



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 17, 2012

Halcón Resources (HK) Billion Barrel Resource Potential

<i>Symbol</i>	HK	<i>Ebitda Next Twelve Months ending 6/30/12 (US\$m)</i>	325
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (\$/sh)</i>	8.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/16/12	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	290	<i>EV/Ebitda</i>	9.6
<i>Market Capitalization (\$mm)</i>	2,400	<i>PV/Ebitda</i>	11.2
<i>Debt (\$mm)</i>	740	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (\$mm)</i>	3,100	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.00
<i>Present Value (PV) (\$mm)</i>	3,600	<i>Present Value Proven Reserves(\$/boe)</i>	49.00
<i>Net Present Value (\$/share)</i>	10	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.51
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
<p>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.</p>			

Summary and Recommendation

Led by shale oil pioneer Floyd Wilson, **Halcón Resources (HK)** has closed multiple transactions to raise equity and debt and acquire oil and gas properties that offer 1.3 billion barrels equivalent of resource potential (see slide on page 2). Proven reserves and rapid cash flow growth for the next twelve months supports 60% of estimated Net Present Value (NPV) of \$10 a share (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Results](#) on page 3). Further growth would support the remainder of NPV to bring the total to \$10, the nominal price at which new shares were placed with investors in March 2012. Mr. Wilson is careful to point out that the company's production guidance from which we take our volume estimates is "well beyond the reserve profile". As a result, NPV has some anticipation that the man and the team that drilled the first commercial shale oil well in the Eagleford formation will reproduce that type of success in other areas. Already, Halcón may have an exploration discovery in the Navarro formation near Austin, Texas. Among other areas, initial wells have also been started or will be this quarter in the Utica/Point Pleasant, Woodbine and Tuscaloosa Marine Shale (TMS). NPV translates to a McDep Ratio of 0.86, above the median for small cap explorers. A 0.20 ratio of debt to present value is near the median (see [Tables ISC-1 to ISC-2](#) on pages 4-5). Cash flow multiple (EV/Ebitda) of 9.6 times is close to the median although the cash flow in the denominator is less assured than for slower growing companies (see [Table ISC-3](#) on page 6). Conservative investors having confidence in Floyd Wilson and enthusiasm for shale oil in the early stages of its development may take a starting position in HK. Further commitments might await the surprises that often occur.

Kurt H. Wulff, CFA

Resource Potential

Substantial Resource Potential Across Multiple Liquids-Rich Resource Style Plays

	Wet Gas	Transitional	Black Oil	Woodbine/ Eagle Ford	TMS	Bakken Operated	Bakken Non-Operated	Mississippi Lime	Midway/ Navarro
	Utica / Point Pleasant	Utica / Point Pleasant	Utica / Point Pleasant						
Net Acres ⁽¹⁾	53,333	53,333	53,333	175,000	200,000	40,000	15,000	45,000	50,000
Prospectivity of Acreage	70%	70%	70%	70%	70%	90%	70%	50%	50%
Prospective Net Acres	37,333	37,333	37,333	122,500	140,000	36,000	10,500	22,500	25,000
Well Spacing (Acres)	160	160	160	160	160	320	320	160	100
Net Drilling Locations	233	233	233	766	875	113	33	141	250
Average Net Revenue Interest	81%	82%	82%	76%	75%	80%	80%	80%	78%
Gross EUR / Well (Mboe)	1,056	780	346	474	569	333	475	177	1,021
Resource Potential (MMBoe)	200	149	66	275	373	30	12	20	198

**Total Resource Potential of ~1.3 BBoe from extensive multi-year drilling inventory
(Wilcox and 2 liquids-rich exploratory plays not included in Resource Potential)**

(1) Leased, optioned or under contract as of 8.1.12; TMS and Midway/Navarro net acreage figure is mid-point of target acreage range.

Sources: Company and third party estimates. Illustrative assumptions.

Note: Utica, Woodbine, TMS, Mississippi Lime and Midway/Navarro EURs are internally generated based upon published industry data. Bakken excludes Three Forks resource potential. EUR estimate based upon available data and may change as more data or our actual drilling and production results becomes available. See "Cautionary Statement Regarding Hydrocarbon Quantities" on page 3 for a description of EURs and resource potential.



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NYSE: HK

Halcón Resources					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	22	7.5	19.8	440	12%
Oil	303	7.1	10.6	3,200	88%
	325	7.2	11.2	3,640	100%
Debt (US\$mm)					740
Net Present Value (US\$mm)					2,900
Shares (mm)					290
Net Present Value - Standard Estimate (US\$/sh)					10
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					6



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Halcón 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 (bcf)	0.6	0.6	2.0	2.6	5.8	3.2	4.1	11.8
Natural Gas (mmcf)	7	6	22	28	16	35	45	32
Days	91	91	92	92	366	90	91	365
Oil (mmb)	0.3	0.3	1.0	1.3	2.8	1.6	2.0	5.9
Oil (mbd)	2.9	2.8	10.9	13.9	7.7	17.6	22.4	16.2
Total (mb)	0.4	0.4	1.3	1.7	3.8	2.1	2.7	7.9
Total (mbd)	4.0	3.9	14.6	18.5	62	23.5	29.8	129
Price								
Henry Hub (\$/mmbtu)	2.73	2.21	2.85	3.05	2.71	3.46	3.48	3.21
Differential (\$/mmbtu)	0.02	0.09	0.12	0.13	(0.04)	0.15	0.15	0.07
Company (\$/mcf)	2.71	2.12	2.73	2.92	2.75	3.31	3.33	3.14
WTI Cushing (\$/bbl)	102.93	93.32	91.08	93.47	95.20	94.69	95.15	93.60
Differential	8.32	8.36	8.15	8.37	9.99	8.48	8.52	8.04
Company (\$/bbl)	94.61	84.96	82.92	85.10	85.21	86.21	86.63	85.56
Total (\$/bbl)	72.82	65.23	66.29	68.21	67.69	69.63	69.97	68.87
Revenue (\$mm)								
Natural Gas	2	1	5	7	16	11	14	37
Oil	25	22	83	109	239	137	176	505
Total	27	23	89	116	255	147	190	542
Expense								
Lease operating	9	9						
Production taxes	2	1						
General and administrative	20	13						
Total	31	24	36	46	137	59	76	217
Ebitda								
	(4)	(0)	53	70	118	88	114	325
Deprec., Deplet., & Amort.	6	6	20	20	52	20	20	80
Other	(19)	(15)			(33)			-
Ebit								
	9	8	33	50	100	68	94	245
Interest	13	4	4	4	25	4	4	16
Ebt								
	(4)	4	29	46	75	64	90	229
Income Tax	(1)	1	10	16	26	23	31	80
Net Income (\$mm)								
	(3)	3	19	30	49	42	58	149
Per Share (\$)	(0.04)	0.02	0.07	0.10	0.15	0.14	0.20	0.51
Shares (millions)								
	69	136	290	290		290	290	290
Ebitda Margin	-16%	-2%	60%	60%	46%	60%	60%	60%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%



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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	16-Aug	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	68.91	1.29	14,200	74	26	16.6	0.16	0.2	0.99
PDC Energy	PDCE		27.70	1.82	1,570	54	46	9.9	-	-	0.96
Continental Resources (32%)	CLR		73.89	1.20	5,110	25	75	8.1	-	-	0.94
Peyto Exploration and Developmen	PEYUF		21.53	1.18	3,520	75	25	12.2	0.73	3.4	0.91
Halcón Resources	HK		8.25	1.31	3,130	12	88	9.6	-	-	0.86
Birchcliff Energy Ltd.	BIREF	CB	7.37	1.47	1,580	62	38	10.5	-	-	0.70
Berry Petroleum Company	BRY		40.06	1.74	3,810	13	87	5.6	-	-	0.70
Denbury Resources Inc.	DNR		15.73	1.44	8,870	6	94	5.5	-	-	0.65
Cimarex Energy Company	XEC	CB	61.72	1.23	6,570	45	55	5.7	0.48	0.8	0.61
Whiting Petroleum Corporation	WLL	CB	45.40	1.36	7,320	8	92	4.9	-	-	0.59
<i>Total or Median</i>					55,700			8.9			0.78
Top Line Cash Payers											
Permian Basin RT	PBT		18.85	1.00	880	37	63		1.36	7.2	0.94
Freehold Royalties Ltd.	FRHLF		19.41	1.04	1,310	16	84		1.70	8.7	0.93
Cross Timbers Royalty Trust	CRT		39.61	1.00	240	70	30		2.41	6.1	0.90
Sabine Royalty Trust	SBR		55.10	1.00	800	55	45		3.54	6.4	0.85
Dorchester Minerals, L.P.	DMLP	CB	22.13	1.00	680	57	43		1.89	8.5	0.82
<i>Total or Median</i>					3,900					7.2	0.90
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		39.40	1.77	13,840	40	60	13.5	2.90	7.4	1.16
Vanguard Natural Resources, LLC	VNR		28.41	1.70	2,520	23	77	10.7	2.40	8.4	1.08
Legacy Reserves L.P.	LGCY		27.13	1.34	1,720	24	76	8.7	2.24	8.3	0.93
Enduro Royalty Trust (40%)	NDRO		19.00	1.00	250	42	58	8.2	1.70	8.9	0.91
Enerplus Corporation	ERF	CB	15.20	1.62	4,800	30	70	6.5	1.36	9.0	0.81
San Juan Basin Royalty Trust	SJT	CB	15.36	1.00	720	100	-	11.6	1.01	6.5	0.73
Mesa RoyaltyTrust	MTR		28.24	1.00	53	75	25	11.9	1.94	6.9	0.71
Hugoton RoyaltyTrust	HGT		7.04	1.00	280	89	11	6.7	0.26	3.7	0.50
<i>Total or Median</i>					24,200			9.7		7.8	0.86
Composite											
<i>Enterprise Value Weighting</i>					83,800	38	62				0.82
<i>Equal Weighting</i>						45	55				0.83
<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 June 30, 2013. Enterprise Value = Market Cap and Debt.



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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		16-Aug 2012	(mm)				
Small Cap Independent Producers								
Range Resources	RRC	B	68.91	160.0	11,030	70.00	0.22	0.99
PDC Energy	PDCE		27.70	31.0	860	30.00	0.43	0.96
Continental Resources (32%)	CLR		73.89	57.6	4,260	80.00	0.16	0.94
Peyto Exploration and Development Cor	PEYUF		21.53	138.5	2,980	24.00	0.14	0.91
Halcón Resources	HK		8.25	290.0	2,390	10.00	0.20	0.86
Birchcliff Energy Ltd.	BIREF	CB	7.37	145.0	1,070	12.00	0.23	0.70
Berry Petroleum Company	BRY		40.06	54.7	2,190	70.00	0.30	0.70
Denbury Resources Inc.	DNR		15.73	391.0	6,150	28.00	0.20	0.65
Cimarex Energy Company	XEC	CB	61.72	86.4	5,330	110.00	0.12	0.61
Whiting Petroleum Corporation	WLL	CB	45.40	119.0	5,400	88.00	0.16	0.59
<i>Total or Median</i>					41,660		0.20	0.78
Top Line Cash Payers								
Permian Basin RT	PBT		18.85	46.6	880	20.00	-	0.94
Freehold Royalties Ltd.	FRHLF		19.41	64.7	1,260	21.00	0.03	0.93
Cross Timbers Royalty Trust	CRT		39.61	6.0	240	44.00	-	0.90
Sabine Royalty Trust	SBR		55.10	14.6	800	65.00	-	0.85
Dorchester Minerals, L.P.	DMLP	CB	22.13	30.7	680	27.00	-	0.82
<i>Total or Median</i>					3,860			0.90
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		39.40	198.0	7,800	30.00	0.50	1.16
Vanguard Natural Resources, LLC	VNR		28.41	52.2	1,480	25.00	0.44	1.08
Legacy Reserves L.P.	LGCY		27.13	47.5	1,290	30.00	0.23	0.93
Enduro Royalty Trust (40%)	NDRO		19.00	13.2	250	21.00	-	0.91
Enerplus Corporation	ERF	CB	15.20	196.0	2,980	21.00	0.31	0.81
San Juan Basin Royalty Trust	SJT	CB	15.36	46.6	720	21.00	-	0.73
Mesa RoyaltyTrust	MTR		28.24	1.9	53	40.00	-	0.71
Hugoton RoyaltyTrust	HGT		7.04	40.0	280	14.00	-	0.50
<i>Total or Median</i>					14,850			0.86
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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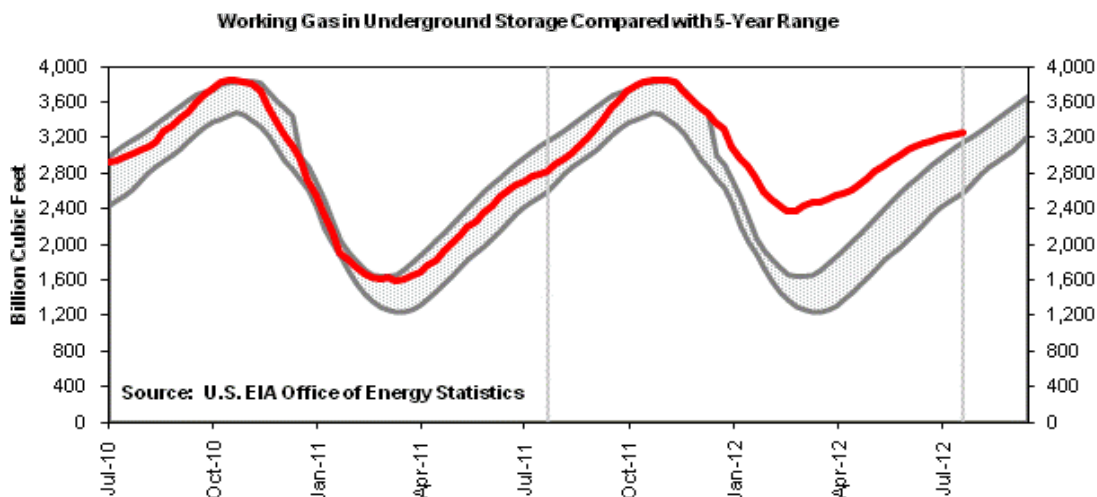
Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		16-Aug 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	68.91		-	15.1	16.8	16.6
Peyto Exploration and Development Corp	PEYUF		21.53		0.41	10.4	13.4	12.2
Birchcliff Energy Ltd.	BIREF	CB	7.37		-	22.0	15.0	10.5
PDC Energy	PDCE		27.70		-	8.9	10.3	9.9
Halcón Resources	HK		8.25		-	7.2	11.2	9.6
Continental Resources (32%)	CLR		73.89		-	10.7	8.7	8.1
Cimarex Energy Company	XEC	CB	61.72		-	7.9	9.3	5.7
Berry Petroleum Company	BRY		40.06		-	11.8	8.0	5.6
Denbury Resources Inc.	DNR		15.73		-	13.2	8.4	5.5
Whiting Petroleum Corporation	WLL	CB	45.40		-	9.5	8.2	4.9
	<i>Median</i>					10.5	9.8	8.9
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		39.61	78	0.96	17.8	17.5	15.8
Sabine Royalty Trust	SBR		55.10	100	1.00	8.7	18.4	15.6
Permian Basin RT	PBT		18.85	32	0.89	9.7	13.0	12.3
Dorchester Minerals, L.P.	DMLP	CB	22.13	77	0.98	6.4	13.9	11.4
Freehold Royalties Ltd.	FRHLF		19.41	71	0.86	5.4	10.6	9.8
	<i>Median</i>					8.7	13.9	12.3
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		39.40		1.13	15.1	11.6	13.5
Mesa RoyaltyTrust	MTR		28.24		0.81	8.0	16.7	11.9
San Juan Basin Royalty Trust	SJT	CB	15.36		0.76	8.6	15.9	11.6
Vanguard Natural Resources, LLC	VNR		28.41		0.95	14.0	9.9	10.7
Legacy Reserves L.P.	LGCY		27.13		0.70	11.4	9.4	8.7
Enduro Royalty Trust (40%)	NDRO		19.00		0.73	7.2	9.0	8.2
Hugoton RoyaltyTrust	HGT		7.04		0.25	13.4	13.3	6.7
Enerplus Corporation	ERF	CB	15.20		0.52	6.3	8.1	6.5
	<i>Median</i>					10.0	10.8	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).								



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