



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 19, 2013

Halcón Resources (HK)

Fourth Core Area - El Halcón (“The Hawk”)

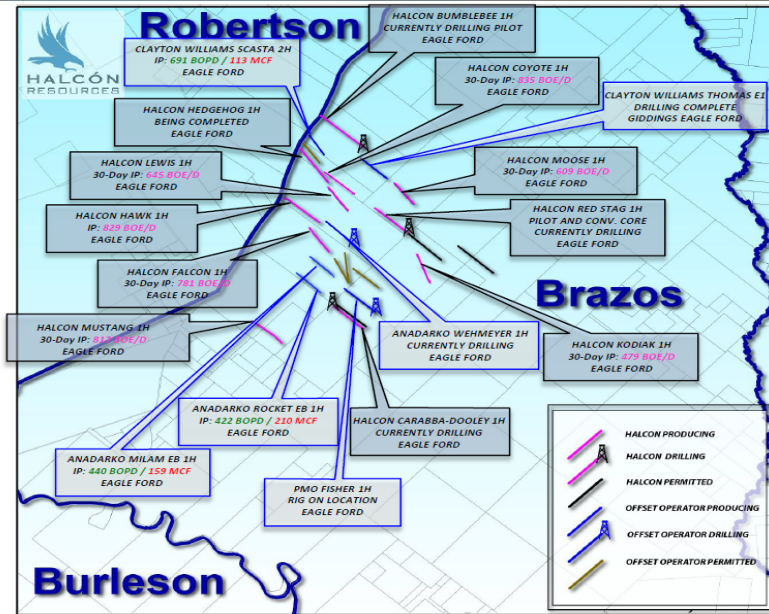
Symbol	HK	Ebitda Next Twelve Months ending 3/31/14 (US\$mm)	754
Rating		North American Natural Gas/Ebitda (%)	7
Price (\$/sh)	6.61	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	4/18/13	Adjusted Reserves/Production NTM	4.6
Shares (mm)	420	EV/Ebitda	6.9
Market Capitalization (\$mm)	2,800	PV/Ebitda	8.8
Debt (\$mm)	2,430	Undeveloped Reserves (%)	56
Enterprise Value (EV) (\$mm)	5,200	Natural Gas and Oil Ebitda (\$/boe)	44.00
Present Value (PV) (\$mm)	6,600	Present Value Proven Reserves(\$/boe)	61.00
Net Present Value (\$/share)	10	Oil and Gas Ebitda Margin (%)	60
Debt/Present Value	0.37	Earnings Next Twelve Months (US\$/sh)	0.41
McDep Ratio - EV/PV	0.79	Price/Earnings Next Twelve Months	16
Dividend Yield (%/year)	0.0	Indicated Annual Dividend (US\$/sh)	0.00
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, \$8 a million btu			

Summary and Recommendation

A 17% stock price decline in a week may provide opportunity for those investors wanting to participate in shale oil growth with **Halcón Resources (HK)** piloted by proven innovator Floyd Wilson. Unlevered appreciation potential of 27% in Enterprise Value to a McDep Ratio of 1.0 would be magnified on a leveraged basis to 50% with stock price gain to Net Present Value (NPV) of \$10 a share. Favorable drilling progress has created a fourth core area from one of the company's three early cores. The Eagleford portion has been split from the Woodbine/Eagleford trend in East Texas and named El Halcón. The Spanish name for the bird of prey evokes the great success Mr. Wilson enjoyed with predecessor company Petrohawk in discovering the now well-known Eagleford trend in South Texas. Applying the same creativity, HK has emerged as the leader in the new trend centered in Brazos county (see slide [Activity Map](#) on page 2). Meanwhile in Core 1- the North Dakota Bakken - HK has a half dozen rigs drilling on the Fort Berthold Reservation, an area of especially productive oil wells (see slide [Bakken](#) on page 2). In Core 2, now including the Woodbine by itself, HK applies high-tech measurement of hydrocarbon pore volume to identify the most prospective drilling locations in the fast-developing Halliday Field (see slide [Halliday](#) on page 3). In Core 3 - the Utica in Ohio and Pennsylvania - HK has a dozen wells advancing to the production stage expected to begin within weeks (see slide [Utica](#) on page 3). Rapidly growing production is embedded in our cash flow projections and estimate of NPV (see tables [Operating and Financial Results](#) and [Present Value](#) on page 4). We are excited about the prospects for Halcón and other visionaries among small cap independent oil and gas producers to make money for investors while contributing to economic growth and global well-being (see [Tables ISC-1 to ISC-4](#) on pages 5-8).

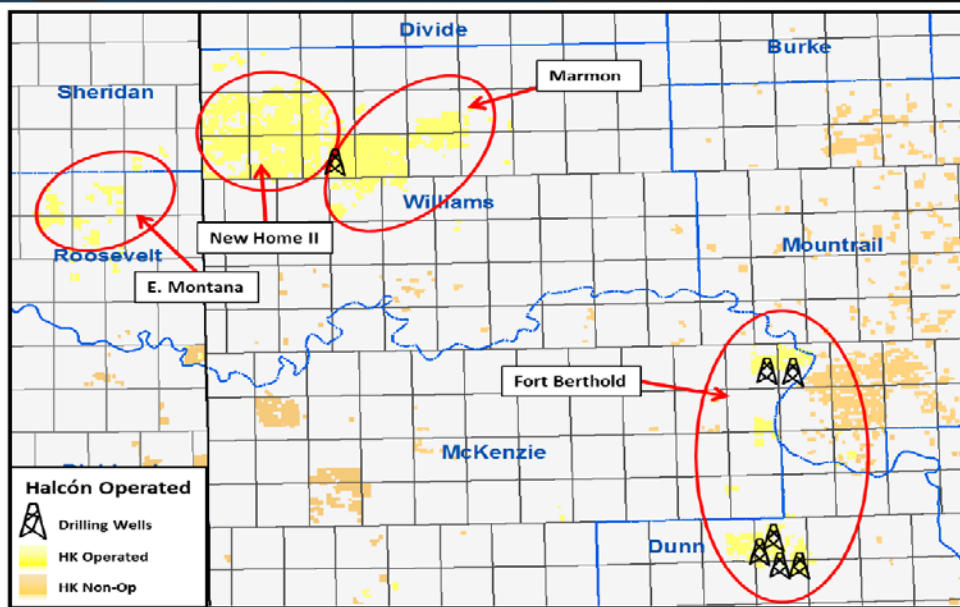
Kurt H. Wulff, CFA

El Halcón Activity Map



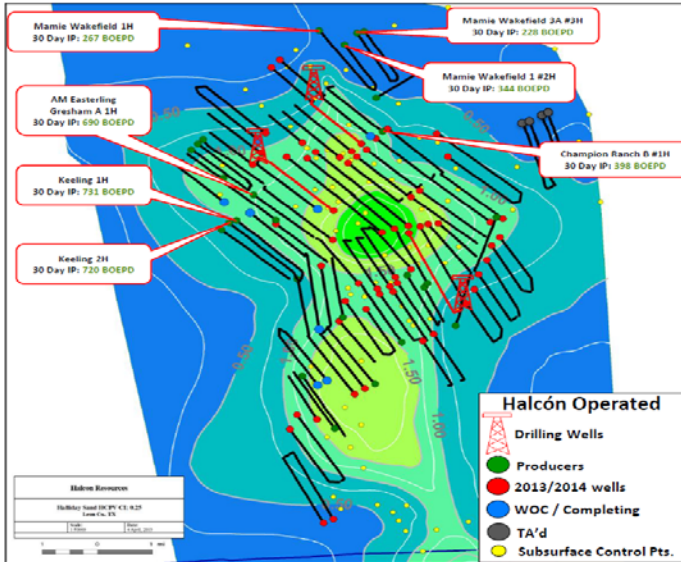
HK
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NYSE

HK Bakken/Three Forks Position



HK
LISTED
NYSE

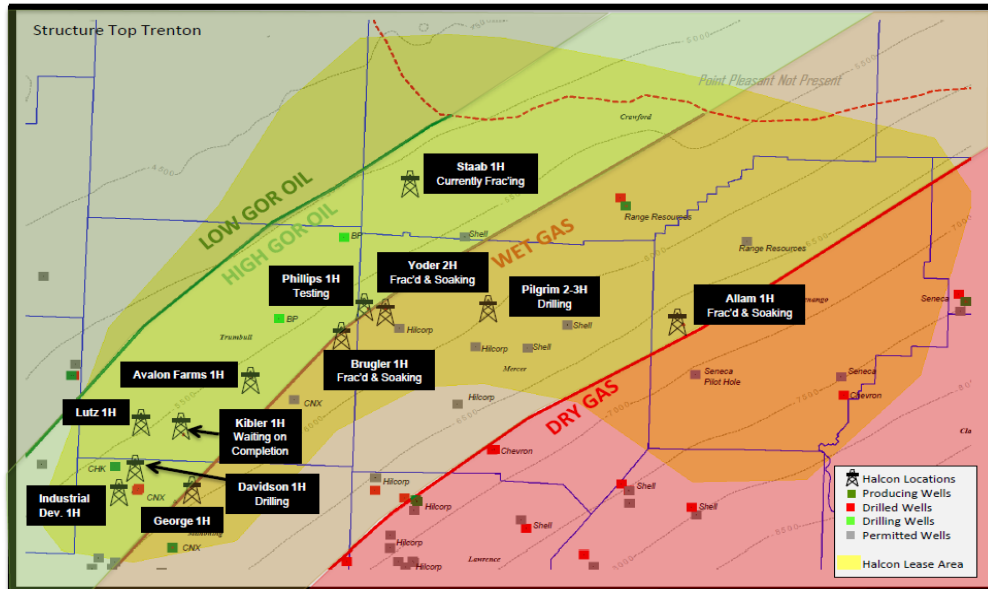
Halliday Field – Hydrocarbon Pore Volume (HCPV) Leon County, TX



- 67 development wells to drill over next 2 years
- Ongoing spacing study will add additional locations
- Defined edge of field in 2012
- 2013/2014 drilling focused on high HCPV infilling
- Currently evaluating other horizons

HK
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Utica/Point Pleasant: Northeast Extension



HK
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NYSE



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 19, 2013

Halcón Resources										
Next Twelve Months Operating and Financial Estimates										
	Q3		Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Next Twelve Months
	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	
Volume										
Natural Gas (mmcf)	16	21	12	47	56	68	68	60	65	
Oil (mbd)	8.6	14.9	7.3	26	31	37	37	33	36	
Total (mb)	1.0	1.7	3.4	3.0	3.7	4.5	4.5	15.7	17.0	
Total (mbd)	11.2	18.3	9.4	34	41	49	49	43	47	
Price										
Henry Hub (\$/mmbtu)	2.80	3.40	2.79	3.34	4.18	4.35	4.45	4.08	4.39	
Differential (\$/mmbtu)	0.18	0.38	0.05	0.38	0.47	0.49	0.50	0.40	0.49	
Company (\$/mcf)	2.62	3.02	2.74	2.96	3.71	3.86	3.95	3.68	3.91	
WTI Cushing (\$/bbl)	92.22	88.18	94.16	94.48	90.99	91.56	90.97	92.00	90.91	
Differential	4.92	1.92	6.90	2.06	1.98	2.00	1.98	2.18	1.98	
Company (\$/bbl)	87.30	86.25	87.26	92.42	89.01	89.57	88.99	89.82	88.93	
Total (\$/bbl)	70.59	73.38	71.64	75.13	73.55	74.20	73.87	74.13	73.77	
Revenue (\$mm)										
Natural Gas	4	6	12	13	19	24	25	80	92	
Oil	69	118	234	216	253	309	307	1,084	1,165	
Total	73	124	247	229	272	333	331	1,164	1,257	
Expense										
Lease operating	16	22	55							
Production taxes	4	10	17							
General and administrative	33	45	111							
Total	53	76	184	92	109	133	132	466	503	
Ebitda	20	47	62	137	163	200	199	699	754	
Deprec., Deplet., & Amort.	23	56	90	70	85	103	103	361	392	
Other	(5)	(24)	(63)					-	-	
Ebit	2	16	35	67	78	96	96	337	362	
Interest	5	9	31	24	24	24	24	96	96	
Ebt	(3)	7	4	43	54	72	72	241	266	
Income Tax	(1)	2	1	15	19	25	25	84	93	
Net Income (\$mm)	(2)	5	3	28	35	47	47	157	173	
Per Share (\$)	(0.01)	0.02	(0.01)	0.07	0.08	0.11	0.11	0.37	0.41	
Shares (millions)	192	228		420	420	420	420	420	420	
Ebitda Margin	27%	38%	25%	60%	60%	60%	60%	60%	60%	
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	

Halcón Resources					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
			(US\$mm)	(US\$mm)	
North American Natural Gas	55	3.3	14.4	800	12%
Oil	699	5.0	8.3	5,830	88%
	754	4.6	8.8	6,630	100%
Debt (US\$mm)					2,430
Net Present Value (US\$mm)					4,200
Shares (mm)					420
Net Present Value - Standard Estimate (US\$/sh)					10
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					7



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 19, 2013

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	18-Apr	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Peyto Exploration and Development Cor	PEYUF	27.03	1.18	4,610	77	23	9.4	0.71	2.6	0.86	
PDC Energy	PDCE	40.49	1.47	1,860	30	70	9.1	-	-	0.86	
Range Resources	RRC	B	74.55	1.28	15,280	68	32	14.0	0.16	0.2	0.86
Halcón Resources	HK		6.61	1.88	5,210	12	88	6.9	-	-	0.79
Continental Resources (32%)	CLR	CB	73.61	1.28	5,570	21	79	6.2	-	-	0.78
Berry Petroleum Company	BRY		47.28	1.70	4,440	12	88	7.0	0.32	0.7	0.78
Birchcliff Energy Ltd.	BIREF	B	7.69	1.41	1,760	68	32	8.8	-	-	0.71
Cimarex Energy Company	XEC	B	70.67	1.21	7,400	41	59	5.3	0.56	0.8	0.68
Denbury Resources Inc.	DNR		16.83	1.39	8,970	5	95	5.8	-	-	0.68
Whiting Petroleum Corporation	WLL	CB	44.57	1.44	7,640	6	94	4.1	-	-	0.60
<i>Total or Median</i>				1.40	62,700	26	74	7.0			0.78
Leveraged Cash Payers											
Linn Energy, LLC	LINE		37.93	1.66	14,630	43	57	11.9	2.90	7.6	1.14
Vanguard Natural Resources, LLC	VNR		27.74	1.62	2,390	33	67	11.4	2.40	8.7	1.06
Legacy Reserves L.P.	LGCY		26.63	1.57	2,500	19	81	9.9	2.28	8.6	0.93
Enerplus Corporation	ERF		12.90	1.69	4,300	31	69	6.0	1.07	8.3	0.73
<i>Total or Median</i>				1.64	23,800	32	68	10.6		8.4	1.00
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		22.69	TL	1,560	27	73	11.0	1.66	7.3	1.08
Enduro Royalty Trust (40%)	NDRO		16.36	BL	220	41	59	7.9	1.58	9.6	0.86
Dorchester Minerals, L.P.	DMLP	B	23.00	TL	710	61	39	10.8	2.07	9.0	0.85
Mesa RoyaltyTrust	MTR		24.75	BL	46	75	25	9.3	2.15	8.7	0.77
Sabine Royalty Trust	SBR		48.15	TL	700	45	55	12.0	4.01	8.3	0.74
San Juan Basin Royalty Trust	SJT	B	15.04	BL	700	100	-	8.4	1.24	8.2	0.72
Hugoton RoyaltyTrust	HGT		9.34	BL	370	89	11	7.7	0.54	5.8	0.67
Cross Timbers Royalty Trust	CRT		28.89	TL	170	80	20	11.9	2.17	7.5	0.66
Permian Basin RT	PBT		12.49	TL	580	31	69	7.6	0.93	7.4	0.62
<i>Total or Median</i>					5,100	61	39	9.3		8.2	0.74
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 March 31, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 19, 2013

Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		18-Apr 2013	(mm)				
Small Cap Independent Producers								
Peyto Exploration and Development Corp.	PEYUF		27.03	145.0	3,920	32.00	0.13	0.86
PDC Energy	PDCE		40.49	31.0	1,260	50.00	0.28	0.86
Range Resources	RRC	B	74.55	160.0	11,930	90.00	0.19	0.86
Halcón Resources	HK		6.61	420.0	2,780	10.00	0.37	0.79
Continental Resources (32%)	CLR	CB	73.61	59.2	4,360	100.00	0.17	0.78
Berry Petroleum Company	BRY		47.28	55.3	2,610	70.00	0.32	0.78
Birchcliff Energy Ltd.	BIREF	B	7.69	163.0	1,250	12.00	0.21	0.71
Cimarex Energy Company	XEC	B	70.67	86.7	6,130	110.00	0.12	0.68
Denbury Resources Inc.	DNR		16.83	383.0	6,450	28.00	0.19	0.68
Whiting Petroleum Corporation	WLL	CB	44.57	119.0	5,300	88.00	0.18	0.60
<i>Total or Median</i>					45,990		0.19	0.78
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.93	233.0	8,840	30.00	0.45	1.14
Vanguard Natural Resources, LLC	VNR		27.74	53.1	1,470	25.00	0.41	1.06
Legacy Reserves L.P.	LGCY		26.63	60.0	1,600	30.00	0.33	0.93
Enerplus Corporation	ERF		12.90	196.0	2,530	21.00	0.30	0.73
<i>Total or Median</i>					14,440		0.37	1.00
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.69	66.2	1,500	21.00	0.04	1.08
Enduro Royalty Trust (40%)	NDRO		16.36	13.2	220	19.00	-	0.86
Dorchester Minerals, L.P.	DMLP	B	23.00	30.7	710	27.00	-	0.85
Mesa Royalty Trust	MTR		24.75	1.9	46	32.00	-	0.77
Sabine Royalty Trust	SBR		48.15	14.6	700	65.00	-	0.74
San Juan Basin Royalty Trust	SJT	B	15.04	46.6	700	21.00	-	0.72
Hugoton Royalty Trust	HGT		9.34	40.0	370	14.00	-	0.67
Cross Timbers Royalty Trust	CRT		28.89	6.0	170	44.00	-	0.66
Permian Basin RT	PBT		12.49	46.6	580	20.00	-	0.62
<i>Total or Median</i>					5,000			0.74
B=Buy; 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 presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								



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April 19, 2013

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		18-Apr 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	74.55		-	14.2	16.2	14.0
Peyto Exploration and Development Corp	PEYUF		27.03		0.24	10.6	10.9	9.4
PDC Energy	PDCE		40.49		-	16.7	10.5	9.1
Birchcliff Energy Ltd.	BIREF	B	7.69		-	19.5	12.4	8.8
Berry Petroleum Company	BRY		47.28		-	12.1	9.0	7.0
Halcón Resources	HK		6.61		-	4.6	8.8	6.9
Continental Resources (32%)	CLR	CB	73.61		-	10.8	7.9	6.2
Denbury Resources Inc.	DNR		16.83		-	14.1	8.6	5.8
Cimarex Energy Company	XEC	B	70.67		-	7.9	7.8	5.3
Whiting Petroleum Corporation	WLL	CB	44.57		-	8.8	7.0	4.1
	<i>Median</i>					11.4	8.9	7.0
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.93		1.01	13.9	10.4	11.9
Vanguard Natural Resources, LLC	VNR		27.74		1.03	13.2	10.7	11.4
Legacy Reserves L.P.	LGCY		26.63		0.81	11.0	10.7	9.9
Enerplus Corporation	ERF		12.90		0.41	6.7	8.2	6.0
	<i>Median</i>					12.1	10.6	10.6
RTF Cash Payers								
Sabine Royalty Trust	SBR		48.15	100	1.00	8.9	16.2	12.0
Cross Timbers Royalty Trust	CRT		28.89	95	0.90	13.0	18.2	11.9
Freehold Royalties Ltd.	FRHLF		22.69	88	0.81	4.6	10.2	11.0
Dorchester Minerals, L.P.	DMLP	B	23.00	77	0.97	6.4	12.7	10.8
Mesa Royalty Trust	MTR		24.75		0.81	4.9	12.0	9.3
San Juan Basin Royalty Trust	SJT	B	15.04		0.70	10.3	11.8	8.4
Enduro Royalty Trust (40%)	NDRO		16.36		0.76	6.2	9.1	7.9
Hugoton Royalty Trust	HGT		9.34		0.45	12.4	11.6	7.7
Permian Basin RT	PBT		12.49	58	0.57	12.7	12.2	7.6
	<i>Median</i>					8.9	12.0	9.3
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 March 31, 2014; 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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Analysis of Oil & Gas Stocks

April 19, 2013

Table ISC-4										
McDep Income and Small Cap Energy Portfolio										
Total Return and Enterprise Value Momentum										
			Price (\$/sh)	Equity Total	Enterprise Value/					
	Symbol/		18-Apr	Return	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio	
Small Cap Independent Producers										
	Peyto Exploration and Development C	PEYUF	27.03	17	0.97	1.61	1.05	1.13	0.86	
	Berry Petroleum Company	BRY	47.28	41	0.99	1.27	1.03	1.12	0.78	
	Cimarex Energy Company	XEC	B	70.67	23	0.90	1.40	1.00	1.11	0.68
	PDC Energy	PDCE		40.49	22	0.82	1.55	0.91	1.11	0.86
	Range Resources	RRC	B	74.55	19	0.92	1.29	0.98	1.07	0.86
	Birchcliff Energy Ltd.	BIREF	B	7.69	3	0.90	1.34	0.99	1.04	0.71
	Denbury Resources Inc.	DNR		16.83	4	0.89	1.19	0.94	1.01	0.68
	Whiting Petroleum Corporation	WLL	CB	44.57	3	0.82	1.16	0.93	0.98	0.60
	Continental Resources (32%)	CLR	CB	73.61	0	0.82	1.16	0.89	0.97	0.78
	Halcón Resources	HK		6.61	(4)	0.73		0.95	0.95	0.79
	<i>Median</i>				11	0.90	1.29	0.96	1.05	0.78
Leveraged Cash Payers										
	Legacy Reserves L.P.	LGCY		26.63	14	0.93	1.12	1.00	1.00	0.93
	Vanguard Natural Resources, LLC	VNR		27.74	9	0.95	1.12	0.99	0.99	1.06
	Linn Energy, LLC	LINE		37.93	10	0.93	1.06	1.01	0.99	1.14
	Enerplus Corporation	ERF		12.90	2	0.78	1.08	0.96	0.94	0.73
	<i>Median</i>				9	0.93	1.10	1.00	0.99	1.00
RTF Cash Payers										
	Hugoton RoyaltyTrust	HGT		9.34	31	0.66	1.64	1.10	1.23	0.67
	Freehold Royalties Ltd.	FRHLF		22.69	3	0.93	1.34	1.00	1.08	1.08
	Dorchester Minerals, L.P.	DMLP	B	23.00	18	0.92	1.16	0.99	1.04	0.85
	San Juan Basin Royalty Trust	SJT	B	15.04	13	0.79	1.25	0.96	1.02	0.72
	Mesa RoyaltyTrust	MTR		24.75	29	0.68	1.32	1.04	0.99	0.77
	Sabine Royalty Trust	SBR		48.15	24	0.81	1.24	1.02	0.99	0.74
	Enduro Royalty Trust (40%)	NDRO		16.36	(1)	0.78	1.09	1.01	0.94	0.86
	Cross Timbers Royalty Trust	CRT		28.89	9	0.69	1.22	1.01	0.94	0.66
	Permian Basin RT	PBT		12.49	3	0.57	1.04	0.96	0.85	0.62
	<i>Median</i>				13	0.78	1.24	1.01	0.99	0.74

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

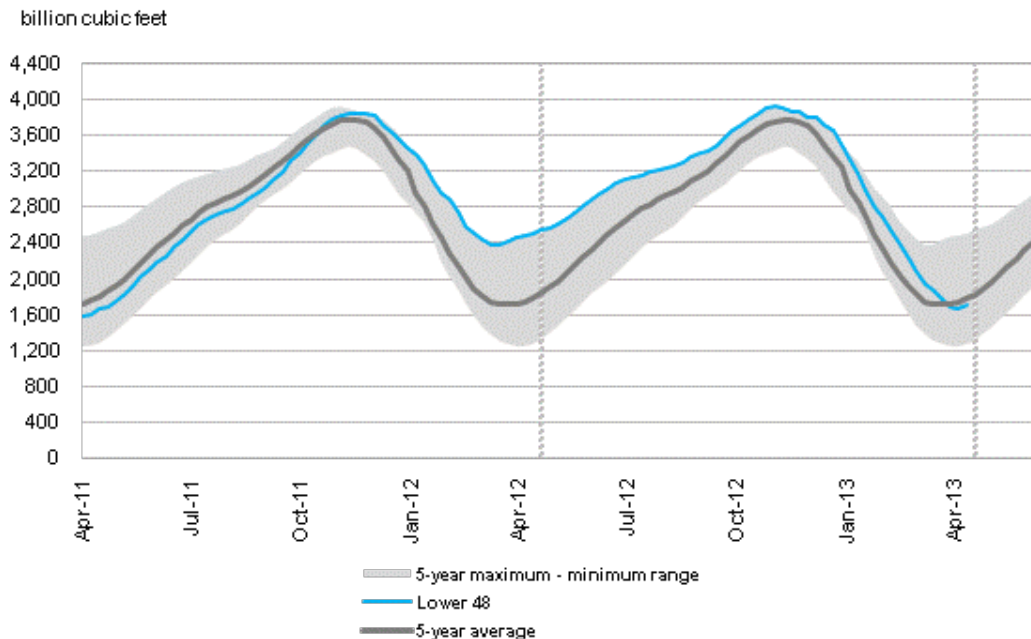


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April 19, 2013

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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