

# San Juan Basin Royalty Trust

---

## 2009 Third Quarter Report to Unit holders

The San Juan Basin Royalty Trust received Royalty income of \$7,232,890 and interest income of \$194,481 during the third quarter of 2009. There was no change in cash reserves. After deducting administrative expenses of \$435,690, distributable income for the quarter was \$6,991,681 (\$0.150007 per Unit). In the third quarter of 2008, Royalty income was \$52,541,763, interest income was \$32,508, administrative expenses were \$351,221 and distributable income was \$52,223,050 (\$1.120455 per Unit). In August 2008, the Trust recovered \$40,930 previously escheated to the State of Texas in the name of the Trust, and those funds were temporarily added to cash reserves pending further research as to the origin of the funds. Based on 46,608,796 Units outstanding, the per-Unit distributions during the third quarter of 2009 were as follows:

July .....	\$0.035394
August .....	.061470
September .....	<u>.053143</u>
Quarter Total .....	<u>\$0.150007</u>

The Royalty income distributed in the third quarter of 2009 was lower than that distributed in the third quarter of 2008, primarily due to a decrease in the average gas price from \$10.62 per Mcf for the third quarter of 2008 to \$2.98 per Mcf for the third quarter of 2009. Gas volumes, however, increased in the quarter ended September 30, 2009 as compared to the quarter ended September 30, 2008. Interest income was higher for the quarter ended September 30, 2009 as compared to the quarter ended September 30, 2008, due to additional interest Burlington Resources Oil & Gas Company LP (“BROG”) paid to the Trust in August 2009 as a result of the granting of certain audit exceptions. Administrative expenses were higher in 2009 primarily as a result of differences in timing in the receipt and payment of these expenses and also due to increased costs associated with the litigation described below.

The capital costs attributable to the Underlying Properties for the third quarter of 2009 and deducted by BROG in calculating Royalty income were approximately \$7.4 million. BROG has informed the Trust that the 2009 budget for capital expenditures for the Underlying Properties is \$25.2 million. In addition, BROG estimates that during 2009 it will incur capital expenses in the amount of approximately \$12.1 million attributable to the capital budgets for 2008 and prior years. Approximately 12% of the planned expenditures attributable to the 2009 budget will be on Fruitland Coal formation projects with the remainder to be spent on conventional projects. 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 2009 could range from \$10 million to \$45 million.

BROG anticipates 431 projects in 2009 at an estimated cost of \$25.2 million. Approximately \$6 million of that budget is allocable to 49 new wells, including 39 wells scheduled to be dually completed in the Mesaverde and Dakota formations and four wells projected to be drilled to formations producing coal seam gas. Approximately \$7.1 million will be spent on workovers and facilities projects. Of the \$12.1 million attributable to the budgets for prior years, approximately \$6.9 million is allocable to new wells, and the \$5.2 million balance will be applied to miscellaneous capital projects such as workovers and operated facility projects. BROG also anticipates that the possible implementation of new rules minimizing surface disturbances, requiring the implementation of closed-loop systems for the disposal of drilling fluids and cuttings, and restricting the use of open reserve pits could reduce the number of projects due to increased compliance costs.

BROG has informed the Trust that lease operating expenses and property taxes were \$7,756,942 and \$213,289, respectively, for the third quarter of 2009, as compared to \$7,947,438 and \$276,732, respectively, for the third quarter of 2008. BROG reports that lease operating expenses were lower in the third quarter of 2009 compared to the third quarter of 2008 primarily because demand-related increases in the cost of contract services and materials have been somewhat mitigated by the decline in natural gas sales prices. Furthermore, BROG reports that the decrease in costs related to the property taxes are due to the fact that property tax amounts are accrued based on the prior year's actual costs. In 2009, \$71,096 per month in property taxes is accrued, based on the amount of the actual property tax bill paid in early 2009, as compared with \$92,244 per month accrued in 2008, based on the amount of the actual property tax bill paid in early 2008. New drilling results in increases in salt water disposal as well as compression and other operating costs. In addition, many joint operating agreements call for the increase or decrease in rates charged for the drilling and operation of wells based upon an overhead adjustment factor published annually by the Council for Petroleum Accountants Societies. That factor was set at +7.5% effective as of April 1, 2009.

BROG has reported to the Trustee that during the third quarter of 2009, 22 gross (4.58 net) conventional wells, two gross (0.84 net) recompletions, 16 gross (8.23 net) coal seam wells and one gross (0.85 net) coal seam recompletion were completed on the Underlying Properties. Seven gross (2.20 net) conventional wells were in progress at September 30, 2009.

There were, based on revised information from BROG, seven gross (2.22 net) coal seam wells and 33 gross (4.24 net) conventional wells completed on the Underlying Properties as of September 30, 2008. Five gross (0.92 net) coal seam wells and seven gross (1.42 net) conventional wells were in progress at September 30, 2008.

There were 3,903 gross (1,137 net) producing wells being operated subject to the Royalty as of December 31, 2008, 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 September 30, 2009 is associated with actual gas and oil production during May 2009 through July 2009 from the Underlying Properties. Gas and oil sales from the Underlying Properties for the three months ended September 30, 2009 and 2008 were as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<u>Gas:</u>		
Total sales (Mcf) .....	8,916,522	8,737,027
Mcf per day .....	96,919	94,968
Average price (per Mcf).....	\$ 2.98	\$ 10.62
<u>Oil:</u>		
Total sales (Bbls) .....	17,414	12,793
Bbls per day .....	189	139
Average price (per Bbl) .....	\$ 56.08	\$ 120.99

Gas and oil sales attributable to the Royalty for the quarters ended September 30, 2009 and 2008 were as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Gas sales (Mcf) .....	2,563,130	5,326,507
Oil sales (Bbls) .....	5,004	7,724

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 2009, average gas prices were \$7.64 per Mcf lower than the average prices reported during the third quarter of 2008 due in part to the global economic contraction which has depressed energy demand and contributed to lower natural gas wellhead prices, including the posted index prices applicable to gas sold from the San Juan Basin. In addition, many experts attribute the decline in gas prices to record or near record inventories in storage and increased domestic production from the various shale formations. The average price per barrel of oil during the third quarter of 2009 was \$64.91 per barrel lower than that received for the third quarter of 2008.

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. In March 2008, both ChevronTexaco and Coral notified BROG of their election to terminate their respective contracts effective March 31, 2009. Requests for proposal were 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, by agreement of the parties, the term of

that contract has been extended through at least March 31, 2011. On December 11, 2008, the New Mexico Public Regulatory Commission approved the sale of the gas utility assets of PNM to New Mexico Gas Company, Inc. ("NMGC") and, effective as of January 30, 2009, the PNM contract was assigned to and assumed by NMGC.

BROG has now entered into four new contracts effective April 1, 2009, for the sale of all gas produced from the Underlying Properties other than the gas covered by the NMGC contract. The new purchasers are Chevron Natural Gas, a division of Chevron USA, Inc., Pacific Gas and Electric Company, BP Energy Company and Macquarie Cook Energy LLC. All four of the new contracts and the pre-existing NMGC contract provide for (i) the delivery of such gas at various delivery points through March 31, 2011 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. Although the primary term of the Chevron contract continues until March 31, 2011, a portion of that contract will be remarketed for sale after March 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 compliance 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 fifth issue and the unpaid balance of the award.

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.

The appellate court also remanded the case to the District Court, where BROG pursued its claim for attorneys' fees and costs in the amount of approximately \$200,000. Following a trial on the merits of BROG's claims conducted on June 3, 2009, the District Court ruled in favor of the Trust and ordered that BROG should take nothing in its claims against the Trust. BROG has filed a Notice of Appeal as regards that ruling.

Certain motions for summary judgment filed by BROG and the Trust are to be heard on January 5, 2010. The trial on the merits has been set for the week of May 24, 2011.

Included in this report are the Condensed Statements of Assets, Liabilities and Trust Corpus as of September 30, 2009 (Unaudited), and December 31, 2008, and the Unaudited Condensed Statements of Distributable Income and of Change in Trust Corpus for the three months ended September 30, 2009 and 2008.

Unit holders of record for the third quarter of 2009 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](http://www.sjbrt.com), or from the Trustee upon request.

**Compass Bank, Trustee**

By: LEE ANN ANDERSON  
*Vice President and Senior Trust Officer*

**CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS**

ASSETS	September 30, 2009 (Unaudited)	December 31, 2008
Cash and short-term investments.....	\$ 2,632,743	\$ 7,449,767
Net overriding royalty interest in producing oil and gas properties (net of accumulated amortization of \$115,997,319 and \$115,348,030 at September 30, 2009 and December 31, 2008, respectively).....	17,278,209	17,927,498
	<u>\$ 19,910,952</u>	<u>\$ 25,377,265</u>
<b>LIABILITIES AND TRUST CORPUS</b>		
Distribution payable to Unit Holders.....	\$ 2,476,954	\$ 7,293,978
Cash reserves .....	155,789	155,789
Trust corpus – 46,608,796 Units of beneficial interest authorized and outstanding .....	17,278,209	17,927,498
	<u>\$ 19,910,952</u>	<u>\$ 25,377,265</u>

**CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Royalty income.....	\$ 7,232,890	\$ 52,541,763	\$ 19,257,575	\$ 113,730,327
Interest income .....	194,481	32,508	197,892	216,621
Total Revenue	7,427,371	52,574,271	19,455,467	113,946,948
General and administrative expenditures.....	435,690	351,221	1,706,123	1,554,074
Distributable income.....	<u>\$ 6,991,681</u>	<u>\$ 52,223,050</u>	<u>\$ 17,749,344</u>	<u>\$ 112,392,874</u>
Distributable income per Unit (46,608,796 Units) .....	<u>\$ 0.150007</u>	<u>\$ 1.120455</u>	<u>\$ 0.380814</u>	<u>\$ 2.411409</u>

**CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS (UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Trust corpus, beginning of period...	\$17,572,134	\$18,975,921	\$17,927,498	\$19,880,888
Amortization of net overriding royalty interest .....	(293,925)	(543,459)	(649,289)	(1,448,426)
Distributable income.....	6,991,681	52,223,050	17,749,344	112,392,874
Distributions declared.....	( 6,991,681)	(52,223,050)	(17,749,344)	(112,392,874)
Trust corpus, end of period.....	<u>\$17,278,209</u>	<u>\$18,432,462</u>	<u>\$17,278,209</u>	<u>\$18,432,462</u>

Royalty income received by the Trust for the three months and nine months ended September 30, 2009 and 2008, respectively, was computed as shown in the following table:

**CALCULATION OF ROYALTY INCOME**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<i>Gross proceeds of sales from the Underlying Properties:</i>				
Gas proceeds.....	\$26,539,822 <sup>(1)</sup>	\$92,813,502	\$ 85,149,264	\$212,607,028 <sup>(2)</sup>
Oil proceeds.....	976,542	1,547,800	1,980,659	3,684,910
Total .....	<u>27,516,364</u>	<u>94,361,302</u>	<u>87,129,923</u>	<u>216,291,938</u>
<i>Less production costs:</i>				
Severance tax – gas.....	2,381,417	8,391,694	7,685,851	19,856,326
Severance tax – oil.....	94,969	152,033	193,945	369,512
Other	-	-	1,020 <sup>(3)</sup>	-
Lease operating expense and property tax.....	7,970,231	8,224,170	25,266,377	24,566,288
Capital expenditures .....	<u>7,425,894</u>	<u>7,537,721</u>	<u>28,305,963</u>	<u>19,859,376</u>
Total.....	<u>17,872,511</u>	<u>24,305,618</u>	<u>61,453,156</u>	<u>64,651,502</u>
Net profits.....	9,643,853	70,055,684	25,676,767	151,640,436
Net overriding royalty interest.....	<u>75%</u>	<u>75%</u>	<u>75%</u>	<u>75%</u>
Royalty income.....	<u>\$ 7,232,890</u>	<u>\$52,541,763</u>	<u>\$ 19,257,575</u>	<u>\$113,730,327</u>

(1) In August 2009, gas proceeds included \$540,069 resulting from granted audit exceptions.

(2) In March 2008, gas proceeds were reduced by \$6,562,104 as the amount BROG determined to be the Trust's portion of BROG's settlement of a legal matter with the Minerals Management Service and the Bureau of Indian Affairs.

(3) Reflects the fee for BROG volume exchanges during the production month of April 2009.

# 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.*

## **San Juan Basin Royalty Trust**

Compass Bank, Trustee  
2525 Ridgmar Boulevard, Suite 100  
Fort Worth, Texas 76116  
Toll-free: 866.809.4553  
[www.sjbtr.com](http://www.sjbtr.com)  
[sjt@bbvacompass.com](mailto:sjt@bbvacompass.com)

## **Paying Agent / Transfer Agent / Registrar**

Computershare Investor Services  
[www.computershare.com](http://www.computershare.com)  
Customer Service: 312.360.5154