



**BLACK STONE**  
MINERALS



# Morgan Stanley Wealth Management

**Thomas L. Carter, Jr.**  
President, CEO, and Chairman of the Board

June 14, 2016

# Forward-Looking Statements

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This presentation contains “forward-looking statements” within the meaning of the securities laws. All statements, other than statements of historical fact, included in this presentation that address activities, events, or developments that Black Stone Minerals, L.P. (“Black Stone Minerals”, “the Partnership”, or “BSM”) expects, believes, or anticipates will or may occur in the future are forward-looking statements. The words “believe,” “expect,” “may,” “estimates,” “will,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could,” or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. However, the absence of these words does not mean that the statements are not forward-looking.

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**BSM**  

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**LISTED**  

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**NYSE**

Black Stone Minerals, L.P. is the largest publicly traded yield vehicle focused on mineral and royalty interests in the U.S.

- Headquarters..... Houston, TX
- Common units outstanding<sup>(1)</sup>..... 96.5 MM
- Quarterly common distribution/yield<sup>(2)</sup>... \$0.2875 per unit (7.4%)
  - 2016 distribution scheduled to increase ~10% over 1Q16 distribution
- Production (1Q16)..... 30.3 MBoe/d
- Proved reserves (YE 2015)..... 49.8 MMBoe

# Investment Highlights

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- **Growth potential from unique and diverse asset base**
  - Size and scale through ~17 million mineral and royalty acres
  - Durable competitive advantage; would be difficult to replicate our footprint
  - Announced acquisitions complement our existing portfolio
- **Low capital intensity = lower-risk cash flow**
  - No CAPEX or operating cost requirements on mineral and royalty assets
  - No cost to generate working interest inventory as it is embedded in our acreage
- **Growing common distributions into 2019**
  - Common unit holders have priority on distributions
  - Scheduled compound annual growth of 9% in first four years after IPO
- **Significant liquidity and strong financial position**
  - Secured credit facility with borrowing base of \$450 million; \$116 million drawn at end of 1Q16
  - Debt to TTM EBITDAX of 0.5x as of March 31, 2016
- **Experienced and aligned management team**
  - Board of Directors, affiliates, and management own >20% of company

# Strong Start to 2016

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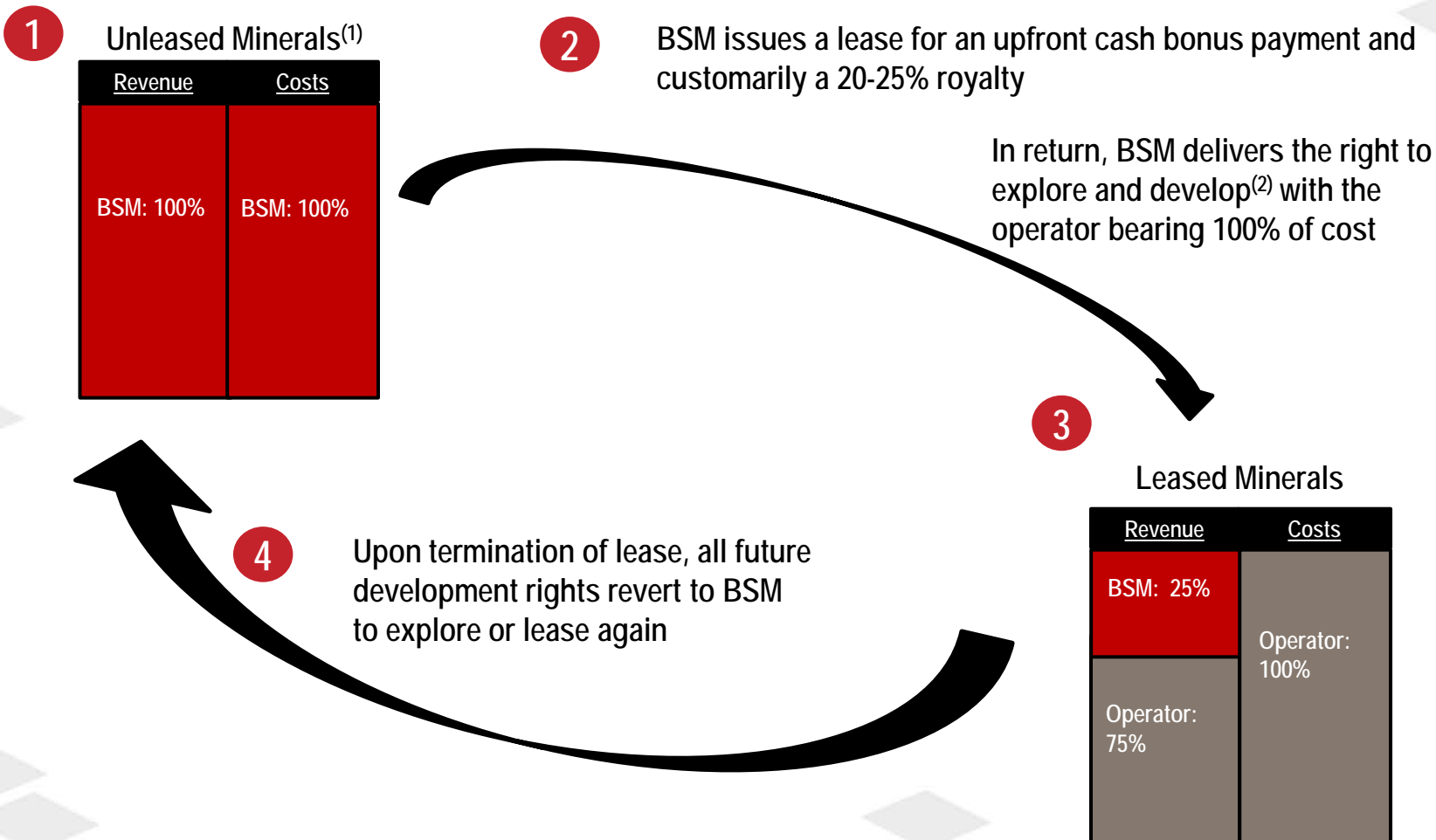


- **Production in first quarter was stronger than expected**
  - 1Q16 production of 30.3 MBoe/d outperformed our expectations
  - Bakken/Three Forks, Eagle Ford, and Haynesville assets are leading the outperformance
  - BSM expects to increase production guidance at mid-year
- **Executing on acquisition strategy**
  - Black Stone Minerals is seeing the deal flow it anticipated in this environment and has been gaining traction recently in the acquisition market
  - BSM expects to remain active in the A&D market
- **Positioned to benefit from improving commodity environment**
  - Oil and gas prices have improved markedly from February 2016 lows
  - Producers becoming more constructive in their outlook

# How Mineral and Royalty Interests Work



## Mineral Revenue Generation



1. Mineral owner realizes revenue and bears costs only if it elects to develop the acreage
2. Right to develop often subject to restrictions including a) retained working interests participation option for BSM; b) the ability to hold leased acreage may be restricted to specified depths through "Pugh" clauses (undeveloped depths will revert back to BSM); and c) well commitments obligating the lessee to develop acreage at a minimum pace or face dollar damages / loss of lease

# The Value of Mineral and Royalty Interests



## Operating Margin per Equity Barrel (\$/Boe)

Illustrative Working  
Interest Operator

Illustrative Royalty  
Owner

Revenue \$26.50 / Boe

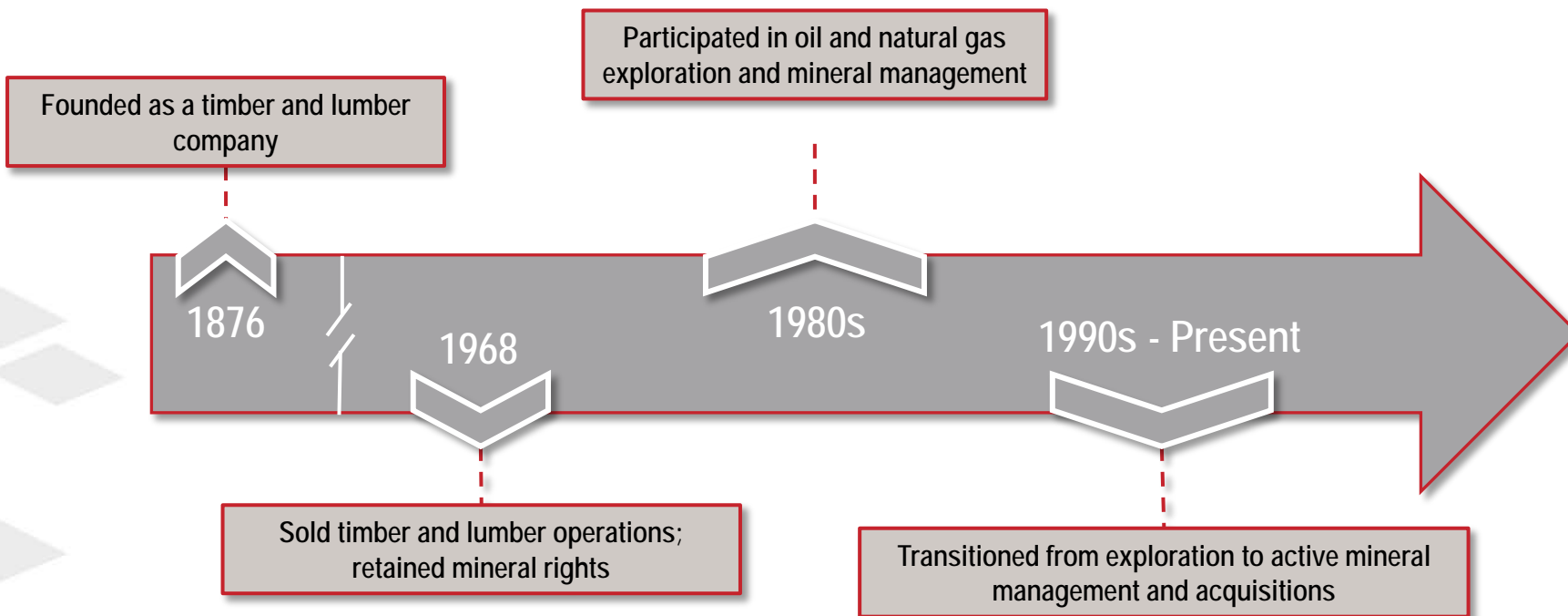


- Royalty production realizes higher margins than working interest production
- After acquisition, no capital required by the royalty owner to generate production or realize revenue

# Long, Established Track Record



## Black Stone Minerals Timeline



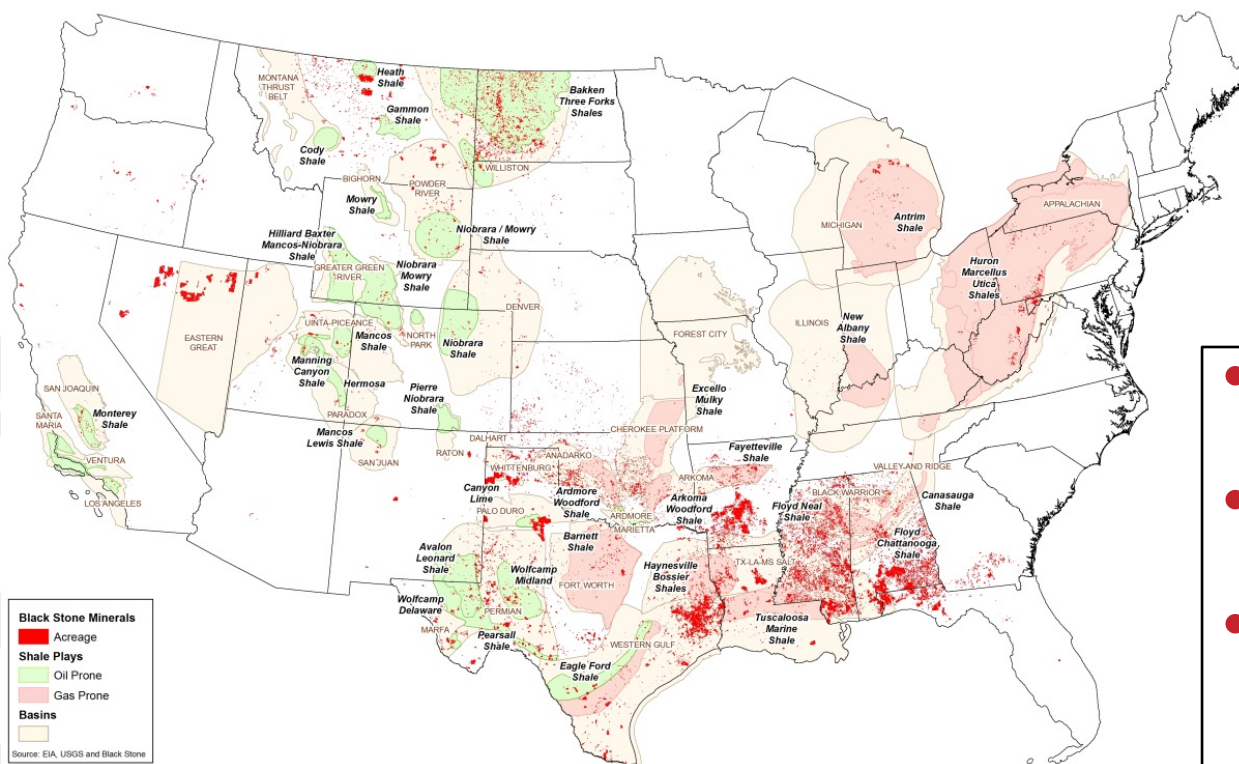
Over 35 years of mineral and royalty interest management and acquisition expertise



# Large, Diversified Acreage Position

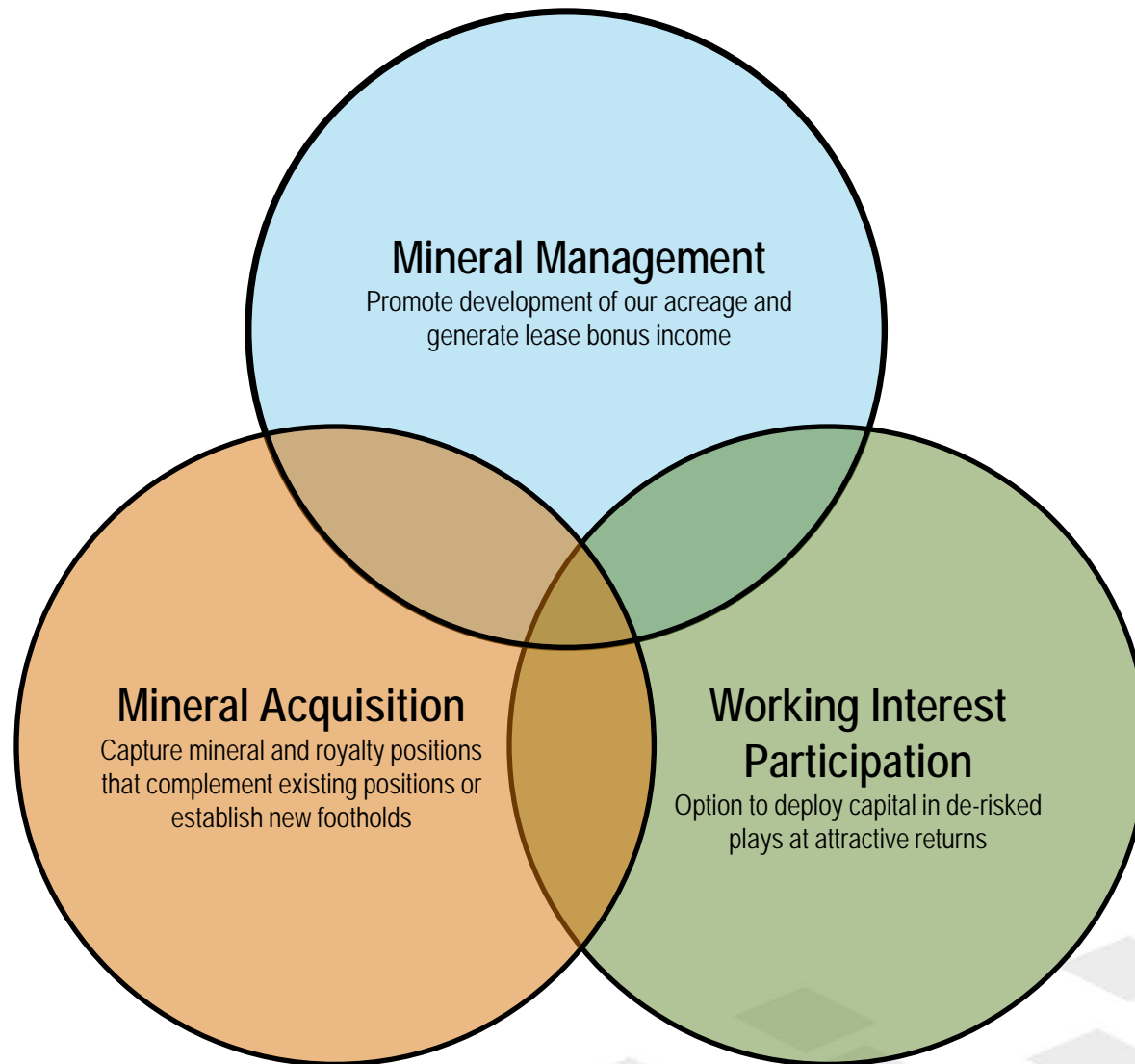


## BSM Mineral and Royalty Acreage



- Approximately 17 million mineral and royalty acres
- Interests in over 40 states and 60 onshore basins
- Consistent with historical levels, more than 1,000 wells were added on BSM acreage in 2015 despite rig count falling throughout 2015

# Delivering Unitholder Value through Focus on Core Competencies



# Active Management of Mineral and Royalty Interests



Promote BSM Acreage

- Black Stone Minerals actively markets ideas and prospects to industry
- BSM is not passively waiting for the phone to ring

Ensure Acreage is Tested and Developed

- Getting acreage tested and in development is where the real value is generated

Deep Understanding of BSM and Surrounding Acreage

- Effective management of mineral and royalty interests requires detailed knowledge of acreage position
- BSM has dedicated land, business development, and technical groups

Manage Producing Leases

- BSM can influence operator activity even after lease is issued and under development

Attract Industry with Lower Royalty and Bonus Trades

- Higher risk prospects require higher returns for operators
- BSM can modify lease terms to incentivize operators in early-stage plays and low commodity price environments

# Managing the Assets



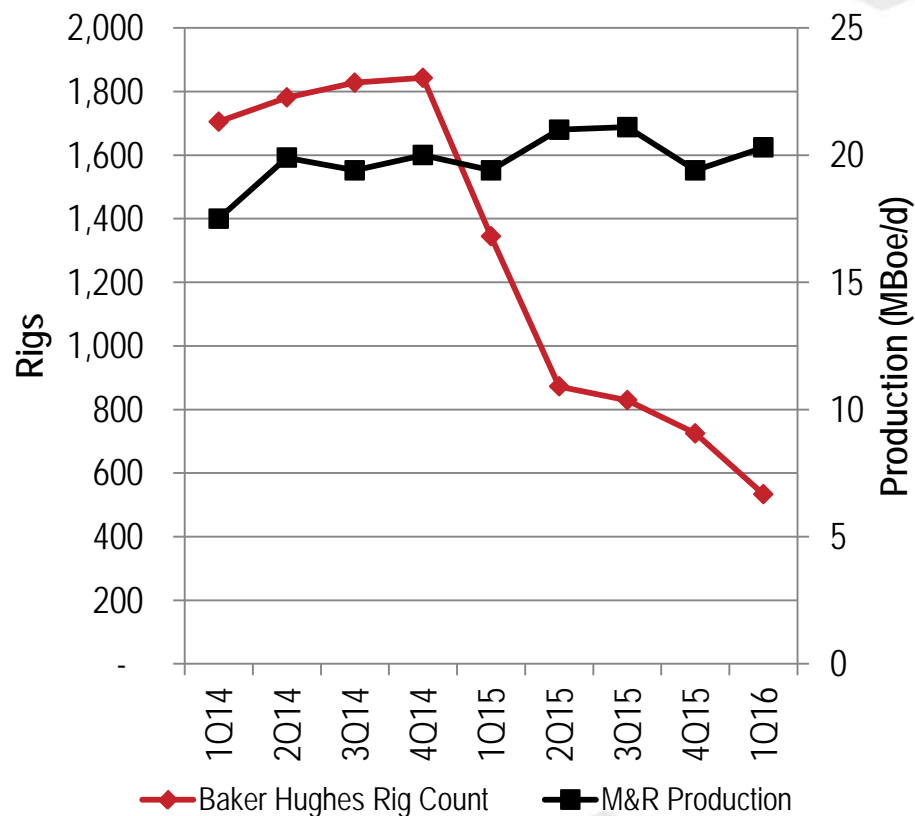
- Drive activity on to BSM mineral and royalty interests

- Multiple levers are available to incentivize operators, such as amending lease royalty structures and terms, as well as offering adjacent acreage

- M&R production is resilient

- Rig count has declined for five consecutive quarters
- Combination of quality portfolio and active management of our leases has enabled M&R production to hold up despite lower levels of activity

Mineral & Royalty (M&R) Volumes vs. Rig Count



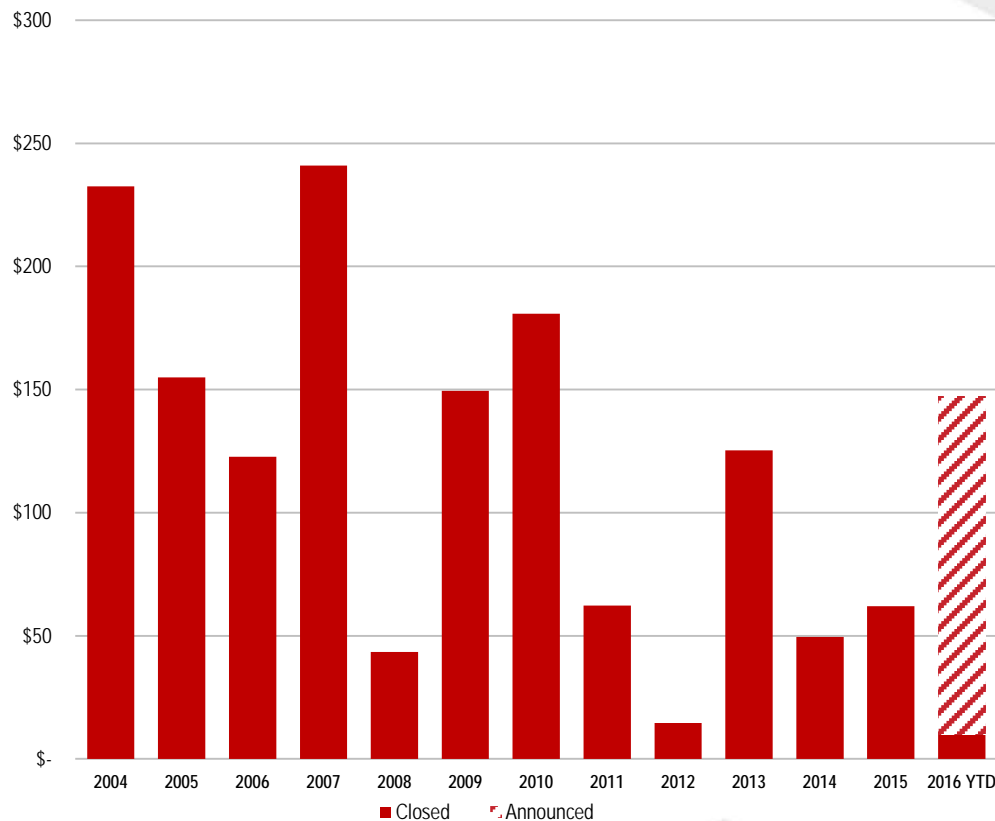
# Long History of Acquisitions



## Scalable Infrastructure for Future Acquisitions

- **Business Development:** Reviewed hundreds of third-party acquisitions since the beginning of 2010, closing transactions totaling over \$500 million
- **Legal:** Experience in nearly every jurisdiction throughout the continental United States' producing regions
- **Land:** Significant expertise in lease negotiations
- **Accounting:** Minimal incremental personnel and infrastructure needed for future acquisitions, regardless of size
- **Engineering/Geology:** In-house engineering and geology functions ensure informed investment decisions

## Acquisitions by Year<sup>(1)</sup>

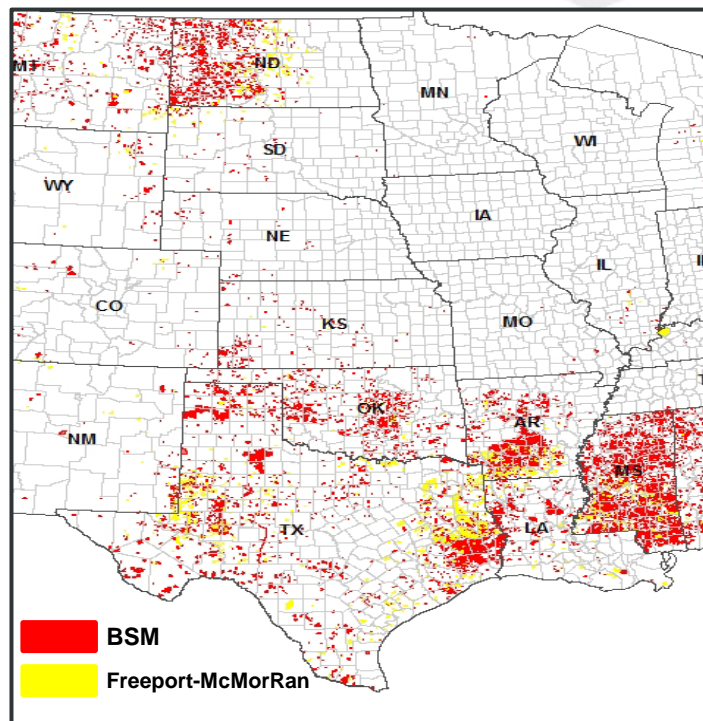


# Recently Announced Acquisitions



## Freeport-McMoRan

- Acquisition of diverse mineral package for \$102 million
- Approximately 1.2 million gross/126 thousand net mineral acres, 16 thousand net NPRI acres, and 11 thousand net ORRI acres concentrated in Texas, Louisiana, and Arkansas
- Bolsters BSM's presence in both the Midland and Delaware basins; includes acreage with roughly 100 active drilling permits
- Estimated 4Q15 production of approximately 850 Boe/d
- Estimated proved developed producing reserves of 2.0 MMBoe as of year-end 2015



## Wattenberg Field, CO

- Acquiring interests for \$35 million that cover 4,800 gross acres in the Wattenberg Field in Weld County, Colorado
- Acreage is prospective in the Niobrara B, Niobrara C, and Codell intervals
- Estimated NTM production expected to average 700 Boe/d

# Working Interest Participation Option



## What is it?

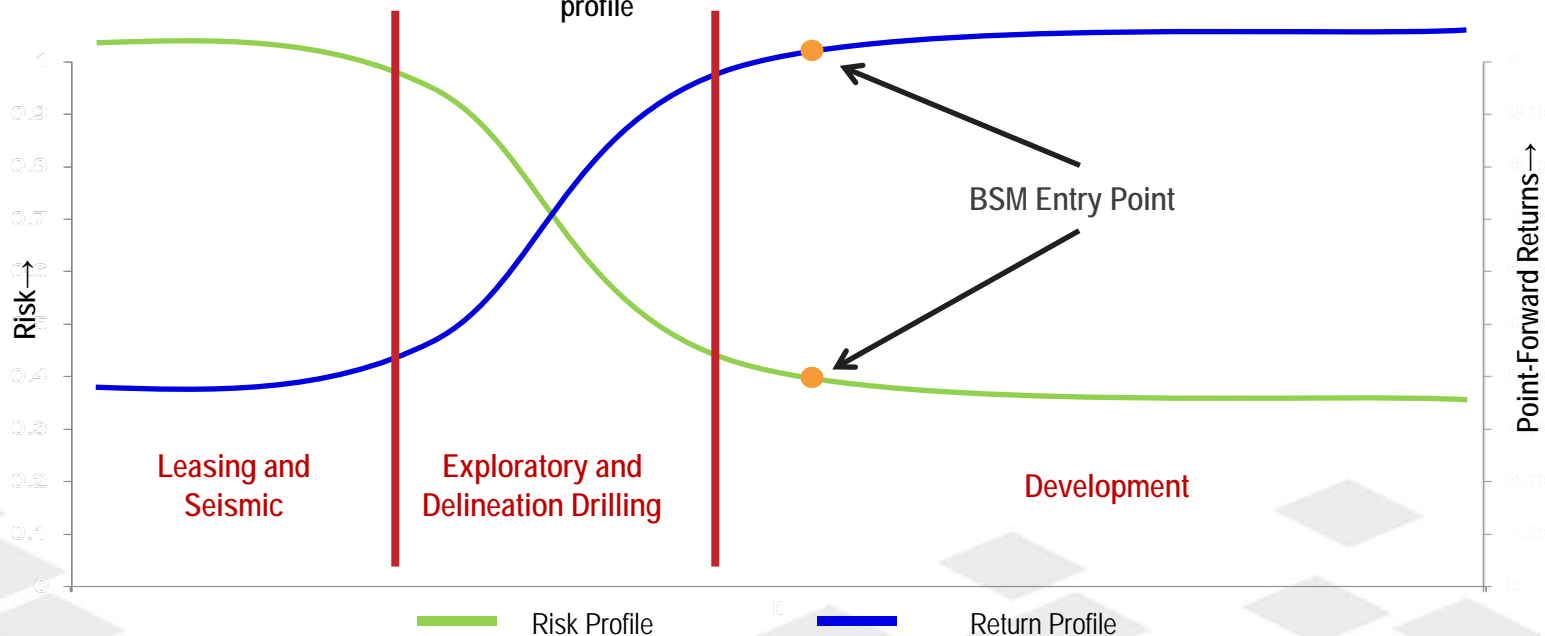
- Option to participate in drilling opportunities alongside operators
- Usually on our mineral interests
- Additional optionality across asset base

## How is it different?

- BSM does not participate in full-cycle costs
- Allows for investment when risks are low and results are predictable
- Program is entirely discretionary and BSM only commits capital to opportunities that meet its risk/return profile

## Why do we do it?

- Allows BSM to recapture some of the value conveyed to lessee in mineral lease
- Provides very attractive risk-adjusted economics
- Increases exposure to plays (where BSM already has a royalty presence) once de-risked by operators





# Black Stone Minerals Compared to Other MLPs

## Cost-Free Growth Potential with Downside Protection

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### Cost-Free Growth Potential

- At BSM, all undeveloped assets are already in the Partnership, creating embedded cost-free drop-downs
- Other MLPs typically must pay for drop-downs or acquisitions at market value to grow

### Secure and Growing Distribution

- BSM's common distribution is scheduled to increase ~9% annually from IPO into 2019, protected by a large subordinated class
- Many MLPs, particularly E&P-focused entities, have cut/suspended distributions

### Stable and Diversified Asset Base

- Interests in ~17 million acres with over 45,000 producing wells and more than 1,000 operators; significant exposure to economic plays even in current environment
- Volume-based contracts of midstream MLPs are not risk free

### Conservative Capital Structure

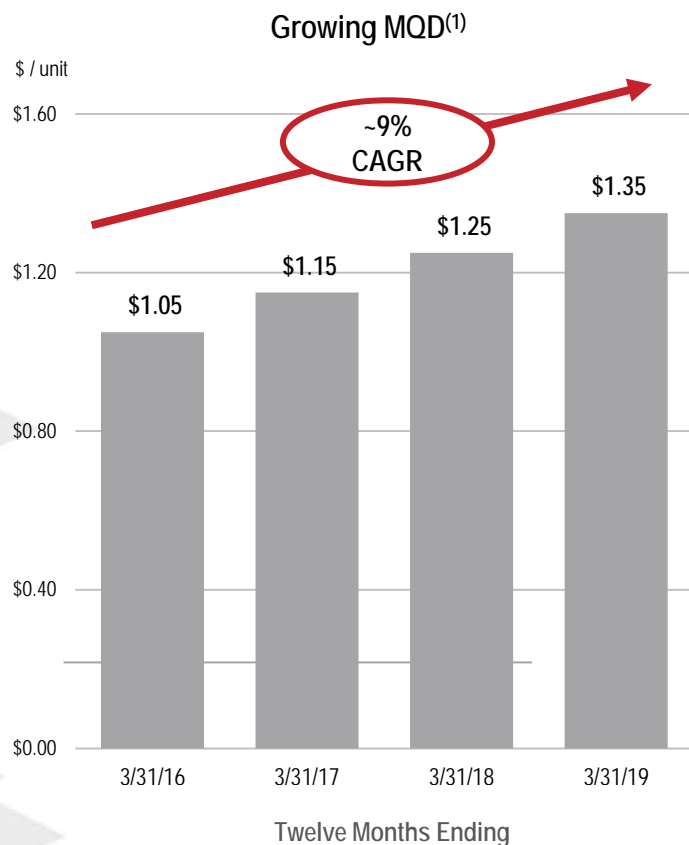
- Black Stone Minerals maintains a strong balance sheet with modest debt outstanding and uses hedges to protect cash flows
- Much higher leverage is common in other parts of the MLP space



# Differentiated Distribution Structure



## Growing Common MQD Protected by Subordination Structure



- Common units scheduled to receive an increasing MQD for 4 years from IPO, growing at an approximately 9% CAGR
- Approximately 50% subordinated ownership effectively doubles the distribution coverage to common units
- No IDRs
- Subordinated units only get paid after all common units have received the MQD
  - Subordinated units distributions have been reduced to preserve financial strength and flexibility
  - No arrearages for subordinated units

# Black Stone Minerals Compared to Peers



	BSM	PSK CN	DMLP	VNOM
Acres (000s)	~17,000 <sup>(1)</sup>	~14,700	~3,100	~47
1Q16 Production (MBoe/d)	30.3	23.1	5.6	6.2
YE 2015 Proved Reserves (MMBoe)	49.8	36.5 <sup>(2)</sup>	13.9	26.3
Yield % <sup>(3)</sup>	6.7 / 7.4 <sup>(4)</sup>	4.5	4.2	3.2

- Black Stone Minerals is larger and more diversified than mineral-and-royalty-focused peers
  - Further differentiated by a growing, secure common distribution
- Despite these attributes, BSM trades at higher yield than its peers

NOTE: The above information was sourced from year-end 2015 and first quarter 2016 company filings

1. Includes overlapping acreage resulting from different forms of mineral and royalty ownership; does not include interests related to pending acquisitions
2. PrairieSky Royalty is Canadian listed and does not file reports with the SEC; accordingly, proved reserves may be determined in a manner that differs from how U.S. listed companies determine proved reserves for SEC purposes
3. Yield is calculated by annualizing the distribution attributable to the first quarter of 2016 divided by the closing price as of June 10, 2016
4. Yield is calculated by annualizing the scheduled 2Q16 MQD of \$0.2875 per unit divided by the closing price as of June 10, 2016

# Key Takeaways

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- Black Stone Minerals is a leading player in the mineral-and-royalty space
- Current environment is presenting acquisition opportunities for BSM
- Significant levels of development and exploration activity continue to occur across our interests; poised to increase with improved commodity prices
- Secure and growing distributions to common unitholders
- Compelling investment opportunity
  - Perpetual ownership of minerals provides long option on future discoveries and price recovery
  - Strong balance sheet and significant liquidity
  - Investors are paid while they wait for industry recovery



# Appendix

# Full Year 2016 Guidance



	2016 Guidance
Average daily production (Mboe/d)	28.5 – 29.5
Percentage oil	~30%
Percentage royalty interest	~63%
Lease bonus and other income (\$MM)	\$30
Lease operating expense (\$/Boe)	\$2.00 – \$2.25
Lease operating expense (\$/working interest Boe)	\$5.45 – \$6.10
Production costs and ad val. taxes (% of total pre-derivative O&G revenue)	14% – 16%
Exploration expense (\$MM)	\$0 – \$1
G&A – cash (\$MM)	\$36.5 – \$37.5
G&A – non-cash (\$MM)	\$29.0 – \$30.0
G&A – TOTAL (\$MM)	\$65.5 – \$67.5
DD&A (\$/Boe)	\$8.00 – \$8.50

# EBITDA, Adjusted EBITDA, and Distributable Cash Flow Reconciliation



	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Net income (GAAP)	\$ 10,749	\$ 17,299
Adjustments to reconcile to Adjusted EBITDA:		
Add:		
Depreciation, depletion and amortization	21,721	27,891
Interest expense	1,048	2,945
EBITDA (Non-GAAP)	33,518	48,135
Add:		
Impairment of oil and natural gas properties	6,096	13,467
Accretion of asset retirement obligations	274	271
Equity-based compensation	5,900	1,243
Unrealized loss on commodity derivative instruments	9,955	—
Less:		
Unrealized gain on commodity derivative instruments	—	(2,197)
Adjusted EBITDA (Non-GAAP)	55,743	60,919
Adjustments to reconcile to cash generated from operations:		
Add:		
Borrowings/cash used to fund additions to and acquisitions of oil and natural gas properties	35,110	13,612
Incremental general and administrative related to initial public offering	—	227
Less:		
Deferred revenue	(203)	(104)
Cash interest expense	(851)	(2,704)
Gain on sales of assets, net	(4,680)	(7)
Additions to oil and natural gas properties	(25,110)	(13,612)
Acquisitions of oil and natural gas properties	(10,000)	—
Cash generated from operations	50,009	58,331
Less:		
Cash paid to noncontrolling interests	(33)	(52)
Redeemable preferred unit distributions	(1,804)	(2,909)
Cash generated from operations available for distribution on common and subordinated units and reinvestment in our business (Non-GAAP)	\$ 48,172	\$ 55,370