



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

Continental Resources (CLR)

Bakken Billions

<i>Symbol</i>	CLR	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i>	1,951
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (\$/sh)</i>	71.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/9/12	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	180	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (\$mm)</i>	12,950	<i>PV/Ebitda</i>	8.7
<i>Debt (\$mm)</i>	2,700	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (\$mm)</i>	15,620	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	48.70
<i>Present Value (PV) (\$mm)</i>	17,060	<i>Present Value Proven Reserves(\$/boe)</i>	27.97
<i>Net Present Value (\$/share)</i>	80	<i>Oil and Gas Ebitda Margin (%)</i>	75
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.84
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	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, \$6 a million btu.

Chairman and Chief Executive Harold Hamm owns about 68% of the equity in Continental Resources.

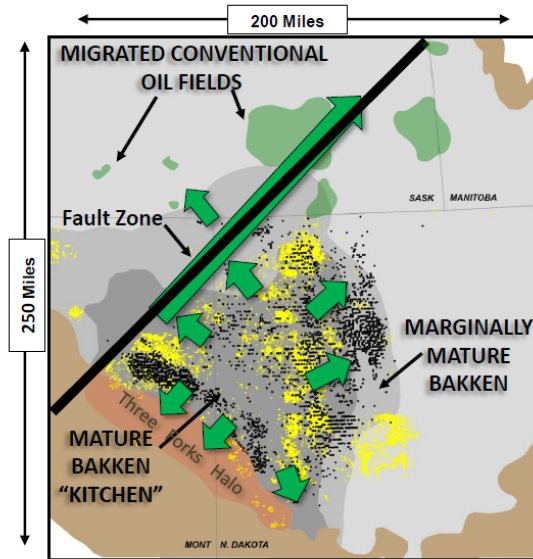
Summary and Recommendation

Visionary Harold Hamm's optimistic expectations for 24 billion of barrels of technically recoverable oil and gas to be produced from the Bakken and related formations, mostly in North Dakota, become more credible with each quarter of rapid growth for **Continental Resources (CLR)**. Also measured in billions, Bakken success contributes to the \$17 billion present value CLR has developed, of which Mr. Hamm's personal share is almost \$12 billion. Taking account of results released on August 9, we estimate Net Present Value (NPV) of \$80 a share up from a preliminary NPV of \$70 (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Results](#) on page 3). McDep Ratio of 0.92 is above the median for small cap explorers and debt is below the median (see [Tables ISC-1 to ISC-2](#) on pages 4-5). Though CLR's McDep Ratio is not as low as for other independent oil producers, the company is growing more rapidly with total production to be up 58% in 2012. North Dakota Bakken production grew 118% in 12 months to reach 50% of total CLR volume in the second quarter. Is there more to come? CLR has drilled or participated in about a quarter of Bakken wells so far. The 300 million barrels or so of proven Bakken reserves on its books may be just a small fraction of the potential. Nonetheless, continued growth depends on oil price, actual production history and future drilling results among other uncertainties. Finally, down 23% from its 52-week high on an enterprise value or unlevered basis, CLR stock has regained some upward price momentum as it surpassed its 50-week moving average and is approaching its rising 200-day average (see Table ISC-4 on page 7).

Kurt H. Wulff, CFA

The Bakken Keeps Getting Better

- 🔥 24 billion Boe technically recoverable oil and gas*
- 🔥 ~4,500 horizontal wells drilled
 - CLR: 1,220 gross wells
 - Industry adding ~2,500 wells per year
- 🔥 Two successful wells in the 2nd bench of the Three Forks



*CLR estimate includes only Middle Bakken and upper Three Forks. Lower TF benches should be additive.

8



Continental Resources					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	289	11.7	14.5	4,200	25%
Oil	1,662	10.2	7.8	12,900	75%
	1,951	10.7	8.8	17,100	100%
Debt (US\$mm)					2,700
Net Present Value (US\$mm)					14,400
Shares (mm)					180
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					83



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

Continental Resources								
Next Twelve Months Operating and Financial Estimates								
	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>Twelve</i>
								<i>Months</i>
								<i>6/30/13</i>
Volume								
Natural Gas (mmcf)	154	177	188	199	179	211	223	205
Oil (mbd)	60	65	69	73	67	78	82	76
Total (mb)	7.8	8.6	9.2	9.8	35.5	10.2	10.9	40
Total (mbd)	86	95	100	107	97	113	120	110
Price								
Henry Hub (\$/mmbtu)	2.73	2.21	2.90	3.11	2.74	3.46	3.46	3.23
Differential (\$/mmbtu)	(1.75)	(1.30)	(1.70)	(1.82)	(1.66)	(2.03)	(2.03)	(1.91)
Company (\$/mcf)	4.48	3.51	4.60	4.93	4.40	5.48	5.49	5.15
WTI Cushing (\$/bbl)	102.93	93.32	90.54	92.46	94.81	93.58	93.87	92.61
Differential	12.35	12.76	12.38	12.64	12.85	12.80	12.00	12.37
Company (\$/bbl)	90.58	80.56	78.16	79.82	81.96	80.79	81.87	80.24
Total (\$/bbl)	71.47	62.04	62.42	64.18	64.80	65.89	66.64	64.88
Revenue (\$mm)								
Natural Gas	63	57	79	90	289	104	112	385
Oil	494	479	498	539	2,009	565	614	2,216
Total	557	535	577	629	2,298	670	726	2,601
Expense								
Lease operating	41	44						
Production taxes	50	49						
General and administrative	25	30						
Total	116	123	144	157	540	167	181	650
Ebitda	441	412	433	472	1,757	502	544	1,951
Exploration	4	9	9	9	31	9	9	36
Deprec., Deplet., & Amort.	149	161	161	161	632	161	161	644
Other	53	22	20	20	115	20	20	80
Ebit	234	220	243	282	979	312	354	1,191
Interest	24	32	32	32	120	32	32	128
Ebt	210	188	211	250	859	280	322	1,063
Income Tax	74	66	74	87	301	98	113	372
Net Income (\$mm)	137	122	137	162	559	182	210	691
Per Share (\$)	0.76	0.68	0.76	0.90	3.10	1.01	1.16	3.84
Shares (millions)	180	180	180	180	180	180	180	180
Ebitda Margin	79%	77%	75%	75%	76%	75%	75%	75%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.	
Symbol/Rating		(US\$/sh)	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
B = Buy	9-Aug	2012	Cap	(Smm)	Gas		NTM	(\$/un)	(%)	Ratio	
CB (see below)											
Small Cap Independent Producers											
Range Resources	RRC	B	66.14	1.30	13,750	74	26	16.1	0.16	0.2	0.96
PDC Energy	PDCE		27.01	1.84	1,550	54	46	9.8	-	-	0.95
Peyto Exploration and Developmen	PEYUF		21.86	1.18	3,570	75	25	12.4	0.72	3.3	0.92
Continental Resources (32%)	CLR		71.96	1.21	4,990	25	75	8.0	-	-	0.91
Halcón Resources	HK		7.52	1.38	2,160	11	89	8.6	-	-	0.81
Berry Petroleum Company	BRY		39.61	1.75	3,790	13	87	5.6	-	-	0.70
Birchcliff Energy Ltd.	BIREF	CB	6.79	1.45	1,480	63	37	9.9	-	-	0.65
Denbury Resources Inc.	DNR		15.71	1.44	8,860	6	94	5.5	-	-	0.65
Cimarex Energy Company	XEC	CB	61.27	1.23	6,530	45	55	5.7	0.48	0.8	0.61
Whiting Petroleum Corporation	WLL	CB	45.00	1.36	7,280	8	92	4.9	-	-	0.59
<i>Total or Median</i>					<i>54,000</i>			<i>8.3</i>			<i>0.75</i>
Top Line Cash Payers											
Freehold Royalties Ltd.	FRHLF		19.65	1.04	1,320	16	84		1.68	8.6	0.94
Permian Basin RT	PBT		18.40	1.00	860	37	63		1.36	7.4	0.92
Cross Timbers Royalty Trust	CRT		38.84	1.00	230	70	30		2.41	6.2	0.88
Sabine Royalty Trust	SBR		54.40	1.00	790	55	45		3.53	6.5	0.84
Dorchester Minerals, L.P.	DMLP	CB	22.43	1.00	690	57	43		1.89	8.4	0.83
<i>Total or Median</i>					<i>3,900</i>					<i>7.4</i>	<i>0.88</i>
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		38.97	1.78	13,750	40	60	13.5	2.90	7.4	1.15
Vanguard Natural Resources, LLC	VNR		28.21	1.70	2,510	23	77	10.7	2.40	8.5	1.07
Legacy Reserves L.P.	LGCY		26.62	1.34	1,700	24	76	8.7	2.24	8.4	0.91
Enduro Royalty Trust (40%)	NDRO		18.80	1.00	250	42	58	8.1	1.70	9.0	0.89
Enerplus Corporation	ERF	CB	14.53	1.60	4,600	26	74	5.7	1.35	9.3	0.78
San Juan Basin Royalty Trust	SJT	CB	15.05	1.00	700	100	-	11.3	1.02	6.8	0.72
Mesa RoyaltyTrust	MTR		28.22	1.00	53	75	25	11.9	1.94	6.9	0.71
Hugoton RoyaltyTrust	HGT		7.78	1.00	310	89	11	7.3	0.26	3.4	0.56
<i>Total or Median</i>					<i>23,900</i>			<i>9.7</i>		<i>7.9</i>	<i>0.84</i>
Composite											
<i>Enterprise Value Weighting</i>					<i>81,700</i>	<i>38</i>	<i>62</i>				<i>0.81</i>
<i>Equal Weighting</i>						<i>45</i>	<i>55</i>				<i>0.82</i>
<i>Equal Weighted Buys</i>						<i>48</i>	<i>52</i>				<i>0.73</i>

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 June 30, 2013. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

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		9-Aug 2012	(mm)				
Small Cap Independent Producers								
Range Resources	RRC	B	66.14	160.0	10,580	70.00	0.22	0.96
PDC Energy	PDCE		27.01	31.0	840	30.00	0.43	0.95
Peyto Exploration and Development Cor	PEYUF		21.86	138.5	3,030	24.00	0.14	0.92
Continental Resources (32%)	CLR		71.96	57.6	4,140	80.00	0.16	0.91
Halcón Resources	HK		7.52	208.9	1,570	10.00	0.22	0.81
Berry Petroleum Company	BRY		39.61	54.7	2,170	70.00	0.30	0.70
Birchcliff Energy Ltd.	BIREF	CB	6.79	150.6	1,020	12.00	0.20	0.65
Denbury Resources Inc.	DNR		15.71	391.0	6,140	28.00	0.20	0.65
Cimarex Energy Company	XEC	CB	61.27	86.4	5,290	110.00	0.12	0.61
Whiting Petroleum Corporation	WLL	CB	45.00	119.0	5,360	88.00	0.16	0.59
<i>Total or Median</i>					40,140		0.20	0.75
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		19.65	64.7	1,270	21.00	0.03	0.94
Permian Basin RT	PBT		18.40	46.6	860	20.00	-	0.92
Cross Timbers Royalty Trust	CRT		38.84	6.0	230	44.00	-	0.88
Sabine Royalty Trust	SBR		54.40	14.6	790	65.00	-	0.84
Dorchester Minerals, L.P.	DMLP	CB	22.43	30.7	690	27.00	-	0.83
<i>Total or Median</i>					3,840			0.88
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.97	198.0	7,720	30.00	0.50	1.15
Vanguard Natural Resources, LLC	VNR		28.21	52.2	1,470	25.00	0.44	1.07
Legacy Reserves L.P.	LGCY		26.62	47.5	1,260	30.00	0.23	0.91
Enduro Royalty Trust (40%)	NDRO		18.80	13.2	250	21.00	-	0.89
Enerplus Corporation	ERF	CB	14.53	196.0	2,850	21.00	0.29	0.78
San Juan Basin Royalty Trust	SJT	CB	15.05	46.6	700	21.00	-	0.72
Mesa RoyaltyTrust	MTR		28.22	1.9	53	40.00	-	0.71
Hugoton RoyaltyTrust	HGT		7.78	40.0	310	14.00	-	0.56
<i>Total or Median</i>					14,610			0.84
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.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

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		9-Aug 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	66.14		-	15.1	16.8	16.1
Peyto Exploration and Development Corp	PEYUF		21.86		0.40	10.4	13.4	12.4
Birchcliff Energy Ltd.	BIREF	CB	6.79		-	21.6	15.1	9.9
PDC Energy	PDCE		27.01		-	8.9	10.4	9.8
Halcón Resources	HK		7.52		-	6.4	10.6	8.6
Continental Resources (32%)	CLR		71.96		-	10.7	8.7	8.0
Cimarex Energy Company	XEC	CB	61.27		-	7.9	9.4	5.7
Berry Petroleum Company	BRY		39.61		-	11.8	8.1	5.6
Denbury Resources Inc.	DNR		15.71		-	13.2	8.5	5.5
Whiting Petroleum Corporation	WLL	CB	45.00		-	9.5	8.3	4.9
	<i>Median</i>					10.5	9.9	8.3
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		38.84	78	0.96	17.8	17.5	15.5
Sabine Royalty Trust	SBR		54.40	100	1.00	8.7	18.4	15.4
Permian Basin RT	PBT		18.40	32	0.89	9.7	13.1	12.0
Dorchester Minerals, L.P.	DMLP	CB	22.43	77	0.98	6.4	14.0	11.6
Freehold Royalties Ltd.	FRHLF		19.65	71	0.86	5.4	10.7	10.0
	<i>Median</i>					8.7	14.0	12.0
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		38.97		1.13	15.1	11.7	13.5
Mesa RoyaltyTrust	MTR		28.22		0.81	8.0	16.7	11.9
San Juan Basin Royalty Trust	SJT	CB	15.05		0.76	8.6	15.7	11.3
Vanguard Natural Resources, LLC	VNR		28.21		0.96	14.0	10.0	10.7
Legacy Reserves L.P.	LGCY		26.62		0.71	11.4	9.5	8.7
Enduro Royalty Trust (40%)	NDRO		18.80		0.73	7.2	9.0	8.1
Hugoton RoyaltyTrust	HGT		7.78		0.25	13.4	13.2	7.3
Enerplus Corporation	ERF	CB	14.53		0.47	6.3	7.3	5.7
	<i>Median</i>					10.0	10.9	9.7
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 June 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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012

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		9-Aug 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	
							McDep Ratio	
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		21.86	0.87	1.40	1.12	1.10	0.92
Range Resources	RRC	B	66.14	0.89	1.20	1.08	1.05	0.96
Cimarex Energy Company	XEC	CB	61.27	0.74	1.25	1.12	0.97	0.61
Continental Resources (32%)	CLR		71.96	0.77	1.51	1.04	0.97	0.91
Berry Petroleum Company	BRY		39.61	0.80	1.15	1.03	0.96	0.70
Denbury Resources Inc.	DNR		15.71	0.80	1.32	1.04	0.95	0.65
Whiting Petroleum Corporation	WLL	CB	45.00	0.76	1.36	1.07	0.95	0.59
PDC Energy	PDCE		27.01	0.79	1.32	1.06	0.93	0.95
Birchcliff Energy Ltd.	BIREF	CB	6.79	0.53	1.23	1.08	0.76	0.65
Halcón Resources	HK		7.52	0.64		0.88		0.81
	<i>Median</i>			<i>0.78</i>	<i>1.32</i>	<i>1.07</i>	<i>0.96</i>	<i>0.75</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		19.65	0.93	1.42	1.09	1.04	0.94
Dorchester Minerals, L.P.	DMLP	CB	22.43	0.84	1.13	1.03	0.97	0.83
Sabine Royalty Trust	SBR		54.40	0.81	1.19	1.06	0.92	0.84
Permian Basin RT	PBT		18.40	0.79	1.12	1.03	0.92	0.92
Cross Timbers Royalty Trust	CRT		38.84	0.76	1.22	1.08	0.91	0.88
	<i>Median</i>			<i>0.81</i>	<i>1.19</i>	<i>1.06</i>	<i>0.92</i>	<i>0.88</i>
Bottom Line Cash Payers								
Vanguard Natural Resources, LLC	VNR		28.21	0.97	1.15	1.04	1.02	1.07
Linn Energy, LLC	LINE		38.97	0.97	1.13	1.02	1.02	1.15
Legacy Reserves L.P.	LGCY		26.62	0.89	1.13	1.02	0.97	0.91
Enerplus Corporation	ERF	CB	14.53	0.59	1.16	1.06	0.80	0.78
San Juan Basin Royalty Trust	SJT	CB	15.05	0.59	1.25	1.02	0.79	0.72
Mesa RoyaltyTrust	MTR		28.22	0.59	1.14	0.97	0.76	0.71
Hugoton RoyaltyTrust	HGT		7.78	0.34	1.21	1.08	0.55	0.56
	<i>Median</i>			<i>0.59</i>	<i>1.15</i>	<i>1.02</i>	<i>0.80</i>	<i>0.78</i>

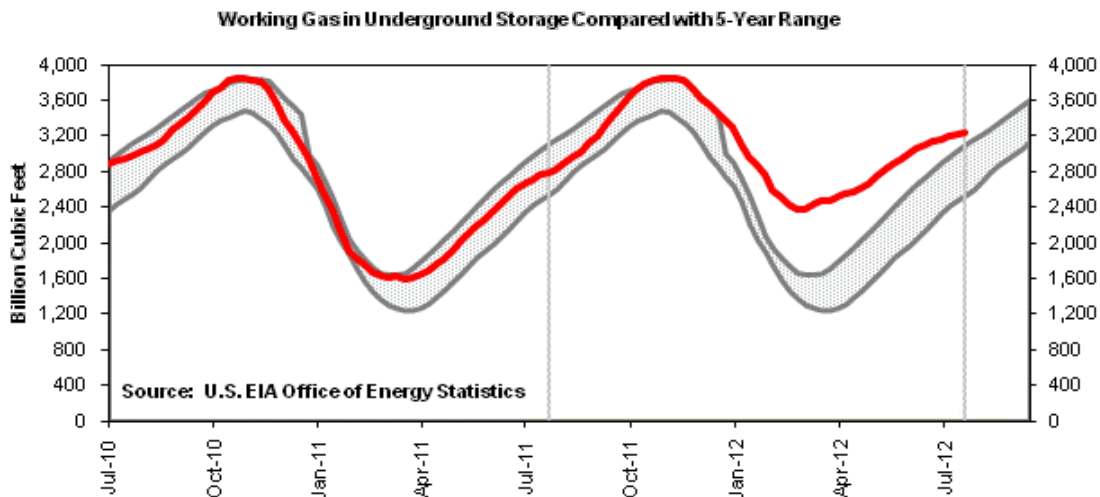
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 10, 2012



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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.