decrease in the average price per royalty barrel of crude oil received during the six months ended June 30, 2019 compared to the same period in 2018. Gas royalty revenue was \$13.4 million for the six months ended June 30, 2019, an increase of 11.6% over the six months ended June 30, 2018 when gas royalty revenue was \$11.9 million. This increase in gas royalty revenue resulted from a volume increase of 119.9% for the six months ended June 30, 2019 as compared to the same period of 2018, partially offset by a 45.2% decrease in the average price received over the same period.

Easements and other surface-related income. Easements and other surface-related income was \$37.7 million for the six months ended June 30, 2019, an increase of 6.6% compared to \$35.3 million for the six months ended June 30, 2018. Easements and other surface-related income includes pipeline, power line and utility easements, commercial leases, material sales, and seismic and temporary permits. The increase in easements and other surface-related income is principally related to the increase in pipeline easement income which increased 7.4% to \$26.4 million for the six months ended June 30, 2019 from \$24.6 million for the six months ended June 30, 2018. Easements and other surface-related income is unpredictable and may vary significantly from period to period.

Land sales and other operating revenue. Land sales and other operating revenue includes revenue generated from land sales and grazing leases. For the six months ended June 30, 2019, we sold approximately 21,909 acres of land for total consideration of \$108.4 million, or approximately \$4,948 per acre. For the six months ended June 30, 2018, we sold approximately 120 acres of land for total consideration of \$2.8 million, or approximately \$22,917 per acre.

Net income. Net income for the Land and Resource Management segment was \$160.3 million for the six months ended June 30, 2019 compared to \$73.3 million for the six months ended June 30, 2018. As discussed above, revenues for the Land and Resource Management segment increased \$124.0 million for the six months ended June 30, 2019 compared to the same period of 2018. Expenses, including income tax expense, for the Land and Resource Management segment were \$58.8 million and \$21.8 million for the six months ended June 30, 2019 and 2018, respectively. The increase in expenses was principally related to increased income tax expense associated with 2019 land sales totaling \$108.4 million. Total consolidated income tax expense of \$48.8 million for the six months ended June 30, 2019 includes \$15.3 million which is eligible for deferral as a result of our classification of the land sale as a §1031 tax exchange. The remaining increase was principally related to increased legal and professional fees, salaries and related employee expenses and general and administrative expenses as discussed further below under "Other Financial Data — Consolidated."

Water Services and Operations

Water Services and Operations segment revenues increased \$20.8 million, or 53.6%, to \$59.5 million for the six months ended June 30, 2019 as compared with \$38.7 million for the comparable period of 2018.

Water sales and royalties. Water sales and royalty revenue was \$43.4 million for the six months ended June 30, 2019, an increase of \$14.2 million or 48.4%, compared with the six months ended June 30, 2018 when water sales and royalty revenue was \$29.2 million. This increase was principally due to a 46.7% sales increase in the number of barrels of sourced and treated water sold in the six months ended June 30, 2019 as compared to the same period in 2018.

Easements and other surface-related income. Easements and other surface-related income for the Water Services and Operations segment includes pipeline easement royalties, commercial lease royalties and income from temporary permits. For the six months ended June 30, 2019, the combined income from these revenue streams was \$16.1 million as compared to \$9.5 million for the six months ended June 30, 2018, an increase of 69.7%.

Net income. Net income for the Water Services and Operations segment was \$29.3 million for the six months ended June 30, 2019 compared to \$23.0 million for the six months ended June 30, 2018. As discussed above, revenues for the Water Services and Operations segment increased \$20.8 million for the six months ended June 30, 2019 compared to the same period

of 2018. Expenses, including income tax expense, for the Water Services and Operations segment were \$30.2 million for the six months ended June 30, 2019 as compared to \$15.7 million for the six months ended June 30, 2018. The increase in expenses during 2019 is principally related to increased water service operating expenses, principally fuel and equipment rental related to sourcing and transfer of water. The remaining increase was principally related to increased salaries and related employee expenses as discussed further below under “Other Financial Data — Consolidated.”

Other Financial Data — Consolidated

Salaries and related employee expenses. Salaries and related employee expenses were \$14.2 million for the six months ended June 30, 2019 compared to \$6.4 million for the comparable period of 2018. The increase in salaries and related employee expenses is directly related to the increase in the number of employees from 47 employees as of June 30, 2018 to 78 as of June 30, 2019 and additional contract labor expenses for the six months ended June 30, 2019 compared to the same period of 2018.

Water service-related expenses. Water service-related expenses were \$10.3 million for the six months ended June 30, 2019 compared to \$3.9 million for the comparable period of 2018. This increase in expenses was principally related to an increase in equipment rental and fuel to source and transfer water.

General and administrative expenses. General and administrative expenses increased \$2.5 million to \$4.2 million for the six months ended June 30, 2019 from \$1.7 million for the same period of 2018. The increase in general and administrative expenses is primarily due to increased expenses associated with our independent contractor service providers, a contribution of \$0.3 million to the Texas Parks and Wildlife Foundation to benefit the Balmorhea State Park in West Texas, expenses related to land transactions and \$0.2 million of expenses related to the proxy contest to elect a new Trustee during the six months ended June 30, 2019.

Legal and professional expenses. Legal and professional fees were \$9.6 million for the six months ended June 30, 2019 compared to \$1.1 million for the comparable period of 2018. The increase in legal and professional fees for the six months ended June 30, 2019 compared to 2018 is principally due to approximately \$7.3 million of legal and professional fees related to the proxy contest to elect a new Trustee.

Depreciation and amortization. Depreciation and amortization was \$2.7 million for the six months ended June 30, 2019 compared to \$0.8 million for the six months ended June 30, 2018. The increase in depreciation and amortization is principally related to the Trust’s investment in water service-related assets placed in service in 2019 and the latter half of 2018.

Cash Flow Analysis

For the six months ended June 30, 2019 as compared to the six months ended June 30, 2018

Cash flows provided by operating activities for the six months ended June 30, 2019 and 2018 were \$220.0 million and \$89.2 million, respectively. This increase in operating cash flows is principally due to increases in proceeds from land sales, oil and gas royalties collected, easements and other surface-related payments received and water sales and royalties collected during the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Cash flows used in investing activities were \$102.0 million compared to \$34.2 million for the six months ended June 30, 2019 and 2018, respectively. The increased use of investing cash flows is principally due to our acquisition of approximately 21,671 acres of land in Culberson, Glasscock, Loving and Reeves Counties, Texas for approximately \$74.4 million during the six months ended June 30, 2019.

Cash flows used in financing activities were \$50.9 million compared to \$48.7 million for the six months ended June 30, 2019 and 2018, respectively. During the six months ended June 30, 2019, the Trust paid total dividends of \$46.5 million consisting of a regular cash dividend of \$1.75 per Sub-share Certificate (“Sub-share”) and a special dividend of \$4.25 per Sub-share to each sub-shareholder of record at the close of business on March 8, 2019. During the six months ended June 30, 2018, the Trust paid total dividends of \$31.7 million consisting of a regular cash dividend of \$1.05 per Sub-share and a special dividend of \$3.00 per Sub-share to each sub-shareholder of record at the close of business on March 9, 2018.

Liquidity and Capital Resources

The Trust’s principal sources of liquidity are its revenues from oil, gas and water royalties, easements and other surface-related income, and water and land sales.

Our primary liquidity and capital requirements are for capital expenditures related to our Water Services and Operations segment, working capital and general corporate needs. As of June 30, 2019, we had cash and cash equivalents of \$155.4 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business, particularly the growth of TPWR, to repurchase additional Sub-shares subject to market conditions, and for general corporate purposes. We believe that cash from operations, together with our cash and cash equivalents balances, will be enough to meet ongoing capital expenditures, working capital requirements and other cash needs for the foreseeable future.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. For a full discussion of our accounting policies please refer to Note 2 to the Consolidated Financial Statements included in our 2018 Annual Report on Form 10-K filed with the SEC on February 28, 2019. Our most critical accounting policies and estimates include: accrual of oil and gas royalties and gain recognition on land sales. We continually evaluate our judgments, estimates and assumptions. We base our estimates on the terms of underlying agreements, historical experience and other factors that we believe are reasonable based on the circumstances, the results of which form our management's basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2018 Annual Report on Form 10-K.

New Accounting Pronouncements

For further information regarding recently issued accounting pronouncements, see [Note 3, "Recent Accounting Pronouncements"](#) in the notes to the consolidated financial statements included in [Item 1. Financial Statements](#) in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information related to market risk of the Trust since December 31, 2018.

Item 4. Controls and Procedures

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

There have been no changes in the Trust's internal control over financial reporting during the Trust's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

Texas Pacific is not involved in any material pending legal proceedings, except as described below.

In March 2019, the Investor Group launched a proxy contest relating to their nomination of a candidate for election as trustee to fill the vacancy resulting from the resignation of Maurice Meyer III. In connection with the proxy contest, on May 21, 2019, the Trust filed a lawsuit against Eric L. Oliver captioned Case 3:19-cv-01224-B Texas Pacific Land Trust et al v. Oliver in the U.S. District Court for the Northern District of Texas. The lawsuit alleged violations of federal securities laws in Mr. Oliver's campaign to become the Trust's next trustee and asked the court to require that Mr. Oliver correct misstatements and omissions in such campaign. Mr. Oliver asserted numerous counterclaims against Mr. Norris and Mr. Barry based on negligence, gross negligence, breach of fiduciary duty and waste, in addition to claiming that the Trustees lacked authority to cancel or postpone a scheduled shareholder meeting. On July 30, 2019, the lawsuit and the proxy contest were settled upon the execution by the parties of a settlement agreement. See [Note 11, "Subsequent Events"](#) in the notes to the consolidated financial statements included in [Item 1. Financial Statements](#) in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in response to Item 1A. "Risk Factors" of Part I of the Trust's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Trust did not repurchase any Sub-shares during the three months ended June 30, 2019.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

EXHIBIT INDEX

| <u>EXHIBIT NUMBER</u> | <u>DESCRIPTION</u> |
|-----------------------|---|
| 31.1* | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2* | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1* | Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | The following information from the Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income and Total Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows and (iv) Notes to Condensed Consolidated Financial Statements. |
| 104 | The cover page from the Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in iXBRL. |

* Filed or furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

TEXAS PACIFIC LAND TRUST

(Registrant)

Date: August 7, 2019

By: /s/ Tyler Glover
Tyler Glover, General Agent and
Chief Executive Officer

Date: August 7, 2019

By: /s/ Robert J. Packer
Robert J. Packer, General Agent and
Chief Financial Officer

CERTIFICATION

I, Tyler Glover, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Texas Pacific Land Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

By: /s/ Tyler Glover

Tyler Glover, General Agent and
Chief Executive Officer

CERTIFICATION

I, Robert J. Packer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Texas Pacific Land Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

By: /s/ Robert J. Packer

Robert J. Packer, General Agent and
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Texas Pacific Land Trust (the "Trust") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Tyler Glover, Chief Executive Officer of the Trust, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 7, 2019

By: /s/ Tyler Glover
Tyler Glover, General Agent and
Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Texas Pacific Land Trust (the "Trust") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert J. Packer, Chief Financial Officer of the Trust, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 7, 2019

By: /s/ Robert J. Packer
Robert J. Packer, General Agent and
Chief Financial Officer