

San Juan Basin Royalty Trust

2008 Third Quarter Report to Unit holders

The San Juan Basin Royalty Trust (the “Trust”) received Royalty income of \$52,541,763 and interest income of \$32,508 during the third quarter of 2008. The Trust recovered \$40,930 previously escheated to the State of Texas in the name of the Trust, and those funds were added to cash reserves pending further research as to the origin of the funds. After deducting administrative expenses of \$351,221, distributable income for the quarter was \$52,223,050 (\$1.120455 per Unit). In the third quarter of 2007, Royalty income was \$37,086,982, interest income was \$561,866, there was no change in cash reserves, administrative expenses were \$263,629 and distributable income was \$37,385,219 (\$0.802107 per Unit). Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2008 were as follows:

| | |
|---------------------|-------------------|
| July | \$.321518 |
| August | .348851 |
| September | <u>.450086</u> |
| Quarter Total | <u>\$1.120455</u> |

The Royalty income distributed in the third quarter of 2008 was higher than that distributed in the third quarter of 2007. The average gas price increased from \$6.55 per Mcf for the third quarter of 2007 to \$10.62 per Mcf for the third quarter of 2008. However, gas volumes decreased in the quarter ended September 30, 2008 as compared to the quarter ended September 30, 2007. Burlington Resources Oil & Gas Company LP (“BROG”) has informed the Trust that the decrease in reported volumes was due primarily to the natural production decline curve. Interest income was lower for the quarter ended June 30, 2008 as compared to the quarter ended June 30, 2007, primarily due to additional interest BROG paid to the Trust in the third quarter of 2007 as a result of the granting of certain audit exceptions, and also due to higher interest rates in the third quarter of 2007. Administrative expenses were higher in 2008 primarily as a result of differences in timing in the receipt and payment of these expenses, but also due to an increase in legal expenses incurred in the litigation between BROG and the Trust described below.

The capital costs attributable to the Underlying Properties for the third quarter of 2008 and deducted by BROG in calculating Royalty income were approximately \$7.5 million. BROG has informed the Trust that the 2008 budget for capital expenditures for the Underlying Properties is \$24.4 million. Approximately 35% of the planned expenditures will be on Fruitland Coal formation projects with the remainder to be spent on conventional projects. In addition, BROG estimates that during 2008 it will incur capital expenses in the amount of approximately \$5 million attributable to the capital budgets for 2007 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 2008 could range from \$15 million to \$50 million.

BROG anticipates 361 projects in 2008 at an aggregate cost of \$24.4 million. Approximately \$19.7 million of that budget is allocable to 70 new wells, including 37 wells scheduled to be dually completed in the Mesaverde and Dakota formations at an aggregate projected cost of approximately \$9.4 million, and four wells to be completed to the Dakota formation at an aggregate cost of approximately \$2.3 million. BROG indicates that 16 of the new wells, at an aggregate cost of approximately \$7.3 million, are projected to be drilled to formations producing coal seam gas. BROG also mentioned that the

possible implementation of new rules restricting the use of open reserve pits could reduce the number of projects due to increased compliance costs. Of the \$5 million attributable to the budgets for prior years, approximately \$2 million is allocable to new wells to be operated by BROG, an estimated \$1 million is allocable to new wells to be operated by others, and the \$2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects.

BROG has informed the Trust that lease operating expenses and property taxes were \$7,947,438 and \$276,732, respectively, for the third quarter of 2008, as compared to \$7,209,240 and \$229,547, respectively, for the third quarter of 2007. BROG reports that lease operating expenses were higher in the third quarter of 2008 compared to the third quarter of 2007 primarily due to demand-related increases in the cost of contract services and materials. New drilling results in increases in salt water disposal and compression costs. Additionally, the overhead rate determined by the Council of Petroleum Accountants Societies was adjusted in April to 7.7%, from the previous rate of 6.4%.

BROG has reported to the Trustee that during the third quarter of 2008, two gross (0.86 net) coal seam wells and 11 gross (0.13 net) conventional wells were completed on the Underlying Properties. Two gross (0.002 net) coal seam wells and four gross (1.09 net) conventional wells were in progress at September 30, 2008.

There were 17 gross (0.19 net) conventional wells completed on the Underlying Properties and eight gross (0.13 net) conventional wells and six gross (2.99 net) coal seam wells were in progress at September 30, 2007.

There were 3,823 gross (1,111 net) producing wells being operated subject to the Royalty as of December 31, 2007, calculated on a well bore basis and not including multiple completions as separate wells. Unit Holders will be provided a copy of the current well list upon written request to the Trustee.

“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 September 30, 2008 is associated with actual gas and oil production during May 2008 through July 2008 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended September 30, 2008 and 2007 were as follows:

| | Three Months Ended | |
|-------------------------------|---------------------------|-------------|
| | September 30, | |
| | 2008 | 2007 |
| Gas: | | |
| Total sales (Mcf) | 8,737,027 | 9,954,324 |
| Mcf per day | 94,968 | 108,199 |
| Average price (per Mcf)..... | \$ 10.62 | \$ 6.55 |
| Oil: | | |
| Total sales (Bbls) | 12,793 | 16,936 |
| Bbls per day | 139 | 184 |
| Average price (per Bbl) | \$ 120.99 | \$ 64.16 |

Gas and oil sales attributable to the Royalty for the quarters ended September 30, 2008 and 2007 were as follows:

| | Three Months Ended September 30, | |
|------------------------|---|-------------|
| | 2008 | 2007 |
| Gas sales (Mcf) | 5,326,507 | 6,117,289 |
| Oil sales (Bbls) | 7,724 | 10,379 |

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 third quarter of 2008, average gas prices were \$4.07 per Mcf higher than the average prices reported during the third quarter of 2007. The average price per barrel of oil during the third quarter of 2008 was \$56.83 per barrel higher than that received for the third quarter of 2007 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 three contracts for the sale of all volumes of gas produced from the Underlying Properties to ChevronTexaco Natural Gas, a division of Chevron U.S.A. Inc. ("ChevronTexaco"), Coral Energy Resources, L.P. ("Coral"), and PNM Gas Services ("PNM"), respectively. All three contracts provide for (i) 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 (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. In March 2008, both ChevronTexaco and Coral notified BROG of their election to terminate their respective contracts effective March 31, 2009. Requests for proposal will be circulated to potential purchasers of the packages of gas covered by the expiring contracts. Neither BROG nor PNM gave notice of termination with respect to the PNM contract and, accordingly, the term of that contract has been extended at least through March 31, 2010.

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 April 28, 2008, the Trust filed a suit against BROG relating to the Arbitration Award in its favor issued in November 2005, in the amount of \$7,683,699. The litigation is styled San Juan Basin Royalty Trust vs. Burlington Resources Oil & Gas Company, L.P., No. D1329-CV-08-751, in the District Court of Sandoval County, New Mexico, 13th Judicial District. The Trust alleges breach of contract and breach of the covenant of good faith and fair dealing and seeks a judgment for damages in the amount of \$5,025,000, plus interest and punitive damages. The purpose of the arbitration was to resolve certain joint interest audit issues. The arbitrator ruled in favor of the Trust on all five of the issues submitted to arbitration. BROG filed suit in Harris County, Texas alleging that the award should be modified or vacated, and seeking to recover its attorneys' fees. The trial court denied BROG's motion to vacate,

granted the Trust's application to confirm and rendered a final judgment in favor of the Trust. BROG paid the award as it related to four of the five issues and appealed the award as to the fifth. In August 2007, the appellate court reversed the judgment of the trial court and vacated the award as it related to the unpaid balance. The appellate court also remanded the case to the District Court, where BROG is pursuing its claim for attorneys' fees and costs in the amount of approximately \$200,000. On September 8, 2008, Burlington filed a motion for summary judgment. The Trust has filed its response opposing that motion and its own cross-motion for summary judgment, and a hearing on the motions is currently set for November 10, 2008.

With respect to that fifth issue which was the subject of the appeal, the Trust had asked for damages based on either of two alternative claims. The appellate court ruled that the alternative claim selected by the arbitrator in awarding the Trust approximately \$5,000,000 was not technically included within the scope of what the parties intended to submit to arbitration. The appellate court did not rule on whether or not the arbitrator properly decided the fifth issue in favor of the Trust. The litigation filed in New Mexico seeks recovery on the claim which had been resolved in favor of the Trust by the arbitrator.

In June 2008, BROG removed the Trust's state court suit to the federal court in New Mexico and filed a motion seeking to have the case transferred to the federal district court in Houston. BROG's action in the federal court is styled San Juan Basin Royalty Trust v. Burlington Resources Oil & Gas Company LP, No. 08cv532WJ/ACT, in the United States District Court for the District of New Mexico. In July 2008, the Trust filed a motion to remand the case from the federal to the state court in New Mexico together with a response in opposition to BROG's motion to change the venue of the case to Houston, Texas. The jurisdictional and venue issues raised by BROG will be decided, with or without a hearing, by the U.S. District Court in Albuquerque.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust corpus as of September 30, 2008 (Unaudited), and December 31, 2007, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended September 30, 2008 and 2007.

Unit holders of record for the third quarter of 2008 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: LEE ANN ANDERSON
Vice President and Senior Trust Officer

SAN JUAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

| ASSETS | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|--------------------------------------|----------------------|
| Cash and short-term investments..... | \$ 21,133,743 | \$ 9,042,528 |
| Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$114,843,066 and \$113,394,640 at September 30, 2008 and December 31, 2007, respectively)..... | 18,432,462 | 19,880,888 |
| | <u>\$ 39,566,205</u> | <u>\$ 28,923,416</u> |
| LIABILITIES AND TRUST CORPUS | | |
| Distribution payable to Unit Holders..... | \$ 20,977,954 | \$ 8,927,670 |
| Cash reserves | 155,789 | 114,858 |
| Trust corpus – 46,608,796 Units of beneficial interest authorized and outstanding | 18,432,462 | 19,880,888 |
| | <u>\$ 39,566,205</u> | <u>\$ 28,923,416</u> |

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------------|------------------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Royalty income..... | \$ 52,541,763 | \$ 37,086,982 | \$ 113,730,327 | \$ 87,324,045 |
| Interest income | 32,508 | 561,866 | 216,621 | 1,275,679 |
| Total Revenue | 52,574,271 | 37,648,848 | 113,946,948 | 88,599,724 |
| General and administrative expenditures..... | 351,221 | 263,629 | 1,554,074 | 1,411,072 |
| Distributable income..... | <u>\$ 52,223,050</u> | <u>\$ 37,385,219</u> | <u>\$ 112,392,874</u> | <u>\$ 87,188,652</u> |
| Distributable income per Unit (46,608,796 Units)..... | <u>\$ 1.120455</u> | <u>\$.802107</u> | <u>\$ 2.411409</u> | <u>\$ 1.870650</u> |

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, 2008.

SAN JUAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Trust corpus, beginning of period... | \$ 18,975,921 | \$ 21,004,120 | \$ 19,880,888 | \$ 21,823,390 |
| Amortization of net overriding royalty interest | (543,459) | (605,548) | (1,448,426) | (1,424,818) |
| Distributable income..... | 52,223,050 | 37,385,219 | 112,392,874 | 87,188,652 |
| Distributions declared..... | (52,223,050) | (37,385,219) | (112,392,874) | (87,188,652) |
| Trust corpus, end of period..... | <u>18,432,462</u> | <u>20,398,572</u> | <u>18,432,462</u> | <u>20,398,572</u> |

Calculation of Royalty Income

Royalty income received by the Trust for the three months and nine months ended September 30, 2008 and 2007, respectively, was computed as shown in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------------|------------------------------------|-----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Gross proceeds of sales from the Underlying Properties: | | | | |
| Gas proceeds..... | \$92,813,502 | \$65,197,892 | \$212,607,028 ⁽¹⁾ | \$174,231,856 |
| Oil proceeds..... | 1,547,800 | 1,086,618 | 3,684,910 | 3,012,266 |
| Other | 0 | 0 | 0 | 45,066 ⁽²⁾ |
| Total | <u>94,361,302</u> | <u>66,284,510</u> | <u>216,291,938</u> | <u>177,289,188</u> |
| Less production costs: | | | | |
| Severance tax – gas..... | 8,391,694 | 6,085,096 | 19,856,326 | 16,615,175 |
| Severance tax – oil..... | 152,033 | 109,607 | 369,512 | 291,005 |
| Lease operating expense and property tax..... | 8,224,170 | 7,438,787 | 24,566,288 | 21,602,463 |
| Capital expenditures | <u>7,537,721</u> | <u>3,201,710</u> | <u>19,859,376</u> | <u>22,348,485</u> |
| Total..... | <u>24,305,618</u> | <u>16,835,200</u> | <u>64,651,502</u> | <u>60,857,128</u> |
| Net profits..... | 70,055,684 | 49,449,310 | 151,640,436 | 116,432,060 |
| Net overriding royalty interest..... | <u>75%</u> | <u>75%</u> | <u>75%</u> | <u>75%</u> |
| Royalty income..... | <u>\$52,541,763</u> | <u>\$37,086,982</u> | <u>\$113,730,327</u> | <u>\$87,324,045</u> |

(1) In March 2008, gas proceeds were reduced by \$6,652,104 as the amount BROG determined to be the Trust's portion of BROG's settlement of a legal matter with the MMS and the Bureau of Indian Affairs.

(2) In May, 2007, as part of the ongoing negotiations between the Trust and BROG concerning a number of revenue and expense audit issues, \$45,006 was allocated to the Trust as additional revenue.

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, 2008.

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 are 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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