

SABINE ROYALTY TRUST

3

QUARTER REPORT

2012

TO UNITHOLDERS:

Sabine 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, 2012 was \$11,918,507, or \$0.82 per Unit. Royalty income for the three months ended September 30, 2012 amounted to \$12,354,767 while interest income was \$1,594. General and administrative expenses totaled \$437,854 for the three months ended September 30, 2012.

Distributions during the period were \$.37365, \$.33762, and \$.24781 per Unit payable to Unit holders of record on July 16, August 15, and September 17, 2012, respectively.

Royalty income for the quarter ended September 30, 2012 decreased approximately \$4,796,000 or 28% compared with the third quarter of 2011. This decrease was caused by decreases in the price of both natural gas and oil (\$4.7 million), along with a decrease in the production of oil (\$1.0 million). These decreases were offset somewhat by an increase in the production of natural gas (\$0.5 million) along with decreases in taxes (\$0.4 million). Compared to the preceding quarter ended June 30, 2012, royalty income decreased approximately \$2,753,000 or 18%, due mainly to decreases in the price of both natural gas and oil (\$2.0 million), a decrease in the production of both natural gas and oil (\$0.7 million), and a decrease in refunded state withholding taxes (\$0.2 million). These decreases were tempered somewhat by a decrease in production taxes and operating expenses (\$0.2 million).

Royalty income for the nine months ended September 30, 2012 decreased \$4,525,000 or 10% compared with the same time period in 2011. This decrease was due mainly to a decrease in the price of natural gas (\$7.0 million), along with a decrease in the production of oil (\$0.5 million), and an increase in operating expenses (\$0.2 million). These decreases were offset somewhat by

an increase in the production of natural gas (\$1.7 million), an increase in the price of oil (\$0.6 million), as well as a refund of the 2011 Oklahoma and New Mexico state income taxes in 2012 (\$0.7 million).

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

| | Quarter Ended | | |
|---------------|--------------------|--------------------|---------------|
| | September 30, 2012 | September 30, 2011 | June 30, 2012 |
| Production | | | |
| Oil (Bbls) | 102,391 | 114,258 | 104,780 |
| Gas (Mcf) | 1,937,322 | 1,748,866 | 2,133,201 |
| Average Price | | | |
| Oil (per Bbl) | \$ 80.89 | \$ 89.21 | \$ 96.53 |
| Gas (per Mcf) | \$ 2.59 | \$ 4.73 | \$ 2.78 |

| | Nine-Months Ended | |
|---------------|--------------------|--------------------|
| | September 30, 2012 | September 30, 2011 |
| Production | | |
| Oil (Bbls) | 316,060 | 321,507 |
| Gas (Mcf) | 5,723,330 | 5,148,747 |
| Average Price | | |
| Oil (per Bbl) | \$ 90.13 | \$ 88.13 |
| Gas (per Mcf) | \$ 3.00 | \$ 4.35 |

Gas revenues received for the three months ended September 30, 2012, related primarily to production for April 2012 through June 2012. The average price of gas as reported by the Henry Hub for the same time period was \$2.09 per Mcf. The average price of gas for the Henry Hub was \$2.32 per Mcf for January 2012 through September 2012. Oil revenues for the three months ended September 30, 2012 related primarily to production for May 2012 through July 2012. The average price of oil as reported by NYMEX for that time period was \$88.71 per barrel. The average price of oil was \$96.23 per barrel for January 2012 through September 2012. As of October 23, 2012, the average price of gas for the Henry Hub was \$3.11 per Mcf and the average price of oil reported by NYMEX was \$88.73 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, 2012 increased approximately \$100 compared with the third quarter of 2011. Compared to the preceding quarter ended June 30, 2012, interest income decreased approximately \$400. Interest income for the nine months ended September 30, 2012 increased approximately \$1,600 over the same time period in 2011. 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, 2012 decreased by approximately \$10,400 compared to the same quarter of 2011 primarily due to decreases in legal and other professional services of approximately \$11,000, transfer agent fees of approximately \$4,100 and timing of payment of tax reporting fees of approximately \$3,600. These decreases were offset somewhat by an increase in escrow agent/trustee fees of approximately \$8,100. Compared to the previous quarter ended June 30, 2012, general and administrative expenses decreased approximately \$372,700 due mainly to timing of annual expenses for engineering services of approximately \$180,500, printing costs associated with annual reporting of approximately \$107,700, legal and other professional services of approximately \$74,100 and transfer agent fees of approximately \$11,000.

General and administrative expenses increased approximately \$175,200 for the nine months ended

September 30, 2012 compared to the same period in 2011 due primarily to increases in legal and other professional expenses of approximately \$66,700, engineering services of approximately \$65,800, printing and unit holder information services of approximately \$30,400 and escrow agent/trustee fees of approximately \$24,800. These increases were tempered by a decrease in the timing of payment of tax reporting fees of approximately \$19,500.

SABINE ROYALTY TRUST
BY BANK OF AMERICA, N. A., TRUSTEE



BY RON E. HOOPER
SENIOR VICE PRESIDENT
 November 16, 2012

INFORMATION ABOUT THE TRUST

Sabine 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 2012 have been as follows (stated in dollars per Unit):

| Month of Payment | Amount | Month of Payment | Amount |
|------------------|-----------|------------------|-----------|
| January | \$.36342 | July | \$.37365 |
| February | \$.30517 | August | \$.33762 |
| March | \$.28089 | September | \$.24781 |
| April | \$.41887 | October | \$.23205 |
| May | \$.25815 | November | \$.32546 |
| June | \$.34900 | | |

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 2012 in March 2013. Monthly schedules of income tax information for January through September 2012 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.

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS (UNAUDITED)

| | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|--|-------------------------------|------------------------------|
| Assets | | |
| Cash and short-term investments | \$ 3,740,752 | \$ 5,751,947 |
| Royalty interests in oil and gas properties (less accumulated amortization of \$21,944,321 and \$21,890,382 at September 30, 2012 and December 31, 2011) | 450,864 | 504,803 |
| TOTAL | \$ 4,191,616 | \$ 6,256,750 |
| Liabilities and Trust Corpus | | |
| Trust expenses payable | \$ 144,421 | \$ 172,732 |
| Other payables | 261,773 | 329,705 |
| | 406,194 | 502,437 |
| Trust corpus – 14,579,345 units of beneficial interest authorized and outstanding | 3,785,422 | 5,754,313 |
| TOTAL | \$ 4,191,616 | \$ 6,256,750 |

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Trust corpus, beginning of period | \$ 5,754,313 | \$ 5,086,272 |
| Amortization of royalty interests | (53,939) | (57,566) |
| Distributable income | 40,869,306 | 45,568,162 |
| Distributions | (42,784,258) | (44,988,656) |
| Trust corpus, end of period | \$ 3,785,422 | \$ 5,608,212 |
| Distributions per unit (14,579,345 units) | \$ 2.93 | \$ 3.09 |

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------------------|------------------------------------|----------------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| Royalty Income | \$ 12,354,767 | \$ 17,150,882 | \$ 42,673,912 | \$ 47,199,183 |
| Interest income | 1,594 | 1,446 | 5,338 | 3,696 |
| Total | \$ 12,356,361 | \$ 17,152,328 | \$ 42,679,250 | \$ 47,202,879 |
| General and administrative expenses | (437,854) | (448,249) | (1,809,944) | (1,634,717) |
| Distributable income | \$ 11,918,507 | \$ 16,704,079 | \$ 40,869,306 | \$ 45,568,162 |
| Distributable income per unit (14,579,345 units) .. | \$.82 | \$ 1.15 | \$ 2.80 | \$ 3.13 |