

PROSPECTUS

Sabine Corporation

Units of Beneficial Interest Sabine Royalty Trust

Sabine Corporation ("Sabine") proposes to transfer 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 (the "Royalty Properties") to Sabine Royalty Trust, a trust to be formed under the laws of Texas (the "Trust"), and to distribute all of the units of beneficial interest ("Units") in the Trust to the holders of Common Stock of Sabine of record on a date to be specified (the "Distribution Record Date"). This Prospectus describes the issuance and distribution of Units in the Trust and related matters. The Units offered hereby are to be issued to shareholders of Sabine as described in the Proxy Statement forming part of this Prospectus.

The Units will be transferable independently of the Common Stock. Application will be made to list the Units on the New York Stock Exchange. Approval of such application will depend upon satisfaction of the Exchange's listing requirements. See "The Proposed Distribution - Transferability and Trading of Units".

The principal executive offices of Sabine are located at 1200 Mercantile Bank Building, Dallas, Texas 75201, and its telephone number is (214) 741-1501.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED
UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REP-
RESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Prospectus is October 4, 1982.

**NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE
ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION
WITH THE TRANSACTION DESCRIBED HEREIN, AND IF GIVEN OR MADE, SUCH IN-
FORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN
AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURI-
TIES OTHER THAN THE REGISTERED SECURITIES TO WHICH IT RELATES OR AN
OFFER TO ANY PERSON IN ANY STATE WHERE SUCH OFFER WOULD BE UNLAWFUL.
THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT INFOR-
MATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.**

AVAILABLE AND ADDITIONAL INFORMATION

Sabine is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). The reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549; New York Regional Office, 26 Federal Plaza, New York, New York 10007; Los Angeles Regional Office, 10960 Wilshire Boulevard, Suite 1710, Los Angeles, California 90024; and Chicago Regional Office, Everett McKinley Dirksen Building, 219 South Dearborn Street, Room 1204, Chicago, Illinois 60604. Copies of such material can also be obtained from the Public Reference Section of the Commission, Washington, D.C. 20549, at prescribed rates. In addition, similar information concerning Sabine can be inspected and copied at the New York Stock Exchange, 20 Broad Street, 7th Floor, New York, New York.

Sabine has filed with the Commission in Washington, D.C., a Registration Statement (No. 2-78837) under the Securities Act of 1933, as amended, with respect to the issuance and distribution of the Units (the "Registration Statement"). This Proxy Statement, which forms a part of the Registration Statement, does not contain all the information set forth in the Registration Statement, certain parts having been omitted pursuant to the rules and regulations of the Commission. The omitted information may be examined at the Commission's principal office in Washington, D.C. and obtained upon payment of the fees prescribed by the Commission.

In order to avoid uncertainty under Louisiana and Florida law as to the legality of the Trustee's holding record title to the Royalty Properties located in those states, title to such properties will be transferred to and held by separate trusts to be formed under the laws of Louisiana and Florida, respectively, the sole beneficiary of each of which will be the Trust. The Louisiana trust will be a passive entity, with the trustee thereof having only such powers as are necessary for the collection and distribution of revenues from and the protection of the Royalty Properties located in Louisiana and the payment of liabilities of the Louisiana trust. The trustee of the Louisiana trust will be a banking association organized under the laws of the United States and having its principal trust office in Louisiana. While record title to the Royalty Properties located in Florida will be held by a state or national bank located in that state, the Trustee will collect and distribute the revenues attributable to the Royalty Properties located in Florida. As used herein, the term "Royalty Properties" includes the Royalty Properties held directly by the Trust and the Royalty Properties located in Louisiana and Florida held indirectly through the Trust's ownership of 100 percent beneficial interest of the Louisiana and Florida trusts. In describing the transactions contemplated hereby, this Proxy Statement disregards the technical ownership formalities described in this paragraph since they have no effect on the tax or accounting treatment of the Royalty Properties or on the substance of the transactions.

Unless the context otherwise requires, references herein to "Sabine" or the "Company" include Sabine Corporation and its subsidiaries.

SUMMARY OF CERTAIN INFORMATION

The following summary is qualified in its entirety by reference to the more detailed information, reserve data and financial statements appearing elsewhere in this Proxy Statement.

THE MEETING

- Time and Date:** 10:00 A.M., local time, on Friday, November 12, 1982.
- Place:** Auditorium on the fourth floor of the Mercantile National Bank Building, Dallas, Texas.
- Meeting Record Date:** Holders of common stock, without par value, of Sabine ("Common Stock") of record at the close of business on September 16, 1982 are entitled to notice of and to vote at the meeting and any adjournment thereof.
- Matters to be Considered and Acted Upon:**
- (1) The proposed authorization and approval of the transfer 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 producing and proved undeveloped oil and gas properties in six states (the "Royalty Properties") to Sabine Royalty Trust, a trust to be formed under the laws of Texas (the "Trust"), the distribution of all units of beneficial interest (the "Units") in the Trust to Sabine's shareholders (the "Distribution") of record on a date to be specified (the "Distribution Record Date") and the appointment of a trustee (the "Trustee") of the Trust.
 - (2) The proposed amendment of Sabine's employee stock option plans (i) to permit adjustment of the exercise price of and number of shares covered by outstanding nonqualified options granted to employees under the plans that are not exercised prior to the Distribution Record Date and (ii) to adjust proportionately the number of shares issuable under the plans.
 - (3) The proposed amendment of outstanding stock options granted to non-employee directors so as to accelerate their exercisability and to adjust the exercise price of and number of shares covered by such options that are not exercised prior to the Distribution Record Date.
- Votes Required:** The presence of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum. Although no vote of the shareholders is required by applicable law for the authorization of the Distribution, Sabine is seeking shareholder approval because of the importance of the proposal. The affirmative vote of the holders of a majority of the shares of Common Stock represented at the meeting will constitute shareholder approval of the Distribution. Sabine's Board of Directors may proceed with the Distribution under certain circumstances even if shareholder approval is not obtained. Amendment of Sabine's employee stock option plans and nonqualified stock options granted thereunder and amendment of the outstanding stock options granted to non-employee directors each require the affirmative vote of a majority of the outstanding shares of Common Stock.
- Proxies:** The enclosed proxy is solicited by Sabine's Board of Directors and can be revoked before it is voted.

THE DISTRIBUTION

Holders of issued and outstanding shares of Common Stock of record at the close of business on the Distribution Record Date will receive one Unit for each share of Common Stock so held. Each Unit will represent an equal undivided share of beneficial interest in the Trust and will not be an interest in or obligation of Sabine. Units will be transferable separately from shares of Common Stock and application will be made to list the Units on the New York Stock Exchange. See "The Proposed Distribution — Transferability and Trading of Units". The Distribution will not affect the listing of the Common Stock on the New York Stock Exchange. Transfer of Units upon death of a Unit holder may be restricted under, and certain rights and obligations of a Unit holder may be affected by, applicable state laws. See "State Law and Tax Considerations".

THE TRUST

The assets of the Trust will consist of the Royalty Properties which will constitute an interest in gross production of oil, gas and other minerals free of the costs of production. The Royalty Properties will not be carved out of any of Sabine's working interests in effecting the Distribution. The Royalty Properties to be transferred to the Trust include landowner's royalties, overriding royalty interests, minerals (other than executive rights, bonuses and delay rentals) and production payments in producing and proved undeveloped oil and gas properties located in six states. The Trustee will be InterFirst Bank Dallas, N.A., 1201 Elm Street, Dallas, Texas 75250. The Trust will not engage in any active business. The Trustee will collect income attributable to Trust properties, pay or make provision for Trust expenses and liabilities and distribute available cash to Unit holders on a monthly basis.

CANADIAN ASSETS

The Company has entered into agreements for the sale of all of its Canadian operations and properties for approximately \$83.5 million, subject to adjustment. Consummation of the transaction, which is anticipated to occur in January 1983, is subject to various regulatory approvals and other matters. Shareholder approval in connection with the proposed sale of Canadian assets is not being sought by the Company. See "Proposed Sale of Canadian Assets".

EFFECT ON SABINE

After the Distribution, Sabine will continue its present business of acquiring, exploring for, developing and producing oil and gas and other energy-related minerals. See "Continuing Business and Properties of Sabine". Sabine's net assets and future revenues and net income will be reduced as a result of the transfer of the Royalty Properties to the Trust and the proposed sale of its Canadian assets. See "Proposed Sale of Canadian Assets". See "The Proposed Distribution — Certain Comparative Data" for financial data concerning Sabine and the Trust. Any cash dividends paid on the Common Stock following the Distribution are expected to be substantially less than the amount currently being paid. See "Market and Dividend Information".

SELECTED OIL AND GAS RESERVE DATA

As of January 1, 1982				
<u>Sabine</u>				
<u>Pro Forma Assuming</u>				
	<u>Historical</u>	<u>The Distri- bution</u>	<u>The Distri- bution and Sale of Canadian Assets</u>	<u>Sabine Royalty Trust</u>
Estimated proved oil reserves (millions of barrels)	21.8	12.5	8.2	9.3
Estimated proved gas reserves (billions of cubic feet)	241.3	181.4	117.4	59.9
Estimated future net revenue from proved oil and gas reserves (millions of dollars)	\$1,066.5	\$678.0	\$499.9	\$388.5
Present value of estimated future net revenue discounted at 10 percent (millions of dollars)	\$ 607.9	\$390.3	\$320.5	\$217.6

Present value as used herein should not be taken to be the fair market value, since no consideration has been given to the many factors which influence the prices at which petroleum properties are traded. In the same manner, estimated future net revenue as reported does not represent a forecast to be realized by the Company or the Trust. Reserve estimates are, by their very nature, imprecise and subject to periodic change and revision. The Company emphasizes that these estimates are subject to change as future information becomes available. For more detailed reserve information, see "Description of Royalty Properties – Reserves" and "Description of Continuing Business and Properties of Sabine – Reserves".

INCOME TAX CONSEQUENCES

The Distribution will be treated as a taxable distribution on the Common Stock for federal income tax purposes. See "Income Tax Consequences" for certain information as to the federal and state income tax treatment of the Distribution.

CERTAIN DEFINITIONS

Definitions of certain terms used in this Proxy Statement appear herein under "Definitions of Certain Terms".

SABINE CORPORATION
1200 Mercantile Bank Building
Dallas, Texas 75201

**Proxy Statement
For
Special Meeting of Shareholders
To Be Held November 12, 1982**

GENERAL

The accompanying proxy is solicited by the Board of Directors of Sabine Corporation ("Sabine" or the "Company") for use at a special meeting of shareholders to be held at the time and place and for the purposes set forth in the accompanying Notice of Special Meeting of Shareholders. Proxies in the accompanying form that are properly executed and returned in time for the meeting will be voted in accordance with the instructions given therein by the signatory shareholder. If no instructions are given, such proxy will be voted "FOR" each of the proposals described in this Proxy Statement and in the transaction of such other business as may properly come before the meeting and any adjournment thereof according to the discretion of the appointed attorneys and proxies. Granting a proxy does not preclude the right to vote in person, and a person may revoke his proxy by notice in writing to the Secretary or any Assistant Secretary of Sabine at any time before the proxy has been voted.

All expenses of solicitation will be borne by Sabine. Sabine has retained the firm of Georgeson & Co. to solicit proxies in the enclosed form and will pay such firm a fee not to exceed \$10,000 and its reasonable expenses. In addition, solicitation may be made in person or by mail, telephone or telegram by directors, officers or regular employees of Sabine without additional compensation. Banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries will be requested to forward solicitation material to the beneficial owners of Common Stock held of record by such persons and will be reimbursed for reasonable forwarding expenses.

This Proxy Statement is being mailed to shareholders on or about October 4, 1982.

PURPOSES OF THE MEETING

At the meeting, the shareholders will consider and act upon the following matters:

1. The proposal to transfer the Royalty Properties to the Trust, to effect the distribution of Units in the Trust to Sabine's shareholders (the "Distribution") of record on the Distribution Record Date and to appoint InterFirst Bank Dallas, N.A. as trustee (the "Trustee") of the Trust.
2. The proposed amendment of Sabine's employee stock option plans (i) to permit adjustment of the exercise price of and number of shares covered by outstanding nonqualified options granted under the plans that are not exercised prior to the Distribution Record Date and (ii) to adjust proportionately the number of shares issuable under the plans.
3. The proposed amendment of outstanding stock options granted to non-employee directors to accelerate the exercisability thereof so that they will become fully exercisable prior to the Distribution Record Date and to adjust the exercise price of and number of shares covered by such options that are not exercised prior to the Distribution Record Date.

VOTING AT THE MEETING

General

Shareholders of record at the close of business on September 16, 1982 (the "Meeting Record Date"), are entitled to notice of and to vote at the meeting and any adjournment thereof. The stock transfer books will not be closed. At the Meeting Record Date, there were issued and outstanding 14,480,969 shares of Common Stock. Each share is entitled to one vote and the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum.

No person was known by management, as of the Meeting Record Date, to own of record or beneficially more than five percent of the outstanding shares of Common Stock. The following table shows all shares of Common Stock of Sabine beneficially owned by each director of Sabine, individually, and by all directors and officers of Sabine as a group.

	Common Stock Owned as of September 16, 1982(1)	
	Number of Shares(2)	Percent of Outstanding Shares(3)
Harold D. Carter	71,891(4)	0.47663%
William R. Goff	93,392(5)	0.61918%
James B. Goodson	9,000(6)	0.05967%
Owen L. Hill	8,740(6)	0.05795%
James H. Kinley	129,900(7)	0.86122%
J. R. Latimer, Jr.	13,252(8)	0.08786%
Ashley H. Priddy	554,737(9)	3.67785%
Robert T. Priddy	583,222(10)	3.86669%
R. C. Rieder	10,000(6)	0.06629%
Frank A. Schultz	69,740(11)	0.46237%
Andrew J. Shoup, Jr.	51,226(12)	0.33962%
Starkey A. Wilson	11,450(6)	0.07591%
All Directors and Officers as a group	1,845,167(13)	12.23326%

- (1) Those officers and directors who are employees of Sabine may participate in Sabine's Thrift Plan for Employees and Sabine's Employee Stock Ownership Plan upon completion of the necessary periods of employment with Sabine for eligibility. All information concerning ownership of shares in either of such plans is as of December 31, 1981, the date of the last annual report of ownership by the trustee of each plan. The above table and its footnotes assume that the shareholders will approve the proposal to accelerate the exercisability of options granted to non-employee directors and includes such options.
- (2) InterFirst Bank Dallas, N.A. serves as trustee under both the Sabine Thrift Plan for Employees and Sabine Employee Stock Ownership Plan. Under the terms of the Thrift Plan, the trustee has sole voting authority over shares of Sabine held by the trustee. Under the terms of the Employee Stock Ownership Plan, each participant has the right to direct the manner in which the trustee votes the shares in his account. See "Description of the Trust Agreement - Creation and Organization of the Trust".
- (3) Outstanding shares for the purpose of calculating these percentages does not include shares held by or for the account of Sabine but includes shares which can be acquired within 60 days by the exercise of stock options held by the named persons and group. The officers and directors included in this table and footnotes have no voting authority with respect to, and disclaim beneficial ownership of, such options.

THE PROPOSED DISTRIBUTION

Reasons for the Distribution

Sabine's intention to effect the proposed Distribution was announced publicly on February 20, 1982, following a meeting of the Board of Directors held on that date in which the Board authorized management to develop a specific plan for the creation of a royalty trust and distribution of interests therein to its shareholders. The closing price of Sabine's Common Stock on the New York Stock Exchange on the day preceding the announcement was \$29.125 per share and on the first trading day following the announcement was \$31.50 per share. For such price as of a recent date, see "Market and Dividend Information".

At a meeting of the Board of Directors of Sabine held on August 12, 1982, the Board unanimously recommended for approval by shareholders the creation of the Trust, the appointment of InterFirst Bank Dallas, N.A. as Trustee, the transfer of the Royalty Properties to the Trust in exchange for Units and the Distribution of the Units to shareholders of Common Stock of Sabine.

The Board of Directors believes that the current market prices for Sabine's Common Stock unduly discount the value of the Company's assets, particularly its substantial producing and proved undeveloped mineral and royalty properties. The result of the Distribution will approximate as closely as possible the transfer of direct ownership of substantially all of these mineral and royalty properties to Sabine's shareholders.

Since the Trust will have significant revenues from production and relatively small expenses as compared to such income, Unit holders should receive regular cash distributions. The Trust is not expected to be a taxpaying entity and should not be subject to tax on income from its properties at the Trust level either when received by the Trust or when distributed to Unit holders. Accordingly, the income would not be subject to "double taxation" as in the case of income distributed as a dividend by a corporation. However, shareholders of Sabine will recognize significant taxable income upon receipt of the Units and will report income attributable to their Units, in accordance with their method of accounting, as such income is received by the Trust. For additional tax information, see "Income Tax Consequences".

The Board of Directors believes that the rapid growth of the Company in recent years makes it possible to effect the Distribution without impairing Sabine's viability as an oil and gas exploration, development and production company. In the future corporate growth will be measured from a smaller base and it is believed that results of operations will be more appropriately reflected in the markets for the Company's securities.

Principal Effects on Sabine's Shareholders

The Distribution will be accomplished in two steps. Sabine will first convey the Royalty Properties to the Trust in exchange for the Units and then the Units will be distributed to Sabine's shareholders on the basis of one Unit for each share of Common Stock outstanding on the Distribution Record Date. Shareholders of Sabine will receive a certificate or certificates evidencing the number of Units to which they are entitled.

Following the Distribution, Sabine will continue in existence as an operating company owning (i) all presently owned producing and nonproducing mineral and royalty interests not constituting part of the Royalty Properties; (ii) all presently owned leasehold interests; and (iii) all other assets presently owned. See "Continuing Business and Properties of Sabine". Sabine has entered into agreements to sell all of its Canadian assets. See "Proposed Sale of Canadian Assets".

Nature of the Trust

The Trust will be a passive entity, with the Trustee having only such powers as are necessary to discharge its duties under the Trust Agreement, including the power to collect and distribute revenues from the Royalty Properties and to pay Trust liabilities. Sabine will retain the executive rights with respect to the minerals included in the Royalty Properties and the right to receive any future bonus payments or delay rentals resulting from leases with respect to such minerals. See paragraph 3 of the form of conveyance set forth as Exhibit A to the Trust Agreement attached hereto as Annex A. Because Sabine will retain these rights, the Trustee will not be required to make any investment or operating decisions with respect to the Royalty Properties. As more fully described below, the Trustee's duties will be essentially ministerial in nature and will be specified in detail in the Royalty Trust Agreement to be entered into between Sabine and the Trustee. See "Description of the Trust Agreement". The function of the Trustee will be to collect revenues attributable to the Trust properties and to distribute such income on a monthly basis to the Unit holders after paying or making provision for all expenses and liabilities. The Trust will pay its own administrative expenses, including the fees of the Trustee. For information on the voting rights of Unit holders, see "Description of the Trust Agreement - Voting Rights of Unit Holders".

Sabine has requested tax rulings from the Internal Revenue Service to the effect that for federal income tax purposes the Trust will be characterized as a "grantor trust" as to the Unit holders and not as an association taxable as a corporation or as a simple or complex trust. See "Income Tax Consequences - Request for Rulings and Tax Opinion".

Method of Distribution

In order to effect the Distribution, Sabine will establish the Distribution Record Date in accordance with its bylaws and applicable law. The Distribution will be made on December 31, 1982 to shareholders of record on the Distribution Record Date. The Distribution will be effected by mailing to each such shareholder or to the Transfer Agent and Registrar of the Trust, on behalf of each such shareholder, a certificate representing the number of Units to which he is entitled. In addition, with respect to each such shareholder who is a nonresident alien individual or foreign corporation, Sabine will deposit with its transfer agent an amount sufficient to satisfy applicable United States withholding taxes payable by such shareholder with respect to the Units received. Promptly after the Distribution, Sabine will invoice each nonresident alien individual and foreign corporation for such shareholder's allocable portion of the withholding taxes advanced by Sabine. See "Income Tax Consequences - Tax Consequences of Transfer of Royalty Properties to Trust and Distribution of Units".

Consents Required

The Company's revolving credit agreements with a group of banks contain a covenant restricting, among other things, certain distributions. Consummation of the Distribution and the sale of Sabine's

Canadian assets will require the consents of banks holding at least 66⅔ percent of the aggregate unpaid principal amount of the revolving credit notes issued by the Company under the revolving credit agreements. The banks have orally committed to give the required consents and formal written consents will be obtained before the Distribution and the sale of Canadian assets are effected.

Right to Abandon Distribution

It is the present intention of the Board of Directors of Sabine to effect the Distribution based upon the opinion of counsel described under "Income Tax Consequences – Request for Rulings and Tax Opinion" unless Sabine receives notice prior to the Distribution of a change in the tax laws or interpretation thereof which would render any material legal conclusion stated in such opinion incorrect in any material respect. However, in requesting shareholder approval of the Distribution, the Board of Directors specifically reserves the right to abandon or delay the Distribution, whether or not it is approved by shareholders, if there arises any event or condition that, in the determination of the Board in its sole discretion, renders such an abandonment or delay advisable. The Board of Directors of Sabine has not attempted to identify, or establish objective criteria for evaluating, the particular types of events or conditions that would cause the Board to consider abandoning or delaying the Distribution.

Transferability and Trading of Units

The Units will be transferable independently of the Common Stock and are expected to have a separate trading market. Application will be made to list the Units on the New York Stock Exchange. Approval of the application will be dependent upon satisfaction of the Exchange's listing requirements which Sabine believes will be met by the Trust. If, however, the application is not approved or approval is delayed, it is expected that the Units will be traded in the over-the-counter market. Sabine can give no assurance as to the level of trading activity with respect to the Units. The Common Stock will continue to be listed on the New York Stock Exchange.

The transfer of Units may be restricted under applicable state laws. See "State Law and Tax Considerations".

Under the Royalty Trust Agreement, the Trust has sole responsibility to file all registration statements, reports and other materials required by law, including the Securities Exchange Act of 1934 and the rules and regulations thereunder, and by any securities exchange on which the Units are listed at any time. The cost of preparing and filing such materials will be borne by the Trust.

Applicability of State Laws

The Units may be deemed to constitute real property or interests in real property in certain of the states in which the Royalty Properties are located and thus may be subject to applicable state probate laws and related inheritance, gift and similar taxes. For information as to the applicability of state income tax laws and other state laws to the Trust and to Unit holders, see "State Law and Tax Considerations". Shareholders are advised to consult such counsel or other advisors as they deem appropriate concerning the applicability of such matters to their individual circumstances.

Certain Comparative Data

The following table shows certain comparative information regarding Sabine on both an historical and a pro forma basis. See "Notes to Unaudited Pro Forma Financial Statements" for a discussion of the pro forma adjustments.

	June 30, 1982		
	Pro Forma Assuming		
		The Distribution and Sale of Canadian Assets	
	Historical	The Distribution (In thousands)	
Financial data:			
Total assets	\$372,933	\$349,421	\$363,214
Common shareholders' investment	\$190,659	\$166,392	\$189,488

	Six Months Ended June 30,					
	1982			1981		
	Pro Forma Assuming			Pro Forma Assuming		
	Historical	The Distribution	The Distribution and Sale of Canadian Assets	Historical	The Distribution	The Distribution and Sale of Canadian Assets
Production:						
Oil (thousands of barrels)	1,538	945	721	1,437	790	668
Gas (millions of cubic feet)	16,891	11,529	9,661	14,938	10,489	9,072
Plant products (thousands of barrels)	110	55	44	220	160	152

The following table shows comparative net income (loss), net income (loss) per share and book value per share for Sabine on both an historical and a pro forma basis, and the historical cash dividends per share paid by Sabine, at the dates and for the periods indicated. All data have been adjusted retroactively for all prior stock dividends and splits. See "Notes to Unaudited Pro Forma Financial Statements" for a discussion of the pro forma adjustments.

	Six Months Ended June 30,		Year Ended December 31,
	1982	1981	1981
	(In thousands except for per share amounts)		
Historical net income	\$13,393	\$16,035	\$28,342
Pro forma net income (loss):			
Assuming the Distribution	(986)	3,652	2,449
Assuming the Distribution and Sale of Canadian Assets	(1,377)	4,287	5,723
Historical net income per share	.93	1.10	1.94
Pro forma net income (loss) per share:			
Assuming the Distribution	(.07)	.25	.17
Assuming the Distribution and Sale of Canadian Assets	(.10)	.29	.39
Historical book value per share at June 30, 1982	13.17		
Pro forma book value per share at June 30, 1982:			
Assuming the Distribution	11.49		
Assuming the Distribution and Sale of Canadian Assets	13.09		
Historical cash dividends	.20	.18	.37

The following table shows certain proved oil and gas reserve data of Sabine as of January 1, 1982 and indicates the reserves of the Company before the Distribution and the sale of Canadian assets and on a pro forma basis after the consummation of such transactions. The reserve data are based on information provided by independent petroleum engineering consultants as described under "Description of Royalty Properties – Reserves" and "Continuing Business and Properties of Sabine – Reserves".

	Before Distri- bution and Sale of Canadian Assets	Pro Forma						
		Reduction Due to			After Distri- bution and Sale of Canadian Assets	Percentage		
		Distri- bution	Sale of Canadian Assets	After Distri- bution		Distrib- uted	Sold	Retained After Distri- bution and Sale
Reserve data, as of January 1, 1982								
Proved reserves								
Oil (millions of barrels) ..	21.8	9.3	4.3	12.5	8.2	42.7%	19.7%	37.6%
Gas (billions of cubic feet)	241.3	59.9	64.0	181.4	117.4	24.8%	26.5%	48.7%
Estimated future net revenue from proved reserves (millions of dollars)	\$1,066.5	\$388.5	\$178.1	\$678.0	\$499.9	36.4%	16.7%	46.9%
Present value of estimated future net revenue discounted at 10 percent (millions of dollars)	\$ 607.9	\$217.6	\$ 69.8	\$390.3	\$320.5	35.8%	11.5%	52.7%

Expenses

All expenses in connection with the Distribution (estimated at \$675,000) will be borne by Sabine.

INCOME TAX CONSEQUENCES

The creation of the Trust, the transfer of the Royalty Properties to the Trust and the Distribution of the Units to Sabine's shareholders raise a number of significant federal income tax issues. The Company has requested advance rulings from the Internal Revenue Service (the "Service") as to certain of the tax consequences described below. The Company is relying as to certain other tax issues on the opinion of special counsel. Since the Service has refused to issue certain rulings with respect to transactions somewhat similar to the Distribution, the Company is uncertain whether the Service will issue the requested rulings. In the event the requested rulings are not received by the date of the Distribution, the Company intends to proceed with the Distribution based on the opinion of Thompson & Knight, its special counsel. Special counsel has advised the Company that certain of the tax consequences described below are supported by the Internal Revenue Code of 1954, as amended (the "Code"), and the regulations and rulings thereunder or by authoritative court decisions and that certain other tax consequences described below are proper legal conclusions which, although there is no direct authority, are supported by the better reasoned analysis of the law. The opinion of counsel will not be binding on the Service or the courts.

The federal income tax consequences of the Distribution are highly complex and the following discussion is intended only as a summary and does not purport to furnish detailed tax information to shareholders of Sabine. All shareholders are urged to consult their own tax advisors as to their personal tax situation.

Request for Rulings and Tax Opinion

The advance rulings which the Company has requested from the Service are as follows:

1. The Trust will be characterized as a trust and not as an association taxable as a corporation.
2. The Trust will be characterized as a "grantor" trust as to the Unit holders and not as a "non-grantor" trust (a "simple" or "complex" trust).
3. Income, losses and deductions of the Trust will be reported directly by the Unit holders.
4. The Company will not recognize gain or loss upon the transfer of the Royalty Properties to the Trust and the receipt of the Units.
5. The Company will not recognize gain or loss upon its distribution of Units to its shareholders.
6. The amount distributed to a noncorporate shareholder will be equal to the amount of cash distributed (if any) plus the fair market value of the Units distributed as of the date of the Distribution.
7. The amount distributed to a corporate shareholder will be equal to the amount of cash distributed (if any) plus the lesser of the fair market value of the Units distributed as of the date of the Distribution or the Units' adjusted basis in the Company's hands immediately prior to the Distribution.
8. The amount distributed will be a dividend to the distributees to the extent the Distribution is made out of the greater of the Company's accumulated earnings and profits through the end of the calendar year in which the Distribution occurs, or the Company's earnings and profits for the calendar year in which the Distribution occurs (computed as of the close of such year without diminution by distributions made during such year).
9. For purposes of determining (i) the fair market value of the Units distributed and (ii) the Company's earnings and profits out of which the Distribution was made, the date of the Distribution of the Units will be the date that the Company places the certificates evidencing the Units in the U.S. mail.
10. Assuming that the Units are actually received by the distributees from the U.S. mail in January 1983, the Units will be included in the gross income of the distributees for their taxable years which include January 1983.
11. Unit holders will be entitled to deduct cost depletion with respect to their pro rata interests in the Royalty Properties computed by reference to the Unit holders' basis in their Units.
12. The transfer of a Unit of the Trust will be considered to be the transfer of the proportionate part of the Royalty Properties attributable to such Unit.
13. The Unit holders will be treated as the producers of crude oil attributable to their pro rata interests in the Royalty Properties for windfall profit tax purposes.
14. For purposes of determining eligibility for percentage depletion pursuant to Section 613A(c)(9) of the Code with respect to the oil and natural gas resulting from secondary or tertiary processes, the determination and computation will be made at the Unit holder level and not at the Trust level.

In Revenue Procedure 81-8, 1981-1 C.B. 623, and Revenue Procedure 81-10, 1981-1 C.B. 647, the Service announced that it would not issue rulings regarding the classification of a trust where a corporation carved a royalty out of its working interest, transferred such royalty to a trust retaining the working interest and distributed units of ownership in the trust to its shareholders. The Company believes that the Distribution differs in material respects from the transaction described in Revenue Procedures 81-8 and 81-10 because the Royalty Properties to be transferred to the Trust consist of existing mineral and royalty interests owned by the Company and the Royalty Properties will not be carved out of the Company's working interests. Since the Service has announced a "no ruling" policy with respect to certain transactions that are somewhat similar to the creation of the Trust, the Company is uncertain whether the Service will issue the requested rulings.

The Company may withdraw its request for some or all of the rulings stated above. In any event, if the Company has not received the requested rulings by the date of the Distribution, the Company intends to proceed with the Distribution based on the opinion of Thompson & Knight, counsel to the Company. Thompson & Knight has advised the Company that, in their opinion, each of the tax consequences stated in the requested rulings numbered 1, 4, 5, 6, 7 and 8 above is a correct legal conclusion which is supported by the existing Code and the regulations and rulings thereunder or by authoritative court decisions. Thompson & Knight has also advised the Company that, although there is no direct authority, in their opinion, each of the tax consequences stated in the requested rulings numbered 2, 3, 9, 10, 11, 12, 13 and 14 above is a proper legal conclusion which is supported by the better reasoned analysis of the law. The opinion of counsel will not be binding on the Service or the courts.

No other rulings have been or will be requested from the Service, and, except as noted below, no opinion of counsel has been requested or rendered as to any other tax consequences discussed herein. The opinion of Thompson & Knight is based on the facts set forth herein and upon existing laws, regulations and administrative and judicial interpretations which are subject to change, with or without retroactive effect.

Tax Consequences of Transfer of Royalty Properties to Trust and Distribution of Units

Consequences to the Company. The transfer of the Royalty Properties to the Trust followed by the distribution of the Units to the Company's shareholders will be treated as a distribution of the Royalty Properties to its shareholders which should not result in the recognition of any gain or loss by the Company. Income attributable to the Royalty Properties will not be taxable to the Company following the Distribution.

General Consequences to the Shareholders. Although the shareholders will actually receive Units in the Distribution, each shareholder will be deemed for tax purposes to have received undivided fractional interests in the Royalty Properties equal to his percentage ownership of the Company's stock and then to have contributed such interests in the Royalty Properties to the Trust in exchange for Units. References in the subsequent discussion to the basis or holding period of Units are for convenience only; a Unit holder should not have a tax basis or holding period in a Unit separate or distinct from his basis or holding period in the undivided fractional interests in the Royalty Properties that the Unit represents.

The amount deemed to be distributed to either a noncorporate or corporate shareholder, as stated below, will be taxable as a dividend to the extent the Distribution is made out of the Company's earnings and profits (as determined for federal income tax purposes) that have accumulated since the Company's formation through the end of 1982. The Company believes that the amount of earnings and profits attributable to each share of Common Stock should be determined by dividing the aggregate amount of earnings and profits for tax purposes by the number of shares of outstanding Common Stock. On this basis, the Company's calculations indicate that its earnings and profits for tax purposes will be approximately \$8.50 per share by the end of 1982. The Service could challenge the Company's calculations of its earnings and profits for tax purposes and might contend that a larger per share allocation of earnings and profits should be attributed to noncorporate shareholders. Thompson & Knight has advised the Company that, although there is no direct authority, in their opinion, based on the better reasoned analysis of the law, the Company's intended method of allocation is proper. Thompson & Knight has not reviewed the Company's calculations of its total estimated earnings and profits for tax purposes.

If the amount of the Distribution attributable to a share of Common Stock is in excess of the portion taxable as a dividend, the excess will reduce (but not below zero) the shareholder's basis in such share. If the amount of the Distribution attributable to a share of Common Stock is in excess of both the portion taxable as a dividend and the portion used to reduce the basis of such share, the excess will be taxable as gain from the sale of such share of Common Stock. If a share of Common Stock has been owned for more than 12 months and is held as a capital asset, the gain will be long-term capital gain. If the Common Stock is held by a dealer for resale, the gain will be ordinary

income. Each shareholder will initially have a basis in each Unit equal to the amount deemed to be distributed to that shareholder as determined under the rules stated below.

The Company intends to distribute the Units to its shareholders by placing the certificates evidencing the Units in the U.S. mail on December 31, 1982, and it is anticipated that the Units will be received by the shareholders in January 1983. In such case, the shareholders should report any income or gain resulting from the Distribution for their taxable years which include January 1983. See "Areas of Potential Tax Controversy – Taxable Year of Income and Gain on Distribution to Shareholders" below.

Consequences to Noncorporate Shareholders. Each noncorporate shareholder will be deemed to have received a distribution from the Company in an amount equal to the fair market value of the Units distributed to him on the date of the Distribution. If on such date there is an established market for the Units, their fair market value will be the mean of the high and low sales prices in such market. If no such market exists, the Company will report its opinion of the fair market value of the Units to both the Service and its shareholders. The Company's opinion as to such value will not be binding on the Service or the shareholders.

A noncorporate shareholder's holding period for a Unit will begin on the day following the date of the Distribution. A noncorporate shareholder's initial tax basis in each Unit received in the Distribution will be equal to the fair market value of such Unit on the date of the Distribution.

Consequences to Corporate Shareholders. Each corporate shareholder will be deemed to have received a distribution of an amount equal to the lesser of the fair market value of the Units distributed to it, or the tax basis of the Company in the Royalty Properties attributable to the Units distributed to it at the time of the Distribution. The Company's calculations indicate that its current tax basis in the Royalty Properties is approximately \$1.75 per share. The calculations, which have not been reviewed by special counsel, could be challenged by the Service. A corporate shareholder's tax basis in each Unit received in the Distribution initially will be equal to the lesser of the fair market value of such Unit or the portion of the Company's tax basis in the Royalty Properties attributable to such Unit at the time of the Distribution. A corporate shareholder's holding period for a Unit will include the period that the Royalty Properties have been held by the Company. Essentially all of the Royalty Properties have been held by the Company for more than one year.

Consequences to Nonresident Foreign Shareholders. Generally, a foreign corporation that receives a distribution from a corporation is treated as a noncorporate shareholder if the distribution is not effectively connected with its conduct of a trade or business in the United States. A distribution made by a corporation from earnings and profits to a nonresident alien individual or a foreign corporation that is not effectively connected with the distributee's U.S. trade or business is subject to a 30 percent (or the lower rate under any applicable treaty) U.S. withholding tax. See "The Proposed Distribution – Method of Distribution" for a discussion of the manner of payment of U.S. withholding taxes on the Distribution.

Taxation of Trust and Unit Holders

Classification of Trust. The Trust should be classified for federal income tax purposes as a "grantor trust" and not as an association taxable as a corporation. See "Areas of Potential Tax Controversy" below for a discussion of the effect of classification of the Trust as an association taxable as a corporation or as a "non-grantor" trust (either a "simple" or a "complex" trust). A grantor trust is not subject to tax, and its beneficiaries (the Unit holders in the case of the Trust) generally are considered for tax purposes to own the trust's income and principal as though no trust were in existence. A grantor trust simply files an information return reporting all items of income or deductions, but such income or deductions must be included in the returns of the grantors.

Taxation of Unit Holders. Since it is anticipated that the Trust will be treated as a grantor trust as to the Unit holders, 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 and not when distributed by the Trust. Income will be recognized by Unit holders consistent with their method of accounting and without regard to the taxable year or accounting method employed by

the Trust. For example, cash basis Unit holders will recognize income attributable to their Units as such income is received by the Trust.

The proceeds of production from the Royalty Properties are payable by a large number of separate payors so that such proceeds are presently received by the Company on a daily basis. In order to facilitate creation of the Trust and to avoid the administrative expense and inconvenience of daily accountings and reports to Unit holders by the Trustee, the conveyances of the Royalty Properties to the Trust provide for the execution of an Escrow Agreement (the "Escrow Agreement") by the Company, the Trustee and InterFirst Bank Dallas, N.A., in its individual capacity as escrow agent. A copy of the proposed form of Escrow Agreement is appended as an exhibit to the Royalty Trust Agreement attached hereto as Annex A.

Pursuant to the terms of the Escrow Agreement and the conveyances of the Royalty Properties to the Trust, the proceeds of production from the Royalty Properties for each calendar month, and interest thereon, will be collected by the escrow agent and will be paid to and received by the Trust only on the next Monthly Record Date. The escrow agent will also endeavor to assure that its expenses and fees for each calendar month will be incurred and paid on the next Monthly Record Date. The Trust Agreement also provides that the Trustee will 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 arrangement is recognized for federal income tax purposes and that the Trustee and the escrow agent are 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 and the escrow agent may not be able to cause third party expenses to be incurred on each Monthly Record Date in all instances. Cash basis Unit holders, however, should be treated as having paid all expenses and fees only when such expenses and fees are actually paid. Even if the escrow arrangement is recognized for federal income tax purposes, however, accrual basis Unit holders might be considered to have accrued expenses when such expenses are incurred rather than on each Monthly Record Date when paid. See "Areas of Potential Tax Controversy – Recognition of Escrow Arrangement" below.

The Trust will make monthly distributions to Unit holders of record on each Monthly Record Date. See "Description of Units – Distributions of Net Income". The terms of the Escrow Agreement and the Trust Agreement, as described above, seek to assure that taxable income attributable to such distributions will be reported by the Unit holder who receives such distributions, assuming that such holder is the holder of record on the Monthly Record Date. In certain circumstances, however, a Unit holder may be required to report taxable income attributable to his Units but the Unit holder will not receive the distribution attributable to such income. For example, if the Trustee establishes a reserve or borrows money to satisfy debts and liabilities of the Trust, income used to establish such reserve or to repay such loan will be reported by the Unit holder, even though such income is not distributed to the Unit holder.

Depletion Deductions. Assuming the Trust is treated as a grantor trust and that each of the Royalty Properties presently is a depletable property in the Company's hands, each Unit holder should be entitled to deduct cost depletion (or, if greater and otherwise available, percentage depletion) with respect to production from each of the separate "properties" (as defined by Section 614 of the Code) included in the Royalty Properties using his basis, as adjusted from time to time, in such properties. As discussed below, generally only cost depletion will be allowed to a Unit holder with respect to production attributable to the properties included in the Royalty Properties that became "proven" prior to his acquisition of each Unit. See "Taxation of Trust and Unit Holders – Sale of Units" below. Since substantially all of the Royalty Properties will be producing interests on the date of the Distribution, such properties generally will not qualify for percentage depletion.

Cost depletion for a property is calculated for each taxable year by dividing the tax basis of the property by the estimated total units of production (barrels of oil and Mcf of gas) expected to be recovered from the property as of the beginning of the taxable year and then multiplying the resulting quotient by the number of units produced and sold from such property during the taxable year. The

amount of deductions based on cost depletion cannot exceed the adjusted tax basis of the property. A Unit holder's tax basis in each property owned by the Trust generally will be determined at the time the Unit holder acquires each Unit by allocating such Unit holder's basis in each Unit among all properties owned by the Trust based on their relative fair market values. A corporate holder that received a Unit in the Distribution and determined its basis in such Unit by reference to the Company's basis in the Royalty Properties will determine its tax basis in each property owned by the Trust at the time of the Distribution by reference to the Company's tax basis in each property included in such Royalty Properties at the time of the Distribution.

A Unit holder generally will be allowed to deduct only cost depletion. A limited amount of the production from the Royalty Properties presently qualifies for percentage depletion because it is "fixed price gas" as defined under Section 613A(a) of the Code. With respect to other production, the percentage depletion allowance will be available only if the Unit holder qualifies under the "small producers" exemption contained in Section 613A(c) of the Code.

Under the "small producers" exemption, independent producers and royalty owners are allowed a percentage depletion deduction on a limited amount of domestic oil and gas production. Generally, this exemption will cover the first 1,000 barrels of the taxpayer's average daily production of domestic crude oil or up to 6,000 Mcf of average daily production of domestic natural gas as the case may be. The depletion rate in effect for 1982 is 18 percent, and such rate will be reduced to 16 percent in 1983 and to 15 percent in 1984 and later years. Up to 1,000 barrels of a taxpayer's average daily production of oil and gas produced by secondary and tertiary recovery processes continues to qualify for percentage depletion under the "small producers" exemption at the rate of 22 percent through December 31, 1983, at which time percentage depletion with respect to such oil and gas terminates. The transfer of a property does not affect a taxpayer's right to claim percentage depletion with respect to oil and gas produced by secondary and tertiary recovery processes. However, the amount of a taxpayer's average daily production of oil and gas produced by secondary and tertiary processes reduces the number of barrels of the taxpayer's average daily production that qualifies for percentage depletion under the "small producers" exemption.

It is anticipated that only limited amounts of the present production from the Royalty Properties will qualify for percentage depletion as "fixed price gas", under the general "small producers" exemption or as production from secondary and tertiary processes. Both the cost depletion allowance and the percentage depletion allowance (to the extent available) must be computed separately by each Unit holder rather than by the Trust. Each Unit holder must maintain records of his adjusted basis in each property, make adjustments to such basis for depletion deductions and use such adjusted basis for the computation of gain or loss on the disposition of his Units. The Trustee will furnish to Unit holders information that will permit computation of depletion deductions. See "Taxation of Trust and Unit Holders - Reports" below.

The foregoing discussion does not purport to be a complete analysis of the complex legislation and regulations relating to the availability and calculation of the depletion deduction for oil and gas properties. Unit holders who desire further or more specific information with respect to these matters should consult their tax advisors.

Minimum Tax on Tax Preferences. A 15 percent minimum tax is imposed on the amount of a taxpayer's total "tax preferences" to the extent such tax preferences exceed the greater of (i) 50 percent (100 percent in the case of a corporation) of the taxpayer's federal income tax liability for the same taxable year computed without regard to tax preferences or (ii) \$10,000 (\$5,000 in the case of a married taxpayer filing separately). The amount of the excess of a Unit holder's deduction for percentage depletion, if any, over his cost basis in the property is a tax preference item. In the case of taxpayers other than corporations, adjusted itemized deductions and the untaxed portion (60 percent) of the net capital gains do not constitute items of tax preference subject to the 15 percent minimum tax.

The 15 percent minimum tax is repealed with respect to individuals effective for taxable years beginning after 1982 and is replaced by an expanded alternative minimum tax as described below.

Alternative Minimum Tax. Noncorporate taxpayers are liable for the alternative minimum tax to the extent that such tax exceeds their regular income tax. For 1982, the alternative minimum tax is imposed at graduated rates upon the excess of the sum of the taxpayer's adjusted itemized deductions and the untaxed portion of net capital gains over \$20,000. For taxable years beginning after 1982, the alternative minimum tax is equal to 20 percent of the "alternative minimum taxable income" over \$30,000. Generally, alternative minimum taxable income is the sum of a taxpayer's adjusted gross income and tax preferences reduced by certain net operating losses and certain itemized deductions. Tax preferences for this purpose generally include items of tax preference subject to the 15 percent minimum tax as applied to noncorporate taxpayers, the untaxed portion of net capital gains, the \$100 dividend-received exclusion and certain other items. Capital gains resulting from the Distribution or subsequent sales of Units could trigger or increase a shareholder's or Unit holder's exposure to the alternative minimum tax.

Abandonment Losses. Each Unit holder will determine the amount of his abandonment losses, if any, by reference to the amount of his adjusted basis attributable to each property that becomes worthless. Any deductions for abandonment losses allowable to a Unit holder will reduce his basis in each Unit for purposes of computing gain or loss on any subsequent disposition of Units. It is not anticipated that any substantial abandonment losses will be realized with respect to properties included in the Royalty Properties.

Sale of Units. Generally, a Unit holder will realize gain or loss on the sale or exchange of his Units measured by the difference between the amount realized on the sale or exchange and his adjusted basis for such Unit. Gain or loss on the sale of Units by a holder who is not a "dealer" with respect to such Units, who holds them as a capital asset and who has held them for more than 12 months will, in general, be treated as long-term capital gain or loss.

The sale of Units will be considered for federal income tax purposes as the sale of an interest in the Royalty Properties. Trust income allocable to such Units to the date of sale will be taxable to the selling Unit holder. The purchaser of Units will be taxable on Trust income allocable to such Units from the date of purchase forward. Assuming that the escrow arrangement is recognized for federal income tax purposes, Trust income generally will be allocable only to the holder of Units on each Monthly Record Date as discussed under "Taxation of Trust and Unit Holders – Taxation of Unit Holders" above. See "Areas of Potential Tax Controversy – Recognition of the Escrow Arrangement" below.

Taxation of Nonresident Foreign Unit Holders. Unit holders who are nonresident alien individuals or foreign corporations, in general, will be subject to tax on the gross income produced by the Royalty Properties at a rate equal to 30 percent (or the lower rate under any applicable treaty) of the gross income from production, without any deductions. The Trustee intends to withhold this tax as a percentage of each monthly distribution amount rather than as a percentage of the gross income from the Royalty Properties. The Trustee will remit the withheld amount directly to the U. S. Treasury. The income attributable to the Royalty Properties held by the Trust will be treated as income produced from real property. A nonresident alien individual or a foreign corporation holding income producing real property may elect to treat the income from such real property as effectively connected with the conduct of a U. S. trade or business under Section 871 or 882 of the Code (or pursuant to any similar provisions of applicable treaties). Therefore, this election should be available to Unit holders who are nonresident alien individuals or foreign corporations with respect to the taxable income resulting from ownership of Units. A Unit holder so electing is entitled to claim all deductions with respect to such income, but he must file a U. S. income tax return to claim such deductions. This election once made is irrevocable unless an applicable treaty allows the election to be made periodically.

Under the Foreign Investment in Real Property Tax Act of 1980, Units are treated as U. S. real property interests. Thus, gain or loss from the sale or exchange of Units held by nonresident alien individuals or foreign corporations will generally be subject to tax as gain or loss from the sale or exchange of property effectively connected with the conduct of a U. S. trade or business. A nonresident alien or foreign corporation that receives a Unit pursuant to the Distribution must compute

its basis in such Unit by reference to the adjusted basis of the corresponding property in the hands of the Company before the Distribution, increased by (i) any gain recognized by the Company on the Distribution and (ii) certain taxes paid by the distributee on such distribution. The Trust is required to report to the U. S. Treasury the name and address of any nonresident alien individual or foreign corporation holding Units with a fair market value in excess of \$50,000. A nonresident alien individual or foreign corporation owning Units with a fair market value in excess of \$50,000 is also required to report such information.

Reports. The Trustee will furnish to Unit holders of record annual reports containing information necessary to permit computation of federal tax liability by the Unit holders.

Areas of Potential Tax Controversy

In determining the amount taxable to shareholders as a dividend, the Service could challenge the Company's calculations of its total earnings and profits for tax purposes, the method of allocating earnings and profits between its corporate and noncorporate shareholders and the Company's calculations of its current tax basis in the Royalty Properties. See "Income Tax Consequences – Tax Consequences of Transfer of Royalty Properties to Trust and Distribution of Units".

In the event that the Service refuses to grant the rulings requested by the Company and the Distribution is nonetheless made based on the opinion of special counsel, as described above, there are certain other aspects of the Distribution that may give rise to a dispute with the Service.

Classification of Trust as an Association Taxable as a Corporation. The Service might contend that for federal income tax purposes the Trust should be taxed as a corporation rather than as a trust. If this characterization were to prevail, the Service would contend that the shareholders would still be taxed on the Distribution in the same manner as previously described; however, the Trust would be required to pay tax on its income at corporate tax rates. For taxable income over \$100,000 the corporate tax rate is 46 percent. Any income tax paid by the Trust would significantly reduce the amount of cash available to the Trust for distribution to the Unit holders. If the Trust is taxed as a corporation, then the Unit holders will be taxed only on distributions made by the Trust and no depletion allowance would be available to the Unit holders with respect to such distributions. Such distributions will be taxable in the year received and will be taxed as dividends to the extent of the Trust's earnings and profits. Any distributions in excess of earnings and profits will reduce (but not below zero) the Unit holder's basis in the Units. Distributions in excess of both earnings and profits and basis will constitute gain from the sale of the Units.

Classification of Trust as a Non-Grantor Trust. Assuming the Trust is not taxable as a corporation, a further issue exists as to whether the Trust will be treated as a grantor trust created by the Unit holders or a non-grantor trust. A grantor trust is not a taxable entity; rather all its income and deductions are reported in the returns of the grantors. A non-grantor trust, however, is a taxpaying entity. It is taxable on its income, but is entitled to a deduction for amounts distributed to its beneficiaries. Since it is contemplated that the Trust will distribute substantially all its income, the Trust is likely to pay little, if any, income tax if classified as a non-grantor trust. If the Trust is a non-grantor trust, however, depletion will be computed at the trust level and it is likely that the Trust's basis for computing cost depletion would be a carryover of the Company's basis in the Royalty Properties, regardless of the basis of the Unit holders in the Units, resulting in a substantial reduction in the depletion deduction available.

With respect to a Unit holder, the amount distributed by the Trust as a non-grantor trust would be taxable to the Unit holder in the taxable year of the Unit holder in which or with which the taxable year of the Trust ends (or earlier if the Unit holder's interest in the Trust ends). Moreover, the Unit holder would recognize income only upon the receipt of distributions from the Trust, whereas in the case of a grantor trust, the Unit holder would be taxed on the income of the Trust, regardless of whether such income is distributed to the Unit holder. Since the Trust is expected to distribute substantially all its income on a current basis, it is not likely that this difference would be significant, although timing differences could occur with respect to income earned by the Trust late in a year but not distributed until the following year. As stated above, however, if the Trust is classified as a non-grantor trust, the depletion deduction would be reduced substantially.

Taxable Year of Income and Gain on Distribution to Shareholders. The Service might take the position that shareholders of the Company realized income and gain resulting from the Distribution for their taxable years which include December 31, 1982, the date that the Company intends to place the certificates evidencing the Units in the U.S. mail. If such position were to be upheld, the tax imposed upon a calendar year taxpayer as a result of the Distribution would be due April 15, 1983, in the case of a noncorporate taxpayer, and March 15, 1983, in the case of a corporate taxpayer, rather than April 15, 1984 and March 15, 1984, respectively, as anticipated. In any event, shareholders should consult their personal tax advisors to determine the impact of the Distribution upon their liability, if any, for estimated tax payments.

Recognition of the Escrow Agreement. No ruling has been or will be requested by the Company from the Service with respect to the effect of the escrow arrangement. Due to the absence of direct authority and the factual nature of the characterization of the relationship among the escrow agent, the Company and the Trust, no opinion has been expressed by legal counsel with respect to the tax consequence of the escrow arrangement. In the absence of the escrow arrangement, the Unit holders would be deemed to receive or accrue income from production from the Royalty Properties (and interest income) on a daily basis, in accordance with their method of accounting, as the proceeds from production and interest thereon were received or accrued by the Trust. The escrow arrangement was required by the Company in the conveyances of the Royalty Properties to the Trust to avoid the administrative expense and inconvenience of reporting the proceeds from production from the Royalty Properties and interest thereon to the Unit holders on a daily basis. If the escrow arrangement is recognized, the income from the Royalty Properties for a calendar month and interest income thereon will be taxed to the holder of the Unit on the next Monthly Record Date without regard to the ownership of the Unit prior to that date.

The Service might take the position that the escrow arrangement should be ignored for tax purposes. In such case, the Trustee could be required to report the proceeds from production and interest income thereon to the Unit holders on a daily basis resulting in a substantial increase in the administrative expense of the Trust. In the event of a transfer of a Unit, the income and the depletion deduction attributable to the Royalty Properties for the period up to the date of transfer would be allocated to the transferor, and the income and depletion deduction attributable to the Royalty Properties on and after the date of transfer, would be allocated to the transferee, even though the transferee was the holder of the Unit on the next Monthly Record Date and, therefore, would be entitled to the monthly income distribution. Thus, if the escrow arrangement is not recognized, a mismatching of such income and deduction could occur between a transferor and a transferee upon the transfer of a Unit. See "Taxation of Trust and Unit Holders – Taxation of Unit Holders" and "Taxation of Trust and Unit Holders – Sale of Units" above.

Procedural Matters

Filing Corporate Returns in the Absence of a Favorable Ruling. If the Service does not grant the rulings requested by the Company, the Trust will file a corporate income tax return for its first taxable year of operation and pay tax on the income earned in such year. In such case, the Trust may elect to adopt and maintain its books of account on a taxable year ending April 30 in order to allow the prompt filing of such corporate income tax return. The Trust will then file a claim for refund with the Service on the ground that it is not taxable as a corporation. If the refund is denied, the Trust will institute litigation. The reason for this strategy is to resolve the tax status of the Trust as quickly and as inexpensively as possible. Despite this strategy, the issue may not be resolved for several years and legal fees and litigation expenses will be paid by the Trust, reducing the amounts available for distribution. With respect to subsequent years, the Trust will file grantor trust returns on the assumption that its status as a trust will be upheld. By filing grantor trust returns and distributing all available cash, the Unit holders will enjoy the benefits sought through the use of a trust. However, the Trustee will follow this procedure only so long as the remaining values of the Trust properties are sufficient to pay the taxes owed by the Trust should it be ultimately determined that the Trust was taxable as a corporation. If such a determination were made, the Trustee would have to borrow against the Trust properties to obtain the funds necessary to pay the tax liabilities of the Trust. The Trustee would be forced to cease making distributions until it had paid any tax

and interest found to be due and any debts incurred in connection therewith, but income received by the Trust would continue to be taxable to the Unit holders.

Reporting by Unit Holders. The tax classification of the Trust and the effect of the escrow arrangement will directly affect the reporting by the Unit holders of the Trust's income and distributions. A Unit holder who treats the Trust as a grantor trust would pay tax attributable to the Trust's income received or accrued pursuant to the escrow arrangement (depending on his method of accounting) even though no income was distributed by the Trust. If a Unit holder reports income attributable to the Trust in a manner that is inconsistent with the final determination of the Trust's status or the effect of the escrow arrangement, such Unit holder may be liable for a deficiency (including interest) or may need to file a claim for refund to obtain any overpayment of taxes.

Audit of Trust and Unit Holders. The ownership of Units may result in the returns of a Unit holder being subject to special scrutiny by the Service. A Unit holder's returns that otherwise would not be subject to examination may be examined as a result of an audit of the Trust and the Service may make adjustments to such returns which are unrelated to the proposed Distribution. In addition, any tax deficiency or refund claim arising out of a Unit holder's reporting of the Trust income could increase the likelihood of an audit of a Unit holder's tax return.

Windfall Profit Tax Effects

For a discussion of the Crude Oil Windfall Profit Tax Act of 1980 and the operation thereof, see "Regulation and Prices — Windfall Profit Tax". The windfall profit tax with respect to the Royalty Properties should be withheld by purchasers from amounts payable for crude oil at the applicable rate depending upon the classification of such oil as tier one, tier two or tier three oil. The windfall profit tax withheld by purchasers from the sales price of crude oil produced from the Royalty Properties will be deductible by the Unit holders for federal income tax purposes. The Trustee will furnish to Unit holders of record reports containing windfall profit tax information sufficient to permit computation of federal tax liability by the Unit holders. See "Taxation of Trust and Unit Holders — Reports" above.

STATE LAW AND TAX CONSIDERATIONS

The following is intended as a brief summary of certain information regarding state income taxes and other state law matters affecting the Trust and the Unit holders. Unit holders are urged to consult their own legal and tax advisors with respect to these matters.

Texas. Texas does not impose an income tax. Therefore, no part of the income produced by the Trust is subject to an income tax in the State of Texas. Under certain circumstances, Texas inheritance tax may be applicable to property in Texas (including intangible personal property such as the Units) of both resident and nonresident decedents.

Louisiana — Non-Residents. The Units, to the extent that they represent a proportionate share of mineral royalties from mineral interests located in the State of Louisiana, will be subject to Louisiana inheritance taxes and probate rules and may be subject to the community property and forced heirship rules and gift taxes of the State of Louisiana. In addition, income of the Units attributable to interests located in the State of Louisiana will, subject to applicable minimum filing requirements, be subject to Louisiana income tax, and the Trustee will be required to file with the State of Louisiana a return reflecting the income of the Trust attributable to mineral interests located in the State of Louisiana.

Louisiana — Residents. The Units will be subject to Louisiana inheritance and other tax, community property, forced heirship, probate and other rules.

Florida, Mississippi, New Mexico and Oklahoma. Each of the other states in which the Royalty Properties are located impose an income tax applicable to both resident and nonresident individuals (except Florida) and corporations which will be applicable to royalty income allocable to a Unit holder from properties located within that state. Although the Trust may be required to file information returns with taxing authorities in those states and provide copies of such returns to the Unit holders, the Trust should be considered a grantor trust for state income tax purposes and the Royalty Properties that are located in such states should be considered economic interests in minerals for state income tax purposes.

Generally, the state income tax in those states is computed as a percentage of taxable income attributable to income from properties located in the particular state. Although there are variances from state to state, taxable income for these purposes is often computed in a manner similar to the computation of taxable income for federal income tax purposes. Some of those states give credit for taxes paid by their residents on income from sources in other states. In certain of those states, a Unit holder is required to file a state income tax return if income is attributable to the Unit holder even though no tax is owed. A few of those states may require withholding by the Trustee of certain amounts otherwise payable to Unit holders with any refunds due being claimed by the Unit holder's filing of a tax return.

The Trust will provide information concerning the Trust sufficient to enable the Unit holders to determine their income tax status with respect to the Trust in states imposing an income tax on Unit holders. To the extent the Trust has income in states imposing an income tax, both the Trust and the Unit holders will incur additional administrative and compliance costs.

Although the Company has received opinions of counsel that the Units should not constitute real property or an interest in real property under the laws of Texas, Florida, Mississippi, New Mexico and Oklahoma, such questions are not free from doubt. If the Units are held to be real property or an interest in real property under the laws of a state in which the Royalty Properties are located, the Units may be subject to devolution, probate and administration laws, and inheritance, gift and similar taxes, under the laws of those states.

DESCRIPTION OF THE TRUST AGREEMENT

The following statements and the statements under "Description of Units" are subject to the detailed provisions of the Royalty Trust Agreement to be entered into between Sabine and the Trustee in substantially the form attached hereto as Annex A (the "Trust Agreement") and the Royalty Conveyances to be executed by Sabine in substantially the form appended as an exhibit to the Trust Agreement (the "Conveyances") with such variations as may be necessitated by legal requirements and practices prevailing in the various states where the Royalty Properties are located. The definitions, formulas, accounting procedures and other terms governing the Trust are complex and extensive and no attempt has been made below to describe all of such provisions. Capitalized terms not otherwise defined herein are used with the meanings assigned to them in the Trust Agreement and in the Conveyances. The following is a summary of certain provisions of the Trust Agreement, and shareholders are referred to the Trust Agreement and the Conveyances for detailed provisions concerning the Trust.

Creation and Organization of the Trust

Pursuant to the Conveyances, Sabine will convey the Royalty Properties to the Trustee. The trustee of the Trust will be InterFirst Bank Dallas, N.A., a banking association organized under the laws of the United States. Sabine has engaged in transactions in the ordinary course of business with InterFirst Bank Dallas, N.A. (the "Bank") and it expects to continue to do so. The Bank is a participating bank in a revolving loan established by Sabine. During the period January 1, 1981 through June 30, 1982, the maximum principal amount outstanding pursuant to the terms of the loan attributable to the Bank's participation was \$15,750,000. The loan bears interest at the prime rate for domestic borrowings and at the London Interbank Offered Rate plus $\frac{1}{2}$ of 1 percent for Eurodollar borrowings. During 1981 and the first six months of 1982, Sabine paid the Bank approximately \$2,000,000 and \$1,250,000, respectively, in interest on such loan. Ashley H. Priddy, Chairman of the Board of Sabine, is a director of the Bank. In addition, officers and directors of Sabine have engaged and expect to continue to engage in usual and customary banking transactions with the Bank.

The Bank held as of September 16, 1982 an aggregate of 160,946 shares of Common Stock of Sabine in various fiduciary capacities, with respect to which it has sole voting power over 8,456

shares and shared voting power of the balance. The Bank intends to abstain from voting on the Distribution all shares with respect to which it has sole voting power and will vote the remaining shares in accordance with instructions received from others holding shared voting power.

The Trustee will hold the Royalty Properties pursuant to the terms of the Trust Agreement and the Conveyances and subject to the laws of the State of Texas. The beneficial interest in the Trust created by the Trust Agreement will be divided into equal undivided portions called Units and one Unit will be distributed with respect to each share of Common Stock outstanding on the Distribution Record Date. See "Description of Units".

The Trustee may resign at any time or be removed, with or without cause, by the Unit holders. Its successor must be a national banking association domiciled in the United States whose aggregate capital, surplus and undivided profits (as of the end of its last fiscal year prior to its appointment) are not less than \$50,000,000.

Assets of the Trust

The Royalty Properties will be the only assets of the Trust, other than cash being held for the payment of expenses and liabilities and for distribution to the Unit holders. See "Description of Royalty Properties – Interests to be Conveyed". Pending such payment and distribution, such cash shall be invested by the Trustee in certificates of deposit, United States government securities or repurchase agreements secured by United States government securities. See "Duties and Limited Powers of Trustee" below.

Liabilities of the Trust

Because of the passive nature of the Trust's assets and the restrictions on the power of the Trustee to incur obligations, it is anticipated that the only liabilities the Trust will incur will be those for routine administrative expenses, such as trustee's fees, and accounting, engineering, legal and other professional fees. However, if a court were to hold that the Trust is an association taxable as a corporation, as more fully discussed under "Income Tax Consequences – Areas of Potential Tax Controversy", the Trust would incur substantial income tax liabilities in addition to its other expenses. It is anticipated that the total administrative expenses incurred by the Trust for 1983 will be approximately \$1.25 million, of which approximately \$760,000 will be paid to the Trustee. See Exhibit C to the Trust Agreement attached hereto as Annex A for information respecting the computation of the Trustee's fee for administering the Trust.

Duties and Limited Powers of Trustee

The duties of the Trustee will be as specified in the Trust Agreement and by the laws of the State of Texas. The basic function of the Trustee will be to collect income from the Trust properties, to pay out of the Trust's income and assets all expenses, charges and obligations and to pay available income to Unit holders. Since Sabine will retain the executive rights with respect to the minerals included in the Royalty Properties and the right to receive any future bonus payments or delay rentals resulting from leases with respect to such minerals, the Trustee will not be required to make any investment or operating decision with respect to the Royalty Properties.

The Trustee has the discretion to 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 has the power to borrow funds required to pay liabilities of the Trust as they become due and pledge or otherwise encumber the Trust's properties if it determines that the cash on hand is insufficient to pay such liabilities. Borrowings must be repaid in full before any further distributions are made to Unit holders. All distributable income of the Trust will be distributed on a monthly basis. The Trustee is required to invest any cash being held by it for distribution on the next Distribution Date or as a reserve for liabilities in certificates of deposit, United States government securities or repurchase agreements secured by United States government securities. The Trustee will furnish Unit holders with periodic reports. See "Description of Units – Reports to Unit Holders".

The Trust Agreement grants the Trustee only such rights and powers as are necessary to achieve the purposes of the Trust. The Trust Agreement prohibits the Trustee from engaging in any business, commercial or, with certain exceptions, investment activity of any kind and from using any portion of the assets of the Trust to acquire any oil and gas lease, royalty or other mineral interest other than the Royalty Properties. The Trustee may sell Trust properties only as authorized by a vote of the Unit holders, or when necessary to provide for the payment of specific liabilities of the Trust then due or upon termination of the Trust. Pledges or other encumbrances to secure borrowings are permitted without the authorization of Unit holders if the Trustee determines such action is advisable. Any sale of Trust properties must be for cash unless otherwise authorized by the Unit holders or unless the properties are being sold to provide for the payment of specific liabilities of the Trust then due, and the Trustee is obligated to distribute the available net proceeds of any such sale to the Unit holders.

Liabilities of Trustee

The Trustee will be indemnified out of the assets of the Trust for any liability, expense, claim, damage or other loss incurred by it in the performance of its duties unless such loss results from its negligence, bad faith or fraud or from its expenses in carrying out such duties exceeding the compensation and reimbursement it is entitled to under the Trust Agreement. The Trustee can be reimbursed out of the Trust assets for any liability imposed upon the Trustee for its failure to ensure that the Trust's liabilities are satisfiable only out of Trust assets. In no event will the Trustee be deemed to have acted negligently, fraudulently or in bad faith if it takes or suffers action in good faith in reliance upon and in accordance with the advice of parties considered to be qualified as experts on the matters submitted to them. The Trustee will not be entitled to indemnification from Unit holders except in certain limited circumstances related to the replacement of mutilated, destroyed, lost or stolen certificates. See "Description of Units – Liability of Unit Holders". Sabine has also agreed to indemnify and hold the Trustee harmless from certain liabilities under the Securities Act of 1933, as amended.

Duration of Trust

The Trust will be irrevocable and Sabine will have no power to terminate the Trust or, except with respect to certain corrective amendments, to alter or amend the terms of the Trust Agreement. The Trust will exist until it is terminated by (i) two successive fiscal years in which the Trust's gross revenues from the Royalty Properties are less than \$2,000,000 per year, (ii) a vote of Unit holders as described below under "Voting Rights of Unit Holders" or (iii) operation of provisions of the Trust Agreement intended to permit compliance by the Trust with the "rule against perpetuities". Upon the termination of the Trust, the Trustee will continue to act in such capacity until all the assets of the Trust are distributed. The Trustee will sell all Trust properties for cash (unless the Unit holders authorize the sale for a specified non-cash consideration, in which event the Trustee may, but is not obligated to, consummate such non-cash sale) in one or more sales and, after satisfying all existing liabilities and establishing adequate reserves for the payment of contingent liabilities, will distribute all available proceeds to the Unit holders.

Voting Rights of Unit Holders

Although Unit holders possess certain voting rights, their voting rights are not comparable to those of shareholders of a corporation. For example, there is no requirement for annual meetings of Unit holders or for annual or other periodic reelection of the Trustee.

The Trust Agreement may be amended by the affirmative vote of a majority of the outstanding Units at any duly called meeting of Unit holders. However, no such amendment may alter the relative rights of Unit holders unless approved by the affirmative vote of 100 percent of the Unit holders and by the Trustee. In addition, certain special voting requirements can be amended only if such amendment is approved by the holders of at least 80 percent of the outstanding Units and by the Trustee.

Removal of the Trustee will require the affirmative vote of the holders of a majority of the Units represented at a duly called meeting of Unit holders. In the event of a vacancy in the position of Trustee or if the Trustee has given notice of its intention to resign, a successor trustee of the Trust may be appointed by similar voting approval of the Unit holders.

The sale of all or any part of the assets of the Trust must be authorized by the affirmative vote of the holders of a majority of the outstanding Units. However, the Trustee may without a vote of the Unit holders sell all or any part of the Trust assets if necessary to provide for the payment of specific liabilities of the Trust then due or upon termination of the Trust. The Trust can be terminated by the Unit holders only if the termination is approved by the holders of a majority of the outstanding Units.

Meetings of Unit holders may be called by the Trustee at any time at its discretion and must be called by the Trustee at the written request of holders of not less than 10 percent of the then outstanding Units. The presence of a majority of the outstanding Units is necessary to constitute a quorum and Unit holders may vote in person or by proxy.

Notice of any meeting of Unit holders must be given not more than 60 nor less than 20 days prior to the date of such meeting. The notice must state the purpose or purposes of the meeting and no other matter may be presented or acted upon at the meeting.

DESCRIPTION OF UNITS

Each Unit will represent an equal undivided share of beneficial interest in the Trust and will be evidenced by a transferable certificate issued by the Trustee. The Units will not be an interest in or obligation of Sabine. Each Unit will entitle its holder to the same rights as the holder of any other Unit, and the Trust will have no other authorized or outstanding class of equity security.

Number of Units to be Distributed

The number of Units to be issued will depend solely upon the number of shares of Common Stock outstanding on the Distribution Record Date. At September 16, 1982, 14,480,969 shares of Common Stock were outstanding. An additional 538,232 shares were reserved for issuance under outstanding employee stock options, all of which are by their terms fully exercisable. An additional 64,000 shares were reserved for issuance pursuant to non-employee director options. None of these options are presently exercisable, but if shareholder approval of the proposal to accelerate the exercisability thereof is obtained, all such options will become fully exercisable. See "Proposed Amendments to Stock Option Plans and Outstanding Stock Options - Non-Employee Director Stock Options".

The Trust may not issue additional Units after the Distribution unless such issuance is approved by the holders of at least 80 percent of the outstanding Units and by the Trustee. Under limited circumstances, Units may be redeemed by the Trust and cancelled. See "Possible Divestiture of Units" below.

Distributions of Net Income

The identity of Unit holders entitled to receive distributions of Trust income and the amounts thereof will generally be determined as of the 15th day of each calendar month. Unit holders of record as of the Monthly Record Date (the 15th day of each calendar month except in limited circumstances) will be entitled to receive the calculated Monthly Income Amount for the related Monthly Period no later than 10 business days after the Monthly Record Date. The aggregate Monthly Income Amount will be the excess of (i) revenues from the Trust properties plus any decrease in cash reserves previously established for contingent liabilities and any other cash receipts of the Trust over (ii) the expenses and payments of liabilities of the Trust plus any net increase in cash reserves for contingent liabilities. It is anticipated that the first such distribution to Unit holders will occur in April 1983.

Transfer

Units will be transferable on the records of the Trustee upon surrender of any certificate in proper form for transfer in accordance with such reasonable regulations as the Trustee may prescribe. No service charge will be made to Unit holders for any transfer. Until a transfer is made in accordance with the regulations prescribed by the Trustee, the Trustee may conclusively treat as the owner of any Unit for all purposes the holder shown by its records. Any transfer of a Unit in accordance with the regulations prescribed by the Trustee will, as to the Trustee, vest in the transferee all rights of the transferor at the date of transfer, except that the transfer of a Unit after the Monthly Record Date for a distribution will not transfer the right of the transferor to such distribution. The transfer of Units by gift and the transfer of Units held by a decedent's estate, and distributions from the Trust in respect thereof, may be restricted under applicable state law. "State Law and Tax Considerations".

The Bank will serve as transfer agent and registrar for the Units. See "The Proposed Distribution – Transferability and Trading of Units" for information as to future trading markets for the Units.

Reports to Unit Holders

As promptly as practicable following the end of each fiscal year, the Trustee will mail to each person who was a Unit holder on any Monthly Record Date during such fiscal year, a report showing in reasonable detail on a cash basis the assets and liabilities, receipts and disbursements and income and expenses of the Trust for federal and state tax purposes for each Monthly Period (or portion thereof) during such fiscal year and containing sufficient information to enable Unit holders to make all calculations necessary for federal and state tax purposes. As promptly as practicable following the end of each of the first three fiscal quarters of each year, the Trustee will mail a report for such fiscal quarter showing in reasonable detail on a cash basis the assets and liabilities, receipts and disbursements and income and expenses of the Trust for such fiscal quarter to Unit holders of record on the last Monthly Record Date immediately preceding the mailing thereof. Within 120 days following the end of each fiscal year, the Trustee will mail an annual report containing audited financial statements of the Trust and an audited statement of expenses of the Trustee to Unit holders of record on the last Monthly Record Date immediately preceding the mailing thereof.

The Trustee will mail to Unit holders any other reports or statements required to be provided to Unit holders by applicable law or governmental regulation or the requirements of any stock exchange on which the Units are listed.

Each Unit holder and his duly authorized agents will have the right, during reasonable business hours at his own expense, to examine and make audits of the Trust and the records of the Trustee, including lists of Unit holders, for any proper purpose in reference thereto.

Liability of Unit Holders

As regards the Unit holders, the Trustee will be fully liable if the Trustee fails to take reasonable steps necessary to ensure that such liability will be satisfiable only out of the Trust assets (even if the assets are inadequate to satisfy the liability) and in no event out of amounts distributed to, or other assets owned by, Unit holders. However, the Trust might be held to constitute a "joint stock company" under Texas law, which is unsettled on this point, and therefore a Unit holder 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 both the Trust and the Trustee are not adequate to satisfy such liability. In view of the substantial value and passive nature of the Trust assets, the restrictions on the power of the Trustee to incur liabilities and the required financial net worth of any Trustee, the imposition of any liability on a Unit holder is believed to be extremely unlikely.

Possible Divestiture of Units

The Trust Agreement imposes no restrictions based on nationality or other status of the persons or other entities which are eligible to hold Units. However, the Trust Agreement provides that if at any time the Trust or the Trustee is named a party in any judicial or administrative proceeding seeking the cancellation or forfeiture of any property in which the Trust has an interest because of the nationality, or any other status, of any one or more Unit holders, the following procedures will be applicable:

1. The Trustee will give written notice to each holder whose nationality or other status is an issue in the proceeding of the existence of such controversy. The notice will contain a reasonable summary of such controversy and will constitute a demand to each such holder that he dispose of his Units within 30 days to a party not of the nationality or other status at issue in the proceeding described in the notice.
2. If any holder fails to dispose of his Units in accordance with such notice, the Trustee shall have the preemptive right to redeem and shall redeem, at any time during the 90-day period following the termination of the 30-day period specified in the notice, any Unit not so transferred for a cash price equal to the closing price of the Units on the stock exchange on which the Units are then listed or, in the absence of any such listing, the mean between the closing bid and asked prices for the Units in the over-the-counter market, as of the last business day prior to the expiration of the 30-day period stated in the notice.
3. The Trustee shall cancel any Unit acquired in accordance with the foregoing procedures.
4. The Trustee may, in its sole discretion, cause the Trust to borrow any amount required to redeem Units.

SELECTED FINANCIAL DATA OF SABINE

(Amounts in thousands except per share)

	Six Months Ended June 30,		Year Ended December 31,				
	1982	1981	1981	1980	1979	1978	1977
Total revenues	\$ 96,538	\$ 85,435	\$172,670	\$124,114	\$ 84,295	\$ 54,631	\$ 50,573
Working interest revenues	57,192	48,197	97,845	75,437	48,784	28,637	26,018
Royalty revenues	34,128	32,663	65,298	44,194	28,769	22,414	21,346
Net income attributable							
to oil and gas assets	16,010	16,035	28,342	28,142	11,611	7,183	11,521
Per share	1.11	1.10	1.94	1.94	.89	.57	.87
Net income (loss)							
attributable to non-oil							
and gas assets	(2,617)	—	—	(3,000)	2,950	—	5,383
Per share	(.18)	—	—	(.20)	.21	—	.41
Net income	\$ 13,393	\$ 16,035	\$ 28,342	\$ 25,142	\$ 14,561	\$ 7,183	\$ 16,904
Per share	.93	1.10	1.94	1.74	1.10	.57	1.28
Total assets	372,933	281,793	347,201	243,229	209,407	164,958	126,105
Long-term obligations	100,884	52,871	90,986	28,963	59,780	39,721	13,350
Cash dividends per share	.20	.18	.37	.30	.27	.26	.24
Common shareholders' investment	190,659	171,219	183,077	160,686	103,475	91,622	89,044