

SAN JUAN BASIN ROYALTY TRUST

THIRD QUARTER REPORT 2016

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TO OUR UNIT HOLDERS

We are pleased to present the 2016 3rd Quarter Report of the San Juan Basin Royalty Trust (the "Trust"). The principal asset of the Trust is a 75% net overriding royalty interest (the "Royalty") carved out of certain oil and gas leasehold and royalty interests in properties located in the San Juan Basin of New Mexico (the "Subject Interests") owned by Burlington Resources Oil & Gas Company LP ("Burlington"), which is a wholly-owned subsidiary of ConocoPhillips.

Royalty income of the Trust, which consists of monthly net proceeds attributable to the Royalty, was \$4,380,871 for the three months ended September 30, 2016, compared to \$5,414,897 during the same period in 2015. The decrease in royalty income is primarily attributable to lower natural gas and oil prices along with lower natural gas volumes, offset by higher capital expenditures in 2015.

General and administrative expenses increased approximately \$0.1 million or 25% for the three months ended September 30, 2016 compared to the same period in 2015. The increase is primarily attributable to increased third party audit and legal costs incurred related to the 2014 Litigation (as defined below) and approximately \$88,000 incurred in responding to the Southwest Bank Campaign (as defined below).

Interest income was higher for the three months ended September 30, 2016 as compared to the same period in 2015 primarily due to the receipt of \$161,794 in interest on the late payment of gross proceeds in July 2016.

Distributable income decreased by approximately \$1.0 million or 20% to \$4.0 million (\$0.086471 per Unit) for the three months ended September 30, 2016 from \$5.0 million (\$0.107567 per Unit) for the three months ended September 30, 2015. The decrease in distributable income was primarily attributable to a decrease in royalty income over the same period and increased general and administrative expenses directly related to audit and legal costs incurred in the 2014 Litigation and in responding to the Southwest Bank Campaign.

On October 13, 2016, Burlington informed the Trust of an overpayment of \$17,418. This adjustment represents the amount of an overpayment by Burlington with respect to the September 2016 period. The amount overpaid was deducted from Royalty income due to the Trust in October 2016. As the result of an audit exception raised by the Trustee, the October distribution also included a \$759,164 net credit adjustment from Burlington for lease operating expenses and capital costs associated with a unit expansion.

Compass Bank, as Trustee of the Trust, understands that low commodity pricing and decreased natural gas volumes—in conjunction with increased costs related to the Burlington litigation—contribute to less than ideal circumstances for Unit holders. The Trustee will continue to

carefully monitor all expenses and will work to keep charges to the Trust as low and reasonable as possible.

Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2016 were as follows:

July	\$ 0.027831
August	0.018452
September	0.040188
Quarter Total	\$ 0.086471

Total cash reserves for current Trust expenses were approximately \$1.0 million as of September 30, 2016. Cash reserves were increased by \$13,687 during the third quarter of 2016 in order to cover expenses in case of a future revenue shortfall resulting from lower commodity prices. The Trustee does not anticipate any further increases to the cash reserves in 2016.

ConocoPhillips' announced 2016 capital plan for the Subject Interests anticipates capital expenditures of \$4.8 million, of which \$3.4 million is allocated to 20 facilities projects and \$1.4 million is allocated to 20 facilities projects attributable to the budgets for prior years. ConocoPhillips 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 2016 are subject to change. ConocoPhillips has reported to the Trustee that capital expenditures in 2016 have been lower than expected due to low commodity prices making many of the planned facility projects uneconomic.

Primarily due to depressed pricing for natural gas, ConocoPhillips has not allocated any capital expenditures for 2016 to its drilling program in the San Juan Basin. However, ConocoPhillips reported that it continually monitors natural gas prices and plans to restart the program at some point in the future, dependent upon such natural gas prices. Existing wells will continue to be operated.

Royalty income for the quarter ended September 30, 2016 is associated with actual oil and natural gas production during May 2016 through July 2016 from the Subject Interests. The Trust recognizes production during the month in which the related net proceeds attributable to the Royalty are paid to the Trust. Production of oil and natural gas and related average sales prices attributable to each of the Subject Interests and the Royalty for the three months ended September 30, 2016 and 2015, were as follows:

	For the Three Months Ended September 30,			
	2016		2015	
	Natural Gas (Mcf)	Oil and Condensate (Bbls)	Natural Gas (Mcf)	Oil and Condensate (Bbls)
Production				
Subject Interests	6,815,105	21,563	7,490,209	21,652
Royalty	2,397,847	7,422	2,438,862	8,114
Average Price (per Mcf/Bbl)	\$ 1.89	\$ 33.94	\$ 2.26	\$ 54.65

Sales volumes attributable to the Royalty are determined by dividing the net profits by the Trust from the sale of oil and natural gas, respectively, by the prices received for sales of such volumes from the Subject Interests, taking into consideration production taxes attributable to the Subject Interests. Because the oil and natural gas sales attributable to the Royalty are based upon an allocation formula dependent on such factors as price and cost, including capital expenditures, the aggregate sales amounts from the Subject Interests may not provide a meaningful comparison to sales attributable to the Royalty.

The 2014 Litigation

On July 31, 2014, the Trustee filed a lawsuit (the "2014 Litigation") against Burlington in New Mexico State Court. 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. The parties participated in a full-day mediation on September 28, 2016. Although the case did not settle, the parties did make significant progress. The parties intend to continue settlement discussions and have agreed to a temporary discovery "stand still" to avoid continued litigation costs while those discussions take place. As a result, the parties are planning to present a joint motion to the trial court seeking entry of a new pre-trial scheduling order and a continuance of the non-jury trial setting until October 2017. For more information about the 2014 Litigation, see Part I, Item 3. Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2015.

The Southwest Campaign

In August 2016, Southwest Bank and Robert Lansford, a senior business development officer at Southwest Bank (together, "Southwest Bank"), began a campaign to call a special meeting and solicit proxies to remove Compass Bank as trustee of the Trust and to elect Southwest Bank as the successor trustee (the "Southwest Bank Campaign"). The Trust believes that a change in trustee is unnecessary and has opposed the Southwest Bank Campaign. Responding to the Southwest Bank Campaign has been, and likely will continue to be, a costly and time-consuming process for the Trust and may result in disruptions in the operations of the Trust, distraction of trust officers and employees, significantly increased Trust expenses (including expenses incurred by Compass Bank in fulfilling its fiduciary

duties as trustee of the Trust) and reductions in distributable income. In addition, a change in trustee could result in significant transition expenses and disruptions to Trust operations. Specifically, the Trust's general and administrative expenses have increased during the third quarter of 2016 due to proxy solicitation expenses and legal and other advisor expenses. The Trust will likely incur higher general and administrative expenses for the fourth quarter of 2016 as a result of the Southwest Bank Campaign. In order to conserve Trust funds and to avoid having the Trust bear the costs of Compass Bank's opposition to its removal as trustee, Compass Bank has elected to bear for its own account certain of the fees and expenses of a proxy solicitor. A special meeting of the Unit Holders to vote on Southwest Bank's proposals has been called for November 21, 2016.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of September 30, 2016, (Unaudited), and December 31, 2015, and the Condensed Statements of Distributable Income and of Changes in Trust Corpus for the three and nine months ended September 30, 2016 and 2015 (Unaudited).

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.sjbtr.com, or from the Trustee upon request.

Income and expense (per Unit) and depletion factors for the three months ended September 30, 2016 are as follows:

	July	August	September
Gross Income	\$0.032633	\$0.023519	\$0.048644
Interest Income	\$0.003476	\$0.000006	\$0.000007
Severance Tax	(\$0.003416)	(\$0.002435)	(\$0.004952)
Administration Expense	(\$0.004568)	(\$0.002638)	(\$0.003511)
Cash Reserve Increase	(\$0.000294)	—	—
Distributable Income	\$0.027831	\$0.018452	\$0.040188
Percentage Depletion Factor	0.004895	0.003528	0.007297
Cost Depletion Factor	0.011263	0.008201	0.012265

Compass Bank, Trustee



JOSHUA R. PETERSON
Vice President and Senior Trust Officer

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2016	December 31, 2015
	(Unaudited)	
Assets		
Cash and Short-Term Investments	\$ 2,873,104	\$ 1,819,252
Net Overriding Royalty Interest in Producing Oil and Gas Properties (net of accumulated amortization of \$125,131,738 and \$124,551,141 at September 30, 2016 and December 31, 2015, respectively)	8,143,790	8,724,387
	\$11,016,894	\$10,543,639
Liabilities And Trust Corpus		
Distribution Payable to Unit Holders	\$ 1,873,104	\$ 1,282,939
Cash Reserves	1,000,000	536,313
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding	8,143,790	8,724,387
	\$11,016,894	\$10,543,639

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Royalty Income	\$ 4,380,871	\$ 5,414,897	\$ 8,956,081	\$ 15,024,041
Interest Income	162,569 ⁽¹⁾	614	163,823 ⁽¹⁾	81,057 ⁽²⁾
Total Revenue	4,543,440	5,415,511	9,119,904	15,105,098
General and Administrative Expenditures	(499,461)	(401,966)	(2,408,031)	(1,562,453)
Increase in Cash Reserves	(13,687)	--	(463,687)	(350,071)
Distributable Income	\$ 4,030,292	\$ 5,013,545	\$ 6,248,186	\$ 13,192,574
Distributable Income per Unit (46,608,796 Units)	\$ 0.086471	\$ 0.107567	\$ 0.134057	\$ 0.283050

(1) Includes \$161,794 in interest on the late payment of gross proceeds as a result of the ongoing negotiation of compliance audit issues.

(2) Includes \$ 78,884 in 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,	
	2016	2015	2016	2015
Trust Corpus, Beginning of Period	\$ 8,420,606	\$ 9,081,135	\$ 8,724,387	\$ 9,362,757
Amortization of Net Overriding Royalty Interest	(276,816)	(189,109)	(580,597)	(470,731)
Distributable Income	4,030,292	5,013,545	6,248,186	13,192,574
Distributions Declared	(4,030,292)	(5,013,545)	(6,248,186)	(13,192,574)
Trust Corpus, End of Period	\$ 8,143,790	\$ 8,892,026	\$ 8,143,790	\$ 8,892,026

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These Condensed 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, 2016.

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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