



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 19, 2009

Play It by Income in Canadian Light Oil

Summary and Recommendation

Canadian Income Trusts, including hold-rated **Penn West Energy Trust (PWE)** along with unrated **Pengrowth Energy Trust (PGH)** and unrated **Enerplus Resources Fund (ERF)**, have become dominant operators in great old conventional oil fields of Western Canada that are ripe for enhanced recovery. The trusts' rate of distribution is appealing at 12.5%, 13.3% and 9.1% a year respectively (see Table 1). Investor skepticism reflected in low unlevered cash flow multiple (EV/Ebitda) of 6.2, 5.7, and 6.1, adds to the investment appeal (see Table 3).

Meanwhile, the trusts are beginning to make lemonade since having lemons tossed at them in the form of a prohibitive increase in trust taxation to begin in 18 months. Managements are accumulating reinvestment deductions that can be used to reduce taxes and to facilitate higher than average dividends when the trusts most likely convert to corporations. During the transition, PWE, PGH and ERF are adding experienced exploration and production leaders. Among the opportunities is the recovery of more oil from mature assets. PWE's Murray Nunns, at the *Canadian Association of Petroleum Producers* conference in Calgary on June 15, declared that the biggest prize from drilling horizontal wells with multi-stage fracturing (HZMF) will be won in existing fields. One target oil field is super giant Pembina, majority controlled by PWE. HZMF is the breakthrough technology that has unlocked the hydrocarbons sealed in shale formations thereby increasing potential supply by a third, or so.

McDep Ratios are low for PWE, PGH and ERF at 0.65, 0.65 and 0.58. The units are out of favor with unit price still below the 200-day average in contrast to most oil and gas stocks. Revising Net Present Value (NPV) for ERF to US\$40 a unit from \$44 contributes to the narrowing of valuation range (see NPV in Table 2). The adjustment for ERF reflects a correction to a rise in unlevered present value cash flow multiple (PV/Ebitda) beyond that indicated by reserve life. Cash flow projections are detailed for each of the three stocks along with present value by function (see tables, page 5 to 9).

Kurt H. Wulff, CFA



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Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)			Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
				NAmer.	Oil	Gas			
				Natural Gas	Prod'n				
Canadian Income Trusts (US\$)									
Freehold Royalty Trust	FRHLF	12.78	1.23	780	29	21	1.07	8.4	0.75
Peyto Energy Trust	PEYUF	9.19	1.43	1,380	79	21	1.29	14.0	0.66
Pengrowth Energy Trust	PGH	8.02	1.89	3,900	39	61	1.07	13.3	0.65
Penn West Energy Trust	PWE H	12.89	1.76	9,300	31	69	1.61	12.5	0.65
Canadian Oil Sands Trust	COSWF B	23.81	1.11	12,800		100	2.03	8.5	0.59
Enerplus Resources Fund	ERF	21.11	1.24	4,400	50	50	1.93	9.1	0.58
<i>Total or Median</i>				32,600					
Small Cap Independent Producers									
Encore Acquisition Company	EAC B	33.27	1.64	2,900	23	77	-	-	0.83
Berry Petroleum Company	BRY H	18.46	2.18	1,790	38	62	0.30	1.6	0.65
Cimarex Energy Company	XEC B	30.47	1.35	3,360	67	33	0.24	0.8	0.63
Birchcliff Energy Ltd. (US\$)	BIREF	5.30	1.41	830	70	30	-	-	0.61
<i>Total or Median</i>				8,880					
U.S. Royalty Trusts									
Cross Timbers Royalty Trust	CRT	25.68	1.00	150	69	31	1.70	6.6	0.80
Sabine Royalty Trust	SBR	43.53	1.00	640	43	57	2.93	6.7	0.73
Permian Basin RT	PBT	12.04	1.00	560	33	67	0.96	7.9	0.63
San Juan Basin Royalty Trust	SJT H	16.46	1.00	770	100	-	1.30	7.9	0.63
Hugoton Royalty Trust	HGT B	14.22	1.00	570	91	9	1.14	8.0	0.51
Mesa Royalty Trust	MTR	27.50	1.00	50	75	25	3.62	13.2	0.41
<i>Total or Median</i>				2,740					
U.S. Master Limited Partnerships (MLPs)									
Linn Energy, LLC	LINE	18.83	1.66	3,560	53	47	2.52	13.4	1.18
Encore Energy Partners, L.P. (40%)	ENP	15.44	1.30	270	24	76	2.00	13.0	0.93
Dorchester Minerals, L.P.	DMLP B	21.62	1.00	610	69	31	1.66	7.7	0.68
<i>Total or Median</i>				4,440					
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				38,600	47	53			0.71
<i>Equal Weighting</i>					55	45			0.70
<i>Equal Weighted Buys</i>					52	48			0.66
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.									
* Percentages in Price column refer to equal weighted buys.									



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Table 2									
Oil and Gas Income and Small Cap Stocks									
Net Present Value and McDep Ratio									
			Price (\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio	
	Symbol/ Rating		18-Jun 2009	Shares (mm)	(\$mm)	(\$/un)			
Canadian Income Trusts (US\$)									
	Freehold Royalty Trust	FRHLF	12.78	49.5	630	18.00	0.14	0.75	
	Peyto Energy Trust	PEYUF	9.19	105.9	970	16.00	0.20	0.66	
	Pengrowth Energy Trust	PGH	8.02	257.0	2,060	16.00	0.31	0.65	
	Penn West Energy Trust	PWE	H	12.89	410.0	5,280	25.00	0.28	0.65
	Canadian Oil Sands Trust	COSWF	B	23.81	482.2	11,480	42.00	0.06	0.59
	Enerplus Resources Fund	ERF		21.11	165.7	3,500	40.00	0.11	0.58
	<i>Total or Median</i>				23,900		0.17	0.65	
Small Cap Independent Producers									
	Encore Acquisition Company	EAC	B	33.27	53.3	1,770	44.00	0.33	0.83
	Berry Petroleum Company	BRY	H	18.46	44.6	820	40.00	0.35	0.65
	Cimarex Energy Company	XEC	B	30.47	81.7	2,490	55.00	0.16	0.63
	Birchcliff Energy Ltd. (US\$)	BIREF		5.30	112.0	590	10.00	0.18	0.61
	<i>Total or Median</i>				5,670		0.25	0.64	
U.S. Royalty Trusts									
	Cross Timbers Royalty Trust	CRT		25.68	6.0	150	32.00	-	0.80
	Sabine Royalty Trust	SBR		43.53	14.6	640	60.00	-	0.73
	Permian Basin RT	PBT		12.04	46.6	560	19.00	-	0.63
	San Juan Basin Royalty Trust	SJT	H	16.46	46.6	770	26.00	-	0.63
	Hugoton Royalty Trust	HGT	B	14.22	40.0	570	28.00	-	0.51
	Mesa Royalty Trust	MTR		27.50	1.9	50	67.00	-	0.41
	<i>Total or Median</i>				2,740				0.63
U.S. Master Limited Partnerships (MLPs)									
	Linn Energy, LLC	LINE		18.83	114.0	2,150	14.00	0.47	1.18
	Encore Energy Partners, L.P. (40%)	ENP		15.44	13.2	200	17.00	0.21	0.93
	Dorchester Minerals, L.P.	DMLP	B	21.62	28.2	610	32.00	-	0.68
	<i>Total or Median</i>				2,960		0.21	0.93	
B = Buy, H = Hold									
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 \$10 a million btu for natural gas.									



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		18-Jun 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		9.19		0.98	17.1	12.2	8.0
	FRHLF		12.78	71	0.61	6.3	10.2	7.6
	COSWF	B	23.81		0.61	21.5	12.6	7.5
	PWE	H	12.89		0.61	8.3	9.4	6.2
	ERF		21.11		0.51	9.3	10.5	6.1
	PGH		8.02		0.58	7.7	8.7	5.7
	<i>Median</i>					8.8	10.3	6.8
Small Cap Independent Producers								
	BIREF		5.30		-	10.0	21.1	12.9
	EAC	B	33.27		-	11.6	8.7	7.3
	BRY	H	18.46		-	11.3	10.8	7.0
	XEC	B	30.47		-	7.2	7.4	4.6
	<i>Median</i>					10.7	9.8	7.2
U.S. Royalty Trusts								
	SBR		43.53	100	1.00	9.8	20.5	14.9
	CRT		25.68	84	0.92	12.6	17.2	13.8
	PBT		12.04	32	0.87	10.7	17.3	11.0
	SJT	H	16.46		0.80	8.9	16.0	10.2
	HGT	B	14.22		0.69	12.9	17.1	8.7
	MTR		27.50		0.87	13.6	16.2	6.6
	<i>Median</i>					11.6	17.2	10.6
U.S. Master Limited Partnerships (MLPs)								
	LINE		18.83		2.98	18.1	16.5	19.6
	DMLP	B	21.62	64	0.92	8.1	17.7	12.0
	ENP		15.44		1.32	11.4	11.2	10.4
	<i>Median</i>					11.4	16.5	12.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Penn West Energy Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/10</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural Gas (mmcf)	487	447	434	421	421	430	408	396	411
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	109	106	102	99	99	102	96	93	97
Total gas & oil (bcf)	104	97	95	94	94	380	89	87	363
Total gas & oil (mbd)	191	180	175	169	169	173	164	159	166
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	4.37	5.40	4.54	6.35	6.23	5.59
Currency (US\$/C\$)	0.99	0.80	0.88	0.88	0.88	0.86	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	11.04	6.09	3.96	4.95	6.12	5.28	7.19	7.05	6.33
Company (C\$/mcf)	10.20	5.37	3.49	4.36	5.40	4.66	6.34	6.22	5.56
Oil (\$/bbl)									
WTI Cushing (US\$)	123.97	42.96	59.98	71.36	73.52	61.95	75.01	76.13	74.00
WTI Cushing (C\$/bbl)	125.23	53.43	67.94	80.83	83.28	72.03	84.96	86.24	83.83
Company (C\$/bbl)	107.17	42.63	54.21	64.49	66.44	56.79	66.99	67.99	66.44
Total gas & oil (\$/mcf)	14.60	6.39	6.74	8.11	8.72	6.15	9.17	9.22	7.24
Revenue (\$mm)									
Natural Gas	452	216	138	169	209	731	233	224	834
Oil	1,067	405	505	590	607	2,107	581	578	2,356
Other	(267)	(110)	(114)	(134)	(145)	(503)	(144)	(142)	(565)
Total	1,252	511	529	624	672	2,336	670	660	2,626
Expense	250	292	238	234	234	998	222	218	907
Ebitda (\$mm)	1,002	220	291	390	438	1,338	448	443	1,718
Deprec., Deplet., & Amort.	394	385	385	385	385	1,540	385	385	1,540
Hedging and other	560	(150)				(150)			-
Ebit	48	(15)	(94)	5	53	(51)	63	58	178
Interest	48	40	40	40	40	160	40	40	160
Ebt	-	(55)	(134)	(35)	13	(211)	23	18	18
Income Tax						-			-
Net Income (\$mm)	-	(55)	(134)	(35)	13	(211)	23	18	18
Shares (millions)	380	399	399	399	399	399	410	410	410
Per share (\$)	-	(0.14)	(0.34)	(0.09)	0.03	(0.53)	0.06	0.04	0.04
Ebitda Margin - O&G	80%	43%	55%	63%	65%	57%	67%	67%	65%
Tax Rate			0%	0%	0%	0%	0%	0%	0%
Distribution (\$mm)	388	275	180	180	180	814	185	185	738
Per share (\$)	1.02	0.69	0.45	0.45	0.45	2.04	0.45	0.45	1.80



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Pengrowth Energy Trust									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	6/30/08	3/31/09	6/30/09	9/30/09	#####	2009E	3/31/10	6/30/10	6/30/10
Volume									
Natural Gas (mmcf)	234	236	236	236	236	236.0	231	231	233.5
Days	91	90	91	92	92	365	90	91	365
Oil (mb)	3,812	3,681	3,722	3,763	3,763	14,929	3,465	3,504	14,494
Oil (mbd)	41.89	40.90	40.90	40.90	40.90	40.90	38.50	38.50	39.71
Total (mb)	7.36	7.22	7.30	7.38	7.38	29.29	6.93	7.01	28.70
Total (mbd)	80.9	80.2	80.2	80.2	80.2	80.2	77.0	77.0	78.6
Price									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	4.37	5.40	4.54	6.35	6.23	5.59
Currency (US\$/C\$)	0.99	0.80	0.88	0.88	0.88	0.86	0.88	0.88	0.88
Henry Hub (C\$/mmbtu)	11.04	6.09	3.96	4.95	6.12	5.28	7.19	7.05	6.33
Differential (\$/mmbtu)	0.99	0.78	0.51	0.63	0.78	0.68	0.92	0.90	0.82
Company (C\$/mcf)	10.05	5.31	3.45	4.31	5.33	4.60	6.27	6.15	5.50
WTI Cushing (\$/bbl)	123.97	42.96	59.98	71.36	73.52	61.95	75.01	76.13	74.00
WTI Cushing (C\$/bbl)	125.23	53.43	67.94	80.83	83.28	71.37	84.96	86.24	83.83
Differential	14.81	10.94	13.91	16.55	17.05	14.53	17.39	17.65	17.21
Company	110.41	42.49	54.03	64.29	66.23	56.85	67.57	68.58	66.61
Total (\$/bbl)	86.25	37.28	37.70	45.45	49.45	42.51	52.60	52.74	49.99
Revenue (C\$mm)									
Natural Gas	214	113	74	94	116	396	130	129	469
Oil	421	156	201	242	249	849	234	240	966
Royalty	(126)	(40)	(41)	(50)	(54)	(185)	(54)	(55)	(213)
Other						-			-
Total	509	229	234	286	311	1,060	310	315	1,221
Expense									
	126	127	110	110	110	457	110	110	440
Ebitda									
	383	102	124	176	201	603	200	205	781
Deprec., Deplet., & Amort.	161	159	146	148	148	600	139	140	574
Other Non Cash	430	(8)				(8)			-
Ebit									
	(208)	(49)	(22)	28	53	11	62	64	207
Interest	19	22	22	22	22	88	22	22	88
Ebt									
	(227)	(71)	(44)	6	31	(77)	40	42	119
Income Tax	(111)	(20)				(20)			-
Management	3	3	3	3	4	13	4	4	15
Net Income (\$mm)									
	(119)	(54)	(47)	3	27	(70)	36	38	104
Per Share (\$)	(0.48)	(0.21)	(0.18)	0.01	0.11	(0.27)	0.14	0.15	0.41
Shares (millions)									
	248	257	257	257	257	257	257	257	257
Ebitda Margin									
	75%	45%	53%	61%	65%	57%	65%	65%	64%



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	Q2		Q1		Q2E		Q3E		Q4E		Next Twelve Months
	6/30/08	3/31/09	6/30/09	9/30/09	#####	Year 2009E	3/31/10	6/30/10	6/30/10	6/30/10	
Volume											
Natural Gas (bcf)	32.7	30.5	29.9	29.3	28.5	118.2	27.0	26.5	111.3		
Natural Gas (mmcf)	359	339	329	319	309	324	300	291	305		
Days	91	90	91	92	92	365	90	91	365		
Oil (mb)	3,667	3,464	3,432	3,400	3,332	13,629	3,195	3,166	13,094		
Oil (mbd)	40	38	38	37	36	37.34	35	35	35.87		
Total (mb)	9.11	8.55	8.42	8.29	8.08	33.34	7.70	7.58	31.65		
Total (mbd)	100.1	95.0	92.5	90.1	87.8	91.3	85.5	83.3	86.7		
Price											
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	4.37	5.40	4.54	6.35	6.23	5.59		
Currency (US\$/C\$)	0.99	0.80	0.88	0.88	0.88	0.86	0.88	0.88	0.88		
Henry Hub (C\$/mmbtu)	11.04	6.09	3.96	4.95	6.12	5.26	7.19	7.05	6.33		
Differential (\$/mmbtu)	1.17	0.96	0.62	0.78	0.96	0.82	1.13	1.11	1.03		
Company (\$/mcf)	9.87	5.13	3.34	4.17	5.15	4.44	6.06	5.94	5.30		
WTI Cushing (\$/bbl)	123.97	42.96	59.98	71.36	73.52	61.95	75.01	76.13	74.00		
WTI Cushing (C\$/bbl)	125.23	53.43	67.94	80.83	83.28	71.78	84.96	86.24	83.83		
Differential	15.18	11.21	8.99	10.69	11.02	11.04	11.24	13.26	11.59		
Company (\$/bbl)	110.04	42.22	58.95	70.14	72.26	60.74	73.72	72.98	72.24		
Total (\$/bbl)	79.67	35.41	35.89	43.51	47.98	40.59	51.87	51.23	48.53		
Revenue (C\$m)											
Natural Gas	322	157	100	122	147	525	164	157	590		
Oil	404	146	202	239	241	828	236	231	946		
Royalty	(138)	(55)	(55)	(66)	(70)	(246)	(73)	(71)	(279)		
Other						-			-		
Total	588	248	247	295	317	1,107	327	318	1,257		
Expense											
Operating	93	90	90	91	92	363	92	92	368		
Other	17	19	19	19	19	76	19	19	76		
Total	110	109	109	110	111	439	111	111	444		
Ebitda	478	139	138	185	206	668	215	207	813		
Deprec., Deplet., & Amort.	172	163	161	158	154	636	147	145	603		
Other Non Cash	225	(62)				(62)	-	-	-		
Ebit	81	37	(22)	27	52	94	69	62	209		
Interest	19	12	12	12	12	48	12	12	48		
Ebt	62	25	(34)	15	40	46	57	50	161		
Income Tax	(50)	(26)				(26)			-		
Net Income (\$mm)	112	51	(34)	15	40	72	57	50	161		
Per Share (\$)	0.68	0.31	(0.21)	0.09	0.24	0.43	0.34	0.30	0.97		
Shares (millions)	165	166	166	166	166	165.7	166	166	165.7		
Distributions (\$mm)	207	101	89	89	89	370	89	89	358		
Per Share (\$)	1.26	0.61	0.54	0.54	0.54	2.23	0.54	0.54	2.16		
Dist/(Ebitda-Interest)	0.45	0.80	0.71	0.52	0.46	0.60	0.44	0.46	0.47		
Operating (\$/bbl)	10.21	10.53	10.69	11.03	11.40	10.90	12.00	12.15	11.63		
General and admin (\$/bbl)	1.87	2.22	2.26	2.29	2.35	2.28	2.47	2.51	2.40		
Ebitda Margin	81%	56%	56%	63%	65%	60%	66%	65%	65%		

Please see disclosures on the final page.

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Penn West Energy Trust					
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	400	6.9	11.3	4,500	31%
Oil	1,120	9.3	8.8	9,800	69%
	1,520	8.3	9.4	14,300	100%
Debt (US\$mm)					4,000
Net Present Value (US\$mm)					10,300
Shares (mm)					410
Net Present Value - Standard Estimate (US\$/sh)					25
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					21

Pengrowth Energy Trust					
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	230	7.0	10.0	2,300	39%
Oil	460	8.3	7.8	3,600	61%
	690	7.7	8.6	5,900	100%
Debt (US\$mm)					1,800
Net Present Value (US\$mm)					4,100
Shares (mm)					257
Net Present Value - Standard Estimate (US\$/sh)					16
Net Present Value - Approximation by Cash Flow Multiple Depending on Reserve Life (\$/un)					14



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 19, 2009

Enerplus Resources Fund					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
North American Natural Gas	280	8.4	13.2	3,700	50%
Oil	440	10.6	8.5	3,750	50%
	720	9.3	10.3	7,450	100%
Debt (US\$mm)					850
Net Present Value (US\$mm)					6,600
Shares (mm)					166
Net Present Value - Standard Estimate (US\$/sh)					40
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					36

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