

## Growth, Inflation and Trump

						Present Value by Segment (%)						
		Price (US\$/sh)		EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	Dist. Yield	NTM (%)	McDep Ratio
Symbol/Rating		14-Nov 2016	14-Nov 2016	Cap	Value	Natural Gas	Natural Gas	Oil Prod'n	Down- stream	Dist. Yield	NTM (%)	McDep Ratio
Royal Dutch Shell	RDS-A B	48.78	1.73	336,000	2	18	56	24	7.7	0.73		
Total S.A.	TOT B	45.59	1.57	172,000		19	57	24	5.8	0.62		
Marathon Oil Corporation	MRO B	14.93	1.64	20,800	10	2	88		1.3	0.83		
ConocoPhillips	COP B	44.13	1.72	94,000	13	13	74		2.3	0.75		
Continental Resources (32%)	CLR B	46.77	1.39	7,700	29		71		-	0.88		
Range Resources	RRC B	33.61	1.52	12,500	76		24		0.2	0.70		
Dorchester Minerals, L.P.	DMLP B	15.40	1.00	470	28		72		6.8	0.64		
Sabine Royalty Trust	SBR B	35.30	1.00	520	44		56		7.7	0.59		
Suncor Energy	SU B	29.32	1.37	66,900	-		86	14	2.9	0.73		
Birchcliff Energy Ltd.	BIREF B	6.37	1.36	2,300	74		26		1.2	0.71		

### Summary and Recommendation

Following the election of Mr. Trump as the next U.S. president, we see more rapid economic growth, higher inflation and a positive outlook for the diversified McDep portfolio currently concentrated about two-thirds on growth--22% on oil and gas stocks, 44% on global stock funds--and one-third on protection consisting primarily of U.S. Treasuries and some gold. New leaders in each of the three branches of government can encourage higher productivity by changing costly and ineffective regulation, reducing taxes, upgrading infrastructure, maintaining a strong military, and resolving the immigration controversy among other issues. While all of that may be too much to expect, we look forward to seeing some of the influence of the late Norman Vincent Peale, author of *The Power of Positive Thinking*, from whom the president-elect drew inspiration in his early years. Bottom line for oil and gas, we think our ten buy recommendations and the other stocks in our coverage can be rewarding along with the whole stock market. In times of stock market weakness, treasury securities and gold assure stability and provide the means to take advantage.

### Higher Growth, Higher Inflation

Military spending, corporate tax reduction, broader tax reduction and infrastructure investment may require increased government borrowing initially. More government borrowing and higher growth are often accompanied by higher inflation. Current U.S. government debt stands at about \$20 trillion compared to annual gross domestic product (GDP) of about \$18 trillion. That means the ratio of debt to GDP is about the highest it has ever been. Increases in the ratio may be hard for politicians to justify and for the debt markets to accept. If the rate of growth in debt does not exceed the rate of growth in GDP, the ratio of debt to GDP will not increase. During the past year, debt increased about 3%. Growth was about 1.5% "real" plus about 1.5% inflation for total "nominal" growth of about 3%. In a higher growth environment debt might increase by 6% in a year. Growth might increase to 3% real plus 3% inflation, not far from the average experience of

the past 100 years. After a few years of higher growth, there would likely be less need for increasing debt.

### **Low Real Interest Rate, Stable Dollar**

Acknowledging that we are dealing with wide uncertainties, we further suggest that interest rates will not exceed inflation on shorter maturities where we know what we are measuring. That was the case most of the 1970s and the condition has reappeared in the past few years. Similarly, while higher nominal interest rates would make the dollar more valuable in international currency markets, higher inflation expectations would make the dollar less attractive. Most governments try to manage their currencies to keep them from getting too strong.

### **Constructive Outlook for Oil and Gas Stocks**

Recent oil price decline coincides with recent dollar strength (see chart [Dollar and Oil](#) on page 3). On past occasions, the trend has reversed when the DXY dollar index has approached 100 as it is doing now.

At the same time, today's lower short-term oil price may reflect concern about producing countries agreeing at their meeting on November 30 to bring production in line with demand. Memories of a steep decline in price following the producer's meeting a year ago may motivate producers to come to agreement this year to stabilize production and price, at least temporarily until demand strengthens.

Longer term we have a bias to higher oil price. Higher inflation would support that outlook as would short-term interest rates below the rate of inflation. In any case, small changes of one or two percent in demand or supply can have magnified impact.

### **Third Quarter Results Trigger Higher NPV for EOG, WLL, RRC, ECA, and SU**

Trends in operating results were disproportionately strong relative to our expectations for 5 stocks, which encouraged us to raise estimated Net Present Value (NPV) for the five. Covered in separate analyses, we restored a buy recommendation on natural gas producer **Range Resources (RRC)** and started a new buy on Canadian oil producer **Suncor (SU)** (see [Tables 1-4](#) on pages 4-7 and [Index of Recent Research](#) on page 8).

### **Trump Regulatory Proposals Would Reduce Economic Costs**

It seems clear to us that less regulation means more and cheaper fuel for the economy. Higher volume ought to be good for producers and lower prices ought to be good for consumers. Higher volume for sure means higher profits and restored jobs for the depressed oil service industry. Rescinding regulation of carbon dioxide emissions may boost coal demand. At the same time limiting the most stringent federal limits on fracking could make natural gas more competitive in



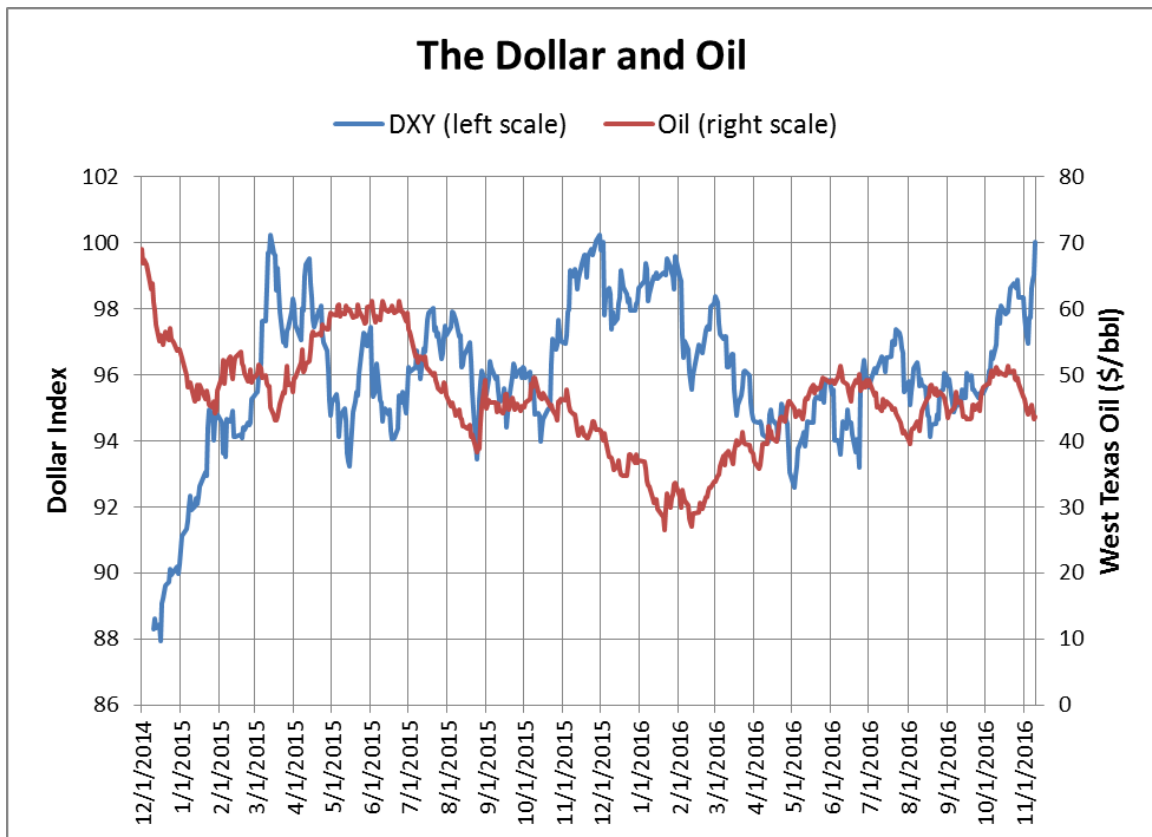
# Meter Reader

A Monthly Analysis of Oil and Gas Stocks  
November 15, 2016

the power generation market. Cutting subsidies for wind and solar could further boost demand for fossil fuels. Opening up land for pipelines and more drilling can boost supply of oil and gas. Though volume can boost profits, margins might be slimmer with greater competition.

Mr. Trump outperformed most expectations when he won the presidency. Let's hope he also outperforms in leading the country to a better economy that serves everyone.

Kurt H. Wulff, CFA





# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

<b>Table 1</b>											
<b>McDep Energy Stocks</b>											
<b>Enterprise Value, Segments, Yield and McDep Ratio</b>											
Symbol/Rating		Price (US\$/sh) 14-Nov 2016	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					Dist. Yield NTM (%)	McDep Ratio
					North Amer.	Rest of World	Oil Prod'n	Down- stream			
					Natural Gas	Natural Gas					
<b>Global Integrated</b>											
Exxon Mobil Corporation	XOM	85.28	1.27	451,000	10	15	49	26	3.5	0.88	
Chevron Corporation	CVX	106.59	1.34	270,000	3	14	64	20	4.1	0.83	
Royal Dutch Shell	RDS-A B	48.78	1.73	336,000	2	18	56	24	7.7	0.73	
Total S.A.	TOT B	45.59	1.57	172,000		19	57	24	5.8	0.62	
<i>Total or Median</i>			<i>1.46</i>	<i>1,229,000</i>			<i>57</i>	<i>24</i>	<i>4.9</i>	<i>0.78</i>	
<b>Large Independent</b>											
EOG Resources, Inc.	EOG	92.68	1.14	57,900	13	1	86		0.7	1.08	
Devon Energy Corporation	DVN	42.81	1.48	33,500	30		60	10	0.6	0.97	
Occidental Petroleum Corp.	OXY	65.77	1.21	60,800	5	2	84	9	4.6	0.90	
Marathon Oil Corporation	MRO B	14.93	1.64	20,800	10	2	88		1.3	0.83	
ConocoPhillips	COP B	44.13	1.72	94,000	13	13	74		2.3	0.75	
<i>Total or Median</i>			<i>1.48</i>	<i>267,000</i>	<i>13</i>		<i>84</i>		<i>1.3</i>	<i>0.90</i>	
<b>Small Independent</b>											
Cimarex Energy Company	XEC	125.03	1.11	12,900	38		62		0.3	1.04	
Continental Resources (32%)	CLR B	46.77	1.39	7,700	29		71		-	0.88	
California Resources	CRC	12.50	12.92	6,700	13		87		-	0.81	
Whiting Petroleum Corporation	WLL	8.74	2.74	6,700	10		90		-	0.72	
Range Resources	RRC B	33.61	1.52	12,500	76		24		0.2	0.70	
<i>Total or Median</i>			<i>1.52</i>	<i>47,000</i>	<i>29</i>		<i>71</i>		<i>-</i>	<i>0.81</i>	
<b>Income</b>											
San Juan Basin Royalty Trust	SJT	5.77	1.00	270	100		-		8.4	0.72	
Dorchester Minerals, L.P.	DMLP B	15.40	1.00	470	28		72		6.8	0.64	
Permian Basin RT	PBT	6.85	1.00	320	23		77		8.8	0.62	
Cross Timbers Royalty Trust	CRT	17.30	1.00	100	71		29		7.4	0.60	
Sabine Royalty Trust	SBR B	35.30	1.00	520	44		56		7.7	0.59	
<i>Total or Median</i>			<i>1.00</i>	<i>1,700</i>	<i>44</i>		<i>56</i>		<i>7.7</i>	<i>0.62</i>	
<b>Canada</b>											
EnCana Corporation	ECA	10.49	1.65	16,800	41		59		0.6	1.03	
Imperial Oil Limited (30%)	IMO	31.99	1.29	10,600	1		62	37	1.4	0.87	
Cenovus Energy Inc.	CVE	14.04	1.33	15,600	10		81	9	1.1	0.76	
Suncor Energy	SU B	29.32	1.37	66,900	-		86	14	2.9	0.73	
Birchcliff Energy Ltd.	BIREF B	6.37	1.36	2,300	74		26		1.2	0.71	
<i>Total or Median</i>			<i>1.36</i>	<i>112,000</i>			<i>62</i>		<i>1.2</i>	<i>0.76</i>	
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.											
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)											
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses											
For historical research see www.mcdep.com											



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)		Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		14-Nov 2016	Shares (mm)				
	B = Buy							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		85.28	4,178	356,000	100.00	0.19	0.88
Chevron Corporation	CVX		106.59	1,883	201,000	135.00	0.21	0.83
Royal Dutch Shell	RDS-A	B	48.78	3,986	195,000	80.00	0.31	0.73
Total S.A.	TOT	B	45.59	2,404	110,000	90.00	0.22	0.62
	<i>Total or Median</i>				862,000		0.22	0.78
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		92.68	548	50,800	85.00	0.13	1.08
Devon Energy Corporation	DVN		42.81	527	22,600	45.00	0.31	0.97
Occidental Petroleum Corp.	OXY		65.77	764	50,300	75.00	0.15	0.90
Marathon Oil Corporation	MRO	B	14.93	847	12,650	20.00	0.33	0.83
ConocoPhillips	COP	B	44.13	1,246	55,000	70.00	0.31	0.75
	<i>Total or Median</i>				191,400		0.31	0.90
<b>Small Independent</b>								
Cimarex Energy Company	XEC		125.03	93	11,700	120.00	0.10	1.04
Continental Resources (32%)	CLR	B	46.77	118	5,500	56.00	0.25	0.88
California Resources	CRC		12.50	42	500	50.00	0.75	0.81
Whiting Petroleum Corporation	WLL		8.74	281	2,500	18.00	0.46	0.72
Range Resources	RRC	B	33.61	244	8,200	56.00	0.24	0.70
	<i>Total or Median</i>				28,000		0.25	0.81
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		5.77	47	270	8.00	-	0.72
Dorchester Minerals, L.P.	DMLP	B	15.40	31	470	24.00	-	0.64
Permian Basin RT	PBT		6.85	47	320	11.00	-	0.62
Cross Timbers Royalty Trust	CRT		17.30	6	100	29.00	-	0.60
Sabine Royalty Trust	SBR	B	35.30	15	520	60.00	-	0.59
	<i>Total or Median</i>				1,700		-	0.62
<b>Canada</b>								
EnCana Corporation	ECA		10.49	973	10,200	10.00	0.40	1.03
Imperial Oil Limited (30%)	IMO		31.99	255	8,200	38.00	0.20	0.87
Cenovus Energy Inc.	CVE		14.04	833	11,700	20.00	0.19	0.76
Suncor Energy	SU	B	29.32	1,666	48,800	44.00	0.20	0.73
Birchcliff Energy Ltd.	BIREF	B	6.37	263	1,700	10.00	0.19	0.71
	<i>Total or Median</i>				81,000		0.20	0.76
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
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A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend
	Symbol/Rating		14-Nov 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
<b>Global Integrated</b>							
Exxon Mobil Corporation	XOM		85.28	15.0	13.4	11.8	3.00
Chevron Corporation	CVX		106.59	9.8	12.9	10.8	4.32
Royal Dutch Shell	RDS-A	B	48.78	9.5	10.4	7.6	3.76
Total S.A.	TOT	B	45.59	9.9	11.2	6.9	2.65
	<i>Median</i>			9.8	12.1	9.2	26
<b>Large Independent</b>							
Devon Energy Corporation	DVN		42.81	8.4	18.6	18.0	0.24
EOG Resources, Inc.	EOG		92.68	7.6	14.8	16.0	0.67
Marathon Oil Corporation	MRO	B	14.93	12.6	17.5	14.5	0.20
Occidental Petroleum Corp.	OXY		65.77	8.9	15.2	13.6	3.04
ConocoPhillips	COP	B	44.13	10.9	15.8	11.8	1.00
	<i>Median</i>			8.9	15.8	14.5	
<b>Small Independent</b>							
Cimarex Energy Company	XEC		125.03	7.0	15.6	16.2	0.32
Range Resources	RRC	B	33.61	12.2	23.3	16.2	0.08
Continental Resources (32%)	CLR	B	46.77	11.4	18.0	15.8	-
California Resources	CRC		12.50	11.8	14.0	11.3	-
Whiting Petroleum Corporation	WLL		8.74	9.3	14.2	10.3	-
	<i>Median</i>			11.4	15.6	15.8	
<b>Income</b>							
Dorchester Minerals, L.P.	DMLP	B	15.40	7.4	20.7	13.3	1.05
Sabine Royalty Trust	SBR	B	35.30	9.1	22.2	13.1	2.70
Cross Timbers Royalty Trust	CRT		17.30	8.1	20.6	12.3	1.28
San Juan Basin Royalty Trust	SJT		5.77	10.4	15.7	11.3	0.48
Permian Basin RT	PBT		6.85	8.5	16.7	10.4	0.61
	<i>Median</i>			8.5	20.6	12.3	13
<b>Canada</b>							
EnCana Corporation	ECA		10.49	5.9	14.6	15.1	0.06
Birchcliff Energy Ltd.	BIREF	B	6.37	12.7	17.4	12.3	0.07
Cenovus Energy Inc.	CVE		14.04	16.3	14.3	10.8	0.15
Imperial Oil Limited (30%)	IMO		31.99	32.1	11.2	9.8	0.44
Suncor Energy	SU	B	29.32	20.7	13.0	9.5	0.86
	<i>Median</i>			16.3	14.3	10.8	
	<i>Grand Median</i>			10	16	12	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses For historical research see [www.mcdep.com](http://www.mcdep.com)



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Total		
	Symbol/Rat		14-Nov	31-Dec	Change	Distrib.	Return	Debt	Return	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
									McDep	
									Ratio	
<b>Global Integrated</b>										
	Chevron Corporation	CVX	106.59	89.96	18	4	22	37	16	0.83
	Exxon Mobil Corporation	XOM	85.28	77.95	9	3	12	23	9	0.88
	Royal Dutch Shell	RDS-A B	48.78	45.79	7	6	13	35	7	0.73
	Total S.A.	TOT B	45.59	44.95	1	5	6	26	4	0.62
	<i>Median</i>				8		12		8	0.78
<b>Large Independent</b>										
	EOG Resources, Inc.	EOG	92.68	70.79	31	1	32	13	27	1.08
	Devon Energy Corporation	DVN	42.81	32.00	34	1	35	21	21	0.97
	Marathon Oil Corporation	MRO B	14.93	12.58	19	1	20	10	11	0.83
	Occidental Petroleum Corp.	OXY	65.77	67.61	(3)	3	1	14	1	0.90
	ConocoPhillips	COP B	44.13	46.69	(5)	2	(4)	32	(2)	0.75
	<i>Median</i>				19		20		11	0.90
<b>Small Independent</b>										
	Continental Resources (32%)	CLR B	46.77	22.98	104	-	104	18	58	0.88
	Cimarex Energy Company	XEC	125.03	89.38	40	0	40	14	35	1.04
	Range Resources	RRC B	33.61	24.62	37	0	37	18	21	0.70
	Whiting Petroleum Corporation	WLL	8.74	9.44	(7)	-	(7)	15	(3)	0.72
	California Resources	CRC	12.50	23.30	(46)	-	(46)	148	(6)	0.81
	<i>Median</i>				37		37		21	0.81
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP B	15.40	9.89	56	6	62	-	62	0.64
	San Juan Basin Royalty Trust	SJT	5.77	4.14	39	4	43	-	43	0.72
	Permian Basin RT	PBT	6.85	5.06	35	6	41	-	41	0.62
	Sabine Royalty Trust	SBR B	35.30	26.26	34	6	40	-	40	0.59
	Cross Timbers Royalty Trust	CRT	17.30	13.01	33	7	40	-	40	0.60
	<i>Median</i>				35		41		41	0.62
<b>Canada</b>										
	Birchcliff Energy Ltd.	BIREF B	6.37	2.93	118	-	118	2	66	0.71
	EnCana Corporation	ECA	10.49	5.09	106	1	107	7	46	1.03
	Suncor Energy	SU B	29.32	25.80	14	3	16	11	11	0.73
	Cenovus Energy Inc.	CVE	14.04	12.62	11	1	12	5	9	0.76
	Imperial Oil Limited (30%)	IMO	31.99	32.52	(2)	1	(1)	9	(0)	0.87
	<i>Median</i>				14		16		11	0.76
	<i>Grand Median</i>				25		27		18	0.75
	<b>Natural Gas (\$/mmbtu)</b>		2.75	2.33	18					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		43.59	37.06	18					
	<b>S&amp;P 500</b>		2,164	2,044	6					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see [www.mcdep.com](http://www.mcdep.com)



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

<b>Index of Recent Research</b>				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
9-Nov	ISI	ECA	Encana Corporation	Raise NPV to US\$10 from US\$6
31-Oct	ISI	SU	Suncor Energy Inc.	Raise NPV to US\$44 from US\$35
27-Oct	ISI	RRC	Range Resources	New Buy on Higher NPV of \$56
20-Oct	ISI	SJT	San Juan Basin Royalty Trust	Vote Proxy for Less Conflict, More Competence
18-Oct	ISI	CRC	California Resources	Option on Oil Price
14-Oct	ISI	CVX	Chevron	Oilier Global Integrated
11-Oct	Meter Reader			Canada Comeback
4-Oct	ISI	COP	ConocoPhillips	Pure Play Producer
24-Sep	ISI	SJT	San Juan Basin Royalty Trust	Rising for the Dead---Again
13-Sep	Meter Reader			Permian Surprises
6-Sep	ISI	DVN	Devon Energy	Raise NPV to \$45 from \$33 on Stress Test Success
30-Aug	ISI	SBR	Sabine Royalty Trust	Long-Life Top Line Cash Payer
21-Aug	ISI	BIREF	Birchcliff Energy	Canadian Independent Producer Transformed
17-Aug	ISI	SJT	San Juan Basin Royalty Trust	Preliminary Filing to Replace Trustee
16-Aug	Meter Reader			The Money Glut
11-Aug	ISI	XEC	Cimarex Energy	Raise NPV to \$120 from \$90
1-Aug	II	XOM, RDS, CVX, TOT		Real Return Standouts
1-Aug	ISI	WLL	Whiting Petroleum	Remove Buy Designation
22-Jul	II	CRT, DMLP, PBT, SBR, SJT		Income Payers in Uptrend
12-Jul	Meter Reader			Mid-Year Strategy
7-Jul	ISI	XOM	Exxon Mobil	Durable Real Return
22-Jun	ISI	BIREF	Birchcliff Energy	Half Billion Dollar Deal with Encana
21-Jun	ISI	SJT	San Juan Basin Royalty Trust	Record Administrative Costs
21-Jun	ISI	PBT	Permian Basin Royalty Trust	Raise Distribution to 9%
14-Jun	Meter Reader			Good Year for Oil and Gas
10-Jun	ISI	SU	Suncor Energy Inc.	Revitalized after Wildfire
7-Jun	ISI	WLL	Whiting Petroleum	Looking Up Again
23-May	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 9%
17-May	ISI	COP	ConocoPhillips	Strategy Reset to Low Risk Value
12-May	ISI	BIREF	Birchcliff Energy	Record Low Operating Cost
10-May	Meter Reader			Value, Growth, Income and Momentum
9-May	ISI	RRC	Range Resources	Restore Net Present Value to \$42 a Share
26-Apr	ISI	CLR	Continental Resources	Disciplined Visionary
13-Apr	Meter Reader			Road to Profits
5-Apr	ISI	TOT	Total S.A.	Globally Diversified Income
22-Mar	II	CRT, DMLP, PBT, SBR, SJT		Income Payer Appreciation Potential 55%-110%
15-Mar	Meter Reader			Best Oil Outlook in Seven Years
7-Mar	II	COP, MRO, CLR, WLL		Buy Low
29-Feb	ISI	DMLP	Dorchester Minerals, L.P.	Oil Income for All Seasons
19-Feb	ISI	DVN	Devon Energy	Flexibility to Adapt
19-Feb	ISI	MRO	Marathon Oil	Flexibility to Adapt
9-Feb	Meter Reader			Outperforming in 2016
3-Feb	ISI	XOM	Exxon Mobil	For Nervous Investors Seeking Reliable Income
				MR = Meter Reader (published monthly on or about second or third Tuesday)
				ISI = Independent Stock Idea
				II = Industry Idea
				For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.





# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 15, 2016

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