

San Juan Basin Royalty Trust

2525 Ridgmar Boulevard, Suite 100
Fort Worth, Texas 76116
Telephone 866/809-4553

January 31, 2005

IMPORTANT TAX INFORMATION

TO UNIT HOLDERS:

We enclose the following material which provides Unit holders with information necessary to compute the 2004 Federal income tax consequences of owning Units:

- (a) Grantor Trust Schedule A for 2004.
- (b) Information and Instructions.
- (c) Supplemental Tax Tables and Worksheet.

TexasBank, Trustee

By: 

Vice President and Trust Officer

San Juan Basin Royalty Trust
 EIN: 75-6279898
 SCHEDULE A TO FORM 1041, GRANTOR TRUST
 FOR YEAR ENDED DECEMBER 31, 2004

Federal and State Income Tax Information
 See Instructions Before Filing

**PART I
 ROYALTY INFORMATION PER UNIT**

	(a)	(b)	(c)	(d)	(e)
<u>Source</u>	<u>Gross Income</u>	<u>Severance Tax</u>	<u>Net Royalty Payment</u>	<u>Cost Depletion Factor*</u>	<u>Production</u>
San Juan Basin Properties					
New Mexico					
1. Oil	\$.033488	\$.003155	\$.030333	-	.000962 BBLS
2. Gas	<u>2.604082</u>	<u>.251972</u>	<u>2.352110</u>	-	.543339 MCF
3. Total Oil and Gas for Year	<u>\$ 2.637570</u>	<u>\$.255127</u>	<u>\$ 2.382443 A</u>	.105750	

* Percentage Depletion Per Unit of \$0.395635 may be claimed for Units purchased after October 11, 1990, if greater than Cost Depletion.

**PART II
 OTHER INCOME AND EXPENSE PER UNIT**

<u>Item</u>	<u>Total</u>
1. Interest Income	.001264 B
2. Administrative Expense	.036708 C

**PART III
 RECONCILIATION OF TAXABLE INCOME
 AND CASH DISTRIBUTION PER UNIT**

<u>Item</u>	<u>Total</u>
1. Taxable Income Per Unit, Excluding Depletion (A+B-C)	\$ 2.346999
2. Reconciling Items	<u>-.000001</u>
3. Cash Distribution Per Unit	<u>\$ 2.346998</u>

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I.

FEDERAL INCOME TAX INFORMATION

1. Reporting of Income and Deductions.

- (a) *Direct Ownership Reporting.* The San Juan Basin Royalty Trust (the “Trust”) is a Grantor Trust for Federal income tax purposes. Each Unit holder of the Trust is taxable on his pro rata share of the income and expenses of the Trust as if he were the direct owner of a pro rata share of the Trust income and assets. Thus, the taxable year for reporting a Unit holder’s share of the Trust’s income and expense is controlled by his taxable year and his method of accounting, not by the taxable year and method of accounting of the Trust. Therefore, a cash-basis Unit holder should report his pro rata share of income or expense of the Trust, received or paid by the Trust, during his tax year. An accrual-basis Unit holder should report his pro rata share of income or expense of the Trust accrued during his tax year. **In either case, the income to be reported in a tax year is reflected on checks distributed in February of that year, through January of the next year.**
- (b) *Taxable Year. Units held through a broker or nominee:* Unit holders owning Units through a broker or nominee who report on a calendar year basis and who have owned the same number of Units throughout such calendar year should refer to Schedule A on page 2. Unit holders who purchased or sold Units in the calendar year should refer to the information on pages 8 through 10. Unit holders who report on the basis of a fiscal year other than the calendar year may contact the Trustee for further information. **Units held directly:** An individualized letter summarizing taxable income for the calendar year is enclosed.
- (c) *Types and Reporting of Trust Income and Deductions.*
- (i) The Trust holds a net overriding royalty in oil and gas properties known as the San Juan Basin Properties-New Mexico (hereinafter referred to as the Royalty). In general, the net overriding royalty income is computed monthly based on proceeds realized in the preceding month by the owner of the interests from which the Royalty was created from oil and gas produced in an earlier month less the applicable costs and expenses, and is received by the Trustee on the last day of the monthly period. The gross amount of net overriding royalty income received by the Trust from the Royalty during the period covered is reported in Column (a) of Part I.
 - (ii) Severance tax paid by the Trust during the period covered is reported in Column (b) of Part I.
 - (iii) Interest income received by the Trustee during the period covered is reported as Item 1 of Part II.
 - (iv) Administration expenses are paid on the last day of the month in which they accrue. The amount so accrued and paid during the period covered is reported as Item 2 of Part II.
- (d) *Unit Multiplication.* Because each schedule reflects only results on a per-Unit basis, it will be necessary to multiply the gross royalty income, severance tax, and percentage depletion shown in Part I and the interest income and administration expense shown in Part II by the number of Units owned by a Unit holder during the applicable period to obtain the amount to be reported on his tax return. Income and expenses (other than cost depletion) may be computed directly from the appropriate schedules. Cost depletion per Unit must be computed as provided in the Computation of Depletion instructions below.

- (e) *Individual Taxpayers.* For Unit holders who hold the Units as an investment and who file Form 1040 for a period beginning in 2004, it is suggested that the items of income and deduction computed from the appropriate schedules be reported in the following manner:

Item	Form 1040
Gross Royalty Income	Line 4, Part 1, Schedule E
Depletion	Line 20, Part 1, Schedule E
Severance Tax	Line 16, Part 1, Schedule E
Interest Income	Line 1, Part 1, Schedule B
Administration Expenses	Line 18, Part 1, Schedule E

On the following pages we have reproduced page 1 of Schedule E and Schedule B, and identified the specific location of each item of income and expense above. These pages are entitled “Individual Unit Holder’s Specific Location of Items of Income and Expense on Schedules E and B.”

For the convenience of Unit holders who acquired or sold Units during 2004, Tables 1 through 6 are enclosed to assist in the computation of gross royalty income, severance tax, interest income, administration expenses, and depletion. These tables are only for those Unit holders who have a calendar year as their taxable year.

- (f) *Nominee Reporting.* Nominees and brokers should report the distributions from the Trust as royalty income on Form 1099-MISC. The taxable amount before depletion should be reported per the attached schedules. In years where there are no reconciling items, the net taxable income excluding depletion, see instruction 2, will equal the cash distributions from the Trust.

2. **Computation of Depletion.** Each Unit holder’s allowable depletion on Units acquired before October 12, 1990 is his cost depletion with respect to the Royalty. For Units acquired after October 11, 1990 each Unit holder’s allowable depletion is the greater of cost depletion or percentage depletion with respect to the Royalty.

- (a) *Percentage Depletion.* The tax law allows percentage depletion on proven properties acquired after October 11, 1990. For Units acquired after such date, the Unit holder should compute both percentage depletion and cost depletion from each property, and claim the larger amount as a deduction on his or her income tax return. The percentage depletion factors are provided in Table 3.

For Unit holders who acquired their Units before October 12, 1990, no percentage depletion is allowable under the exemption for independent producers and royalty owners provided by IRC Section 613A(c), because the Royalties were proven properties at the time of their transfer. No percentage depletion is allowable under the exemption for certain gas wells provided by IRC Section 613A(b), because none of the gross income from the Royalties constitutes income from “fixed contract gas” under that section.

- (b) *Cost Depletion.* To compute cost depletion, each Unit holder who owned the same number of Units throughout all 12 months of the calendar year should multiply his basis in the Royalty (reduced by prior years’ depletion, if any) by the factor indicated on Column (d) of Part I of Schedule A on page 2, which factor was obtained by dividing the estimated quantity of reserves at the beginning of the year into the quantity produced and sold during the period.

A Cost Depletion Worksheet is enclosed to assist Unit holders in computing their cost depletion deduction. The Worksheet is divided into two parts. Part A pertains to Units that have been held the entire calendar year and Part B pertains to Units that were acquired or sold during the year. Unit holders who use Part B should obtain their cost depletion factors for their applicable period of ownership in 2004 from Table 6. Notes are contained in the Specific Instructions for Cost Depletion Worksheet to explain certain aspects of the depletion calculation.

**Individual Unit Holder's
Specific Location of Items of Income and Expense
on Schedule E**

**SCHEDULE E
(Form 1040)**

Supplemental Income and Loss
(From rental real estate, royalties, partnerships,
S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2004
Attachment
Sequence No. 13

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040 or Form 1041. ▶ See instructions for Schedule E (Form 1040).

Your social security number

Name(s) shown on return

Part I **Income or Loss From Rental Real Estate and Royalties** Note. If you are in the business of renting personal property, use Schedule C or C-EZ (see page E-3). Report farm rental income or loss from Form 4835 on page 2, line 40.

1 List the type and location of each rental real estate property:	A	2 For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of: • 14 days or • 10% of the total days rented at fair rental value? (See page E-3.)	Yes	No
	B		A	
	C		B	

Gross Royalty Income _____

Severance Tax
Administration Expenses _____

Depletion _____

	Properties			Totals (Add columns A, B, and C.)
	A	B	C	
Income:				
3 Rents received				3
4 Royalties received				4
Expenses:				
5 Advertising				5
6 Auto and travel (see page E-4)				6
7 Cleaning and maintenance				7
8 Commissions				8
9 Insurance				9
10 Legal and other professional fees				10
11 Management fees				11
12 Mortgage interest paid to banks, etc. (see page E-4)				12
13 Other interest				13
14 Repairs				14
15 Supplies				15
16 Taxes				16
17 Utilities				17
18 Other (list) ▶				18
19 Add lines 5 through 18				19
20 Depreciation expense or depletion (see page E-4)				20
21 Total expenses. Add lines 19 and 20				21
22 Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-4 to find out if you must file Form 6198				22
23 Deductible rental real estate loss. Caution. Your rental real estate loss on line 22 may be limited. See page E-4 to find out if you must file Form 8582. Real estate professionals must complete line 43 on page 2				23
24 Income. Add positive amounts shown on line 22. Do not include any losses				24
25 Losses. Add royalty losses from line 22 and rental real estate losses from line 23. Enter total losses here				25
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17. Otherwise, include this amount in the total on line 41 on page 2				26

3. **Reconciliation of Net Income and Cash Distributions.** The difference between the per-Unit taxable income for a period and the per-Unit cash distributions, if any, reported for such period (even though distributed in a later period) is attributable to adjustments in Part III, Line 2 of Schedule A on page 2, labeled Reconciling Items. The Reconciling Items consist of items which are not currently deductible, such as increases in the cash reserves established by the Trustee for the payment of future expenditures, capital items and items which do not constitute taxable income such as reductions in previously established cash reserves. It is expected that normally the Reconciling Items will be negligible.
4. **Adjustments to Basis.** Each Unit holder should reduce his tax basis in the Royalty and in his Units by the amount of depletion allowable with respect to such Royalty.
5. **Federal Income Tax Reporting of Units Sold.** The sale, exchange, or other disposition of a Unit is a taxable transaction for Federal income tax purposes. Gain or loss is computed under the usual tax principles as the difference between the selling price and the adjusted basis of a Unit. The adjusted basis in a Unit is the original cost or other basis of the Unit reduced (but not below zero) by any depletion which reduced the adjusted basis of the interest in the Royalty represented by such Unit. For Unit holders who acquired their Units after 1986, upon subsequent disposition of such Unit, a portion of the gain (if any) will be recaptured as ordinary income to the extent of the depletion which reduced the adjusted basis of such Unit. Unit holders should consult their tax advisers for further information.
6. **Portfolio Income.** Royalty income is generally considered portfolio income under the passive loss rules enacted by the Tax Reform Act of 1986. Therefore, it appears that Unit holders should not consider the taxable income from the Trust to be passive income in determining net passive income or loss. Unit holders should consult their tax advisers for further information.
7. **Tax Shelter Registration.** A tax shelter registration number is not a requirement for the San Juan Basin Royalty Trust. The rules for tax shelter registration apply only to those entities whose public offering occurred after August 31, 1984. Since the San Juan Basin Royalty Trust was established in 1980, the Trust is not subject to the 1984 rule.
8. **Unrelated Business Taxable Income.** The royalty income from the San Juan Basin Royalty Trust is not considered unrelated business taxable income.

II.

STATE INCOME TAX RETURNS

All revenues from the Trust are from sources within New Mexico, which has an income tax calculated similarly to the Federal income tax. Royalty income of the Trust will be subject to New Mexico income tax. Unit holders should consult their tax advisers regarding state income tax filing requirements. The website for the New Mexico Taxation & Revenue Department is www.state.nm.us/tax.

III.

TAX ISSUES

To our knowledge, all other major Federal income tax issues relating to the Trust have been resolved by the Internal Revenue Service in a manner consistent with the tax consequences described in these instructions.

SUPPLEMENTAL TAX TABLES AND WORKSHEET

In addition to Schedule A and Instructions, the Supplemental Tax Tables and Worksheet are provided for certain Unit holders. The Supplemental Tax Tables and Worksheet are comprised of six tables and a Cost Depletion Worksheet.

For purposes of computing income and expenses (excluding cost depletion), Tables 1-6 should only be used by calendar-year Unit holders who acquired, sold or exchanged Units during 2004. Unit holders who have a taxable year other than December 31 should continue to use Schedules B-1 through B-12. Unit holders who have held Units the entire year should use Schedule A.

To assist all Unit holders in calculating their cost depletion deduction, Table 6 and the Cost Depletion Worksheet are provided. Notes are contained in the Specific Instructions for the Cost Depletion Worksheet to explain and assist in preparing a Unit holder's cost depletion deduction.

A brief example illustrating the computation of the income and expenses (excluding cost depletion) should be helpful. Assume a Unit holder acquires 1,000 Units on May 10, 2004 and sells these Units on November 8, 2004. For these Units the Unit holder received cash distributions for May through October; therefore, the income and expenses attributable to these Units will be for this same period. To use each table (1-6) a Unit holder should go down the left-hand column to the specific month when the Units were purchased and across the page to the column which corresponds to the month for which the last cash distribution was received. In the above example, the Unit holder should go down the left-hand column to the fifth line and across the page to the column titled October. This procedure would be repeated on each of the six tables. The income and expense in the above example are summarized below.

<u>DESCRIPTION</u>	<u>TABLE</u>	<u>PER UNIT</u>	<u>X</u>	<u>UNITS</u>	=	<u>AMOUNT</u>
Gross Royalty Income	1	1.484381	X	1,000	=	\$1,484.38
Severance Tax	2	0.145049	X	1,000	=	145.05
Interest Income	4	0.000699	X	1,000	=	0.70
Administration Expense	5	0.016587	X	1,000	=	16.59
Percentage Depletion	3	0.222658	X	1,000	=	222.66

* Percentage Depletion may be claimed for Units purchased after October 11, 1990, if greater than Cost Depletion. Taxpayers should consult their tax advisors regarding deductibility of percentage depletion.

San Juan Basin Royalty Trust

Table 1
2004 Gross Royalty Income
(Cumulative \$ per Unit)

For a Unit
 acquired of record And the last cash distribution on such Unit was
 during the month of: attributable to the monthly record date for the month of:

2004												
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.129952	0.279648	0.505069	0.692632	0.896852	1.112787	1.418908	1.685218	1.937876	2.177013	2.398594	2.637570
February		0.149696	0.375117	0.562680	0.766900	0.982835	1.288956	1.555266	1.807924	2.047061	2.268642	2.507618
March			0.225421	0.412984	0.617204	0.833139	1.139260	1.405570	1.658228	1.897365	2.118946	2.357922
April				0.187563	0.391783	0.607718	0.913839	1.180149	1.432807	1.671944	1.893525	2.132501
May					0.204220	0.420155	0.726276	0.992586	1.245244	1.484381	1.705962	1.944938
June						0.215935	0.522056	0.788366	1.041024	1.280161	1.501742	1.740718
July							0.306121	0.572431	0.825089	1.064226	1.285807	1.524783
August								0.266310	0.518968	0.758105	0.979686	1.218662
September									0.252658	0.491795	0.713376	0.952352
October										0.239137	0.460718	0.699694
November											0.221581	0.460557
December												0.238976

Table 2
2004 Severance Tax
(Cumulative \$ per Unit)

For a Unit
 acquired of record And the last cash distribution on such Unit was
 during the month of: attributable to the monthly record date for the month of:

2004												
	January	February	March	April	May	June	July	August	September	October	November	December
January	0.012721	0.026429	0.050297	0.069166	0.089090	0.110712	0.142602	0.168367	0.191867	0.214215	0.234429	0.255127
February		0.013708	0.037576	0.056445	0.076369	0.097991	0.129881	0.155646	0.179146	0.201494	0.221708	0.242406
March			0.023868	0.042737	0.062661	0.084283	0.116173	0.141938	0.165438	0.187786	0.208000	0.228698
April				0.018869	0.038793	0.060415	0.092305	0.118070	0.141570	0.163918	0.184132	0.204830
May					0.019924	0.041546	0.073436	0.099201	0.122701	0.145049	0.165263	0.185961
June						0.021622	0.053512	0.079277	0.102777	0.125125	0.145339	0.166037
July							0.031890	0.057655	0.081155	0.103503	0.123717	0.144415
August								0.025765	0.049265	0.071613	0.091827	0.112525
September									0.023500	0.045848	0.066062	0.086760
October										0.022348	0.042562	0.063260
November											0.020214	0.040912
December												0.020698

Table 3
2004 Percentage Depletion Factors
(Cumulative)

For a Unit
 acquired of record And the last cash distribution on such Unit was
 during the month of: attributable to the monthly record date for the month of:

		2004											
		January	February	March	April	May	June	July	August	September	October	November	December
January	_____	0.019493	0.041947	0.075760	0.103894	0.134527	0.166917	0.212835	0.252782	0.290681	0.326552	0.359789	0.395635
February	_____		0.022454	0.056267	0.084401	0.115034	0.147424	0.193342	0.233289	0.271188	0.307059	0.340296	0.376142
March	_____			0.033813	0.061947	0.092580	0.124970	0.170888	0.210835	0.248734	0.284605	0.317842	0.353688
April	_____				0.028134	0.058767	0.091157	0.137075	0.177022	0.214921	0.250792	0.284029	0.319875
May	_____					0.030633	0.063023	0.108941	0.148888	0.186787	0.222658	0.255895	0.291741
June	_____						0.032390	0.078308	0.118255	0.156154	0.192025	0.225262	0.261108
July	_____							0.045918	0.085865	0.123764	0.159635	0.192872	0.228718
August	_____								0.039947	0.077846	0.113717	0.146954	0.182800
September	_____									0.037899	0.073770	0.107007	0.142853
October	_____										0.035871	0.069108	0.104954
November	_____											0.033237	0.069083
December	_____												0.035846

Table 4
2004 Interest Income
(Cumulative \$ per Unit)

For a Unit
 acquired of record And the last cash distribution on such Unit was
 during the month of: attributable to the monthly record date for the month of:

		2004											
		January	February	March	April	May	June	July	August	September	October	November	December
January	_____	0.000076	0.000130	0.000187	0.000273	0.000348	0.000441	0.000554	0.000696	0.000837	0.000972	0.001130	0.001264
February	_____		0.000054	0.000111	0.000197	0.000272	0.000365	0.000478	0.000620	0.000761	0.000896	0.001054	0.001188
March	_____			0.000057	0.000143	0.000218	0.000311	0.000424	0.000566	0.000707	0.000842	0.001000	0.001134
April	_____				0.000086	0.000161	0.000254	0.000367	0.000509	0.000650	0.000785	0.000943	0.001077
May	_____					0.000075	0.000168	0.000281	0.000423	0.000564	0.000699	0.000857	0.000991
June	_____						0.000093	0.000206	0.000348	0.000489	0.000624	0.000782	0.000916
July	_____							0.000113	0.000255	0.000396	0.000531	0.000689	0.000823
August	_____								0.000142	0.000283	0.000418	0.000576	0.000710
September	_____									0.000141	0.000276	0.000434	0.000568
October	_____										0.000135	0.000293	0.000427
November	_____											0.000158	0.000292
December	_____												0.000134

Table 5
2004 Trust Administration Expense
(Cumulative \$ per Unit)

For a Unit
 acquired of record And the last cash distribution on such Unit was
 during the month of: attributable to the monthly record date for the month of:

		2004											
		January	February	March	April	May	June	July	August	September	October	November	December
January	_____	0.002120	0.005593	0.011010	0.014815	0.019116	0.022364	0.024281	0.026230	0.028601	0.031402	0.033388	0.036708
February	_____		0.003473	0.008890	0.012695	0.016996	0.020244	0.022161	0.024110	0.026481	0.029282	0.031268	0.034588
March	_____			0.005417	0.009222	0.013523	0.016771	0.018688	0.020637	0.023008	0.025809	0.027795	0.031115
April	_____				0.003805	0.008106	0.011354	0.013271	0.015220	0.017591	0.020392	0.022378	0.025698
May	_____					0.004301	0.007549	0.009466	0.011415	0.013786	0.016587	0.018573	0.021893
June	_____						0.003248	0.005165	0.007114	0.009485	0.012286	0.014272	0.017592
July	_____							0.001917	0.003866	0.006237	0.009038	0.011024	0.014344
August	_____								0.001949	0.004320	0.007121	0.009107	0.012427
September	_____									0.002371	0.005172	0.007158	0.010478
October	_____										0.002801	0.004787	0.008107
November	_____											0.001986	0.005306
December	_____												0.003320

SPECIFIC INSTRUCTIONS FOR COST DEPLETION WORKSHEET

Note 1: The original basis of your Units must be determined from your records and generally will be the amount paid for the Units including broker's commissions or the fair market value of such Units on the date they were distributed (November 3, 1980). However, there could be other taxable events which cause the original basis to be revised. For example, the original basis of Units passing through an estate will be changed to reflect the fair market value of the Units on date of death. Please consult your tax adviser concerning your original basis.

Note 2: When Units are acquired, sold or exchanged during the year, the cost depletion factor is calculated using one of the following procedures:

(a) *UNITS ACQUIRED PRIOR TO 2004 AND SOLD DURING 2004.*

Example: A Unit holder acquired Units prior to 2004 that he sold in June 2004. To calculate his cost depletion for the year, the Unit holder would use the cost depletion factor for January through May obtained from Table 6. In this example, the cost depletion factor would be .040358.

(b) *UNITS ACQUIRED AND SOLD DURING 2004.*

Example: A Unit holder acquired Units in February 2004 and sold them in November 2004. To calculate her cost depletion for the year, the Unit holder would use the cost depletion factor for February through October obtained from Table 6. In this example, the cost depletion factor would be .080290.

(c) *UNITS ACQUIRED DURING 2004 AND STILL OWNED AT THE END OF 2004.*

Example: A Unit holder acquired Units in March 2004 and still owned them at the end of 2004. To calculate his cost depletion for the year, the Unit holder would use the cost depletion factor for March 2004 through December 2004 obtained from Table 6. In this example, the cost depletion factor would be .091471.

Table 6
2004 Cost Depletion Factors
(Cumulative)

For a Unit acquired of record during the month of:	2004											
And the last cash distribution on such Unit was attributable to the monthly record date for the month of:	January	February	March	April	May	June	July	August	September	October	November	December
January	0.006898	0.014279	0.023382	0.030963	0.040358	0.049951	0.060134	0.069333	0.07846	0.087188	0.096268	0.105750
February		0.007381	0.016484	0.024065	0.033460	0.043053	0.053236	0.062435	0.071562	0.080290	0.089370	0.098852
March			0.009103	0.016684	0.026079	0.035672	0.045855	0.055054	0.064181	0.072909	0.081989	0.091471
April				0.007581	0.016976	0.026569	0.036752	0.045951	0.055078	0.063806	0.072886	0.082368
May					0.009395	0.018988	0.029171	0.038370	0.047497	0.056225	0.065305	0.074787
June						0.009593	0.019776	0.028975	0.038102	0.046830	0.055910	0.065392
July							0.010183	0.019382	0.028509	0.037237	0.046317	0.055799
August								0.009199	0.018326	0.027054	0.036134	0.045616
September									0.009127	0.017855	0.026935	0.036417
October										0.008728	0.017808	0.027290
November											0.009080	0.018562
December												0.009482

San Juan Basin Royalty Trust
2004 Cost Depletion Worksheet

The following may help you calculate your cost depletion to be reported on your Federal Income Tax Return.

A. If you *owned* the Units for the *entire year*, your cost depletion would be calculated as follows:

Original Basis (NOTE 1)	-	Depletion Allowed or Allowable in Prior Years	=	Original Basis Less Depletion Allowed or Allowable in Prior Years	X	=	Cost Depletion Factor	=	Cost Depletion
San Juan Basin	-		=		X	=	.105750	=	

B. If you *sold* or *acquired* the Units *during the year*, your cost depletion for the portion of the year that you held the Units would be calculated as follows:

Original Basis (NOTE 1)	-	Depletion Allowed or Allowable in Prior Years	=	Original Basis Less Depletion Allowed or Allowable in Prior Years	X	=	Partial Year Cost Depletion Factor (NOTE 2)	=	Cost Depletion
San Juan Basin	-		=		X	=		=	

(Notes 1 and 2 are contained in the Specific Instructions for the Cost Depletion Worksheet.)