

Rebuild Oil and Gas Positions

Summary and Recommendation

We recommend buying McDep oil and gas stocks to rebalance gradually to target weightings in a diversified portfolio for long-term return and low risk. Target weightings in the McDep portfolio are 35% oil and gas, 35% broader stock market equities and 30% bonds, cash, and gold. The rate of rebalance might be 1% a month, i.e. 33% to 34% and so on. Prospective investment returns look attractive on a median 0.70 McDep Ratio on 27 stocks presuming long-term oil price of \$90 a barrel. The conclusion remains positive for a median 0.80 McDep Ratio that would be indicated on a lower \$75 a barrel assumption, which could be the case if current lower price persists. We are looking for seasonal improvement in price before year-end and continuing in 2015. All 27 of the stocks in our coverage are candidates for rebalancing with emphasis on buy recommendations, lower McDep Ratios and limiting the size of any single portfolio position. Hardest hit oil pure plays that offer the most “excitement” for upside include **Canadian Oil Sands Ltd. (COSWF)**, **California Resources Corporation (CRC)**, **Continental Resources (CLR)** and **Whiting Petroleum (WLL)**.

Wild Price Swings Good for Rebalancing

Rebalancing is intended to take advantage of price exaggeration to the downside as well as to capture some of the exaggeration to the upside when that occurs. As typically happens during trading surprises, oil price and stock price overreact, in our opinion. At the same time there is always risk of further overreaction. Similarly the current price could last awhile. We think the prospects are good for seasonal price advance starting before year end and continuing into the spring.

Diversification lends confidence to act contrary to popular opinion. As oil and gas has declined in recent months, the broader market portion of the portfolio has advanced. While the strength of the U.S. dollar in currency markets has contributed to oil price decline, it also makes the whole dollar-denominated portfolio worth more in a global context. Similarly, diversification in the oil and gas portion of the McDep Portfolio by business segment, geography and size ---- 13% global integrated, 6% large cap independent, 4% Canada, 6% small cap independent and 6% royalty trust fund stocks ---- lends confidence to act on depressed oil pure plays as well as stable giants.

Stocks Can Make Money on Low Oil Price

Investor returns look attractive whether we measure against our long-term expectation of \$90 a barrel or whether we eventually revise that to \$75 a barrel. We are staying at \$90 for now considering that the 40-week average of six-year futures has declined only to \$85 so far for the U.S. marker crude and the global marker crude trades several dollars a barrel higher. The median McDep Ratio on 27 stocks is 0.70 on \$90 oil. That implies more than 40% unlevered



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A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

appreciation to a McDep Ratio of 1.0 where the long-term return would be 7% a year, inflation-adjusted. Moderate debt would lever equity appreciation higher.

In time, we may find it more realistic to use \$75 a barrel as a long-term expectation. In that case we would reduce oil values by about 20% for a price change of 17%. With oil accounting for a median 63% of value, total present value would be reduced by a median 13% and the median McDep Ratio would be 0.80 instead of 0.70.

Nor is the McDep Ratio or oil price the final word. Well-managed companies are going to adapt to circumstances when necessary to keep making money for stockholders. Long-time favorite natural gas producers morphed into leading shale oil innovators when shale gas became too successful temporarily. The top shale oil producers are likely to find ways to be increasingly efficient and make smart returns at current oil price.

Hard-Hit Pure Plays

Three buy recommendations and a brand new company are among the hardest-hit, lowest McDep Ratio pure play oil producers. We believe that Continental Resources (0.56 McDep Ratio) under Harold Hamm will continue to be competitive at lower oil price. Canadian Oil Sands Ltd. (0.45 McDep Ratio) will have its once a year conference call with investors on December 4 to lay out its forecast and budget for 2015. Whiting Petroleum (0.57 McDep Ratio) awaits a special meeting of shareholders on December 3 to approve the acquisition of Kodiak Oil & Gas.

Finally, we see unique opportunity in California Resources (.42 McDep Ratio), a new company spun off from **Occidental Petroleum (OXY)** on December 1. Who could have foreseen a year ago during the company's gestation that it would be born as a public company on nearly the absolute worst time for a pure oil producer in 2014? We like spin offs and think that this one will be successful with time.

Research Coverage Concentrated to 27 Stocks from 33

A week ago when we rolled forward our twelve months estimates to the period ending on December 31, 2015 we also sharpened our focus to fewer stocks. The 33 stocks we had been covering increased to 34 with the addition of California Resources. The total then changed to 27 as we suspended continuous coverage of **Woodside Petroleum (WOPEY)**, **Peyto Exploration (PEYUF)**, **WPX Energy (WPX)**, **Halcon Resources (HK)**, **PDC Energy (PDCE)**, **Freehold Royalties (FRHLF)** and **Mesa Royalty Trust (MTR)**. We appreciate the help we have received from our thoughtful sources at the companies and the interest from our astute clients in the stocks. Research can be reinstated on short notice.

Kurt H. Wulff, CFA



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A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

						Present Value by Segment (%)					
		Price (US\$/sh)	EV/ Market	Enterprise Value	North Amer.	Rest of World			Dist. Yield		
Symbol/Rating	1-Dec 2014	1-Dec 2014	Market Cap	Value (\$mm)	Natural Gas	Natural Gas	Oil Prod'n	Down- stream	NTM (%)	McDep Ratio	
B = Buy, CB (see below)											
Global Integrated											
E Exxon Mobil Corporation	XOM CB	92.35	1.19	468,000	7	16	61	17	3.0	0.92	
C Chevron Corporation	CVX	111.73	1.21	256,000	3	11	73	13	3.8	0.78	
T Total S.A.	TOT	56.17	1.45	186,000		22	60	18	5.4	0.77	
R Royal Dutch Shell plc	RDS-A	67.49	1.37	293,000	4	22	57	17	5.6	0.77	
L Lukoil Oil Company	LUKOY CB	47.34	1.22	44,800			76	24	4.9	0.40	
<i>Total or Median</i>			1.22	1,248,000			61	17	4.9	0.77	
U.S. Independent											
E OEG Resources, Inc.	EOG	87.24	1.13	54,200	16	4	80		0.8	0.81	
O Occidental Petroleum Corp.	OXY	79.45	1.08	67,000	5	1	83	11	3.6	0.81	
C ConocoPhillips	COP	67.77	1.39	118,000	13	15	72		4.3	0.75	
D Devon Energy Corporation	DVN CB	59.94	1.71	42,000	27		65	8	1.6	0.72	
M Marathon Oil Corporation	MRO CB	28.99	1.51	29,700	9	3	89		2.9	0.68	
<i>Total or Median</i>			1.39	311,000	13		80		2.9	0.75	
Canada											
I Imperial Oil Limited (30%)	IMO	44.55	1.24	14,100	2		79	19	1.0	0.88	
E EnCana Corporation	ECA CB	15.72	1.99	23,100	52		48		1.8	0.69	
C Cenovus Energy Inc.	CVE	22.36	1.38	23,500	9		80	10	4.2	0.61	
C Canadian Oil Sands Limited	COSWF CB	12.19	1.47	8,700			100		10.1	0.45	
<i>Total or Median</i>			1.43	69,000			80		3.0	0.65	
Small Cap Independent Producers											
C Cimarex Energy Company	XEC CB	103.76	1.17	10,600	41		59		0.6	0.77	
R Range Resources	RRC CB	65.35	1.33	14,400	59		41		0.2	0.72	
B Birchcliff Energy Ltd.	BIREF CB	8.45	1.40	1,800	75		25		-	0.61	
W Whiting Petroleum Corporation	WLL CB	40.11	1.68	8,100	9		91		-	0.57	
C Continental Resources (32%)	CLR CB	40.20	1.41	6,700	21		79		-	0.56	
C California Resources	CRC	7.37	3.21	9,200	13		87		0.5	0.42	
<i>Total or Median</i>			1.41	51,000	31		69		0.1	0.59	
RTF Cash Payers											
S San Juan Basin Royalty Trust	SJT CB	16.26	1.00	760	100		-		6.7	0.77	
D Dorchester Minerals, L.P.	DMLP CB	23.63	1.00	730	35		65		6.4	0.74	
S Sabine Royalty Trust	SBR	44.86	1.00	650	44		56		7.6	0.70	
H Hugoton Royalty Trust	HGT	8.71	1.00	350	87		13		8.3	0.67	
P Permian Basin RT	PBT	10.46	1.00	490	20		80		7.7	0.58	
C Cross Timbers Royalty Trust	CRT	23.99	1.00	140	64		36		8.3	0.57	
E Enduro Royalty Trust	NDRO	6.96	1.00	230	28		72		5.9	0.50	
<i>Total or Median</i>			1.00	3,400	44		56		7.6	0.67	

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.
 Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



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A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>		<i>1-Dec</i> <i>2014</i>	<i>(mm)</i>				
	B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	CB	92.35	4,267	394,000	102.00	0.15	0.92
Chevron Corporation	CVX		111.73	1,896	212,000	150.00	0.13	0.78
Total S.A.	TOT		56.17	2,285	128,000	80.00	0.24	0.77
Royal Dutch Shell plc	RDS-A		67.49	3,167	214,000	95.00	0.21	0.77
Lukoil Oil Company	LUKOY	CB	47.34	776	36,700	135.00	0.07	0.40
	<i>Total or Median</i>				985,000		0.15	0.77
U.S. Independent								
EOG Resources, Inc.	EOG		87.24	550	48,000	110.00	0.09	0.81
Occidental Petroleum Corp.	OXY		79.45	778	61,800	100.00	0.06	0.81
ConocoPhillips	COP		67.77	1,247	85,000	100.00	0.21	0.75
Devon Energy Corporation	DVN	CB	59.94	411	24,600	100.00	0.30	0.72
Marathon Oil Corporation	MRO	CB	28.99	678	19,660	50.00	0.23	0.68
	<i>Total or Median</i>				239,100		0.21	0.75
Canada								
Imperial Oil Limited (30%)	IMO		44.55	255	11,400	52.00	0.17	0.88
EnCana Corporation	ECA	CB	15.72	736	11,600	30.00	0.34	0.69
Cenovus Energy Inc.	CVE		22.36	759	17,000	42.00	0.17	0.61
Canadian Oil Sands Limited	COSWF	CB	12.19	485	5,900	34.00	0.15	0.45
	<i>Total or Median</i>				46,000		0.17	0.65
Small Cap Independent Producers								
Cimarex Energy Company	XEC	CB	103.76	87	9,100	140.00	0.11	0.77
Range Resources	RRC	CB	65.35	166	10,900	100.00	0.18	0.72
Birchcliff Energy Ltd.	BIREF	CB	8.45	155	1,300	16.00	0.18	0.61
Whiting Petroleum Corporation	WLL	CB	40.11	120	4,800	90.00	0.23	0.57
Continental Resources (32%)	CLR	CB	40.20	119	4,800	85.00	0.16	0.56
California Resources	CRC		7.37	387	2,900	40.00	0.29	0.42
	<i>Total or Median</i>				34,000		0.18	0.59
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	CB	16.26	47	760	21.00	-	0.77
Dorchester Minerals, L.P.	DMLP	CB	23.63	31	730	32.00	-	0.74
Sabine Royalty Trust	SBR		44.86	15	650	64.00	-	0.70
Hugoton Royalty Trust	HGT		8.71	40	350	13.00	-	0.67
Permian Basin RT	PBT		10.46	47	490	18.00	-	0.58
Cross Timbers Royalty Trust	CRT		23.99	6	140	42.00	-	0.57
Enduro Royalty Trust	NDRO		6.96	33	230	14.00	-	0.50
	<i>Total or Median</i>				3,400		-	0.67

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Meter Reader

A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Dividend</i>
	<i>Symbol/Rating</i>		<i>1-Dec</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	B = Buy, CB (see below)		<i>2014</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
Global Integrated								
Exxon Mobil Corporation	XOM	CB	92.35	14.5	8.8	8.1	16	2.76
Chevron Corporation	CVX		111.73	9.2	8.8	6.9	16	4.28
Total S.A.	TOT		56.17	10.5	8.4	6.5	14	3.04
Royal Dutch Shell plc	RDS-A		67.49	10.5	8.1	6.2	14	3.76
Lukoil Oil Company	LUKOY	CB	47.34	14.4	6.7	2.7	11	2.32
	<i>Median</i>			<i>10.5</i>	<i>8.4</i>	<i>6.5</i>	<i>14</i>	
U.S. Independent								
Occidental Petroleum Corp.	OXY		79.45	10.6	9.3	7.5	20	2.88
EOG Resources, Inc.	EOG		87.24	7.1	8.9	7.2	21	0.67
Devon Energy Corporation	DVN	CB	59.94	9.4	9.8	7.0	15	0.96
ConocoPhillips	COP		67.77	11.1	9.0	6.7	18	2.92
Marathon Oil Corporation	MRO	CB	28.99	10.7	8.3	5.6	18	0.84
	<i>Median</i>			<i>10.6</i>	<i>9.0</i>	<i>7.0</i>	<i>18</i>	
Canada								
Imperial Oil Limited (30%)	IMO		44.55	25.6	12.4	11.0	15	0.46
EnCana Corporation	ECA	CB	15.72	7.8	11.2	7.7	12	0.28
Cenovus Energy Inc.	CVE		22.36	14.6	12.3	7.5	25	0.94
Canadian Oil Sands Limited	COSWF	CB	12.19	18.8	14.7	6.6	12	1.24
	<i>Median</i>			<i>16.7</i>	<i>12.4</i>	<i>7.6</i>	<i>14</i>	
Small Cap Independent Producers								
Range Resources	RRC	CB	65.35	11.1	16.5	11.8	62	0.16
Cimarex Energy Company	XEC	CB	103.76	6.0	9.2	7.1	30	0.64
Birchcliff Energy Ltd.	BIREF	CB	8.45	12.7	10.5	6.4	19	-
Continental Resources (32%)	CLR	CB	40.20	11.4	11.2	6.3	14	-
California Resources	CRC		7.37	10.1	10.4	4.4	6	0.04
Whiting Petroleum Corporation	WLL	CB	40.11	7.1	7.3	4.2	23	-
	<i>Median</i>			<i>10.6</i>	<i>10.5</i>	<i>6.3</i>	<i>21</i>	
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	CB	16.26	10.6	17.8	13.8	15	1.09
Sabine Royalty Trust	SBR		44.86	8.9	18.7	13.1	13	3.43
Dorchester Minerals, L.P.	DMLP	CB	23.63	7.8	17.2	12.7	21	1.52
Hugoton Royalty Trust	HGT		8.71	13.7	15.4	10.3	12	0.72
Cross Timbers Royalty Trust	CRT		23.99	12.2	17.2	9.8	12	1.99
Permian Basin RT	PBT		10.46	9.8	14.9	8.7	13	0.80
Enduro Royalty Trust	NDRO		6.96	8.3	10.7	5.3	17	0.41
	<i>Median</i>			<i>9.8</i>	<i>17.2</i>	<i>10.3</i>	<i>13</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 December 31, 2015; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

Table 4									
McDep Energy Stocks									
Total Return and Enterprise Value Momentum									
Ranked by EV/200-Day Average									
			Price	Equity					
			(\$/sh)	Total					
	Symbol		1-Dec	Return	Enterprise Value/				McDep
	Rating		2014	YTD (%)	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	Ratio
Global Integrated									
	XOM	CB	92.35	(6)	0.90	1.05	0.98	0.95	0.92
	CVX		111.73	(7)	0.85	1.04	0.96	0.93	0.78
	RDS-A		67.49	(0)	0.85	1.02	0.96	0.91	0.77
	TOT		56.17	(5)	0.82	1.04	0.97	0.90	0.77
	LUKOY	CB	47.34	(23)	0.78	1.06	0.98	0.89	0.40
	<i>Median</i>			(6)	0.85	1.04	0.97	0.91	0.77
U.S. Independent									
	COP		67.77	(0)	0.83	1.06	0.96	0.92	0.75
	DVN	CB	59.94	(2)	0.83	1.07	0.97	0.91	0.72
	OXY		79.45	(11)	0.80	1.05	0.92	0.87	0.81
	EOG		87.24	5	0.76	1.10	0.92	0.87	0.81
	MRO	CB	28.99	(16)	0.77	1.02	0.89	0.85	0.68
	<i>Median</i>			(2)	0.80	1.06	0.92	0.87	0.75
Canada									
	IMO		44.55	2	0.85	1.09	0.96	0.93	0.88
	ECA	CB	15.72	(12)	0.78	1.01	0.90	0.85	0.69
	CVE		22.36	(20)	0.75	1.02	0.92	0.84	0.61
	COSWF	CB	12.19	(31)	0.63	1.02	0.82	0.70	0.45
	<i>Median</i>			(16)	0.76	1.02	0.91	0.84	0.65
Small Cap Independent Producers									
	BIREF	CB	8.45	23	0.69	1.18	0.96	0.85	0.61
	RRC	CB	65.35	(22)	0.74	1.05	0.97	0.85	0.72
	XEC	CB	103.76	(1)	0.72	1.10	0.91	0.85	0.77
	CLR	CB	40.20	(29)	0.58	1.03	0.76	0.68	0.56
	WLL	CB	40.11	(35)	0.56	1.03	0.75	0.67	0.57
	CRC		7.37						0.42
	<i>Median</i>			(22)	0.69	1.05	0.91	0.85	0.59
RTF Cash Payers									
	HGT		8.71	29	0.72	1.23	0.94	0.91	0.67
	SJT	CB	16.26	4	0.80	1.02	0.90	0.89	0.77
	SBR		44.86	(4)	0.70	1.01	0.87	0.83	0.70
	DMLP	CB	23.63	(3)	0.66	1.02	0.85	0.82	0.74
	PBT		10.46	(13)	0.68	1.00	0.84	0.78	0.58
	CRT		23.99	(12)	0.63	1.02	0.85	0.77	0.57
	NDRO		6.96	(39)	0.48	1.01	0.74	0.58	0.50
	<i>Median</i>			(4)	0.68	1.02	0.85	0.82	0.67
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									
Source: Bloomberg, Yahoo, McDep LLC									



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

December 2, 2014

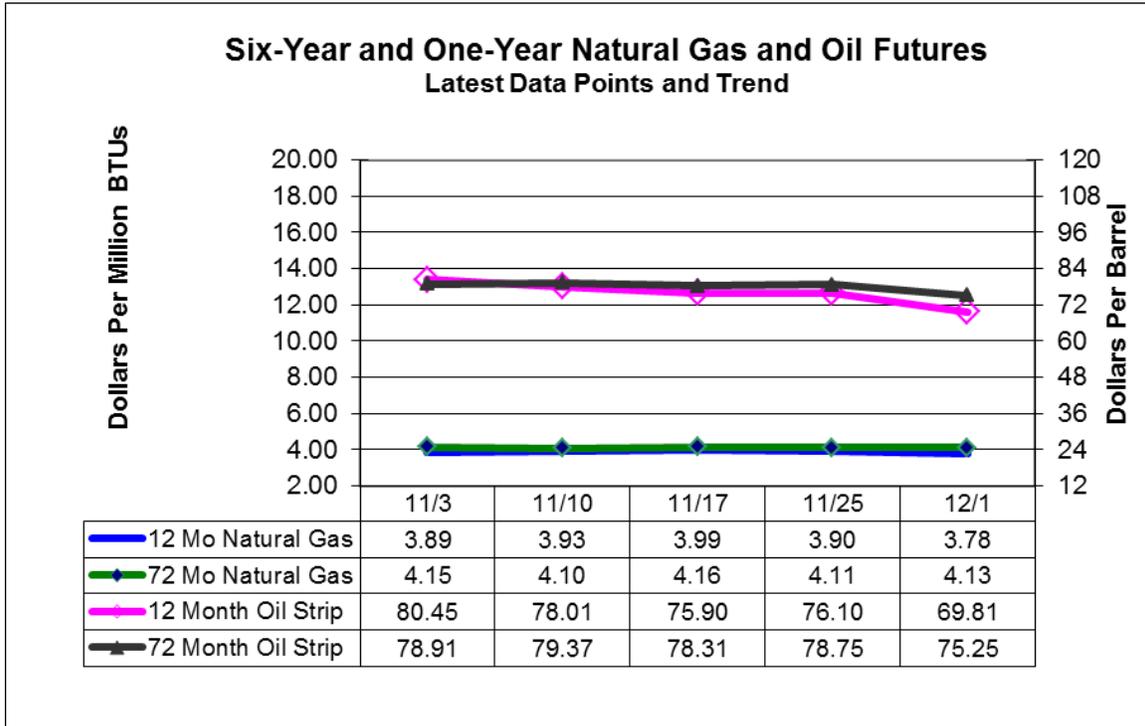
Index of Recent Research			
Date	Symbol	Subject	Theme
Stock Ideas			
25-Nov	COP	ConocoPhillips	Strong 4% Dividend Independent Producer
13-Nov	BIREF	Birchcliff Energy	Raise NPV to US\$16 on Alberta Natural Gas
11-Nov	COSWF	Canadian Oil Sands Ltd.	Record Monthly Production (Meter Reader)
4-Nov	CRC	California Resources Corporation	Pure Play Largest California Producer (Meter Reader)
28-Oct	CVE	Cenovus Energy	Same Stock Price, Twice the Production (Meter Reader)
21-Oct	TOT	Total	Chief Executive Dies
21-Oct	XEC	Cimarex Energy	Strong Independent Producer (Meter Reader)
14-Oct	DVN	Devon Energy	Rebalance Candidate (Meter Reader)
7-Oct	ECA	Encana Corporation	Suttles' Stamp (Meter Reader)
23-Sep	CLR	Continental Resources	Raise NPV to \$85 on 29% Growth (Meter Reader)
16-Sep	RDSA	Royal Dutch Shell plc	Ben's Growth Strategy (Meter Reader)
9-Sep	EOG	EOG Resources	Mr. Shale (Meter Reader)
2-Sep	LUKOY	Lukoil	Oil under Uncertainty (Meter Reader)
26-Aug	SJT	San Juan Basin Royalty Trust	Income and Shale (Meter Reader)
8-Aug	DMLP	Dorchester Minerals, L.P.	Robust Bakken and Permian Oil Growth
5-Aug	XOM	Exxon Mobil	Shale Oil Minerals (Meter Reader)
30-Jul	RRC	Range Resources	Transportation and Processing Lagging Fracking
22-Jul	MRO	Marathon Oil	Frac Shale Oil, Sell Norway (Meter Reader)
15-Jul	WLL	Whiting Petroleum	Agrees to Acquire Kodiak Oil & Gas (Meter Reader)
24-Jun	FRHLF	Freehold Royalties Ltd	Raise NPV to \$26 on Minerals (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Raise NPV to \$42 on More Energy Growth (Meter Reader)
10-Jun	OXY	Occidental Petroleum	Raise NPV to \$120, Spinoff Filed (Meter Reader)
27-May	CVX	Chevron	Oil Price Turns Up (Meter Reader)
23-Apr	HGT	Hugoton Royalty Trust	Positive Arbitration Ruling
21-Apr	MTR	Mesa Royalty Trust	Underpayment Uncovered, Upside Commodity Leverage
18-Mar	PBT	Permian Basin Royalty Trust	Rising Oil Production, Understated Income (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
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25-Nov	COP	ConocoPhillips	Strong 4% Dividend Independent Producer
18-Nov	DMLP, SJT	RTF (Royalty Trust Fund)	DMLP, SJT and the RTF - High Income without Debt
11-Nov	COSWF	Canadian Oil Sands Ltd.	Record Monthly Production
4-Nov	CRC	California Resources Corporation	Pure Play Largest California Producer
28-Oct	CVE	Cenovus Energy	Same Stock Price, Twice the Production
21-Oct	XEC	Cimarex Energy	Strong Independent Producer
14-Oct	DVN	Devon Energy	Rebalance Candidate
7-Oct	ECA	Encana Corporation	Suttles' Stamp
30-Sep		RTF (Royalty Trust Fund)	Current Income and Future Fracking
23-Sep	CLL	Continental Resources	Raise NPV to \$85 on 29% Growth
16-Sep	RDSA	Royal Dutch Shell plc	Ben's Growth Strategy
9-Sep	EOG	EOG Resources	Mr. Shale
2-Sep	LUKOY	Lukoil	Oil under Uncertainty
26-Aug	SJT	San Juan Basin Royalty Trust	Income and Shale
29-Jul			Investment Strategy August 2014 - Oil and Gas in Safe Areas
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Industry Ideas			
18-Nov	DMLP, SJT	RTF (Royalty Trust Fund)	DMLP, SJT and the RTF - High Income without Debt (Meter Reader)
30-Sep		RTF (Royalty Trust Fund)	Current Income and Future Fracking
July			Oil and Gas Investor: In Royalty We Trust



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

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