



TO UNIT HOLDERS

The Trust received Royalty Income of \$16,076,429 and interest income of \$1,900 during the third quarter of 2014. After deducting administrative expenses of \$385,623, distributable income for the quarter was \$15,692,706 (\$0.336690 per Unit). In the third quarter of 2013, Royalty Income was \$13,743,934, and interest income was \$1,240. After deducting administrative expenses of \$288,883, distributable income for the third quarter of 2013 was \$13,456,291 (\$0.288708 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2014 were as follows:

July	\$.117918
August	.104675
September	.114097
<u>Quarter Total</u>	<u>\$.336690</u>

The Royalty Income distributed in the third quarter of 2014 was higher than that distributed in the third quarter of 2013 primarily due to decreased capital expenditures and lease operating expense, as well as an increase in the average gas price from \$3.64 per Mcf for the third quarter of 2013 to \$4.47 for the third quarter of 2014. Interest income was higher for the quarter ended September 30, 2014 as compared to the quarter ended September 30, 2013 primarily due to an increase in funds available for investment. Administrative expenses were higher in 2014 primarily as a result of differences in timing in the receipt and payment of certain of these expenses as well as the cost of new litigation described below.

In February 2014, Burlington Resources Oil & Gas Company LP ("Burlington") informed the Trustee it had discovered a failure by Burlington to properly allocate approximately \$4.3 million of severance taxes to the calculation of the Royalty during a period commencing in 2007 until the allocation was corrected in 2012, which resulted in what it characterized as an overpayment to the Trust in the amount of approximately \$3.25 million. Burlington proposed and has begun to recoup the overpayment in installments of \$361,215 starting in March 2014 and continuing in equal installments through November 2014. Burlington has elected not to charge interest against the overpayment, although it has reserved the right to do so. The Trust and its advisors are analyzing the facts and circumstances and will continue communication with Burlington on this claim.

The capital costs attributable to the Underlying Properties for the third quarter of 2014 and deducted by Burlington in calculating Royalty Income were approximately \$1.2 million as compared to approximately \$1.6 million of capital costs in the third quarter of 2013.

In January 2014, Burlington informed the Trust that its budget for capital expenditures for the Underlying Properties in 2014 was estimated at \$4.8 million. Burlington reported 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 2014 could range from \$2 million to \$15 million. In light of the challenged price environment for natural gas and natural gas liquids, in March 2013, Burlington announced the temporary suspension of its drilling program in the San Juan Basin. However, Burlington has recently informed the Trust of its plans to commence drilling four new wells by the end of 2014.

Burlington initially anticipated 100 projects in 2014. Approximately \$1.8 million of the original \$4.8 million budget is to be spent on 40 miscellaneous facilities projects. The \$3 million balance is attributable to the budgets for prior years; \$1 million is allocable to 20 new wells commenced prior to 2014 and the \$2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. Now, the four new wells to be commenced in 2014 are estimated to increase that original budget by approximately \$4.7 million for an aggregate of approximately \$9.5 million.

Lease operating expenses and property taxes were \$8,304,363 and \$139,893, respectively, for the third quarter of 2014, as compared to \$9,946,510 and \$168,858, respectively, for the third quarter of 2013. Burlington indicates the decrease in operating expenses in the third quarter of 2014 is primarily due to reductions in contract maintenance and repair labor. Property taxes for the third quarter of 2014 were lower because of a reduction in the accrual based on a new estimate of ad valorem taxes for 2014.

Burlington has reported to the Trustee that during the third quarter of 2014, no conventional wells were completed on the Underlying Properties. There were no wells in progress at September 30, 2014.

There was one gross (0.03 net) conventional well completed on the Underlying Properties during the third quarter of 2013. There were no wells in progress at September 30, 2013.

There were 4,007 gross (1,156.70 net) producing wells being operated subject to the Royalty as of December 31, 2013, calculated on a well bore basis and not including multiple completions as separate wells. Of those wells, seven gross (5.00 net) are oil wells and the balance are gas wells. Burlington reports that approximately 852 gross (325.19 net) of the wells are multiple completion wells resulting in a total of 4,859 gross (1,481.89 net) completions.

"Gross" acres or wells, for purposes of this discussion, means the entire ownership interest of all parties in such properties, and Burlington'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, Burlington 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 September 30, 2014 is associated with actual gas and oil production during May 2014 through July 2014 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended September 30, 2014 and 2013 were as follows:

Three Months Ended September 30,	2014	2013
Gas:		
Total sales (Mcf)	7,878,793	8,820,946
Mcf per day	85,639	95,880
Average price (per Mcf)	\$ 4.47	\$ 3.64
Oil:		
Total sales (Bbls)	11,877	15,346
Bbls per day	129	167
Average price (per Bbl)	\$ 87.58	\$ 86.48

During the third quarter of 2014, average gas prices were \$0.83 per Mcf higher than the average prices reported during the third quarter of 2013. The average price per barrel of oil during the third quarter of 2014 was \$1.10 per barrel higher than that received for the third quarter of 2013.

Gas produced from the Underlying Properties is processed at one of the following five plants: Chaco, Val Verde, Milagro, Ignacio, and Kutz, all located in the San Juan Basin. All of such gas other than that processed at Kutz is being sold to Chevron USA, Inc. ("Chevron") under a contract with Burlington dated April 1, 2011 which provides for the delivery of gas through March 31, 2015 and from year to year thereafter. Neither Burlington nor Chevron exercised their right to terminate the Chevron contract and therefore, its term has been extended through March 31, 2016, and thereafter until terminated by either party upon six months notice to the other.

Gas produced from the Underlying Properties and processed at Kutz was being sold under three separate contracts with EDF Trading North America, LLC ("EDF"), Shell Energy North America (US), LP ("Shell") and New Mexico Gas Company, Inc. ("NMGC"). The NMGC contract for the sale of certain winter-only supplies of the Kutz gas is for a five-year term expiring March 31, 2017. The contracts effective as of April 1, 2013 with EDF and Shell are set to expire March 31, 2015. Burlington will circulate another round of requests for proposal for the purchase of those volumes through March 31, 2016.

All four of the current contracts provide for (i) the delivery of such gas at various delivery points through their respective termination dates; 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.

Burlington 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, each of which is effective for a term of 15 years, which commenced April 1, 2010. Burlington has signed a similar agreement with EFS which was effective November 1, 2011 for a term of 15 years. Burlington has disclosed to the Trust a summary of that agreement which the Trust has reviewed with its consultants, subject to conditions of confidentiality.

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 July 31, 2014, the Trustee filed a lawsuit against Burlington in the 1st Judicial District Court for the County of Santa Fe, State of New Mexico. The case is styled Compass Bank, in its Capacity as Trustee of the San Juan Basin Royalty Trust v. Burlington Resources Oil & Gas Company LP and BROG GP LLC, No. D-101-CV-2014-01765. The Trust asserts claims for breach of contract and breach of the implied covenant of good faith and fair dealing, and seeks a declaratory judgment arising out of a number of unresolved revenue and expense audit exceptions asserted by the Trust's auditors. More particularly, the claims involve Burlington's failure to properly account for and pay net overriding royalty interests to the Trust with respect to oil and gas production from numerous properties in the San Juan Basin of northwestern New Mexico. Based on information currently available to the Trust and its auditors, the Trust seeks monetary relief (including actual and punitive damages, costs, expenses, interest and attorney fees) in excess of \$12,000,000, along with specific performance of certain contractual obligations, declaratory relief and a judgment for other relief to which it may show itself to be justly entitled. Burlington has filed an answer and the parties have commenced discovery, which is in its early stages.


Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of September 30, 2014 (Unaudited), and December 31, 2013, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended September 30, 2014 and 2013.

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 September 30, 2014 are as follows:

	July	August	September
Gross income	\$ 0.139806	\$ 0.124973	\$ 0.136721
Interest income	\$ 0.000012	\$ 0.000015	\$ 0.000014
Severance tax	(\$0.019539)	(\$0.017746)	(\$0.019294)
Administration expense	(\$0.002362)	(\$0.002568)	(\$0.003344)
Percentage depletion factor	0.020971	0.018746	0.020508
Cost depletion factor	0.013510	0.012227	0.013169

Compass Bank, Trustee



LEE ANN ANDERSON
Vice President and Senior Trust Officer

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2014	December 31, 2013
Assets	(Unaudited)	
Cash and short-term investments	\$ 5,504,178	\$ 4,650,682
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$123,538,063 and \$122,306,532 at September 30, 2014 and December 31, 2013, respectively)	9,737,465	10,968,996
	\$ 15,241,643	\$ 15,619,678
Liabilities and Trust Corpus		
Distribution payable to Unit Holders	\$ 5,317,936	\$ 4,464,440
Cash reserves	186,242	186,242
Trust corpus – 46,608,796 Units of beneficial interest authorized and outstanding	9,737,465	10,968,996
	\$ 15,241,643	\$ 15,619,678

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Royalty income	\$ 16,076,429	\$ 13,743,934	\$ 48,726,954	\$ 23,653,832
Interest income	1,900	1,240	74,067 ⁽¹⁾	1,904
Total revenue	16,078,329	13,745,174	48,801,021	23,655,736
General and administrative expenditures	385,623	288,883	1,306,212	1,236,950
Increase in cash reserves	—	—	—	29,518
Distributable income	\$ 15,692,706	\$ 13,456,291	\$ 47,494,809	\$ 22,389,268
Distributable income per Unit (46,608,796 Units)	\$ 0.336690	\$ 0.288708	\$ 1.019009	\$ 0.480366

⁽¹⁾ Includes \$69,241 interest on the late payment of gross proceeds as a result of the ongoing negotiation of compliance audit issues.

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Trust corpus, beginning of period	\$ 10,164,223	\$ 11,847,943	\$ 10,968,996	\$ 12,163,460
Amortization of net overriding royalty interest	(426,758)	(469,863)	(1,231,531)	(785,380)
Distributable income	15,692,706	13,456,291	47,494,809	22,389,268
Distributions declared	(15,692,706)	(13,456,291)	(47,494,809)	(22,389,268)
Trust corpus, end of period	\$ 9,737,465	\$ 11,378,080	\$ 9,737,465	\$ 11,378,080

CALCULATION OF ROYALTY INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross Proceeds of Sales from the Underlying Properties:				
Gas proceeds	\$ 35,188,742	\$ 32,093,034	\$ 107,029,765	\$ 87,411,806
Oil proceeds	1,040,247	1,327,173	3,825,015	3,468,538
Total	36,228,989	33,420,207	110,854,780	90,880,344
Less Production Costs:				
Severance tax – Gas	5,005,538	3,211,029	14,157,644	8,700,422
Severance tax – Oil	101,058	142,805	394,928	363,063
Other	—	—	—	4,430 ⁽²⁾
Lease operating expense and property tax	8,444,256	10,115,368	26,958,005	29,354,213
Capital expenditures	1,242,898	1,625,759 ⁽¹⁾	4,374,931	20,919,774
Total	14,793,750	15,094,961	45,885,508	59,341,902
Net profits	21,435,239	18,325,246	64,969,272	31,538,442
Net overriding royalty interest	75%	75%	75%	75%
Royalty Income	\$ 16,076,429	\$ 13,743,934	\$ 48,726,954	\$ 23,653,832

⁽¹⁾ Includes \$387,100 credit due to a downward revision in the capital accrual rate.

⁽²⁾ Interest on excess production cost.

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 September 30, 2014.

SAN JUAN BASIN ROYALTY TRUST

THIRD QUARTER REPORT 2014

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 Burlington, which was carved out of the Underlying Properties.

Underlying Properties: The working, royalty and other interests owned by Southland Royalty Company, the predecessor to Burlington, 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.

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