



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 9, 2010

## Petrohawk Early in Haynesville

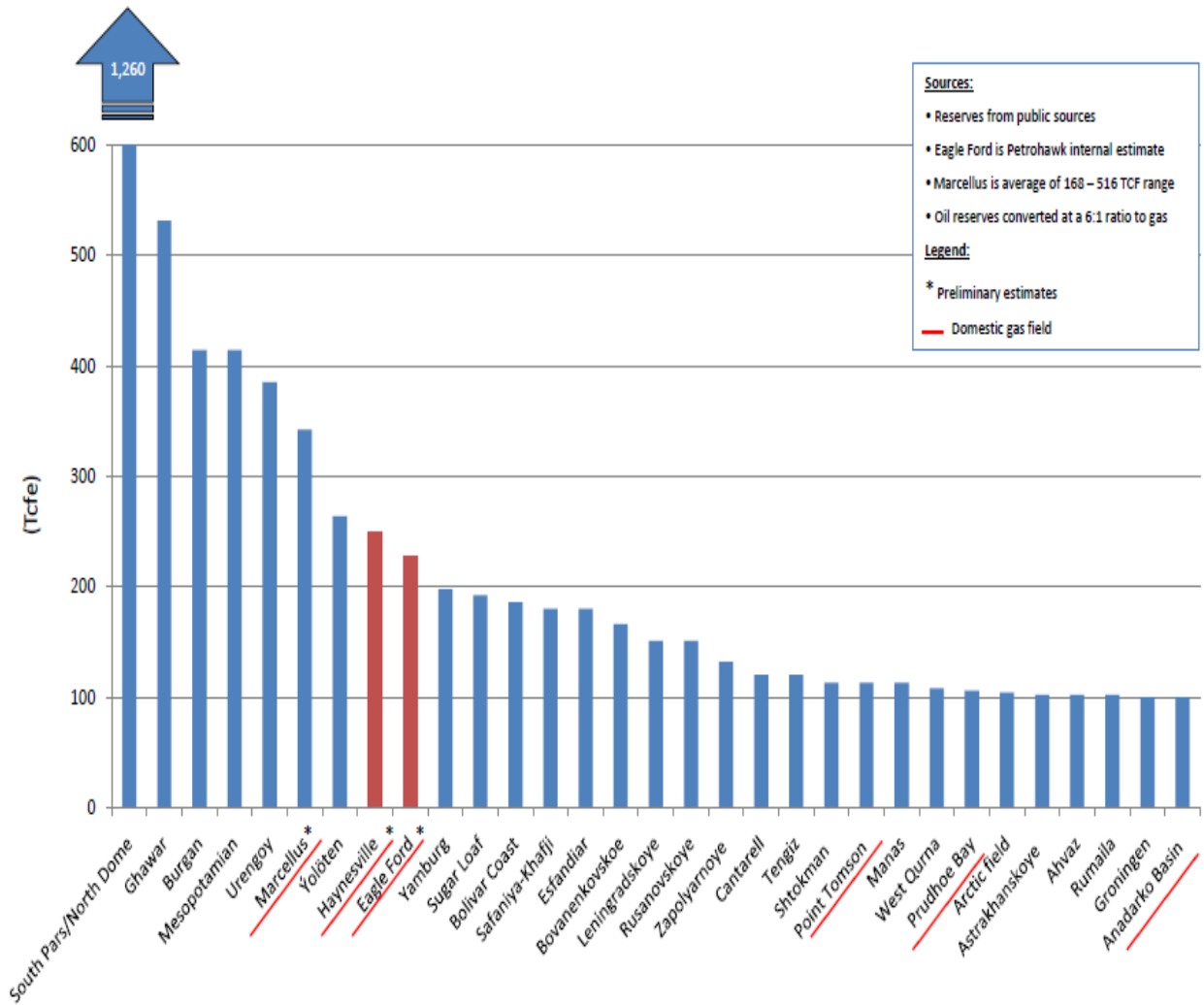
<i>Symbol</i>	HK	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$m)</i>	894
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	94
<i>Price (\$/sh)</i>	17.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/8/10	<i>Adjusted Reserves/Production NTM</i>	7.1
<i>Shares (mm)</i>	303	<i>EV/Ebitda</i>	9.1
<i>Market Capitalization (\$mm)</i>	5,360	<i>PV/Ebitda</i>	8.5
<i>Debt (\$mm)</i>	2,740	<i>Undeveloped Reserves (%)</i>	67
<i>Enterprise Value (EV) (\$mm)</i>	8,100	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	20.80
<i>Present Value (PV) (\$mm)</i>	7,590	<i>Present Value Proven Reserves(\$/boe)</i>	16.60
<i>Net Present Value (\$/share)</i>	16	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Debt/Present Value</i>	0.36	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.47
<i>McDep Ratio - EV/PV</i>	1.07	<i>Price/Earnings Next Twelve Months</i>	38
<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\$75 a barrel and natural gas, \$8 a million btu.			

### Summary and Recommendation

Small (mid) cap independent producer **Petrohawk Energy Corp. (HK)** offers a concentrated investment in the new Haynesville Shale natural gas field in Louisiana. Though McDep Ratio is on the high end at 1.07, it is down from 1.25 when we began coverage in April. The resource potential is great as HK thinks Haynesville may be the eighth largest oil and gas field in the world (see slide on page 2). The company's Haynesville volume jumped to 400 million cubic feet equivalent daily (Mmcfe/d) in just two years (see slide on page 3). With current stock price near NPV, investors are paying for no more than currently proven reserves and the near-term level of operations (see table [Functional Cash Flow and Present Value](#) on page 3). Nonetheless, further rapid growth appears likely beyond 700 Mmcfe/d we project from Haynesville and other fields for the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#) on page 4). There are caveats to growth expectations. Moderately high debt presents some risk to the rate of expansion. Moreover, natural gas price remains below its 200-day or 40-week average as we await a resumption of an uptrend. Also, Petrohawk stock has been in a downtrend with current price at the lowest ratio to 200-day average of any stock in our Income and Small Cap coverage. Yet, when Petrohawk introduced investors to the Haynesville Shale in the second quarter of 2008, it electrified the market with a stock price climb to \$48 from \$20 a share in three months. That move may repeat itself, but more gradually, over the next few years. We see favorable prospects for Petrohawk and its peers (see [Tables 1-3](#) on pages 5-7).

Kurt H. Wulff, CFA

## Largest Oil and Gas Fields in the World in TCFE





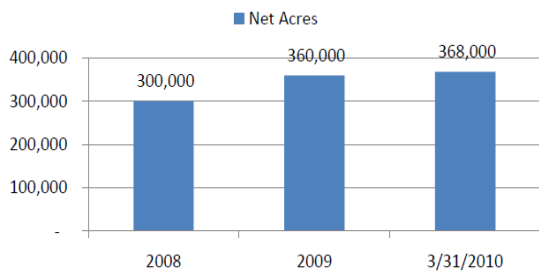
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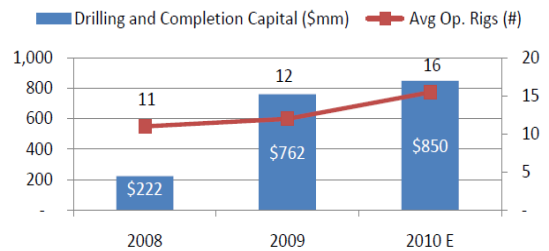
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## Haynesville: A Stable Asset for HK

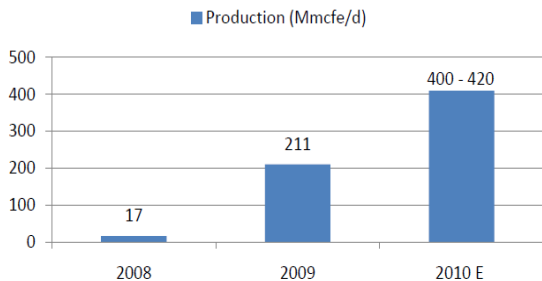
Haynesville Net Acreage



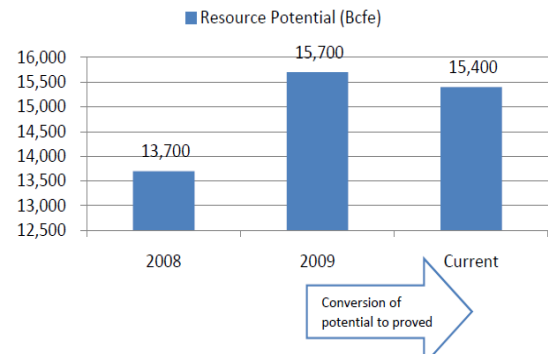
Haynesville Drilling and Completions Budget



Haynesville Daily Production



Haynesville Resource Potential – HK net risked estimates



Petrohawk Energy Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	842	7.2	8.7	7,290	96%
Oil	52	5.1	5.8	300	4%
	894	7.1	8.5	7,590	100%
Debt (US\$mm)					2,740
Net Present Value (US\$mm)					4,850
Shares (mm)					303
Net Present Value - Standard Estimate (US\$/sh)					16
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					17



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Petrohawk Energy Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>12/31/09</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>Months</i>
									<i>6/30/11</i>
<b>Volume</b>									
Natural Gas (mmcf)	576	609	600	650	700	<b>640</b>	700	700	<b>687</b>
Oil (mbd)	3.4	2.7	2.6	2.8	3.0	<b>2.8</b>	3.0	3.0	<b>2.9</b>
Total (mb)	9.1	9.4	9.3	10.2	11.0	<b>40</b>	10.8	10.9	<b>43</b>
Total (mbd)	99	104	103	111	120	<b>0.1</b>	120	120	<b>118</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.16	5.32	4.09	4.78	5.13	<b>4.83</b>	5.35	5.12	<b>5.09</b>
Differential (\$/mmbtu)	0.08	0.17	0.13	0.15	0.16	<b>0.14</b>	0.17	0.16	<b>0.16</b>
Company (\$/mcf)	4.08	5.15	3.96	4.62	4.96	<b>4.69</b>	5.18	4.95	<b>4.93</b>
WTI Cushing (\$/bbl)	76.09	78.67	77.70	71.90	73.30	<b>75.40</b>	74.65	75.73	<b>73.90</b>
Differential	3.44	3.38	3.34	3.09	3.15	<b>3.38</b>	3.21	3.26	<b>3.15</b>
Company (\$/bbl)	72.65	75.29	74.36	68.81	70.15	<b>72.02</b>	71.44	72.47	<b>70.74</b>
Total (\$/bbl)	26.14	32.04	25.04	28.77	30.80	<b>29.22</b>	32.08	30.79	<b>30.63</b>
<b>Revenue (\$mm)</b>									
Natural Gas	216	282	216	276	320	<b>1,095</b>	326	316	<b>1,238</b>
Oil	23	18	18	18	19	<b>73</b>	19	20	<b>76</b>
Total	239	300	234	294	339	<b>1,167</b>	345	335	<b>1,314</b>
<b>Expense</b>									
Lease operating	24	20							-
Production taxes	18	13							-
General and administrative	25	33							-
Total	67	66	77	97	105	<b>345</b>	107	111	<b>420</b>
<b>Ebitda</b>	172	234	157	197	234	<b>822</b>	238	225	<b>894</b>
Deprec., Deplet., & Amort.	106	106	106	106	106	<b>424</b>	106	106	<b>424</b>
Other	(48)	5				<b>5</b>			-
<b>Ebit</b>	114	124	51	91	128	<b>393</b>	132	119	<b>470</b>
Interest	58	63	63	63	63	<b>252</b>	63	63	<b>252</b>
<b>Ebt</b>	56	61	(12)	28	65	<b>141</b>	69	56	<b>218</b>
Income Tax	20	21	(4)	10	23	<b>49</b>	24	19	<b>76</b>
<b>Net Income (\$mm)</b>	36	39	(8)	18	42	<b>92</b>	45	36	<b>142</b>
Per Share (\$)	0.12	0.13	(0.03)	0.06	0.14	<b>0.30</b>	0.15	0.12	<b>0.47</b>
<b>Shares (millions)</b>	302	303	303	303	303	<b>303</b>	303	303	<b>303</b>
Ebitda Margin	72%	78%	67%	67%	69%	<b>70%</b>	69%	67%	<b>68%</b>
Tax rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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Table 1									
McDep Income and Small Cap Energy Portfolio									
Debt, Business Segments and Income Yield									
Symbol/Rating	Price (US\$/sh)	EV/Market	Enterprise Value (\$mm)	Present Value by Segment (%)			Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
				NAmer. Natural Gas	Oil Prod'n				
B = Buy	8-Jul 2010	Market Cap							
CB (see below)									
<b>Canadian Income Trusts (US\$)</b>									
Peyto Energy Trust	PEYUF	14.46	1.24	2,160	76	24	1.35	9.3	0.97
Pengrowth Energy Trust	PGH	9.81	1.45	4,100	39	61	0.79	8.0	0.92
Penn West Energy Trust	PWE	19.66	1.39	11,700	23	77	1.69	8.6	0.89
Enerplus Resources Fund	ERF	22.07	1.22	4,800	42	58	2.03	9.2	0.77
Canadian Oil Sands Trust	COSWF CB	26.03	1.11	13,900		100	1.88	7.2	0.71
<i>Total or Median</i>				36,700					0.89
<b>Small Cap Independent Producers</b>									
Petrohawk Energy Corporation	HK	17.70	1.51	8,100	96	4	-	-	1.07
Range Resources	RRC	41.90	1.27	8,540	95	5	0.08	0.2	1.04
Denbury Resources Inc.	DNR	14.98	1.58	9,210	16	84	-	-	1.00
Cimarex Energy Company	XEC B	74.79	1.10	7,010	71	29	0.32	0.4	1.00
Ultra Petroleum	UPL	46.66	1.17	7,940	94	6	-	-	0.90
Berry Petroleum Company	BRY	27.58	1.76	2,480	31	69	0.30	1.1	0.87
Whiting Petroleum Corporation	WLL	79.78	1.25	5,630	13	87	-	-	0.83
Birchcliff Energy Ltd. (US\$)	BIREF B	9.65	1.20	1,470	65	35	-	-	0.73
<i>Total or Median</i>				50,400					0.95
<b>Top Line Cash Payers</b>									
Sabine Royalty Trust	SBR	49.99	1.00	730	50	50	3.32	6.6	1.11
Permian Basin RT	PBT	18.70	1.00	870	38	62	1.14	6.1	1.04
Cross Timbers Royalty Trust	CRT	34.40	1.00	210	75	25	2.26	6.6	1.01
Dorchester Minerals, L.P.	DMLP B	25.71	1.02	780	71	29	1.70	6.6	0.95
Freehold Royalty Trust (US\$)	FRHLF	16.00	1.08	1,010	25	75	1.58	9.9	0.95
<i>Total or Median</i>				3,600					1.01
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	27.72	1.43	5,700	42	58	2.52	9.1	1.20
Legacy Reserves L.P.	LGCY	23.89	1.37	1,280	16	84	2.08	8.7	1.13
San Juan Basin Royalty Trust	SJT B	25.29	1.00	1,180	100	-	1.37	5.4	1.10
Encore Energy Partners, L.P. (52%)	ENP	18.05	1.32	560	23	77	2.00	11.1	1.05
Hugoton Royalty Trust	HGT B	19.70	1.00	790	90	10	1.57	7.9	0.94
Mesa Royalty Trust	MTR	43.81	1.00	82	75	25	3.64	8.3	0.92
<i>Total or Median</i>				9,600					1.07
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				86,300	54	46			0.95
<i>Equal Weighting</i>					55	45			0.97
<i>Equal Weighted Buys</i>					69	31			0.94

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 \$75 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2011. Enterprise Value = Market Cap and Debt.



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<b>Table 2</b>								
<b>McDep Income and Small Cap Energy Portfolio</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>		<i>Net</i>			
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>8-Jul</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	
	<i>Rating</i>		<i>2010</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	
							<i>McDep</i>	
							<i>Ratio</i>	
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		14.46	120.5	1,740	15.00	0.19	0.97
Pengrowth Energy Trust	PGH		9.81	290.0	2,840	11.00	0.29	0.92
Penn West Energy Trust	PWE		19.66	428.3	8,420	23.00	0.25	0.89
Enerplus Resources Fund	ERF		22.07	178.0	3,930	30.00	0.14	0.77
Canadian Oil Sands Trust	COSWF	CB	26.03	484.0	12,600	38.00	0.07	0.71
<i>Total or Median</i>					<i>29,500</i>		<i>0.19</i>	<i>0.89</i>
<b>Small Cap Independent Producers</b>								
Petrohawk Energy Corporation	HK		17.70	303.0	5,360	16.00	0.36	1.07
Range Resources	RRC		41.90	160.0	6,700	40.00	0.22	1.04
Denbury Resources Inc.	DNR		14.98	390.0	5,840	15.00	0.37	1.00
Cimarex Energy Company	XEC	B	74.79	85.4	6,390	75.00	0.09	1.00
Ultra Petroleum	UPL		46.66	154.0	6,780	50.00	0.13	0.90
Berry Petroleum Company	BRY		27.58	51.0	1,410	35.00	0.37	0.87
Whiting Petroleum Corporation	WLL		79.78	59.2	4,500	95.00	0.17	0.83
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.65	127.0	1,230	14.00	0.12	0.73
<i>Total or Median</i>					<i>38,210</i>		<i>0.20</i>	<i>0.95</i>
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		49.99	14.6	730	45.00	-	1.11
Permian Basin RT	PBT		18.70	46.6	870	18.00	-	1.04
Cross Timbers Royalty Trust	CRT		34.40	6.0	210	34.00	-	1.01
Dorchester Minerals, L.P.	DMLP	B	25.71	29.8	770	27.00	0.02	0.95
Freehold Royalty Trust (US\$)	FRHLF		16.00	58.4	930	17.00	0.07	0.95
<i>Total or Median</i>					<i>3,510</i>			<i>1.01</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		27.72	144.0	3,990	21.00	0.36	1.20
Legacy Reserves L.P.	LGCY		23.89	39.2	940	20.00	0.31	1.13
San Juan Basin Royalty Trust	SJT	B	25.29	46.6	1,180	23.00	-	1.10
Encore Energy Partners, L.P. (52%)	ENP		18.05	23.4	420	17.00	0.26	1.05
Hugoton Royalty Trust	HGT	B	19.70	40.0	790	21.00	-	0.94
Mesa Royalty Trust	MTR		43.81	1.9	82	48.00	-	0.92
<i>Total or Median</i>					<i>7,400</i>			<i>1.07</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 \$75 a barrel for oil and \$8 a million btu for natural gas.



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			<i>Price</i> <i>(\$/sh)</i>	<i>Revenue</i>	<i>Dist/</i>	<i>Adjstd</i>		
	<i>Symbol/</i>		<i>8-Jul</i>	<i>Royalty</i>	<i>Equity</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>
	<i>Rating</i>		<i>2010</i>	<i>(%)</i>	<i>Ebitda</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>
						<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		14.46		1.04	23.1	11.6	11.2
Canadian Oil Sands Trust	COSWF	CB	26.03		0.68	31.0	13.8	9.7
Penn West Energy Trust	PWE		19.66		0.69	9.9	9.4	8.4
Pengrowth Energy Trust	PGH		9.81		0.60	9.9	8.4	7.7
Enerplus Resources Fund	ERF		22.07		0.61	9.7	9.0	7.0
	<i>Median</i>					<i>9.9</i>	<i>9.4</i>	<i>8.4</i>
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		41.90		-	12.4	11.5	11.9
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.65		-	22.4	15.0	10.9
Ultra Petroleum	UPL		46.66		-	14.1	11.9	10.7
Denbury Resources Inc.	DNR		14.98		-	11.3	9.4	9.3
Petrohawk Energy Corporation	HK		17.70		-	7.1	8.5	9.1
Berry Petroleum Company	BRY		27.58		-	13.1	8.3	7.2
Whiting Petroleum Corporation	WLL		79.78		-	10.3	8.0	6.7
Cimarex Energy Company	XEC	B	74.79		-	6.4	5.8	5.8
	<i>Median</i>					<i>11.9</i>	<i>8.9</i>	<i>9.2</i>
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		49.99	100	1.00	9.1	13.6	15.1
Permian Basin RT	PBT		18.70	42	0.89	13.3	14.0	14.6
Cross Timbers Royalty Trust	CRT		34.40	84	0.96	13.6	14.4	14.5
Dorchester Minerals, L.P.	DMLP	B	25.71	77	0.91	7.5	14.5	13.8
Freehold Royalty Trust (US\$)	FRHLF		16.00	71	0.88	8.6	9.5	9.0
	<i>Median</i>					<i>9.1</i>	<i>14.0</i>	<i>14.5</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		27.72		1.63	20.0	13.5	16.3
San Juan Basin Royalty Trust	SJT	B	25.29		0.79	14.8	13.2	14.6
Hugoton RoyaltyTrust	HGT	B	19.70		0.90	12.3	12.0	11.3
Mesa RoyaltyTrust	MTR		43.81		0.91	9.2	12.0	11.0
Encore Energy Partners, L.P.	ENP		18.05		1.19	12.9	10.1	10.6
Legacy Reserves L.P.	LGCY		23.89		0.96	12.0	9.2	10.4
	<i>Median</i>					<i>12.6</i>	<i>12.0</i>	<i>11.1</i>
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, 2011; 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).								

Please see disclosures on the final page.



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**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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