



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

June 1, 2010

## Long-Life Resources in Canada

### Summary and Recommendation

Canada offers some of the world's most accessible, large scale resource opportunities that investors can capture in two pure play buy recommendations – **Encana (ECA)** in natural gas and **Canadian Oil Sands Trust (COSWF)** in oil. Four additional buy recommendations concentrated on oil, **Canadian Natural Resources (CNQ)**, **Cenovus Energy (CVE)**, **Imperial Oil (IMO)** and **Suncor Energy (SU)**, offer similar appeal. The stocks trade close to the 200-day average except SU, which is below and CVE, which has not yet traded for 200 days. Oil price measured by six-year futures at \$84 a barrel is close to the 40-week average of \$86 (see charts on page 2, [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). At a median McDep Ratio of 0.79, the six large cap Canadian buys are undervalued by our analysis at any long-term oil price above \$59 a barrel.

Respected corporate buyers are validating the undervaluation signaled by the McDep Ratio, a sign of expected gains in resource value. Buying assets similar to those held by ECA, **ExxonMobil (XOM)** expects to complete its acquisition of natural gas producer XTO Energy this month while **Royal Dutch Shell (RDS)** announced a \$5 billion acquisition of a private shale gas company last month. Sinopec, the second largest oil company in China will likely soon close its acquisition of a 9% interest in the Syncrude oil sands mine and upgrader owned 37% by COSWF, 25% by IMO and 12% by SU. There are few countries in the world where large companies have access to long-life resources on better terms than in buy-recommended Canadian oil and gas producers.

Today we raise our estimate of Net Present Value (NPV) of CVE to US\$37 a share from \$32 to take account of probable reserves now allowed to be disclosed voluntarily under the regulations of the U.S. Securities and Exchange Commission. Higher NPV reduces McDep Ratio to rank CVE in line with peer companies at 0.78 within a range of 0.70-0.81 (see Tables 1-2 on pages 3-4). A tight range in McDep Ratio matches a tight range in cash flow multiples, EV/Ebitda and PV/Ebitda (see Table 3 on page 5).

Long life ranges from 17-31 years as measured by adjusted reserves (proven plus half of probable) divided by next twelve months production. IMO is the only remaining exception to including probable reserves for Canadian companies in our analysis. Our brief emphasis on high-probability contingent resources for Encana has been replaced by probable reserves of nearly the same magnitude. Latest company models provide further insight by business segment (see tables on pages 6-7, [Functional Cash Flow and Present Value](#)).

Kurt H. Wulff, CFA



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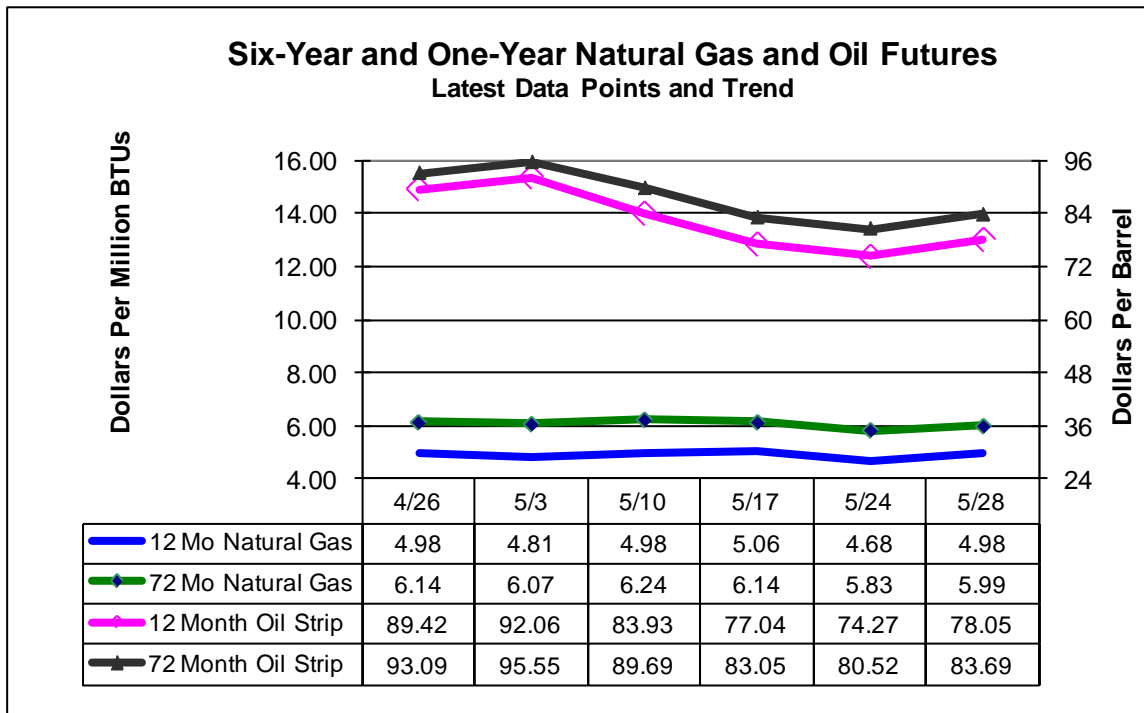
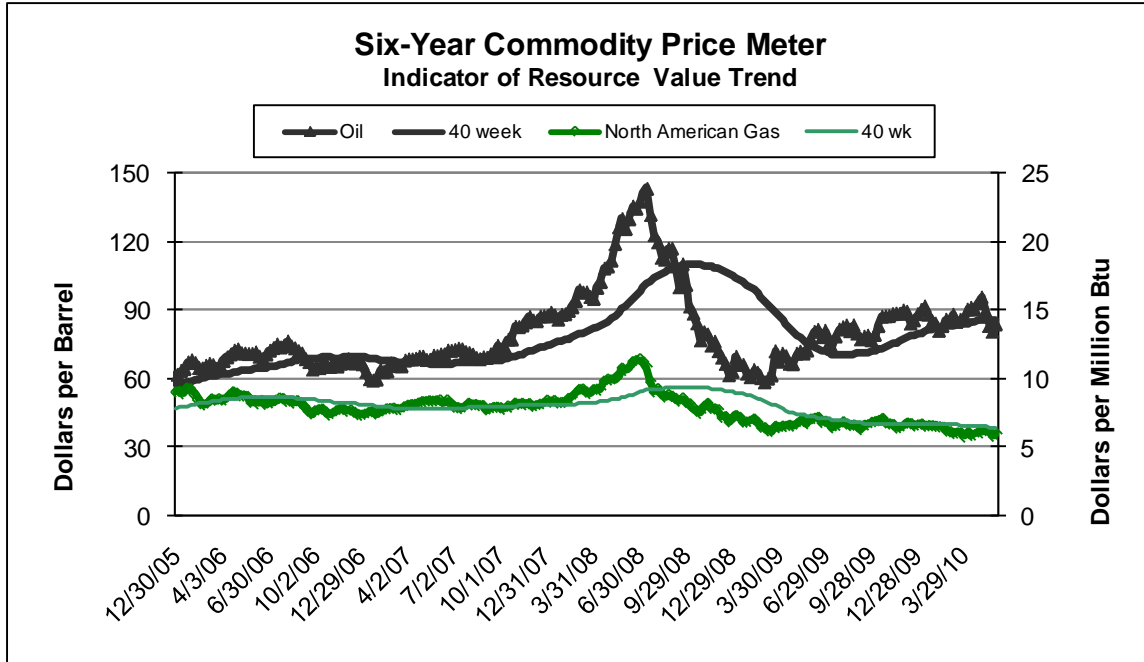


Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
					Present Value by Segment (%)					
				Price			North	Rest		
				(US\$/sh)	EV/	Enterprise	Amer.	of World		
		Symbol/Rating		28-May	Market	Value	Natural	Natural	Oil	Down-
		B = Buy, CB (see below)		2010	Cap	(\$mm)	Gas	Gas	Prod'n	stream
										McDep
										Ratio
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	CB	60.46	1.20	377,000	10	17	56	17	0.72
Chevron Corporation	CVX	CB	73.87	1.19	177,000	4	10	71	14	0.71
Marathon Oil Corporation	MRO	CB	31.09	1.52	33,600	7	3	64	26	0.68
ConocoPhillips	COP	B	51.86	1.68	131,000	13	9	64	14	0.67
<i>Total or Median *</i>		<i>31%</i>	<i>8%</i>	<i>15%</i>	<i>719,000</i>					<i>0.70</i>
<b>Europe</b>										
Royal Dutch Shell plc	RDS-A	CB	52.40	1.39	223,000	3	23	48	26	0.73
BG Group	BRGXF		15.34	1.17	61,200		31	44	25	0.73
Statoil ASA (33%)	STO	CB	20.10	1.46	30,700		50	50	-	0.66
BP plc	BP		42.95	1.43	194,000	6	12	61	21	0.59
Total S.A.	TOT	CB	46.63	1.30	136,000		19	58	22	0.58
<i>Total or Median *</i>		<i>28%</i>	<i>10%</i>	<i>12%</i>	<i>645,000</i>					<i>0.66</i>
<b>Australia/Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO		156.54	1.02	24,400		11	89	-	1.08
Woodside Petroleum Ltd.	WOPEY	CB	36.36	1.18	34,000		75	25	-	0.85
PetroChina Company Ltd (14%)	PTR	CB	107.30	1.24	34,200		14	72	14	0.76
Petrobras	PBR		35.62	1.39	218,000		4	77	20	0.69
Gazprom (50%)	OGZPY	CB	20.55	1.36	81,000		77	23	-	0.39
Lukoil Oil Company	LUKOY	CB	47.85	1.16	47,100			68	32	0.39
<i>Total or Median *</i>		<i>19%</i>	<i>12%</i>	<i>19%</i>	<i>439,000</i>					<i>0.72</i>
<b>U.S. Independent</b>										
Southwestern Energy Compar	SWN		37.61	1.09	14,300	100			-	1.16
EOG Resources	EOG	B	104.84	1.13	29,700	68	5	28	-	1.12
Occidental Petroleum Corp.	OXY	B	82.51	1.07	71,900	10	1	82	7	0.88
Anadarko Petroleum Corp.	APC		52.33	1.55	40,300	46		50	4	0.88
Chesapeake Energy Corp.	CHK		22.34	1.93	27,900	90		10	-	0.79
Devon Energy Corporation	DVN	CB	63.85	1.05	30,000	57		43	-	0.66
<i>Total or Median *</i>		<i>9%</i>	<i>12%</i>	<i>12%</i>	<i>214,000</i>					<i>0.88</i>
<b>Canada</b>										
Canadian Natural Resources	CNQ	B	69.46	1.28	48,300	15		85	-	0.81
Imperial Oil Limited (30%)	IMO	CB	38.19	1.11	10,800	3		82	15	0.81
EnCana Corporation	ECA	CB	30.85	1.38	31,900	95		5	-	0.79
Cenovus Energy Inc.	CVE	CB	26.94	1.33	26,900	18		76	6	0.78
Canadian Oil Sands Trust	COSWF	CB	26.81	1.10	14,300			100	-	0.73
Suncor Energy	SU	CB	30.46	1.37	65,400	4		85	11	0.70
<i>Total or Median *</i>		<i>9%</i>	<i>12%</i>	<i>23%</i>	<i>198,000</i>					<i>0.79</i>
<b>Income and Small Cap (see separate weekly analysis)</b>										
		<i>3%</i>	<i>45%</i>	<i>19%</i>	<i>77,600</i>	<i>57</i>		<i>43</i>		<i>0.96</i>
<b>Composite</b>										
<i>Enterprise Value Weighting</i>		<i>100%</i>			<i>2,293,000</i>	<i>12</i>	<i>15</i>	<i>59</i>	<i>15</i>	<i>0.70</i>
<i>Equal Weighting</i>			<i>100%</i>			<i>36</i>	<i>7</i>	<i>51</i>	<i>6</i>	<i>0.85</i>
<i>Equal Weighted Buys</i>				<i>100%</i>		<i>27</i>	<i>12</i>	<i>53</i>	<i>8</i>	<i>0.74</i>

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

\* 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								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	
	B = Buy, CB (see below)		28-May	(mm)	Cap	Value	Present	McDep
			2010		(US\$mm)	(US\$/sh)	Value	Ratio
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	60.46	5,215	315,000	89.00	0.12	0.72
Chevron Corporation	CVX	CB	73.87	2,004	148,000	110.00	0.11	0.71
Marathon Oil Corporation	MRO	CB	31.09	711	22,100	53.00	0.23	0.68
ConocoPhillips	COP	B	51.86	1,504	78,000	95.00	0.27	0.67
<i>Total or Median</i>					563,000		0.18	0.70
<b>Europe</b>								
Royal Dutch Shell plc	RDS-A	CB	52.40	3,066	161,000	79.00	0.21	0.73
BG Group plc	BRGXF		15.34	3,400	52,200	22.00	0.11	0.73
Statoil ASA (33%)	STO	CB	20.10	1,050	21,100	35.00	0.21	0.66
BP plc	BP		42.95	3,167	136,000	85.00	0.18	0.59
Total S.A.	TOT	CB	46.63	2,243	105,000	90.00	0.13	0.58
<i>Total or Median</i>					475,000		0.18	0.66
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO		156.54	152	23,800	145.00	0.03	1.08
Woodside Petroleum Ltd.	WOPEY	CB	36.36	794	28,900	44.00	0.13	0.85
PetroChina Company Ltd (14%)	PTR	CB	107.30	256	27,500	150.00	0.15	0.76
Petrobras	PBR		35.62	4,387	156,300	58.00	0.20	0.69
Lukoil Oil Company	LUKOY	CB	47.85	847	40,500	135.00	0.05	0.39
Gazprom (50%)	OGZPY	CB	20.55	2,915	59,900	64.00	0.10	0.39
<i>Total or Median</i>					337,000		0.12	0.72
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		37.61	349	13,100	32.00	0.10	1.16
EOG Resources	EOG	B	104.84	250	26,200	92.00	0.13	1.12
Anadarko Petroleum Corp.	APC		52.33	496	26,000	64.00	0.31	0.88
Occidental Petroleum Corp.	OXY	B	82.51	814	67,100	95.00	0.06	0.88
Chesapeake Energy Corp.	CHK		22.34	647	14,500	34.00	0.38	0.79
Devon Energy Corporation	DVN	CB	63.85	448	28,600	98.00	0.03	0.66
<i>Total or Median</i>					175,500		0.11	0.88
<b>Canada</b>								
Canadian Natural Resources	CNQ	B	69.46	543	37,700	90.00	0.18	0.81
Imperial Oil Limited (30%)	IMO	CB	38.19	256	9,800	48.00	0.08	0.81
EnCana Corporation	ECA	CB	30.85	749	23,100	42.00	0.22	0.79
Cenovus Energy Inc.	CVE	CB	26.94	752	20,300	37.00	0.19	0.78
Canadian Oil Sands Trust	COSWF	CB	26.81	484	13,000	38.00	0.07	0.73
Suncor Energy	SU	CB	30.46	1,572	47,900	48.00	0.19	0.70
<i>Total or Median</i>					152,000		0.18	0.79
CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.								



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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/Rating</i>		<i>28-May</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy, CB (see below)</i>		<i>2010</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	60.46	13.5	8.8	6.3	11	2.8
Marathon Oil Corporation	MRO	CB	31.09	9.1	7.7	5.3	11	2.4
ConocoPhillips	COP	B	51.86	10.5	7.5	5.0	9	3.2
Chevron Corporation	CVX	CB	73.87	9.1	6.7	4.8	10	3.7
	<i>Total or Median</i>			<i>9.8</i>	<i>7.6</i>	<i>5.1</i>	<i>10</i>	<i>3.0</i>
<b>Europe</b>								
BG Group plc	BRGXF		15.34	13.4	9.0	6.6	12	0.8
Royal Dutch Shell plc	RDS-A	CB	52.40	8.7	6.6	4.8	8	6.4
Total S.A.	TOT	CB	46.63	9.6	7.4	4.3	7	6.0
BP plc	BP		42.95	9.7	6.9	4.1	6	7.8
Statoil ASA (33%)	STO	CB	20.10	6.4	5.9	3.9	8	4.6
	<i>Total or Median</i>			<i>9.6</i>	<i>6.9</i>	<i>4.3</i>	<i>8</i>	<i>6.0</i>
<b>Australia/Brazil/China/Russia</b>								
Woodside Petroleum Ltd.	WOPEY	CB	36.36	17.8	13.6	11.5	20	2.6
Petrobras	PBR		35.62	9.1	9.1	6.3	10	3.8
PetroChina Company Ltd (14%)	PTR	CB	107.30	13.8	8.2	6.2	14	3.7
CNOOC Limited (34%)	CEO		156.54	6.8	5.2	5.6	10	3.3
Gazprom (50%)	OGZPY	CB	20.55	30.2	9.7	3.8	5	0.2
Lukoil Oil Company	LUKOY	CB	47.85	15.8	8.9	3.5	6	3.4
	<i>Total or Median</i>			<i>14.8</i>	<i>9.0</i>	<i>5.9</i>	<i>10</i>	<i>3.3</i>
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		37.61	6.5	8.3	9.6	19	-
Chesapeake Energy Corp.	CHK		22.34	12.0	11.6	9.1	14	1.3
EOG Resources	EOG	B	104.84	9.7	8.3	9.3	35	0.6
Occidental Petroleum Corp.	OXY	B	82.51	10.5	7.7	6.7	15	1.3
Anadarko Petroleum Corp.	APC		52.33	8.4	6.9	6.0		0.7
Devon Energy Corporation	DVN	CB	63.85	10.0	8.1	5.4	12	1.0
	<i>Total or Median</i>			<i>9.8</i>	<i>8.2</i>	<i>7.9</i>	<i>15</i>	<i>0.8</i>
<b>Canada</b>								
Canadian Natural Resources	CNQ	B	69.46	20.2	11.8	9.5	34	0.8
Imperial Oil Limited (30%)	IMO	CB	38.19	20.2	11.7	9.5	18	1.0
Canadian Oil Sands Trust	COSWF	CB	26.81	31.0	12.6	9.1	15	7.1
EnCana Corporation	ECA	CB	30.85	17.0	10.8	8.5	24	2.6
Cenovus Energy Inc.	CVE	CB	26.94	19.5	10.5	8.2	17	2.8
Suncor Energy	SU	CB	30.46	25.3	11.6	8.1	19	1.2
	<i>Total or Median</i>			<i>20.2</i>	<i>11.6</i>	<i>8.8</i>	<i>19</i>	<i>1.9</i>
CB=Contrarian Buy, Stock Price may be 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, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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<b>EnCana Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	3,380	17.1	11.2	37,900	94%
Oil	350	15.5	6.9	2,400	6%
	3,730	17.0	10.8	40,300	100%
Debt					8,800
Net Present Value (\$mm)					31,500
Shares					749
Net Present Value - Standard Estimate (US\$/sh)					42

<b>Canadian Oil Sands Trust</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$mm)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>(US\$mm)</i></u>	
Oil	1,570	31.0	12.5	19,690	100%
Debt (US\$mm)					1,300
Net Present Value (US\$mm)					18,390
Shares (mm)					484
Net Present Value (US\$/sh)					38

<b>Canadian Natural Resources</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	1,020	8.3	8.8	9,000	15%
Oil	4,080	26.2	12.4	50,500	85%
	5,100	20.2	11.7	59,500	100%
Debt					10,600
Net Present Value (US\$mm)					48,900
Shares					543
Net Present Value - Standard Estimate (US\$/sh)					90



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<b>Cenovus Energy Inc.</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	840	6.9	7.4	6,200	18%
Oil	2,330	30.8	11.3	26,300	76%
Downstream	300		6.7	2,000	6%
	3,470	19.5	9.9	34,500	100%
Debt					6,700
Net Present Value (\$mm)					27,800
Shares					752
Net Present Value - Standard Estimate (US\$/sh)					37

<b>Suncor</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	430	11.4	9.3	4,000	4%
Oil	6,410	28.0	12.3	79,000	85%
Downstream	1,210		8.3	10,000	11%
	8,050	25.3	11.6	93,000	100%
Debt (US\$mm)					17,500
Net Present Value (US\$mm)					75,500
Shares (mm)					1,572
Net Present Value - Standard Estimate (US\$/sh)					48

<b>Imperial Oil Limited</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	170	6.5	8.8	1,500	3%
Synthetic Oil	1,069	24.9	12.5	13,400	30%
Oil and Bitumen	1,785	21.5	12.9	23,100	52%
Downstream	771		8.4	6,500	15%
	3,795	20.2	11.7	44,500	100%
Debt (US\$mm)					3,500
Net Present Value (US\$mm)					41,000
Shares (mm)					854
Net Present Value - Standard Estimate (US\$/sh)					48



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Index of Recent Research			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
28-May	XEC, BIREF, WLL, BRY, RRC, HK and UPL		Shell Shale Gas Deal Boosts Independent Producers (ISCW)
25-May	XOM, BP, TOT		Large Caps Go Contrarian (Meter Reader)
21-May	COSWF, PWE, ERF, PGH and PEYUF		Canadian Income Trusts for Value and Distributions (ISCW)
20-May	CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
18-May	RDSA, STO, TOT		European Oil for Contrarians (Meter Reader)
13-May	BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
11-May	XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend (Meter Reader)
10-May	XEC	Cimarex Energy Company	Raise NPV Again on More Production
5-May	DVN	Devon Energy Corporation	Stock Repurchase Compelling
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)
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
30-Apr	* COSWF	Canadian Oil Sands Trust	Distribution Raised 43% to C\$0.50 a Quarter
23-Apr	* LGCY, LINE	Legacy Reserves L.P., Linn Energy	Oily Cash Payers - Add Legacy, Raise Linn NPV (ISCW)
21-Apr	* ECA	EnCana Corporation	New Natural Gas Company Performs Well
20-Apr	* SWN	Southwestern Energy	Shale Gas Slowdown (Meter Reader)
2-Apr	* SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas (Income and Small Cap Weekly)
31-Mar	* LUKOY	Lukoil Oil Company	Shares Available
26-Mar	* PTR	PetroChina Company Limited	Gas Growth - Natural Gas and Gasoline
22-Mar	* HGT	Hugoton Royalty Trust	Monthly Volume Distortion
5-Mar	* CNQ	Canadian Natural Resources	Raise NPV to US\$90 a Share from \$80
26-Feb	* DMLP	Dorchester Minerals, L.P.	Replaces Reserves and Pays 8% Income (ISCW)
25-Feb	* WOPEY	Woodside Petroleum	Financing in Place for 2010
15-Feb	* CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	* EOG	EOG Resources Inc.	Proven Reserves Increase 24%
3-Feb	* IMO	Imperial Oil Limited	Horn River Shale Gas Explorer
<b>Meter Reader</b>			
1-Jun		Weekly	
25-May	XOM, BP, TOT		Large Caps Go Contrarian
18-May	RDSA, STO, TOT		European Oil for Contrarians
11-May	* XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend
<b>Income and Small Cap Weekly</b>			
28-May	XEC, BIREF, WLL, BRY, RRC, HK and UPL		Shell Shale Gas Deal Boosts Independent Producers
21-May	COSWF, PWE, ERF, PGH and PEYUF		Canadian Income Trusts for Value and Distributions
14-May		Weekly	Euroworries and the Appeal of Income and Small Cap
7-May	* ENP	Encore Energy Partners	Mini-Panic and Encore Energy Partners
<b>Industry Ideas</b>			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
	* Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>		





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

June 1, 2010

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