

2012

SAN JUAN BASIN ROYALTY TRUST



1ST QUARTER REPORT

To Unit Holders:

The Trust received Royalty income of \$14,850,493 and interest income of \$347,694 during the first quarter of 2012. There was no change in cash reserves. After deducting administrative expenses of \$573,491, distributable income for the quarter was \$14,624,696 (\$0.313776 per Unit). In the first quarter of 2011, Royalty income was \$15,389,129, interest income was \$1,466, administrative expenses were \$521,685 and distributable income was \$14,868,910 (\$0.319015 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the first quarter of 2012 were as follows:

January	\$.118906
February	.108842
March	.086028
QUARTER TOTAL	\$.313776

The Royalty income distributed in the first quarter of 2012 was lower than that distributed in the first quarter of 2011 primarily due to higher capital costs in the first quarter of 2012. The average gas price decreased slightly from \$4.39 per Mcf for the first quarter of 2011 to \$4.38 per Mcf for the first quarter of 2012. Interest income was higher for the quarter ended March 31, 2012 as compared to the quarter ended March 31, 2011, due primarily to additional interest from granted audit exceptions received in January 2012. Administrative expenses were higher in 2012 primarily as a result of differences in timing in the receipt and payment of these expenses.

The capital costs attributable to the Underlying Properties for the first quarter of 2012 and deducted by Burlington Resources Oil & Gas Company LP ("BROG") in calculating Royalty income were approximately \$5.9 million as compared to approximately \$3.6 million of capital costs in the first quarter of 2011. BROG has informed the Trust that its budget for capital expenditures for the Underlying Properties in 2012 is estimated at \$20.8 million. Of the \$20.8 million, approximately \$5 million will be attributable to the capital budgets for 2011 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 2012 could range from \$5 million to \$35 million.

BROG anticipates 383 projects in 2012. Approximately \$12.4 million of the \$20.8 million budget is allocable to 21 new wells, including nine wells scheduled to be dually completed in the Mesaverde and Dakota formations and 12 wells to be completed in all three of the

Mesaverde, Mancos Shale and Dakota formations. Approximately \$3.4 million will be spent on workovers and facilities projects. Of the \$5 million attributable to the budgets for prior years, approximately \$3 million is allocable to 20 new wells and the \$2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects.

BROG has informed the Trust that lease operating expenses and property taxes were \$8,292,069 and \$(133,082), respectively, for the first quarter of 2012, as compared to \$8,712,042 and \$270,213, respectively, for the first quarter of 2011. BROG indicates the decrease in operating expenses in the first quarter 2012 is due to decreased repair and maintenance activity. Taxes for the first quarter of 2012 were lower primarily because the distribution for March 2012 included a \$279,849 adjustment for the over-accrual of ad valorem taxes. Commencing in April 2011, BROG reduced its accrual for taxes from \$90,000 per month to \$50,000 per month. BROG adjusts its accruals for taxes based upon actual property taxes paid in the prior year.

BROG has reported to the Trustee that during the first quarter of 2012, eight gross (2.91 net) conventional wells were completed on the Underlying Properties. Five gross (0.70 net) conventional wells were in progress at March 31, 2012.

There were 15 gross (2.09 net) conventional wells and three gross (0.50 net) coal seam wells completed on the Underlying Properties during the first quarter of 2011. 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 4,049 gross (1,180.5 net) producing wells being operated subject to the Royalty as of December 31, 2011, calculated on a well bore basis and not including multiple completions as separate wells. Of those wells, seven gross (5.50 net) are oil wells and the balance are gas wells. BROG reports that approximately 828 gross (324.5 net) of the wells are multiple completion wells resulting in a total of 4,877 gross (1,505 net) completions.

"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. In calculating the number of net wells, where a well is completed to multiple formations, BROG indicates it (a) multiplies the working interest for each zone by a fraction equal to one divided by the total

number of completions in that well bore, and (b) adds the interests so calculated for each zone to obtain the net ownership interest in that well. 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, 2012 is associated with actual gas and oil production during November 2011 through January 2012 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended March 31, 2012 and 2011 were as follows:

<u>Three Months Ended March 31,</u>	2012	2011
Gas:		
Total sales (Mcf)	8,212,735	8,098,905
Mcf per day	89,269	88,032
Average price (per Mcf)	\$ 4.38	\$ 4.39
Oil:		
Total sales (Bbls)	14,370	13,294
Bbls per day	156	145
Average price (per Bbl)	\$86.01	\$71.86

During the first quarter of 2012, average gas prices were \$0.01 per Mcf lower than the average prices reported during the first quarter of 2011. BROG has reported that although the price of natural gas has been depressed as a result of increased supply related to shale gas development and other factors, the prices of natural gas liquids produced in conjunction with that gas have not been so adversely affected and have mitigated somewhat the price declines for the gas. The average price per barrel of oil during the first quarter of 2012 was \$14.15 per barrel higher than that received for the first quarter of 2011.

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 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 upon notice of between six and twelve months (except for the SRP contract which terminated 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. Requests for proposals were circulated soliciting bids for the purchase of those volumes sold under the SRP contract which expired March 31, 2012. Contracts are now in place for the sale of those volumes to PG&E, Shell Energy North America (US), LP and SRP on delivery and pricing terms substantially the same as the other contracts described in this paragraph and also for a term expiring March 31, 2013.

On or about January 4, 2012 the operator of the Lybrook gas processing plant took that facility out of service and rerouted gas formerly treated there to its Ignacio plant. Because the NMGC system is not interconnected with the Ignacio plant it became impossible for BROG to sell gas

to NMGC under the contract described above such that BROG declared a *force majeure* event and terminated the NMGC contract. BROG negotiated a contract to sell the NMGC volumes to Chevron at prices and terms acceptable to the Trust's consultants for the period through the March 31, 2013 termination date of the prior NMGC contract.

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 has indicated 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.

Although BROG was unable to reach agreement with EFS contemporaneously with the WFC contracts on gathering and processing, BROG reported that it has signed a new agreement with EFS effective November 1, 2011 for a term of 15 years. BROG has disclosed to the Trust a summary of that agreement which the Trust has reviewed with its consultants, subject to conditions of confidentiality. 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.

On March 31, 2006, a subsidiary of ConocoPhillips completed its acquisition of Burlington Resources, Inc., BROG's parent. As a result, ConocoPhillips became the parent of Burlington Resources, Inc., which in turn, is the parent of BROG. On May 1, 2012, ConocoPhillips announced that it had completed the spinoff to Phillips 66 of the company's refining and marketing business from its exploration and production business. According to ConocoPhillips, both businesses are now stand-alone, publicly traded corporations. The Trustee will continue to monitor this situation's effect on the Trust, if any.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of March 31, 2012 (Unaudited), and December 31, 2011, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended March 31, 2012 and 2011.

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, 2012 are as follows:

	January	February	March
Gross income	\$ 0.125677	\$ 0.123273	\$ 0.100872
Interest income	\$ 0.007430	\$ 0.000018	\$ 0.000012
Severance tax	\$(0.011498)	\$(0.010688)	\$(0.009016)
Administration expense	\$(0.002704)	\$(0.003761)	\$(0.005840)
Percentage depletion factor	0.018852	0.018491	0.015131
Cost depletion factor	0.008815	0.008782	0.007886

Compass Bank, Trustee

LEE ANN ANDERSON
Vice President and Senior Trust Officer

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	March 31, 2012	December 31, 2011
ASSETS	(Unaudited)	
Cash and short-term investments	\$ 4,165,449	\$ 7,101,319
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$120,465,459 and \$120,130,470 at March 31, 2012 and December 31, 2011, respectively)	12,810,069	13,145,058
	\$ 16,975,518	\$ 20,246,377
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit Holders	\$ 4,009,660	\$ 6,945,530
Cash reserves	155,789	155,789
Trust corpus—46,608,796 Units of beneficial interest authorized and outstanding	12,810,069	13,145,058
	\$ 16,975,518	\$ 20,246,377

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended March 31, 2012	2011
Royalty income	\$ 14,850,493	\$ 15,389,129
Interest income	347,694 ⁽¹⁾	1,466
Total revenue	15,198,187	15,390,595
General and administrative expenditures	(573,491)	(521,685)
Distributable income	\$ 14,624,696	\$ 14,868,910
Distributable income per Unit (46,608,796 Units)	\$ 0.313776	\$ 0.319015

(1) Includes \$345,830 in interest on the late payment of gross proceeds as a result of the ongoing negotiation of compliance audit exceptions.

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	Three Months Ended March 31, 2012	2011
Trust corpus, beginning of period	\$ 13,145,058	\$ 14,745,884
Amortization of net overriding royalty interest	(334,989)	(403,610)
Distributable income	14,624,696	14,868,910
Distributions declared	(14,624,696)	(14,868,910)
Total corpus, end of period	\$ 12,810,069	\$ 14,342,274

CALCULATION OF ROYALTY INCOME

	Three Months Ended March 31, 2012	2011
GROSS PROCEEDS OF SALES FROM THE UNDERLYING PROPERTIES:		
Gas proceeds	\$ 35,940,492	\$ 35,557,971
Oil proceeds	1,235,903	955,324
Total	37,176,395	36,513,295
LESS PRODUCTION COSTS:		
Severance tax—Gas	3,199,795	3,264,522
Severance tax—Oil	115,595	98,451
Lease operating expense and property tax	8,158,987	8,982,255
Capital expenditures	5,901,361	3,649,228
Total	17,375,738	15,994,456
Net profits	19,800,657	20,518,839
Net overriding royalty interest	75%	75%
ROYALTY INCOME	\$ 14,850,493	\$ 15,389,129

These financial statements should be read in conjunction with the condensed financial statements and notes thereto included in the Trust's Form 10-Q filing for the quarterly period ending March 31, 2012.

Glossary of Terms

BROG: Burlington Resources Oil & Gas Company LP, a corporate subsidiary of ConocoPhillips and the principal operator of the Underlying Properties.

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, overriding royalty and other leasehold 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.

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

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