

**1<sup>st</sup>**  
**Quarter Report**  
**2014**



# 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 March 31, 2014 was \$13,167,253, or \$0.90 per Unit. Royalty income for the three months ended March 31, 2014 amounted to \$13,775,321 while interest income was \$1,228. General and administrative expenses totaled \$609,296 for the three months ended March 31, 2014.

Distributions during the period were \$.36228, \$.27200, and \$.19883 per Unit payable to Unit holders of record on January 15, February 18, and March 17, 2014, respectively.

Royalty income for the quarter ended March 31, 2014 decreased approximately \$1,727,000 or 11% compared with the first quarter of 2013. This decrease was primarily caused by a decrease in the production of natural gas (\$3.0 million) along with a decrease in the price of oil (\$0.1 million). These decreases were offset somewhat by an increase in the price of natural gas (\$0.9 million) and an increase in the production of oil (\$0.4 million).

Compared to the preceding quarter ended December 31, 2013, royalty income decreased approximately \$399,000 or 3%, due mainly to decreases in the production of both oil and natural gas (\$1.6 million) along with a decrease in the price of oil (\$1.0 million). These decreases were tempered somewhat by an increase in the pricing of natural gas (\$0.3 million) and a decrease in ad valorem taxes paid due to timing (\$2.0 million).

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

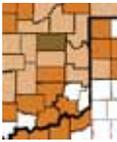
	Quarter Ended		
	March 31, 2014	March 31, 2013	December 31, 2013
Production			
Oil (Bbls)	120,819	116,186	124,029
Gas (Mcf)	1,362,625	2,126,160	1,700,998
Average Price			
Oil (per Bbl)	\$ 80.43	\$ 81.30	\$ 88.44
Gas (per Mcf)	\$ 3.92	\$ 3.49	\$ 3.75

Gas revenues received for the three months ended March 31, 2014, related primarily to production for October 2013 through December 2013. The average price of gas reported by the Henry Hub for the same time period was \$3.45 per Mcf. The average price of gas for the Henry Hub was \$4.22 per Mcf for January 2014 through March 2014. Oil revenues for the three months ended March 31, 2014 related primarily to production for November 2013 through January 2014. The average price of oil as reported by NYMEX for that time period was \$95.54 per barrel. The average price of oil was \$98.34 per barrel for January 2014 through March 2014. As of April 10, 2014, the average price of gas for the Henry Hub was \$4.13 per Mcf and the average price of oil reported by NYMEX was \$103.60 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 March 31, 2014 decreased approximately \$200 compared with the first quarter of 2013. Compared to the preceding quarter ended December 31, 2013, interest income decreased approximately \$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 March 31, 2014 increased by approximately \$113,600 compared to the same quarter of 2013 primarily due to increases in professional and other fees of approximately \$64,900, auditing services of approximately \$31,600, printing and Unit holder information services pertaining to Unit holder reporting of approximately \$16,300 and fees for processing revenue of approximately \$10,700. These increases were offset somewhat by a decrease in escrow agent/trustee fees of approximately \$11,000. Compared to the previous quarter ended December 31, 2013, general and administrative expenses increased \$176,800 due mainly to professional and other fees of approximately \$82,600, annual payment of the NYSE listing fee of \$42,000, auditing services of approximately \$33,900, escrow agent/trustee fees of approximately \$28,900 and printing and Unit holder information services pertaining to Unit holder reporting of approximately \$18,100. These increases were offset somewhat by a decrease in the ad valorem tax fees due to the timing of payment of taxes in the fourth quarter of \$29,100.

For the calendar year 2014 the Bank's Administration Expenses are estimated to be \$966,000 which would result in fees payable to the Bank of approximately \$1,380,000. These fees include both a reimbursement for costs and a margin of profit. The Trust incurs substantial costs and expenses in addition to the Bank's fees which are estimated to be approximately \$1,150,000 for the calendar year 2014.



On January 9, 2014, U.S. Trust, Bank of America Private Wealth Management gave notice to Unit holders that it will be resigning as trustee subject to the conditions set forth below. Bank of America nominated Southwest Bank, an independent state bank chartered under the laws of the State of Texas and headquartered in Fort Worth, Texas (“Southwest Bank”), as successor trustee at a meeting of Unit holders of the trust called for Thursday, May 22, 2014 for the purpose of approving a successor trustee of the Trust. U.S. Trust, Bank of America Private Wealth Management’s resignation is conditioned on the satisfaction or waiver by U.S. Trust, Bank of America Private Wealth Management of each of the following: (i) the appointment of Southwest Bank as trustee of the Trust; (ii) the appointment of Southwest Bank or another successor trustee as trustee of six other royalty trusts for which U.S. Trust, Bank of America Private Wealth Management currently serves as trustee and as agent under a disbursing arrangement for which it currently serves as agent; (iii) the accuracy of certain

representations and warranties and performance of certain agreements made by Southwest Bank in an agreement between U.S. Trust, Bank of America Private Wealth Management and Southwest Bank; and (iv) no governmental injunction, order or other action that would prohibit Southwest Bank’s appointment, U.S. Trust, Bank of America Private Wealth Management’s resignation or the other actions described above. On May 22, 2014, Unit holders approved Southwest Bank as successor trustee, effective May 30, 2014.

**Sabine Royalty Trust**  
**By Bank of America, N. A., Trustee**

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

May 30, 2014



## 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 2014 have been as follows (stated in dollars per Unit):

Month of Payment	Amount	Month of Payment	Amount
January	\$.36228	April	\$.42267
February	\$.27200	May	\$.39808
March	\$.19883		

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 2014 in March 2015. Monthly schedules of income tax information for January through March 2014 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)

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Cash and short-term investments	\$ 7,913,617	\$ 6,547,635
Royalty interests in oil and gas properties (less accumulated amortization of \$22,004,988 and \$21,993,814 at March 31, 2014 and December 31, 2013) .....	<b>390,197</b>	401,371
TOTAL.....	<u>\$ 8,303,814</u>	<u>\$ 6,949,006</u>
<b>Liabilities and Trust Corpus</b>		
Trust expenses payable .....	\$ 199,502	\$ 112,760
Other payables .....	<b>1,459,919</b>	1,201,733
	<b>1,659,421</b>	1,314,493
Trust corpus – 14,579,345 units of beneficial interest authorized and outstanding .....	<b>6,644,393</b>	5,634,513
TOTAL.....	<u>\$ 8,303,814</u>	<u>\$ 6,949,006</u>

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

	Three Months Ended March 31,	
	2014	2013
Trust corpus, beginning of period .....	\$ 5,634,513	\$ 4,067,313
Amortization of royalty interests .....	(11,174)	(14,122)
Distributable income .....	<b>13,167,253</b>	15,007,837
Distributions.....	<b>(12,146,199)</b>	(12,246,358)
Trust corpus, end of period .....	<u>\$ 6,644,393</u>	<u>\$ 6,814,670</u>
Distributions per unit (14,579,345 units).....	<u>\$ .83</u>	<u>\$ .84</u>

## Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended March 31,	
	2014	2013
Royalty Income.....	\$ 13,775,321	\$ 15,502,122
Interest income .....	<b>1,228</b>	1,409
Total.....	<b>13,776,549</b>	15,503,531
General and administrative expenses.....	<b>(609,296)</b>	(495,694)
Distributable income .....	<u>\$ 13,167,253</u>	<u>\$ 15,007,837</u>
Distributable income per unit (14,579,345 units) .....	<u>\$ .90</u>	<u>\$ 1.03</u>