

Buy DVN, EOG and OXY among Large Cap U.S. Producers

Summary and Recommendation

Looking for growth in oil price and seeing value in natural gas price we recommend current purchase of pure plays **Devon Energy (DVN)**, **EOG Resources (EOG)** and **Occidental Petroleum (OXY)** for their low McDep Ratios and low debt. The drive for personal economic freedom and mobility in developing countries stimulates demand for oil that we expect will require a gradually higher price to satisfy. Demand for natural gas is growing faster though it has been slowed by a recession in developed countries where technology has also unlocked abundant new supply. A steep discount in natural gas price compared to oil price presents a "value" opportunity to be rewarded in 2011-2012, we believe. The current price situation is reflected in an uptrend for oil and a downtrend for natural gas compared to 40-week averages of \$86.50 a barrel and \$6.19 a million btu (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures on page 2).

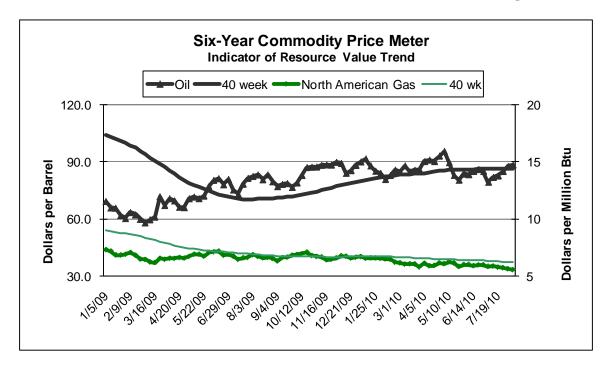
DVN has long kept a balance of oil and gas growth to protect against unexpected extremes as we are seeing once again. EOG is becoming oilier as it exploits its North Dakota Bakken Shale and Texas Eagle Ford Shale. OXY is primarily an oil producer and applies new technology to drilling in California and West Texas. The three stocks are priced attractively for new investment at McDep Ratios of 0.69 for DVN, 0.85 for EOG and 0.82 for OXY (see <u>Tables 1-3</u> on pages 3-5). Low ratios of debt to present value at 0.08, 0.06 and 0.12, respectively, signify financial strength. Cash flow forecasts and present value estimates for each of six companies take account of latest quarterly disclosures and daily commodity price settlements (see tables <u>Functional Cash Flow and Present Value</u> on pages 6-7). Those estimates are sensitive to cash flow (Ebitda) margin estimated for the next four quarters (see chart <u>Ebitda Margin</u> on page 9).

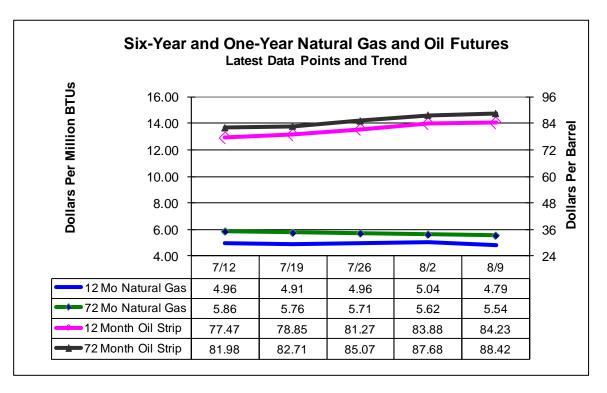
Today, we raise estimated Net Present Value (NPV) for **Anadarko Petroleum (APC)** to \$60 a share from \$54 on the basis of strong cash flow. Yet, an estimated \$6 billion oil spill liability raises APC debt to 0.41 times present value ---a manageable level in normal times and a source of vulnerability should the financial environment deteriorate.

Kurt H. Wulff, CFA



Meter Reader







				Energy Po					
Geogr	aphic	Domic	ila and						
			me and	d Busines	s Segn	nents			
					D	. 17 1 1	C.	(0/)	
						ıt Value by	Segment	(%)	
		Price	F17.7		North	Rest			
		(US\$/sh)	EV/	Enterprise	Amer.	Ü			
									McDep
y, CB (see	below)	2010	Сар	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
									0.74
									0.73
								-	0.72
			1.54		16	10	59	16	0.70
30%	8%	16%		729,000					0.72
				_					
RDS-A	В	58.17	1.35	240,000	3	24	48	26	0.79
BRGXF		16.26	1.18	65,100		29	39	32	0.77
	CB	21.46	1.55	35,000		40	60	-	0.71
BP		40.86	1.67	216,000	6	10	63	22	0.69
TOT	CB	53.93	1.31	158,000		19	59	22	0.66
29%	10%	12%		714,000					0.71
ia									
CEO		172.93	1.02	26,900		12	88	-	1.19
WOPEY	CB	38.80	1.18	35,000		72	28	-	0.90
PTR	CB	116.55	1.23	36,700		14	72	14	0.81
PBR		38.10	1.37	229,000		4	77	20	0.72
LUKOY	В	57.35	1.12	54,200			68	32	0.45
OGZPY	CB	22.67	1.33	88,000		77	23	-	0.42
19%	12%	16%		470,000					0.77
SWN		37.62	1.09	14,300	100			-	1.07
		56.35	1.74	48,500	44		52	4	0.96
						4		-	0.85
						1		7	0.82
					89		11	-	0.82
					61		39	_	0.69
									0.84
	/-	/-							
IMO	B	39 04	1 11	11 100	4		82	15	0.83
									0.83
									0.80
								-	0.79
									0.75
									0.72
			1.11				100	-	0.80
				203,000					0.00
				20 700	5.1		40		0.97
470	4070	2070		09,700	31		49		0.97
1000/				2 427 000	10	15	50	15	0.74
100%	1000/			2,427,000					0.74
	100%	1000/							0.88
1	: a		1 - 20	0 1		12	52	8	0.74
				, ,		,	,		
	y, CB (see XOM MRO CVX COP 30% RDS-A BRGXF STO BP TOT 29% ia CEO WOPEY PTR PBR LUKOY OGZPY 19% SWN APC EOG OXY CHK DVN 9% IMO CNQ CVE ECA SU COSWF 8% parate wed 4% 100%	MRO B CVX B COP B 30% 8% RDS-A B BRGXF STO CB BP TOT CB 29% 10% ia CEO WOPEY CB PTR CB PBR LUKOY B OGZPY CB 19% 12% SWN APC EOG B OXY CB CHK DVN CB 9% 12% IMO B CNQ B CVE B ECA CB SU B COSWF CB 8% 12% parate weekly anal 4% 46% to may be in downing refer to current	XOM CB 62.45 MRO B 34.48 CVX B 79.29 COP B 57.31 30% 8% 16% RDS-A B 58.17 BRGXF 16.26 STO CB 21.46 BP 40.86 TOT CB 53.93 29% 10% 12% ia CEO 172.93 WOPEY CB 38.80 PTR CB 116.55 PBR 38.10 LUKOY B 57.35 OGZPY CB 22.67 19% 12% 16% SWN 37.62 APC 56.35 EOG B 99.94 OXY CB 76.95 CHK 22.01 DVN CB 65.23 9% 12% 12% IMO B 39.04 CNQ B 35.88 CVE B 27.93 ECA CB 30.91 SU B 33.39 COSWF CB 26.51 8% 12% 24% parate weekly analysis) 4% 46% 20% I 100%	XOM CB 62.45 1.20 MRO B 34.48 1.45 CVX B 79.29 1.16 COP B 57.31 1.54 30% 8% 16% RDS-A B 58.17 1.35 BRGXF 16.26 1.18 STO CB 21.46 1.55 BP 40.86 1.67 TOT CB 53.93 1.31 29% 10% 12% ia CEO 172.93 1.02 WOPEY CB 38.80 1.18 PTR CB 116.55 1.23 PBR 38.10 1.37 LUKOY B 57.35 1.12 OGZPY CB 22.67 1.33 19% 12% 16% SWN 37.62 1.09 APC 56.35 1.74 EOG B 99.94 1.17 OXY CB 76.95 1.07 CHK 22.01 1.91 DVN CB 65.23 1.14 9% 12% 12% IMO B 39.04 1.11 CNQ B 35.88 1.28 CVE B 27.93 1.33 ECA CB 30.91 1.38 SU B 33.39 1.33 COSWF CB 26.51 1.11 8% 12% 24% parate weekly analysis) 4% 46% 20% 100% e may be in downtrend compared to 20% 100% 100% 100% e may be in downtrend compared to 20%	XOM CB 62.45 1.20 385,000 MRO B 34.48 1.45 35,700 CVX B 79.29 1.16 185,000 30% 8% 16% 729,000 RDS-A B 58.17 1.35 240,000 BRGXF 16.26 1.18 65,100 STO CB 21.46 1.55 35,000 ED 40.86 1.67 216,000 29% 10% 12% 714,000 13% 1.37 229,000 1.38 35,000 1.37 229,000 1.38 36,700 1.38 36,700 1.38 31,500	XOM	XOM CB 62.45 1.20 385,000 10 19	Y, CB (see below) 2010 Cap (\$mm) Gas Gas Prod'n	Y. CB (see below) 2010 Cap (\$mm) Gas Gas Prod'n stream



				4	Table 2			
			Portfolio	nergy 1	e Cap E	Larg	cDep I	\mathbf{M}
			ep Ratio	nd McD	Value ar	ent \	et Pres	Ne
		Net			Price			
	Debt/	Present	Market		(US\$/sh)			
МсДер	Present	Value	Cap	Shares	9-Aug	ating	Symbol/Re	
Ratio	Value	(US\$/sh)	(US\$mm)	(mm)	2010	elow)	, CB (see b	B = Buy
								U.S. Integrated
0.74	0.12	89.00	321,000	5,141	62.45	СВ	XOM	Exxon Mobil Corporation
0.73	0.23	53.00	24,550	712	34.48	В	MRO	Marathon Oil Corporation
0.72	0.10	116.00	159,000	2,006	79.29	В	CVX	Chevron Corporation
0.70	0.24	95.00	80,000	1,400	57.31	В	COP	ConocoPhillips
0.72	0.18	25.00	585,000	2,100	07.01		201	Total or Median
0.72	0.10		202,000					Europe
0.79	0.20	79.00	179,000	3,072	58.17	В	RDS-A	Royal Dutch Shell plc
0.77	0.12	22.00	55,300	3,400	16.26		BRGXF	BG Group plc
0.71	0.25	35.00	22,500	1,050	21.46	СВ	STO	Statoil ASA (33%)
0.69	0.27	72.00	130,000	3,172	40.86		BP	BP plc
0.66	0.15	90.00	121,000	2,243	53.93	СВ	TOT	Total S.A.
0.71	0.20	70.00	508,000	2,2 13	55.75	CD	101	Total or Median
0.71	0.20		200,000					Australia/Brazil/China/Russia
1.19	0.03	145.00	26,300	152	172.93		CEO	CNOOC Limited (34%)
0.90	0.03	44.00	29,600	763	38.80	СВ	WOPEY	Woodside Petroleum Ltd.
0.81	0.14	150.00	29,900	256	116.55	СВ	PTR	PetroChina Company Ltd (14%)
0.72	0.13	58.00	167,100	4,387	38.10	СБ	PBR	Petrobras
0.72	0.20	135.00	48,600	847	57.35	В	LUKOY	Lukoil Oil Company
0.43	0.03	64.00	66,100	2,915	22.67	СВ	OGZPY	Gazprom (50%)
0.42	0.12	04.00	368,000	2,913	22.07	СБ	OGZFI	Total or Median
0.77	0.12		300,000					
1.07	0.00	25.00	12 100	240	27.62		CWAI	U.S. Independent
1.07 0.96	0.09	35.00 60.00	13,100 27,900	349 495	37.62 56.35		SWN APC	Southwestern Energy Company Anadarko Petroleum Corp.
						n		•
0.85	0.12	120.00	25,000	250	99.94	В	EOG	EOG Resources
0.82	0.06	95.00	62,600	814	76.95	CB	OXY	Occidental Petroleum Corp.
0.82	0.39	31.00	14,000	635	22.01	CD	CHK	Chesapeake Energy Corp.
0.69	0.08	98.00	29,100	446	65.23	CB	DVN	Devon Energy Corporation
0.84	0.11		1/1,/00					
0.02	0.00	49.00	10,000	257	20.04	D	DAO.	
0.83								
0.83								
0.80								••
0.79								
0.75								
0.72		38.00		484	26.51	CB	COSWF	
0.80	0.18			200 1				
3 3 3 3 0 2 9	0.11 0.08 0.18 0.20 0.22 0.19 0.07 0.18	48.00 45.00 37.00 42.00 48.00 38.00	171,700 10,000 39,100 21,000 22,800 52,500 12,800 158,000 erage.	257 1,089 752 738 1,572 484 200-day avegas and oth	39.04 35.88 27.93 30.91 33.39 26.51 compared to 2	B B CB CB crend co	IMO CNQ CVE ECA SU COSWF in downtrict to presen	Total or Median Canada Imperial Oil Limited (30%) Canadian Natural Resources Cenovus Energy Inc. EnCana Corporation Suncor Energy Canadian Oil Sands Trust Total or Median CB=Contrarian Buy, Stock Price may McDep Ratio = Market cap and Deb Estimated present value presumes a



			Table 3					
McD	ep Lai	rge	Cap Eı	nergy P	ortfolio			
Value	Multi	oles	and Di	istributi	on Yield	[
			Price	Adjustd				Divd or
			(US\$/sh)	Resrvs/	PV/	EV/		Distril
S	ymbol/Rat	ing	9-Aug	Prod	Ebitda	Ebitda	P/E	NTN
B = Buy, C	B (see be)	low)	2010	NTM	NTM	NTM	NTM	(%)
U.S. Integrated								
Exxon Mobil Corporation	XOM	СВ	62.45	13.2	8.1	6.0	11	2.8
ConocoPhillips	COP	В	57.31	10.2	7.8	5.5	11	3.8
Marathon Oil Corporation	MRO	В	34.48	9.1	7.4	5.4	13	2.2
Chevron Corporation	CVX	В	79.29	9.1	6.4	4.6	9	3.6
Total or Median				9.7	7.6	5.4	11	3.2
Europe								
BG Group plc	BRGXF		16.26	14.5	8.6	6.6	12	1.2
Royal Dutch Shell plc	RDS-A	В	58.17	8.8	6.6	5.2	10	5.8
BP plc	BP		40.86	10.0	7.4	5.1	7	-
Total S.A.	TOT	СВ	53.93	9.7	7.3	4.8	8	5.6
Statoil ASA (33%)	STO	СВ	21.46	6.4	5.9	4.2	8	4.7
Total or Median				9.7	7.3	5.1	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	СВ	38.80	20.0	12.4	11.1	21	2.6
PetroChina Company Ltd (14%)	PTR	CB	116.55	13.8	7.8	6.3	14	3.5
Petrobras	PBR	CD	38.10	9.1	8.7	6.3	10	3.5
CNOOC Limited (34%)	CEO		172.93	6.8	4.9	5.8	11	3.0
Gazprom(50%)	OGZPY	СВ	22.67	30.2	9.5	4.0	5	0.2
Lukoil Oil Company	LUKOY	В	57.35	15.7	7.9	3.6	7	3.0
Total or Median	LUKOT	Ъ	31.33	14.7	8.3	6.1	10	3.0
U.S. Independent				17./	0.5	0.1	10	3.0
Southwestern Energy Company	SWN		37.62	6.3	9.7	10.4	22	
Chesapeake Energy Corp.	CHK		22.01	11.1	10.2	8.4	13	1.4
EOG Resources	EOG	В	99.94	9.1	9.6	8.2	42	0.6
Occidental Petroleum Corp.	OXY	CB	76.95	10.5	7.2	5.9	13	2.0
Anadarko Petroleum Corp.	APC	СБ	56.35	8.3	7.3	7.0	13	0.6
Devon Energy Corporation	DVN	СВ	65.23	10.0	8.6	6.0	12	1.0
Total or Median	DVN	СБ	03.23	9.5	9.1	7.6	13	
Canada				9.5	9.1	7.0	13	0.8
*	IMO	D	39.04	20.2	10.0	0.1	16	1 1
Imperial Oil Limited (30%)	IMO	В		20.3	10.9	9.1	16	1.1
Canadian Natural Resources	CNQ	В	35.88	19.0	9.6	8.0	22	0.8
Canadian Oil Sands Trust	COSWF		26.51	32.1	12.2	8.7	13	7.3
Cenovus Energy Inc.	CVE	В	27.93	19.6	11.3	9.1	21	2.8
Suncor Energy	SU	В	33.39	25.3	10.8	8.1	23	1.2
EnCana Corporation	ECA	CB	30.91	16.6	10.7	8.5	30	2.6
Total or Median	1 .	Ļ	1 .	20.0	10.9	8.6	22	1.9
CB=Contrarian Buy, Stock Price may be i								
EV = Enterprise Value = Market Cap and						ciation		
and amortization; NTM = Next Twelve M				I; P/E = Sto	ck Price to			
Earnings; PV = Present Value of oil and g	as and oth	ier b	usinesses					



Anadarko	Petroleum C	orporation			
Functional Ca	sh Flow and	Present Val	lue		
				Present	
Λ	TM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)	
North American Natural Gas	2,430	8.0	9.1	22,000	44%
Oil	4,210	8.6	6.2	26,300	52%
Downstream and Minerals	240		8.3	2,000	4%
	6,880	8.3	7.3	50,300	100%
Debt (US\$mm)					20,600
Net Present Value (US\$mm)					29,700
Shares (mm)					495
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Dep	ending on Re	eserve Life (US\$/sh)		65
Note: Debt includes \$6 billion for oil spill liabil	ity.				

Chesapea	ke Energy C	orporation						
Functional Cash Flow and Present Value								
				Present				
Λ	VTM Ebitda	Adjusted	PV/	Value				
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)				
North American Natural Gas	2,490	11.7	11.6	28,900	89%			
Oil	680	5.7	5.3	3,600	11%			
	3,170	11.1	10.3	32,500	100%			
Debt (US\$mm)					12,800			
Net Present Value (US\$mm)					19,700			
Shares (mm)					635			
Net Present Value - Standard Estimate (US\$/sh)					31			
NPV Approximation by Cash Flow Multiple Dep	ending on R	eserve Life (US\$/sh)		35			

	Devon Energ	y						
Functional Cash Flow and Present Value								
				Present				
Λ	TM Ebitda	Adjusted	PV/	Value				
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)				
North American Natural Gas	2,800	9.2	10.4	29,000	61%			
Oil	2,750	11.6	6.8	18,700	39%			
	5,550	10.0	8.6	47,700	100%			
Debt (US\$mm)					4,000			
Net Present Value (US\$mm)					43,700			
Shares (mm)					446			
Net Present Value - Standard Estimate (US\$/sh)					98			
NPV Approximation by Cash Flow Multiple Dep	ending on R	eserve Life	(US\$/sh)		103			



EO	G Resources	Inc.			
Functional Ca	sh Flow and	Present Va	lue		
				Present	
Λ	ITM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)	
North American Natural Gas	1,440	11.2	12.5	18,000	53%
Rest of World Natural Gas	180	7.2	8.3	1,500	4%
Oil	1,980	5.7	7.4	14,700	43%
	3,600	9.1	9.5	34,200	100%
Debt (US\$mm)					4,200
Net Present Value (US\$mm)					30,000
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Dep	ending on R	eserve Life	(US\$/sh)		102

Occidental	Petroleum (Corporation	-					
Functional Cash Flow and Present Value								
				Present				
Λ	VTM Ebitda	Adjusted	PV/	Value				
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)				
U.S. Natural Gas	748	9.5	10.7	8,000	10%			
Rest of World Natural Gas	127	11.8	7.8	1,000	1%			
Oil	9,804	10.6	6.8	66,800	82%			
Downstream	640		9.4	6,000	7%			
	11,320	10.5	7.2	81,800	100%			
Debt (US\$mm)					4,500			
Net Present Value (US\$mm)					77,300			
Shares (mm)					814			
Net Present Value - Standard Estimate (US\$/sh)					95			
NPV Approximation by Cash Flow Multiple Dep	ending on Re	eserve Life (US\$/sh)		97			

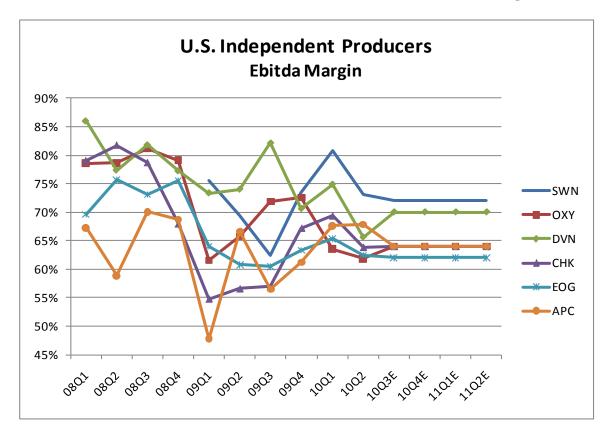
Southwestern Energy Company								
Functional Cash Flow and Present Value								
				Present				
NTM Ebitda Adjusted PV/ Value								
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)				
North American Natural Gas	1,380	6.3	9.7	13,400	100%			
Debt (US\$mm)					1,200			
Net Present Value (US\$mm)					12,200			
Shares (mm)					349			
Net Present Value - Standard Estimate (US\$/sh)					35			
NPV Approximation by Cash Flow Multiple Dep	PV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)							



			index of Re	cent Research
Stock I	de	as		
Date		Symbol	Subject	Theme
6-Aug		DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale (ISCW)
5-Aug		XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
5-Aug		DVN	Devon Energy Corporation	Onshore North American Value
30-Jul		COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Upside (ISCV
29-Jul		XOM	ExxonMobil	Downstream Profits Restored
28-Jul		COP	ConocoPhillips	From Russia to Australia
27-Jul		WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011 (Meter Reader)
23-Jul		HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside (ISCW)
21-Jul		ECA	Encana	Aggressive Growth at Lower Cost
16-Jul	*	SJT	San Juan Basin Royalty Trust	Raise NPV to \$25 from \$23 (Income and Small Cap Weekly)
9-Jul	*	HK	Petrohawk	Early in Haynseville (Income and Small Cap Weekly)
7-Jul	*	EOG	FOG Resources	Raise NPV to \$120 from \$92 a Share (Meter Reader)
1-Jul	*	RRC	Range Resources	First in Marcellus (Income and Small Cap Weekly)
29-Jun	-		R, LUKOY, OGZPY, PBR, CNOOC	Value in Developing Country Growth (Meter Reader)
25-Jun 25-Jun		DNR	Denbury Resources	Small Cap Oil Growth (Income and Small Cap Weekly)
23-Jun 22-Jun		CVE	Cenovus Energy	Quintuple in Deep Oil Sands (Meter Reader)
22-Jun 18-Jun	*			
	*		F, PWE, COSWF	Montney Buzz from Calgary (Income and Small Cap Weekly) Onshore On, Offshore Off (Meter Reader)
15-Jun	*		OXY, CVE, BP, APC	Bright Outlook for Pure Play Oil and Gas (ISCW)
11-Jun			TR, LGCY, LINE, ENP	3 ()
8-Jun	*		EOG, SWN, CHK, APC	U.S. Independent Producers Unlocking Resources (MReader
4-Jun	4		LF, CRT, PBT, SBR	Top Line Cash - Pure Plays in Reawakening Oil and Gas (ISC)
3-Jun	т 4	LUKOY Lukoil Oil Company		Underrated Oil Performer
1-Jun		ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada (Meter Reader)
28-May			WLL, BRY, RRC, HK, UPL	Shell Shale Gas Deal Boosts Independent Producers (ISCW)
25-May		XOM, BP, TO		Large Caps Go Contrarian (Meter Reader)
21-May			E, ERF, PGH, PEYUF	Canadian Income Trusts for Value and Distributions (ISCW)
20-May	_	CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
13-May	_	BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
4-May	_	BP	BP p.l.c.	Oil Spill and BP Stock Spill (Meter Reader)
30-Apr	*	WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
Meter	R	eader		
10-Aug			Weekly	
3-Aug			Weekly	Results Reinforce Euro and U.S. Buys
27-Jul		WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011
20-Jul	*	XOM	ExxonMobil	Stock Turning Up
				on the common of
	a		ap Weekly	
6-Aug		DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale
30-Jul		COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Price Upside
23-Jul	,,,	HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside
16-Jul	*	SJT	San Juan Basin Royalty Trust	Raise NPV to \$25 from \$23
Industr	y :	Ideas		
30-Apr	_	PBR, BG, AP	C and BP	Remove Buys - Accident May Delay Deep Water Oil

DEP Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks August 10, 2010



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