



3rd
Quarter Report
2014



To Unit holders:

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, 2014 was \$17,958,733, or \$1.23 per unit. Royalty income for the three months ended September 30, 2014 amounted to \$18,427,595 while interest income was \$234. General and administrative expenses totaled \$469,096 for the three months ended September 30, 2014.

Distributions during the period were \$.25364, \$.38632, and \$.38170 per Unit payable to Unit holders of record on July 15, August 15, and September 15, 2014, respectively.

Royalty income for the quarter ended September 30, 2014 increased approximately \$1,183,000 or 7% compared with the third quarter of 2013. This increase was primarily caused by increases in the pricing of both natural gas and oil (\$1.1 million) along with an increase in the production of natural gas (\$1.5 million). These increases were offset somewhat by a decrease in the production of oil (\$1.1 million) along with an increase in taxes and production expenses corresponding with the increase in revenues (\$0.4 million).

Compared to the preceding quarter ended June 30, 2014, royalty income increased approximately \$1,889,000 or 11%, due mainly to increases in the pricing of oil (\$0.8 million) along with an increase in the production of natural gas (\$2.3 million). These increases were offset somewhat by a decrease in the pricing of natural gas (\$0.8 million) and a decrease in the production of oil (\$0.4 million) along with an increase in taxes and production expenses (\$0.2 million).

Royalty income for the nine months ended September 30, 2014 increased \$2,137,000 or 5% compared with the same time period in 2013. This increase was due mainly to an increase in the pricing of both natural gas and oil (\$4.7 million) and an increase in the production of oil (\$1.0 million) along with receipt of settlement funds (\$0.2 million). These increases were tempered somewhat by a decrease in the production of natural gas (\$3.0 million) along with an increase in taxes and production expenses (\$0.8 million).

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

	Quarter Ended		
	September 30, 2014	September 30, 2013	June 30, 2014
Production			
Oil (Bbls)	118,410	130,291	122,226
Gas (Mcfs)	1,920,881	1,570,622	1,388,575
Average Price			
Oil (per Bbl)	\$ 96.02	\$ 91.03	\$ 89.34
Gas (per Mcf)	\$ 4.40	\$ 4.10	\$ 4.96

	Nine Months Ended	
	September 30, 2014	September 30, 2013
Production		
Oil (Bbls)	361,455	350,066
Gas (Mcfs)	4,672,081	5,339,736
Average Price		
Oil (per Bbl)	\$ 88.55	\$ 86.28
Gas (per Mcf)	\$ 4.43	\$ 3.69

Gas revenues received for the three months ended September 30, 2014, related primarily to production for April through June 2014. The average price of gas as reported by the Henry Hub for the same time period was \$4.15 per Mcf. The average price of gas for the Henry Hub was \$4.12 per Mcf for January through September 2014. Oil revenues for the three months ended September 30, 2014 related primarily to production for May through July 2014. The average price of oil as reported by NYMEX for that time period was \$103.85 per barrel. The average price of oil was \$99.97 per barrel for January through September 2014. As of October 20, 2014, the average price of gas for the Henry Hub was \$3.32 per Mcf and the average price of oil reported by NYMEX was \$82.76 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, 2014 decreased approximately \$1,500 compared with the third quarter of 2013. Compared to the preceding quarter ended June 30, 2014, interest income decreased approximately \$1,100. Interest income for the nine months ended September 30, 2014 decreased approximately \$2,100 compared to the same time period in 2013. 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, 2014 increased by approximately \$53,100 compared to the same quarter of 2013 primarily due to increases in legal and other professional fees of approximately \$32,400; printing and Unit holder information services of approximately \$9,700; escrow agent/trustee fees of approximately \$9,200; and lockbox service fees of approximately \$8,700. These increases were offset some-



what by decreases in revenue processing fees of approximately \$7,200.

Compared to the previous quarter ended June 30, 2014, general and administrative expenses decreased approximately \$344,300 due mainly to timing of payment for printing and Unit holder information services of approximately \$176,100; timing of payment of engineering services of approximately \$129,500; and decreases in revenue processing fees of approximately \$84,200. These decreases were offset somewhat by increases in escrow agent/trustee fees of approximately \$25,500; legal and other professional fees of approximately \$12,000; and an increase in lockbox fees of approximately \$8,700.

Administrative expenses increased \$258,300 for the nine months ended September 30, 2014 compared to the same time period in 2013 due primarily to increases in legal and other professional fees of approximately \$121,000; printing and Unit holder information services of approximately \$72,900; revenue processing fees of approximately \$72,400; audit fees of approximately \$33,400; and lockbox services of approximately \$8,700. These increases were tempered somewhat by a decrease in engineering fees of approximately

\$25,500 as well as a decrease in escrow agent/trustee fees of approximately \$24,500.

U.S. Trust, Bank of America Private Wealth Management, a division of Bank of America, N.A., as trustee of the Sabine Royalty Trust, announced that at the special meeting of the Trust's Unit holders held on May 22, 2014, the Unit holders of the Trust voted to approve the proposal to appoint Southwest Bank as successor trustee of the Trust effective May 30, 2014. References to the Trustee prior to May 30, 2014 shall mean Bank of America, N.A., and references to the Trustee on and after May 30, 2014 shall mean Southwest Bank.

**Sabine Royalty Trust
By Southwest Bank, Trustee**

**By Ron E. Hooper
SVP, Royalty Trust Management**

November 18, 2014



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

Month of Payment	Amount	Month of Payment	Amount
January	\$.36228	July	\$.25364
February	\$.27200	August	\$.38632
March	\$.19883	September	\$.38170
April	\$.42267	October	\$.46947
May	\$.39808	November	\$.35393
June	\$.42298		

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 September 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 962020, Fort Worth, Texas 76162-2020, 1 (855) 588-7839. Our website is www.sbr-sabine.com.

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

	September 30, 2014	December 31, 2013
Assets		
Cash and short-term investments	\$ 8,916,482	\$ 6,547,635
Royalty interests in oil and gas properties (less accumulated amortization of \$22,030,431 and \$21,993,814 at September 30, 2014 and December 31, 2013)	364,754	401,371
TOTAL	<u>\$ 9,281,236</u>	<u>\$ 6,949,006</u>
Liabilities and Trust Corpus		
Trust expenses payable	\$ 147,200	\$ 112,760
Other payables	1,857,694	1,201,733
	2,004,894	1,314,493
Trust corpus – 14,579,345 units of beneficial interest authorized and outstanding	7,276,342	5,634,513
TOTAL	<u>\$ 9,281,236</u>	<u>\$ 6,949,006</u>

Condensed Statements of Changes in Trust Corpus (Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Trust corpus, beginning of period	\$ 5,634,513	\$ 4,067,313
Amortization of royalty interests	(36,617)	(37,215)
Distributable income	46,852,548	44,975,793
Distributions	(45,174,102)	(42,893,165)
Trust corpus, end of period	<u>\$ 7,276,342</u>	<u>\$ 6,112,726</u>
Distributions per unit (14,579,345 units)	<u>\$ 3.10</u>	<u>\$ 2.94</u>

Condensed Statements of Distributable Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Royalty Income	\$ 18,427,595	\$ 17,245,077	\$ 48,741,513	\$ 46,604,360
Interest income	234	1,772	2,821	4,956
Total	<u>\$ 18,427,829</u>	<u>\$ 17,246,849</u>	<u>\$ 48,744,334</u>	<u>\$ 46,609,316</u>
General and administrative expenses	(469,096)	(415,973)	(1,891,786)	(1,633,523)
Distributable income	<u>\$ 17,958,733</u>	<u>\$ 16,830,876</u>	<u>\$ 46,852,548</u>	<u>\$ 44,975,793</u>
Distributable income per unit (14,579,345 units)	<u>\$ 1.23</u>	<u>\$ 1.15</u>	<u>\$ 3.21</u>	<u>\$ 3.08</u>