



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 13, 2012

## Enerplus (ERF - Contrarian Buy) Shale Oil Growth with Income Option

<i>Symbol</i>	ERF	<i>Ebitda Next Twelve Months ending 3/31/13 (US\$mm)</i>	880
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (US\$/sh)</i>	19.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/12/12	<i>Adjusted Reserves/Production NTM</i>	6.5
<i>Shares (mm)</i>	196	<i>EV/Ebitda</i>	6.0
<i>Market Capitalization (US\$mm)</i>	3,790	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	1,440	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	5,230	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.70
<i>Present Value (PV) (US\$mm)</i>	6,540	<i>Present Value Proven Reserves(US\$/boe)</i>	37.70
<i>Net Present Value (US\$/share)</i>	26	<i>Oil and Gas Ebitda Margin (%)</i>	66
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.24
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	11.2	<i>Indicated Annual Dividend (US\$/sh)</i>	2.17
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.			

### Summary and Recommendation

We keep our Contrarian Buy recommendation on **Enerplus (ERF)** on the basis of shale oil growth in North Dakota, high annual income yield of 11.2% and McDep Ratio of 0.80. Market forces that resulted in a 20% negative return to investors so far in 2012 may have been influenced by a lost winter for natural gas (ISCW January 13, 2012), Bakken and Canadian crude oil backup (ISCW, February 10, 2012), the decline in energy stocks soon after the issue of new ERF shares, and the departure of the head of U.S. operations. At the same time, we reduce estimated Net Present Value (NPV) to US\$26 a share from US\$34 for ERF as we revise our guiding approximation of NPV to leave out the probable reserves reported by Canadian companies (ISCW March 30, 2012). The Contrarian qualifier to our Buy recommendation signals that a recent price decline may continue despite what looks like a favorable long-term outlook. Yet, factors influencing the stock price decline are reversible -- cold winters return, wide crude oil price differences narrow and successful companies grow reserves and production. Management of Enerplus will likely address all of the relevant issues as it presents the case for Enerplus stock at half-day presentations in Calgary, Toronto and New York on April 16, 18 and 19.

Enerplus chief executive Gord Kerr has been on top of the developing natural gas surplus by shifting from Canada to U.S. shale gas in Pennsylvania and then profitably recovering much of the cost of that effort. More important, ERF is making up in oil for lessened opportunity in natural gas. Oil is 72% of NPV (see table Functional Cash Flow and Present Value on page 2). Growing oil production from the Bakken shale of North Dakota is turning the corporate volume trend upward (see table NTM Operating and Financial Estimates on page 3).

(Continued on next page)



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As a result of lower share price, current annual income yield at 11.2% is the highest (see [Table ISC-1](#) on page 4). Despite reduced NPV, ERF's McDep Ratio remains low at 0.80 ([Table ISC-2](#) on page 5). Cash flow multiple (EV/Ebitda) of 6.0 times lines up with lower reserve life of 6.5 years that goes along with the omission of probable reserves (see [Table ISC-3](#) on page 6). Measured by stock price below the 200-day average, ERF is among the most out of favor (see [Table ISC-4](#) on page 7).

Finally, the company has ample financial strength to maintain the current dividend rate as management apparently intends. Having low debt, ERF has capacity to finance near-term emphasis on shale oil drilling to the extent cash flow does not meet the full need. The company has a successful private equity investment in a dynamic small oil company, Laricina, which might readily be sold for cash, if necessary. Nor must the high dividend be a full drain on cash as U.S. investors are likely to be offered attractive terms similar to those for Canadian investors to reinvest dividends.

Kurt H. Wulff, CFA

<b>Enerplus Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
				<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	130	5.6	13.8	1,800	28%
Oil	750	7.4	6.3	4,740	72%
	880	6.5	7.4	6,540	100%
Debt (US\$mm)					1,440
Net Present Value (US\$mm)					5,100
Shares (mm)					196
Net Present Value - Standard Estimate (US\$/sh)					26
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23



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Enerplus Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q1	Q4	Year	Q1E	Q2E	Q3E	Year	Q1E	Next Twelve Months
	3/31/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	2012E	3/31/13	3/31/13
<b>Volume</b>									
Natural Gas (mmcf)	251	253	<b>251</b>	250	250	250	<b>250</b>	250	<b>250</b>
Days	90	92	<b>365</b>	91	91	92	<b>366</b>	90	<b>365</b>
Oil (mbd)	34	35	<b>33.5</b>	39	40	42	<b>41.2</b>	44	<b>42.5</b>
Total (mb)	6.79	7.10	<b>27.49</b>	7.34	7.43	7.70	<b>30.35</b>	7.71	<b>30.72</b>
Total (mbd)	75.4	77.2	<b>75.3</b>	80.7	81.6	83.7	<b>82.9</b>	85.7	<b>84.2</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.11	3.55	<b>4.04</b>	2.73	2.17	2.42	<b>2.55</b>	3.35	<b>2.70</b>
Currency (US\$/C\$)	1.01	1.01	<b>1.02</b>	1.01	1.01	1.01	<b>1.01</b>	1.01	<b>1.01</b>
Henry Hub (C\$/mmbtu)	4.05	3.53	<b>3.97</b>	2.72	2.16	2.41	<b>2.53</b>	3.33	<b>2.69</b>
Differential (\$/mmbtu)	0.14	0.12	<b>0.24</b>	0.09	0.07	0.08	<b>0.09</b>	0.11	<b>0.09</b>
Company (\$/mcf)	3.91	3.41	<b>3.73</b>	2.62	2.09	2.33	<b>2.45</b>	3.22	<b>2.59</b>
WTI Cushing (\$/bbl)	94.10	94.06	<b>95.12</b>	102.93	102.68	104.03	<b>103.64</b>	105.13	<b>104.19</b>
WTI Cushing (C\$/bbl)	92.75	93.54	<b>93.38</b>	102.37	102.12	103.46	<b>103.07</b>	104.55	<b>103.62</b>
Differential	16.73	7.80	<b>11.73</b>	8.53	12.82	12.99	<b>11.89</b>	13.13	<b>12.98</b>
Company (\$/bbl)	76.01	85.75	<b>81.65</b>	93.84	89.30	90.47	<b>91.18</b>	91.42	<b>90.64</b>
Total (\$/bbl)	46.86	50.07	<b>48.72</b>	53.49	50.11	52.37	<b>52.74</b>	56.36	<b>53.47</b>
<b>Revenue (C\$m)</b>									
Natural Gas	88	79	<b>341</b>	60	48	54	<b>224</b>	72	<b>237</b>
Oil	230	276	<b>998</b>	333	325	350	<b>1,377</b>	362	<b>1,406</b>
Royalty	(59)	(68)	<b>(245)</b>	(75)	(71)	(77)	<b>(306)</b>	(83)	<b>(314)</b>
Total	259	287	<b>1,094</b>	318	301	326	<b>1,294</b>	351	<b>1,328</b>
<b>Expense</b>									
Operating	57	82	<b>281</b>						
Other	26	24	<b>94</b>						
Total	83	106	<b>375</b>	109	103	112	<b>444</b>	120	<b>455</b>
<b>Ebitda</b>									
Deprec., Deplet., & Amort.	100	120	<b>433</b>	116	117	121	<b>478</b>	121	<b>484</b>
Other Non Cash	24	445	<b>79</b>				<b>-</b>		<b>-</b>
<b>Ebit</b>									
Interest	14	(383)	<b>207</b>	93	81	93	<b>373</b>	109	<b>389</b>
<b>Ebt</b>									
Income Tax	38	17	<b>60</b>	17	17	17	<b>68</b>	17	<b>68</b>
<b>Ebt</b>									
Income Tax	38	(400)	<b>147</b>	76	64	76	<b>305</b>	92	<b>321</b>
<b>Net Income (\$mm)</b>									
Income Tax	10	(300)	<b>37</b>	19	16	19	<b>76</b>	23	<b>80</b>
<b>Net Income (\$mm)</b>									
Income Tax	29	(300)	<b>110</b>	57	48	57	<b>228</b>	69	<b>241</b>
<b>Per Share (\$)</b>									
Per Share (\$)	0.16	(1.66)	<b>0.62</b>	0.29	0.24	0.29	<b>1.17</b>	0.35	<b>1.23</b>
<b>Shares (millions)</b>									
Shares (millions)	180	181	<b>177</b>	196	196	196	<b>196</b>	196	<b>196</b>
<b>Distributions (\$mm)</b>									
Distributions (\$mm)	97	98	<b>389</b>	106	106	106	<b>423</b>	106	<b>423</b>
<b>Per Share (\$)</b>									
Per Share (\$)	0.54	0.54	<b>2.16</b>	0.54	0.54	0.54	<b>2.16</b>	0.54	<b>2.16</b>
<b>Ebitda Margin</b>									
Ebitda Margin	68%	63%	<b>66%</b>	66%	66%	66%	<b>66%</b>	66%	<b>66%</b>
<b>Tax rate</b>									
Tax rate	25%	25%	<b>25%</b>	25%	25%	25%	<b>25%</b>	25%	<b>25%</b>



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
		Price									
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
	B = Buy	12-Apr	Market	Value	Nat		Ebitda	NTM	Yield	McDep	
CB (see below)		2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>											
PDC Energy	PETD	33.49	1.61	1,270	54	46	7.0	-	-	0.89	
Range Resources	RRC CB	56.30	1.28	11,510	71	29	12.9	0.16	0.3	0.84	
Berry Petroleum Company	BRY	45.76	1.59	4,020	15	85	5.5	0.32	0.7	0.75	
Denbury Resources Inc.	DNR	18.46	1.38	10,020	6	94	5.7	-	-	0.73	
Peyto Exploration and Developmen	PEYUF	15.58	1.23	2,570	75	25	8.3	0.72	4.6	0.70	
Cimarex Energy Company	XEC B	70.91	1.15	7,020	40	60	5.4	0.36	0.5	0.68	
Whiting Petroleum Corporation	WLL B	52.30	1.30	8,080	8	92	4.5	-	-	0.66	
Birchcliff Energy Ltd.	BIREF CB	6.65	1.38	1,350	60	40	8.4	-	-	0.50	
<i>Total or Median</i>				45,800			6.4			0.71	
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT	22.03	1.00	1,030	37	63		1.49	6.8	1.10	
Dorchester Minerals, L.P.	DMLP B	25.49	1.00	780	57	43		2.02	7.9	0.94	
Sabine Royalty Trust	SBR	61.19	1.00	890	55	45		3.93	6.4	0.94	
Freehold Royalties Ltd.	FRHLF	18.92	1.04	1,270	16	84		1.68	8.9	0.90	
Cross Timbers Royalty Trust	CRT	38.34	1.00	230	70	30		2.66	6.9	0.87	
<i>Total or Median</i>				4,200					6.9	0.94	
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE	38.11	1.76	11,750	37	63	11.2	2.76	7.2	1.14	
Vanguard Natural Resources, LLC	VNR	27.47	1.46	2,090	20	80	9.6	2.35	8.6	1.07	
Enduro Royalty Trust (40%)	NDRO	20.53	1.00	270	42	58	7.3	1.77	8.6	0.98	
Mesa RoyaltyTrust	MTR	38.00	1.00	71	75	25	9.9	3.41	9.0	0.95	
Legacy Reserves L.P.	LGCY	27.95	1.36	1,810	24	76	8.4	2.20	7.9	0.95	
San Juan Basin Royalty Trust	SJT CB	18.24	1.00	850	100	-	15.2	0.80	4.4	0.87	
Enerplus Corporation	ERF CB	19.34	1.38	5,200	28	72	6.0	2.17	11.2	0.80	
Hugoton RoyaltyTrust	HGT	13.57	1.00	540	88	12	15.0	0.77	5.7	0.80	
<i>Total or Median</i>				22,600			9.8		8.2	0.95	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>				72,600	36	64					0.80
<i>Equal Weighting</i>					46	54					0.86
<i>Equal Weighted Buys</i>					43	57					0.74

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 \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2013. Enterprise Value = Market Cap and Debt.



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Table ISC-2							
McDep Income and Small Cap Energy Portfolio							
Net Present Value and McDep Ratio							
		Price (\$/sh)		Market	Net		
	Symbol/ Rating	12-Apr 2012	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>Small Cap Independent Producers</b>							
PDC Energy	PETD	33.49	23.6	790	40.00	0.34	0.89
Range Resources	RRC CB	56.30	160.0	9,010	70.00	0.18	0.84
Berry Petroleum Company	BRY	45.76	55.0	2,520	70.00	0.28	0.75
Denbury Resources Inc.	DNR	18.46	393.0	7,250	28.00	0.20	0.73
Peyto Exploration and Development Cor	PEYUF	15.58	133.9	2,090	24.00	0.13	0.70
Cimarex Energy Company	XEC B	70.91	86.2	6,110	110.00	0.09	0.68
Whiting Petroleum Corporation	WLL B	52.30	119.0	6,220	88.00	0.15	0.66
Birchcliff Energy Ltd.	BIREF CB	6.65	147.0	980	16.00	0.14	0.50
<i>Total or Median</i>				34,970		0.17	0.71
<b>Top Line Cash Payers</b>							
Permian Basin RT	PBT	22.03	46.6	1,030	20.00	-	1.10
Dorchester Minerals, L.P.	DMLP B	25.49	30.7	780	27.00	-	0.94
Sabine Royalty Trust	SBR	61.19	14.6	890	65.00	-	0.94
Freehold Royalties Ltd.	FRHLF	18.92	64.8	1,230	21.00	0.03	0.90
Cross Timbers Royalty Trust	CRT	38.34	6.0	230	44.00	-	0.87
<i>Total or Median</i>				4,160			0.94
<b>Bottom Line Cash Payers</b>							
Linn Energy, LLC	LINE	38.11	175.0	6,670	30.00	0.49	1.14
Vanguard Natural Resources, LLC	VNR	27.47	52.0	1,430	25.00	0.34	1.07
Enduro Royalty Trust (40%)	NDRO	20.53	13.2	270	21.00	-	0.98
Mesa Royalty Trust	MTR	38.00	1.9	71	40.00	-	0.95
Legacy Reserves L.P.	LGCY	27.95	47.5	1,330	30.00	0.25	0.95
San Juan Basin Royalty Trust	SJT CB	18.24	46.6	850	21.00	-	0.87
Enerplus Corporation	ERF CB	19.34	196.0	3,790	26.00	0.22	0.80
Hugoton Royalty Trust	HGT	13.57	40.0	540	17.00	-	0.80
<i>Total or Median</i>				14,950			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 \$6 a million btu for natural gas.							



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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		12-Apr 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	CB	56.30		-	14.7	15.3	12.9
Birchcliff Energy Ltd.	BIREF	CB	6.65		-	23.7	17.0	8.4
Peyto Exploration and Development Corp	PEYUF		15.58		0.36	109.9	11.9	8.3
PDC Energy	PETD		33.49		-	8.1	7.9	7.0
Denbury Resources Inc.	DNR		18.46		-	14.1	7.8	5.7
Berry Petroleum Company	BRY		45.76		-	11.8	7.3	5.5
Cimarex Energy Company	XEC	B	70.91		-	8.2	8.0	5.4
Whiting Petroleum Corporation	WLL	B	52.30		-	9.8	6.8	4.5
	<i>Median</i>					13.0	8.0	6.4
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		61.19	100	1.00	8.2	16.5	15.6
Cross Timbers Royalty Trust	CRT		38.34	78	0.96	16.3	16.0	13.9
Permian Basin RT	PBT		22.03	32	0.92	9.7	12.3	13.6
Dorchester Minerals, L.P.	DMLP	B	25.49	77	1.00	6.1	13.4	12.7
Freehold Royalties Ltd.	FRHLF		18.92	71	0.72	5.9	9.0	8.1
	<i>Median</i>					8.2	13.4	13.6
<b>Bottom Line Cash Payers</b>								
San Juan Basin Royalty Trust	SJT	CB	18.24		0.67	8.8	17.5	15.2
Hugoton RoyaltyTrust	HGT		13.57		0.85	12.8	18.7	15.0
Linn Energy, LLC	LINE		38.11		0.91	15.7	9.8	11.2
Mesa RoyaltyTrust	MTR		38.00		0.89	7.5	10.4	9.9
Vanguard Natural Resources, LLC	VNR		27.47		0.85	14.0	9.0	9.6
Legacy Reserves L.P.	LGCY		27.95		0.65	11.9	8.9	8.4
Enduro Royalty Trust (40%)	NDRO		20.53		0.63	5.2	7.5	7.3
Enerplus Corporation	ERF	CB	19.34		0.62	6.5	7.4	6.0
	<i>Median</i>					10.3	9.4	9.8
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 March 31, 2013; 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).								



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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		12-Apr 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
<b>Small Cap Independent Producers</b>								
	Denbury Resources Inc.	DNR	18.46	0.83	1.48	0.97	1.06	0.73
	PDC Energy	PETD	33.49	0.83	1.52	0.96	1.05	0.89
	Whiting Petroleum Corporation	WLL B	52.30	0.76	1.53	0.96	1.04	0.66
	Cimarex Energy Company	XEC B	70.91	0.66	1.33	0.94	1.01	0.68
	Berry Petroleum Company	BRY	45.76	0.83	1.26	0.95	0.99	0.75
	Range Resources	RRC CB	56.30	0.77	1.09	0.93	0.92	0.84
	Peyto Exploration and Development C	PEYUF	15.58	0.65	1.06	0.90	0.78	0.70
	Birchcliff Energy Ltd.	BIREF CB	6.65	0.51	1.05	0.70	0.61	0.50
	<i>Median</i>			<i>0.77</i>	<i>1.30</i>	<i>0.94</i>	<i>1.00</i>	<i>0.71</i>
<b>Top Line Cash Payers</b>								
	Dorchester Minerals, L.P.	DMLP B	25.49	0.87	1.23	1.05	1.05	0.94
	Permian Basin RT	PBT	22.03	0.94	1.22	1.00	1.04	1.10
	Freehold Royalties Ltd.	FRHLF	18.92	0.79	1.37	0.94	0.99	0.90
	Sabine Royalty Trust	SBR	61.19	0.87	1.29	0.98	0.97	0.94
	Cross Timbers Royalty Trust	CRT	38.34	0.75	1.01	0.85	0.84	0.87
	<i>Median</i>			<i>0.87</i>	<i>1.23</i>	<i>0.98</i>	<i>0.99</i>	<i>0.94</i>
<b>Bottom Line Cash Payers</b>								
	Linn Energy, LLC	LINE	38.11	0.96	1.12	1.01	1.01	1.14
	Legacy Reserves L.P.	LGCY	27.95	0.87	1.19	0.97	1.00	0.95
	Vanguard Natural Resources, LLC	VNR	27.47	0.87	1.16	0.99	0.99	1.07
	Mesa RoyaltyTrust	MTR	38.00	0.77	1.04	0.91	0.88	0.95
	San Juan Basin Royalty Trust	SJT CB	18.24	0.69	1.05	0.97	0.82	0.87
	Enerplus Corporation	ERF CB	19.34	0.66	1.01	0.87	0.80	0.80
	Hugoton RoyaltyTrust	HGT	13.57	0.56	1.01	0.91	0.70	0.80
	<i>Median</i>			<i>0.77</i>	<i>1.05</i>	<i>0.97</i>	<i>0.88</i>	<i>0.95</i>

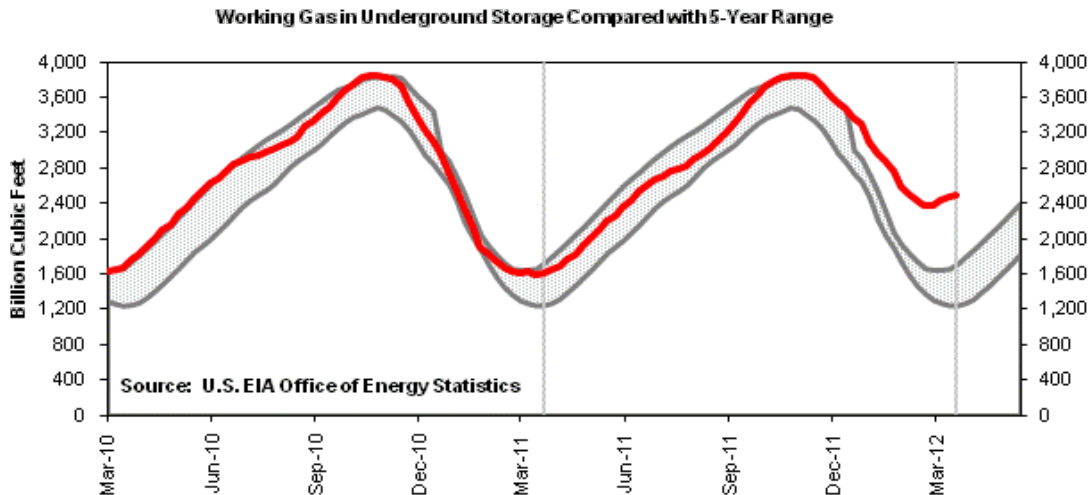
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 13, 2012



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