SJB-6826 1st Qrtr Rpt_r3.qxp 6/9/04 11:12 AM Page 1

SHAKESPEARE, NEW MEXICO

Except for historical information contained in this report, the statements in this report are forward-looking statements that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and the financial prospects of San Juan Basin Royalty Trust are subject to a number of risks and uncertainties that may cause actual results in future periods to differ materially from the forward-looking statements. These risks and uncertainties include, among other things, volatility of oil and gas prices, governmental regulation or action, litigation and uncertainties about estimates of reserves. These and other risks are described in the Trust's reports and other filings with the Securities and Exchange Commission.


SAN JUAN BASIN ROYALTY TRUST
TEXASBANK, TRUSTEE
2525 RIDGMAR BOULEVARD, SUITE 100
FORT WORTH, TEXAS 76116 866-809-4553
WWW.SJBRT.COM

PAYING AGENT/REGISTRAR:
COMPUTERSHARE INVESTOR SERVICES
CUSTOMER SERVICE
312-360-5154


# SAN JUAN BASIN ROYALTY TRUST

## 2004 FIRST QUARTER REPORT

# TO UNIT HOLDERS

The San Juan Basin Royalty Trust (the "Trust") received royalty income of $21,196,352 and interest income of $8,692 during the first quarter of 2004. After deducting administrative expenses of $513,163, distributable income for the quarter was $20,691,881 ($.443948 per Unit). In the first quarter of 2003, royalty income was $19,911,068, interest income was $7,453, administrative expenses were $420,374 and distributable income was $19,498,147 ($.418337 per Unit.) Sales of production from coal seam wells drilled prior to January 1, 1993, qualified for federal income tax credits through 2002. The tax credit related to production from coal seam and tight sand wells sold before January 1, 2003, totaled approximately $.03 per Unit for the first quarter of 2003. For further information concerning this tax credit, Unit holders should refer to the Trust's Annual Report for 2003. Based on 46,608,796 Units outstanding, the per-Unit distributions during the first quarter of 2004 were as follows:

| | |
|---|---|
| January | 11.5187 cents |
| February | 13.2568 cents |
| March | 19.6193 cents |
| **QUARTER TOTAL** | 44.3948 cents |

Royalty Income distributed in the first quarter of 2004 was higher than that distributed in the first quarter of 2003, primarily due to an increase in the average gas price from $3.51 per Mcf for the first quarter of 2003 to $4.17 per Mcf for the first quarter of 2004. Interest earnings for the quarter ended March 31, 2004, as compared to the quarter ended March 31, 2003, were higher, primarily due to an increase in funds available for investment. Administrative expenses were higher, primarily as a result of differences in timing in the receipt and payment of these expenses.

The capital costs attributable to the Underlying Properties, as defined below, for the first quarter of 2004 were reported by Burlington Resources Oil & Gas Company LP ("BROG") as approximately $9.45 million. BROG's capital expenditure budget for the Underlying Properties for 2004 is estimated at $18.5 million of which approximately $383,000 has been spent; however, BROG reports that based on its actual capital requirements, its mix of projects and swings in the price of natural gas, the actual capital expenditures for 2004 could range from $15 million to $25 million. Capital expenditures were approximately $6.6 million for the first quarter of 2003. Approximately $20.6 million in capital expenditures were deducted in calculating the Trust's 75% net overriding royalty interest (the "Royalty") for the year ended December 31, 2003. In February 2004, BROG informed the Trustee that for 2004 it anticipates 441 projects, including the drilling of 103 new wells to be operated by BROG and 29 new wells to be operated by third parties. Of the new BROG-operated wells, 30 are projected to be conventional wells completed to the Pictured Cliffs, Mesaverde and/or Dakota formations, and the remaining 73 are projected as coal seam wells to be completed in the Fruitland Coal formation. A total of 22 of the wells operated by third parties are projected to be conventional wells and the remaining seven are projected to be coal seam wells. BROG projects approximately $11.7 million to be spent on the new wells, and $6.8 million is to be expended in working over existing wells and in the maintenance and improvement of production facilities.

BROG indicates its budget for 2004 reflects continued, significant development of conventional formations, including infill drilling to the Mesaverde and Dakota formations, development of the Fruitland Coal formation and multiple formation completions. A majority of the new wells for 2004 are projected to be drilled on Underlying Properties in which the fractional working interest included in the Underlying Properties is relatively low, but many of the recompletions and restimulations are scheduled on properties in which such working interest is relatively high. As used herein, the term "Underlying Properties" means the working royalty and other interests owned by Southland Royalty Company, the predecessor to BROG, in properties located in the San Juan Basin of northwestern New Mexico, out of which the Royalty was carved.

In February 2002, BROG informed the Trustee that the New Mexico Oil Conservation Division (the "OCD") had approved plans for 80-acre infill drilling of the Dakota formation in the San Juan Basin. In July 2003, the OCD approved 160-acre spacing in the Fruitland Coal formation. BROG informed the Trust that, principally as a result of this approval, its budget for 2004 reflects a continued focus on the Fruitland Coal formation. Eighty-acre spacing has been permitted in the Mesaverde formation since 1997.

BROG has informed the Trustee that lease operating expenses and property taxes were $3,998,055 and $126,800, respectively, for the first quarter of 2004, as compared to $3,921,567 and $136,250, respectively, for the first quarter of 2003.

BROG reported to the Trustee that during the first quarter of 2004, five gross (.17 net) coal seam wells, one gross (.82 net) coal seam recompletion, 10 gross (6.33 net) conventional wells, three gross (.007 net) payadds, one gross (.44 net) recompletion and four gross (3.37 net) restimulations were completed on the Underlying Properties.

Three gross (.12 net) coal seam miscellaneous projects, 78 gross (11.97 net) coal seam wells, 10 gross (.27 net) conventional wells, five gross (1.77 net) payadds, eight gross (5.86 net) recompletions, and 12 gross (8.06 net) restimulations were in progress at March 31, 2004.

During the first quarter of 2003, two gross (.88 net) coal seam miscellaneous projects, seven gross (.87 net) coal seam wells, three gross (.94 net) miscellaneous capital projects, nine gross (6.56 net) conventional wells, 19 gross (.92 net) payadds and five gross (3.21 net) restimulations were completed on the Underlying Properties.

Twenty-seven gross (9.53 net) coal seam wells, one gross (.002 net) recavitation, four gross (.14 net) recompletions, 25 gross (13.02 net) conventional wells, 27 gross (2.52 net) payadds, 14 gross (4.55 net) recompletions and 26 gross (17.56 net) restimulations were in progress at March 31, 2003.

"Gross" acres or wells, for purposes of this discussion, means the entire ownership interest of all parties in such properties, and the interest applicable to the Underlying Properties is referred to as the "net" acres or wells. A "payadd" is the completion of an additional productive interval in an existing completed zone in a well.

Royalty income for the quarter ended March 31, 2004, is associated with actual gas and oil production during November 2003 through January 2004 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the quarters ended March 31, 2004 and 2003, were as follows:

| | 2004 | 2003 |
|---|---|---|
| GAS: | | |
| Total Sales (Mcf) | 11,029,233 | 11,637,548 |
| Mcf per Day | 119,883 | 126,495 |
| Average Price (per Mcf) | $4.17 | $3.51 |
| OIL: | | |
| Total Sales (Bbls) | 14,855 | 16,107 |
| Bbls per Day | 161 | 175 |
| Average Price (per Bbl) | $28.06 | $24.44 |

Gas and oil sales attributable to the Royalty for the quarters ended March 31, 2004 and 2003, were as follows:

| | 2004 | 2003 |
|---|---|---|
| Gas Sales (Mcf) | 5,505,696 | 6,151,128 |
| Oil Sales (Bbls) | 7,327 | 8,339 |

Sales volumes attributable to the Royalty are determined by dividing the net profits received by the Trust and attributable to oil and gas, respectively, by the prices received for sales volumes from the Underlying Properties, taking into consideration production taxes attributable to the Underlying Properties. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependent on such factors as price and cost, including capital expenditures, the aggregate production volumes from the Underlying Properties may not provide a meaningful comparison to volumes attributable to the Royalty.

During the first quarter of 2004, average gas prices were $.66 higher than the average prices reported during the first quarter of 2003. The average price per barrel of oil during the first quarter of 2004 was $3.62 per barrel higher than that received for the first quarter of 2003 due to increases in oil prices in world markets generally, including the posted prices applicable to oil sales attributable to the Royalty.

BROG has entered into two contracts for the sale of all volumes of gas produced from the Underlying Properties. These contracts provide for (i) the sale of all such gas in two packages to Duke Energy and Marketing, L.L.C. and PNM Gas Services, respectively, (ii) the delivery of such gas at various delivery points through March 31, 2005, and from year-to-year thereafter until terminated by either party on 12 months-notice, and (iii) the sale of such gas at prices which fluctuate in accordance with published indices for gas sold in the San Juan Basin of New Mexico. Effective January 1, 2004, the rights and obligations of Duke Energy and Marketing L.L.C. were assumed by ConocoPhillips Company pursuant to an Assignment and Novation Agreement. In accordance with the terms of the contract, BROG has notified ConocoPhillips of its election to terminate that contract effective as of March 31, 2005. Requests for proposals will be circulated in the near future inviting bids for the purchase of the gas covered by that contract beginning April 1, 2005. Unit holders are referred to Note 6 of the Notes to Financial Statements in the Trust's 2003 Annual Report for further information concerning the marketing of gas produced from the Underlying Properties.

Confidentiality agreements with purchasers of gas produced from the Underlying Properties prohibit public disclosure of certain terms and conditions of gas sales contracts with those entities, including specific pricing terms and gas receipt points. Such disclosure could compromise the ability to compete effectively in the marketplace for the sale of gas produced from the Underlying Properties.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of March 31, 2004 (Unaudited), and December 31, 2003, and the Unaudited Condensed Statements of Distributable Income and of Changes in Trust Corpus for the three months ended March 31, 2004 and 2003.

Unit holders of record for the first quarter of 2004 will continue to receive an individualized tax information letter on a quarterly and an annual basis. Unit holders owning units in nominee name may obtain monthly tax information from the Trust's Web site at www.sjbrt.com or from the Trustee upon request.

TexasBank, Trustee

By: Lee Ann Anderson

Lee Ann Anderson

Vice President and Trust Officer

# SAN JUAN BASIN ROYALTY TRUST

## CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

Three months ended:

| | 03/31/04 (Unaudited) | 3/31/03 |
|---|---|---|
| ASSETS | | |
| Cash and Short-Term Investments | 9,259,177 | 7,082,284 |
| Net Overriding Royalty Interest in Producing Oil and Gas Properties (Net of Accumulated Amortization of $104,144,228 and $103,452,708 at March 31, 2004, and December 31, 2003, Respectively) | 29,131,300 | 29,822,820 |
| | 38,390,477 | 36,905,104 |
| LIABILITIES & TRUST CORPUS | | |
| Distribution Payable to Unit Holders | 9,144,319 | 6,967,426 |
| Cash Reserves | 114,858 | 114,858 |
| Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding | 29,131,300 | 29,822,820 |
| | 38,390,477 | 36,905,104 |

# SAN JUAN BASIN ROYALTY TRUST

## CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME

Three months ended:

| | 03/31/04 | 3/31/03 |
|---|---|---|
| Royalty Income | 21,196,352 | 19,911,068 |
| Interest Income | 8,692 | 7,453 |
| Decrease in Cash Reserves | - | - |
| | 21,205,044 | 19,918,521 |
| Expenditures - General and Administrative | 513,163 | 420,374 |
| Increase in Cash Reserves | - | - |
| Distributable Income | 20,691,881 | 19,498,147 |
| Distributable income per Unit (46,608,796 units) | 0.443948 | 0.418337 |

## CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS

Three months ended:

| | 03/31/04 | 3/31/03 |
|---|---|---|
| Trust Corpus, Beginning of Period | 29,822,820 | 33,697,906 |
| Amortization of Net Overriding Royalty Interest | (691,520) | (1,045,545) |
| Distributable Income | 20,691,880 | 19,498,147 |
| Distributions Declared | (20,691,880) | (19,498,147) |
| Trust Corpus, End of Period | 29,131,300 | 32,652,361 |

## CALCULATION OF ROYALTY INCOME

Three months ended:

| | 03/31/04 | 3/31/03 |
|---|---|---|
| **GROSS PROCEEDS** | | |
| Gas | 46,020,762 | 40,863,040 |
| Oil | 416,764 | 393,663 |
| **TOTAL** | 46,437,526 | 41,256,703 |
| **PRODUCTION COSTS** | | |
| Severance Tax – Gas | 4,552,824 | 4,037,766 |
| Severance Tax – Oil | 44,260 | 34,209 |
| Lease Operating and Property Tax | 4,124,855 | 4,057,817 |
| Other | – | 15,000 |
| Capital Expenditures | 9,453,785 | 6,563,820 |
| **TOTAL** | 18,175,724 | 14,708,612 |
| Less Excess Production and Interest from Prior Year | – | – |
| Net Profits | 28,261,802 | 26,548,091 |
| Net Overriding Royalty Interest | 75% | 75% |
| Royalty Income | 21,196,352 | 19,911,068 |

These financial statements should be read in conjunction with the financial statements and notes thereto included in the Trust's 2003 Annual Report.