

SAN JUAN BASIN ROYALTY TRUST

2019
Q3

TO OUR UNIT HOLDERS

We are pleased to present the 2019 3rd Quarter Report (this "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"). The Subject Interests are owned by Hilcorp San Juan L.P. ("Hilcorp"), and were previously owned by Burlington Resources Oil & Gas Company LP ("Burlington"), a wholly-owned subsidiary of ConocoPhillips.

Royalty income distributed to the Trust, which consists of monthly net proceeds attributable to the Royalty, was zero for the three months ended September 30, 2019, compared to \$3.0 million during the same period in 2018. The decrease in Royalty income is primarily attributable to increased capital spending by Hilcorp pursuant to its 2019 Capital Expenditures plan (as has been amended and updated periodically, the "2019 CapEx Plan"), decreased natural gas production, lower natural gas prices, and increased lease operating expense.

Distributable income decreased from approximately \$2.8 million (\$0.060718 per Unit) for the three months ended September 30, 2018 to zero for the three months ended September 30, 2019. There was no distributable income in the third quarter of 2019 due primarily to increased capital expenditures by Hilcorp pursuant to its 2019 CapEx Plan that were associated with the drilling of the Fruitland Coal well and well recompletions resulting in excess production costs of \$2.0 million (\$1.5 million net) in the quarter ended September 30, 2019. Total accumulated gross excess production costs applicable to the Subject Interests in 2019 were approximately \$2.2 million (\$1.6 million net) as of September 30, 2019.

Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2019 were as follows:

July	\$0.000000
August	0.000000
September	0.000000
<u>Quarter Total</u>	<u>\$0.000000</u>

Interest income was higher for the three months ended September 30, 2019 as compared to the same period in 2018 primarily due to higher yields on short-term investments held by the Trust.

General and administrative expenses increased approximately \$0.1 million or 24% for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The decrease was primarily attributable to higher compliance auditor costs related to the transition of the Subject Interests from Burlington to Hilcorp.

The Trust withdrew approximately \$0.3 million from its cash reserves in the third quarter of 2019 to pay Trust general and administrative expenses due to the Trust receiving no Royalty income during that period. Total cash reserves were approximately \$0.6 million as of September 30, 2019. The primary purpose of the cash reserves is to have sufficient funds to cover monthly general and administrative expenses in the event that there is insufficient Royalty income to cover such expenses. The Trustee will replenish the cash reserve once it begins to receive Royalty income from Hilcorp. The Trustee does not anticipate any increases to the cash reserve level of \$1.0 million in 2019, although it cannot guarantee that the Trustee will not increase such cash reserves in the future. The Trustee did not increase its cash reserves during fiscal 2018 above the established level.

In October 2019, Hilcorp revised its 2019 CapEx Plan to an estimated \$8.0 million for the Subject Interests, down from its May 2019 estimate of \$12.6 million. Hilcorp informed the Trust that an environmental lawsuit filed against the Bureau of Land Management ("BLM") has stalled all of the BLM's permitting processes, including those permits for capital expenditure drilling in the Subject Interests. As a result, Hilcorp is uncertain when it will receive the required permits to allow it to conduct additional capital expenditure drilling in the Subject Interests.

Royalty income for the quarter ended September 30, 2019 is associated with oil and natural gas production during May through July 2019 from the Subject Interests. 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, 2019 and 2018 were as follows:

	For the Three Months Ended September 30,			
	2019		2018	
	Natural Gas (Mcf)	Oil and Condensate (Bbls)	Natural Gas (Mcf)	Oil and Condensate (Bbls)
Production				
Subject Interests	6,925,842	26,139	8,589,309	10,149
Royalty	(2,567,495) ⁽¹⁾	17,512	1,640,691	3,486
Average Price (per Mcf/Bbl)	\$1.26	\$45.29	\$1.76	\$61.49

⁽¹⁾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 Hilcorp's capital expenditures pursuant to its 2019 CapEx Plan. The allocation formula for natural gas produced a negative volume due to excess production costs during the three months ended September 30, 2019.

The Trust recognizes production during the month in which the related net proceeds attributable to the Royalty are paid to the Trust. Royalty income for a calendar year is based on the actual natural gas and oil production during the period beginning with November of the preceding calendar year through October of the current calendar year. 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 Hilcorp's capital expenditures pursuant to its 2019 CapEx Plan and the timing of Hilcorp's true-ups of prior reported estimated oil and natural gas production data, the aggregate sales

amounts from the Subject Interests may not provide a meaningful comparison to sales attributable to the Royalty. Future true-ups will impact future royalty proceeds, but will not change the reported amounts due to the accounting basis used.

Included in this Report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of September 30, 2019, (Unaudited), and December 31, 2018, and the Condensed Statements of Distributable Income and of Changes in Trust Corpus for the three months ended September 30, 2019 and 2018 (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.sjbrt.com, or from the Trustee upon request by calling toll-free or writing the Trustee at the contact information at the bottom of this Report.

Income and expense (per Unit) and depletion factors for the three months ended September 30, 2019 are as follows:

	July	August	September
Gross Income	\$ 0.000000	\$ 0.000000	\$ 0.000000
Interest Income	\$ 0.000057	\$ 0.000035	\$ 0.000028
Severance Tax	(\$ 0.000000)	(\$ 0.000000)	(\$ 0.000000)
Administration Expense	(\$ 0.000057)	(\$ 0.000035)	(\$ 0.000028)
Distributable Income	\$ 0.000000	\$ 0.000000	\$ 0.000000
Percentage Depletion Factor	0.000000	0.000000	0.000000
Cost Depletion Factor	0.000000	0.000000	0.000000

BBVA USA, Trustee

BY: JOSHUA R. PETERSON
Senior Vice President and Trust Officer



CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Assets		
Cash and Short-Term Investments	\$ 580,607	\$ 2,125,838
Net Overriding Royalty Interest in Producing Oil and Gas Properties (net of accumulated amortization of \$127,689,208 and \$127,430,801 at September 30, 2019 and December 31, 2018, respectively)	5,586,320	5,844,727
	\$ 6,166,927	\$ 7,970,565
Liabilities And Trust Corpus		
Distribution Payable to Unit Holders	\$ —	\$ 1,125,838
Cash Reserves	580,607	1,000,000
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding	5,586,320	5,844,727
Total Liabilities	\$ 6,166,927	\$ 7,970,565

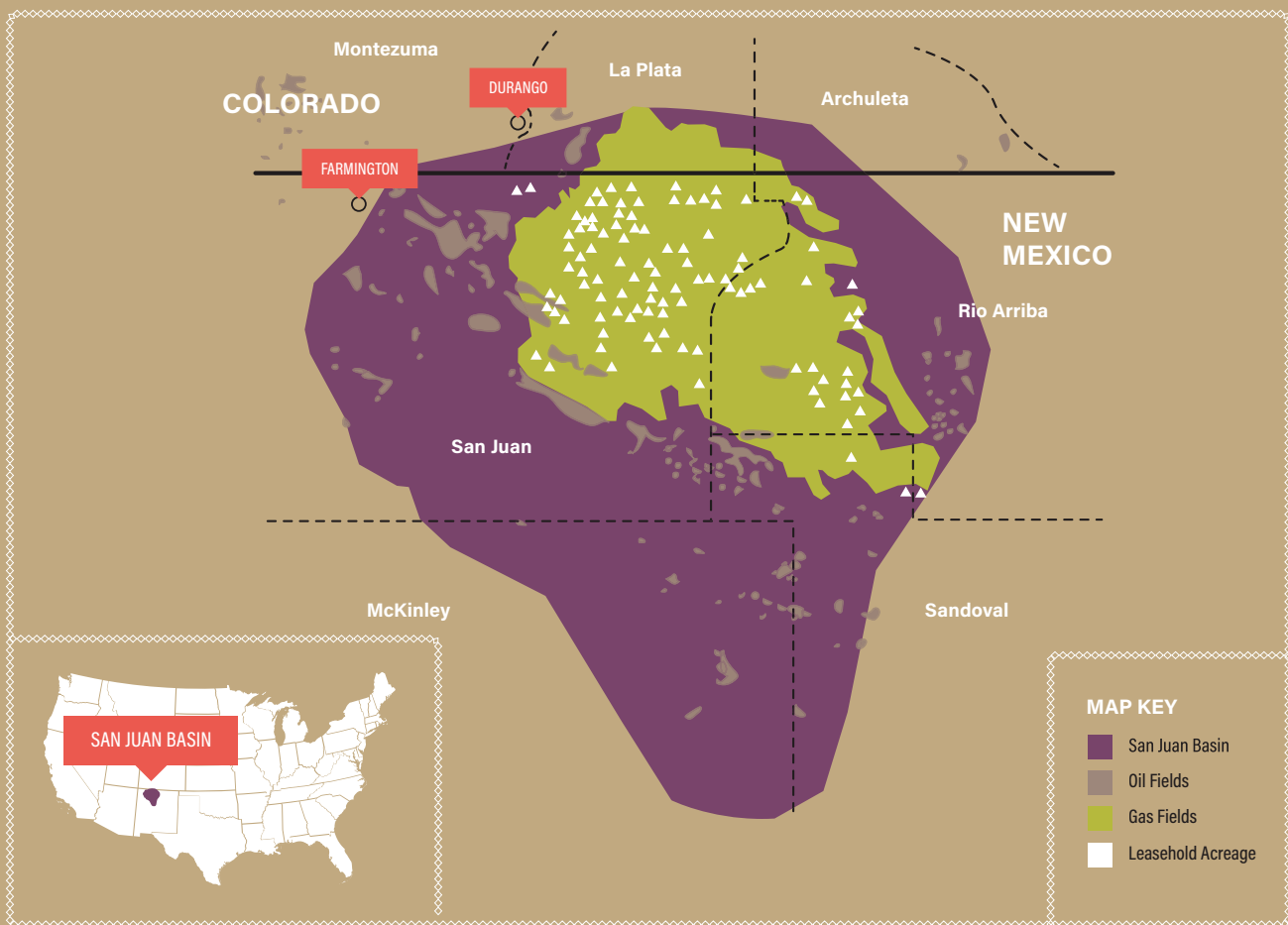
CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Royalty Income	\$ —	\$ 3,001,153	\$ 8,957,770	\$12,638,486
Interest Income	5,633	4,648	23,347	13,890
Total Income	5,633	3,005,801	8,981,117	12,652,376
General and Administrative Expenses	(340,084)	(273,736)	(1,388,971)	(1,161,023)
Decrease in Cash Reserves	334,451	97,909	419,394	97,909
Distributable Income	\$ —	\$ 2,829,974	\$ 8,011,540	\$11,589,262
Distributable Income per Unit (46,608,796 Units)	\$ 0.000000	\$ 0.060718	\$ 0.171890	\$ 0.248650

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Trust Corpus, Beginning of Period	\$ 5,586,320	\$ 6,157,350	\$ 5,844,727	\$ 6,577,380
Amortization of Net Overriding Royalty Interest	—	(110,382)	(258,407)	(530,412)
Distributable Income	—	2,829,974	8,011,540	11,589,262
Distributions Declared	—	(2,829,974)	(8,011,540)	(11,589,262)
Trust Corpus, End of Period	\$ 5,586,320	\$ 6,046,968	\$ 5,586,320	\$ 6,046,968
Distributions declared (per Unit)	\$ 0.000000	\$ 0.060718	\$ 0.171890	\$ 0.248650

These Condensed Financial Statements and the other information presented in this Report should be read in conjunction with the information in the Trust's Quarterly Report on Form 10-Q (including but not limited to the Condensed Financial Statements and notes thereto) for the quarterly period ending September 30, 2019, as filed with the U.S. Securities and Exchange Commission on November 12, 2019.



Except for historical information contained in this Report, the statements in this Report may contain or include forward-looking statements that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements generally are accompanied by words such as "may," "will," "estimate," "anticipate," "should," "plan," "intend," or other words that convey the uncertainty of future events or outcomes. 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, uncertainties about estimates of reserves, capital expenditures, drilling activity, development activities, production efforts and volumes, and the results of the Trust's activities. Such statements are based on certain assumptions of BBVA USA, the Trustee and by Hilcorp, the owner of the working interest through the reporting period, with respect to future events; are based on an assessment of, and are subject to, a variety of factors deemed relevant by the Trustee and Hilcorp; and involve risks and uncertainties. However, whether actual results and developments will conform with such expectations and predictions is subject to a number of risks and uncertainties which could affect the future results of the energy industry in general, and the Trust and Hilcorp in particular, and could cause those results to differ materially from those expressed in such forward-looking statements. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on Hilcorp's business and the Trust. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in such forward-looking statements. The Trust undertakes no obligation to publicly update or revise any forward-looking statements, except as required by applicable law.

SAN JUAN BASIN ROYALTY TRUST

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