

CHLORIDE, NEW MEXICO



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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SAN JUAN BASIN ROYALTY TRUST 2004 SECOND QUARTER REPORT

TO UNIT HOLDERS

The San Juan Basin Royalty Trust (the "Trust") received royalty income of \$25,509,188 and interest income of \$11,822 during the second quarter of 2004. There was no change in cash reserves. After deducting administrative expenses of \$529,205, distributable income for the quarter was \$24,991,805 (\$.536204 per Unit). In the second quarter of 2003, royalty income was \$26,051,389, interest income was \$15,801, there was no change in cash reserves, administrative expenses were \$448,456 and distributable income was \$25,618,734 (\$.549655 per Unit.) The tax credit related to production from coal seam and tight sand wells sold before January 1, 2003, totaled approximately \$.03 per Unit for the first quarter of 2003. For further information concerning this tax credit, Unit holders should refer to the Trust's Annual Report for 2003. Based on 46,608,796 Units outstanding, the per-Unit distributions during the second quarter of 2004 were as follows:

April	16.4974 cents
May	18.0071 cents
June	19.1159 cents
QUARTER TOTAL	53.6204 cents

The royalty income distributed in the second quarter of 2004 was lower than that distributed in the second quarter of 2003, primarily due to increased capital expenditures and production costs. Interest earnings for the quarter ended June 30, 2004, as compared to the quarter ended June 30, 2003, were lower, primarily due to a decrease in funds available for investment and slightly lower interest rates. Administrative expenses were higher, primarily as a result of differences in timing in the receipt and payment of these expenses.

Burlington Resources Oil & Gas Company LP ("BROG") has informed the Trustee that the New Mexico Oil and Gas Proceeds Withholding Tax Act (the "Withholding Tax Act") requires remitters who pay certain oil and gas proceeds from production on New Mexico properties on or after October 1, 2003, to withhold income taxes from such proceeds in the case of certain nonresident recipients. The Trustee, on advice of

counsel, has observed that "net profits interests," such as the Royalty, and other types of interests, the extent of which cannot be determined with respect to a specific share of the oil and gas production, are excluded from the withholding requirements of the Withholding Tax Act. Unit holders are reminded to consult with their tax advisors regarding the applicability of New Mexico income tax to distributions received from the Trust by a Unit holder.

The capital costs attributable to the Underlying Properties, as defined below, for the second quarter of 2004 were reported by BROG as approximately \$4.6 million. BROG's capital expenditure budget for the Underlying Properties for 2004 is estimated at \$18.5 million, of which approximately \$3.3 million has been spent as of June 30, 2004; however, BROG reports that based on its actual capital requirements, its mix of projects and changes in the price of natural gas, the actual capital expenditures for 2004 could range from \$15 million to \$25 million. Capital expenditures were approximately \$2.9 million for the second quarter of 2003. In 2003, approximately \$20.6 million in capital expenditures were deducted in calculating royalty income. In February 2004, BROG informed the Trustee that for 2004 it anticipates 441 projects, including the drilling of 103 new wells to be operated by BROG and 29 new wells to be operated by third parties. Of the new BROG-operated wells, 30 are projected to be conventional wells completed to the Pictured Cliffs, Mesaverde and/or Dakota formations, and the remaining 73 are projected as coal seam wells to be completed in the Fruitland Coal formation. A total of 22 of the wells operated by third parties are projected to be conventional wells, and the remaining seven are projected to be coal seam wells. BROG projects approximately \$11.7 million to be spent on the new wells, and \$6.8 million to be expended in working over existing wells and in the maintenance and improvement of production facilities. BROG has indicated that, principally as a result of the New Mexico Oil Conservation Division's approval of reduced, 160-acre spacing in the Fruitland Coal formation, BROG's budget for 2004 reflects a continued focus on that formation.

BROG indicates its budget for 2004 reflects continued, significant development of conventional formations, including infill drilling to the Mesaverde and Dakota formations, development of the Fruitland Coal formation and multiple formation completions. A majority of the new wells for 2004 are projected to be drilled on Underlying Properties in which the fractional working interest included in the Underlying

Properties is relatively low, but many of the recompletions and restimulations are scheduled on properties in which such working interest is relatively high. As used herein, the term "Underlying Properties" means 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.

BROG has informed the Trust that lease operating expenses and property taxes were \$4,615,886 and \$122,700, respectively, for the second quarter of 2004, as compared to \$3,902,841 and \$135,000, respectively, for the second quarter of 2003.

BROG reported to the Trustee that during the second quarter of 2004, 21 gross (2.31 net) coal seam wells, one gross (.04 net) miscellaneous coal seam project, eight gross (.05 net) conventional wells and four gross (1.70 net) restimulations were completed on the Underlying Properties.

Sixty-three gross (8.89 net) coal seam wells, four gross (1.89 net) recompletions, two gross (.08 net) miscellaneous coal seam projects, 29 gross (5.40 net) conventional wells four gross (1.72 net) payadds, 11 gross (6.96 net) recompletions and four gross (3.11 net) restimulations were in progress at June 30, 2004.

There were five gross (2.54 net) conventional wells, 19 gross (.81 net) payadds, 13 gross (9.54 net) restimulations and eight gross (2.50 net) coal seam wells completed on the Underlying Properties as of June 30, 2003. Fifty-four gross (16.04 net) conventional wells, 19 gross (5.27 net) payadds, 20 gross (5.55 net) recompletions, 18 gross (11.51 net) restimulations, 39 gross (14.25 net) coal seam wells, one gross (.002 net) recavitation and five gross (.17 net) recompletions were in progress at June 30, 2003.

"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, 2004, is associated with actual gas and oil production during February 2004 through April 2004 from the Underlying Properties. Gas and oil sales from the Underlying Properties for three months ended June 30, 2004 and 2003, were as follows:

	2004	2003
GAS:		
Total Sales (Mcf)	10,831,487	10,454,608
Mcf per Day	120,350	117,468
Average Price (per Mcf)	\$4.38	\$4.48
OIL:		
Total Sales (Bbls)	23,709	24,381
Bbls per Day	263	274
Average Price (per Bbl)	\$31.72	\$27.91

Gas and oil sales attributable to the Royalty for the quarters ended June 30, 2004 and 2003, were as follows:

	2004	2003
Gas Sales (Mcf)	6,392,963	6,498,418
Oil Sales (Bbls)	13,986	15,091

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 2004, average gas prices were \$.10 lower than the average prices reported during the second quarter of 2003. The average price per barrel of oil during the second quarter of 2004 was \$3.81 per barrel higher than that received for the second quarter of 2003 due to increases in oil prices in world markets generally, including the posted prices applicable to oil sales attributable to the Royalty.

BROG has entered into two contracts for the sale of all volumes of gas produced from the Underlying Properties. These contracts provide for (i) the sale of such gas in two packages 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 New Mexico. Effective January 1, 2004, the rights and obligations of Duke Energy and Marketing L.L.C. were assumed by ConocoPhillips Company ("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 has prepared a form of request for proposal that will be circulated 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. Unit holders are referred to Note 6 of the Notes to Financial Statements in the Trust's 2003 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.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of June 30, 2004 (Unaudited), and December 31, 2003, and the Unaudited Condensed Statements of Distributable Income and of Changes in Trust Corpus for the three months ended June 30, 2004 and 2003.

Unit holders of record for the second quarter of 2004 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 Web site at www.sjbtr.com or from the Trustee upon request.

TexasBank, Trustee

By: *Lee Ann Anderson*

Lee Ann Anderson

Vice President and Trust Officer

SAN JUAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

Six months ended:

	06/30/04	12/31/03
ASSETS		
Cash and Short-Term Investments	9,024,529	7,082,284
Net Overriding Royalty Interest in Producing Oil and Gas Properties (Net of Accumulated Amortization of \$104,936,618 and \$103,452,708 at June 30, 2004, and December 31, 2003, Respectively)	28,338,910	29,822,820
	<u>37,363,439</u>	<u>36,905,104</u>
LIABILITIES & TRUST CORPUS		
Distribution Payable to Unit Holders	8,909,671	6,967,426
Cash Reserves	114,858	114,858
Trust Corpus – 46,608,796 Units of Beneficial Interest Authorized and Outstanding	28,338,910	29,822,820
	<u>37,363,439</u>	<u>36,905,104</u>

SAN JUAN BASIN ROYALTY TRUST

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME

Three months ended:

Six months ended:

	6/30/04	6/30/03	6/30/04	6/30/03
Royalty Income	25,509,188	26,051,389	46,705,539	45,962,457
Interest Income	11,822	15,801	20,514	23,254
Decrease in Cash Reserves	–	–	–	–
	<u>25,521,010</u>	<u>26,067,190</u>	<u>46,726,053</u>	<u>45,985,711</u>
Expenditures – General and Administrative	529,205	448,456	1,042,368	868,829
Increase in Cash Reserves	–	–	–	–
Distributable Income	24,991,805	25,618,734	45,683,685	45,116,882
Distributable Income per Unit (46,608,796 Units)	<u>0.536204</u>	<u>0.549655</u>	<u>0.980152</u>	<u>0.967992</u>

CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS

Three months ended:

Six months ended:

	6/30/04	6/30/03	6/30/04	6/30/03
Trust Corpus, Beginning of Period	29,131,300	32,652,361	29,822,820	33,697,906
Amortization of Net Overriding Royalty Interest	(792,390)	(930,001)	(1,483,910)	(1,975,546)
Distributable Income	24,991,805	25,618,734	45,683,685	45,116,882
Distributions Declared	(24,991,805)	(25,618,734)	(45,683,685)	(45,116,882)
Trust Corpus, End of Period	<u>28,338,910</u>	<u>31,722,360</u>	<u>28,338,910</u>	<u>31,722,360</u>

CALCULATION OF ROYALTY INCOME

Three months ended:

Six months ended:

	6/30/04	6/30/03	6/30/04	6/30/03
GROSS PROCEEDS				
Gas	47,418,520	46,884,002	93,439,283	87,747,042
Oil	752,081	680,484	1,168,844	1,074,147
Other	–	(1,202,368)	–	(1,202,368)
TOTAL	<u>48,170,601</u>	<u>46,362,118</u>	<u>94,608,127</u>	<u>87,618,821</u>
PRODUCTION COSTS				
Severance Tax – Gas	4,714,629	4,640,748	9,267,453	8,678,515
Severance Tax – Oil	76,676	59,305	120,936	93,514
Severance Tax – Other	–	–	–	–
Lease Operating and Property Tax	4,738,586	4,037,841	8,863,441	8,095,658
Other	42,763	26,850	42,763	41,850
Capital Expenditures	4,585,697	2,862,189	14,039,482	9,426,008
TOTAL	<u>14,158,351</u>	<u>11,626,933</u>	<u>32,334,075</u>	<u>26,335,545</u>
Less Excess Production and Interest from Prior Year	–	–	–	–
Net Profits	34,012,250	34,735,185	62,274,052	61,283,276
Net Overriding Royalty Interest	75	75	75	75
Royalty Income	<u>25,509,188</u>	<u>26,051,389</u>	<u>46,705,539</u>	<u>45,962,457</u>

These financial statements should be read in conjunction with the financial statements and notes thereto included in the Trust's 2003 Annual Report.