
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 **September 30, 2020**

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

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: (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.

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 October 30, 2020, the Registrant had 7,756,156 Sub-share Certificates outstanding.

TEXAS PACIFIC LAND TRUST
Form 10-Q
Quarter Ended September 30, 2020

Page No.

PART I
FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	<u>1</u>
	<u>Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019</u>	<u>1</u>
	<u>Condensed Consolidated Statements of Income and Total Comprehensive Income for the three and nine months ended September 30, 2020 and 2019</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Net Proceeds From All Sources for the three and nine months ended September 30, 2020 and 2019</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019</u>	<u>4</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>12</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>20</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>20</u>

PART II
OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>21</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>21</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>22</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>22</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>22</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>22</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>23</u>
	<u>Signatures</u>	<u>24</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TEXAS PACIFIC LAND TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and per share amounts)

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<u>(Unaudited)</u>	
ASSETS		
Cash and cash equivalents	\$ 315,759	\$ 303,645
Accrued receivables, net	41,172	62,995
Other assets	3,874	3,980
Property, plant and equipment, net of accumulated depreciation of \$21,619 and \$11,313 as of September 30, 2020 and December 31, 2019, respectively	82,330	88,323
Real estate acquired	109,733	107,075
Royalty interests acquired, net of accumulated depletion of \$582 and \$260 as of September 30, 2020 and December 31, 2019, respectively	45,683	29,060
Operating lease right-of-use assets	2,630	3,098
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>\$ 601,181</u>	<u>\$ 598,176</u>
LIABILITIES AND CAPITAL		
Accounts payable and accrued expenses	\$ 15,846	\$ 19,193
Income taxes payable	2,716	5,271
Deferred taxes payable	40,741	40,827
Unearned revenue	19,669	17,381
Operating lease liabilities	2,982	3,367
Total liabilities	<u>81,954</u>	<u>86,039</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 \$0.0333 each; outstanding 7,756,156 Sub-share Certificates as of September 30, 2020 and December 31, 2019	—	—
Accumulated other comprehensive loss	(1,421)	(1,461)
Net proceeds from all sources	520,648	513,598
Total capital	<u>519,227</u>	<u>512,137</u>
Total liabilities and capital	<u>\$ 601,181</u>	<u>\$ 598,176</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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Oil and gas royalties	\$ 31,758	\$ 38,259	\$ 94,631	\$ 111,113
Easements and other surface-related income	18,936	33,911	69,970	87,635
Water sales and royalties	12,139	21,654	47,525	65,067
Land sales	11,463	4,621	15,855	113,020
Other operating revenue	87	85	269	329
Total revenues	74,383	98,530	228,250	377,164
Expenses:				
Salaries and related employee expenses	7,678	8,537	27,235	22,742
Water service-related expenses	2,260	5,122	11,205	15,423
General and administrative expenses	1,883	2,864	7,290	6,877
Legal and professional fees	1,987	5,558	6,955	15,198
Land sales expenses	67	—	2,773	225
Depreciation, depletion and amortization	3,760	2,631	10,773	5,286
Total operating expenses	17,635	24,712	66,231	65,751
Operating income	56,748	73,818	162,019	311,413
Other income, net	1,287	941	2,306	1,771
Income before income taxes	58,035	74,759	164,325	313,184
Income tax expense (benefit):				
Current	11,146	9,918	33,153	43,485
Deferred	614	4,819	(86)	20,093
Total income tax expense	11,760	14,737	33,067	63,578
Net income	\$ 46,275	\$ 60,022	\$ 131,258	\$ 249,606
Other comprehensive income — periodic pension costs, net of income taxes of \$4, \$2, \$11 and \$7, respectively				
	13	9	40	27
Total comprehensive income	\$ 46,288	\$ 60,031	\$ 131,298	\$ 249,633
Weighted average number of Sub-share Certificates outstanding	7,756,156	7,756,156	7,756,156	7,756,643
Net income per Sub-share Certificate — basic and diluted	\$ 5.97	\$ 7.74	\$ 16.92	\$ 32.18
Cash dividends per Sub-share Certificate	\$ —	\$ —	\$ 16.00	\$ 6.00

See accompanying notes to condensed consolidated financial statements.

TEXAS PACIFIC LAND TRUST
CONDENSED CONSOLIDATED STATEMENTS OF NET PROCEEDS FROM ALL SOURCES
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net proceeds from all sources:				
Balance, beginning of period	\$ 474,373	\$ 384,454	\$ 513,598	\$ 245,769
Net income	46,275	60,022	131,258	249,606
Dividends paid	—	—	(124,098)	(46,546)
Repurchase and retirement of Sub-share Certificates of Proprietary Interest	—	—	—	(4,353)
Cumulative effect of accounting change	—	—	(110)	—
Balance, end of period	<u>520,648</u>	<u>444,476</u>	<u>520,648</u>	<u>444,476</u>
Accumulated other comprehensive income (loss):				
Balance, beginning of period	(1,434)	(1,060)	(1,461)	(1,078)
Periodic pension costs, net of income taxes	13	9	40	27
Balance, end of period	<u>(1,421)</u>	<u>(1,051)</u>	<u>(1,421)</u>	<u>(1,051)</u>
Total capital	<u>\$ 519,227</u>	<u>\$ 443,425</u>	<u>\$ 519,227</u>	<u>\$ 443,425</u>

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 131,258	\$ 249,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(86)	20,093
Depreciation, depletion and amortization	10,773	5,286
Land sales revenue recognized on land exchanges	(1,415)	—
Changes in operating assets and liabilities:		
Operating assets, excluding income taxes	24,878	(18,278)
Prepaid income taxes	—	9,398
Operating liabilities, excluding income taxes	(1,404)	15,361
Income taxes payable	(2,555)	2,757
Cash provided by operating activities	161,449	284,223
Cash flows from investing activities:		
Proceeds from sale of fixed assets	—	117
Acquisition of land	(3,966)	(74,410)
Acquisition of royalty interests	(16,945)	(5,017)
Purchase of fixed assets	(4,326)	(27,579)
Cash used in investing activities	(25,237)	(106,889)
Cash flows from financing activities:		
Purchase of Sub-share Certificates in Certificates of Proprietary Interest	—	(4,353)
Dividends paid	(124,098)	(46,546)
Cash used in financing activities	(124,098)	(50,899)
Net increase in cash, cash equivalents and restricted cash	12,114	126,435
Cash, cash equivalents and restricted cash, beginning of period	303,645	123,446
Cash, cash equivalents, and restricted cash, end of period	\$ 315,759	\$ 249,881
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 35,719	\$ 31,337
Supplemental non-cash investing information:		
Operating lease right-of-use assets	\$ —	\$ 3,712
Land exchange	\$ 1,415	\$ —

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 880,000 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 and gas 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.

Corporate Reorganization

As previously announced on March 23, 2020, our Trustees approved a plan to reorganize the Trust from its current structure to a corporation formed under the laws of the State of Delaware. We continue to progress toward the conversion. On June 15, 2020, the Trust announced the new corporation will be named Texas Pacific Land Corporation (“TPL Corp”) and the prospective members of the Board of Directors of TPL Corp. Additionally, a draft registration statement on Form 10 has been submitted to the Securities and Exchange Commission (the “SEC”) for review, on a non-public basis. The Trust continues to make progress toward effecting its planned corporate reorganization into a Delaware corporation and currently anticipates to be in a position to move forward with the reorganization by the end of the fourth quarter of 2020.

COVID-19 Pandemic and Market Conditions

The uncertainty surrounding the severity and duration of the COVID-19 pandemic, as well as dramatic declines in crude oil prices due in part to the global spread of COVID-19, has caused volatility in the global financial markets including the oil and gas industry. The full impact of shut-in oil and gas wells, production curtailments and/or decreased investments in response to lower commodity prices and conservation of capital by the owners and operators of the oil and gas wells to which the Trust’s royalty interests relate, is unknown at this time. These events have negatively affected the Trust’s business and results of operations for the three and nine months ended September 30, 2020.

During these uncertain times, we have continued to generate positive operating results and remain focused on meeting the operational needs of our customers while maintaining a safe and healthy work environment for our employees. Our existing information technology infrastructure has afforded us the opportunity to allow our corporate employees to work remotely. We have deployed additional safety and sanitization measures, including quarantine facilities for our field employees, if needed.

In an effort to decrease ongoing operational costs, we have implemented certain cost reduction measures which include, but are not limited to, negotiated price reductions and discounts with certain vendors. We continue to monitor our customer base and outstanding accounts receivable balances as a means of minimizing any potential collection issues. As a royalty owner, we have no capital expenditure or operating expense burden for development of wells. Furthermore, our water operations currently have limited capital expenditure requirements, the amount and timing of which are entirely within our control.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020. The Trust continues to assess the provisions and potential impacts of this legislation; however, there have been no significant impacts to the Company’s results of operations or financial position resulting from the CARES Act in the three and nine months ended September 30, 2020.

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 September 30, 2020 and the results of its operations for the three and nine months ended September 30, 2020 and 2019, respectively, and its cash flows for the nine months ended September 30, 2020 and 2019, 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 consolidated 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, 2019, which was filed with the SEC on February 27, 2020. 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 statements of income for the three and nine months ended September 30, 2019 have been revised to conform to the current year presentation. These revisions include a reclass of \$0.2 million of land sales expenses for the nine months ended September 30, 2019 previously included in general and administrative expenses to a separate financial statement line item within operating expenses. Land sales expenses include cost basis and closing costs associated with land sales.

Recently Adopted Accounting Guidance

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*” The ASU amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The Trust adopted the guidance effective January 1, 2020. Due to the short-term nature of our trade accounts receivable, the adoption of this guidance had a minimal impact on our consolidated financial statements.

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 December 2019, the FASB issued ASU 2019-12, “*Income Taxes (Topic 740) — Simplifying the Accounting for Income Taxes.*” The ASU simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, hybrid taxes and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted in interim or annual periods with any adjustments reflected as of the

beginning of the annual period that includes that interim period. The Trust is currently evaluating the impact that this guidance 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 September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Property, plant and equipment:		
Water service-related assets ⁽¹⁾	\$ 97,256	\$ 93,097
Furniture, fixtures and equipment	6,095	5,941
Other	598	598
Property, plant and equipment at cost	103,949	99,636
Less: accumulated depreciation	(21,619)	(11,313)
Property, plant and equipment, net	<u>\$ 82,330</u>	<u>\$ 88,323</u>

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

Depreciation expense was \$3.5 million and \$2.6 million for the three months ended September 30, 2020 and 2019, respectively. Depreciation expense was \$10.3 million and \$5.2 million for the nine months ended September 30, 2020 and 2019, respectively.

5. Real Estate Activity

As of September 30, 2020 and December 31, 2019, the Trust owned the following land and real estate (in thousands, except number of acres):

	September 30, 2020		December 31, 2019	
	Number of Acres	Net Book Value	Number of Acres	Net Book Value
Land (surface rights)	823,485	\$ —	849,856	\$ —
Real estate acquired	57,850	109,733	51,931	107,075
Total real estate situated in 19 counties in Texas	<u>881,335</u>	<u>\$ 109,733</u>	<u>901,787</u>	<u>\$ 107,075</u>

No valuation allowance was necessary at September 30, 2020 and December 31, 2019.

Land Sales

For the nine months ended September 30, 2020, the Trust sold approximately 21,347 acres of land in Texas (Culberson, Hudspeth, Loving, Pecos and Reeves Counties) for an aggregate sales price of approximately \$14.5 million, an average of approximately \$676 per acre. Additionally, the Trust recognized land sales revenue of \$1.4 million for the nine months ended September 30, 2020 related to land exchanges where the Trust had no cost basis in the land conveyed.

For the nine months ended September 30, 2019, the Trust sold approximately 21,986 acres of land in Texas (Culberson, Glasscock, Hudspeth, Loving, Midland and Reeves Counties) for an aggregate sales price of approximately \$113.0 million, an average of approximately \$5,141 per acre.

Land Acquisitions

For the nine months ended September 30, 2020, the Trust acquired approximately 756 acres of land in Texas (Culberson and Reeves Counties) for an aggregate purchase price of approximately \$3.9 million, an average of approximately \$5,134 per acre (excludes land acquired through land exchanges discussed above).

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

6. Royalty Interests

As of September 30, 2020 and December 31, 2019, the Trust owned the following oil and gas royalty interests (in thousands, except number of interests):

	Net Book Value	
	September 30, 2020	December 31, 2019
1/16th nonparticipating perpetual royalty interests	\$ —	\$ —
1/128th nonparticipating perpetual royalty interests	—	—
Royalty interests acquired	<u>46,265</u>	<u>29,320</u>
Total royalty interests, gross	46,265	29,320
Less: accumulated depletion	<u>(582)</u>	<u>(260)</u>
Total royalty interests, net	<u>\$ 45,683</u>	<u>\$ 29,060</u>

No valuation allowance was necessary at September 30, 2020 and December 31, 2019.

For the nine months ended September 30, 2020, the Trust acquired oil and gas royalty interests in approximately 1,017 net royalty acres (normalized to 1/8th) for an aggregate purchase price of \$16.9 million, an average price of approximately \$16,668 per net royalty acre.

For the nine months ended September 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.

7. Income Taxes

For the nine months ended September 30, 2020 and 2019, income tax expense was \$3.1 million and \$63.6 million, respectively. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate is primarily related to statutory depletion allowed on mineral royalty income.

In response to the COVID-19 pandemic, many governments have enacted measures to provide aid and economic stimulus. These measures include deferring the due dates of tax payments or other changes to their income and non-income-based tax laws. The CARES Act includes measures to assist companies, including temporary changes to income and non-income-based tax laws. For the nine months ended September 30, 2020, there were no material tax impacts to our condensed consolidated financial statements as it relates to COVID-19 measures. We continue to monitor additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service and others.

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 16, 2020, we paid \$124.1 million in dividends representing a regular cash dividend of \$10.00 per Sub-share and a special dividend of \$6.00 per Sub-share for sub-shareholders of record at the close of business on March 9, 2020.

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.

Repurchases of Sub-shares

For the nine months ended September 30, 2020, there were no Sub-shares repurchased. During the nine months ended September 30, 2019, we purchased and retired 6,258 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 880,000 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. The revenue streams of this segment principally consist of revenue generated from sales of sourced and treated water as well as revenue from produced water royalties.

Segment financial results were as follows for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>Revenues:</i>				
Land and resource management	\$ 49,896	\$ 65,076	\$ 142,140	\$ 284,223
Water services and operations	24,487	33,454	86,110	92,941
Total consolidated revenues	<u>\$ 74,383</u>	<u>\$ 98,530</u>	<u>\$ 228,250</u>	<u>\$ 377,164</u>
<i>Net income:</i>				
Land and resource management	\$ 34,359	\$ 43,911	\$ 92,197	\$ 204,222
Water services and operations	11,916	16,111	39,061	45,384
Total consolidated net income	<u>\$ 46,275</u>	<u>\$ 60,022</u>	<u>\$ 131,258</u>	<u>\$ 249,606</u>
<i>Capital expenditures:</i>				
Land and resource management	\$ —	\$ 29	\$ 121	\$ 1,445
Water services and operations	353	4,949	4,205	26,134
Total capital expenditures	<u>\$ 353</u>	<u>\$ 4,978</u>	<u>\$ 4,326</u>	<u>\$ 27,579</u>
<i>Depreciation, depletion and amortization:</i>				
Land and resource management	\$ 505	\$ 257	\$ 1,192	\$ 695
Water services and operations	3,255	2,374	9,581	4,591
Total depreciation, depletion and amortization	<u>\$ 3,760</u>	<u>\$ 2,631</u>	<u>\$ 10,773</u>	<u>\$ 5,286</u>

The following table presents total assets and property, plant and equipment, net by segment as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
<i>Assets:</i>		
Land and resource management	\$ 490,026	\$ 467,758
Water services and operations	111,155	130,418
Total consolidated assets	<u>\$ 601,181</u>	<u>\$ 598,176</u>
<i>Property, plant and equipment, net:</i>		
Land and resource management	\$ 3,736	\$ 4,359
Water services and operations	78,594	83,964
Total consolidated property, plant and equipment, net	<u>\$ 82,330</u>	<u>\$ 88,323</u>

10. Oil and Gas Producing Activities

We measure the Trust's share of oil and gas produced in barrels of equivalency ("BOEs"). One BOE equals one barrel of crude oil, condensate, NGLs (natural gas liquids) or approximately 6,000 cubic feet of gas. As of September 30, 2020 and December 31, 2019, the Trust's share of oil and gas produced was approximately 15.7 and 13.7 thousand BOEs per day, respectively. Reserves related to the Trust's royalty interests are not presented because the information is unavailable.

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. The number of DUC wells is determined using uniform drilling spacing units with pooled interests for all wells awaiting completion. The Trust has identified 582 and 486 DUC wells subject to our royalty interest as of September 30, 2020 and December 31, 2019, respectively.

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 did not identify any subsequent events requiring disclosure.

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 severity and duration of the COVID-19 pandemic and related economic repercussions, the markets for real estate in the areas in which the Trust owns real estate, applicable zoning regulations, the markets for oil and gas including actions of other oil and gas producers or consortiums worldwide such as OPEC+, the proposed reorganization of the Trust into a corporation, expected competition, management’s intent, beliefs or current expectations with respect to the Trust’s future financial performance and other matters. All forward-looking statements in this Report are based on information available to us as of the date this Report is filed with the Securities and Exchange Commission (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, 2019, 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, 2019, (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 880,000 acres of land, comprised of a number of separate tracts, located in 19 counties in West Texas. Additionally, we own a 1/128th nonparticipating perpetual oil and gas royalty interest (“NPRI”) under approximately 85,000 acres of land and a 1/16th NPRI under approximately 371,000 acres of land in the western part of Texas, as well as approximately 4,000 additional net royalty acres (normalized to 1/8th). 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 surface and royalty ownership allow steady revenue generation through the entire value chain of oil and gas development. While we are not an oil and gas producer, we benefit from various revenue sources throughout the life cycle of a well. During the initial development phase where infrastructure for oil and gas development is constructed, we receive fixed fee payments for use of our land and revenue for sales of materials (caliche) used in the construction of the infrastructure. During the drilling and completion phase, we generate revenue for providing sourced water and/or treated produced water in addition to fixed fee payments for use of our land. During the production phase, we receive revenue from our oil and gas royalty interests and also revenues related to saltwater disposal on our land. In addition, we generate revenue from a variety of land uses including midstream infrastructure projects and processing facilities as hydrocarbons are processed and transported to market.

Our revenues are derived primarily from oil and gas 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 fluctuating 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 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. The majority of our easements have a thirty-plus year term but subsequently renew every ten years with an additional payment. Commercial lease revenue is derived primarily from saltwater disposal royalties, processing, storage and compression facilities and roads.

Texas Pacific Water Resources LLC (“TPWR”), a single member LLC and wholly owned subsidiary of the Trust, provides full-service water offerings to operators in the Permian Basin. These services include, but are not limited to, water sourcing, produced-water gathering/treatment, infrastructure development, disposal solutions, water tracking, analytics and well testing services. TPWR’s revenue streams principally consist of revenue generated from sales of sourced and treated water as well as revenues from produced water royalties.

During the nine months ended September 30, 2020, the Trust invested approximately \$4.2 million in TPWR projects to develop water sourcing and water re-use assets.

Corporate Reorganization

As previously announced on March 23, 2020, our Trustees approved a plan to reorganize the Trust from its current structure to a corporation formed under the laws of the State of Delaware. We continue to progress toward the conversion. On June 15, 2020, the Trust announced the new corporation will be named Texas Pacific Land Corporation (“TPL Corp”) and the prospective members of the Board of Directors of TPL Corp. Additionally, a draft registration statement on Form 10 has been submitted to the Securities and Exchange Commission (the “SEC”) for review, on a non-public basis. The Trust continues to make progress toward effecting its planned corporate reorganization into a Delaware corporation and currently anticipates to be in a position to move forward with the reorganization by the end of the fourth quarter of 2020.

COVID-19 Pandemic and Market Conditions Update

The uncertainty surrounding the severity and duration of the COVID-19 pandemic, as well as dramatic declines in crude oil prices due in part to the global spread of COVID-19, has caused volatility in the global financial markets including the oil and gas industry. The full impact of shut-in oil and gas wells, production curtailments and/or decreased investments in response to lower commodity prices and conservation of capital by the owners and operators of the oil and gas wells to which the Trust’s royalty interests relate, is unknown at this time. While uncertainty remains around COVID-19 mitigation measures and re-opening efforts, we believe demand is beginning to recover. These events have negatively affected our business and results of operations for the three and nine months ended September 30, 2020, and may continue to negatively affect the Trust’s business and results of operations in future periods.

During these uncertain times, we have continued to generate positive operating results and remain focused on meeting the operational needs of our customers while maintaining a safe and healthy work environment for our employees. Our existing information technology infrastructure has afforded us the opportunity to allow our corporate employees to work remotely. We have deployed additional safety and sanitization measures, including quarantine facilities for our field employees, if needed.

In an effort to decrease ongoing operational costs, we have implemented certain cost reduction measures which include, but are not limited to, negotiated price reductions and discounts with certain vendors. We continue to monitor our customer base and outstanding accounts receivable balances as a means of minimizing any potential collection issues. As a royalty owner, we have no capital expenditure or operating expense burden for development of wells. Furthermore, our water operations currently have limited capital expenditure requirements, the amount and timing of which are entirely within our control.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted on March 27, 2020. The Trust continues to assess the provisions and potential impacts of this legislation; however, there have been no significant impacts to the Company’s results of operations or financial position resulting from the CARES Act in the three and nine months ended September 30, 2020.

Despite the uncertainty caused by the COVID-19 pandemic and the record low oil prices have had on both the global and U.S. oil and gas industry as a whole, we believe our longevity in the industry and strong financial position provide us with

the tools necessary to navigate these unprecedented times. We have no debt, a strong cash position (cash and cash equivalents were \$315.8 million as of September 30, 2020) and we continue to maintain our capital resource allocation discipline.

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”).

Due to the continued economic impacts related to the COVID-19 pandemic and dramatic declines in crude oil prices during the second and third quarters of 2020, our results of operations for the three and nine months ended September 30, 2020 have been negatively impacted. Given the uncertainty surrounding the severity and duration of the COVID-19 pandemic, our results of operations may continue to be impacted in future periods.

For the three months ended September 30, 2020 as compared to the three months ended September 30, 2019

Revenues. Revenues decreased \$24.1 million, or 24.5%, to \$74.4 million for the three months ended September 30, 2020 compared to \$98.5 million for the three months ended September 30, 2019. Net income decreased \$13.7 million, or 22.9%, to \$46.3 million for the three months ended September 30, 2020 compared to \$60.0 million for the three months ended September 30, 2019.

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

	Three Months Ended September 30,			
	2020		2019	
<i>Revenues:</i>				
Land and resource management:				
Oil and gas royalties	\$ 31,758	43 %	\$ 38,259	39 %
Easements and other surface-related income	6,588	9 %	22,111	22 %
Land sales and other operating revenue	11,550	15 %	4,706	5 %
	<u>49,896</u>	<u>67 %</u>	<u>65,076</u>	<u>66 %</u>
Water services and operations:				
Water sales and royalties	12,139	16 %	21,654	22 %
Easements and other surface-related income	12,348	17 %	11,800	12 %
	<u>24,487</u>	<u>33 %</u>	<u>33,454</u>	<u>34 %</u>
<i>Total consolidated revenues</i>	<u>\$ 74,383</u>	<u>100 %</u>	<u>\$ 98,530</u>	<u>100 %</u>
<i>Net income:</i>				
Land and resource management	\$ 34,359	74 %	\$ 43,911	73 %
Water services and operations	11,916	26 %	16,111	27 %
<i>Total consolidated net income</i>	<u>\$ 46,275</u>	<u>100 %</u>	<u>\$ 60,022</u>	<u>100 %</u>

Land and Resource Management

Land and Resource Management segment revenues decreased \$15.2 million, or 23.3%, to \$49.9 million for the three months ended September 30, 2020 as compared with \$65.1 million for the comparable period of 2019. The decrease in Land and Resource Management segment revenues is principally due to decreases in oil and gas royalty revenue and easements and other surface-related income, partially offset by an increase in land sales and other operating revenue, which are discussed below.

Oil and gas royalties. Oil and gas royalty revenue was \$31.8 million for the three months ended September 30, 2020 compared to \$38.3 million for the three months ended September 30, 2019. Oil royalty revenue was \$24.1 million for the three months ended September 30, 2020, a decrease of 27.2% compared to the three months ended September 30, 2019 when oil royalty revenue was \$33.1 million. This decrease in oil royalty revenue is principally due to a 31.9% decrease in the average price per royalty barrel of crude oil received, partially offset by a 7.3% increase in crude oil production subject to the Trust's royalty interests during the three months ended September 30, 2020 compared to the same period in 2019. Gas royalty revenue was \$7.7 million for the three months ended September 30, 2020, an increase of 48.2% compared to the three months ended September 30, 2019 when gas royalty revenue was \$5.2 million. This increase in gas royalty revenue is principally due to a 61.0% increase in the average price received for gas production, partially offset by a 2.5% decrease in gas production subject to the Trust's royalty interests during the three months ended September 30, 2020 compared to the same period in 2019.

Easements and other surface-related income. Easements and other surface-related income was \$6.6 million for the three months ended September 30, 2020, a decrease of 70.2% compared to \$22.1 million for the three months ended September 30, 2019. 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 77.4% decrease in pipeline easement income to \$2.9 million for the three months ended September 30, 2020 from \$12.8 million for the three months ended September 30, 2019. The amount of income derived from pipeline easements is a function of the term of the easement, the size of the easement and the number of easements entered into for any given period. The demand for pipeline easements is determined by capital decisions made by companies that operate in the areas where we own land. As such, 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. Land sales were \$11.5 million and \$4.6 million for the three months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020, we sold approximately 20,820 acres of land for an aggregate sales price of approximately \$10.1 million, or approximately \$483 per acre. Additionally, the Trust recognized land sales revenue of \$1.4 million for the three months ended September 30, 2020 related to land exchanges where the Trust had no cost basis in the land conveyed. For the three months ended September 30, 2019, we sold approximately 77 acres of land for an aggregate sales price of approximately \$4.6 million, or approximately \$59,960 per acre.

Net income. Net income for the Land and Resource Management segment was \$34.4 million for the three months ended September 30, 2020 compared to \$43.9 million for the three months ended September 30, 2019. Expenses, including income tax expense, for the Land and Resource Management segment were \$15.5 million and \$21.2 million for the three months ended September 30, 2020 and 2019, respectively. The decrease in expenses was principally related to decreases in legal and professional fees. Expenses are discussed further below under "Other Financial Data — Consolidated."

Water Services and Operations

Water Services and Operations segment revenues decreased 26.8% to \$24.5 million for the three months ended September 30, 2020 as compared with \$33.5 million for the comparable period of 2019. The decrease in Water Services and Operations segment revenues is due to a decrease in water sales and royalty revenue, partially offset by an increase in easements and other surface-related income, which are discussed below.

Water sales and royalties. Water sales and royalty revenue was \$12.1 million for the three months ended September 30, 2020, a decrease of \$9.5 million or 43.9%, compared with the three months ended September 30, 2019 when water sales and royalty revenue was \$21.7 million. This decrease was principally due to a 27.6% decrease in the number of barrels of sourced and treated water sold and a \$0.8 million decrease in water royalties for the three months ended September 30, 2020 compared to the same period in 2019.

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 September 30, 2020, the combined income from these revenue streams was \$12.3 million, an increase of 4.6%, as compared to \$11.8 million for the three months ended September 30, 2019. The increase in easements and other surface-related income was principally related to an increase in produced water royalties for the three months ended September 30, 2020 compared to the same period of 2019.

Net income. Net income for the Water Services and Operations segment was \$11.9 million for the three months ended September 30, 2020 compared to \$16.1 million for the three months ended September 30, 2019. As discussed above, revenues

for the Water Services and Operations segment decreased 26.8% for the three months ended September 30, 2020 compared to the same period of 2019. Expenses, including income tax expense, for the Water Services and Operations segment were \$12.6 million for the three months ended September 30, 2020 as compared to \$17.4 million for the three months ended September 30, 2019. The decrease in expenses during 2020 is principally related to decreased water service-related expenses, primarily fuel, equipment rental and repairs and maintenance. Expenses are 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 September 30, 2020 compared to \$8.5 million for the comparable period of 2019. The decrease in salaries and related employee expenses during 2020 as compared to the same period of 2019 is principally due to decreased usage of contract labor.

Water service-related expenses. Water service-related expenses were \$2.3 million for the three months ended September 30, 2020 compared to \$5.1 million for the comparable period of 2019. The decrease in expenses during 2020 is principally related to decreased fuel, equipment rental and repairs and maintenance related to the 27.6% decrease in the number of barrels of sourced and treated water sold as previously discussed and cost saving measures implemented during 2020.

General and administrative expenses. General and administrative expenses decreased \$1.0 million to \$1.9 million for the three months ended September 30, 2020 from \$2.9 million for the same period of 2019. The decrease in general and administrative expenses is primarily related to a decrease associated with independent contractor service providers and travel expenses during the three months ended September 30, 2020 compared to the same period of 2019.

Legal and professional expenses. Legal and professional fees were \$2.0 million for the three months ended September 30, 2020 compared to \$5.6 million for the comparable period of 2019. Legal and professional fees for the three months ended September 30, 2020 principally related to our anticipated corporate reorganization. See further information regarding the anticipated corporate reorganization in [Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Corporate Reorganization”](#). Legal and professional fees for the three months ended September 30, 2019 principally related to the proxy contest to elect a new Trustee, the entry into and payments made under the settlement agreement dated July 30, 2019 and the conversion exploration committee.

Depreciation, depletion and amortization. Depreciation, depletion and amortization was \$3.8 million for the three months ended September 30, 2020 compared to \$2.6 million for the three months ended September 30, 2019. The increase in depreciation, depletion and amortization is principally related to the Trust’s investment in water service-related assets placed in service in 2020 and 2019.

Other income, net. Other income, net was \$1.3 million and \$0.9 million for the three months ended September 30, 2020 and 2019, respectively. Other income, net for the three months ended September 30, 2020, includes a \$1.2 million accrued insurance reimbursement related to legal fees incurred in 2019 associated with the proxy contest.

For the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019

Revenues. Revenues decreased \$148.9 million, or 39.5%, to \$228.3 million for the nine months ended September 30, 2020 compared to \$377.2 million for the nine months ended September 30, 2019. Net income decreased \$118.3 million, or 47.4%, to \$131.3 million for the nine months ended September 30, 2020 compared to \$249.6 million for the nine months ended September 30, 2019. Revenues and net income for the nine months ended September 30, 2019 included a \$100 million land sale. Excluding the impact of the 2019 land sale, revenues and net income (net of income tax) for the nine months ended September 30, 2019 were \$277.2 million and \$170.6 million, respectively.

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

	Nine Months Ended September 30,			
	2020		2019	
Revenues:				
Land and resource management:				
Oil and gas royalties	\$ 94,631	41 %	\$ 111,113	29 %
Easements and other surface-related income	31,385	14 %	59,761	16 %
Land sales and other operating revenue	16,124	7 %	113,349	30 %
	<u>142,140</u>	<u>62 %</u>	<u>284,223</u>	<u>75 %</u>
Water services and operations:				
Water sales and royalties	47,525	21 %	65,067	17 %
Easements and other surface-related income	38,585	17 %	27,874	8 %
	<u>86,110</u>	<u>38 %</u>	<u>92,941</u>	<u>25 %</u>
Total consolidated revenues	<u>\$ 228,250</u>	<u>100 %</u>	<u>\$ 377,164</u>	<u>100 %</u>
Net income:				
Land and resource management	\$ 92,197	70 %	\$ 204,222	82 %
Water services and operations	39,061	30 %	45,384	18 %
Total consolidated net income	<u>\$ 131,258</u>	<u>100 %</u>	<u>\$ 249,606</u>	<u>100 %</u>

Land and Resource Management

Land and Resource Management segment revenues decreased \$142.1 million, or 50.0%, to \$142.1 million for the nine months ended September 30, 2020 as compared with \$284.2 million for the comparable period of 2019. Segment revenues for the nine months ended September 30, 2019 include a \$100 million land sale. Excluding the \$100 million land sale, segment revenues for the nine months ended September 30, 2019 were \$184.2 million. The decrease in Land and Resource Management segment revenues is due to decreases in oil and gas royalty revenue, easements and other surface-related income and land sales and other operating revenue, which are discussed below.

Oil and gas royalties. Oil and gas royalty revenue was \$94.6 million for the nine months ended September 30, 2020 compared to \$111.1 million for the nine months ended September 30, 2019. Oil royalty revenue was \$76.8 million for the nine months ended September 30, 2020, a decrease of 17.1% compared to the nine months ended September 30, 2019 when oil royalty revenue was \$92.6 million. This decrease in oil royalty revenue is principally due to a 23.8% decrease in the average price per royalty barrel of crude oil received, partially offset by a 9.3% increase in crude oil production subject to the Trust's royalty interests during the nine months ended September 30, 2020 compared to the same period in 2019. Gas royalty revenue was \$17.8 million for the nine months ended September 30, 2020, a decrease of 3.6% compared to the nine months ended September 30, 2019 when gas royalty revenue was \$18.5 million. The decrease in gas royalty revenue was principally due to a 9.0% decrease in the average price received for gas production, partially offset by a 16.4% increase in gas production subject to the Trust's royalty interests during the nine months ended September 30, 2020 compared to the same period of 2019.

Easements and other surface-related income. Easements and other surface-related income was \$31.4 million for the nine months ended September 30, 2020, a decrease of 47.5% compared to \$59.8 million for the nine months ended September 30, 2019. 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 61.0% decrease in pipeline easement income to \$15.3 million for the nine months ended September 30, 2020 from \$39.2 million for the nine months ended September 30, 2019. The amount of income derived from pipeline easements is a function of the term of the easement, the size of the easement and the number of easements entered into for any given period. The demand for pipeline easements is determined by capital decisions made by companies that operate in the areas where we own land. As such, 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. Land sales were \$15.9 million and \$113.0 million for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020, we sold approximately 21,347 acres of land for an aggregate sales price of approximately \$14.5 million, or approximately \$676 per acre. Additionally, the Trust recognized land sales revenue of \$1.4 million for the nine months ended September 30, 2020 related to land exchanges where the Trust had no cost basis in the land conveyed. For the nine months ended September 30, 2019, we sold approximately 21,986 acres of land for an aggregate sales price of approximately \$113.0 million, or approximately \$5,141 per acre.

Net income. Net income for the Land and Resource Management segment was \$92.2 million for the nine months ended September 30, 2020 compared to \$204.2 million for the nine months ended September 30, 2019. As discussed above, 2019 revenues for the Land and Resource Management segment included a \$100 million land sale. Excluding the impact of the 2019 land sale (net of income tax), net income for the first nine months ended September 30, 2019 was \$125.2 million. Expenses, including income tax expense, for the Land and Resource Management segment were \$49.9 million and \$80.0 million, respectively. The decrease in expenses during 2020 is principally related to the approximately \$21.0 million in income tax expense associated with the \$100 million land sale that occurred during the nine months ended September 30, 2019 and no comparable sale of assets having occurred during the same period of 2020. Expenses are discussed further below under “Other Financial Data — Consolidated.”

Water Services and Operations

Water Services and Operations segment revenues decreased 7.3% to \$86.1 million for the nine months ended September 30, 2020 as compared with \$92.9 million for the comparable period of 2019. The decrease in Water Services and Operations segment revenues is due to a decrease in water sales and royalty revenue, partially offset by an increase in easements and other surface-related income, which are discussed below.

Water sales and royalties. Water sales and royalty revenue was \$47.5 million for the nine months ended September 30, 2020, a decrease of \$17.5 million or 27.0%, compared with the nine months ended September 30, 2019 when water sales and royalty revenue was \$65.1 million. This decrease was principally due to a 10.5% decrease in the number of barrels of sourced and treated water sold and a \$5.8 million decrease in water royalties for the nine months ended September 30, 2020 compared to the same period in 2019.

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 nine months ended September 30, 2020, the combined income from these revenue streams was \$38.6 million, an increase of 38.4%, as compared to \$27.9 million for the nine months ended September 30, 2019. The increase in easements and other surface-related income was principally related to an increase in produced water royalties for the nine months ended September 30, 2020 compared to the same period of 2019.

Net income. Net income for the Water Services and Operations segment was \$39.1 million for the nine months ended September 30, 2020 compared to \$45.4 million for the nine months ended September 30, 2019. As discussed above, revenues for the Water Services and Operations segment decreased 7.3% for the nine months ended September 30, 2020 compared to the same period of 2019. Expenses, including income tax expense, for the Water Services and Operations segment were \$47.0 million for the nine months ended September 30, 2020 as compared to \$47.5 million for the nine months ended September 30, 2019. Expenses are discussed further below under “Other Financial Data — Consolidated.”

Other Financial Data — Consolidated

Salaries and related employee expenses. Salaries and related employee expenses were \$27.2 million for the nine months ended September 30, 2020 compared to \$22.7 million for the comparable period of 2019. The increase in salaries and related employee expenses is principally related to the increase in the number of employees from 89 employees as of September 30, 2019 to 102 as of September 30, 2020.

Water service-related expenses. Water service-related expenses were \$11.2 million for the nine months ended September 30, 2020 compared to \$15.4 million for the comparable period of 2019. This decrease in expenses was principally the result of a decrease in fuel and equipment rental to source and transfer water as previously discussed and cost saving measures implemented during 2020.

Legal and professional expenses. Legal and professional fees were \$7.0 million for the nine months ended September 30, 2020 compared to \$15.2 million for the comparable period of 2019. Legal and professional fees for the nine months ended September 30, 2020 principally related to our anticipated corporate reorganization. See further information regarding the anticipated corporate reorganization in [Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Corporate Reorganization”](#). Legal and professional fees for the nine months ended September 30, 2019 principally related to the proxy contest to elect a new Trustee, the entry into and payments made under the settlement agreement dated July 30, 2019 and the conversion exploration committee.

Land sales expenses. Land sales expenses were \$2.8 million for the nine months ended September 30, 2020 compared to \$0.2 million for the comparable period of 2019. Land sales expenses represent expenses related to land sales and include cost basis and closing costs associated with land sales. Land sales expenses for the nine months ended September 30, 2020 include \$2.7 million of cost basis.

Depreciation, depletion and amortization. Depreciation, depletion and amortization was \$10.8 million for the nine months ended September 30, 2020 compared to \$5.3 million for the nine months ended September 30, 2019. The increase in depreciation, depletion and amortization is principally related to the Trust’s investment in water service-related assets placed in service in 2020 and 2019 and to a lesser extent, additional depreciation expense related to the change in estimated useful lives of certain water service-related assets during the third quarter of 2019.

Other income, net. Other income, net was \$2.3 million and \$1.8 million for the nine months ended September 30, 2020 and 2019, respectively. Other income, net for the nine months ended September 30, 2020, includes a \$1.2 million accrued insurance reimbursement related to legal fees incurred in 2019 associated with the proxy contest.

Cash Flow Analysis

For the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019

Cash flows provided by operating activities for the nine months ended September 30, 2020 and 2019 were \$161.4 million and \$284.2 million, respectively. Cash flows provided by operating activities for the nine months ended September 30, 2019 included proceeds from a \$100 million land sale consummated in January 2019. The decrease in cash flows provided by operating activities was primarily related to decreased proceeds from land sales, oil and gas royalties, easements and other surface-related payments received and water sales and royalties collected during the nine months ended September 30, 2020.

Cash flows used in investing activities were \$25.2 million compared to \$106.9 million for the nine months ended September 30, 2020 and 2019, respectively. Acquisitions of land and purchases of fixed assets decreased a combined \$93.7 million for the nine months ended September 30, 2020 compared to the same period of 2019. This decrease was partially offset by the \$11.9 million increase in the acquisition of royalty interests compared to the same periods.

Cash flows used in financing activities were \$124.1 million compared to \$50.9 million for the nine months ended September 30, 2020 and 2019, respectively. During the nine months ended September 30, 2020, the Trust paid total dividends of \$124.1 million consisting of a regular cash dividend of \$10.00 per Sub-share Certificate (“Sub-share”) and a special dividend of \$6.00 per Sub-share to each sub-shareholder of record at the close of business on March 9, 2020. During the nine months ended September 30, 2019, the Trust paid total dividends of \$46.5 million consisting of a regular cash dividend of \$1.75 per 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.

Liquidity and Capital Resources

We continuously review our liquidity and capital resources. The Trust’s principal sources of liquidity are its revenues from oil and gas 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. If market conditions were to change, for instance due to the uncertainty created by the COVID-19 pandemic and/or the significant decline in oil prices, and our revenue was reduced significantly or operating costs were to increase significantly, our cash flows and liquidity could be reduced. Should this occur, we could seek alternative sources of funding, including potential future borrowing under a credit facility or other financing options.

As of September 30, 2020, we had cash and cash equivalents of \$315.8 million that we expect to utilize, along with cash flow from operations, to provide capital to support the operation of our business, particularly TPWR, to potentially repurchase additional Sub-shares subject to market conditions, and for general corporate purposes. We currently 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 2019 Annual Report on Form 10-K filed with the SEC on February 27, 2020. Our most critical accounting policies and estimates include our accrual of oil and gas royalties. 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 2019 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, 2019.

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.

Item 1A. Risk Factors

The following risk factors supplement the risk factors contained in Part I, Item 1A. “Risk Factors” set forth in the Trust’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 27, 2020.

Our oil and gas royalty revenue is dependent upon the market prices of oil and gas, which fluctuate.

The oil and gas royalties that we receive are dependent upon the market prices for oil and gas. When lower market prices for oil and gas occur, they will have an adverse effect on our oil and gas royalty revenues. In 2020, our oil and gas royalties were impacted by lower oil and gas prices and may continue to be affected in future periods. The market prices for oil and gas are subject to national and international economic and political conditions and, in the past, have been subject to significant price fluctuations. Price fluctuations for oil and gas have been particularly volatile in recent years and prices have recently experienced a severe decrease due to increased supply by member nations of the Organization of the Petroleum Exporting Countries (“OPEC”) and general economic downturn. At the same time, COVID-19 has spread to many nations of the world and has resulted in the implementation of numerous actions taken by governments and governmental agencies in an attempt to mitigate the spread of the virus. These measures have resulted in a significant reduction in global economic activity and extreme volatility in the global financial markets. The reduction of economic activity has significantly reduced the global demand for oil and gas. The scale and duration of the impact of these factors remain unknowable but could lead to an increase in our operating costs and/or a decrease in our revenues and have a material impact on our business segments and earnings, cash flow and financial condition.

Demand for TPWR’s products and services is substantially dependent on the levels of expenditures by our customers. The recent oil and gas industry downturn has (and current market conditions have) resulted in reduced demand for oilfield services and lower expenditures by our customers, which has adversely impacted our earnings, cash flow and financial condition and may continue to do so in the future.

Demand for TPWR’s products and services depends substantially on expenditures by our customers for the exploration, development and production of oil and natural gas reserves. These expenditures are generally dependent on our customers’ views of future oil and natural gas prices and are sensitive to our customers’ views of future economic growth and the resulting impact on demand for oil and natural gas.

Declines, as well as anticipated declines, in oil and gas prices have in the past resulted in, and may in the future result in, lower capital expenditures, project modifications, delays or cancellations, general business disruptions, and delays in payment of, or nonpayment of, amounts that are owed to us, which would adversely affect our earnings, cash flow and financial condition.

In 2020, the results of operations for the Water Services and Operations segment have been impacted by reduced demand and declines in expenditures by our customers and may continue to be impacted in future periods.

Global health threats may adversely affect our business.

Our business has been adversely affected by the effects of the recent outbreak of COVID-19. A significant outbreak of contagious diseases in the human population and resulting widespread health crisis has adversely affected the economies and financial markets of many countries, resulting in an economic downturn, reduced demand for oil and gas and interruption to supply chains related to oil and gas. The reduction of economic activity and reduced global demand for oil and gas related to COVID-19 and actions taken by governments to mitigate the spread of the virus could lead to an increase in our operating costs and may continue to have a material impact on our business segments and earnings, cash flow and financial condition.

We may not be able to complete our proposed corporate reorganization or achieve some or all of the expected benefits of the corporate reorganization, and the corporate reorganization may adversely affect our business.

Although our Trustees approved a plan for reorganizing the Trust from its current structure to a corporation formed under the laws of the State of Delaware, there can be no assurance that we will be able to complete the corporate reorganization when expected or at all. The Trust continues to make progress toward effecting its planned corporate reorganization into a Delaware corporation and currently anticipates to be in a position to move forward with the reorganization by the end of the fourth quarter of 2020. Unforeseen impacts of COVID-19 or other developments could extend this timeframe despite the Trust's efforts. Additionally, we may not be able to achieve the full strategic and financial benefits expected to result from the corporate reorganization, or such benefits may be delayed or not occur at all.

We may not achieve the anticipated benefits for a variety of reasons, including, among others: (a) the corporate reorganization will require significant amounts of management's time and effort, which may divert management's attention from operating and growing our business; (b) certain other benefits of the current trust structure could be lost as the result of a corporate reorganization; and (c) following the corporate reorganization, the reorganized corporation's stock price may be susceptible to market fluctuations and other events. If some or all of the benefits expected to result from the corporate reorganization are not achieved, or if such benefits are delayed or investors do not value changes to corporate governance and business resulting from the corporate reorganization, the business, financial condition and results of operations of the reorganized corporation could be adversely affected.

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

The Trust did not repurchase any Sub-shares during the three months ended September 30, 2020.

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 September 30, 2020 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 September 30, 2020, 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: November 5, 2020

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

Date: November 5, 2020

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 September 30, 2020 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: November 5, 2020

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 September 30, 2020 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: November 5, 2020

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 September 30, 2020 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: November 5, 2020

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 September 30, 2020 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: November 5, 2020

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