



Independent Stock Idea

Intraday September 23, 2016

San Juan Basin Royalty Trust (SJT) Rising from the Dead---Again

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	28
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/unit)</i>	5.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/23/16	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$mm)</i>	280	<i>PV/Ebitda</i>	13.2
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	280	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.45
<i>Present Value (PV) (US\$mm)</i>	370	<i>Present Value Proven Reserves(US\$/boe)</i>	10.57
<i>Net Present Value (US\$/unit)</i>	8	<i>Oil and Gas Ebitda Margin (%)</i>	54
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.58
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	10
<i>Distribution Yield (%/year)</i>	9.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.58
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

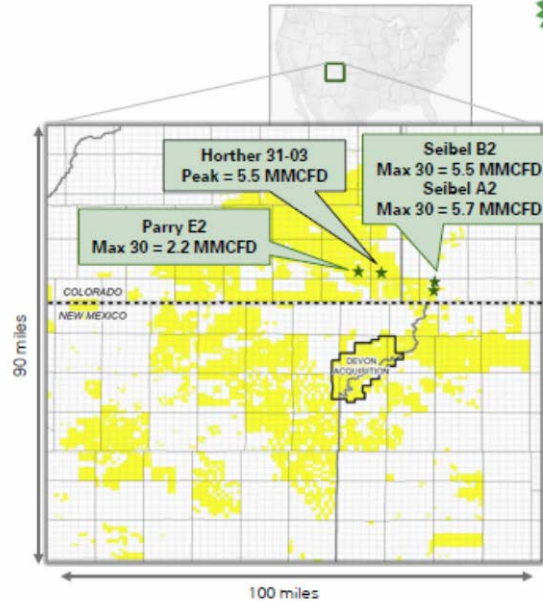
New enthusiasm from BP to drill the Mancos Shale in the San Juan Basin rekindles interest in the upside stock price potential in **San Juan Basin Royalty Trust (SJT)**. As the source of the natural gas produced from the two main conventional formations, Mesaverde and Dakota, Mancos likely retains more gas in place than has been produced in the basin the past 60 years. After using latest technology to drill four commercial wells on its San Juan lands, BP believes it has 1600 well locations in the Mancos (see slides from June 2016 BP presentation on pages 2-3). SJT is likely widely represented in that potential in New Mexico. In another development, SJT's monthly distribution of \$0.04 declared on September 20 was an upside surprise that supports an estimated 9.7% distribution yield (see table Operating and Financial Estimates on page 4). Further, we are pleased to see today that independent Texas bank Southwest Bank has readily met the requirement for European giant bank Banco Bilbao Vizcaya Argentaria to call a special meeting to transfer the trusteeship of SJT to Southwest. All unitholders should have ample time over the next several weeks to vote their approval when the expected proxy material is filed and distributed. Finally, recent positive developments may help SJT stock to rise again from the dead of low single digit price to well into double digits.

Kurt H. Wulff, CFA

West - San Juan Basin

World Class Gas Resource

- Applying innovative techniques to achieve premier returns
- 570,000 net acres
- Four prolific and discrete reservoirs with multiple intervals/seams in each
- 2.1 bn boe of resource potential
- 2,000 horizontal locations identified
- Additional untested intervals within and below producing stratigraphic column

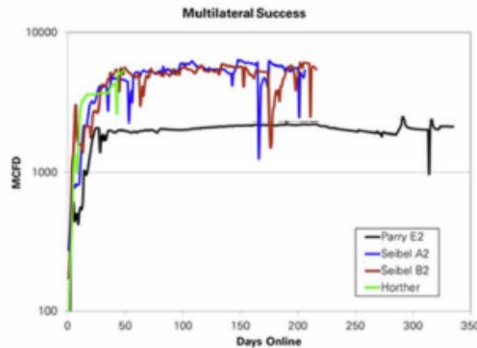
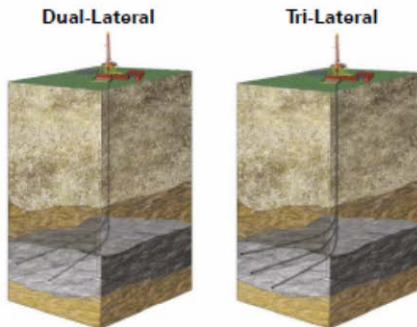


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West - San Juan Basin Coal Bed Methane

Innovative well designs driving premier returns

- Highest multilateral production in the basin
- Average multi-lateral development cost of \$1.9/boe
- Successful tri-lateral accessing 14,600 ft of coal
- Continuing to innovate with more and longer laterals



	Parry E2	Seibel A2	Seibel B2	Horther
D&C, m\$	2.0	1.7	1.8	2.6
IRR, %	47%	100%+	100%+	100%+
Max 30, mmscfd	2.2	5.7	5.5	5.5*
EUR, bcf	5	6	6	11

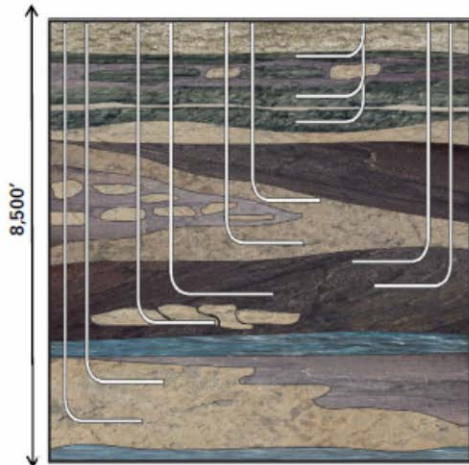
Economics are post tax, include capitalized overhead and were run at \$3HH and \$55WTI

* Peak rate since well still ramping up

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West - San Juan Basin

Discrete and Proliferous Reservoirs with Horizontal/Multilateral Potential



Horizon	Reservoir	Locations	Hydrocarbon
Fruitland Coal	Coal bed methane	200 (270 laterals)	Dry Gas
Mesaverde	Marine & non-marine sands	50	Wet Gas
Mancos	Marine source rock	~1,600	Gas & Oil
Dakota	Marine sands	120	Wet Gas

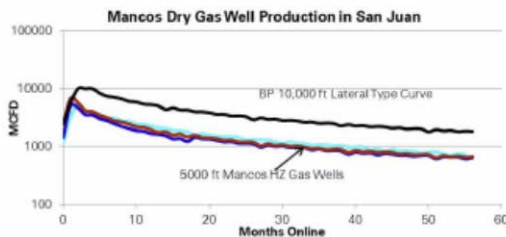
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West - San Juan Basin Mancos

Early Mover in Emerging Play with Tremendous Potential

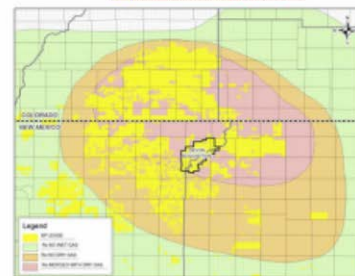
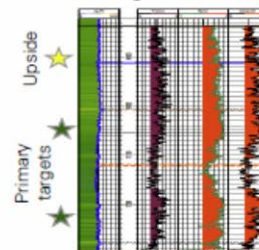


- Devon acquisition added material position
- 1,600+ horizontal locations identified*
- Projecting >25% IRR and \$3.0/boe development cost, at \$6.8m well cost in Tier 1 area through improved targeting, execution and enhanced completions
- Evaluating potential of oil window



* Based on 5,000 ft wells
Economics are post tax, include capitalized overhead and were run at \$3HH and \$55WTI

Stacked targets in sweet spot



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San Juan Basin Royalty Trust											
Next Twelve Months Operating and Financial Estimates											
	Q3	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016E	3/31/17	6/30/17	9/30/17	9/30/17
Volume											
Natural gas (mmbtu)	8.2	32.0	7.8	7.7	7.6	7.5	30.6	7.4	7.4	7.3	29.6
Heat Content (btu/cf)	1,101	1,099	1,103	1,107	1,114	1,114	1,109	1,114	1,114	1,114	1,114
Natural gas (bcf)	7.5	29.1	7.1	6.9	6.8	6.7	27.6	6.7	6.6	6.5	26.6
Natural Gas (mmcf)	81.4	79.8	77.0	76.8	74.1	73.3	75.3	72.6	71.9	71.1	72.2
Days	92	365	92	90	92	92	366	92	92	92	368
Oil (mb)	0.02	0.0636	0.02	0.02	0.02	0.02	0.0728	0.02	0.02	0.02	0.07
Oil (mmbd)	0.24	0.17	0.18	0.21	0.21	0.20	0.20	0.20	0.20	0.20	0.20
Total gas & oil (bcf)	7.6	29.5	7.2	7.0	6.9	6.9	28.0	6.8	6.7	6.7	27.0
Price											
Natural gas (\$/mmbtu) (Henry Hub lagged two months)											
Henry Hub (\$/mmbtu)	2.71	2.98	2.22	1.93	2.29	2.82	2.32	3.19	3.23	3.06	3.08
Differential (%)	24	22	27	33	26	26	28	26	26	25	26
Net to SJT (\$/mmbtu)	2.05	2.32	1.63	1.29	1.70	2.09	1.67	2.36	2.39	2.30	2.28
Natural gas (\$/mcf)	2.26	2.54	1.80	1.43	1.89	2.33	1.86	2.63	2.66	2.56	2.54
Oil (\$/bbl) (WTI Cushing lagged two months)											
WTI Cushing	56.70	53.37	37.35	36.66	46.80	43.98	41.20	44.35	46.29	47.66	45.57
SJT	54.65	47.00	27.54	23.33	29.79	27.99	27.16	29.24	30.52	31.42	29.78
Total gas & oil (\$/mcf)	2.38	2.61	1.83	1.47	1.94	2.37	1.90	2.67	2.70	2.60	2.58
Revenue (\$mm)											
Natural Gas	16.9	74.1	12.7	9.9	12.9	15.7	51.2	17.6	17.6	16.7	67.6
Oil	1.2	3.0	0.5	0.4	0.6	0.5	2.0	0.5	0.6	0.6	2.2
Total	18.1	77.1	13.2	10.3	13.4	16.2	53.2	18.1	18.2	17.3	69.8
Cost (\$mm)											
Severance tax	1.9	8.1	1.6	1.2	1.2	1.5	5.5	1.6	1.6	1.6	6.3
Operating	7.4	30.1	7.0	6.4	6.1	6.1	25.6	6.1	6.1	6.1	24.3
Total	9.3	38.2	8.6	7.7	7.3	7.6	31.1	7.7	7.7	7.7	30.7
Cash flow (\$mm)											
Development	1.6	12.8	0.6	0.3	0.1	0.1	1.1	0.5	0.5	0.5	1.6
Net proceeds (\$mm)	7.2	26.1	4.0	2.4	6.0	8.5	21.0	9.9	9.9	9.2	37.5
Royalty income (\$mm)											
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.4	2.6	1.2	1.3	0.5	0.3	3.4	0.3	0.3	0.3	1.2
Distributable income (\$mm)	5.0	17.0	1.8	0.4	4.0	6.1	12.4	7.1	7.2	6.6	26.9
Units (millions)											
Per unit	0.11	0.36	0.04	0.01	0.09	0.13	0.27	0.15	0.15	0.14	0.58

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