



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 2, 2012

Range Resources (RRC)

Natural Gas Comeback Amplifies Volume Growth

<i>Symbol</i>	RRC	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$m)</i>	808
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	66
<i>Price (\$/sh)</i>	65.47	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/1/12	<i>Adjusted Reserves/Production NTM</i>	13.9
<i>Shares (mm)</i>	160	<i>EV/Ebitda</i>	17.2
<i>Market Capitalization (\$mm)</i>	10,480	<i>PV/Ebitda</i>	18.1
<i>Debt (\$mm)</i>	3,430	<i>Undeveloped Reserves (%)</i>	53
<i>Enterprise Value (EV) (\$mm)</i>	13,900	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	15.10
<i>Present Value (PV) (\$mm)</i>	14,630	<i>Present Value Proven Reserves(\$/boe)</i>	14.50
<i>Net Present Value (\$/share)</i>	70	<i>Oil and Gas Ebitda Margin (%)</i>	56
<i>Debt/Present Value</i>	0.23	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.75
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	87
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and 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\$100 a barrel and natural gas, \$6 a million btu.			

Summary and Recommendation

We believe that volume and price upside for natural gas justify estimated Net Present Value (NPV) of \$70 a share for Buy-recommended **Range Resources (RRC)** despite a high market unlevered cash flow multiple (EV/Ebitda) of 17.2 times. Little of the upside is reflected in the next twelve months period for generating the cash flow in the denominator. Not only would volume have more staying power as a result of the long life of proven reserves, but identified resources may be sufficient to expand reserves ten times. Similarly, natural gas price can increase more than 50% to our long-term estimate of \$6 from the \$3.80 indicated by futures prices for the next twelve months (see table Operating and Financial Estimates on page 2). In its presentation along with the disclosure of third quarter results on October 25, management provided new evidence of low costs in its Marcellus shale gas discovery. RRC estimates its drilling and completion expense at \$0.63 a thousand cubic feet (mcf) in Southwest Pennsylvania and \$0.79 a mcf in Northeast Pennsylvania (see slides SW PA and NE PA on page 3). In addition, Transportation, Production and Administrative costs of \$124 million in the latest quarter translate to \$1.71 a mcf company wide. Allow for other costs such as impairment for less successful efforts, stock price related compensation, etc. and the total outlays might be \$3 an mcf. Add a profit of \$1 and the replacement cost of natural gas for Range becomes \$4 compared to perhaps \$6 for the industry to supply enough to meet demand. The company's resilience was tested in the second quarter when natural gas price averaged \$2.13. The natural gas price comeback and further growth in low-cost volume point to a bright future for RRC stock.

Kurt H. Wulff, CFA



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Range Resources Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
				(US\$m)	
North American Natural Gas	531	14.0	20.7	11,000	75%
Oil	277	13.4	13.1	3,630	25%
	808	13.9	18.1	14,630	100%
Debt (US\$m)					3,430
Net Present Value (US\$m)					11,200
Shares (mm)					160
Net Present Value - Standard Estimate (US\$/sh)					70
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					48

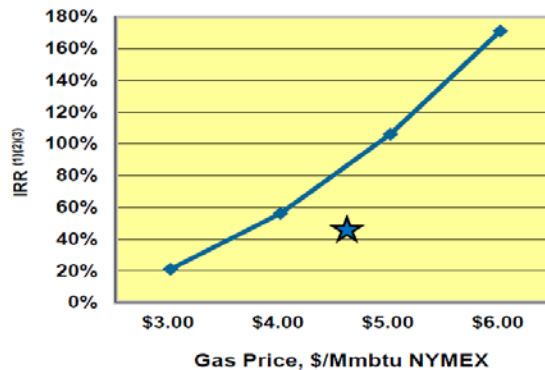
Range Resources Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/11	6/30/12	9/30/12	12/31/12	2012E	3/31/13	6/30/13	9/30/13	Twelve
									Months
									9/30/13
Volume									
Natural Gas (mmcf)	407	575	623	663	593	683	703	724	693
Oil (mbd)	21.2	24.1	27.7	30.1	26.5	31.0	31.9	32.9	31.5
Total (mb)	8.2	10.9	12.1	12.9	46	13.0	13.6	14.1	54
Total (mmcf)	534	720	789	843	752	869	895	922	882
Price									
Henry Hub (\$/mmbtu)	4.19	2.21	2.80	3.42	2.79	3.92	3.89	3.97	3.80
Differential (\$/mmbtu)	(0.25)	0.08	0.02	0.03	0.00	0.03	0.03	0.03	0.03
Company (\$/mcf)	4.44	2.13	2.78	3.39	2.79	3.88	3.86	3.94	3.77
WTI Cushing (\$/bbl)	89.76	93.32	92.22	88.65	94.28	87.02	88.34	88.94	88.24
Differential	33.55	44.02	46.87	45.06	45.06	44.23	44.90	45.20	44.84
Company (\$/bbl)	56.21	49.30	45.35	43.59	49.22	42.79	43.44	43.74	43.40
Total (\$/bbl)	33.69	20.12	22.72	25.33	23.59	27.47	27.49	27.95	27.09
Revenue (\$mm)									
Natural Gas	166	111	159	207	606	239	247	263	955
Oil	110	108	116	121	477	119	126	132	499
Total	276	220	275	328	1,083	358	373	395	1,454
Expense									
Transportation	33	45	52						-
Production	37	37	39						-
General and administrative	26	31	33						-
Total	96	113	124	146	505	159	166	175	646
Ebitda	180	107	151	182	578	199	207	220	808
Exploration	18	60	15	15	112	15	15	15	60
Deprec., Deplet., & Amort.	94	109	123	128	460	129	134	140	531
Other	(34)	(132)	(80)	(54)	(324)	(39)	(31)	(20)	(144)
Ebit	102	70	93	93	330	94	89	85	361
Interest	34	43	44	44	168	44	44	44	176
Ebt	68	27	49	49	162	50	45	41	185
Income Tax	24	9	17	17	57	17	16	14	65
Net Income (\$mm)	45	18	32	32	105	32	29	27	120
Per Share (\$)	0.28	0.11	0.20	0.20	0.66	0.20	0.18	0.17	0.75
Shares (millions)	159	160	160	160	160	160	160	160	160
Ebitda Margin	65%	49%	55%	56%	53%	56%	56%	56%	56%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

SW PA Dry Gas Marcellus Development Mode Economics

- Southwestern PA – (dry gas) with Pennsylvania State Impact Fee
- EUR – 7.5 Bcf (Based on 16 wells completed in 2012)
- Drill and Complete Capital \$4MM
- F&D – \$ 0.63/mcf – (7.5 Bcf)

NYMEX Gas Price	7.5 BCF
Strip ⁽³⁾ -	44%
\$3.00 -	21%
\$4.00 -	56%
\$5.00 -	106%
\$6.00 -	171%

2,900' lateral length & 10 stages



★ Strip pricing NPV10 = \$5.4 MM

- (1) Includes gathering, pipeline and processing costs
 (2) Oil price assumed to be \$90.00/bbl in all scenarios
 (3) Strip dated 09/28/12 with 10 year average \$88.99/bbl and \$4.70/mcf



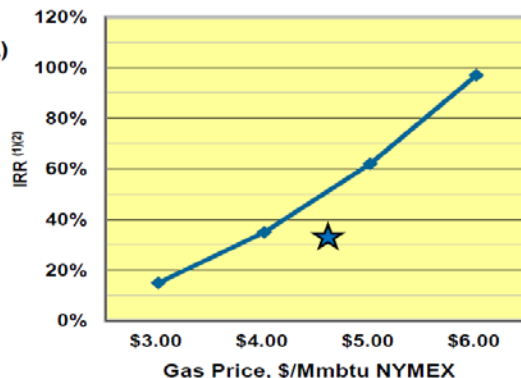
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NE PA Dry Marcellus Projected Development Mode Economics

- Northeastern PA – (dry gas case) with Pennsylvania State Impact Fee
- EUR – 6.5 Bcf (Based on 25 wells in NE PA)
- Drill and Complete Capital \$4.3MM
- F&D – \$ 0.79/mcf – (6.5 Bcf)

NYMEX Gas Price	6.5 Bcf
Strip ⁽²⁾ -	33%
\$3.00 -	15%
\$4.00 -	35%
\$5.00 -	62%
\$6.00 -	97%

2,566' lateral length and 9 stages



★ Strip pricing NPV10 = \$4.3 MM

- (1) Includes gathering and pipeline costs
 (2) Strip dated 09/28/12 with 10 year average \$88.99/bbl and \$4.70/mcf



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Table ISC-1										
McDep Income and Small Cap Energy Portfolio										
Debt, Segments, Cash Flow, Income and McDep Ratio										
		Price								
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.	
	B = Buy	1-Nov	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
Small Cap Independent Producers										
Peyto Exploration and Development	PEYUF	24.55	1.17	4,120	77	23	10.3	0.72	3.0	1.02
PDC Energy	PDCE	30.28	1.75	1,650	54	46	10.0	-	-	1.01
Range Resources	RRC B	65.47	1.33	13,910	75	25	17.2	0.16	0.2	0.95
Birchcliff Energy Ltd.	BIREF B	8.43	1.40	1,760	63	37	10.8	-	-	0.77
Continental Resources (32%)	CLR CB	72.56	1.20	5,030	20	80	7.5	-	-	0.76
Halcón Resources	HK	6.46	1.40	2,610	12	88	6.6	-	-	0.72
Denbury Resources Inc.	DNR	15.67	1.51	9,270	6	94	6.0	-	-	0.66
Berry Petroleum Company	BRY	34.00	1.87	3,480	13	87	5.1	-	-	0.64
Cimarex Energy Company	XEC CB	59.24	1.24	6,360	45	55	5.3	0.48	0.8	0.59
Whiting Petroleum Corporation	WLL CB	42.95	1.42	7,240	9	91	4.9	-	-	0.57
<i>Total or Median</i>				55,400			7.0			0.74
Top Line Cash Payers										
Freehold Royalties Ltd.	FRHLF	20.65	1.04	1,390	16	84		1.69	8.2	0.98
Dorchester Minerals, L.P.	DMLP CB	22.28	1.00	680	57	43		1.87	8.4	0.82
Sabine Royalty Trust	SBR	48.49	1.00	710	55	45		3.84	7.9	0.75
Permian Basin RT	PBT	14.12	1.00	660	37	63		1.05	7.5	0.71
Cross Timbers Royalty Trust	CRT	28.05	1.00	170	70	30		2.60	9.3	0.64
<i>Total or Median</i>				3,600					8.2	0.75
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	42.52	1.58	15,700	43	57	13.9	2.90	6.8	1.23
Vanguard Natural Resources, LLC	VNR	29.72	1.67	2,590	23	77	10.9	2.40	8.1	1.11
Legacy Reserves L.P.	LGCY	27.40	1.33	1,740	24	76	8.9	2.24	8.2	0.93
Enduro Royalty Trust (40%)	NDRO	19.04	1.00	250	39	61	8.4	1.75	9.2	0.91
Enerplus Corporation	ERF CB	16.20	1.58	5,000	30	70	6.9	1.09	6.7	0.84
San Juan Basin Royalty Trust	SJT CB	14.13	1.00	660	100	-	8.7	1.21	8.6	0.67
Mesa Royalty Trust	MTR	25.70	1.00	48	75	25	8.8	2.18	8.5	0.64
Hugoton Royalty Trust	HGT	6.84	1.00	270	88	13	5.8	0.45	6.6	0.49
<i>Total or Median</i>				26,300			8.8		8.1	0.87
Composite										
<i>Enterprise Value Weighting</i>				85,300	39	61				0.81
<i>Equal Weighting</i>					45	55				0.80
<i>Equal Weighted Buys</i>					49	51				0.75

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended September 30, 2013. Enterprise Value = Market Cap and Debt.



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Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		1-Nov 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
	RRC	B	65.47		-	13.9	18.1	17.2
	BIREF	B	8.43		-	20.9	14.0	10.8
	PEYUF		24.55		0.30	9.1	10.1	10.3
	PDCE		30.28		-	8.6	9.9	10.0
	CLR	CB	72.56		-	9.7	9.8	7.5
	HK		6.46		-	5.6	9.2	6.6
	DNR		15.67		-	13.0	9.1	6.0
	XEC	CB	59.24		-	7.7	8.9	5.3
	BRY		34.00		-	11.4	8.0	5.1
	WLL	CB	42.95		-	9.3	8.5	4.9
	<i>Median</i>					9.5	9.5	7.0
Top Line Cash Payers								
	SBR		48.49	100	1.00	7.9	16.9	12.6
	FRHLF		20.65	71	1.01	5.6	12.6	12.4
	DMLP	CB	22.28	77	0.90	6.4	13.0	10.7
	CRT		28.05	78	0.96	17.9	16.3	10.4
	PBT		14.12	47	0.73	9.4	13.8	9.7
	<i>Median</i>					7.9	13.8	10.7
Bottom Line Cash Payers								
	LINE		42.52		1.09	14.0	11.3	13.9
	VNR		29.72		0.95	14.0	9.9	10.9
	LGCY		27.40		0.71	11.4	9.6	8.9
	MTR		25.70		0.74	7.7	13.7	8.8
	SJT	CB	14.13		0.75	8.6	13.0	8.7
	NDRO		19.04		0.78	7.2	9.3	8.4
	ERF	CB	16.20		0.42	6.3	8.2	6.9
	HGT		6.84		0.38	13.4	11.9	5.8
	<i>Median</i>					10.0	10.6	8.8
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		1-Nov 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
	Peyto Exploration and Development C	PEYUF	24.55	0.94	1.53	1.04	1.21	1.02
	Birchcliff Energy Ltd.	BIREF	B	8.43	0.63	1.42	1.10	1.03
	Range Resources	RRC	B	65.47	0.91	1.18	0.97	1.03
	PDC Energy	PDCE		30.28	0.84	1.26	0.99	1.00
	Cimarex Energy Company	XEC	CB	59.24	0.72	1.22	0.99	0.96
	Denbury Resources Inc.	DNR		15.67	0.81	1.12	0.98	0.95
	Continental Resources (32%)	CLR	CB	72.56	0.78	1.22	0.96	0.95
	Whiting Petroleum Corporation	WLL	CB	42.95	0.74	1.14	0.94	0.92
	Berry Petroleum Company	BRY		34.00	0.73	1.03	0.92	0.88
	Halcón Resources	HK		6.46	0.57		0.91	0.72
	<i>Median</i>			<i>0.76</i>	<i>1.22</i>	<i>0.97</i>	<i>0.96</i>	<i>0.74</i>
Top Line Cash Payers								
	Freehold Royalties Ltd.	FRHLF		20.65	0.97	1.22	1.03	1.06
	Dorchester Minerals, L.P.	DMLP	CB	22.28	0.84	1.12	1.00	0.97
	Sabine Royalty Trust	SBR		48.49	0.72	1.06	0.94	0.87
	Permian Basin RT	PBT		14.12	0.61	1.01	0.91	0.75
	Cross Timbers Royalty Trust	CRT		28.05	0.55	1.04	0.86	0.73
	<i>Median</i>			<i>0.72</i>	<i>1.06</i>	<i>0.94</i>	<i>0.87</i>	<i>0.75</i>
Bottom Line Cash Payers								
	Linn Energy, LLC	LINE		42.52	1.00	1.14	1.03	1.06
	Vanguard Natural Resources, LLC	VNR		29.72	0.99	1.16	1.02	1.04
	Legacy Reserves L.P.	LGCY		27.40	0.91	1.13	0.97	0.99
	Enerplus Corporation	ERF	CB	16.20	0.67	1.24	0.99	0.95
	San Juan Basin Royalty Trust	SJT	CB	14.13	0.56	1.17	0.99	0.87
	Mesa RoyaltyTrust	MTR		25.70	0.57	1.12	1.00	0.79
	Hugoton RoyaltyTrust	HGT		6.84	0.30	1.20	1.03	0.67
	<i>Median</i>			<i>0.67</i>	<i>1.16</i>	<i>1.00</i>	<i>0.95</i>	<i>0.84</i>

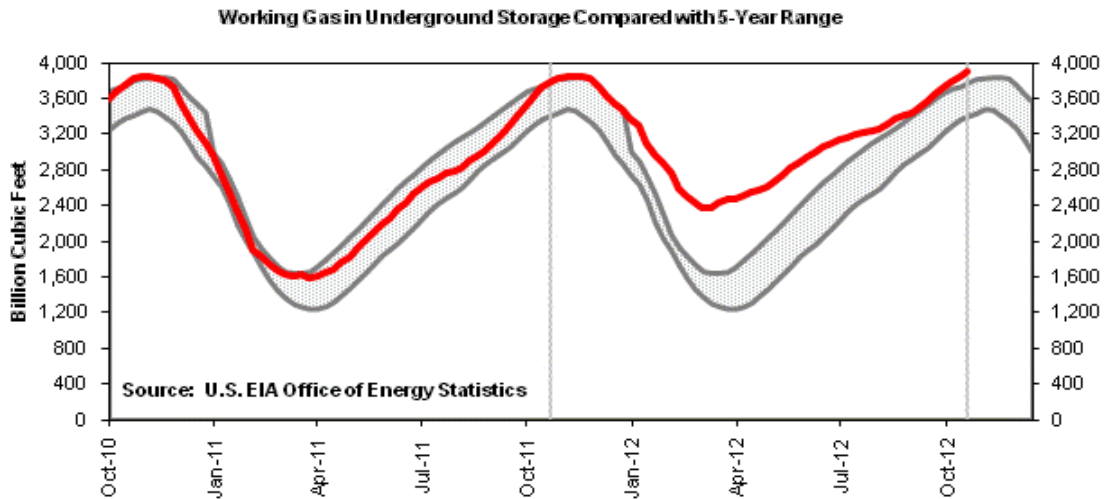
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