NightHawk Radiology Holdings Inc
Form 10-Q
July 31, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 000-51786

NightHawk Radiology Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**87-0722777**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**
601 Front Street, #502, C ur d Alene, Idaho	**83814**
(Address of principal executive offices))	**(Zip code)**

(208) 676-8321

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Small reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 25, 2008, 28,541,983 shares of the Registrant s common stock were outstanding.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(In thousands, except share data)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,245	$ 31,956
Marketable securities	10,000	30,625
Trade accounts receivable, net	26,553	25,665
Deferred income taxes	294	655
Prepaid expenses and other current assets	4,300	2,812
Total current assets	79,392	91,713
Property and equipment, net	11,669	10,555
Goodwill	69,012	68,601
Intangible assets, net	83,368	87,133
Deferred income taxes	1,656	1,251
Other assets, net	3,907	4,213
Total	$ 249,004	$ 263,466
LIABILITIES		
Current liabilities:		
Accounts payable	$ 6,895	$ 6,071
Accrued expenses and other liabilities	4,923	12,881
Accrued payroll and related benefits	3,554	4,570
Long-term debt, due within one year	1,000	1,000
Total current liabilities	16,372	24,522
Insurance reserve	3,734	3,038
Long-term debt	98,000	98,500
Other liabilities	2,860	2,717
Total liabilities	120,966	128,777
Commitments and contingencies (Note 6)		
STOCKHOLDERS EQUITY		
Common stock 150,000,000 shares authorized; $.001 par value; 28,533,983 and 30,312,322 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	29	30
Additional paid-in capital	239,157	249,274
Retained earnings (deficit)	(109,456)	(112,957)
Accumulated other comprehensive income (deficit)	(1,692)	(1,658)

Total stockholders equity	128,038	134,689
Total	$ 249,004	$ 263,466

See Notes to Condensed Consolidated Financial Statements.

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NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In thousands, except share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Service revenue	$ 42,758	$ 37,923	$ 84,446	$ 63,805
Operating costs and expenses:				
Professional services (includes non-cash compensation expense of $386, $1,071, $976 and $2,031)	17,036	17,402	34,903	27,775
Sales, general, and administrative (includes non-cash compensation expense of $1,832, $1,845, $4,188 and $2,683)	16,463	12,643	34,634	21,107
Depreciation and amortization	2,959	1,792	5,757	2,642
Total operating costs and expenses	36,458	31,837	75,294	51,524
Operating income	6,300	6,086	9,152	12,281
Other income (expense):				
Interest expense	(2,189)	(1,275)	(4,376)	(1,276)
Interest income	376	834	903	1,722
Other, net	(41)	(30)	(13)	(32)
Total other income (expense)	(1,854)	(471)	(3,486)	414
Income before income taxes	4,446	5,615	5,666	12,695
Income tax expense	1,675	2,101	2,165	4,849
Net income	$ 2,771	$ 3,514	$ 3,501	$ 7,846
Earnings per common share:				
Basic	$ 0.09	$ 0.12	$ 0.12	$ 0.26
Diluted	$ 0.09	$ 0.11	$ 0.11	$ 0.25
Weighted averages of common shares outstanding:				
Basic	30,426,531	29,996,297	30,435,363	29,978,376
Diluted	31,442,818	30,993,033	31,411,253	30,903,332

See Notes to Condensed Consolidated Financial Statements.

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NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 3,501	$ 7,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,757	2,642
Accretion of discounts on marketable securities	(21)	(217)
Amortization of debt issuance costs	324	72
Loss (gain) on disposal of fixed assets and other, net	344	(24)
Deferred income taxes	(11)	(2,034)
Non-cash stock compensation expense	5,164	4,714
Excess tax benefit from exercise of stock options	(238)	(340)
Provision for doubtful accounts	199	136
Changes in operating assets and liabilities (excluding effects of acquisitions):		
Trade accounts receivable, net	(1,155)	(3,406)
Prepaid expenses and other assets	(1,507)	(537)
Accounts payable	615	2,307
Accrued expenses and other liabilities	(597)	728
Accrued payroll and related benefits	943	772
Net cash provided by operating activities	13,318	12,659
Cash flows from investing activities:		
Purchase of marketable securities	(26,390)	(13,871)
Proceeds from maturities of marketable securities	33,755	27,178
Proceeds from the sale of marketable securities	13,303	
Purchase of property and equipment	(3,296)	(2,375)
Cash and cash equivalents from acquisitions, net		87
Cash paid for acquisitions	(6,500)	(62,493)
Net cash provided by (used in) investing activities	10,872	(51,474)
Cash flows from financing activities:		
Repayment of debt	(500)	(10,866)
Proceeds from exercise of stock options	400	333
Excess tax benefit from exercise of stock options	238	340
Purchase of common stock shares	(18,039)	
Proceeds from debt		53,000
Payment on line of credit		(1,679)
Debt issuance costs paid		(1,827)
Net cash (used in) provided by financing activities	(17,901)	39,301
Net increase in cash and cash equivalents	6,289	486
Cash and cash equivalents beginning of period	31,956	46,501
Cash and cash equivalents end of period	$ 38,245	$ 46,987

See Notes to Condensed Consolidated Financial Statements.

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NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

	Six Months Ended June 30,	
	2008	**2007**
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 3,488	$ 1,174
Cash paid for income taxes	2,740	5,157
Non-cash investing and financing activities:		
Purchases of equipment included in accounts payable	176	210
Earnout liability included in accrued expenses settled in stock	2,078	
Tender offer costs included in accounts payable and accrued expenses	464	
Debt issuance costs included in accounts payable and accrued expenses		262
Acquisition costs included in accounts payable and accrued expenses		272

See Notes to Condensed Consolidated Financial Statements.

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NIGHTHAWK RADIOLOGY HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(In thousands)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net income	$ 2,771	$ 3,514	$ 3,501	$ 7,846
Other comprehensive income:				
Change in fair value of interest rate swaps	2,611		(66)	
Less: deferred income taxes	(1,019)			

assumptions about future commodity prices, production and taxes;

the availability of enhanced recovery techniques; and

relationships with landowners, working interest partners, pipeline companies and others.

Changes in any of these factors and assumptions can materially change reserve and future net revenue estimates. The Trust s estimate of reserves and future net revenues is further complicated because the Trust holds an interest in net royalties and overriding royalties and does not own a specific percentage of the crude oil or natural gas reserves. Ultimately, actual production, revenues and expenditures for the Royalty Properties, and therefore actual net proceeds payable to the Trust, will vary from estimates and those variations could be material. Results of drilling, testing and production after the date of those estimates may require substantial downward revisions or write-downs of reserves.

The assets of the Trust are depleting assets and, if the operators developing the Royalty Properties do not perform additional development projects, the assets may deplete faster than expected. Eventually, the assets of the Trust will cease to produce in commercial quantities and the Trust will cease to receive proceeds from such assets. In addition, a reduction in depletion tax benefits may reduce the market value of the Units.

The net proceeds payable to the Trust are derived from the sale of depleting assets. The reduction in proved reserve quantities is a common measure of depletion. Projects, which are determined solely by the operator, on the Royalty Properties will affect the quantity of proved reserves and can offset the reduction in proved reserves. If the operators developing the Royalty Properties do not implement additional maintenance and development projects, the future rate of production decline of proved reserves may be higher than the rate currently expected by the Trust.

Because the net proceeds payable to the Trust are derived from the sale of depleting assets, the portion of distributions to Unit holders attributable to depletion may be considered a return of capital as opposed to a return on investment. Distributions that are a return of capital will ultimately diminish the depletion tax benefits available to the Unit holders, which could reduce the market value of the Units over time. Eventually, the Royalty Properties will cease to produce in commercial quantities and the Trust will, therefore, cease to receive any distributions of net proceeds therefrom.

The market price for the Units may not reflect the value of the royalty interests held by the Trust.

The public trading price for the Units tends to be tied to the recent and expected levels of cash distribution on the Units. The amounts available for distribution by the Trust vary in response to numerous factors outside the control of the Trust, including prevailing prices for crude oil and natural gas produced from the Royalty Properties. The market price is not necessarily indicative of the value that the Trust would realize if it sold those Royalty Properties to a third party buyer. In addition, such market price is not necessarily reflective of the fact that since the assets of the Trust are depleting assets, a portion of each cash distribution paid on the Units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. There is no guarantee that distributions made to a Unit holder over the life of these depleting assets will equal or exceed the purchase price paid by the Unit holder.

Terrorism and continued hostilities in the Middle East could decrease Trust distributions or the market price of the Units.

Terrorist attacks and the threat of terrorist attacks, whether domestic or foreign, as well as the military or other actions taken in response, cause instability in the global financial and energy markets. Terrorism, continued hostilities in the Middle East, and other sustained military campaigns could adversely affect Trust distributions or the market price of

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the Units in unpredictable ways, including through the disruption of fuel supplies and markets, increased volatility in crude oil and natural gas prices, or the possibility that the infrastructure on which the operators developing the Royalty Properties rely could be a direct target or an indirect casualty of an act of terror.

Future royalty income may be subject to risks related to the creditworthiness of third parties.

The Trust s future royalty income may be subject to risks relating to the creditworthiness of the operators of the underlying properties and other purchasers of the crude oil and natural gas produced from the underlying properties, as well as risks associated with fluctuations in the price of crude oil and natural gas.

Unit holders and the Trustee have no influence over the operations on, or future development of, the Royalty Properties.

Neither the Trustee nor the Unit holders can influence or control the operations on, or future development of, the Royalty Properties. The failure of an operator to conduct its operations, discharge its obligations, deal with regulatory agencies or comply with laws, rules and regulations, including environmental laws and regulations, in a proper manner could have an adverse effect on the net proceeds payable to the Trust. The current operators developing the Royalty Properties are under no obligation to continue operations on the Royalty Properties. Neither the Trustee nor the Unit holders have the right to replace an operator.

The operator developing any Royalty Property may abandon the property, thereby terminating the royalties payable to the Trust.

The operators developing the Royalty Properties, or any transferee thereof, may abandon any well or property without the consent of the Trust or the Unit holders if they reasonably believe that the well or property can no longer produce in commercially economic quantities. This could result in the termination of the royalties relating to the abandoned well or property.

The Royalty Properties can be sold and the Trust would be terminated.

The Trustee must sell the Royalty Properties if Unit holders approve the sale or vote to terminate the Trust as described under Item 1 Description of the Trust Voting Rights of Unit Holders above. The Trustee must also sell the Royalty Properties if they fail to generate net revenue for the Trust of at least $2,000,000 per year over any consecutive two-year period. Sale of all of the Royalty Properties will terminate the Trust. The net proceeds of any sale will be distributed to the Unit holders.

Unit holders have limited voting rights and have limited ability to enforce the Trust s rights against the current or future operators developing the Royalty Properties.

The voting rights of a Unit holder are more limited than those of stockholders of most public corporations. For example, there is no requirement for annual meetings of Unit holders or for an annual or other periodic re-election of the Trustee.

The Trust Agreement and related trust law permit the Trustee and the Trust to take appropriate action against the operators developing the Royalty Properties to compel them to fulfill the terms of the conveyance of the Royalty Properties. If the Trustee does not take appropriate action to enforce provisions of the conveyance, the recourse of the Unit holders would likely be limited to bringing a lawsuit against the Trustee to compel the Trustee to take specified actions. Unit holders probably would not be able to sue any of the operators developing the Royalty Properties.

Financial information of the Trust is not prepared in accordance with GAAP.

The financial statements of the Trust are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States, or GAAP. Although this basis of accounting is permitted for royalty trusts by the U.S. Securities and Exchange Commission, the financial statements of

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the Trust differ from GAAP financial statements because revenues are not accrued in the month of production and cash reserves may be established for specified contingencies and deducted which could not be accrued in GAAP financial statements.

The limited liability of the Unit holders is uncertain.

The Unit holders are not protected from the liabilities of the Trust to the same extent that a shareholder would be protected from a corporation s liabilities. The structure of the Trust does not include the interposition of a limited liability entity such as a corporation or limited partnership which would provide further limited liability protection to Unit holders. While the Trustee is liable for any excess liabilities incurred if the Trustee fails to insure that such liabilities are to be satisfied only out of Trust assets, under the laws of Texas, which are unsettled on this point, a holder of Units may be jointly and severally liable for any liability of the Trust if the satisfaction of such liability was not contractually limited to the assets of the Trust and the assets of the Trust and the Trustee are not adequate to satisfy such liability. As a result, Unit holders may be exposed to personal liability.

Item 1B. ***Unresolved Staff Comments***

The Trust has not received any written comments from the Securities and Exchange Commission staff regarding its periodic or current reports under the Act more than 180 days prior to December 31, 2017, which comments remain unresolved.

Item 2. ***Properties.***

The assets of the Registrant consist principally of the Royalty Properties, which constitute interests in gross production of oil, gas and other minerals free of the costs of production. The Royalty Properties consist of royalty and mineral interests, including landowner s royalties, overriding royalty interests, minerals (other than executive rights, bonuses and delay rentals), production payments and any other similar, nonparticipatory interest, in certain producing and proved undeveloped oil and gas properties located in Florida, Louisiana, Mississippi, New Mexico, Oklahoma and Texas. These properties are represented by approximately 5,400 tracts of land. Approximately 2,950 of the tracts are in Oklahoma, 1,750 in Texas, 330 in Louisiana, 200 in New Mexico, 150 in Mississippi and 12 in Florida.

The following table summarizes total developed and proved undeveloped acreage represented by the Royalty Properties at December 31, 2017.

	Mineral and Royalty	
State	**Gross Acres**	**Net Acres**
Florida	5,448	697
Louisiana	244,391	23,682
Mississippi	75,489	9,713
New Mexico	112,294	9,141
Oklahoma	381,538	67,558
Texas	1,273,132	105,760
Total	2,092,292	216,551

Detailed information concerning the number of wells on royalty properties is not generally available to the owner of royalty interests. Consequently, the Registrant does not have information that would be disclosed by a company with oil and gas operations, such as an accurate count of the number of wells located on the Royalty Properties, the number of exploratory or development wells drilled on the Royalty Properties during the periods presented by this report, or the number of wells in process or other present activities on the Royalty Properties, and the Registrant cannot readily obtain such information.

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Title

The conveyances of the Royalty Properties to the Trust covered the royalty and mineral properties located in the six states that were vested in Sabine Corporation on the effective date of the conveyances and that were subject to existing oil, gas and other mineral leases other than properties specifically excluded in the conveyances. Since Sabine Corporation may not have had available to it as a royalty owner information as to whether specific lands in which it owned a royalty interest were subject to an existing lease, minimal amounts of nonproducing royalty properties may also have been conveyed to the Trust. Sabine Corporation did not warrant title to the Royalty Properties either expressly or by implication.

Reserves

The Registrant has obtained from DeGolyer and MacNaughton, independent petroleum engineering consultants, a study of the proved oil and gas reserves attributable as of January 1, 2018 to the Royalty Properties. The following letter report summarizes such reserve study and sets forth information as to the assumptions, qualifications, procedures and other matters relating to such reserve study. Because the only assets of the Trust are the Royalty Properties, the Trustee believes the reserve study provides useful information for Unit holders. There are many uncertainties inherent in estimating quantities and values of proved reserves and in projecting future rates of production. The reserve data set forth herein, although prepared by independent petroleum engineers in a manner customary in the industry, are estimates only, and actual quantities and values of oil and gas are likely to differ from the estimated amounts set forth herein. In addition, the reserve estimates for the Royalty Properties will be affected by future changes in sales prices for oil and gas produced. See Note 8 of the Notes to Financial Statements in Item 8 hereof for additional information regarding the proved oil and gas reserves of the Trust. Other than those filed with the SEC, our estimated reserves have not been filed with or included in any reports to any federal agency.

The process of estimating oil and gas reserves is complex and requires significant judgment. As a result, the Trustee has developed internal policies and controls for estimating reserves attributable to the Trust. As described above, the Trust does not have information that would be available to a company with oil and gas operations because detailed information is not generally available to owners of royalty interests. The Trustee gathers production information (which information is net to the Trust s interests in the Royalty Properties) and provides such information to DeGolyer and MacNaughton, who extrapolates from such information estimates of the reserves attributable to the Royalty Properties based on its expertise in the oil and gas fields where the Royalty Properties are situated, as well as publicly available information. The Trust s policies regarding reserve estimates require proved reserves to be in compliance with the SEC definitions and guidance.

DeGolyer and MacNaughton, the independent petroleum engineering consultants who prepared the reserve study, have provided petroleum consulting services for more than 70 years. Steven R. Gilbert, Senior Vice President with DeGolyer and MacNaughton, was the primary engineer responsible for the report. Mr. Gilbert s qualifications are set forth in the Certificate of Qualification attached to the letter report below.

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DeGolyer and MacNaughton

5001 Spring Valley Road

Suite 800 East

Dallas, Texas 75244

February 19, 2018

Southwest Bank

P.O. Box 962020

Fort Worth, Texas 76162-2020

Ladies and Gentlemen:

Pursuant to the request of Sabine Royalty Trust (the Trust), we have prepared estimates of the extent and value of the net proved oil, condensate, natural gas liquids (NGL), and gas reserves, as of January 1, 2018, of certain properties that the Trust has represented that it owns. This evaluation was prepared for the purpose of reporting estimates of the Trust s reserves and associated future net revenue. This evaluation was completed on February 19, 2018. The properties evaluated consist of royalties located in Florida, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas. Southwest Bank acts as trustee of the Trust. Southwest Bank has represented that these properties account for 100 percent of revenues attributed to royalty interest payments received by the Trust as of January 1, 2018. The properties evaluated account for 100 percent of the Trust s proved reserves. The net proved reserves estimates have been prepared in accordance with the reserves definitions of Rules 4 10(a) (1) (32) of Regulation S X of the Securities and Exchange Commission (SEC) of the United States. This report was prepared in accordance with guidelines specified in Item 1202(a)(8) of Regulation S K and is to be used for inclusion in certain SEC filings by the Trust.

Reserves estimates included herein are expressed as net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2017. Net reserves are defined as that portion of the gross reserves attributable to the interests owned by the Trust after deducting all interests owned by others.

Estimates of oil, condensate, NGL, and gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves and revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this evaluation were obtained from reviews with Southwest Bank personnel, from Southwest Bank files, from records on file with the appropriate regulatory agencies, and from public sources. Additionally, this information includes data supplied by IHS Markit Inc; Copyright 2018 IHS Markit Inc. In the preparation of this report we have relied, without independent verification, upon such information furnished by Southwest Bank with respect to property interests owned by the Trust, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report.

Methodology and Procedures

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007). The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

Based on the current stage of field development, production performance, the development plans provided by the Trust, and the analyses of areas offsetting existing wells with test or production data, reserves were classified as proved.

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An analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves. For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production based on existing economic conditions. Because the Trust is unable to provide actual operating expenses for the properties evaluated (since the Trust s interests are only royalty interests), typical operating expenses, based on our knowledge of the area and/or field operations, were used to determine the economic limits of production.

In certain cases, when the previously named methods could not be used, reserves were estimated by analogy with similar wells or reservoirs for which more complete data were available.

Gas quantities estimated herein are expressed as sales gas. Sales gas is defined as that portion of the total gas to be delivered into a gas pipeline for sale after field separation, processing, fuel use, and flare. Gas reserves are expressed at a temperature base of 60 degrees Fahrenheit and at the pressure base of the state in which the interest is located. Gas reserves included herein are expressed in thousands of cubic feet (Mcf). Oil and condensate reserves estimated herein are those to be recovered by conventional lease separation. NGL reserves are those attributed to the leasehold interests according to processing agreements. Oil, condensate, and NGL reserves are expressed in barrels (bbl) representing 42 United States gallons per barrel. For reporting purposes, oil, condensate, and NGL reserves have been estimated separately and are presented herein as a summed quantity.

The Trust has represented that it owns several thousand individual royalty interests. In view of the small reserves volumes attributable to many of these individual interests, certain of the reserves representing approximately 30 percent of the total net reserves of the properties included herein were summarized by state or area and estimated in the aggregate rather than on a property-by-property basis. Historical records of net production and revenue and our general knowledge of producing characteristics in the areas involved were used in evaluating these grouped properties.

Undeveloped reserves were estimated for certain properties based on industry activity on and adjacent to these certain properties as well as other public knowledge concerning the future development of certain properties. Typical drilling capital costs, operating expenses, and abandonment costs in these areas were used to validate that the undeveloped reserves are economic. These undeveloped reserves represent only 3 percent of the total net reserves evaluated herein.

Definition of Reserves

Petroleum reserves included in this report are classified as proved. Only proved reserves have been evaluated for this report. Reserves classifications used in this report are in accordance with the reserves definitions of Rules 4 10(a)(1) (32) of Regulation S X of the SEC. Reserves are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. The petroleum reserves are classified as follows:

Proved oil and gas reserves Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

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(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in [section 210.4 10 (a) Definitions], or by other evidence using reliable technology establishing reasonable certainty.

The development status shown herein represents the status applicable on January 1, 2018. In the preparation of this study, data available from wells drilled on the evaluated properties through October 31, 2017, were used in estimating gross ultimate recovery. When applicable, gross production estimated to January 1, 2018, was deducted from gross

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ultimate recovery to arrive at the estimates of gross reserves as of January 1, 2018. In some fields, this required that the production rates be estimated for up to 2 months, since production data were available only through October 2017.

Primary Economic Assumptions

Values shown herein are expressed in terms of future net revenue and present worth. Future gross revenue is that revenue which will accrue to the evaluated interests from the production and sale of the estimated net reserves. Future net revenue is calculated by deducting estimated production taxes, ad valorem taxes, and transportation expenses from the future gross revenue. Transportation expenses include marketing, processing, and other expenses that are charged to the royalty interests. Future income tax expenses were not taken into account in the preparation of these estimates. Present worth is defined as future net revenue discounted at the arbitrary discount rate of 10 percent per year compounded monthly over the expected period of realization. Present worth should not be construed as fair market value because no consideration was given to additional factors that influence the prices at which properties are bought and sold.

Revenue values in this report were estimated using prices and costs provided by Southwest Bank. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board (FASB). The following assumptions were used for estimating future prices and costs:

Oil, Condensate, NGL, and Gas Prices

Oil, condensate, NGL, and gas prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period. A West Texas Intermediate oil, condensate, and NGL reference price of $51.34 per barrel and a Henry Hub gas reference price of $3.02 per million British thermal units ($/MMBtu) were used for this evaluation. British thermal unit factors provided by the Trust were used to convert prices from $/MMBtu to dollars per thousand cubic feet ($/Mcf). The prices were held constant thereafter and were not escalated for inflation. The volume-weighted average prices attributable to estimated proved reserves over the lives of the properties were $48.21 per barrel of oil and condensate, $15.92 per barrel of NGL, and $2.858 per thousand cubic feet of gas.

Based on royalty receipts received by the Trust, as provided by Southwest Bank, various oil, condensate, NGL, and gas price differentials based on product quality and property location were determined for each property. These differentials were then applied to the above reference prices, respectively, to reflect the net wellhead prices anticipated to be received by each property.

Production and Ad Valorem Taxes

Production and ad valorem taxes were provided by Southwest Bank and were based on recent historical tax payments by the trust.

Operating Expenses, Capital Costs, and Abandonment Costs

The properties evaluated are royalties. Therefore, no operating expenses, capital costs, or abandonment costs are incurred. Because the Trust is unable to provide actual operating expenses for the properties evaluated, typical operating expenses, based on our knowledge of the area and/or field operations, were used to determine the economic limits of production. For undeveloped reserves, typical drilling capital costs, operating expenses, and abandonment costs in these areas were used to validate that the undeveloped reserves are economic.

Several properties incur additional expenses related to transportation, marketing, processing, and other expenses that are charged to the royalty interests. These expenses are reported as transportation expenses. No escalation has been applied to the expenses.

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Our estimates of the Trust s net proved reserves, attributable to the reviewed properties were based on the definitions of proved reserves of the SEC and are summarized by state as follows, expressed in thousands of barrels (Mbbl) and millions of cubic feet (MMcf):

	Estimated by DeGolyer and MacNaughton Net Proved Reserves as of January 1, 2018			
	Proved Developed Reserves		Proved Undeveloped Reserves	
State	**Oil, Condensate, and NGL* (Mbbl)**	**Sales Gas (MMcf)**	**Oil, Condensate, and NGL* (Mbbl)**	**Sales Gas (MMcf)**
Florida	52	0	0	0
Louisiana	66	420	0	0
Mississippi	99	463	17	0
New Mexico	433	2,183	0	0
Oklahoma	642	9,578	0	0
Texas	5,398	21,606	4	2,305
Total	**6,690**	**34,250**	**21**	**2,305**

* Includes total net NGL reserves of 1,884 Mbbl proved developed and 0 Mbbl proved undeveloped.

A projection of the estimated future net revenue from the properties evaluated, as of January 1, 2018, based on the aforementioned assumptions concerning prices and expenses is summarized as follows, expressed in thousands of dollars (M$):

Year Ending December 31	**Future Net Revenue* (M$)**
2018	29,237
2019	26,069
2020	23,657
Subtotal	**78,963**
Remaining	**240,740**
Total	**319,703**

* Future income tax expenses were not taken into account in the preparation of these estimates.

The present worth at a discount rate of 10 percent of future net revenue, as of January 1, 2018, has been estimated to be M$156,300.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant s ability to recover its reserves, we are not aware of any such governmental actions which would restrict the recovery of the January 1, 2018, estimated reserves.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil, condensate, natural gas liquids, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, 932-235-50-9, 932-235-50-30, and 932-235-50-31(a), (b), and (e) of the Accounting Standards Update 932-235-50, *Extractive Industries Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the Financial Accounting Standards Board and Rules 4 10(a) (1) (32) of Regulation S X and Rules 302(b), 1201, 1202(a) (1), (2), (3), (4), (8), and 1203(a) of Regulation S K of the Securities and Exchange Commission; provided, however, that (i) future income tax expenses have not been taken into account in estimating the future net revenue and present worth values set forth herein and (ii) estimates of the proved developed and proved undeveloped reserves are not presented at the beginning of the year.

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To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature, we, as engineers, are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in the Trust. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of Southwest Bank on behalf of the Trust. DeGolyer and MacNaughton has used all assumptions, data, procedures, and methods that it considers necessary and appropriate to prepare this report.

Submitted,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON

Texas Registered Engineering Firm F-716

	/s/ Steven R. Gilbert, P.E.
	Steven R. Gilbert, P.E.
[SEAL]	Senior Vice President
	DeGolyer and MacNaughton

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CERTIFICATE of QUALIFICATION

I, Steven R. Gilbert, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am a Senior Vice President with DeGolyer and MacNaughton, which company did prepare the letter report addressed to Southwest Bank dated February 19, 2018, and that I, as Senior Vice President, was responsible for the preparation of this letter report.

2. That I attended the University of Missouri Rolla, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 1976; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers; and that I have in excess of 34 years of experience in oil and gas reservoir studies and reserves evaluations.

	/s/ Steven R. Gilbert, P.E. Steven R. Gilbert, P.E.
[SEAL]	Senior Vice President DeGolyer and MacNaughton

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There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production and timing of development. The preceding reserve data in the letter regarding the study represent estimates only and should not be construed to be exact. The estimated present worth of future net revenue amounts shown by the study should not be construed as the current fair market value of the estimated oil and gas reserves since a market value determination would include many additional factors.

Reserve estimates may be adjusted from time to time as more accurate information on the volume or recoverability of existing reserves becomes available. Actual reserve quantities do not change, however, except through production. The Trust continues to own only the Royalty Properties that were initially transferred to the Trust at the time of its creation and is prohibited by the Trust Agreement from acquiring additional oil and gas interests.

The future net revenue shown by the study has not been reduced for administrative costs and expenses of the Trust in future years. The costs and expenses of the Trust may increase in future years, depending on the amount of income from the Royalty Properties, increases in the Trustee s fees (including escrow agent fees) and expenses, accounting, engineering, legal and other professional fees, and other factors. It is expected that the costs and expenses of the Trust in 2018 will be approximately $2,800,000.

The present value of future net revenue of the Trust s proved developed reserves increased from $121,083,826 at January 1, 2017 to $156,300,363 at January 1, 2018. This increase resulted primarily from the oil and gas prices used in the calculation of such amount, from an average price of $39.34 per barrel of oil, $11.66 per barrel of NGL and $2.42 per Mcf of gas at January 1, 2017 to an average price of $48.21 per barrel of oil, $15.92 per barrel of NGL and $2.86 per Mcf of gas at January 1, 2018.

Subsequent to year end, the price of both oil and gas continued to fluctuate, giving rise to a correlating adjustment of the respective standardized measure of discounted future net cash flows. As of February 26, 2018, NYMEX posted oil prices were approximately $63.81 per barrel, which compared to the average posted price of $51.34 per barrel, used to calculate the worth of future net revenue of the Trust s proved developed reserves, would result in an increase in the standardized measure of discounted future net cash flows for oil. As of February 26, 2018, NYMEX posted gas prices were $2.60 per million British thermal units. The use of such price, as compared to the average posted price of $3.02 per million British thermal units, used to calculate the future net revenue for the Trust s proved developed reserves would result in a decrease in the standardized measure of discounted future net cash flows for gas.

The volatile nature of the world energy markets makes it difficult to estimate future prices of oil and gas. The prices obtained for oil and gas depend upon numerous factors, none of which is within the Trustee s control, including the domestic and foreign supply of oil and gas and the price of foreign imports, market demand, the price and availability of alternative fuels, the availability of pipeline capacity, instability in oil-producing regions and the effect of governmental regulations.

Item 3. ***Legal Proceedings.***

There are no material pending legal proceedings to which the Registrant is a party or of which any of its property is the subject.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The Units are listed and traded on the New York Stock Exchange under the symbol SBR. The following table sets forth the high and low sales prices for the Units and the aggregate amount of cash distributions paid by the Trust during the periods indicated.

	Sales Price		Distributions
2017	**High**	**Low**	**per Unit**
First Quarter	$ 40.50	$ 33.50	$ 0.54370
Second Quarter	39.00	34.20	0.72290
Third Quarter	41.70	37.00	0.59480
Fourth Quarter	46.90	39.55	0.50697

	Sales Price		Distributions
2016	**High**	**Low**	**per Unit**
First Quarter	$ 34.75	$ 22.75	$ 0.54729
Second Quarter	35.78	28.93	0.40555
Third Quarter	40.99	33.01	0.48619
Fourth Quarter	37.85	33.46	0.49500

At February 15, 2018, there were 14,579,345 Units outstanding and approximately 1,109 Unit holders of record.

The Trust does not maintain any equity compensation plans.

The Trust did not repurchase any Units during the period covered by this report.

Item 6. ***Selected Financial Data.***

Years Ended December 31	**2017**	**2016**	**2015**	**2014**	**2013**
Royalty Income	**$ 37,162,911**	$ 30,022,292	$ 48,386,010	$ 61,089,631	$ 60,778,627
Distributable Income	**34,729,057**	27,475,994	45,964,673	58,687,974	58,719,392
Distributable Income per Unit	**2.38**	1.88	3.15	4.03	4.03
Total Assets at Year End	**5,330,266**	5,234,447	6,113,447	6,845,405	6,949,006
Distributions per Unit	**2.37**	1.93	3.11	4.10	3.92

Item 7. ***Trustee s Discussion and Analysis of Financial Condition and Results of Operations.***

Liquidity and Capital Resources

Sabine Royalty Trust (the Trust) makes monthly distributions to its Unit holders 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 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. Accordingly the Trust is dependent on its operations to generate excess cash flows utilized in making distributions. These operating cash flows are largely dependent on such factors as oil and gas prices and production volumes, which are influenced by many factors beyond the control of the Trust. As a royalty owner, the Trust does not have access to certain types of information that would be disclosed by a company with oil and gas operations. See Item 2. Properties for a discussion of the types of information not available to the Trust.

The amount to be distributed to Unit holders (Monthly Income Amount) is determined on a monthly basis. The Monthly Income Amount is an amount equal to the sum of cash received by the Trust during a monthly period (the period commencing on the day after a monthly record date and continuing through and including the next succeeding monthly record date) attributable to the Royalty Properties, any reduction in cash reserves and any other cash receipts of the Trust, including interest, reduced by the sum of liabilities paid and any increase in cash reserves. Unit holders of record as of the monthly record date (the 15th day of each calendar month, except in limited circumstances) are entitled to have distributed to them the calculated Monthly Income Amount for such month on or before 10 business days after the monthly record date. The Monthly Income Amount per Unit is declared by the Trust no later than 10 days prior to the monthly record date. The cash received by the Trust is primarily from purchasers of the Trust s oil and gas production and consists of gross sales of production less applicable severance taxes.

Results of Operations

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. The Trust s royalty income represents payments received during a particular time period for oil and gas production from the Trust s properties. Because of various factors which influence the timing of the Trust s receipt of payments, royalty income for any particular time period will usually include payments for oil and gas produced in prior periods. The price and volume figures that follow represent the volumes and prices for which the Trust received payment during 2015, 2016, and 2017.

Net royalty income during 2017 increased approximately $7,141,000, or 23.8 percent, compared to 2016 net royalty income, which had decreased approximately $18,364,000, or 38.0 percent, from 2015 net royalty income.

Revenues generated by sales of oil and gas increased in 2017 from 2016 as a result of higher oil and gas prices ($7.7 million) along with higher oil sales volumes ($2.0 million); offset somewhat by lower natural gas sales volumes ($2.0 million) and higher expenses and taxes ($0.6 million).

Gas volumes decreased from 6,374,231 thousand cubic feet (Mcf) in 2016 to 5,681,137 Mcf in 2017 after decreasing from 7,660,348 Mcf in 2015. The average price per Mcf of gas received by the Trust increased from $2.33 in 2016 to $2.95 in 2017 after decreasing from $3.21 in 2015. The Trustee believes that decreased demand of natural gas in the industrial sector, along with downward pressure on the price of oil as well as warmer-than-normal weather early in the year contributed to the decrease of the price of natural gas in 2015. In 2016, the uncertainty spawned by the election as well as a continued surplus in gas inventories continued to keep gas prices at historic lows. Once the election was decided at the end of 2016; along with a warmer-than-normal summer and colder weather late in the year, gas prices rebounded somewhat in 2017.

Oil volumes sold increased to 553,558 barrels (Bbls) in 2017 from 511,636 Bbls in 2016, after having decreased from 551,507 Bbls in 2015. The average sales price of oil increased to $46.81 per Bbl in 2017, from $39.58 per Bbl in 2016, which was a decrease from $54.01 per Bbl in 2015. Continued excess oil inventories caused by increased production of oil in the United States along with OPEC member countries failing to agree on production cuts contributed to the low oil prices in 2015. This was exacerbated by a decrease in demand for oil due to a slow down in the economy and continued geopolitical unrest throughout 2016. Toward the end of 2016, oil prices saw an uptick, which continued throughout 2017. This increase in the price of oil in 2017 was caused by the economy stabilizing and the industrial sector increase in demand.

Interest income was approximately $41,000 in 2017, which had increased from approximately $8,000 in 2016, which had increased from approximately $1,000 in 2015. Changes in interest income are the result of changes in interest rates and funds available for investment.

General and administrative expenses decreased to approximately $2,474,000 in 2017 from approximately $2,555,000 in 2016 due mainly to decreases in printing and Unit holder information services of approximately $55,600; Escrow Agent/Trustee fees of approximately $45,200; and miscellaneous expenses of approximately $29,300. These decreases were offset somewhat by an increase in engineering services of approximately $33,200.

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General and administrative expenses increased to approximately $2,555,000 in 2016 from approximately $2,422,000 in 2015 due mainly to increases in Escrow Agent/Trustee fees of approximately $98,800; printing and Unit holder information services of approximately $38,700; engineering services of approximately $19,500 and other professional expenses of approximately $17,400. These increases were offset somewhat by decreases in lockbox fees of approximately $25,800; legal services of approximately $9,100; ad valorem tax rendition fees of approximately $4,900 and transfer agent fees of fees of approximately $4,400.

The cash received by the Trust is primarily from purchasers of the Trust s oil and gas production and consists of gross sales of production less applicable severance taxes. In July 2017, the Trust received a refund of $288,521 from the State of Oklahoma and in August 2017, the Trust received a refund of $88,225 from the State of New Mexico. Also, in July 2015, the Trust received refunds of $456,197 and $449,108 from the State of Oklahoma and in August 2015, the Trust received a refund of $124,774 from the State of New Mexico. These refunds represented taxes that were withheld from the proceeds of production from the Royalty Properties and remitted to the State of Oklahoma and State of New Mexico by the applicable payors of such proceeds. Income taxes are not payable by the Trust, but are the responsibility of the individual Unit holders. Therefore, the State of Oklahoma and the State of New Mexico refunded the withheld taxes, and the refunds were included as royalty income in the Trust s August 2017, September 2017, August 2015 and September 2015 distributions, respectively.

The Trust did file tax returns for 2015 and 2016 with the States of Oklahoma and New Mexico requesting refunds. The Trust will file tax returns for 2017 with the States of Oklahoma and New Mexico requesting refunds. The refunds represent taxes that were withheld from the proceeds of production from the Royalty Properties and remitted to the State of Oklahoma and the State of New Mexico by the applicable payors of such proceeds.

Contractual Obligations

Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-Term Debt Obligations	0	0	0	0	0
Capital Lease Obligations	0	0	0	0	0
Operating Lease Obligations	0	0	0	0	0
Purchase Obligations	0	0	0	0	0
Other Long-Term Liabilities Reflected on the Trusts Balance Sheet	0	0	0	0	0
Total	0	0	0	0	0

Critical Accounting Policies and Estimates

The Trust s financial statements reflect the selection and application of accounting policies that require the Trust to make significant estimates and assumptions. The following are some of the more critical judgement areas in the application of accounting policies that currently affect the Trust s financial condition and results of operations.

1. Basis of Accounting

The financial statements of the Trust are prepared on the following basis and are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America:

Royalty income, net of severance and ad valorem taxes, and interest income are recognized in the month in which amounts are received by either the escrow agent or the Trust.

Trust expenses, consisting principally of routine general and administrative costs, include payments made during the accounting period. Expenses are accrued to the extent of amounts that become payable on the next monthly record date following the end of the accounting period. Reserves for liabilities that are contingent or uncertain in amount may also be established if considered necessary.

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Royalties that are producing properties are amortized using the unit-of-production method. This amortization is shown as a reduction of Trust corpus.

Distributions to Unit holders are recognized when declared by the Trustee.

The financial statements of the Trust differ from financial statements prepared in conformity with accounting principles generally accepted in the United States of America because of the following:

Royalty income is recognized in the month received rather than in the month of production.

Expenses other than those expected to be paid on the following monthly record date are not accrued.

Amortization of the royalties is shown as a reduction to Trust corpus and not as a charge to operating results.

Reserves may be established for contingencies that would not be recorded under accounting principles generally accepted in the United States of America.

This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission, as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

2. Revenue Recognition

Revenues from royalty interests are recognized in the period in which amounts are received by the Trust or escrow agent. Royalty income received by the Trust or escrow agent in a given calendar year will generally reflect the proceeds, on an entitlements basis, from natural gas produced for the twelve-month period ended September 30th in that calendar year and from oil produced for the twelve-month period ended October 31st in the same calendar year.

3. Reserve Disclosure

The SEC and the Financial Accounting Standards Board requires supplemental disclosures for oil and gas producers based on a standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities. Under this disclosure, future cash inflows are computed by applying the average prices during the 12-month period prior to the fiscal year-end, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future price changes are only considered to the extent provided by contractual arrangements in existence at year end. The standardized measure of discounted future net cash flows is achieved by using a discount rate of 10% a year to reflect the timing of future cash flows relating to proved oil and gas reserves. Numerous uncertainties are inherent in estimating volumes and the value of proved reserves and in projecting future production rates and the timing of development of non-producing reserves. Such reserve estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production may be substantially different from the reserve estimates. See Note 8 of the Notes to Financial Statements in Item 8 hereof for additional information regarding the proved oil and gas reserves of the Trust. Other than those filed with the SEC, our estimated reserves have not been filed with or included in any reports to any federal agency.

4. Contingencies

Contingencies related to the Royalty Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders. The Trustee is aware of no such items as of December 31, 2017.

New Accounting Pronouncements

Revenue Recognition In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers. This update amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods and services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Trust will adopt this standards update, as required, beginning with the first quarter of 2018, but does not believe the adoption of this standard will have a significant impact on its financial statements due to the modified cash basis of reporting used by the Trust.

Off-Balance Sheet Arrangements

As stipulated in the Trust Agreement, the Trust is intended to be passive in nature and the Trustee does not have any control over or any responsibility relating to the operation of the Royalty Properties. The Trustee has powers to collect and distribute proceeds received by the Trust and to pay Trust liabilities and expenses, and its actions have been limited to those activities. Therefore, the Trust has not engaged in any off-balance sheet arrangements.

Inflation

Prices obtained for oil and gas production depend upon numerous factors that are beyond the control of the Trust, including the extent of domestic and foreign production, imports of foreign oil, market demand, domestic and worldwide economic and political conditions, storage capacity and government regulations and tax laws. Prices for both oil and gas have decreased between 2015 and 2017. The following table presents the weighted average prices received per year by the Trust:

	Oil Per BBL	Gas Per Mcf
2017	$ 46.81	$ 2.95
2016	39.58	2.33
2015	54.01	3.21

Forward-Looking Statements

This Annual Report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor created thereby. All statements other than statements of historical fact included in this Annual Report are forward-looking statements. Such statements include, without limitation, factors affecting the price of oil and natural gas contained in Item 1, Business, certain reserve information and other statements contained in Item 2, Properties, certain statements regarding the Trust s financial position, industry conditions and other matters contained in this Item 7 and the satisfaction or waiver of conditions to the Trustee s resignation contained in Item 1, Business . Although the Trustee believes that the expectations reflected in such forward-looking statements are reasonable, such expectations are subject to numerous risks and uncertainties and the Trustee can give no assurance that they will prove correct. There are many factors, none of which is within the Trustee s control, that may cause such expectations not to be realized, including, among other things, factors identified in this Annual Report affecting oil and gas prices (including, without limitation, the domestic and foreign supply of oil and gas and the price of foreign imports, market demand, the price and availability of alternative fuels, the availability of pipeline capacity, instability in oil-producing regions and the effect of governmental regulations), the recoverability of reserves, general economic conditions, actions and policies of petroleum-producing nations and other changes in the domestic and international energy markets and the factors identified in Item 1A, Risk Factors .

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The Trust is a passive entity, and other than the Trust s ability to periodically borrow money as necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust, the Trust is prohibited from engaging in borrowing transactions. The amount of any such borrowings is unlikely to be material to the Trust. The Trust periodically holds short term investments acquired with funds held by the Trust pending distribution to Unit holders and funds held in reserve for the payment of Trust expenses and liabilities. Because of the short-term nature of these borrowings and investments and certain limitations upon the types of such investments which may be held by the Trust, the Trustee believes that the Trust is not subject to any material interest rate risk. The Trust does not engage in transactions in foreign currencies which could expose the Trust or Unit holders to any foreign currency related market risk. The Trust invests in no derivative financial instruments and has no foreign operations or long-term debt instruments.

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Item 8. ***Financial Statements and Supplementary Data.***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Unit Holders of Sabine Royalty Trust and

Simmons Bank, Trustee

Opinion on the Financial Statements

We have audited the accompanying statements of assets, liabilities and trust corpus of Sabine Royalty Trust (the Trust) as of December 31, 2017 and 2016, and the related statements of distributable income and changes in trust corpus for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, and trust corpus of the Trust as of December 31, 2017 and 2016, and the distributable income and changes in trust corpus for the years then ended, in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Trust s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2018 expressed an unqualified opinion thereon.

As described in Note 2 to the financial statements, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by the Trustee, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

WEAVER AND TIDWELL, L.L.P.

We have served as the Trust s auditor since 2016.

Dallas, Texas

March 8, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Unit Holders of Sabine Royalty Trust and

Simmons Bank, Trustee

Dallas, Texas

We have audited the accompanying statements of distributable income and changes in trust corpus of Sabine Royalty Trust (the Trust) for the year ended December 31, 2015. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, these financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, distributable income and changes in trust corpus for the year ended December 31, 2015, on the basis of accounting described in Note 2.

/s/ Deloitte & Touche LLP

Dallas, TX

February 29, 2016

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SABINE ROYALTY TRUST

FINANCIAL STATEMENTS

Statements of Assets, Liabilities and Trust Corpus

	December 31, 2017	December 31, 2016
Assets		
Cash and short-term investments	**$ 5,085,661**	$ 4,961,157
Royalty interests in oil and gas properties less accumulated amortization of $22,150,580 (2017) and $22,121,895 (2016)	**244,605**	273,290
Total	**$ 5,330,266**	$ 5,234,447
Liabilities and Trust Corpus		
Trust expenses payable	**$ 165,041**	$ 247,100
Other payables (Note 4)	**570,841**	564,048
Total liabilities	**735,882**	811,148
Contingencies (Note 2)		
Trust Corpus (14,579,345 units of beneficial interest authorized and outstanding)	**4,594,384**	4,423,299
Total	**$ 5,330,266**	$ 5,234,447

Statements of Distributable Income

	Year Ended December 31, 2017	2016	2015
Royalty Income	**$ 37,162,911**	$ 30,022,292	$ 48,386,010
Interest Income	**40,514**	8,418	747
Total	**37,203,425**	30,030,710	48,386,757
General and administrative expenses (Note 6)	**2,474,368**	2,554,716	2,422,084
Distributable income	**$ 34,729,057**	$ 27,475,994	$ 45,964,673
Distributable income per unit (Basic and Assuming Dilution) (14,579,345 units) (Notes 1,2)	**$ 2.38**	$ 1.88	$ 3.15

Statements of Changes in Trust Corpus

	2017	2016	2015
Trust corpus, beginning of year	**$ 4,423,299**	$ 5,180,285	$ 4,535,292
Amortization of royalty interests	**(28,685)**	(36,087)	(47,896)
Distributable income	**34,729,057**	27,475,994	45,964,673
Distributions to unit holders (Note 3)	**(34,529,287)**	(28,196,893)	(45,271,784)
Trust corpus, end of year	**$ 4,594,384**	$ 4,423,299	$ 5,180,285
Distributions per unit (Note 3)	**$ 2.37**	$ 1.93	$ 3.11

The accompanying notes are an integral part of these financial statements.

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS

1. Trust Organization and Provisions

Sabine Royalty Trust (the Trust) was established by the Sabine Corporation Royalty Trust Agreement (the Trust Agreement), made and entered into effective as of December 31, 1982, to receive a distribution from Sabine Corporation (Sabine) of royalty and mineral interests, including landowner s royalties, overriding royalty interests, minerals (other than executive rights, bonuses and delay rentals), production payments and any other similar, nonparticipatory interest, in certain producing and proved undeveloped oil and gas properties located in Florida, Louisiana, Mississippi, New Mexico, Oklahoma and Texas (the Royalty Properties).

Certificates evidencing units of beneficial interest (the Units) in the Trust were mailed on December 31, 1982 to Sabine s shareholders of record on December 23, 1982, on the basis of one Unit for each share of Sabine s outstanding common stock. In May 1988, Sabine was acquired by Pacific Enterprises, a California corporation. Through a series of mergers, Sabine was merged into Pacific Enterprises Oil Company (USA) (Pacific (USA)), a California corporation and a wholly owned subsidiary of Pacific Enterprises, effective January 1, 1990. This acquisition and the subsequent mergers had no effect on the Units. Pacific (USA), as successor to Sabine, has assumed by operation of law all of Sabine s rights and obligations with respect to the Trust. The Units are listed and traded on the New York Stock Exchange.

In connection with the transfer of the Royalty Properties to the Trust upon its formation, Sabine had reserved to itself all executive rights, including rights to execute leases and to receive bonuses and delay rentals. In January 1993, Pacific (USA) completed the sale of substantially all its producing oil and gas assets to a third party. The sale did not include executive rights relating to the Royalty Properties, and Pacific (USA) s ownership of such rights was not affected by the sale.

The wells on the properties conveyed to the Trust are operated by many companies including large, established companies such as BP Amoco, Chevron, ConocoPhillips and ExxonMobil. The Trustee believes these operators utilize the recovery methods best suited for the particular formations on which the properties are located.

Simmons Bank (the Trustee), acts as trustee of the Trust. The terms of the Trust Agreement provide, among other things, that:

- The Trust shall not engage in any business or commercial activity of any kind or acquire assets other than those initially transferred to the Trust.

- The Trustee may not sell all or any part of its assets unless approved by the holders of a majority of the outstanding Units in which case the sale must be for cash and the proceeds, after satisfying all existing liabilities, promptly distributed to Unit holders.

- The Trustee may establish a cash reserve for the payment of any liability that is contingent or uncertain in amount or that otherwise is not currently due and payable.

The Trustee will use reasonable efforts to cause the Trust and the Unit holders to recognize income and expenses on monthly record dates.

The Trustee is authorized to borrow funds to pay liabilities of the Trust provided that such borrowings are repaid in full before any further distributions are made to Unit holders.

The Trustee will make monthly cash distributions to Unit holders of record on the monthly record date (see Note 3).

On January 9, 2014, Bank of America, N.A. (as successor to InterFirst Bank Dallas, N.A.) gave notice to Unit holders that it was resigning as the Trustee subject to certain conditions including the appointment of Southwest

SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

Bank as trustee of the Trust. At a special meeting of Trust Unit holders the Unit holders approved the appointment of Southwest Bank as successor trustee of the Trust, once Bank of America, N.A. s resignation took effect. The effective date of Bank of America, N.A. s resignation and the effective date of Southwest Bank s appointment as successor trustee was May 30, 2014. Effective October 19, 2017, Simmons First National Corporation (SFNC) completed its acquisition of First Texas BHC, Inc., the parent company of Southwest Bank. SFNC is the parent of Simmons Bank. SFNC merged Southwest Bank with Simmons Bank effective February 20, 2018. The defined term Trustee as used herein shall refer to Bank of America, N.A. for periods prior to May 30, 2014 and shall refer to Southwest Bank for periods from May 30, 2014 through February 19, 2018 and shall refer to Simmons Bank for periods on and after February 20, 2018.

Because of the passive nature of the Trust and the restrictions and limitations on the powers and activities of the Trustee contained in the Trust Agreement, the Trustee does not consider any of the officers and employees of the Trustee to be officers or executive officers of the Trust as such terms are defined under applicable rules and regulations adopted under the Securities Exchange Act of 1934.

The proceeds of production from the Royalty Properties are receivable from hundreds of separate payors. In order to facilitate creation of the Trust and to avoid the administrative expense and inconvenience of daily reporting to Unit holders, the conveyances by Sabine of the Royalty Properties located in five of the six states (Florida, Mississippi, New Mexico, Oklahoma, and Texas) provided for the execution of an escrow agreement by Sabine and the initial trustee of the Trust, in its capacities as trustee of the Trust and as escrow agent. The conveyances by Sabine of the Royalty Properties located in Louisiana provided for the execution of a substantially identical escrow agreement by Sabine and a Louisiana bank in the capacities of escrow agent and of trustee under the name of Sabine Louisiana Royalty Trust. Sabine Louisiana Royalty Trust, the sole beneficiary of which is the Trust, was established in order to avoid uncertainty under Louisiana law as to the legality of the Trustee s holding record title to the Royalty Properties located in Louisiana. Simmons Bank now serves as Trustee of the Sabine Louisiana Royalty Trust, since Louisiana law now permits an out-of-state bank to act in this capacity. Therefore, the trust now only has one escrow agent, which is the Trustee, and a single escrow agreement.

Pursuant to the terms of the escrow agreement and the conveyances of the properties by Sabine, the proceeds of production from the Royalty Properties for each calendar month, and interest thereon, are collected by the escrow agent and are paid to and received by the Trust only on the next monthly record date. The escrow agent has agreed to endeavor to assure that it incurs and pays expenses and fees for each calendar month only on the next monthly record date. The Trust Agreement also provides that the Trustee is to endeavor to assure that income of the Trust will be accrued and received and expenses of the Trust will be incurred and paid only on each monthly record date. Assuming that the escrow agreement is recognized for federal income tax purposes and that the Trustee, as escrow agent is able to control the timing of income and expenses, as stated above, cash and accrual basis Unit holders should be treated as realizing income only on each monthly record date. The Trustee is treating the escrow agreement as effective for tax purposes. However, for financial reporting purposes, royalty and interest income are recorded in the calendar month in which the amounts are received by either the escrow agent or the Trust.

Distributable income as determined for financial reporting purposes for a given quarter will not usually equal the sum of distributions made during that quarter. Rather, distributable income for a given quarter will approximate the sum of the distributions made during the last two months of such quarter and the first month of the next quarter.

2. Accounting Policies

Basis of Accounting

The financial statements of the Trust are prepared on the following basis and are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America:

Royalty income, net of severance and ad valorem taxes, and interest income are recognized in the month in which amounts are received by either the escrow agent or the Trust (see Note 1).

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

Trust expenses, consisting principally of routine general and administrative costs, include payments made during the accounting period. Expenses are accrued to the extent of amounts that become payable on the next monthly record date following the end of the accounting period. Reserves for liabilities that are contingent or uncertain in amount may also be established if considered necessary.

Royalties that are producing properties are amortized using the unit-of-production method. This amortization is shown as a reduction of Trust corpus.

Distributions to Unit holders are recognized when declared by the Trustee (see Note 3).

The financial statements of the Trust differ from financial statements prepared in conformity with accounting principles generally accepted in the United States of America because of the following:

Royalty income is recognized in the month received rather than in the month of production.

Expenses other than those expected to be paid on the following monthly record date are not accrued.

Amortization of the royalties is shown as a reduction to Trust corpus and not as a charge to operating results.

Reserves may be established for contingencies that would not be recorded under accounting principles generally accepted in the United States of America.

This comprehensive basis of accounting other than accounting principles generally accepted in the United States of America corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission, as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

Revenue Recognition

Revenues from royalty interests are recognized in the period in which amounts are received by the Trust or escrow agent. Royalty income received by the Trust or escrow agent in a given calendar year will generally reflect the proceeds, on an entitlements basis, from natural gas produced for the twelve-month period ended September 30th in that calendar year and from oil produced for the twelve-month period ended October 31st in the same calendar year.

Contingencies

Contingencies related to the Royalty Properties that are unfavorably resolved would generally be reflected by the Trust as reductions to future royalty income payments to the Trust with corresponding reductions to cash distributions to Unit holders. The Trustee is aware of no such items as of December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results may differ from such estimates.

Impairment

The Trustee routinely reviews its royalty interests in oil and gas properties for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If an impairment event occurs and it is determined that the carrying value of the Trust s royalty interests may not be recoverable, an impairment will be recognized as measured by the amount by which the carrying amount of the royalty interests exceeds the fair value of

SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

these assets, which would likely be measured by discounting projected cash flows. There is no impairment of the assets as of December 31, 2017.

New Accounting Pronouncements

Revenue Recognition In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers. This update amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods and services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Trust will adopt this standards update, as required, beginning with the first quarter of 2018, but does not believe the adoption of this standard will have a significant impact on its financial statements due to the modified cash basis of reporting used by the Trust.

Distributable Income Per Unit

Basic distributable income per Unit is computed by dividing distributable income by the weighted average Units outstanding. Distributable income per Unit assuming dilution is computed by dividing distributable income by the weighted average number of Units and equivalent Units outstanding. The Trust had no equivalent Units outstanding for any period presented. Therefore, basic distributable income per Unit and distributable income per Unit assuming dilution are the same.

Federal Income Taxes

The Internal Revenue Service has ruled that the Trust is classified as a grantor trust for federal income tax purposes and therefore is not subject to taxation at the trust level. The Unit holders are considered, for federal income tax purposes, to own the Trust s income and principal as though no trust were in existence. Accordingly, no provision for federal income tax expense has been made in these financial statements. The income of the Trust will be deemed to have been received or accrued by each Unit holder at the time such income is received or accrued by the Trust, which is on the record date following the end of each month, as discussed above in Note 1.

Some Trust Units are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a customer in street name, referred to herein collectively as middlemen). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust (WHFIT) for U.S. federal income tax purposes. Simmons Bank, EIN 71-0162300, Post Office Box 962020, Fort Worth, Texas, 76162-2020, telephone number 1-855-588-7839, email address trustee@sbr-sabine.com, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at www.sbr-sabine.com. Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of Unit holders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such Trust Units, including the issuance of IRS Forms 1099 and certain written tax statements. Unit holders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

3. Distributions to Unit Holders

The amount to be distributed to Unit holders (Monthly Income Amount) is determined on a monthly basis. The Monthly Income Amount is an amount equal to the sum of cash received by the Trust during a monthly period (the period commencing on the day after a monthly record date and continuing through and including the next succeeding monthly record date) attributable to the Royalty Properties, any reduction in cash reserves and any other cash receipts of the Trust, including interest, reduced by the sum of liabilities paid and any increase in cash reserves. Unit holders of record as of the

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

monthly record date (the 15th day of each calendar month except in limited circumstances) are entitled to have distributed to them the calculated Monthly Income Amount for such month on or before 10 business days after the monthly record date. The Monthly Income Amount per Unit is declared by the Trust no later than 10 days prior to the monthly record date.

The cash received by the Trust is primarily from purchasers of the Trust s oil and gas production and consists of gross sales of production less applicable severance taxes. In July 2017, the Trust received a refund of $288,521 from the State of Oklahoma and in August 2017, the Trust received a refund of $88,225 from the State of New Mexico. Also, in July 2015, the Trust received refunds of $456,197 and $449,108 from the State of Oklahoma and in August 2015, the Trust received a refund of $124,774 from the State of New Mexico. These refunds represented taxes that were withheld from the proceeds of production from the Royalty Properties and remitted to the State of Oklahoma and State of New Mexico by the applicable payors of such proceeds. Income taxes are not payable by the Trust, but are the responsibility of the individual Unit holders. Therefore, the State of Oklahoma and the State of New Mexico refunded the withheld taxes, and the refunds were included as royalty income in the Trust s August 2017, September 2017, August 2015 and September 2015 distributions, respectively.

The Trust did file tax returns for 2015 and 2016 with the States of Oklahoma and New Mexico requesting refunds. The Trust will file tax returns for 2017 with the States of Oklahoma and New Mexico requesting refunds. The refunds represent taxes that were withheld from the proceeds of production from the Royalty Properties and remitted to the State of Oklahoma and the State of New Mexico by the applicable payors of such proceeds.

4. Other Payables

Other payables consist of the following:

December 31,	**2017**	**2016**
Royalty receipts in suspense pending verification of ownership interest or title	**$ 570,841**	**$ 564,048**

The Trustee believes that these amounts represent an ordinary operating condition of the Trust and that they will be paid or released in the normal course of business.

5. Subsequent Events

Distributions

Subsequent to December 31, 2017, the Trust declared the following distributions:

Notification Date	**Monthly Record Date**	**Payment Date**	**Distribution per Unit**

January 5, 2018	January 16, 2018	January 30, 2018	$ .227020
February 5, 2018	February 15, 2018	February 28, 2018	$ .191220
March 5, 2018	March 15, 2018	March 29, 2018	$ .210680

6. General and Administrative Expenses

General and administrative expenses for the years ended December 31, were as follows:

	2017	**2016**	**2015**
Trustee s fee	**$ 372,390**	$ 383,681	$ 358,985
Escrow agent fee paid to Trustee	**1,117,169**	1,151,046	1,076,947
Professional fees	**401,634**	363,085	361,268
Unit holders services fees	**352,136**	404,880	370,611
Other	**231,039**	252,024	254,273
Total General and Administrative Expenses	**2,474,368**	2,554,716	2,422,084

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

7. Quarterly Financial Data (Unaudited)

The following table sets forth the royalty income, distributable income and distributable income per Unit of the Trust for each quarter in the years ended December 31, 2017 and 2016 (in thousands, except per Unit amounts):

2017	Royalty Income	Distributable Income	Distributable Income per Unit
First Quarter	$ 10,482	$ 9,807	$ 0.67
Second Quarter	8,570	7,900	0.54
Third Quarter	9,098	8,521	0.58
Fourth Quarter	9,013	8,501	0.59
	$ 37,163	$ 34,729	$ 2.38

2016	Royalty Income	Distributable Income	Distributable Income per Unit
First Quarter	$ 6,969	$ 6,169	$ 0.42
Second Quarter	6,504	5,854	0.40
Third Quarter	9,043	8,527	0.58
Fourth Quarter	7,506	6,926	0.48
	$ 30,022	$ 27,476	$ 1.88

8. Supplemental Oil and Gas Information (Unaudited)

Reserve Quantities

Information regarding estimates of the proved oil and gas reserves attributable to the Trust are based on reports prepared by DeGolyer and MacNaughton, independent petroleum engineering consultants. Estimates were prepared in accordance with the guidelines established by the FASB and the Securities and Exchange Commission. Certain information required by this guidance is not presented because that information is not applicable to the Trust due to its passive nature.

Oil and gas reserve quantities (all located in the United States) are estimates based on information available at the time of their preparation. Such estimates are subject to change as additional information becomes available. Reserves actually recovered, and the timing of the production of those reserves, may differ substantially from original estimates. The following schedule presents changes in the Trust s total proved reserves (in thousands):

	Oil (Barrels)	**Gas (Mcf)**
January 1, 2015	6,410	36,332
Revisions of previous statements	185	2,744
Production	(426)	(5,206)
December 31, 2015	6,169	33,870
Revisions of previous statements	244	5,986
Production	(393)	(4,239)
December 31, 2016	6,020	35,617
Revisions of previous statements	1,100	4,976
Production	(409)	(4,038)
December 31, 2017	6,711	36,555

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

Estimated quantities of proved developed reserves of oil and gas as of the dates indicated were as follows (in thousands):

	Oil (Barrels)	Gas (Mcf)
Proved developed reserves:		
January 1, 2015	6,199	33,330
December 31, 2015	6,030*	31,006
December 31, 2016	6,000**	32,845
December 31, 2017	6,690***	34,250

* Includes net proved developed NGL reserves of 1,632 thousand barrels.
** Includes net proved developed NGL reserves of 1,702 thousand barrels.
*** Includes net proved developed NGL reserves of 1,884 thousand barrels.

Disclosure of a Standardized Measure of Discounted Future Net Cash Flows

The following is a summary of a standardized measure (in thousands) of discounted future net cash flows related to the Trust s total proved oil and gas reserve quantities. Information presented is based upon a valuation of proved reserves by using discounted cash flows based upon average posted oil and gas prices ($51.34 per bbl and $3.02 per MMBtu, respectively) during the 12-month period prior to the fiscal year-end, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions and severance and ad valorem taxes, if any, and economic conditions, discounted at the required rate of 10 percent. As the Trust is not subject to taxation at the trust level, no provision for income taxes has been made in the following disclosure. Based on oil and gas product quality and property location, prices received by the Trust were slightly different than the posted prices above resulting in volume weighted average prices attributable to its proved reserves over the lives of the properties of $48.21 per barrel of oil, $15.92 per barrel of NGL, and $2.86 per Mcf.

The impact of changes in current prices on reserves could vary significantly from year to year. Accordingly, the information presented below should not be viewed as an estimate of the fair market value of the Trust s oil and gas properties nor should it be viewed as indicative of any trends.

December 31,	2017	2016	2015
Future net cash inflows	$ 319,703	$ 238,365	$ 276,693
Discount of future net cash flows @ 10%	(163,403)	(117,281)	(136,351)
Standardized measure of discounted future net cash inflows	$ 156,300	$ 121,084	$ 140,342

The change in the standardized measure of discounted future net cash flows for the years ended December 31, 2017, 2016 and 2015 is as follows (in thousands):

	2017	2016	2015
Standardized measure of discounted future net cash flows, January 1,	**$ 121,084**	$ 140,342	$ 260,964
Royalty income, net of severance and ad valorem taxes	**(37,163)**	(30,022)	(48,386)
Changes in prices, net of related costs	**27,387**	(20,688)	(174,016)
Revisions of previous estimates and other	**32,884**	17,418	75,684
Accretion of discount	**12,108**	14,034	26,096
Standardized measure of discounted future net cash flows, December 31,	**$ 156,300**	$ 121,084	$ 140,342

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SABINE ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS (Continued)

Subsequent to year end, the price of both oil and gas continued to fluctuate, giving rise to a correlating adjustment of the respective standardized measure of discounted future net cash flows. As of February 26, 2018, NYMEX posted oil prices were approximately $63.81 per barrel, which compared to the average posted price of $51.34 per barrel, used to calculate the worth of future net revenue of the Trust s proved developed reserves, would result in an increase in the standardized measure of discounted future net cash flows for oil. As of February 26, 2018, NYMEX posted gas prices were $2.60 per million British thermal units. The use of such price, as compared to the average posted price of $3.02 per million British thermal units, used to calculate the future net revenue for the Trust s proved developed reserves would result in a decrease in the standardized measure of discounted future net cash flows for gas.

9. State Taxes

Texas does not impose an individual income tax. Therefore, no part of the income produced by the Trust is subject to an individual income tax in Texas. However, Texas imposes a franchise tax at a rate of .75% on gross revenues less certain deductions, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts and most other types of entities having limited liability protection, unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other non-operated mineral interest income, and do not receive more than 10% of their income from operating an active trade or business, are generally exempt from the Texas franchise tax as passive entities. The Trust has been and expects to continue to be exempt from Texas franchise tax as a passive entity. Because the Trust should be exempt from Texas franchise tax at the Trust level as a passive entity, each Unit holder that is a taxable entity under the Texas franchise tax generally will be required to include its share of Trust revenues in its own Texas franchise tax computation. This revenue is sourced to Texas under provisions of the Texas Administrative Code providing that such income is sourced according to the location of the day-to-day operations of the Trust, which is Texas.

Because the Trust distributes all of its net income to Unit holders, it should not be subject to income tax in Louisiana, Florida, Mississippi, New Mexico or Oklahoma. While the Trust should not owe tax, Unit holders may have a state filing responsibility in each of those states.

Unit holders should consult their own tax advisors regarding state tax requirements, if any, applicable to ownership of Trust Units.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

The Trust determined not to retain Deloitte & Touche LLP as its independent registered public accounting firm, effective as of June 1, 2016, and engaged Weaver and Tidwell, L.L.P. as its new independent registered public accounting firm effective as of June 1, 2016. The decision to change accountants was recommended and approved by the Trustee.

The report of Deloitte on the Trust s financial statements as of and for the year ended December 31, 2015 did not contain an adverse opinion or disclaimer of opinion nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal year ended December 31, 2015, and in the subsequent interim period through the June 1, 2016 effective date of the change, there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused them to make a reference to the subject matter of the disagreements in connection with their report. In addition, there were no reportable events of the kind defined in Item 304(a)(1)(v) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

Item 9A. ***Controls and Procedures.***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Trustee conducted an evaluation of the Trust s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Trustee has concluded that the Trust s disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Changes in Internal Control Over Financial Reporting

There has not been any change in the Trust s internal control over financial reporting during the fourth quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting.

Trustee s Report on Internal Control Over Financial Reporting

The Trustee is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with the modified cash basis of accounting. The Trustee conducted an evaluation of the effectiveness of the Trust s internal control over financial reporting based on the criteria established in *Internal Control Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Trustee s evaluation under the framework in *Internal Control Integrated Framework 2013*, the Trustee concluded that the Trust s internal control over financial reporting was effective as of December 31, 2017. The independent registered public accounting firm of Weaver and Tidwell, L.L.P., as auditors of the statements of assets, liabilities, and trust corpus as of December 31, 2017, and the related statements of distributable income and changes in trust corpus for the year ended December 31, 2017, has issued an attestation report on the Trust s internal control over financial reporting, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Unit Holders of Sabine Royalty Trust and

Simmons Bank, Trustee

Opinion on Internal Control Over Financial Reporting

We have audited Sabine Royalty Trust (the Trust) s internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control - Integrated Framework* 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 financial statements of Sabine Royalty Trust and our report dated March 8, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Trust s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Trustee s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Trust s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Sabine Royalty Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

An entity s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas

March 8, 2018

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Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers and Corporate Governance.***

Directors and Executive Officers. The Registrant has no directors or executive officers. The Trustee is a corporate trustee which may be removed, with or without cause, by the affirmative vote at a meeting duly called and held of the holders of a majority of the Units represented at the meeting.

Compliance with Section 16(a) of the Exchange Act. The Trust has no directors and officers and knows of no Unit holder that is a beneficial owner of more than ten percent of the outstanding Units, and is therefore unaware of any person that failed to report on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended.

Code of Ethics. Because the Trust has no employees, it does not have a code of ethics. Employees of the Trustee, Simmons Bank, must comply with the bank s code of ethics which may be found at http://ir.simmonsbank.com/govdocs.

Audit Committee. The Trust has no directors and therefore has no audit committee or audit committee financial expert.

Nominating Committee. The Trust has no directors and therefore has no nominating committee.

Item 11. ***Executive Compensation.***

Not applicable.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

(a) *Security Ownership of Certain Beneficial Owners.* Based on the Trustee s review of information filed with the SEC as of February 28, 2018, the following table sets forth information with respect to each person known to the Trustee to beneficially own more than 5% of the outstanding Units:

Name and Address	**Amount and Nature of Beneficial Ownership**	**Percent of Class**
Fayez Sarofim Two Houston Center, Suite 2907 909 Fannin Street Houston, TX 77010	801,249[1]	5.5%

(1) Pursuant to a schedule 13G/A filed February 9, 2018, Fayez Sarofim reported as of December 31, 2017, he directly and through certain entities of which he is a controlling person beneficially owned 801,249 Units, of which he had sole voting and dispositive power with respect to 650,000 Units and shared voting and dispositive power with respect to 151,249 Units.

(b) *Security Ownership of Management*. The Trust has no directors or executive officers.

(c) *Changes in Control.* The Trustee knows of no arrangements the operation of which may at a subsequent date result in a change in control of the Registrant.

(d) *Securities Authorized for Issuance Under Equity Compensation Plans.* The Trust has no equity compensation plans.

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Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Not applicable.

Item 14. ***Principal Accounting Fees and Services.***

Fees for services performed by Deloitte & Touche LLP and Weaver and Tidwell, L.L.P. for the years ended December 31, 2017 and 2016 are:

	2017	2016
Audit fees: Deloitte & Touche LLP	**$ 7,709**	$ 107,500
Audit fees - Weaver and Tidwell, L.L.P.	**$ 132,000**	$ 42,000
Audit-related fees: Deloitte & Touche LLP	**$ 0**	$ 0
Audit-related fees: Weaver and Tidwell, L.L.P.	**$ 0**	$ 0
Tax fees: Deloitte & Touche LLP	**$ 31,232**	$ 28,290
All other fees(2)	**$ 10,400**	$ 0

(1) Deloitte & Touche LLP served as the Trust s independent public accounting firm through June 1, 2016, and was replaced by Weaver and Tidwell, L.L.P. effective on that date.

(2) BKD was the firm engaged to audit the Statement of Fees and Expenses Paid by Sabine Royalty Trust to Southwest Bank, as Trustee and Escrow Agent report, as per the Trust agreement, which is filed as Exhibit 99 to this Form 10-K.

As referenced in Item 10, above, the Trust has no audit committee, and as a result, has no audit committee pre-approval policy with respect to fees paid to Deloitte & Touche LLP or Weaver and Tidwell, L.L.P.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

1. *Financial Statements (included in Item 8 of this report)*

Reports of Independent Registered Public Accounting Firm

Statements of Assets, Liabilities and Trust Corpus at December 31, 2017 and 2016

Statements of Distributable Income for Each of the Three Years in the Period Ended December 31, 2017

Statements of Changes in Trust Corpus for Each of the Three Years in the Period Ended December 31, 2017

Notes to Financial Statements

2. *Financial Statement Schedules*

Financial statement schedules are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements and notes thereto.

3. *Exhibits*

(4)(a)*	Sabine Corporation Royalty Trust Agreement effective as of December 31, 1982, by and between Sabine Corporation and InterFirst Bank Dallas, N.A., as trustee. (P)
(b)*	Sabine Corporation Louisiana Royalty Trust Agreement effective as of December 31, 1982, by and between Sabine Corporation and Hibernia National Bank in New Orleans, as trustee, and joined in by InterFirst Bank Dallas, N.A., as trustee. (P)

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(23) Consent of DeGolyer and MacNaughton.

(31) Rule 13a-14(a)(15d-14(a)) Certification.

(32) Certification by Simmons Bank, Trustee of Sabine Royalty Trust, dated March 8, 2018 and submitted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

(99) Report dated February 12, 2018 of the special purpose statement of fees and Expenses paid by Sabine Royalty Trust to Southwest Bank, as Trustee and Escrow Agent.

* Exhibits 4(a) and 4(b) are incorporated herein by reference to Exhibits 4(a) and 4(b), respectively, of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1993.

(P) Paper exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABINE ROYALTY TRUST

BY: SIMMONS BANK, Trustee

By: /s/ RON E. HOOPER
Ron E. Hooper

SVP, Royalty Trust Management

Date: March 8, 2018

(The Registrant has no directors or executive officers.)