

Risk Factors Comparison 2025-02-27 to 2024-02-29 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Crude oil and natural gas prices are volatile and fluctuate in response to a number of factors; Lower prices could reduce the net proceeds payable to the Trust and Trust distributions. The Trust's monthly distributions are highly dependent upon the prices realized from the sale of crude oil and natural gas and a material decrease in such prices could reduce the amount of cash distributions paid to Unit holders. Crude oil and natural gas prices can fluctuate widely on a month- to- month basis in response to a variety of factors that are beyond the control of the Trust. Factors that contribute to price fluctuation include, among others: • ~~political conditions in major oil producing regions, especially in Eastern Europe and the Middle East, including the conflicts between Russia and Ukraine and Israel and Hamas;~~ • worldwide economic and geopolitical conditions; • ~~weather conditions;~~ • trade barriers and tariffs; • public health concerns, such as COVID- 19; • the supply and price of domestic and foreign crude oil or natural gas; • the level of consumer demand; • the price and availability of and purchaser or consumer preference for alternative fuels; • the proximity to, and capacity of, transportation facilities; • the effect of worldwide energy conservation measures and governmental policies and regulatory incentives for investment in non- fossil fuel energy sources; and • the nature and extent of governmental regulation and taxation. When crude oil and natural gas prices decline, the Trust is affected in two ways. First, distributable income from the Royalty Properties is reduced. Second, exploration and development activity by operators on the Royalty Properties may decline as some projects may become uneconomic and are either delayed or eliminated. It is impossible to predict future crude oil and natural gas price movements, and this reduces the predictability of future cash distributions to Unit holders. Trust reserve estimates depend on many assumptions that may prove to be inaccurate, which could cause both estimated reserves and estimated future net revenues to be too high, leading to write- downs of estimated reserves. The value of the Units will depend upon, among other things, the reserves attributable to the Royalty Properties. The calculations of proved reserves and estimating reserves is inherently uncertain. In addition, the estimates of future net revenues are based upon various assumptions regarding future production levels, prices and costs that may prove to be incorrect over time. The accuracy of any reserve estimate is a function of the quality of available data, engineering interpretation and judgment, and the assumptions used regarding the quantities of recoverable crude oil and natural gas and the future prices of crude oil and natural gas. Petroleum engineers consider many factors and make many assumptions in estimating reserves. Those factors and assumptions include: • historical production from the area compared with production rates from similar producing areas; • the effects of governmental regulation; • assumptions about future commodity prices, production and taxes; • the availability of enhanced recovery techniques; and • relationships with landowners, working interest partners, pipeline companies and others. Changes in any of these factors and assumptions can materially change reserve and future net revenue estimates. The Trust's estimate of reserves and future net revenues is further complicated because the Trust holds an interest in net royalties and overriding royalties and does not own a specific percentage of the crude oil or natural gas reserves. Ultimately, actual production, revenues and expenditures for the Royalty Properties, and therefore actual net proceeds payable to the Trust, will vary from estimates and those variations could be material. Results of drilling, testing and production after the date of those estimates may require substantial downward revisions or write- downs of reserves. The assets of the Trust are depleting assets and, if the operators developing the Royalty Properties do not perform additional development projects, the assets may deplete faster than expected. Eventually, the assets of the Trust will cease to produce in commercial quantities and the Trust will cease to receive proceeds from such assets. In addition, a reduction in depletion tax benefits may reduce the market value of the Units. The net proceeds payable to the Trust are derived from the sale of depleting assets. The reduction in proved reserve quantities is a common measure of depletion. Projects, which are determined solely by the operator, on the ~~18~~ Royalty Properties will affect the quantity of proved reserves and can offset the reduction in proved reserves. If the operators developing the Royalty Properties do not implement additional maintenance and development projects, the future rate of production decline of proved reserves may be higher than the rate currently expected by the Trust. Because the net proceeds payable to the Trust are derived from the sale of depleting assets, the portion of distributions to Unit holders attributable to depletion may be considered a return of capital as opposed to a return on investment. Distributions that are a return of capital will ultimately diminish the depletion tax benefits available to the Unit holders, which could reduce the market value of the Units over time. Eventually, the Royalty Properties will cease to produce in commercial quantities and the Trust will, therefore, cease to receive any distributions of net proceeds therefrom. The market price for the Units may not reflect the value of the royalty interests held by the Trust. The public trading price for the Units tends to be tied to the recent and expected levels of cash distribution on the Units. The amounts available for distribution by the Trust vary in response to numerous factors outside the control of the Trust, including prevailing prices for crude oil and natural gas produced from the Royalty Properties. The market price is not necessarily indicative of the value that the Trust would realize if it sold those Royalty Properties to a third party buyer. In addition, such market price is not necessarily reflective of the fact that since the assets of the Trust are depleting assets, a portion of each cash distribution paid on the Units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. There is no guarantee that distributions made to a Unit holder over the life of these depleting assets will equal or exceed the purchase price paid by the Unit holder. Terrorism, continued hostilities in Eastern Europe and the Middle East or other military campaigns could decrease Trust distributions or the market price of the Units. Terrorist attacks and the threat of terrorist attacks, whether domestic or foreign, as well as the military or other actions taken in response, cause instability in the global financial and energy markets. Terrorism, continued hostilities in Eastern Europe and the Middle East, or other sustained military campaigns could adversely affect Trust distributions or the market price of the Units in unpredictable ways,

including through the disruption of fuel supplies and markets, increased volatility in crude oil and natural gas prices, or the possibility that the infrastructure on which the operators developing the Royalty Properties rely could be a direct target or an indirect casualty of an act of terror. Government action, policies or regulations designed to discourage production of, reduce demand for, or promote alternatives to oil and natural gas could impact the price of oil and natural gas produced on the Royalty Properties, directly as intended or through unintended consequences. Governments around the world are considering actions intended to reduce GHG emissions by decreasing both the supply of and the demand for oil and natural gas products or by promoting alternatives. These include the adoption of cap and trade regimes, carbon taxes, trade tariffs, minimum renewable usage requirements, restrictive permitting, increased mileage and other efficiency standards, mandates for sales of electric vehicles, mandates for use of specific fuels or technologies, and other incentives or mandates designed to support transitioning to lower- emission energy sources. Political and other actors and their agents also increasingly seek to advance climate change objectives indirectly, such as by seeking to reduce the availability or increase the cost of financing and investment in the oil and gas sector. Depending on how policies are formulated and applied, such policies could impact the ability and costs of the operators of the Royalty Properties to supply products, demand for their products, or the competitiveness of hydrocarbon- based products, which in turn, could reduce royalty income to the Trust. Any policy that increases the costs for operators of the Royalty Properties or decreases market prices could have a material impact on the distributable income of the Trust. The Trustee may be subject to attempted cybersecurity disruptions from a variety of sources including state- sponsored actors. The Trustee maintains robust cybersecurity protocols including, but not limited to technological capabilities that prevent and detect disruptions; computer workstations and programs protected with passwords and passphrases, as well as employee training throughout the year on financial regulations and cybersecurity followed up by testing of that knowledge. Other, non- technical protocols include securing of documents and work areas that could contain personal, non- public information and independent verification of information changes by outside vendors. If the measures taken to protect against cybersecurity disruptions prove to be insufficient or if proprietary data is otherwise not protected, the Trustee or customers, employees, or third parties could be adversely affected. The Trust is also exposed to potential harm from cybersecurity events that may affect the operations of third- parties, including suppliers, service providers (including providers of cloud- hosting services for our data or applications), and customers. Cybersecurity disruptions could cause physical harm to people or the environment; damage or destroy assets; compromise business systems; result in proprietary information being altered, lost, or stolen; result in employee, customer, or third- party information being compromised; or otherwise disrupt business operations. The Trust could incur significant costs to remedy the effects of a major cybersecurity disruption in addition to costs in connection with resulting regulatory actions, litigation, or reputational harm. Future royalty income may be subject to risks related to the creditworthiness of third parties. The Trust' s future royalty income may be subject to risks relating to the creditworthiness of the operators of the underlying properties and other purchasers of the crude oil and natural gas produced from the underlying properties, as well as risks associated with fluctuations in the price of crude oil and natural gas. Unit holders and the Trustee have no influence over the operations on, or future development of, the Royalty Properties. Neither the Trustee nor the Unit holders can influence or control the operations on, or future development of, the Royalty Properties. The failure of an operator to conduct its operations, discharge its obligations, deal with regulatory agencies or comply with laws, rules and regulations, including environmental laws and regulations, in a proper manner could have an adverse effect on the net proceeds payable to the Trust. The current operators developing the Royalty Properties are under no obligation to continue operations on the Royalty Properties. Neither the Trustee nor the Unit holders have the right to replace an operator. The operator developing any Royalty Property may abandon the property, thereby terminating the royalties payable to the Trust. The operators developing the Royalty Properties, or any transferee thereof, may abandon any well or property without the consent of the Trust or the Unit holders if they reasonably believe that the well or property can no longer produce in commercially economic quantities. This could result in the termination of the royalties relating to the abandoned well or property. The Royalty Properties can be sold and the Trust would be terminated. The Trustee must sell the Royalty Properties if Unit holders approve the sale or vote to terminate the Trust as described under “ Item 1 — Description of the Trust — Voting Rights of Unit Holders ” above. The Trustee must also sell the Royalty Properties if they fail to generate net revenue for the Trust of at least \$ 2, 000, 000 per year over any consecutive two- year period. Sale of all of the Royalty Properties will terminate the Trust. The net proceeds of any sale will be distributed to the Unit holders. The sale of the remaining Royalty Properties and the termination of the Trust will be taxable events to the Trust Unit holders. Generally, a Trust Unit holder will realize gain or loss equal to the difference between the amount realized on the sale and termination of the Trust and his adjusted basis in such Units. Gain or loss realized by a Trust Unit holder who is not a dealer with respect to such Units and who has a holding period for the Units of more than one year will be treated as long- term capital gain or loss except to the extent of any depletion recapture amount, which must be treated as ordinary income. Other federal and state tax issues concerning the Trust are discussed under Item 1 and Notes 2 and 9 to the Trust' s financial statements, which are included herein. Each Trust Unit holder should consult his own tax advisor regarding Trust tax compliance matters, including federal and state tax implications concerning the sale of the Royalty Properties and the termination of the Trust. 20-Unit holders have limited voting rights and have limited ability to enforce the Trust' s rights against the current or future operators developing the Royalty Properties. The voting rights of a Unit holder are more limited than those of stockholders of most public corporations. For example, there is no requirement for annual meetings of Unit holders or for an annual or other periodic re- election of the Trustee. The Trust Agreement and related trust law permit the Trustee and the Trust to take appropriate action against the operators developing the Royalty Properties to compel them to fulfill the terms of the conveyance of the Royalty Properties. If the Trustee does not take appropriate action to enforce provisions of the conveyance, the recourse of the Unit holders would likely be limited to bringing a lawsuit against the Trustee to compel the Trustee to take specified actions. Unit holders probably would not be able to sue any of the operators developing the Royalty Properties. Financial information of the Trust is not prepared in accordance with GAAP. The financial statements of the Trust are prepared

on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, or GAAP. Although this basis of accounting is permitted for royalty trusts by the **SEC U. S. Securities and Exchange Commission**, the financial statements of the Trust differ from GAAP financial statements because revenues are not accrued in the month of production and cash reserves may be established for specified contingencies and deducted which could not be **accrued recorded** in GAAP financial statements. The limited liability of the Unit holders is uncertain. The Unit holders are not protected from the liabilities of the Trust to the same extent that a shareholder would be protected from a corporation's liabilities. The structure of the Trust does not include the interposition of a limited liability entity such as a corporation or limited partnership which would provide further limited liability protection to Unit holders. While the Trustee is liable for any excess liabilities incurred if the Trustee fails to insure that such liabilities are to be satisfied only out of Trust assets, under the laws of Texas, which are unsettled on this point, a holder of Units may be jointly and severally liable for any liability of the Trust if the satisfaction of such liability was not contractually limited to the assets of the Trust and the assets of the Trust and the Trustee are not adequate to satisfy such liability. As a result, Unit holders may be exposed to personal liability. **17** The tax treatment of an investment in Trust Units could be affected by recent and potential legislative changes, possibly on a retroactive basis. U. S. federal tax reform legislation informally known as the Tax Cuts and Jobs Act (the "TCJA") was enacted December 22, 2017, and makes significant changes to the federal income tax rules applicable to both individuals and entities, including changes to the effective tax rate on a Trust Unit holder's allocable share of certain income from the Trust. The TCJA is complex, thus, Trust Unit holders should consult their tax advisor regarding the TCJA and its effect on an investment in Trust Units. In addition, President Biden's administration has generally proposed repealing fossil fuel tax subsidies, which could impact certain tax benefits available to Trust Unit holders. Any modification to the U. S. federal income tax laws or interpretations thereof (including administrative guidance relating to the TCJA) may be applied retroactively and could adversely affect our business, financial condition or results of operations. The Trust is unable to predict whether any changes or other proposals will ultimately be enacted, or whether any adverse interpretations will be used. Any such changes or interpretations could negatively impact the value of an investment in the Trust Units. 21