



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 22, 2013

Cimarex Energy (XEC- Buy) Wolfcamp New Legacy Asset

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$m)</i>	1,383
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	23
<i>Price (\$/sh)</i>	68.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/21/13	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	87	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (\$mm)</i>	5,970	<i>PV/Ebitda</i>	7.8
<i>Debt (\$mm)</i>	1,270	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	7,240	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.00
<i>Present Value (PV) (\$mm)</i>	10,810	<i>Present Value Proven Reserves(\$/boe)</i>	28.70
<i>Net Present Value (\$/share)</i>	110	<i>Oil and Gas Ebitda Margin (%)</i>	71
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.99
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.48
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.			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

The Chairman and Chief Executive of buy-recommended **Cimarex Energy (XEC)**, Mr. Tom Jorden, declares, “We are getting very bullish on the Wolfcamp”. XEC management estimated midpoint reserve potential in the formation of 3 trillion cubic feet equivalent (tcf), or a half billion barrels, when discussing quarterly results on February 19 (see slide [Wolfcamp Summary](#) on page 2). That potential exceeds total XEC proven reserves, which increased 11% to 2.3 tcf in 2012 (see table [Reserves](#) on page 2). The reserve potential derives mainly from Culberson County, Texas where XEC is the leading driller and the Wolfcamp is “upwards of 600-700 feet thick” (see slide [Permian – HZ Wolfcamp](#) on page 3). In adjacent Reeves County, Texas, the formation “has as much as 2000 feet of thickness”, according to **EOG Resources (EOG)**. Adding credibility to XEC’s enthusiasm, EOG disclosed for the first time on February 14, an estimate of 800 million barrels of reserve potential on its Wolfcamp acreage in Reeves County. Meanwhile, Cimarex’s production growth is expected to accelerate to 10% in 2013 compared to 6% in 2012 (see table [Operating and Financial Estimates](#) on page 4). Continued favorable progress reinforces our estimate of Net Present Value (NPV) of \$110 a share (see table [Present Value](#) on page 4). Finally, Cimarex’s McDep Ratio is low at 0.67, Debt/Present Value is low at 0.12, unlevered cash flow multiple (EV/Ebitda) is low at 5.2 compared to adjusted reserve life of 7.9 years and stock price has favorable momentum (see [Tables 1-4](#) on pages 4-7).

Kurt H. Wulff, CFA

Horizontal Wolfcamp Summary

- **Emerging key area**
- **Improving economics**
 - Seeing consistent and improving well results
 - Decreasing well cost
- **Completed well costs:**
 - 2011: \$9 - 11 MM
 - 2012: \$8 - 9.5 MM
 - Current estimate ~ \$7-7.5 MM
 - Avg. lateral length ~4,500', 8-10' k Depth
- **Significant Resource Potential:**

Resource Potential	Acre Spacing*	Net Wells	Reserves		Net Capital (\$ MM)
			(Tcfe)	(Tcfe)	
Upside Potential	160	500	1.7	- 2.1	3,600
	80	1,000	3.4	- 4.1	7,200

Total WC proved reserves at YE 2012: 78 Bcfe (55% Gas, 25% NGL & 19% oil)

* Well spacing still to be determined through down spacing pilot.



NYSE: XEC

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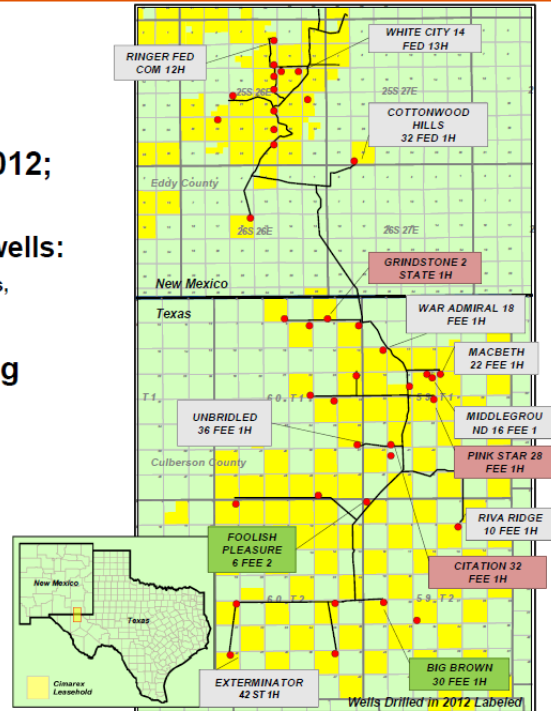
CIMAREX

Cimarex Energy Company					
Natural Gas and Oil Reserves					
	Natural Gas	Oil	Total		
	(bcf)	(mmb)	(bcf)	(mmb)	
<i>Reserves (bcf or mmb)</i>					
Proven (P)	1,252	168	2,260	377	100
Proven Developed (PD)	985	138	1,813	302	80
Proven Undeveloped (PUD)	267	30	447	75	20
<i>Production, Next Twelve Months</i>	127	22.1	259	43.2	
<i>Reserve Life Index (years)</i>					
R/P P	9.9	7.6	8.7	8.7	
R/P PD	7.8	6.3	7.0	7.0	
R/P PUD	2.1	1.4	1.7	1.7	
R/P PD+.5PUD	8.8	6.9	7.9	7.9	

Permian – Horizontal Wolfcamp

- Southern Eddy Cty. NM /northern Culberson Cty. TX
 - Focus area > 100,000 net acres
- 15 horizontal Wolfcamp wells in 2012; 33 wells from inception
 - 30-day production average for all wells: 6.4 MMcfe/d (43% gas, 26% oil and 31% NGLs, assuming full recovery)
- Significant future Wolfcamp drilling
 - Plus emerging 2nd Bone Spring play

2012 Wells		WI %	bbl/d	MMcfe/d	bbl/MM	Oil
Q1	BIG BROWN 30 FEE 1H	100%	125	5.1	35.3	15%
Q1	FOOLISH PLEASURE 6 FEE 2H	100%	312	6.8	82.8	28%
			219	5.9	59.1	21%
Q4	PINK STAR 28 STATE UNIT 1H	100%	364	7.3	92.9	30%
Q4	CITATION 32 Fee 1H	100%	297	6.3	84.5	28%
Q4	GRINDSTONE 2 Fee 1H	100%	309	5.3	112.6	35%
			323	6.3	96.7	





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Cimarex Energy Company											
Next Twelve Months Operating and Financial Performance											
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	12/31/11	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	3/31/14
Volume											
Natural Gas (mmcf)	334	324	333	324	323	333	343	353	338	364	348
Days	92	92	92	366	90	91	92	92	365	90	365
Oil (mmb)	4.1	4.8	5.3	18.5	5.0	5.3	5.6	5.6	21.6	5.5	22.1
Oil (mbd)	44.5	51.9	57.2	50.5	55.5	58.3	61.2	61.2	59.0	61.2	60.4
Total (mmcf)	601	635	676	627	656	682	710	720	692	731	711
Price											
Henry Hub (\$/mmbtu)	3.55	2.80	3.40	2.79	3.25	3.30	3.44	3.63	3.40	3.90	3.57
Company (\$/mcf)	3.90	2.79	3.35	2.88	3.20	3.25	3.38	3.57	3.36	3.84	3.52
WTI Cushing (\$/bbl)	94.06	92.22	88.18	94.16	95.76	96.94	97.77	97.40	96.97	96.44	97.14
Company (\$/bbl)	72.60	65.89	62.16	67.19	67.50	68.33	68.92	68.66	68.38	67.98	68.48
Total (\$/bbl)	45.25	40.83	41.45	41.41	43.71	44.51	45.44	45.51	44.83	45.63	45.28
Revenue (\$mm)											
Natural Gas	120	83	103	341	93	98	107	116	414	126	447
Oil	297	315	327	1,242	337	362	388	386	1,474	374	1,511
Total	417	398	430	1,583	430	461	494	502	1,888	500	1,957
Expense											
Operating	82	77	82								
Production taxes	28	24	14								
General and administrative	11	15	13								
Expense	121	116	109	461	126	135	145	147	554	147	575
Ebitda	296	282	321	1,121	304	325	349	355	1,334	353	1,383
Deprec., Deplet., & Amor	114	139	142	527	142	142	142	142	568	142	568
Other Non Cash	2	4	17	26					-		-
Ebit	180	139	161	568	162	183	207	213	766	211	815
Interest	-	4	4	12	4	4	4	4	16	4	16
Ebt	180	135	157	556	158	179	203	209	750	207	799
Income Tax	63	47	55	195	55	63	71	73	262	73	280
Net Income (\$mm)	117	88	102	362	103	117	132	136	487	135	519
Per Share (\$)	1.36	1.01	1.18	4.18	1.18	1.34	1.52	1.57	5.62	1.55	5.99
Shares (millions)	86	87	87	87	87	87	87	87	87	87	87
Ebitda Margin	71%	71%	75%	71%	71%	71%	71%	71%	71%	71%	71%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Cimarex Energy Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	320	8.8	13.8	4,400	41%
Oil	1,063	6.9	6.0	6,370	59%
	1,383	7.9	7.8	10,770	100%
Debt (US\$mm)					1,270
Net Present Value (US\$mm)					9,500
Shares (mm)					87
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					113



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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	21-Feb	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
CB (see below)	2013	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
PDC Energy	PDCE	42.66	1.59	2,110	43	57	12.0	-	-	1.04
Range Resources	RRC B	70.15	1.31	14,650	72	28	17.0	0.16	0.2	1.00
Peyto Exploration and Development	PEYUF	24.01	1.21	4,190	76	24	10.4	0.72	3.0	0.91
Continental Resources (32%)	CLR B	81.22	1.20	5,720	24	76	7.0	-	-	0.84
Halcón Resources	HK	7.27	1.60	3,930	15	85	5.1	-	-	0.81
Berry Petroleum Company	BRY	46.02	1.69	4,300	12	88	6.3	-	-	0.76
Denbury Resources Inc.	DNR	18.04	1.46	10,270	4	96	6.4	-	-	0.72
Birchcliff Energy Ltd.	BIREF B	7.41	1.42	1,720	68	32	9.4	-	-	0.70
Cimarex Energy Company	XEC B	68.81	1.21	7,240	41	59	5.2	0.48	0.7	0.67
Whiting Petroleum Corporation	WLL B	48.13	1.37	7,860	9	91	4.5	-	-	0.62
<i>Total or Median</i>			<i>1.40</i>	<i>62,000</i>	<i>33</i>	<i>67</i>	<i>6.7</i>			<i>0.79</i>
Leveraged Cash Payers										
Linn Energy, LLC	LINE	37.68	1.66	14,570	43	57	12.1	2.90	7.7	1.14
Vanguard Natural Resources, LLC	VNR	27.35	1.63	2,370	33	67	11.3	2.40	8.8	1.06
Legacy Reserves L.P.	LGCY	25.75	1.48	1,800	25	75	8.9	2.26	8.8	0.90
Enerplus Corporation	ERF CB	12.20	1.74	4,200	31	69	5.6	1.07	8.8	0.71
<i>Total or Median</i>			<i>1.65</i>	<i>22,900</i>	<i>32</i>	<i>68</i>	<i>10.1</i>		<i>8.8</i>	<i>0.98</i>
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	22.80	TL	1,560	16	84	10.7	1.67	7.3	1.08
Dorchester Minerals, L.P.	DMLP B	23.38	TL	720	61	39	12.0	1.89	8.1	0.87
Enduro Royalty Trust (40%)	NDRO	16.50	BL	220	48	52	8.0	1.56	9.4	0.79
San Juan Basin Royalty Trust	SJT B	15.95	BL	740	100	-	11.5	0.97	6.1	0.76
Sabine Royalty Trust	SBR	45.00	TL	660	51	49	10.9	4.12	9.2	0.69
Permian Basin RT	PBT	13.20	TL	620	33	67	8.2	0.90	6.8	0.66
Cross Timbers Royalty Trust	CRT	27.56	TL	170	70	30	8.5	3.12	11.3	0.63
Mesa Royalty Trust	MTR	23.39	BL	44	75	25	9.3	2.03	8.7	0.59
Hugoton Royalty Trust	HGT	8.01	BL	320	88	13	7.5	0.40	5.0	0.57
<i>Total or Median</i>				<i>5,100</i>	<i>61</i>	<i>39</i>	<i>9.3</i>		<i>8.1</i>	<i>0.69</i>
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, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



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Table ISC-2							
McDep Income and Small Cap Energy Portfolio							
Net Present Value and McDep Ratio							
		Price			Net		
		(\$/sh)		Market	Present	Debt/	
	Symbol/	21-Feb	Shares	Cap	Value	Present	McDep
	Rating	2013	(mm)	(\$mm)	(\$/un)	Value	Ratio
Small Cap Independent Producers							
PDC Energy	PDCE	42.66	31.0	1,320	40.00	0.39	1.04
Range Resources	RRC	B	70.15	160.0	11,220	70.00	1.00
Peyto Exploration and Development Cor	PEYUF		24.01	144.0	3,460	27.00	0.91
Continental Resources (32%)	CLR	B	81.22	58.6	4,760	100.00	0.84
Halcón Resources	HK		7.27	339.0	2,460	10.00	0.81
Berry Petroleum Company	BRY		46.02	55.3	2,540	70.00	0.76
Denbury Resources Inc.	DNR		18.04	391.0	7,050	28.00	0.72
Birchcliff Energy Ltd.	BIREF	B	7.41	163.0	1,210	12.00	0.70
Cimarex Energy Company	XEC	B	68.81	86.7	5,970	110.00	0.67
Whiting Petroleum Corporation	WLL	B	48.13	119.0	5,730	88.00	0.62
<i>Total or Median</i>					45,720	0.22	0.79
Leveraged Cash Payers							
Linn Energy, LLC	LINE		37.68	233.0	8,780	30.00	1.14
Vanguard Natural Resources, LLC	VNR		27.35	53.1	1,450	25.00	1.06
Legacy Reserves L.P.	LGCY		25.75	47.5	1,220	30.00	0.90
Enerplus Corporation	ERF	CB	12.20	196.0	2,390	21.00	0.71
<i>Total or Median</i>					13,840	0.35	0.98
RTF Cash Payers							
Freehold Royalties Ltd.	FRHLF		22.80	65.7	1,500	21.00	1.08
Dorchester Minerals, L.P.	DMLP	B	23.38	30.7	720	27.00	0.87
Enduro Royalty Trust (40%)	NDRO		16.50	13.2	220	21.00	0.79
San Juan Basin Royalty Trust	SJT	B	15.95	46.6	740	21.00	0.76
Sabine Royalty Trust	SBR		45.00	14.6	660	65.00	0.69
Permian Basin RT	PBT		13.20	46.6	620	20.00	0.66
Cross Timbers Royalty Trust	CRT		27.56	6.0	170	44.00	0.63
Mesa RoyaltyTrust	MTR		23.39	1.9	44	40.00	0.59
Hugoton RoyaltyTrust	HGT		8.01	40.0	320	14.00	0.57
<i>Total or Median</i>					4,990		0.69
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 Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		21-Feb 2013					
Small Cap Independent Producers								
Range Resources	RRC	B	70.15		-	14.6	17.0	17.0
PDC Energy	PDCE		42.66		-	14.5	11.5	12.0
Peyto Exploration and Development Corp	PEYUF		24.01		0.30	8.9	11.4	10.4
Birchcliff Energy Ltd.	BIREF	B	7.41		-	19.5	13.5	9.4
Continental Resources (32%)	CLR	B	81.22		-	11.0	8.3	7.0
Denbury Resources Inc.	DNR		18.04		-	13.6	8.8	6.4
Berry Petroleum Company	BRY		46.02		-	12.1	8.2	6.3
Cimarex Energy Company	XEC	B	68.81		-	7.9	7.8	5.2
Halcón Resources	HK		7.27		-	5.0	6.3	5.1
Whiting Petroleum Corporation	WLL	B	48.13		-	9.0	7.2	4.5
	<i>Median</i>					11.6	8.6	6.7
Leveraged Cash Payers								
Linn Energy, LLC	LINE		37.68		1.02	13.9	10.6	12.1
Vanguard Natural Resources, LLC	VNR		27.35		1.03	13.2	10.7	11.3
Legacy Reserves L.P.	LGCY		25.75		0.75	11.0	9.9	8.9
Enerplus Corporation	ERF	CB	12.20		0.41	6.3	8.0	5.6
	<i>Median</i>					12.1	10.3	10.1
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	23.38	77	0.97	6.4	13.8	12.0
San Juan Basin Royalty Trust	SJT	B	15.95		0.70	9.2	15.2	11.5
Sabine Royalty Trust	SBR		45.00	100	1.00	8.1	15.8	10.9
Freehold Royalties Ltd.	FRHLF		22.80	80	0.79	5.0	9.9	10.7
Mesa Royalty Trust	MTR		23.39		0.80	7.8	15.7	9.3
Cross Timbers Royalty Trust	CRT		27.56	78	0.97	14.2	13.7	8.5
Permian Basin RT	PBT		13.20	52	0.56	9.9	12.4	8.2
Enduro Royalty Trust (40%)	NDRO		16.50		0.76	7.2	10.2	8.0
Hugoton Royalty Trust	HGT		8.01		0.37	13.7	13.1	7.5
	<i>Median</i>					8.1	13.7	9.3
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, 2014; 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

**McDep Income and Small Cap Energy Portfolio
Total Return and Enterprise Value Momentum**

			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		21-Feb	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating	2013	YTD (%)	High	Low	Avg.	Avg.	Ratio	
Small Cap Independent Producers									
PDC Energy	PDCE		42.66	29	0.97	1.52	1.09	1.22	1.04
Cimarex Energy Company	XEC	B	68.81	19	0.81	1.37	1.09	1.14	0.67
Berry Petroleum Company	BRY		46.02	37	0.87	1.25	1.15	1.13	0.76
Denbury Resources Inc.	DNR		18.04	11	0.89	1.23	1.02	1.08	0.72
Peyto Exploration and Development C	PEYUF		24.01	4	0.92	1.48	1.03	1.08	0.91
Continental Resources (32%)	CLR	B	81.22	11	0.86	1.26	1.02	1.08	0.84
Range Resources	RRC	B	70.15	12	0.96	1.23	1.04	1.06	1.00
Whiting Petroleum Corporation	WLL	B	48.13	11	0.81	1.23	1.03	1.06	0.62
Birchcliff Energy Ltd.	BIREF	B	7.41	(1)	0.68	1.31	1.00	1.04	0.70
Halcón Resources	HK		7.27	5	0.71		0.99	0.95	0.81
	<i>Median</i>			<i>11</i>	<i>0.87</i>	<i>1.26</i>	<i>1.03</i>	<i>1.08</i>	<i>0.79</i>
Leveraged Cash Payers									
Vanguard Natural Resources, LLC	VNR		27.35	6	0.94	1.11	1.00	1.00	1.06
Linn Energy, LLC	LINE		37.68	9	0.93	1.06	1.01	0.99	1.14
Legacy Reserves L.P.	LGCY		25.75	11	0.90	1.10	1.03	0.99	0.90
Enerplus Corporation	ERF	CB	12.20	(4)	0.63	1.04	0.96	0.91	0.71
	<i>Median</i>			<i>8</i>	<i>0.91</i>	<i>1.08</i>	<i>1.00</i>	<i>0.99</i>	<i>0.98</i>
RTF Cash Payers									
Freehold Royalties Ltd.	FRHLF		22.80	3	0.94	1.34	1.00	1.13	1.08
San Juan Basin Royalty Trust	SJT	B	15.95	19	0.78	1.32	1.09	1.09	0.76
Dorchester Minerals, L.P.	DMLP	B	23.38	17	0.88	1.18	1.08	1.06	0.87
Hugoton RoyaltyTrust	HGT		8.01	10	0.51	1.40	1.00	1.04	0.57
Enduro Royalty Trust (40%)	NDRO		16.50	(1)	0.75	1.10	0.98	0.93	0.79
Sabine Royalty Trust	SBR		45.00	15	0.68	1.16	1.00	0.91	0.69
Mesa RoyaltyTrust	MTR		23.39	22	0.54	1.26	1.07	0.91	0.59
Cross Timbers Royalty Trust	CRT		27.56	3	0.56	1.17	0.96	0.85	0.63
Permian Basin RT	PBT		13.20	8	0.57	1.10	0.99	0.84	0.66
	<i>Median</i>			<i>10</i>	<i>0.68</i>	<i>1.18</i>	<i>1.00</i>	<i>0.93</i>	<i>0.69</i>

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

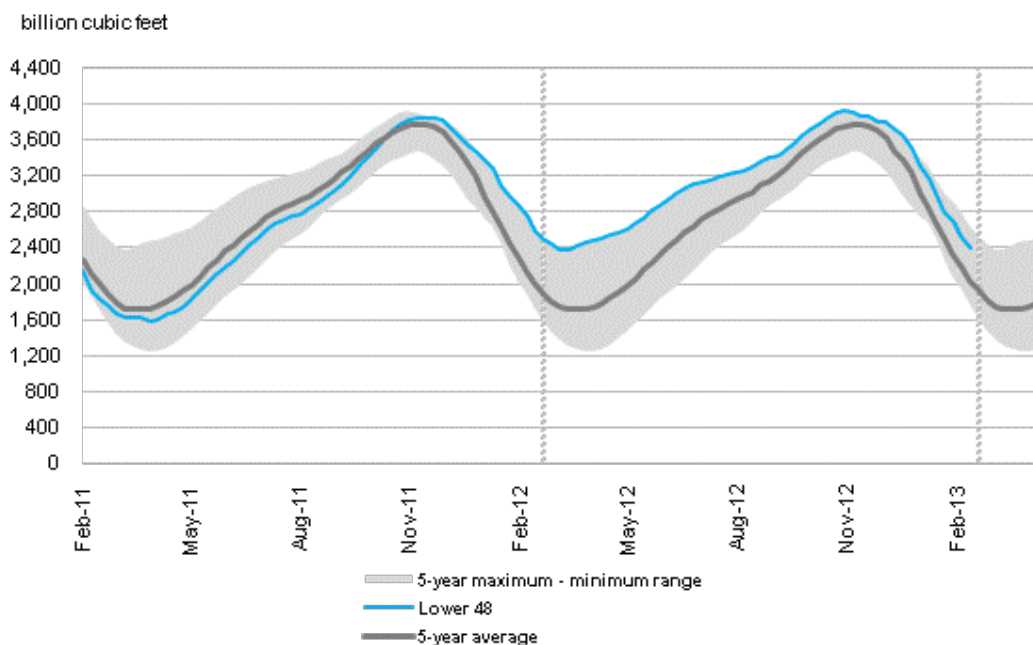


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 22, 2013

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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