



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 12, 2012

Continental Resources (CLR)

New Buy on Bakken Growth

<i>Symbol</i>	CLR	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$m)</i>	2,238
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (\$/sh)</i>	78.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/11/12	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	180	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	14,160	<i>PV/Ebitda</i>	9.2
<i>Debt (\$mm)</i>	2,700	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (\$mm)</i>	16,830	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	50.90
<i>Present Value (PV) (\$mm)</i>	20,660	<i>Present Value Proven Reserves(\$/boe)</i>	33.87
<i>Net Present Value (\$/share)</i>	100	<i>Oil and Gas Ebitda Margin (%)</i>	75
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.73
<i>McDep Ratio - EV/PV</i>	0.81	<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.			

Summary and Recommendation

We recommend current purchase of the shares of **Continental Resources (CLR)** on the basis of expected 25% a year growth in oil production in the Bakken shale oil play in North Dakota pioneered by Continental founder and 68% owner Harold Hamm. After participating in the company's Investor Day event on October 9, we raise estimated Net Present Value (NPV) to \$100 a share to give partial recognition to unusual growth prospects (see table Functional Cash Flow and Present Value on page 3). Continental initiated the Bakken shale trend, has the largest acreage holdings and has out distanced the competition to become the largest Bakken producer (see slides Bakken Growth Outpacing Competitors on page 3 and King of the Bakken on page 4). In the largest U.S. oil field to be discovered in forty years, CLR's proven reserves of 308 million barrels equivalent are less than a tenth of 4.5 billion barrels net unbooked potential. Other properties accounting for the remaining 50% of proven reserves add 36% to net unbooked potential with most of the anticipated growth in a new play for CLR in Oklahoma's Anadarko Woodford (see slide Realizing Growth Potential on page 4). Current futures prices support the profitability of new investment that is necessary to realize growth in volume, cash flow and earnings (see table Next Twelve Months Operating and Financial Estimates on page 5). We would buy some CLR stock now, knowing that the price is in an uptrend as it trades above its rising 200-day average. We would reserve some buying power because the stock has already been the best performer on a year-to-date basis among small cap and income stocks in our coverage. The weekly valuation rankings may help in assessing the timing of future commitments (see Tables ISC-1 through ISC-4 on pages 6-9).

(Continued on next page)



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Disproving the Bakken Skeptics

With almost every Bakken well it drills, CLR proves more reserves from which future production will flow. Activity to date has been concentrated on drilling the first well in each future drilling unit to secure the lease terms which would otherwise expire for lack of activity.

At the same time, the Bakken is not the only shale formation producing oil. Underneath the Bakken lies the Three Forks with its four sub formations, or “benches”, designated TF1, TF2, TF3 and TF4. TF1 has already been drilled widely and is largely considered proven, or “derisked”. TF2 has been proven productive, but CLR has only two wells producing from TF2 so far. CLR’s first TF3 test has been drilled and is waiting for fracking to be completed. CLR has favorable core samples from TF4 and the first producing well to be drilled is scheduled for 2013.

As productive areas are identified and lease terms secured, more concentrated drilling can follow. Two wells in each section are the minimum likely to be drilled and are the basis for the lower estimates of potential net wells and net resource potential for Bakken and Three Forks. The equivalent in the Woodford would be four wells per section. Since a section is 640 acres, the spacing would be 320 acres for two wells and 160 acres for four wells. CLR refers to those cases in shorthand as 320 BK/TF and 160 WDFD. CLR has successfully tested 320 BK/TF.

Infill drilling, infield drilling, or despacing are all terms used to describe what often becomes the normal course of oil and gas field development. CLR has a study from the conservative engineering firm Ryder Scott that supports the validity of 160 acre spacing, or 160 BK/TF. That becomes the basis for the higher estimate of 4.5 billion barrels of net resource potential for CLR in the Bakken and Three Forks.

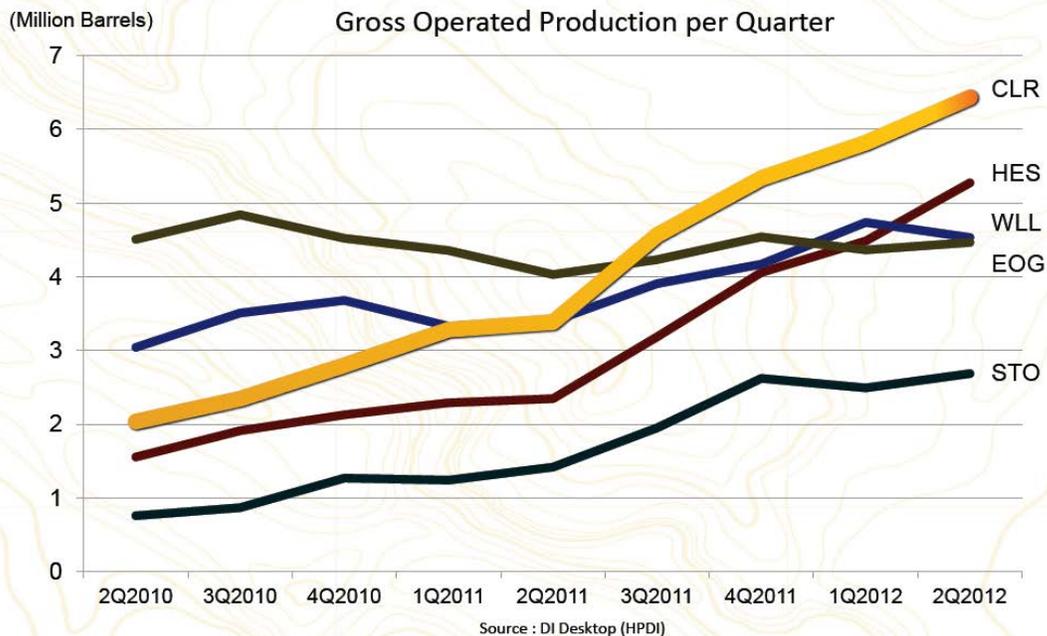
Horizontal drilling is redefining the normal size of drilling units to two sections, or 1280 acres. Each well literally drills a much as ten thousand feet under the combined square mile sections. Even more astounding to us, CLR plans a pilot development to include 14 wells in one 1280 unit, 4 Bakken, 3 TF1, 4 TF2 and 3 TF3. Theoretically, that alternating pattern could be extended to include 4 TF4 wells for a total of 18 wells a unit.

Of course not every section would be of the same quality and there would have to be some that are less economic. On the other hand, CLR is still finding new sections productive beyond the areas included in the derisked sections. In any case, Harold Hamm, Continental Resources, Whiting Petroleum, EOG Resources and others have disproven the skeptics, us included.

Kurt H. Wulff, CFA

Continental Resources					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	385	10.6	10.9	4,200	20%
Oil	1,854	9.3	8.9	16,500	80%
	2,238	9.7	9.2	20,700	100%
Debt (US\$mm)					2,700
Net Present Value (US\$mm)					18,000
Shares (mm)					180
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88

CLR Bakken Growth Outpacing Competitors



BAKKEN: CHANGING THE WORLD

CLR



CLR: King of the Bakken

🔥 #1 Bakken producer, driller and leasehold owner

- 13% production
- 10% rigs
- 10% acreage

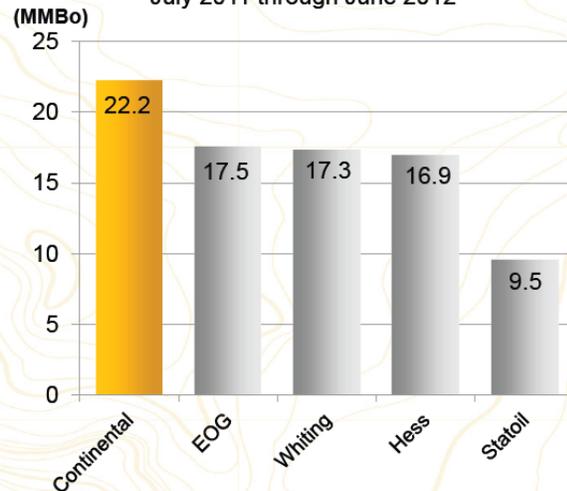
🔥 Net unrisks potential (MB + TF1 only)

- 1.5 BBoe
- 3,988 locations

🔥 Potential to quadruple reserves

- Lower TF
- 160-acre down spacing

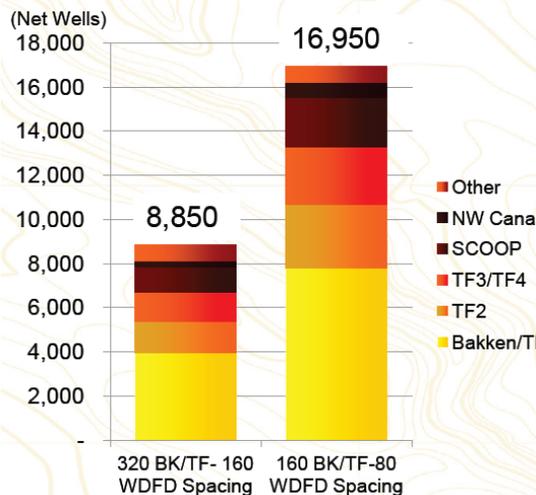
Cumulative Gross Operated Oil Production
July 2011 through June 2012



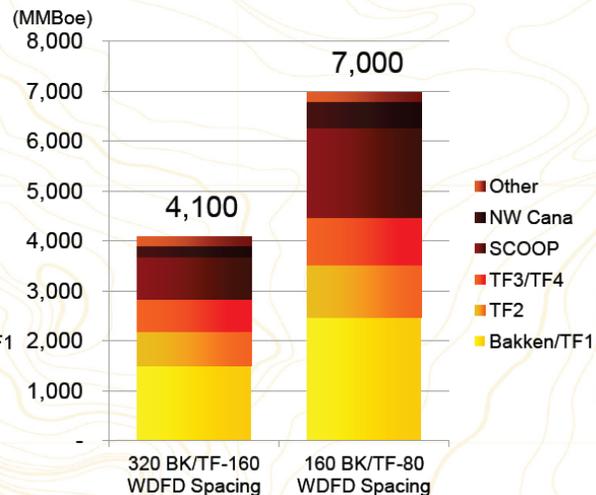
Source: DI Desktop (HPDI)

Realizing CLR's Growth Potential

Unrisks Potential Net Wells



Unbooked Net Resource Potential



Continental estimated proved reserves MY2012: 610 MMBos

* Calculations exclude non-prospective acreage.



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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>Q3E</i>	<i>Next Twelve Months</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>9/30/13</i>	<i>9/30/13</i>
Volume									
Natural Gas (mmcf)	154	177	189	203	181	217	232	248	225
Oil (mbd)	60	65	70	75	67	80	86	92	83
Total (mb)	7.8	8.6	9.3	10.0	35.7	10.5	11.3	12.2	44
Total (mbd)	86	95	101	109	98	116	124	133	120
Price									
Henry Hub (\$/mmbtu)	2.73	2.21	2.80	3.71	2.86	4.02	3.96	4.04	3.93
Differential (\$/mmbtu)	(1.75)	(1.30)	(1.64)	(2.17)	(1.77)	(2.36)	(2.32)	(2.37)	(2.31)
Company (\$/mcf)	4.48	3.51	4.45	5.88	4.63	6.38	6.28	6.40	6.25
WTI Cushing (\$/bbl)	102.93	93.32	92.22	92.39	95.21	93.63	94.62	94.82	93.87
Differential	12.35	12.76	12.61	12.63	12.91	12.80	12.00	12.02	12.27
Company (\$/bbl)	90.58	80.56	79.61	79.75	82.30	80.83	82.62	82.80	81.59
Total (\$/bbl)	71.47	62.04	63.14	65.91	65.46	67.58	68.64	68.99	67.86
Revenue (\$mm)									
Natural Gas	63	57	77	110	306	124	133	146	513
Oil	494	479	512	549	2,033	582	644	698	2,472
Total	557	535	589	658	2,339	706	776	844	2,985
Expense									
Lease operating	41	44							
Production taxes	50	49							
General and administrative	25	30							
Total	116	123	147	165	551	177	194	211	746
Ebitda	441	412	442	494	1,788	530	582	633	2,238
Exploration	4	9	9	9	31	9	9	9	36
Deprec., Deplet., & Amort.	149	161	161	161	632	161	161	161	644
Other	53	22	36	64	175	(5)	23	51	133
Ebit	234	220	236	260	951	365	389	412	1,425
Interest	24	32	32	32	120	120	120	120	392
Ebt	210	188	204	228	831	245	269	292	1,033
Income Tax	74	66	71	80	291	86	94	102	362
Net Income (\$mm)	137	122	133	148	540	159	175	190	672
Per Share (\$)	0.76	0.68	0.74	0.82	3.00	0.88	0.97	1.05	3.73
Shares (millions)	180	180	180	180	180	180	180	180	180
Ebitda Margin	79%	77%	75%	75%	76%	75%	75%	75%	75%
Tax rate	35%	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	(USS/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
B = Buy	11-Oct	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE		32.87	1.69	1,730	54	46	9.9	-	-	1.05
Peyto Exploration and Developmen	PEYUF		25.15	1.17	4,220	77	23	10.1	0.74	2.9	1.04
Range Resources	RRC	B	73.28	1.27	14,890	74	26	13.8	0.16	0.2	1.04
Continental Resources (32%)	CLR	B	78.67	1.19	5,380	20	80	7.5	-	-	0.81
Halcón Resources	HK		7.15	1.36	2,810	12	88	6.7	-	-	0.77
Birchcliff Energy Ltd.	BIREF	CB	7.85	1.44	1,670	63	37	9.8	-	-	0.73
Berry Petroleum Company	BRY		40.34	1.73	3,830	13	87	5.3	-	-	0.70
Denbury Resources Inc.	DNR		16.17	1.50	9,460	6	94	5.7	-	-	0.67
Cimarex Energy Company	XEC	CB	60.89	1.24	6,500	45	55	5.1	0.48	0.8	0.60
Whiting Petroleum Corporation	WLL	CB	46.55	1.35	7,460	8	92	4.7	-	-	0.60
<i>Total or Median</i>					58,000			7.1			0.75
Top Line Cash Payers											
Freehold Royalties Ltd.	FRHLF		20.23	1.04	1,370	16	84		1.72	8.5	0.97
Dorchester Minerals, L.P.	DMLP	B	23.11	1.00	710	57	43		1.97	8.5	0.86
Sabine Royalty Trust	SBR		51.47	1.00	750	55	45		4.02	7.8	0.79
Permian Basin RT	PBT		15.00	1.00	700	37	63		1.10	7.3	0.75
Cross Timbers Royalty Trust	CRT		31.32	1.00	190	70	30		2.75	8.8	0.71
<i>Total or Median</i>					3,700					8.5	0.79
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		40.01	1.76	13,960	40	60	12.8	2.90	7.2	1.17
Vanguard Natural Resources, LLC	VNR		29.15	1.68	2,560	23	77	10.2	2.40	8.2	1.09
Legacy Reserves L.P.	LGCY		29.30	1.31	1,830	24	76	8.9	2.24	7.6	0.98
Enduro Royalty Trust (40%)	NDRO		18.69	1.00	250	39	61	8.0	1.81	9.7	0.89
Enerplus Corporation	ERF	CB	16.54	1.58	5,100	30	70	6.6	1.10	6.7	0.85
San Juan Basin Royalty Trust	SJT	CB	14.74	1.00	690	100	-	8.9	1.25	8.5	0.70
Mesa RoyaltyTrust	MTR		26.70	1.00	50	75	25	8.9	2.28	8.5	0.67
Hugoton RoyaltyTrust	HGT		7.27	1.00	290	88	13	5.9	0.50	6.9	0.52
<i>Total or Median</i>					24,700			8.9		7.9	0.87
Composite											
<i>Enterprise Value Weighting</i>					86,400	38	62				0.83
<i>Equal Weighting</i>						44	56				0.83
<i>Equal Weighted Buys</i>						49	51				0.77

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 September 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)	Market	Net	Debt/		
	Symbol/ Rating		11-Oct 2012	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Present Value	McDep Ratio
Small Cap Independent Producers								
PDC Energy	PDCE		32.87	31.0	1,020	30.00	0.43	1.05
Peyto Exploration and Development Cor	PEYUF		25.15	143.1	3,600	24.00	0.15	1.04
Range Resources	RRC	B	73.28	160.0	11,720	70.00	0.22	1.04
Continental Resources (32%)	CLR	B	78.67	57.6	4,530	100.00	0.13	0.81
Halcón Resources	HK		7.15	290.0	2,070	10.00	0.20	0.77
Birchcliff Energy Ltd.	BIREF	CB	7.85	147.9	1,160	12.00	0.22	0.73
Berry Petroleum Company	BRY		40.34	54.7	2,210	70.00	0.30	0.70
Denbury Resources Inc.	DNR		16.17	391.0	6,320	28.00	0.22	0.67
Cimarex Energy Company	XEC	CB	60.89	86.4	5,260	110.00	0.12	0.60
Whiting Petroleum Corporation	WLL	CB	46.55	119.0	5,540	88.00	0.16	0.60
<i>Total or Median</i>					43,430		0.21	0.75
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		20.23	64.7	1,310	21.00	0.04	0.97
Dorchester Minerals, L.P.	DMLP	B	23.11	30.7	710	27.00	-	0.86
Sabine Royalty Trust	SBR		51.47	14.6	750	65.00	-	0.79
Permian Basin RT	PBT		15.00	46.6	700	20.00	-	0.75
Cross Timbers Royalty Trust	CRT		31.32	6.0	190	44.00	-	0.71
<i>Total or Median</i>					3,660			0.79
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		40.01	198.0	7,920	30.00	0.50	1.17
Vanguard Natural Resources, LLC	VNR		29.15	52.2	1,520	25.00	0.44	1.09
Legacy Reserves L.P.	LGCY		29.30	47.5	1,390	30.00	0.23	0.98
Enduro Royalty Trust (40%)	NDRO		18.69	13.2	250	21.00	-	0.89
Enerplus Corporation	ERF	CB	16.54	196.0	3,240	21.00	0.31	0.85
San Juan Basin Royalty Trust	SJT	CB	14.74	46.6	690	21.00	-	0.70
Mesa RoyaltyTrust	MTR		26.70	1.9	50	40.00	-	0.67
Hugoton RoyaltyTrust	HGT		7.27	40.0	290	14.00	-	0.52
<i>Total or Median</i>					15,350			0.87
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 Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		11-Oct 2012					
Small Cap Independent Producers								
Range Resources	RRC	B	73.28		-	13.8	13.4	13.8
Peyto Exploration and Development Corp	PEYUF		25.15		0.30	9.1	9.7	10.1
PDC Energy	PDCE		32.87		-	8.6	9.4	9.9
Birchcliff Energy Ltd.	BIREF	CB	7.85		-	20.9	13.4	9.8
Continental Resources (32%)	CLR	B	78.67		-	9.7	9.2	7.5
Halcón Resources	HK		7.15		-	5.6	8.7	6.7
Denbury Resources Inc.	DNR		16.17		-	13.0	8.5	5.7
Berry Petroleum Company	BRY		40.34		-	11.4	7.5	5.3
Cimarex Energy Company	XEC	CB	60.89		-	7.7	8.5	5.1
Whiting Petroleum Corporation	WLL	CB	46.55		-	9.3	7.8	4.7
	<i>Median</i>					9.5	8.9	7.1
Top Line Cash Payers								
Sabine Royalty Trust	SBR		51.47	100	1.00	7.9	16.2	12.8
Freehold Royalties Ltd.	FRHLF		20.23	71	0.97	5.6	11.9	11.5
Cross Timbers Royalty Trust	CRT		31.32	78	0.96	17.9	15.5	11.0
Dorchester Minerals, L.P.	DMLP	B	23.11	77	0.90	6.4	12.3	10.6
Permian Basin RT	PBT		15.00	47	0.73	9.4	13.4	10.0
	<i>Median</i>					7.9	13.4	11.0
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		40.01		1.06	15.1	11.0	12.8
Vanguard Natural Resources, LLC	VNR		29.15		0.90	14.0	9.4	10.2
Legacy Reserves L.P.	LGCY		29.30		0.68	11.4	9.1	8.9
San Juan Basin Royalty Trust	SJT	CB	14.74		0.76	8.6	12.6	8.9
Mesa RoyaltyTrust	MTR		26.70		0.75	7.7	13.2	8.9
Enduro Royalty Trust (40%)	NDRO		18.69		0.78	7.2	9.0	8.0
Enerplus Corporation	ERF	CB	16.54		0.41	6.3	7.8	6.6
Hugoton RoyaltyTrust	HGT		7.27		0.41	13.4	11.4	5.9
	<i>Median</i>					10.0	10.2	8.9
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 September 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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Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)		Enterprise Value/			
	Symbol/	11-Oct	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating	2012	High	Low	Avg.	Avg.	Ratio	
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		25.15	0.98	1.56	1.11	1.24	1.04
Range Resources	RRC	B	73.28	0.98	1.29	1.07	1.13	1.04
PDC Energy	PDCE		32.87	0.88	1.35	1.07	1.05	1.05
Continental Resources (32%)	CLR	B	78.67	0.83	1.41	1.04	1.02	0.81
Cimarex Energy Company	XEC	CB	60.89	0.74	1.24	1.02	0.98	0.60
Whiting Petroleum Corporation	WLL	CB	46.55	0.78	1.21	1.01	0.97	0.60
Denbury Resources Inc.	DNR		16.17	0.82	1.18	1.00	0.97	0.67
Berry Petroleum Company	BRY		40.34	0.81	1.14	1.02	0.97	0.70
Birchcliff Energy Ltd.	BIREF	CB	7.85	0.60	1.35	1.08	0.96	0.73
Halcón Resources	HK		7.15	0.61		0.96		0.77
	<i>Median</i>			<i>0.81</i>	<i>1.29</i>	<i>1.03</i>	<i>0.98</i>	<i>0.75</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		20.23	0.95	1.23	1.02	1.05	0.97
Dorchester Minerals, L.P.	DMLP	B	23.11	0.87	1.16	1.04	1.01	0.86
Sabine Royalty Trust	SBR		51.47	0.76	1.13	0.97	0.91	0.79
Cross Timbers Royalty Trust	CRT		31.32	0.61	1.04	0.89	0.79	0.71
Permian Basin RT	PBT		15.00	0.65	1.03	0.91	0.78	0.75
	<i>Median</i>			<i>0.76</i>	<i>1.13</i>	<i>0.97</i>	<i>0.91</i>	<i>0.79</i>
Bottom Line Cash Payers								
Legacy Reserves L.P.	LGCY		29.30	0.96	1.19	1.04	1.04	0.98
Vanguard Natural Resources, LLC	VNR		29.15	0.98	1.15	1.01	1.03	1.09
Linn Energy, LLC	LINE		40.01	0.97	1.09	1.00	1.02	1.17
Enerplus Corporation	ERF	CB	16.54	0.68	1.25	1.02	0.94	0.85
San Juan Basin Royalty Trust	SJT	CB	14.74	0.58	1.22	1.03	0.88	0.70
Mesa RoyaltyTrust	MTR		26.70	0.60	1.17	1.03	0.80	0.67
Hugoton RoyaltyTrust	HGT		7.27	0.32	1.27	1.08	0.67	0.52
	<i>Median</i>			<i>0.68</i>	<i>1.19</i>	<i>1.03</i>	<i>0.94</i>	<i>0.85</i>

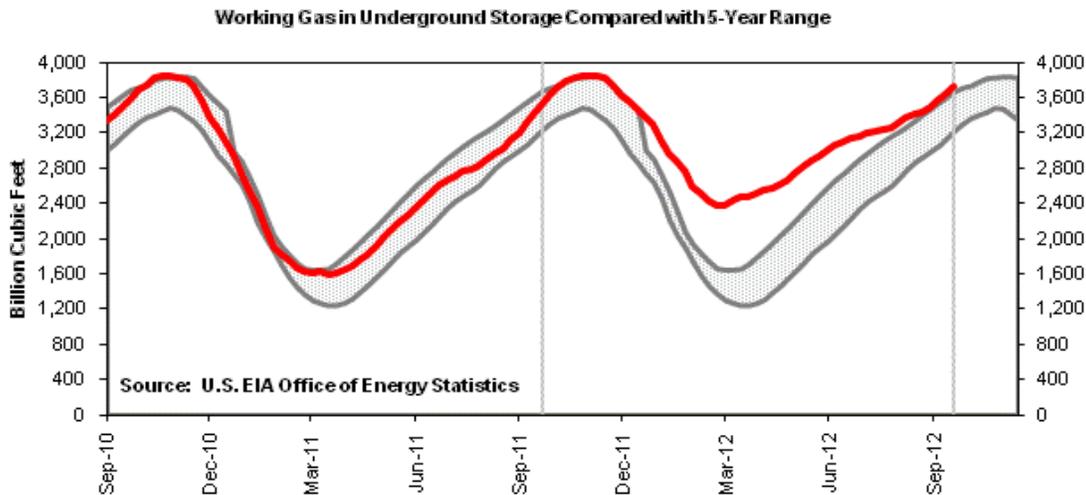
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 12, 2012



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