



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 25, 2013

Continental Resources (CLR)

Bakken Reserves Exceed a Half-Billion Barrels

<i>Symbol</i>	CLR	<i>Ebitda Next Twelve Months ending 12/31/13 (US\$m)</i>	2,393
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (\$/sh)</i>	80.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/24/13	<i>Adjusted Reserves/Production NTM</i>	11.8
<i>Shares (mm)</i>	183	<i>EV/Ebitda</i>	7.4
<i>Market Capitalization (\$mm)</i>	14,780	<i>PV/Ebitda</i>	8.9
<i>Debt (\$mm)</i>	3,000	<i>Undeveloped Reserves (%)</i>	61
<i>Enterprise Value (EV) (\$mm)</i>	17,790	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	51.60
<i>Present Value (PV) (\$mm)</i>	21,300	<i>Present Value Proven Reserves(\$/boe)</i>	27.13
<i>Net Present Value (\$/share)</i>	100	<i>Oil and Gas Ebitda Margin (%)</i>	75
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.92
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	21
<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.			
For historical analysis of CLR see www.mcdep.com/4clr.htm			

Summary and Recommendation

Buy-recommended **Continental Resources (CLR)** nearly doubled its proven reserves in the North Dakota Bakken shale oil trend to 564 million barrels oil equivalent (mmboc) in 2012, in line with our recent increase in estimated Net Present Value (NPV) to \$100 a share. Also reported on January 23, production growth was 58% in 2012 from all sources, including Bakken, in line with recent expectations (see tables [Operating and Financial Estimates](#) and [Cash Flow and Present Value](#) on page 2). As a result, Continental founder and 68% owner Harold Hamm continues to deliver on ambitious goals for reserve growth. The entrepreneur's faith in shale oil reminds us of the faith in oil shale held by fictional oil capitalist hero, Ellis Wyatt, in *Atlas Shrugged* written by Ayn Rand more than 50 years ago. Nor do investors have to take Mr. Hamm's word. Proven reserves are estimated by the conservative independent engineer, Ryder Scott. At the same time, Bakken needs an oil price near the current level for growth. On that score, current political trends appear supportive. Environmental extremists at home along with terrorist groups overseas both help to restrict supply by delaying the construction of pipelines on one hand and blowing them up on the other. To pay the higher price accompanying restricted supply, central banks issue free money and governments provide handouts to consumers. We are optimistic that the adverse forces can be contained enough for economic growth to proceed and for value-added activities like oil and gas to make money. Continental Resources and other oil and gas small cap and income stocks in our coverage offer the opportunity for McDep Ratio to reach 1.0 when stock price reaches NPV and for NPV to grow thereafter, we believe (see [Tables ISC-1](#) through [ISC-4](#) on pages 3-6).

Kurt H. Wulff, CFA



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Continental Resources									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</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>9/30/13</i>	<i>12/31/13</i>	<i>Months</i>
									<i>12/31/13</i>
Volume									
Natural Gas (mmcf)	177	184	191	177	204	219	234	250	227
Oil (mbd)	65	72	75	68	80	86	92	98	89
Total (mb)	8.6	9.5	9.8	35.7	10.3	11.1	12.0	12.9	46
Total (mbd)	95	103	107	98	114	122	131	140	127
Price									
Henry Hub (\$/mmbtu)	2.21	2.80	3.40	2.79	3.49	3.63	3.75	3.92	3.70
Differential (\$/mmbtu)	(1.30)	(1.20)	(1.45)	(1.43)	(1.49)	(1.55)	(1.60)	(1.67)	(1.60)
Company (\$/mcf)	3.51	4.00	4.86	4.21	4.99	5.19	5.35	5.59	5.30
WTI Cushing (\$/bbl)	93.32	92.22	88.18	94.16	95.17	96.46	96.61	95.81	96.01
Differential	12.76	9.35	8.94	11.16	9.65	12.00	12.02	11.92	11.44
Company (\$/bbl)	80.56	82.87	79.24	83.00	85.52	84.46	84.59	83.89	84.57
Total (\$/bbl)	62.04	65.32	64.31	65.59	68.95	68.56	68.94	68.90	68.84
Revenue (\$mm)									
Natural Gas	57	68	85	272	92	103	115	129	439
Oil	479	550	547	2,070	618	660	715	759	2,751
Total	535	618	632	2,342	709	763	830	888	3,190
Expense									
Lease operating	44	54							
Production taxes	49	63							
General and administrative	30	32							
Total	123	149	158	546	177	191	208	222	798
Ebitda	412	469	474	1,796	532	572	623	666	2,393
Exploration	9	5	5	23	5	5	5	5	20
Deprec., Deplet., & Amort.	161	189	189	688	189	189	189	189	756
Other	22	(9)	22	88	(42)	(20)	7	30	(24)
Ebit	220	284	258	997	380	398	421	441	1,640
Interest	32	39	39	134	134	134	134	134	536
Ebt	188	245	219	863	246	264	287	307	1,104
Income Tax	66	86	77	302	86	92	101	108	387
Net Income (\$mm)	122	159	142	561	160	172	187	200	718
Per Share (\$)	0.68	0.87	0.78	3.09	0.87	0.94	1.02	1.09	3.92
Shares (millions)	180	183	183	182	183	183	183	183	183
Ebitda Margin	77%	76%	75%	77%	75%	75%	75%	75%	75%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Continental Resources					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	329	11.1	15.8	5,200	24%
Oil	2,064	12.1	7.8	16,100	76%
	2,393	11.8	8.9	21,300	100%
Debt (US\$mm)					3,000
Net Present Value (US\$mm)					18,300
Shares (mm)					183
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					106



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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	24-Jan	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	68.51	1.31	14,390	75	25	16.9	0.16	0.2	0.98
PDC Energy	PDCE		36.97	1.70	1,910	44	56	11.3	-	-	0.96
Peyto Exploration and Developmen	PEYUF		23.88	1.21	4,170	76	24	10.5	0.72	3.0	0.90
Halcón Resources	HK		7.66	1.56	4,070	15	85	5.8	-	-	0.84
Continental Resources (32%)	CLR	B	80.77	1.20	5,690	24	76	7.4	-	-	0.83
Denbury Resources Inc.	DNR		18.21	1.45	10,340	4	96	6.3	-	-	0.73
Birchcliff Energy Ltd.	BIREF	B	7.48	1.46	1,630	63	37	9.1	-	-	0.71
Berry Petroleum Company	BRY		34.89	1.91	3,690	12	88	5.0	-	-	0.66
Cimarex Energy Company	XEC	B	63.23	1.25	6,880	41	59	5.2	0.48	0.8	0.63
Whiting Petroleum Corporation	WLL	B	47.41	1.38	7,770	9	91	4.6	-	-	0.62
<i>Total or Median</i>				<i>1.41</i>	<i>60,500</i>	<i>33</i>	<i>67</i>	<i>6.8</i>			<i>0.78</i>
Leveraged Cash Payers											
Linn Energy, LLC	LINE		38.45	1.65	14,750	43	57	12.4	2.90	7.5	1.15
Vanguard Natural Resources, LLC	VNR		28.67	1.60	2,440	33	67	11.5	2.40	8.4	1.09
Legacy Reserves L.P.	LGCY		25.24	1.48	1,780	25	75	8.8	2.26	9.0	0.89
Enerplus Corporation	ERF	CB	13.45	1.68	4,400	31	69	6.0	1.09	8.1	0.75
<i>Total or Median</i>				<i>1.62</i>	<i>23,400</i>	<i>32</i>	<i>68</i>	<i>10.2</i>		<i>8.2</i>	<i>0.99</i>
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		23.69	TL	1,620	16	84	11.2	1.69	7.2	1.12
Enduro Royalty Trust (40%)	NDRO		17.35	BL	230	48	52	8.2	1.89	10.9	0.83
Dorchester Minerals, L.P.	DMLP	B	22.24	TL	680	61	39	11.6	1.86	8.4	0.82
San Juan Basin Royalty Trust	SJT	B	15.92	BL	740	100	-	10.5	1.08	6.8	0.76
Sabine Royalty Trust	SBR		46.13	TL	670	51	49	11.7	3.94	8.5	0.71
Permian Basin RT	PBT		14.12	TL	660	33	67	9.0	0.87	6.2	0.71
Cross Timbers Royalty Trust	CRT		30.66	TL	180	70	30	9.5	3.14	10.2	0.70
Hugoton RoyaltyTrust	HGT		8.65	BL	350	88	13	7.1	0.62	7.2	0.62
Mesa RoyaltyTrust	MTR		24.03	BL	45	75	25	9.2	2.10	8.7	0.60
<i>Total or Median</i>					<i>5,200</i>	<i>61</i>	<i>39</i>	<i>9.5</i>		<i>8.4</i>	<i>0.71</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 December 31, 2013. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											



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Table ISC-2

McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			Price (\$/sh)		Market	Net	Debt/	
	Symbol/ Rating		24-Jan 2013	Shares (mm)	Cap (\$mm)	Value (\$/un)	Present Value	McDep Ratio
Small Cap Independent Producers								
Range Resources	RRC	B	68.51	160.0	10,960	70.00	0.23	0.98
PDC Energy	PDCE		36.97	30.2	1,120	40.00	0.39	0.96
Peyto Exploration and Development Cor	PEYUF		23.88	144.0	3,440	27.00	0.16	0.90
Halcón Resources	HK		7.66	339.0	2,600	10.00	0.30	0.84
Continental Resources (32%)	CLR	B	80.77	58.6	4,730	100.00	0.14	0.83
Denbury Resources Inc.	DNR		18.21	391.0	7,120	28.00	0.23	0.73
Birchcliff Energy Ltd.	BIREF	B	7.48	149.0	1,110	12.00	0.22	0.71
Berry Petroleum Company	BRY		34.89	55.3	1,930	70.00	0.31	0.66
Cimarex Energy Company	XEC	B	63.23	86.9	5,490	110.00	0.13	0.63
Whiting Petroleum Corporation	WLL	B	47.41	119.0	5,640	88.00	0.17	0.62
<i>Total or Median</i>					<i>44,140</i>		<i>0.23</i>	<i>0.78</i>
Leveraged Cash Payers								
Linn Energy, LLC	LINE		38.45	233.0	8,960	30.00	0.45	1.15
Vanguard Natural Resources, LLC	VNR		28.67	53.1	1,520	25.00	0.41	1.09
Legacy Reserves L.P.	LGCY		25.24	47.5	1,200	30.00	0.29	0.89
Enerplus Corporation	ERF	CB	13.45	196.0	2,640	21.00	0.30	0.75
<i>Total or Median</i>					<i>14,320</i>		<i>0.36</i>	<i>0.99</i>
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		23.69	65.7	1,560	21.00	0.05	1.12
Enduro Royalty Trust (40%)	NDRO		17.35	13.2	230	21.00	-	0.83
Dorchester Minerals, L.P.	DMLP	B	22.24	30.7	680	27.00	-	0.82
San Juan Basin Royalty Trust	SJT	B	15.92	46.6	740	21.00	-	0.76
Sabine Royalty Trust	SBR		46.13	14.6	670	65.00	-	0.71
Permian Basin RT	PBT		14.12	46.6	660	20.00	-	0.71
Cross Timbers Royalty Trust	CRT		30.66	6.0	180	44.00	-	0.70
Hugoton RoyaltyTrust	HGT		8.65	40.0	350	14.00	-	0.62
Mesa RoyaltyTrust	MTR		24.03	1.9	45	40.00	-	0.60
<i>Total or Median</i>					<i>5,120</i>			<i>0.71</i>
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		24-Jan 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	68.51		-	13.5	17.2	16.9
PDC Energy	PDCE		36.97		-	15.0	11.8	11.3
Peyto Exploration and Development Corp	PEYUF		23.88		0.31	9.2	11.6	10.5
Birchcliff Energy Ltd.	BIREF	B	7.48		-	19.4	12.9	9.1
Continental Resources (32%)	CLR	B	80.77		-	11.8	8.9	7.4
Denbury Resources Inc.	DNR		18.21		-	13.0	8.6	6.3
Halcón Resources	HK		7.66		-	5.5	6.9	5.8
Cimarex Energy Company	XEC	B	63.23		-	7.4	8.2	5.2
Berry Petroleum Company	BRY		34.89		-	11.3	7.6	5.0
Whiting Petroleum Corporation	WLL	B	47.41		-	9.1	7.5	4.6
	<i>Median</i>					11.5	8.7	6.8
Leveraged Cash Payers								
Linn Energy, LLC	LINE		38.45		1.04	14.0	10.7	12.4
Vanguard Natural Resources, LLC	VNR		28.67		1.02	13.2	10.6	11.5
Legacy Reserves L.P.	LGCY		25.24		0.75	11.0	10.0	8.8
Enerplus Corporation	ERF	CB	13.45		0.42	6.3	8.0	6.0
	<i>Median</i>					12.1	10.3	10.2
RTF Cash Payers								
Sabine Royalty Trust	SBR		46.13	100	1.00	8.1	16.5	11.7
Dorchester Minerals, L.P.	DMLP	B	22.24	77	0.97	6.7	14.1	11.6
Freehold Royalties Ltd.	FRHLF		23.69	80	0.80	5.1	9.9	11.2
San Juan Basin Royalty Trust	SJT	B	15.92		0.71	9.1	13.9	10.5
Cross Timbers Royalty Trust	CRT		30.66	78	0.97	14.2	13.6	9.5
Mesa RoyaltyTrust	MTR		24.03		0.80	7.7	15.3	9.2
Permian Basin RT	PBT		14.12	52	0.55	9.9	12.7	9.0
Enduro Royalty Trust (40%)	NDRO		17.35		0.89	6.4	9.9	8.2
Hugoton RoyaltyTrust	HGT		8.65		0.51	12.9	11.5	7.1
	<i>Median</i>					8.1	13.6	9.5
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 December 31, 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										
McDep Income and Small Cap Energy Portfolio										
Total Return and Enterprise Value Momentum										
			Price (\$/sh)	Equity Total	Enterprise Value/					
	Symbol/ Rating		24-Jan 2013	Return YTD (%)	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers										
	PDC Energy	PDCE	36.97	11	0.95	1.39	1.06	1.13	0.96	
	Peyto Exploration and Development C	PEYUF	23.88	3	0.92	1.47	1.00	1.11	0.90	
	Denbury Resources Inc.	DNR	18.21	12	0.89	1.24	1.09	1.09	0.73	
	Continental Resources (32%)	CLR	B	80.77	10	0.86	1.26	1.07	1.07	0.83
	Cimarex Energy Company	XEC	B	63.23	10	0.76	1.27	1.04	1.06	0.63
	Range Resources	RRC	B	68.51	9	0.94	1.21	1.04	1.05	0.98
	Birchcliff Energy Ltd.	BIREF	B	7.48	(3)	0.62	1.30	0.98	1.05	0.71
	Whiting Petroleum Corporation	WLL	B	47.41	9	0.80	1.22	1.05	1.04	0.62
	Halcón Resources	HK		7.66	11	0.68		1.08	0.97	0.84
	Berry Petroleum Company	BRY		34.89	4	0.75	1.08	1.02	0.96	0.66
	<i>Median</i>				9	0.83	1.26	1.05	1.05	0.78
Leveraged Cash Payers										
	Vanguard Natural Resources, LLC	VNR		28.67	10	0.97	1.15	1.03	1.03	1.09
	Linn Energy, LLC	LINE		38.45	9	0.94	1.07	1.01	1.00	1.15
	Legacy Reserves L.P.	LGCY		25.24	6	0.89	1.08	1.03	0.97	0.89
	Enduro Royalty Trust (40%)	NDRO		17.35	4	0.79	1.16	1.03	0.96	0.83
	Enerplus Corporation	ERF	CB	13.45	4	0.67	1.10	1.02	0.95	0.75
	<i>Median</i>				6	0.89	1.10	1.03	0.97	0.89
RTF Cash Payers										
	Freehold Royalties Ltd.	FRHLF		23.69	7	0.97	1.39	1.07	1.19	1.12
	San Juan Basin Royalty Trust	SJT	B	15.92	19	0.78	1.32	1.17	1.08	0.76
	Hugoton RoyaltyTrust	HGT		8.65	18	0.54	1.51	1.12	1.06	0.62
	Dorchester Minerals, L.P.	DMLP	B	22.24	12	0.84	1.12	1.05	1.00	0.82
	Cross Timbers Royalty Trust	CRT		30.66	14	0.62	1.30	1.13	0.92	0.70
	Sabine Royalty Trust	SBR		46.13	17	0.69	1.19	1.04	0.91	0.71
	Mesa RoyaltyTrust	MTR		24.03	25	0.56	1.29	1.13	0.89	0.60
	Permian Basin RT	PBT		14.12	15	0.61	1.18	1.08	0.86	0.71
	<i>Median</i>				16	0.66	1.29	1.10	0.96	0.71

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

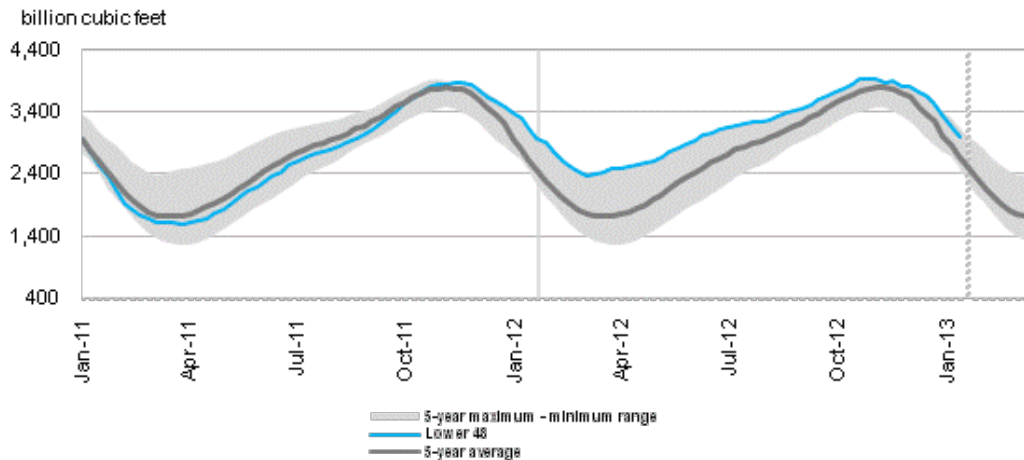


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Working gas in underground storage compared with the 5-year maximum and minimum



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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