



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011

Cimarex Energy (XEC – Contrarian Buy) Solid Company, Bouncy Stock

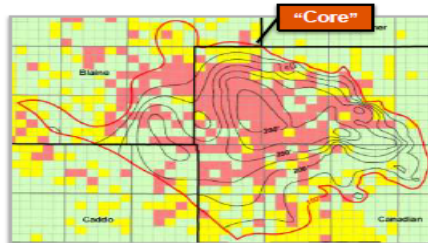
Summary and Recommendation

Despite rising natural gas and oil production in its Mid-Continent and Permian areas and more than 4 trillion cubic feet equivalent (tcfe) of unbooked shale gas resource, Contrarian Buy **Cimarex (XEC)** has declined most in stock price among small cap producers. The magnitude of company's shale gas potential in Western Oklahoma offers years of profitable growth (see slide [Cana-Woodford](#) below). Yet, highly profitable, but short lived Gulf Coast production declined in 2011 from an unusually high level in 2010 (see slide [Region Production](#) on page 2). The decline was no surprise, but the timing was difficult to predict. Meanwhile, overall production growth has likely resumed in the current and future quarters (see [Next Twelve Months Operating and Financial Performance](#) on page 2). With estimated Net Present Value (NPV) of \$120 a share, XEC has near the lowest McDep Ratio among small cap stocks (see [Table ISC-1-2](#) on pages 3-4). Low stock market value is corroborated by lowest unlevered cash flow multiple (EV/Ebitda) at 5.4 times (see [Table ISC-3](#) on page 5). Despite its solid prospects, XEC stock is down the most in enterprise value compared to its 52-week high (see [Table ISC-4](#) on page 6). Finally, we congratulate Mr. Tom Jorden on his promotion to Chief Executive Officer succeeding Mr. Mick Merelli who remains Chairman, announced on August 29, effective September 30. Mr. Jorden and Mr. Merelli have worked together for two decades making money for investors in Cimarex and its predecessor Key Production. We look forward to their continued success.

Kurt H. Wulff, CFA

Cana-Woodford “Core” Potential

- **64,000 net acres**
- **At 80-acre* spacing:**
 - **730 net / 2,200 gross** locations
- **Resource potential:**
 - 4.0 - 5.0 Tcfe**, net of royalty
 - YE 2010 booked proved reserves:
500 Bcfe (300 Bcfe PD & 200 Bcfe PUD)
- **\$5 - \$6 billion in future drilling capital**
(based on current well costs ~ \$7.5 - \$8.5 million)



* Ultimate spacing is still being evaluated using infill pilot areas. Spacing may ultimately be greater or less than 80-acres.

NYSE:XEC

18

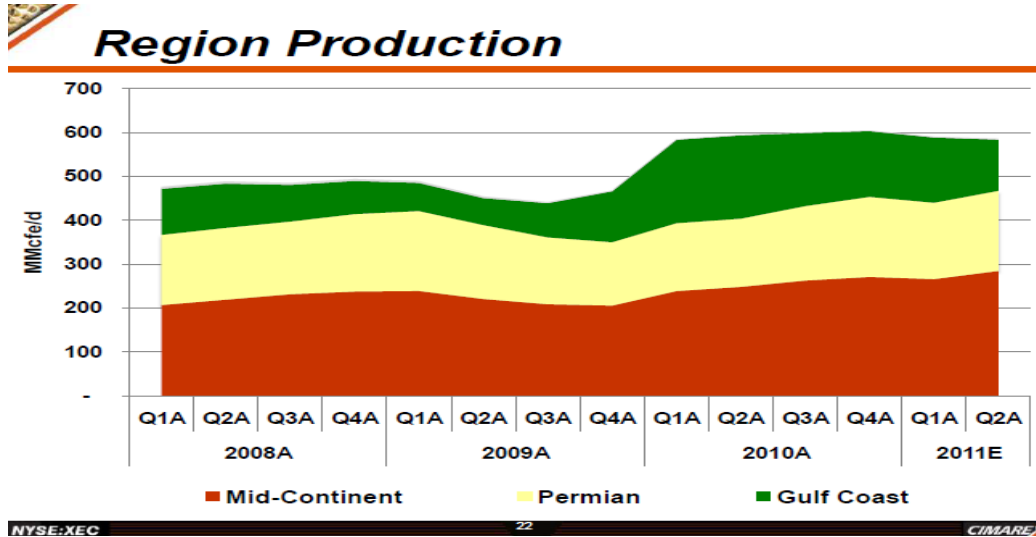
CIMAREX



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011



Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/10	3/31/11	6/30/11	9/30/11	12/31/11	2011E	3/31/12	6/30/12	Twelve
									Months
									6/30/12
Volume									
Natural Gas (mmcf)	371	328	325	334	344	333	344	355	345
Oil (mbd)	37.2	43.7	43.5	44.8	46.1	44.5	46.1	46.1	45.8
Total (bcfe)	54.1	53.1	53.3	55.5	57.2	219	56.5	57.5	227
Total (mmcf)	594	590	586	603	621	600	621	632	619
Price									
Henry Hub (\$/mmbtu)	4.09	4.11	4.32	4.19	3.99	4.15	4.29	4.28	4.19
Company (\$/mcf)	4.48	4.45	4.75	4.61	4.39	4.55	4.72	4.70	4.61
WTI Cushing (\$/bbl)	77.85	94.10	102.55	90.26	87.51	93.60	88.57	89.70	89.01
Company (\$/bbl)	63.12	71.86	78.80	69.35	67.24	71.71	68.06	68.93	68.39
Total (\$/bbl)	40.48	46.77	50.91	46.23	44.58	47.07	46.04	46.07	45.73
Revenue (\$mm)									
Natural Gas	151	131	140	142	139	553	148	152	581
Oil	214	283	312	286	285	1,166	286	289	1,146
Total	365	414	452	428	425	1,718	434	441	1,728
Expense	96	119	122	120	119	480	121	123	483
Ebitda	269	295	330	308	306	1,239	312	318	1,244
Deprec., Deplet., & Amor	75	87	93	100	103	383	102	103	408
Other Non Cash	2	6	1			8			-
Ebit	192	201	236	208	203	848	211	214	836
Interest	-	-	-	-	-	-	-	-	-
Ebt	192	201	236	208	203	848	211	214	836
Income Tax	67	70	83	73	71	297	74	75	293
Net Income (\$mm)	125	131	153	135	132	551	137	139	543
Per Share (\$)	1.46	1.52	1.78	1.57	1.53	6.40	1.59	1.62	6.31
Shares (millions)	86	86	86	86	86	86	86	86	86
Ebitda Margin	74%	71%	73%	72%	72%	72%	72%	72%	72%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011

Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price		Enterprise	PV(%)		EV/	Dist.	Dist.	
Symbol/Rating		(US\$/sh)	EV/	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
B = Buy	1-Sep	Market	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
CB (see below)	2011										
Small Cap Independent Producers											
Peyto Exploration and Development	PEYUF		22.56	1.17	3,500	76	24	11.3	0.74	3.3	0.95
Range Resources	RRC	B	65.17	1.19	12,340	69	31	15.8	0.16	0.2	0.94
Birchcliff Energy Ltd.	BIREF	B	13.82	1.21	2,200	56	44	13.5	-	-	0.88
Berry Petroleum Company	BRY		48.17	1.57	4,120	23	77	7.8	0.30	0.6	0.77
Denbury Resources Inc.	DNR		15.69	1.37	8,700	5	95	7.0	-	-	0.64
Cimarex Energy Company	XEC	CB	71.05	1.09	6,660	47	53	5.4	0.40	0.6	0.61
Whiting Petroleum Corporation	WLL	CB	45.44	1.30	7,010	11	89	5.2	-	-	0.57
<i>Total or Median</i>					44,500			7.8			0.77
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		45.21	1.00	270	87	13		2.85	6.3	1.00
Permian Basin RT	PBT		21.88	1.00	1,020	42	58		1.45	6.6	0.99
Sabine Royalty Trust	SBR		61.20	1.00	890	51	49		4.26	7.0	0.87
Freehold Royalties Ltd.	FRHLF		18.81	1.06	1,190	17	83		1.71	9.1	0.86
Dorchester Minerals, L.P.	DMLP	CB	24.50	1.00	750	61	39		1.72	7.0	0.82
<i>Total or Median</i>					4,100					7.0	0.87
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.13	1.47	9,630	31	69	15.5	2.76	7.4	1.06
Hugoton Royalty Trust	HGT	B	22.60	1.00	900	88	13	14.2	1.37	6.1	1.03
Vanguard Natural Resources, LLC	VNR		27.93	1.45	2,070	23	77	11.1	2.30	8.2	1.02
San Juan Basin Royalty Trust	SJT		23.75	1.00	1,110	100	-	13.7	1.43	6.0	0.95
Legacy Reserves L.P.	LGCY		27.30	1.48	1,760	21	79	9.3	2.16	7.9	0.94
Mesa Royalty Trust	MTR		44.20	1.00	82	75	25	12.8	2.73	6.2	0.83
Enerplus Corporation	ERF	CB	28.94	1.22	6,300	30	70	8.4	2.20	7.6	0.81
<i>Total or Median</i>					21,900			12.8		7.4	0.95
Composite											
<i>Enterprise Value Weighting</i>					70,500	38	62				0.79
<i>Equal Weighting</i>						48	52				0.87
<i>Equal Weighted Buys</i>						46	54				0.81

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 \$8 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2012. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011

Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
			(\$/sh)		Market	Present	Debt/	
	Symbol/		1-Sep	Shares	Cap	Value	Present	McDep
	Rating		2011	(mm)	(\$mm)	(\$/un)	Value	Ratio
Small Cap Independent Producers								
Peyto Exploration and Development Cor	PEYUF		22.56	133.1	3,000	24.00	0.14	0.95
Range Resources	RRC	B	65.17	159.0	10,360	70.00	0.15	0.94
Birchcliff Energy Ltd.	BIREF	B	13.82	131.0	1,810	16.00	0.16	0.88
Berry Petroleum Company	BRYP		48.17	54.7	2,630	70.00	0.28	0.77
Denbury Resources Inc.	DNR		15.69	404.0	6,340	28.00	0.17	0.64
Cimarex Energy Company	XEC	CB	71.05	86.1	6,120	120.00	0.05	0.61
Whiting Petroleum Corporation	WLL	CB	45.44	119.0	5,410	90.00	0.13	0.57
<i>Total or Median</i>					35,670		0.15	0.77
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.21	6.0	270	45.00	-	1.00
Permian Basin RT	PBT		21.88	46.6	1,020	22.00	-	0.99
Sabine Royalty Trust	SBR		61.20	14.6	890	70.00	-	0.87
Freehold Royalties Ltd.	FRHLF		18.81	59.4	1,120	22.00	0.05	0.86
Dorchester Minerals, L.P.	DMLP	CB	24.50	30.7	750	30.00	-	0.82
<i>Total or Median</i>					4,050			0.87
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.13	176.0	6,540	34.00	0.34	1.06
Hugoton Royalty Trust	HGT	B	22.60	40.0	900	22.00	-	1.03
Vanguard Natural Resources, LLC	VNR		27.93	51.1	1,430	27.00	0.32	1.02
San Juan Basin Royalty Trust	SJT		23.75	46.6	1,110	25.00	-	0.95
Legacy Reserves L.P.	LGCY		27.30	43.6	1,190	30.00	0.30	0.94
Mesa Royalty Trust	MTR		44.20	1.9	82	53.00	-	0.83
Enerplus Corporation	ERF	CB	28.94	179.6	5,200	37.00	0.14	0.81
<i>Total or Median</i>					16,450			0.95
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 \$8 a million btu for natural gas.								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011

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		1-Sep 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	65.17		-	15.2	16.8	15.8
Birchcliff Energy Ltd.	BIREF	B	13.82		-	19.7	15.3	13.5
Peyto Exploration and Development Corp	PEYUF		22.56		0.37	14.3	12.0	11.3
Berry Petroleum Company	BRY		48.17		-	11.9	10.1	7.8
Denbury Resources Inc.	DNR		15.69		-	13.4	11.0	7.0
Cimarex Energy Company	XEC	CB	71.05		-	6.9	8.7	5.4
Whiting Petroleum Corporation	WLL	CB	45.44		-	8.9	9.1	5.2
	<i>Median</i>					13.4	11.0	7.8
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.21	80	0.97	13.7	15.3	15.3
Permian Basin RT	PBT		21.88	32	0.97	16.6	14.8	14.7
Sabine Royalty Trust	SBR		61.20	100	1.00	7.3	16.4	14.4
Dorchester Minerals, L.P.	DMLP	CB	24.50	77	0.85	6.6	14.9	12.2
Freehold Royalties Ltd.	FRHLF		18.81	71	0.96	6.6	12.3	10.6
	<i>Median</i>					7.3	14.9	14.4
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.13		1.18	17.2	14.6	15.5
Hugoton Royalty Trust	HGT	B	22.60		0.86	14.0	13.8	14.2
San Juan Basin Royalty Trust	SJT		23.75		0.82	9.2	14.4	13.7
Mesa Royalty Trust	MTR		44.20		0.80	14.4	15.5	12.8
Vanguard Natural Resources, LLC	VNR		27.93		0.92	9.0	10.8	11.1
Legacy Reserves L.P.	LGCY		27.30		0.72	10.2	10.0	9.3
Enerplus Corporation	ERF	CB	28.94		0.61	8.5	10.3	8.4
	<i>Median</i>					10.2	13.8	12.8
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, 2012; 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

September 2, 2011

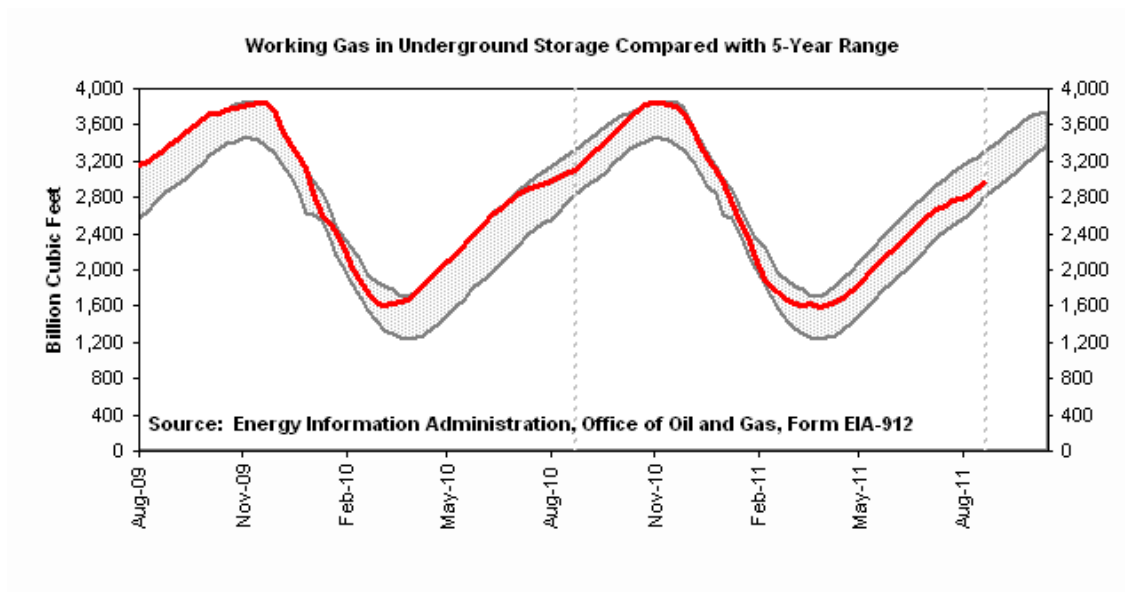
Table ISC-4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		1-Sep 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers									
	Range Resources	RRC	B	65.17	0.97	1.66	1.08	1.20	0.94
	Birchcliff Energy Ltd.	BIREF	B	13.82	0.93	1.58	1.02	1.12	0.88
	Peyto Exploration and Development C	PEYUF		22.56	0.90	1.53	0.99	1.09	0.95
	Berry Petroleum Company	BRY		48.17	0.85	1.38	0.95	1.00	0.77
	Denbury Resources Inc.	DNR		15.69	0.68	1.10	0.91	0.83	0.64
	Whiting Petroleum Corporation	WLL	CB	45.44	0.66	1.08	0.88	0.80	0.57
	Cimarex Energy Company	XEC	CB	71.05	0.62	1.19	0.91	0.77	0.61
	<i>Median</i>				<i>0.85</i>	<i>1.38</i>	<i>0.95</i>	<i>1.00</i>	<i>0.77</i>
Top Line Cash Payers									
	Cross Timbers Royalty Trust	CRT		45.21	0.93	1.31	1.02	1.04	1.00
	Permian Basin RT	PBT		21.88	0.92	1.19	0.99	1.01	0.99
	Sabine Royalty Trust	SBR		61.20	0.87	1.29	0.97	0.98	0.87
	Dorchester Minerals, L.P.	DMLP	CB	24.50	0.81	1.18	0.94	0.91	0.82
	Freehold Royalties Ltd.	FRHLF		18.81	0.78	1.19	0.94	0.89	0.86
	<i>Median</i>				<i>0.87</i>	<i>1.19</i>	<i>0.97</i>	<i>0.98</i>	<i>0.87</i>
Bottom Line Cash Payers									
	Hugoton RoyaltyTrust	HGT	B	22.60	0.92	1.24	1.01	1.03	1.03
	Linn Energy, LLC	LINE		37.13	0.93	1.18	0.98	0.98	1.06
	San Juan Basin Royalty Trust	SJT		23.75	0.85	1.16	0.98	0.97	0.95
	Vanguard Natural Resources, LLC	VNR		27.93	0.88	1.15	0.98	0.96	1.02
	Legacy Reserves L.P.	LGCY		27.30	0.86	1.15	0.98	0.95	0.94
	Enerplus Corporation	ERF	CB	28.94	0.89	1.20	0.97	0.95	0.81
	Mesa RoyaltyTrust	MTR		44.20	0.86	1.11	0.97	0.94	0.83
	<i>Median</i>				<i>0.88</i>	<i>1.16</i>	<i>0.98</i>	<i>0.96</i>	<i>0.95</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.									



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 2, 2011



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 thirty 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.