

2011

San Juan Basin Royalty Trust

Q2

TO UNIT HOLDERS:

The Trust received Royalty income of \$15,568,211 and interest income of \$683,060 during the second quarter of 2011. There was no change in cash reserves. After deducting administrative expenses of \$526,817, distributable income for the quarter was \$15,724,454 (\$0.337370 per Unit). In the second quarter of 2010, Royalty income was \$22,450,139, interest income was \$4,776, administrative expenses were \$774,334 and distributable income was \$21,680,581 (\$0.465161 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the second quarter of 2011 were as follows:

April	\$.082643
May	.131171
June	.123556
QUARTER TOTAL	\$.337370

The Royalty income distributed in the second quarter of 2011 was lower than that distributed in the second quarter of 2010, primarily due to a decrease in the average gas price from \$5.12 per Mcf for the second quarter of 2010 to \$4.81 per Mcf for the second quarter of 2011. Interest income was higher for the quarter ended June 30, 2011 as compared to the quarter ended June 30, 2010, due to additional interest from granted audit exceptions received in May 2011. Administrative expenses were lower in 2011 primarily as a result of decreased costs associated with litigation that was settled in April of 2010.

The capital costs attributable to the Underlying Properties for the second quarter of 2011 and deducted by Burlington Resources Oil & Gas Company LP (“BROG”) in calculating Royalty income were approximately \$5.6 million as compared to approximately \$2.2 million of capital costs in the second quarter of 2010. BROG has informed the Trust that its budget for capital expenditures for the Underlying Properties in 2011 is estimated at \$13.6 million. Of the \$13.6 million, approximately \$3.25 million will be attributable to the capital budgets for 2010 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 2011 could range from \$5 million to \$35 million.

BROG anticipates 417 projects in 2011. Approximately \$8.3 million of the \$13.6 million budget is allocable to 38 new wells, including

33 wells scheduled to be dually completed in the Mesaverde and Dakota formations. BROG indicates that five of the new wells are projected to be drilled to Fruitland Coal, Fruitland Sand or Pictured Cliffs formations. Approximately \$2 million will be spent on workovers and facilities projects. Of the \$3.25 million attributable to the budgets for prior years, approximately \$2.45 million is allocable to new wells and the \$800,000 balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. Although the estimated project count for new wells is slightly lower for 2011 as compared to 2010, BROG points out that the Trust’s interest in those properties to be developed is higher than those drilled last year.

BROG has informed the Trust that lease operating expenses and property taxes were \$8,498,642 and \$150,406, respectively, for the second quarter of 2011, as compared to \$7,842,642 and \$270,213, respectively, for the second quarter of 2010. BROG indicates the increase in operating expenses in the second quarter 2011 is due to pressure on costs as BROG competes for contract labor and services with other developments in the lower 48 states. Those costs are reflected in the second quarter distributions.

BROG has reported to the Trustee that during the second quarter of 2011, 13 gross (2.94 net) conventional wells and one gross (0.32 net) coal seam well were completed on the Underlying Properties. Eighteen gross (3.48 net) conventional wells were in progress at June 30, 2011.

There were nine gross (1.50 net) conventional wells completed on the Underlying Properties during the second quarter of 2010. Nineteen gross (2.22 net) conventional wells were in progress at June 30, 2010.

There were 4,016 gross (1,173 net) producing wells being operated subject to the Royalty as of December 31, 2010, calculated on a well bore basis and not including multiple completions as separate wells. “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, 2011 is associated with actual gas and oil production during February 2011 through April 2011 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended June 30, 2011 and 2010 were as follows:

Three Months Ended June 30,	2011	2010
GAS:		
Total sales (Mcf)	7,724,467	7,710,876
Mcf per day	86,792	86,639
Average price (per Mcf)	\$ 4.81	\$ 5.12
OIL:		
Total sales (Bbls)	15,323	14,701
Bbls per day	172	165
Average price (per Bbl)	\$91.18	\$71.54

During the second quarter of 2011, average gas prices were \$0.31 per Mcf lower than the average prices reported during the second quarter of 2010. The average price per barrel of oil during the second quarter of 2011 was \$19.64 per barrel higher than that received for the second quarter of 2010.

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 has now 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 on 12 months' notice (except for the SRP contract which terminates 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.

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 indicates 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.

However, BROG reports that it has been unable to reach agreement with EFS on gathering and processing contracts, and it has joined a group of others in an administrative proceeding before the New Mexico Public Utility Commission, complaining, *inter alia*, that EFS is insisting upon above-market rates and refusing to agree to essential pressure control services. EFS delivered notice to BROG

terminating existing contracts effective December 1, 2010, but on December 10, 2010, an injunction was issued prohibiting EFS from reducing gas flows under the contracts. The dispute was the subject of a mediation conducted in March 2011, which resulted in a tentative agreement for a new gas gathering and processing contract. The contract is still subject to executive management approval and drafting of mutually acceptable documentation. Litigation deadlines, which were initially extended for 90 days, were further extended for 30–60 days to give all the parties time to finalize the language of a definitive contract, the terms of which are still under negotiation. Additionally, both parties are working toward resolving other issues prior to execution of the new agreement, such as historical imbalances and audits. BROG indicates the approval of the new agreement by its management will not be sought until all issues have been resolved. Meanwhile, the parties continue to perform under the preliminary injunction issued by the court. The implementation of the new agreement will likely not impact the Trust until the fourth quarter of 2011. 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 July 14, 2011, ConocoPhillips announced that its board of directors approved the separation of the company's refining and marketing business from its exploration and production business. According to ConocoPhillips, both businesses will be stand-alone, publicly traded corporations after the separation, which ConocoPhillips expects to complete by the first half of 2012. 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 June 30, 2011 (Unaudited), and December 31, 2010, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended June 30, 2011 and 2010.

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 June 30, 2011 are as follows:

	April	May	June
Gross income	\$ 0.097732	\$ 0.131588	\$ 0.138722
Interest income	\$ 0.000014	\$ 0.014633	\$ 0.000008
Severance tax	\$(0.008996)	\$(0.012220)	\$(0.012809)
Administration expense	\$(0.006107)	\$(0.002831)	\$(0.002365)
Percentage depletion factor	0.014660	0.019738	0.020808
Cost depletion factor	0.006546	0.008891	0.008720

Compass Bank, Trustee



LEE ANN ANDERSON
Vice President and Senior Trust Officer

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

	June 30, 2011	December 31, 2010
ASSETS		
	<i>(Unaudited)</i>	
Cash and short-term investments	\$ 5,914,592	\$ 5,223,123
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$119,289,472 and \$118,529,644 at June 30, 2011 and December 31, 2010, respectively)	13,986,056	14,745,884
	\$ 19,900,648	\$ 19,969,007
LIABILITIES AND TRUST CORPUS		
Distribution payable to Unit Holders	\$ 5,758,803	\$ 5,067,334
Cash reserves	155,789	155,789
Trust corpus—46,608,796 Units of beneficial interest authorized and outstanding	13,986,056	14,745,884
	\$ 19,900,648	\$ 19,969,007

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Royalty income	\$ 15,568,211	\$ 22,450,139	\$ 30,957,341	\$ 44,452,655
Interest income	683,060	4,776	684,525	213,089
Total revenue	16,251,271	22,454,915	31,641,866	44,665,744
General and administrative expenditures	526,817	774,334	1,048,502	1,455,845
Distributable income	\$ 15,724,454	\$ 21,680,581	\$ 30,593,364	\$ 43,209,899
Distributable income per Unit (46,608,796 Units)	\$ 0.337370	\$ 0.465161	\$ 0.656385	\$ 0.927076

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Trust corpus, beginning of period	\$ 14,342,274	\$ 16,323,490	\$ 14,745,884	\$ 16,843,731
Amortization of net overriding royalty interest	(356,218)	(521,509)	(759,828)	(1,041,750)
Distributable income	15,724,454	21,680,581	30,593,364	43,209,899
Distributions declared	(15,724,454)	(21,680,581)	(30,593,364)	(43,209,899)
Trust corpus, end of period	\$ 13,986,056	\$ 15,801,981	\$ 13,986,056	\$ 15,801,981

Royalty Income received by the Trust for the three months and six months ended June 30, 2011 and 2010, respectively, was computed as shown in the following table:

CALCULATION OF ROYALTY INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
GROSS PROCEEDS OF SALES FROM THE UNDERLYING PROPERTIES:				
Gas proceeds	\$ 37,193,201	\$ 42,960,392	\$ 72,751,172	\$ 86,946,324
Oil proceeds	1,397,093	1,051,752	2,352,417	1,942,221
Total	38,590,294	44,012,144	75,103,589	88,888,545
LESS PRODUCTION COSTS:				
Severance tax—gas	3,421,847	3,634,956	6,686,370	7,650,402
Severance tax—oil	145,010	97,737	243,461	179,888
Lease operating expense and property tax	8,649,048	8,112,855	17,631,302	16,125,948
Capital expenditures	5,616,774	2,233,077	9,266,002	5,662,100
Total	17,832,679	14,078,625	33,827,135	29,618,338
Net profits	20,757,615	29,933,519	41,276,454	59,270,207
Net overriding royalty interest	75%	75%	75%	75%
ROYALTY INCOME	\$ 15,568,211	\$ 22,450,139	\$ 30,957,341	\$ 44,452,655

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 June 30, 2011.

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, 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.

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