

San Juan Basin Royalty Trust Record Distributions Ahead

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	237
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	99
<i>Price (US\$/sh)</i>	38.89	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/10/05	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	7.7
<i>Market Capitalization (US\$m)</i>	1,810	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$m)</i>	1,810	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	7.26
<i>Present Value (PV) (US\$m)</i>	1,860	<i>Present Value Proven Reserves(US\$/boe)</i>	22.18
<i>Net Present Value (US\$/unit)</i>	40	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.70
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	4.73
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	8
<i>Distribution Yield (%/year)</i>	12.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	4.73

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.

Summary and Recommendation

Hold-rated **San Juan Basin Royalty Trust (SJT)** units should soon be distributing the higher income triggered by the upward shift in natural gas price that occurred in late August. Projected distribution yield for the next twelve months is 12.2%. We estimate net present value of \$40 a unit assuming a long-term natural gas price of \$10 a million btu. The stock offers attractive income and pure concentration on a premium fuel.

Monthly Distributions Turning Up

September was the first full month to reflect the higher natural gas prices first realized in August. As a result of the usual delay from real time production to trust distributions, the monthly distribution for November to be declared on about November 18 ought to reflect the gas price for September (see table Monthly Declarations). Similarly the two following distributions ought to reflect the San Juan Basin Index price that is already history. The December distribution may break the monthly record of \$0.40 set in March 2001.

Next Twelve Months Distribution Estimate Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Trust disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year. There is currently an unusually wide differential, also known as “basis”, between the central pricing point at the Henry Hub in Louisiana and most of the country west and north of Louisiana.

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San Juan Basin Royalty Trust Monthly Declarations

	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
Distribution (\$/unit)							
Declared	0.20	0.24					
Projected			0.35	0.45	0.48	0.42	0.46
Volume							
Natural gas (mmbtu)	3.44	3.63	3.84	3.97	3.84	3.95	3.94
Heat Content(btu/cf)	1,089	1,053	1,075	1,078	1,078	1,078	1,078
Natural gas (bcf)	3.16	3.45	3.57	3.68	3.56	3.67	3.66
Natural Gas (mmcf)	102	111	119	119	119	118	118
Days	31	31	30	31	30	31	31
Price							
Natural gas industry quotes lagged two months (\$/mmbtu)							
Henry Hub Index/Futures	6.98	7.65	11.06	13.96	13.83	11.38	11.95
San Juan Monthly Index	6.05	5.98	8.02	9.56	10.82	9.36	9.89
San Juan Index/Henry Hub	0.87	0.78	0.73	0.68	0.78	0.82	0.83
SJT/San Juan Index	0.90	0.94	0.92	0.91	0.91	0.91	0.91
SJT (\$/mmbtu)	5.47	5.64	7.35	8.74	9.84	8.52	9.03
SJT (\$/mcf)	5.96	5.94	7.90	9.41	10.60	9.19	9.73
Revenue (\$mm)							
Natural Gas	18.8	20.5	28.2	34.6	37.7	33.7	35.6
Other	0.0	0.1	0.3	0.3	0.3	0.3	0.3
Cost (\$mm)							
Severance tax	1.9	2.2	2.9	3.6	4.0	3.5	3.7
Operating	2.5	2.0	1.8	1.8	1.8	1.8	1.8
Total	4.5	4.3	4.7	5.4	5.7	5.3	5.5
Cash flow (\$mm)							
Development	2.2	1.2	2.0	1.5	2.7	2.9	1.7
Net proceeds (\$mm)							
	12.2	15.1	21.8	28.0	29.6	25.8	28.7
Royalty income (\$mm)							
	9.1	11.4	16.4	21.0	22.2	19.4	21.5
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%
Distributable income (\$mm)							
	9.1	11.4	16.4	21.0	22.2	19.4	21.5
Units (millions)							
	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)							
	0.20	0.24	0.35	0.45	0.48	0.42	0.46
<i>Latest Twelve Month Average</i>							
Heat Content(btu/cf)	1,074	1,075	1,078	1,078	1,078	1,078	1,076
Natural Gas (mmcf)	120	119	119	119	118	118	117
San Juan Index/Henry Hub	0.86	0.85	0.84	0.83	0.82	0.83	0.82
SJT/San Juan Index	0.91	0.92	0.91	0.91	0.91	0.91	0.91
Other revenue	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Operating	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Development	1.6	1.5	1.6	1.6	1.7	1.7	1.7
Severance tax/revenue	10.2%	10.4%	10.4%	10.5%	10.4%	10.5%	10.4%

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San Juan Basin Royalty Trust Next Twelve Months Operating and Financial Estimates

	Q4	Year	Q1	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	12/31/04	2004	3/31/05	6/30/05	9/30/05	12/31/05	2005E	3/31/06	6/30/06	9/30/06	9/30/06
Highlights											
Revenue (\$mm) (75%)	41.2	155.5	51.8	44.6	46.6	63.2	206.2	81.0	72.7	65.0	282.0
Cash flow (\$mm) (75%)	32.6	125.3	42.9	36.4	37.1	52.5	168.8	68.6	61.2	54.3	236.6
Per unit	0.70	2.69	0.92	0.78	0.80	1.13	3.62	1.47	1.31	1.16	5.08
Distributable Income (\$mm)	29.3	109.4	38.7	34.5	32.3	48.8	154.3	62.7	58.2	50.5	220.2
Per unit	0.63	2.35	0.83	0.74	0.69	1.05	3.31	1.35	1.25	1.08	4.73
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume											
Natural gas (mmbtu)	11.9	47.3	12.3	11.7	11.3	11.4	46.7	11.7	11.3	11.7	46.3
Heat Content(btu/cf)	1,056	1,076	1,083	1,082	1,076	1,069	1,078	1,078	1,078	1,078	1,075
Natural gas (bcf)	11.3	44.0	11.4	10.8	10.5	10.7	43.3	10.9	10.5	10.9	43.0
Natural Gas (mmcf)	122.8	120.3	123.5	121.2	113.8	116.3	118.7	118.3	118.3	118.3	117.8
Days	92	366	92	89	92	92	365	92	89	92	365
Oil (mb)	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	92	366	92	89	92	92	365	92	89	92	365
Total gas & oil (bcf)	11.4	44.5	11.5	10.9	10.6	10.8	43.7	11.0	10.6	11.0	43.4
Price											
Natural gas (\$/mmbtu) (Henry Hub lagged two months)											
Henry Hub (\$/mmbtu)	5.64	5.74	7.23	6.64	6.64	10.89	7.85	12.39	11.21	9.68	11.04
Differential (%)	19	25	23	24	18	33	26	26	24	24	27
Net to SJT (\$/mmbtu)	4.55	4.32	5.55	5.02	5.44	7.29	5.82	9.12	8.46	7.31	8.05
Natural gas (\$/mcf)	4.80	4.65	6.01	5.43	5.85	7.79	6.27	9.83	9.12	7.88	8.65
Oil (\$/bbl) (WTI Cushing lagged two months)											
WTI Cushing	48.04	39.07	46.17	51.70	54.96	63.75	54.14	58.11	59.53	59.95	60.34
SJT	42.98	34.61	42.89	47.79	49.70	57.65	49.35	52.97	54.26	54.64	54.86
Total gas & oil (\$/mcf)	4.82	4.66	6.02	5.46	5.87	7.81	6.29	9.82	9.12	7.89	8.66
Revenue (\$mm)											
Natural Gas	54.2	204.6	68.3	58.6	61.2	83.4	271.5	107.0	96.1	85.8	372.2
Oil	0.8	2.7	0.8	0.8	0.8	1.0	3.5	0.9	0.9	1.0	3.8
Total	55.0	207.3	69.1	59.4	62.1	84.3	275.0	108.0	97.0	86.7	376.0
Cost (\$mm)											
Severance tax	5.1	20.6	7.3	5.9	6.6	8.8	28.5	11.2	10.0	9.0	39.0
Operating	6.4	19.7	4.7	5.0	6.1	5.6	21.4	5.3	5.3	5.3	21.6
Total	11.5	40.2	12.0	10.9	12.7	14.3	49.8	16.5	15.4	14.3	60.6
Cash flow (\$mm)	43.5	167.1	57.1	48.6	49.4	70.0	225.1	91.4	81.6	72.4	315.4
Development	4.8	22.3	5.9	2.8	5.7	4.7	19.1	7.3	3.4	4.5	19.9
Net proceeds (\$mm)	38.7	144.7	51.2	45.8	43.7	65.3	206.0	84.1	78.2	67.9	295.6
Royalty income (\$mm)	29.0	108.6	38.4	34.3	32.8	49.0	154.5	63.1	58.6	50.9	221.7
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	(0.3)	1.0	0.5	0.8	0.5	0.2	2.0	0.4	0.4	0.4	1.4
One-time		(1.8)	(0.8)	(1.0)			(1.8)				-
Distributable income (\$mm)	29.3	109.4	38.7	34.5	32.3	48.8	154.3	62.7	58.2	50.5	220.2
Severance tax/revenue	9.2%	9.9%	10.6%	9.9%	10.6%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
Operating cost (\$/mcf)	0.56	0.44	0.41	0.46	0.58	0.51	0.49	0.49	0.50	0.49	0.50
Development/Cash flow	11%	13%	10%	6%	11%	7%	8%	8%	4%	6%	6%

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San Juan Basin Royalty Trust Present Value

Oil Volume Decline (%/yr):	15	Oil Price Post 2006 (2005\$/bbl)	50.00
Nat Gas Volume Decline (%/yr):	15	Nat Gas Price Post 2006 (2005\$/mcf)	10.00
Volume/Reserves - Oil:	1.7	Real Discount Rate (%/yr):	7.0
Volume/Reserves - Nat Gas:	1.9	PV/Volume (\$/mcf):	3.71
Variable Cost (%):	15	PV/EBITDA 2005:	7.9
		Capex/Cash Flow (%):	12

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)	
Total 2006 through 2035; years ending on 9/30												
	0.8	498	46.07	8.14	4091	103	630	242	3116	66.85	0.60	40.00
2006	0.05	32.26	54.86	8.65	282.0	3.4	43.4	14.9	220.2	4.73	0.97	4.57
2007	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.90	3.77
2008	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.84	3.52
2009	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.79	3.29
2010	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.74	3.08
2011	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.69	2.87
2012	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.64	2.69
2013	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.60	2.51
2014	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.56	2.35
2015	0.05	32.26	45.46	8.10	263.6	3.4	40.6	25.3	194.4	4.17	0.53	2.19
2016	0.04	27.42	45.46	8.10	224.1	3.4	34.5		186.2	3.99	0.49	1.96
2017	0.04	23.31	45.46	8.10	190.5	3.4	29.3		157.7	3.38	0.46	1.55
2018	0.03	19.81	45.46	8.10	161.9	3.4	24.9		133.5	2.87	0.43	1.23
2019	0.03	16.84	45.46	8.10	137.6	3.4	21.2		113.0	2.42	0.40	0.97
2020	0.02	14.31	45.46	8.10	117.0	3.4	18.0		95.5	2.05	0.37	0.77
2021	0.02	12.17	45.46	8.10	99.4	3.4	15.3		80.7	1.73	0.35	0.61
2022	0.02	10.34	45.46	8.10	84.5	3.4	13.0		68.1	1.46	0.33	0.48
2023	0.01	8.79	45.46	8.10	71.8	3.4	11.1		57.3	1.23	0.31	0.38
2024	0.01	7.47	45.46	8.10	61.1	3.4	9.4		48.2	1.03	0.29	0.30
2025	0.01	6.35	45.46	8.10	51.9	3.4	8.0		40.5	0.87	0.27	0.23
2026	0.01	5.40	45.46	8.10	44.1	3.4	6.8		33.9	0.73	0.25	0.18
2027	0.01	4.59	45.46	8.10	37.5	3.4	5.8		28.3	0.61	0.23	0.14
2028	0.01	3.90	45.46	8.10	31.9	3.4	4.9		23.5	0.50	0.22	0.11
2029	0.01	3.31	45.46	8.10	27.1	3.4	4.2		19.5	0.42	0.20	0.09
2030	0.00	2.82	45.46	8.10	23.0	3.4	3.5		16.1	0.34	0.19	0.07
2031	0.00	2.40	45.46	8.10	19.6	3.4	3.0		13.1	0.28	0.18	0.05
2032	0.00	2.04	45.46	8.10	16.6	3.4	2.6		10.6	0.23	0.17	0.04
2033	0.00	1.73	45.46	8.10	14.1	3.4	2.2		8.5	0.18	0.16	0.03
2034	0.00	1.47	45.46	8.10	12.0	3.4	1.9		6.7	0.14	0.15	0.02
2035	0.00	1.25	45.46	8.10	10.2	3.4	1.6		5.2	0.11	0.14	0.02

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Present Value Depends on Reserve Life among Other Variables

Our greatest challenge in calculating present value for SJT is the likely outlook for natural gas volume. We have been attempting to do that since the trust was created. More recently in 2000 we projected that the trust volume would decline by 12% in the next five years (see <http://www.mcdep.com/Sjttexta.PDF>). Instead volume went up by 8%. Now we are projecting flat volume for ten years and a decline thereafter (see table Present Value).

Kurt H. Wulff

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