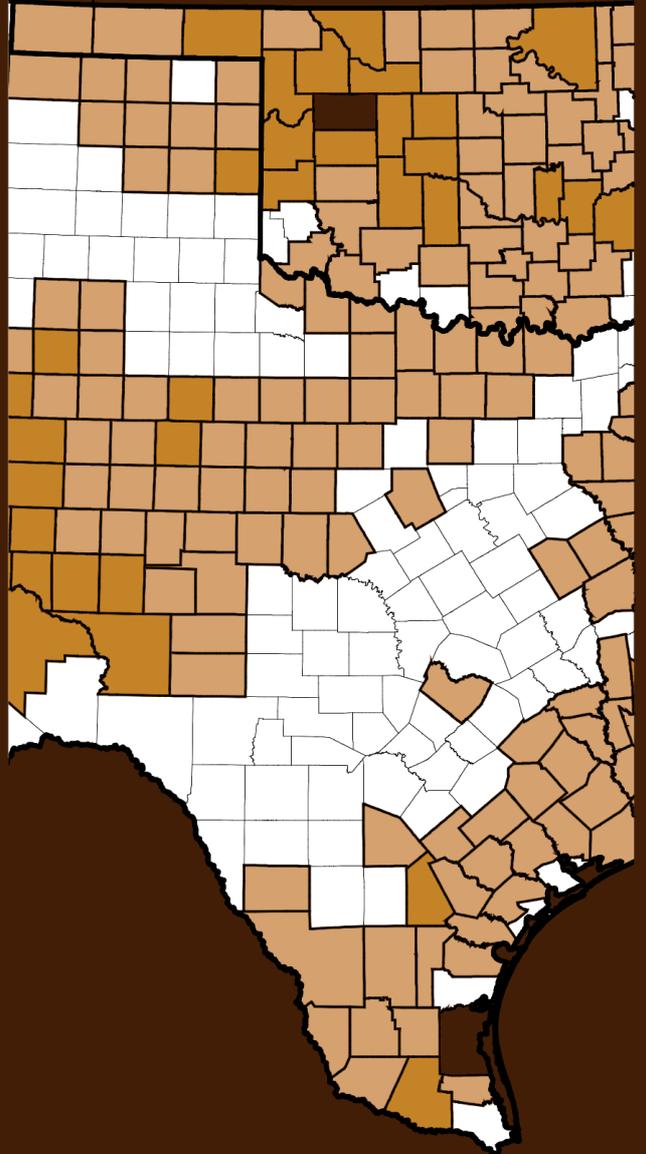


# SABINE ROYALTY TRUST



3<sup>rd</sup>

Quarter Report

2016

# 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, 2016 was \$8,526,832, or \$0.58 per unit. Royalty income for the three months ended September 30, 2016 amounted to \$9,043,086 while interest income was \$2,718. General and administrative expenses totaled \$518,972 for the three months ended September 30, 2016.

Distributions during the period were \$.13457, \$.13527, and \$.21635 per Unit payable to Unit holders of record on July 18, August 15, and September 15, 2016, respectively.

Royalty income for the quarter ended September 30, 2016 decreased approximately \$4,507,000 or 33% compared with the third quarter of 2015. This decrease was primarily caused by lower prices for both natural gas and oil (\$3.7 million) along with a decrease in the production of natural gas (\$1.2 million) and an increase in severance and ad valorem taxes (\$0.6 million). These decreases in revenue were offset somewhat by an increase in oil production (\$1.0 million).

Compared to the preceding quarter ended June 30, 2016, royalty income increased approximately \$2,539,000 or 39%, due mainly to an increase in the production of oil (\$2.2 million) along with higher oil prices (\$0.9 million). These increases were offset somewhat by a decrease in the price of natural gas (\$0.5 million) and an increase in severance and ad valorem taxes (\$0.1 million).

Royalty income for the nine months ended September 30, 2016 decreased \$16,439,000 or 42% compared with the same time period in 2015. This decrease was due mainly to lower natural gas and oil prices (\$14.8 million) and a decrease in the produc-

tion of both natural gas and oil (\$1.9 million). These decreases in revenue were tempered somewhat by lower severance and ad valorem taxes (\$0.3 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, 2016	September 30, 2015	June 30, 2016
Production			
Oil (Bbls)	156,446	132,451	104,006
Gas (Mcfs)	1,695,607	2,261,580	1,704,049
Average Price			
Oil (per Bbl)	\$ 42.48	\$ 55.44	\$ 33.35
Gas (per Mcf)	\$ 2.05	\$ 2.93	\$ 2.35
	Nine Months Ended		
	September 30, 2016	September 30, 2015	
Production			
Oil (Bbls)	384,588	387,053	
Gas (Mcf)	4,883,312	5,737,147	
Average Price			
Oil (per Bbl)	\$ 37.99	\$ 57.86	
Gas (per Mcf)	\$ 2.19	\$ 3.43	

Gas revenues received for the three months ended September 30, 2016, related primarily to production for April through June 2016. The average price of gas reported by the Henry Hub for the same time period was \$1.93 per Mcf. The average price of gas for the Henry Hub was \$2.11 per Mcf for January through September 2016. Oil revenues for the three months ended September 30, 2016 related primarily to production for May through July 2016. The average price of oil as reported by NYMEX for that time period was \$46.77 per barrel. The average price of oil was \$41.35 per barrel for January through September 2016. As of October 11, 2016, the average price of gas for the Henry Hub was \$2.85 per Mcf and the average price of oil reported by NYMEX was \$50.72 per barrel. It is difficult to 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, 2016 increased approximately \$2,500 compared with the third quarter of 2015. Compared to the preceding quarter ended June 30, 2016, interest income increased approximately \$1,600. Income for the nine months ended September 30, 2016 increased approximately \$4,100 compared to the same time period in 2015. 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, 2016 decreased by approximately \$58,300 compared to the same quarter of 2015 primar-

ily due to the timing of payment of professional services of approximately \$74,300. This decrease was offset somewhat by an increase in the escrow agent/trustee fees of approximately \$17,100.

Compared to the previous quarter ended June 30, 2016, general and administrative expenses decreased approximately \$132,100 due mainly to the timing of payment of printing and unit holder services of approximately \$127,800; the timing of payment of auditing services of \$12,500 and a decrease in escrow agent/trustee fees of approximately \$3,300. These decreases were offset somewhat by an increase in professional services of approximately \$14,900.

General and administrative expenses increased approximately \$36,700 for the nine months ended September 30, 2016 compared to the same time period in 2015 due primarily to increases in escrow agent/trustee fees of approximately \$80,200; printing and unit holder information services of approximately \$23,000;

engineering services of approximately \$19,500; and an increase in the New York Stock Exchange listing fee of \$7,500. These increases were tempered somewhat by a decrease in professional services of approximately \$98,100.

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



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

November 18, 2016

## 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 2016 have been as follows (stated in dollars per Unit):

<b>Month of Payment</b>	<b>Amount</b>	<b>Month of Payment</b>	<b>Amount</b>
January	\$ .27597	July	\$ .13457
February	\$ .13361	August	\$ .13527
March	\$ .13771	September	\$ .21635
April	\$ .13858	October	\$ .23324
May	\$ .16435	November	\$ .11702
June	\$ .10262		

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 2016 in March 2017. Monthly schedules of income tax information for January through September 2016 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](http://www.sbr-sabine.com).

## Condensed Statements of Assets, Liabilities and Trust Corpus

	September 30, 2016 <i>(Unaudited)</i>	December 31, 2015
<b>Assets</b>		
Cash and short-term investments.....	<b>\$ 5,345,519</b>	\$ 5,804,070
Royalty interests in oil and gas properties (less accumulated amortization of \$22,117,193 and \$22,085,808 at September 30, 2016 and December 31, 2015) .....	<b>277,992</b>	309,377
TOTAL.....	<b><u>\$ 5,623,511</u></b>	<u>\$ 6,113,447</u>
<b>Liabilities and Trust Corpus</b>		
Trust expenses payable.....	<b>\$ 158,321</b>	\$ 180,498
Other payables .....	<b>746,761</b>	752,664
	<b>905,082</b>	933,162
Trust corpus – 14,579,345 units of beneficial interest authorized and outstanding.....	<b>4,718,429</b>	5,180,285
TOTAL.....	<b><u>\$ 5,623,511</u></b>	<u>\$ 6,113,447</u>

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

	Nine Months Ended September 30,	
	2016	2015
Trust corpus, beginning of period.....	<b>\$ 5,180,285</b>	\$ 4,535,292
Amortization of royalty interests .....	<b>(31,385)</b>	(38,134)
Distributable income.....	<b>20,549,646</b>	37,021,261
Distributions.....	<b>(20,980,117)</b>	(37,836,173)
Trust corpus, end of period.....	<b>\$ 4,718,429</b>	<u>\$ 3,682,246</u>
Distributions per unit (14,579,345 units).....	<b><u>\$ 1.44</u></b>	<u>\$ 2.60</u>

## Condensed Statements of Distributable Income *(Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Royalty Income.....	<b>\$ 9,043,086</b>	\$ 13,550,040	<b>\$ 22,516,051</b>	\$ 38,955,040
Interest income .....	<b>2,718</b>	211	<b>4,715</b>	596
Total.....	<b>\$ 9,045,804</b>	\$ 13,550,251	<b>\$ 22,520,766</b>	\$ 38,955,636
General and administrative expenses .....	<b>(518,972)</b>	(577,309)	<b>(1,971,120)</b>	(1,934,375)
Distributable income.....	<b>\$ 8,526,832</b>	\$ 12,972,942	<b>\$ 20,549,646</b>	\$ 37,021,261
Distributable income per unit (14,579,345 units).....	<b><u>\$ .58</u></b>	<u>\$ .89</u>	<b><u>\$ 1.41</u></b>	<u>\$ 2.54</u>