# 2011
# San Juan Basin Royalty Trust

Q1

## TO UNIT HOLDERS:

The Trust received Royalty income of $15,389,129 and interest income of $1,466 during the first quarter of 2011. There was no change in cash reserves. After deducting administrative expenses of $521,685, distributable income for the quarter was $14,868,910 ($0.319015 per Unit). In the first quarter of 2010, Royalty income was $22,002,516, interest income was $208,313, administrative expenses were $681,511 and distributable income was $21,529,318 ($0.461915 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the first quarter of 2011 were as follows:

| | |
|---|---|
| January | $.086012 |
| February | .138350 |
| March | .094653 |
| QUARTER TOTAL | $.319015 |

The Royalty Income distributed in the first quarter of 2011 was lower than that distributed in the first quarter of 2010, primarily due to a decrease in the average gas price from $5.16 per Mcf for the first quarter of 2010 to $4.39 per Mcf for the first quarter of 2011 as well as a decrease in the volume of natural gas produced during those same calendar quarters. Interest income was lower for the quarter ended March 31, 2011 as compared to the quarter ended March 31, 2010, primarily due to additional interest from granted audit exceptions received in January 2010. Administrative expenses were lower in 2011 primarily as a result of decreased costs associated with litigation that was settled in April of 2010.

The capital costs attributable to the Underlying Properties for the first quarter of 2011 and deducted by Burlington Resources Oil & Gas Company LP ("BROG") in calculating Royalty income were approximately $3.65 million as compared to approximately $3.43 million of capital costs in the first quarter of 2010. BROG has informed the Trust that its budget for capital expenditures for the Underlying Properties in 2011 is estimated at $13.6 million. Of the $13.6 million, approximately $3.25 million will be attributable to the capital budgets for 2010 and prior years. BROG reports that based on its actual capital requirements, the pace of regulatory approvals, the mix of projects and swings in the price of natural gas, the actual capital expenditures for 2011 could range from $5 million to $35 million.

BROG anticipates 417 projects in 2011. Approximately $8.3 million of the $13.6 million budget is allocable to 38 new wells, including 33 wells scheduled to be dually completed in the Mesaverde and Dakota formations. BROG indicates that five of the new wells are projected to be drilled to Fruitland Coal, Fruitland Sand or Pictured Cliffs formations. Approximately $2 million will be spent on workovers and facilities projects. Of the $3.25 million attributable to the budgets for prior years, approximately $2.45 million is allocable to new wells and the $800,000 balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. Although the estimated project count for new wells is slightly lower for 2011 as compared to 2010, BROG points out that the Trust's interest in those properties to be developed is higher than those drilled last year.

BROG has informed the Trust that lease operating expenses and property taxes were $8,712,042 and $270,213, respectively, for the first quarter of 2011, as compared to $7,799,804 and $213,289, respectively, for the first quarter of 2010. BROG indicates the increase in operating expenses in the first quarter 2011 is due to unseasonably dry weather that occurred in December of 2010, which enabled field personnel to complete more road maintenance and pad work than usual. Those costs are reflected in the first quarter distributions.

BROG has reported to the Trustee that during the first quarter of 2011, 15 gross (2.09 net) conventional wells and three gross (0.50 net) coal seam wells were completed on the Underlying Properties. Seven gross (2.35 net) conventional wells and one gross (0.32 net) coal seam well were in progress at March 31, 2011.

There were 15 gross (3.93 net) conventional wells completed on the Underlying Properties during the first quarter of 2010. Ten gross (0.82 net) conventional wells were in progress at March 31, 2010.

There were 4,016 gross (1,173 net) producing wells being operated subject to the Royalty as of December 31, 2010, calculated on a well bore basis and not including multiple completions as separate wells. "Gross" acres or wells, for purposes of this discussion, means the entire ownership interest of all parties in such properties, and BROG's interest therein 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, 2011 is associated with actual gas and oil production during November 2010 through January 2011 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended March 31, 2011 and 2010 were as follows:

| *Three Months Ended March 31,* | 2011 | 2010 |
|---|---|---|
| GAS: | | |
| Total sales (Mcf) | 8,098,905 | 8,528,870 |
| Mcf per day | 88,032 | 92,705 |
| Average price (per Mcf) | $ 4.39 | $ 5.16 |
| OIL: | | |
| Total sales (Bbls) | 13,294 | 13,160 |
| Bbls per day | 145 | 143 |
| Average price (per Bbl) | $71.86 | $67.66 |

During the first quarter of 2011, average gas prices were $0.77 per Mcf lower than the average prices reported during the first quarter of 2010. The average price per barrel of oil during the first quarter of 2011 was $4.20 per barrel higher than that received for the first quarter of 2010. The decrease in production in the first quarter of 2011 is largely due to weather related issues in the San Juan Basin that impacted the drilling program and the ability to service wells.

BROG previously entered into four contracts effective April 1, 2009, for the sale of all gas produced from the Underlying Properties other than the gas covered by a pre-existing contract with New Mexico Gas Company, Inc. ("NMGC"). The then current purchasers were Chevron Natural Gas, a division of Chevron USA, Inc. ("Chevron"), Pacific Gas and Electric Company ("PG&E"), BP Energy Company, Macquarie Cook Energy LLC, and NMGC. In March 2010, notice of termination of each of the Chevron, BP Energy Company and Macquarie Cook Energy LLC contracts was given such that they terminated effective March 31, 2011. Requests for proposal were circulated to potential purchasers of those packages of gas covered by the expiring contracts with a view toward obtaining new contracts to be effective April 1, 2011. Neither BROG, PG&E, nor NMGC gave notice of termination of their contracts such that the terms of those two contracts have been automatically extended through at least March 31, 2013.

BROG has now entered into three new contracts effective April 1, 2011, for the sale of the gas produced from the Underlying Properties but not sold under the two pre-existing contracts. The purchasers under such new contracts are Chevron, PG&E and Salt River Project Agricultural Improvement and Power District ("SRP"). All five of the current contracts provide for (i) the delivery of such gas at various delivery points through March 31, 2013 and from year-to-year thereafter, until terminated by either party on 12 months' notice (except for the SRP contract which terminates March 31, 2012); and (ii) the sale of such gas at prices which fluctuate in accordance with the published indices for gas sold in the San Juan Basin of northwestern New Mexico.

BROG contracts with Williams Four Corners, LLC ("WFC") and Enterprise Field Services, LLC ("EFS") for the gathering and processing of virtually all of the gas produced from the Underlying Properties. Four new contracts were entered into with WFC to be effective for terms of 15 years commencing April 1, 2010. The new contracts consolidated and replaced 18 prior contracts with WFC. BROG indicates that the new contracts provide some modest reductions in fees and also improved services, including more rigorous line pressure controls and the right to install compression facilities as needed.

However, BROG reports that it has been unable to reach agreement with EFS on gathering and processing contracts, and it has joined a group of others in an administrative proceeding before the New Mexico Public Utility Commission, complaining, *inter alia,* that EFS is insisting upon above-market rates and refusing to agree to essential pressure control services. EFS delivered notice to BROG terminating existing contracts effective December 1, 2010, but on December 10, 2010, an injunction was issued prohibiting EFS from reducing gas flows under the contracts. The dispute was the subject of a mediation conducted in March 2011, which resulted in a tentative agreement for a new gas gathering and processing contract. The contract is still subject to executive management approval and drafting of mutually acceptable documentation. Litigation deadlines have been extended for 90 days to give all the parties time to draft a definitive contract. Meanwhile, the parties continue to perform under the preliminary injunction issued by the court. The Trustee will continue to monitor this matter as it may relate to the Trust.

Confidentiality agreements with gatherers and 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, 2011 (Unaudited), and December 31, 2010, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended March 31, 2011 and 2010.

Unit holders of record will continue to receive an annual individualized tax information letter. All Unit holders may obtain monthly tax information from the Trust's website at www.sjbrt.com, or from the Trustee upon request.

Income and expense (per Unit), and depletion factors for the three months ended March 31, 2011 are as follows:

| | January | February | March |
|---|---|---|---|
| Gross income | $ 0.096852 | $ 0.156868 | $ 0.109935 |
| Interest income | $ 0.000011 | $ 0.000011 | $ 0.000009 |
| Severance tax | $(0.008955) | $(0.014376) | $(0.010148) |
| Administration expense | $(0.001896) | $(0.004153) | $(0.005143) |
| Percentage depletion factor | 0.014528 | 0.023530 | 0.016490 |
| Cost depletion factor | 0.008366 | 0.011144 | 0.007861 |

Compass Bank, Trustee

LEE ANN ANDERSON
Vice President and Senior Trust Officer

## CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | *(Unaudited)* | |
| Cash and short-term investments | $ 4,567,457 | $ 5,223,123 |
| Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of $118,933,254 and $118,529,644 at March 31, 2011 and December 31, 2010, respectively) | 14,342,274 | 14,745,884 |
| | $ 18,909,731 | $ 19,969,007 |
| **LIABILITIES AND TRUST CORPUS** | | |
| Distribution payable to Unit Holders | $ 4,411,668 | $ 5,067,334 |
| Cash reserves | 155,789 | 155,789 |
| Trust corpus—46,608,796 Units of beneficial interest authorized and outstanding | 14,342,274 | 14,745,884 |
| | $ 18,909,731 | $ 19,969,007 |

## CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Royalty income | $ 15,389,129 | $ 22,002,516 |
| Interest income | 1,466 | 208,313 |
| Total revenue | 15,390,595 | 22,210,829 |
| General and administrative expenditures | (521,685) | (681,511) |
| Distributable income | $ 14,868,910 | $ 21,529,318 |
| Distributable income per Unit (46,608,796 Units) | $ 0.319015 | $ 0.461915 |

## CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Trust corpus, beginning of period | $ 14,745,884 | $ 16,843,731 |
| Amortization of net overriding royalty interest | (403,610) | (520,241) |
| Distributable income | 14,868,910 | 21,529,318 |
| Distributions declared | (14,868,910) | (21,529,318) |
| Total corpus, end of period | $ 14,342,274 | $ 16,323,490 |

## CALCULATION OF ROYALTY INCOME

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **GROSS PROCEEDS OF SALES FROM THE UNDERLYING PROPERTIES:** | | |
| Gas proceeds | $ 35,557,971 | $ 43,985,932 |
| Oil proceeds | 955,324 | 890,469 |
| Total | 36,513,295 | 44,876,401 |
| **LESS PRODUCTION COSTS:** | | |
| Severance tax—Gas | 3,264,522 | 4,015,446 |
| Severance tax—Oil | 98,451 | 82,151 |
| Lease operating expense and property tax | 8,982,255 | 8,013,093 |
| Capital expenditures | 3,649,228 | 3,429,023 |
| Total | 15,994,456 | 15,539,713 |
| Net profits | 20,518,839 | 29,336,688 |
| Net overriding royalty interest | 75% | 75% |
| **ROYALTY INCOME** | $ 15,389,129 | $ 22,002,516 |

## GLOSSARY OF TERMS

**Distributable Income:** An amount paid to Unit holders equal to the Royalty income received by the Trustee during a given period plus interest, less the general and administrative expenses of the Trust, adjusted by any changes in cash reserves.

**Royalty:** The principal asset of the Trust; the 75% net overriding royalty interest conveyed to the Trust on November 3, 1980, by Southland Royalty Company, the predecessor to BROG, which was carved out of the Underlying Properties.

**Underlying Properties:** 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.

**Units of Beneficial Interest:** The units of ownership of the Trust, equal to the number of shares of common stock of Southland Royalty Company outstanding at the close of business on November 3, 1980.



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