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.

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.

On the Cover: Cliff dwelling of the Anasazi: Navajo National Monument.

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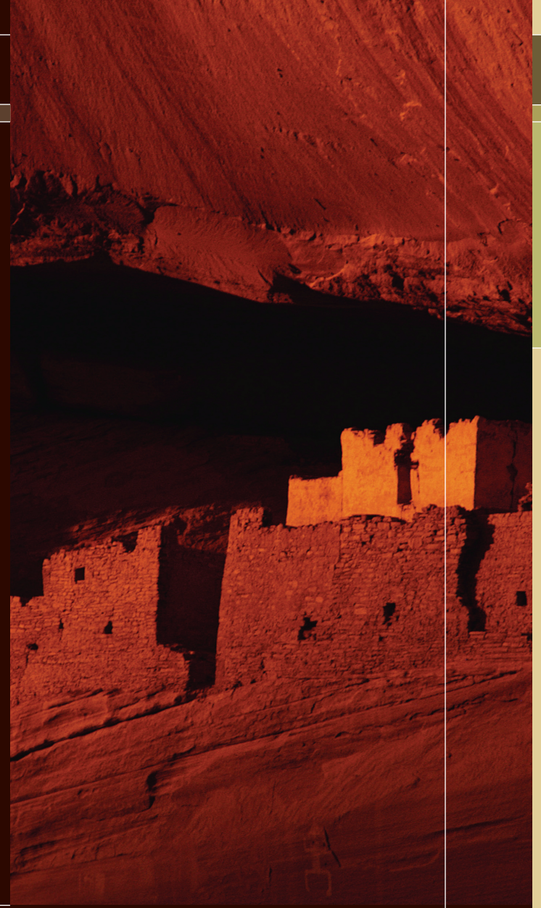

San Juan Basin Royalty Trust 06

2006 Second Quarter Report

To Unit Holders

The San Juan Basin Royalty Trust (the "Trust") received Royalty income of $28,532,236 and interest income of $43,023 during the second quarter of 2006. There was no change in cash reserves. After deducting administrative expenses of $642,612, Distributable Income for the quarter was $27,932,647 ($0.599299 per Unit). In the second quarter of 2005, Royalty income was $35,295,797, interest income was $36,920, there was no change in cash reserves, administrative expenses were $813,658 and Distributable Income was $34,519,059 ($.740612 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the second quarter of 2006 were as follows:

	2006
April	$ .181302
May	.233021
June	.184976
QUARTER TOTAL	$ 0.599299

The Royalty income distributed in the second quarter of 2006 was lower than that distributed in the second quarter of 2005. Although the average gas price increased from $5.43 per Mcf for the second quarter of 2005 to $5.97 per Mcf for the second quarter of 2006, gas production decreased in the quarter ended June 30, 2006 as compared to the quarter ended June 30, 2005. Production and development costs for the second quarter of 2006 were approximately $9 million higher than production costs for the second quarter of 2005 primarily as a result of the implementation of projects included in the increased capital budget announced by Burlington Resources Oil & Gas Company LP ("BROG") for 2006 and resulting increases in capital expenditures. Interest earnings for the quarter ended June 30, 2006, as compared to the quarter ended June 30, 2005, were higher, primarily due to an increase in interest rates. Administrative expenses were higher in 2005 primarily as a result of differences in timing in the receipt and payment of these expenses and costs relating to the arbitration proceeding described below.

The capital costs attributable to the Underlying Properties for the second quarter of 2006 and deducted by BROG in calculating Royalty income were approximately $11 million. BROG's capital expenditure budget for the Underlying Properties for 2006 is estimated at $37.6 million of which approximately $8.7 million had been spent as of June 30, 2006; however, BROG reports that based on its actual capital requirements, the pace of regulatory approvals, and the mix of projects and swings in the price of natural gas, the actual capital expenditures for 2006 could range from $20 million to $45 million. Capital expenditures were approximately $2.8 million for the second quarter of 2005. In 2005, approximately $19.1 million in capital expenditures were deducted in calculating Royalty income. In February 2006, BROG informed the Trustee that the 2006 budget for the Underlying Properties anticipates 451 projects, including the drilling of 103 new wells to be operated by BROG and 50 wells to be operated by third parties. Of the new BROG-operated wells, 52 are projected to be conventional wells completed in the Pictured Cliffs, Mesaverde and/or Dakota formations, and the remaining 51 are projected as coal seam wells completed in the Fruitland Coal formation. A total of 40 of the wells operated by third parties are projected to be conventional wells and the remaining 10 are projected to be coal seam wells. BROG projects approximately $33 million will be spent on the new wells, and $4.6 million will be expended in working over existing wells and in the maintenance and improvement of production facilities. BROG has announced that the budget for 2006 reflects the continuation of a shift toward increased development of conventional gas.

BROG has informed the Trustee that lease operating expenses and property taxes were $5,656,464 and $201,018, respectively, for the second quarter of 2006, as compared to $5,017,103 and $159,264, respectively, for the second quarter of 2005.

BROG has reported to the Trustee that during the second quarter of 2006, nine gross (2.44 net) coal seam wells, one gross (0.45 net) coal seam recompletion, 41 gross (7.94 net) conventional wells, one gross (0.002 net) payadd, and one gross (0.84 net) restimulation were completed on the Underlying Properties.

One gross (0.04 net) miscellaneous coal seam project, 51 gross (19.87 net) coal seam wells, six gross (0.25 net) coal seam payadds, six gross (3.60 net) coal seam recompletions, two gross (0.004 net) coal seam restimulations, four gross (0.02 net) miscellaneous conventional projects, 143 (36.57 net) conventional wells, 11 gross (0.25 net) payadds, seven gross (3.49 net) recompletions, and six gross (4.20 net) restimulations were in progress at June 30, 2006.

There were four gross (0.54 net) coal seam wells, two gross (0.08 net) miscellaneous coal seam projects, 11 gross (0.90 net) conventional wells, and one gross (0.002 net) payadd were completed on the Underlying Properties as of June 30, 2005. Fifty-five gross (7.91 net) coal seam wells, one gross (0.875 net) recavitation, four gross (1.47 net) coal seam recompletions, 63 gross (10.07 net) conventional wells, 11 gross (1.74 net) payadds, two gross (0.75 net) conventional recompletions, and five gross (3.11 net) restimulations were in progress at June 30, 2005.

"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 June 30, 2006 is associated with actual gas and oil production during February 2006 through April 2006 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended June 30, 2006 and 2005 were as follows:

	2006	2005
Gas – Mcf	9,972,654	10,789,471
Mcf per Day	112,052	121,230
Average Price (per Mcf)	$ 5.97	$ 5.43
Oil – Bbls	20,213	17,472
Bbls per Day	227	196
Average Price (per Bbl)	$ 60.57	$ 47.79

Gas and oil sales attributable to the Royalty for the quarters ended June 30, 2006 and 2005 were as follows:

	2006	2005
Gas – Mcf	5,200,329	6,887,037
Oil – Bbls	10,549	11,155

Sales volumes attributable to the Royalty are determined by dividing the net profits received by the Trust and attributable to oil and gas, respectively, by the prices received for sales volumes from the Underlying Properties, taking into consideration production taxes attributable to the Underlying Properties. Since the oil and gas sales attributable to the Royalty are based on an allocation formula that is dependent on such factors as price and cost, including capital expenditures, the aggregate production volumes from the Underlying Properties may not provide a meaningful comparison to volumes attributable to the Royalty.

During the second quarter of 2006, average gas prices were $0.54 higher than the average prices reported during the second quarter of 2005. The average price per barrel of oil during the second quarter of 2006 was $12.78 per barrel higher than that received for the second quarter of 2005 due to increases in oil prices in world markets generally, including the posted prices applicable to oil sales attributable to the Royalty.

BROG previously entered into two contracts for the sale of all volumes of gas produced from the Underlying Properties. These contracts provided for (i) the sale of such gas to Duke Energy and Marketing L.L.C. and PNM Gas Services, respectively, (ii) the delivery of such gas at various delivery

points through March 31, 2005, and from year-to-year thereafter until terminated by either party on 12 months' notice, and (iii) the sale of such gas at prices which fluctuate in accordance with published indices for gas sold in the San Juan Basin of northwestern New Mexico. Effective January 1, 2004, the rights and obligations of Duke Energy and Marketing L.L.C. were assumed by ConocoPhillips pursuant to an Assignment and Novation Agreement. By correspondence dated March 25, 2004, BROG notified ConocoPhillips of BROG's election to terminate such contract as of March 31, 2005. BROG then prepared a form of request for proposal and circulated it to a number of potential purchasers, including ConocoPhillips, inviting them to bid for the purchase of the gas currently sold under the contract expiring March 31, 2005. Effective as of April 1, 2005, BROG entered into two new contracts for the sale of all volumes of gas produced from the Underlying Properties and formerly sold to ConocoPhillips. These new contracts provide for (i) the sale of such gas to ChevronTexaco Natural Gas, a division of Chevron U.S.A. Inc. ("ChevronTexaco"), and Coral Energy Resources, L.P. ("Coral"), respectively, (ii) the delivery of such gas at various delivery points through March 31, 2007, and from year-to-year thereafter until terminated by either party on 12 months' notice, and (iii) 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. With respect to BROG's contract with PNM Gas Services, BROG and PNM Gas Services entered into a letter agreement dated January 31, 2005, pursuant to which the parties waived the right to terminate the underlying contract as of March 31, 2006, so that the term of that contract will continue until at least March 31, 2007, and from year-to-year thereafter until terminated by either party upon 12 months' notice to the other. Neither BROG nor any of ChevronTexaco, Coral nor PNM gave notice to terminate the three contracts described above for the sale of all volumes of gas produced from the Underlying Properties and, accordingly, the terms of those contracts have been extended through March 31, 2008. Unit holders are referred to Note 5 of the Notes to Financial Statements in the Trust's 2005 Annual Report for further information concerning the marketing of gas produced from the Underlying Properties.

Confidentiality agreements with 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 November 11, 2005, an Arbitration Award was issued in favor of the Trust in the aggregate amount of $7,683,699 in arbitration styled *San Juan Basin Royalty Trust vs. Burlington Resources Oil & Gas Company LP*. The purpose of the arbitration was to resolve certain joint interest audit issues as between the parties to the arbitration. On November 21, 2005, BROG filed its Original Petition to Vacate or to Modify or Correct Arbitration Award in the case styled *Burlington Resources Oil & Gas Company LP vs. San Juan Basin Royalty Trust*, No. 2005-74370, in the District Court of Harris County, Texas, 281st Judicial District. In this litigation, BROG alleged that the award in favor of the Trust should be vacated or modified because one of the issues decided was beyond the scope of the matters agreed to be arbitrated, the award was issued in manifest disregard of applicable law, and a portion of the award is barred by limitations. BROG also sought to recover its attorneys' fees. The Trust filed an answer and counterclaim in the litigation filed by BROG denying those allegations and asking that the arbitrator's award be confirmed. At the conclusion of a hearing conducted on April 20, 2006, the Court entered an Order denying BROG's motion to vacate and granting the Trust's application to confirm the Arbitration Award and on June 6, 2006, rendered a final judgment in favor of the Trust. However, on May 24, 2006, BROG filed a Notice of Appeal indicating its desire to appeal from the Order and any final judgment confirming the Arbitration Award and on or about June 5, 2006, filed a Motion for New Trial in the District Court of Harris County urging substantially similar arguments made at the hearing. The Trust has responded to the Motion for New Trial and has served BROG with post-judgment discovery requests. BROG's distribution to the Trust for July 2006 included an aggregate of $1,534,182 representing a portion of the Arbitration Award, plus accrued interest. The balance of the Arbitration Award is pending the appeal process.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust corpus as of June 30, 2006 (Unaudited), and December 31, 2005, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust corpus for the three months ended June 30, 2006 and 2005.

Unit holders of record for the second quarter of 2006 will continue to receive an individualized tax information letter on a quarterly and an annual basis. Unit holders owning units in nominee name may obtain monthly tax information from the Trust's website at www.sjbrt.com, or from the Trustee upon request.

Compass Bank, Trustee

By: LA Anderson

Lee Ann Anderson
Vice President and Senior Trust Officer

San Juan Basin Royalty Trust

Condensed Statements of Assets, Liabilities and Trust Corpus

Assets	(Unaudited) 06.30.2006	12.31.2005
Cash and Short-Term Investments	$ 8,736,380	$ 19,173,162
Net Overriding Royalty Interests in Producing Oil and Gas Properties (net of accumulated amortization of $110,472,041 and $109,394,034 at June 30, 2006 and December 31, 2005, respectively)	22,803,487	23,881,494
TOTAL	$ 31,539,867	$ 43,054,656
Liabilities & Trust Corpus		
Distribution Payable to Unit holders	$ 8,621,522	$ 19,058,304
Cash Reserves	114,858	114,858
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding	22,803,487	23,881,494
TOTAL	$ 31,539,867	$ 43,054,656

[1] In May 2005, as part of the ongoing negotiations between the Trust and BROG concerning a number of revenue and expense audit issues, $988,392 was included in BROG's distribution to the Trust in settlement of certain of those audit issues. Of that amount, $982,038 was allocated to the Trust as additional revenue and $6,354 was deducted from lease operating expenses allocated to the Trust.

[2] In March 2005, as part of the ongoing negotiations between the Trust and BROG concerning a number of revenue and expense audit issues, $833,851 was included in BROG's distribution to the Trust in payment of interest on late payments of gross proceeds and in settlement of certain other audit issues. Of that amount, $822,077 was allocated to the Trust as additional revenue and $11,774 was deducted from lease operating expenses allocated to the Trust.

Condensed Statements of Distributable Income (unaudited)

	Three months ended 06.30.2006	Three months ended 06.30.2005	Six months ended 06.30.2006	Six months ended 06.30.2005
Royalty Income	$ 28,532,236	$ 35,295,797	$ 79,013,322	$ 74,538,084
Interest Income	43,023	36,920	534,683	65,357
	28,575,259	35,332,717	79,548,005	74,603,441
General and Administrative Expenditures	642,612	813,658	1,125,162	1,348,166
Distributable Income	$ 27,932,647	$ 34,519,059	$ 78,422,843	$ 73,255,275
Distributable Income per Unit (46,608,796 Units)	$ .599299	$ .740612	$ 1.682576	$ 1.571704

Condensed Statements of Changes in Trust Corpus (unaudited)

	Three months ended 06.30.2006	Three months ended 06.30.2005	Six months ended 06.30.2006	Six months ended 06.30.2005
Trust Corpus, Beginning of Period	$ 23,277,937	$ 25,912,908	$ 23,881,494	$ 26,674,821
Amortization of Net Overriding Royalty Interest	(474,450)	(715,005)	(1,078,007)	(1,476,918)
Distributable Income	27,932,647	34,519,059	78,422,843	73,255,275
Distributions Declared	(27,932,647)	(34,519,059)	(78,422,843)	(73,255,275)
Trust Corpus, End of Period	22,803,487	25,197,903	22,803,487	25,197,903

Calculation of Royalty Income

Gross Proceeds of Sales from the Underlying Properties	Three months ended 06.30.2006	Three months ended 06.30.2005	Six months ended 06.30.2006	Six months ended 06.30.2005
Gas Proceeds	$ 59,545,094	$ 58,627,002	$ 151,000,672	$ 126,963,885
Oil Proceeds	1,224,315	834,924	2,275,810	1,632,125
Other	-0-	1,309,384[1]	-0-	2,405,486[1,2]
TOTAL	$ 60,769,409	$ 60,771,310	$ 153,276,482	$ 131,001,496
Less Production Costs				
Severance Tax – Gas	5,751,215	5,616,749	14,529,443	12,667,531
Severance Tax – Oil	121,625	80,824	226,546	166,885
Lease Operating Expense and Property Tax	5,857,482	5,176,367[1]	11,015,004	10,008,993[1,2]
Other	42,968	42,505	42,968	42,505
Capital Expenditures	10,953,138	2,793,802	22,111,424	8,731,469
TOTAL	22,726,428	13,710,247	47,925,385	31,617,383
Less Excess Production Costs and Interest from Prior Year	-0-	-0-	-0-	-0-
Net Profits	38,042,981	47,061,063	105,351,097	99,384,113
Net Overriding Royalty Interest	75%	75%	75%	75%
Royalty Income	$ 28,532,236	$ 35,295,797	$ 79,013,322	$ 74,538,084