



**2010**

**3<sup>rd</sup>**  
**Quarter Report**

**SA\BINE ROYALTY TRUST**

# To Unit holders:

**S**abine Royalty Trust (the "Trust") makes monthly distributions to the holders of units of beneficial interest in the Trust ("Units") of the excess of the preceding month's revenues received over expenses incurred. Upon receipt, royalty income is invested in short-term investments until its subsequent distribution. In accordance with the Trust Agreement, the Trust's only long-term assets consist of royalty interests in producing and proved undeveloped oil and gas properties. Although the Trust is permitted to borrow funds if necessary to continue its operations, borrowings are not anticipated in the foreseeable future.

Distributable income consists of royalty income plus interest income plus any decrease in cash reserves established by the Trustee less general and administrative expenses of the Trust less any increase in cash reserves established by the Trustee. Distributable income for the three months ended September 30, 2010 was \$13,681,026, or \$0.94 per unit. Royalty income for the three months ended September 30, 2010 amounted to \$14,113,712 while interest income was \$1,366. General and administrative expenses totaled \$434,052 for the three months ended September 30, 2010.

Distributions during the period were \$.36179, \$.33031, and \$.28379 per Unit payable to Unit holders of record on July 15, August 16, and September 15, 2010, respectively.

Royalty income for the quarter ended September 30, 2010 increased approximately \$3,874,000 or 38% compared with the third quarter of 2009. This increase was caused by increases in the production of both oil and natural gas as well as increases in the price of both oil and natural gas. Compared to the preceding quarter ended June 30, 2010, royalty income increased approximately \$83,000 or 1%, due to an increase in the production of oil. This increase was tempered somewhat by decreases in the production of natural gas as well as decreases in the price of both oil and natural gas. Royalty income for the nine months ended September 30, 2010 increased \$10,766,000 or 34% compared with the same time period in 2009. This increase was due mainly to an increase in natural gas production as well as increases in the price of both oil and natural gas. The increases were offset somewhat by a decrease in the production of oil.

The following tables illustrate average prices received for the periods discussed above and the related oil and gas production volumes:

	Quarter Ended		
	September 30, 2010	September 30, 2009	June 30, 2010
Production			
Oil (Bbls)	118,173	103,963	96,717
Gas (Mcfs)	1,510,858	1,350,137	1,634,717
Average Price			
Oil (per Bbl)	\$ 68.78	\$ 59.30	\$ 74.45
Gas (per Mcf)	\$ 4.74	\$ 3.45	\$ 4.79
	Nine-Months Ended		
	September 30, 2010	September 30, 2009	
Production			
Oil (Bbls)	324,794	326,392	
Gas (Mcf)	4,781,334	4,308,391	
Average Price			
Oil (per Bbl)	\$ 71.14	\$ 46.36	
Gas (per Mcf)	\$ 4.76	\$ 4.15	

Gas revenues received for the three months ended September 30, 2010, related primarily to production for April 2010 through June 2010. The average price of gas as reported by the Henry Hub for the same time period was \$3.89 per Mcf. The average price of gas for the Henry Hub was \$4.07 per Mcf for January 2010 through September 2010. Oil revenues for the three months ended September 30, 2010 related primarily to production for May 2010 through July 2010. The average price of oil as reported by Nymex for that time period was \$75.44 per barrel. The average price of oil was \$77.73 per barrel for January 2010 through September 2010. As of October 13, 2010, the average price of gas for the Henry Hub was \$3.27 per Mcf and the average price of oil reported by Nymex was \$81.67 per barrel. It is difficult to accurately estimate future prices of oil and gas, and any assumptions concerning future prices may prove to be incorrect.

Interest income for the quarter ended September 30, 2010 increased approximately \$700 compared with the third quarter of 2009. Compared to the preceding quarter ended June 30, 2010, interest income increased approximately \$300. Interest income for the nine months ended September 30, 2010 decreased approximately \$18,600. Changes in interest income are the result of changes in interest rates and funds available for investment.

General and administrative expenses for the quarter ended September 30, 2010 decreased by approximately \$21,400 compared to the same quarter of 2009 primarily due to decreases in the fees associated with the change in transfer agent, and escrow agent/trustee fees of approximately \$28,400, and \$10,800, respectively. These decreases

were offset somewhat by increases in legal services and professional expenses of approximately \$7,100 and \$9,000, respectively. Compared to the previous quarter ended June 30, 2010, general and administrative expenses decreased approximately \$176,900 due mainly to decreases in the timing of annual payments for engineering services, printing expenses related to annual reporting and tax reporting services of approximately \$86,900, \$65,900, and \$36,000, respectively. These decreases were tempered by an increase in the escrow agent/trustee fees and timing of payments for audit services of approximately \$2,000 and \$10,000, respectively.

General and administrative expenses for the nine months ended September 30, 2010 decreased approximately \$153,000 due mainly to decreases in the escrow agent/trustee fees, transfer agent fees and legal services of

approximately \$39,400, \$44,500 and \$20,100, respectively, along with decreases in the timing of payments for auditing services and year-end tax reporting services of approximately \$44,500 and \$18,300, respectively. These decreases were offset somewhat by an increase in professional services of approximately \$14,200.

**SABINE ROYALTY TRUST**  
**By Bank of America, N. A., Trustee**



**By Ron E. Hooper**  
**Senior Vice President**

November 12, 2010

## Information About the Trust

**S**abine Royalty Trust (the "Trust"), formed effective December 31, 1982, is an express trust existing under the Sabine Corporation Royalty Trust Agreement. All units of beneficial interest (the "Units") in the Trust were distributed to Sabine Corporation's shareholders of record on December 23, 1982 on the basis of one Unit for each outstanding share of Sabine Corporation's common stock. Pacific Enterprise Oil Company (USA), as successor to Sabine Corporation, has assumed by operation of law all of Sabine Corporation's rights and obligations with respect to the Trust. The Units are traded on the New York Stock Exchange under the symbol "SBR". The Trust has a December 31 fiscal year end.

The Trust's assets consist of royalty and mineral interests, including landowner's royalties and overriding royalty interests, in producing and proved undeveloped oil and gas properties in Florida, Louisiana, Mississippi, New Mexico, Oklahoma and Texas (the "Royalties"). Revenues of the Trust are directly dependent upon the price of oil and gas as well as the quantities produced. The Trust does not participate in any exploration or development projects and does not have any working interest revenues or expenses.

The Trust makes monthly distributions of net income to Unit holders of record on the monthly record date (generally the 15th of each calendar month). Distributions are mailed to Unit holders on or about the 29th of each month.

Distributions by the Trust in 2010 have been as follows (stated in dollars per Unit):

Month of Payment	Amount	Month of Payment	Amount
January	\$.31518	July	\$.36179
February	\$.28526	August	\$.33031
March	\$.18204	September	\$.28379
April	\$.47982	October	\$.32425
May	\$.32220	November	\$.31975
June	\$.23659		

The Trust's monthly distributions include cash received by the Trustee, acting as Escrow Agent on the record date for such distribution, which represents cash attributable to the Royalties, and interest thereon, collected by the Trustee, acting as Escrow Agent, during the preceding calendar month.

Schedules of information on a per Unit basis for preparation of federal and state income tax returns will be provided in booklet form for calendar year 2010 in March 2011. Monthly schedules of income tax information for January through September 2010 are available now for those Unit holders who file fiscal year tax returns and need this information. Please request to be placed on a special mailing list if you need this interim tax information by writing to Tax Mailing List, Sabine Royalty Trust, P.O. Box 830650, Dallas, Texas 75283-0650, 1 (800) 365-6541.

Our website is [www.sbr-sabineroyalty.com](http://www.sbr-sabineroyalty.com).

## Condensed Statements of Assets, Liabilities and Trust Corpus (Unaudited)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and short-term investments .....	\$ 5,004,442	\$ 4,873,961
Royalty interests in oil and gas properties (less accumulated amortization of \$21,813,283 and \$21,745,488 at September 30, 2010 and December 31, 2009).....	581,902	649,697
TOTAL .....	<u>\$ 5,586,344</u>	<u>\$ 5,523,658</u>
<b>Liabilities and Trust Corpus</b>		
Trust expenses payable .....	\$ 175,502	\$ 147,048
Other payables .....	149,933	180,093
	<u>325,435</u>	<u>327,141</u>
Contingencies .....	-	-
Trust corpus –14,579,345 units of beneficial interest authorized and outstanding .....	5,260,909	5,196,517
TOTAL .....	<u>\$ 5,586,344</u>	<u>\$ 5,523,658</u>

## Condensed Statements of Changes in Trust Corpus (Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Trust corpus, beginning of period.....	\$ 5,196,517	\$ 6,735,265
Amortization of royalty interests.....	(67,795)	(63,517)
Distributable income.....	40,910,327	30,010,073
Distributions .....	(40,778,140)	(32,513,510)
Trust corpus, end of period.....	<u>5,260,909</u>	<u>4,168,311</u>
Distributions per unit (14,579,345 units).....	<u>\$ 2.80</u>	<u>\$ 2.23</u>

## Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Royalty Income .....	\$ 14,113,712	\$ 10,239,252	\$ 42,520,270	\$ 31,754,428
Interest income .....	1,366	650	2,687	21,268
Total .....	14,115,078	10,239,902	42,522,957	31,775,696
General and administrative expenses .....	(434,052)	(455,455)	(1,612,630)	(1,765,623)
Distributable income.....	<u>\$ 13,681,026</u>	<u>\$ 9,784,447</u>	<u>\$ 40,910,327</u>	<u>\$ 30,010,073</u>
Distributable income per unit (14,579,345 units).....	<u>\$ .94</u>	<u>\$ .67</u>	<u>\$ 2.81</u>	<u>\$ 2.06</u>