



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 10, 2012

Marathon Oil (MRO – Contrarian Buy) Shale Growth, Dollar Hedge

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$mm)</i>	6,300
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	24.55	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/9/12	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	710	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$mm)</i>	17,400	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	8,600	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$mm)</i>	26,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	40.50
<i>Present Value (PV) (US\$mm)</i>	47,000	<i>Present Value Proven Reserves(US\$/boe)</i>	26.10
<i>Net Present Value (US\$/share)</i>	54	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.35
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.79
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.68
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 research on Marathon since 2001 see http://www.mcdep.com/3mro.htm			

Summary and Recommendation

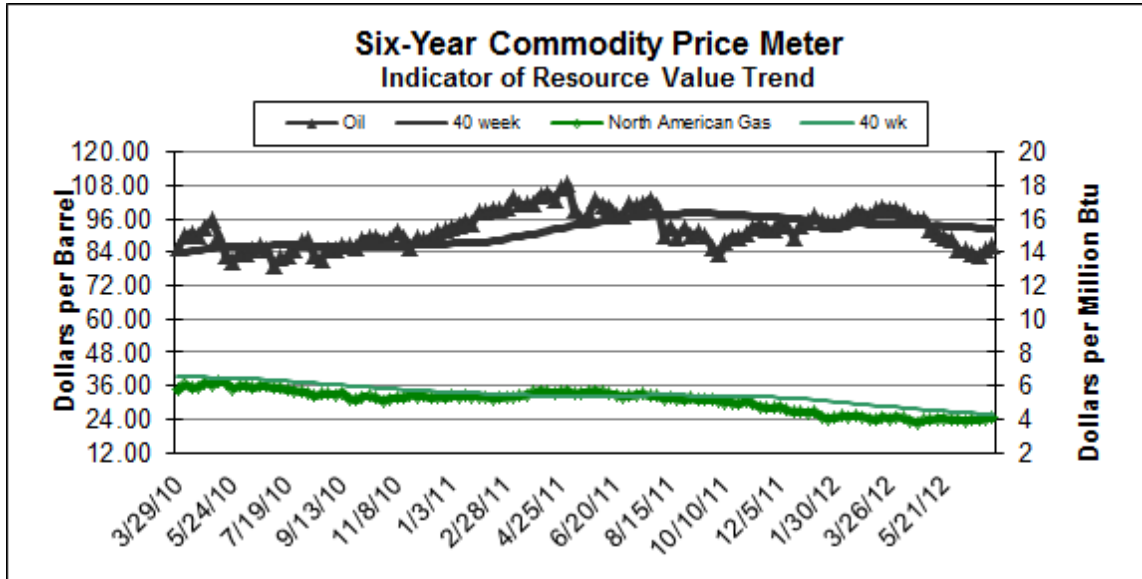
Down 30% in price from the high of \$35 on February 28, the stock of Contrarian Buy **Marathon Oil (MRO)** offers new shale oil growth and a long-term hedge against the devaluation of the dollar at the lowest McDep Ratio of 0.55 among U.S. Independent Producers in our coverage. Paced by Eagle Ford and Bakken shale oil, onshore U.S. production is growing some 30% in 2012 toward reaching about 30% of global oil and gas production at year end. At 90%, MRO is most concentrated among peers on oil production, a real resource likely to retain its value as the supply of dollars expands artificially to handle mounting debt that could not otherwise be repaid. Currently, oil may be advancing again after a recent decline that in large part explains a concurrent decline in MRO stock (see charts [Six-Year Commodity Price Meter](#) on page 2 and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9). To cushion against the possibility of lower oil price there is a wide difference between estimated Net Present Value of \$54 a share and current stock price of \$24 (see table [Functional Cash Flow and Present Value](#) on page 2). Similarly, lower than expected cash flow and earnings reported for the first quarter helped drive the stock down despite the temporary nature of timing factors that contributed to the accounting results. Quarterly trends appear strong relative to expectations reflected in stock price (see table [Next Twelve Months Operating and Financial Estimates](#) on page 3). In addition to low McDep Ratio, debt is manageable, unlevered cash flow multiple is lowest of all of our North American large caps and stock price is in a contrarian trend along with most peers (see [Tables 1-4](#) on pages 4-7).

Kurt H. Wulff, CFA



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Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<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	380	5.7	8.9	3,400	7%
Rest of World Natural Gas	260	8.0	5.8	1,500	3%
Oil	5,670	11.7	7.4	42,000	90%
	6,310	10.3	7.4	46,900	100%
Debt					8,600
Net Present Value (\$mm)					38,300
Shares					710
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					66



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Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
(excludes downstream spinoff, Marathon Petroleum Corporation, after 3/31/11)									
	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/13</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	325	326	344	344	344	344	344	344	344
Overseas (or Int'l)	567	541	522	522	522	522	522	522	522
Total	892	867	866	866	866	866	866	866	866
Days	92	365	91	91	92	92	366	90	365
Oil (mmb)	24	96	26	26	26	26	104	25	103
Oil (mbd)	263	262	283	283	283	283	283	283	283
Total gas & oil (mbd))	412	406	427	427	427	427	427	427	427
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	3.55	4.04	2.73	2.21	2.84	3.14	2.73	3.52	3.25
U.S. (or North America)	4.68	4.95	4.13	3.35	4.30	4.75	4.13	5.33	4.92
Overseas (or Int'l)	2.03	1.97	2.19	2.19	2.19	2.19	2.19	2.19	2.19
Total	3.00	3.09	2.96	2.65	3.03	3.21	2.96	3.44	3.27
Oil (\$/bbl)									
WTI Cushing	94.06	95.12	102.93	93.32	85.97	87.03	92.31	88.28	87.52
Worldwide	97.68	98.10	103.70	94.02	86.61	87.68	92.97	88.94	88.16
Total gas & oil (\$/mcf)	11.48	11.63	12.45	11.27	10.58	10.76	11.26	10.98	10.84
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	140	588	129	105	136	150	521	165	617
Overseas (or Int'l)	106	389	104	104	105	105	418	103	417
Total	246	977	233	209	241	255	939	268	1,035
Oil	2,364	9,370	2,671	2,421	2,255	2,283	9,630	2,265	9,107
Other	1,200	22,197	1,136				1,136		
Total	3,809	32,544	4,040	2,630	2,496	2,538	11,705	2,533	10,141
Expense	2,226	24,507	2,542	992	941	957	5,432	955	3,824
Ebitda (\$mm)									
Exploration and Production	1,583	7,014	1,498	1,638	1,555	1,581	6,273	1,578	6,317
Other	-	1,023	-	-	-	-	-	-	-
Total Ebitda	1,583	8,037	1,498	1,638	1,555	1,581	6,273	1,578	6,317
Exploration	140	644	142	142	142	142	568	125	534
Deprec., Deplet., & Amort.	550	2,483	574	574	635	635	2,418	635	2,540
Ebit	893	4,910	782	922	778	804	3,287	818	3,243
Interest	45	188	50	50	50	50	200	50	200
Ebt	848	4,722	732	872	728	754	3,087	768	3,043
Income Tax	297	1,653	256	305	255	264	1,080	269	1,065
Net Income (\$mm)	551	3,069	476	567	473	490	2,006	499	1,978
Shares (millions)	707	714	710	710	710	710	710	710	710
Per share (\$)	0.78	4.30	0.67	0.80	0.67	0.69	2.83	0.70	2.79
Ebitda Margin (E&P)	61%	68%	52%	62%	62%	62%	59%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Rating		9-Jul	Shares	Cap	Value	Present	McDep
	B = Buy, CB (see below)		2012	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. and Europe Integrated								
BG Group plc	BRGYY		20.35	3,416	69,500	21.00	0.20	0.98
Exxon Mobil Corporation	XOM	B	83.65	4,716	395,000	110.00	0.13	0.79
Royal Dutch Shell plc	RDS-A	CB	67.34	3,120	210,000	102.00	0.16	0.72
Chevron Corporation	CVX	B	104.46	1,979	207,000	170.00	0.08	0.64
Statoil ASA (33%)	STO	CB	23.27	1,050	24,400	44.00	0.22	0.63
BP plc	BP		39.67	3,207	127,000	84.00	0.24	0.60
Total S.A.	TOT	CB	44.49	2,265	101,000	100.00	0.15	0.53
	<i>Total or Median</i>				<i>1,134,000</i>		<i>0.16</i>	<i>0.64</i>
Brazil/Russia/Australia/China								
CNOOC Limited (36%)	CEO		196.25	161	31,600	250.00	0.02	0.79
Woodside Petroleum Ltd.	WOPEY		31.50	797	25,100	45.00	0.17	0.75
PetroChina Company Ltd (14%)	PTR	CB	122.81	256	31,500	210.00	0.18	0.66
Petrobras	PBR	CB	19.09	6,489	123,900	45.00	0.20	0.54
Gazprom (50%)	OGZPY	CB	9.35	5,750	53,800	28.00	0.10	0.40
Lukoil Oil Company	LUKOY	CB	55.35	794	44,000	150.00	0.00	0.37
	<i>Total or Median</i>				<i>310,000</i>		<i>0.14</i>	<i>0.60</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		19.98	753	15,000	27.00	0.51	0.87
Anadarko Petroleum Corp.	APC		66.33	501	33,200	86.00	0.29	0.84
Southwestern Energy Company	SWN		31.98	350	11,200	40.00	0.11	0.82
EOG Resources, Inc.	EOG	CB	91.49	270	24,700	130.00	0.14	0.75
Occidental Petroleum Corp.	OXY	CB	85.19	811	69,100	120.00	0.07	0.73
ConocoPhillips	COP	CB	54.33	1,270	69,000	96.00	0.22	0.66
Devon Energy Corporation	DVN	CB	56.74	405	23,000	102.00	0.16	0.63
Marathon Oil Corporation	MRO	CB	24.55	710	17,430	54.00	0.18	0.55
	<i>Total or Median</i>				<i>262,600</i>		<i>0.17</i>	<i>0.74</i>
Canada								
Penn West Exploration	PWE		13.06	473	6,200	20.00	0.32	0.77
Cenovus Energy Inc.	CVE	CB	32.30	760	24,600	48.00	0.16	0.73
Imperial Oil Limited (30%)	IMO	CB	41.90	256	10,700	62.00	0.11	0.71
EnCana Corporation	ECA	B	20.21	736	14,900	37.00	0.25	0.66
Suncor Energy	SU	CB	28.59	1,567	44,800	64.00	0.12	0.51
Canadian Oil Sands Limited	COSWF	CB	18.95	485	9,200	52.00	0.07	0.41
	<i>Total or Median</i>				<i>110,000</i>		<i>0.14</i>	<i>0.69</i>

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\$100 a barrel and natural gas, \$6 a million btu.



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Table 3							
McDep Large Cap Energy Stocks							
Value Multiples and Dividend Yield							
			Price	Adjustd			
			(US\$/sh)	Resrvs/	PV/	EV/	Dividend
	Symbol/Rating		9-Jul	Prod	Ebitda	Ebitda	P/E
	B = Buy, CB (see below)		2012	NTM	NTM	NTM	NTM
							(%)
U.S. and Europe Integrated							
BG Group plc	BRGY		20.35	8.6	7.9	7.7	13
Exxon Mobil Corporation	XOM	B	83.65	13.0	8.3	6.5	11
Royal Dutch Shell plc	RDS-A	CB	67.34	10.0	7.2	5.2	9
Chevron Corporation	CVX	B	104.46	9.2	7.8	5.0	10
BP plc	BP		39.67	11.0	8.2	4.9	7
Statoil ASA (33%)	STO	CB	23.27	6.2	6.6	4.1	8
Total S.A.	TOT	CB	44.49	10.1	7.7	4.1	7
	<i>Median</i>			<i>10.0</i>	<i>7.8</i>	<i>5.0</i>	<i>9</i>
Brazil/Russia/Australia/China							
Woodside Petroleum Ltd.	WOPEY		31.50	13.2	8.7	6.5	10
PetroChina Company Ltd (14%)	PTR	CB	122.81	13.0	7.4	4.9	10
CNOOC Limited (36%)	CEO		196.25	6.9	6.1	4.8	9
Petrobras	PBR	CB	19.09	12.6	8.4	4.6	5
Gazprom (50%)	OGZPY	CB	9.35	31.2	5.9	2.4	3
Lukoil Oil Company	LUKOY	CB	55.35	16.3	5.9	2.2	4
	<i>Median</i>			<i>13.1</i>	<i>6.7</i>	<i>4.7</i>	<i>7</i>
U.S. Independent							
Southwestern Energy Company	SWN		31.98	7.9	14.6	12.0	22
Chesapeake Energy Corp.	CHK		19.98	9.8	11.0	9.5	18
Anadarko Petroleum Corp.	APC		66.33	8.4	7.9	6.6	23
Occidental Petroleum Corp.	OXY	CB	85.19	10.1	7.7	5.6	12
EOG Resources, Inc.	EOG	CB	91.49	9.0	7.5	5.6	19
Devon Energy Corporation	DVN	CB	56.74	9.9	8.5	5.4	10
ConocoPhillips	COP	CB	54.33	12.2	8.1	5.4	10
Marathon Oil Corporation	MRO	CB	24.55	10.3	7.4	4.1	9
	<i>Median</i>			<i>9.8</i>	<i>8.0</i>	<i>5.6</i>	<i>15</i>
Canada							
EnCana Corporation	ECA	B	20.21	8.4	14.2	9.4	4.0
Imperial Oil Limited (30%)	IMO	CB	41.90	36.9	11.7	8.3	11
Penn West Exploration	PWE		13.06	7.3	9.6	7.4	20
Cenovus Energy Inc.	CVE	CB	32.30	12.5	9.5	6.9	14
Suncor Energy	SU	CB	28.59	16.7	10.4	5.3	9
Canadian Oil Sands Limited	COSWF	CB	18.95	19.3	12.9	5.3	8
	<i>Median</i>			<i>14.6</i>	<i>11.0</i>	<i>7.1</i>	<i>11</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, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							



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Table 4								
McDep Large Cap Energy Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price	Enterprise Value/				
	Symbol		(\$/sh)	9-Jul	52Wk	52Wk	50 Day	200 Day
		Rating	2012	High	Low	Avg.	Avg.	McDep
								Ratio
U.S. and Europe Integrated								
Exxon Mobil Corporation	XOM	B	83.65	0.96	1.20	1.01	1.01	0.79
Chevron Corporation	CVX	B	104.46	0.94	1.18	1.02	1.01	0.64
Royal Dutch Shell plc	RDS-A	CB	67.34	0.91	1.12	1.02	0.98	0.72
BP plc	BP		39.67	0.88	1.10	1.01	0.96	0.60
BG Group plc	BRGYY		20.35	0.86	1.12	1.00	0.95	0.98
Statoil ASA (33%)	STO	CB	23.27	0.86	1.10	0.98	0.95	0.63
Total S.A.	TOT	CB	44.49	0.83	1.08	1.00	0.93	0.53
	<i>Median</i>			<i>0.88</i>	<i>1.12</i>	<i>1.01</i>	<i>0.96</i>	<i>0.64</i>
Brazil/Russia/Australia/China								
CNOOC Limited (36%)	CEO		196.25	0.84	1.38	1.02	1.01	0.79
Lukoil Oil Company	LUKOY	CB	55.35	0.81	1.20	1.02	0.98	0.37
PetroChina Company Ltd (14%)	PTR	CB	122.81	0.85	1.07	0.94	0.93	0.66
Woodside Petroleum Ltd.	WOPEY		31.50	0.77	1.06	0.97	0.93	0.75
Gazprom (50%)	OGZPY	CB	9.35	0.70	1.07	0.98	0.88	0.40
Petrobras	PBR	CB	19.09	0.66	1.06	0.97	0.84	0.54
	<i>Median</i>			<i>0.79</i>	<i>1.07</i>	<i>0.97</i>	<i>0.93</i>	<i>0.60</i>
U.S. Independent								
Southwestern Energy Company	SWN		31.98	0.68	1.21	1.08	0.97	0.82
Chesapeake Energy Corp.	CHK		19.98	0.75	1.16	1.06	0.95	0.87
Occidental Petroleum Corp.	OXY	CB	85.19	0.80	1.25	1.02	0.94	0.73
EOG Resources, Inc.	EOG	CB	91.49	0.80	1.28	0.95	0.93	0.75
Anadarko Petroleum Corp.	APC		66.33	0.82	1.11	1.01	0.92	0.84
Devon Energy Corporation	DVN	CB	56.74	0.73	1.09	0.95	0.91	0.63
Marathon Oil Corporation	MRO	CB	24.55	0.77	1.17	0.98	0.91	0.55
ConocoPhillips	COP	CB	54.33					0.66
	<i>Median</i>			<i>0.77</i>	<i>1.17</i>	<i>1.01</i>	<i>0.93</i>	<i>0.74</i>
Canada								
EnCana Corporation	ECA	B	20.21	0.73	1.11	0.99	1.02	0.66
Imperial Oil Limited (30%)	IMO	CB	41.90	0.87	1.25	1.00	0.98	0.71
Cenovus Energy Inc.	CVE	CB	32.30	0.83	1.14	1.01	0.96	0.73
Suncor Energy	SU	CB	28.59	0.74	1.19	1.00	0.95	0.51
Canadian Oil Sands Limited	COSWF	CB	18.97	0.67	1.09	0.96	0.90	0.41
Penn West Exploration	PWE		13.06	0.69	1.04	0.96	0.83	0.77
	<i>Median</i>			<i>0.73</i>	<i>1.13</i>	<i>0.99</i>	<i>0.96</i>	<i>0.69</i>

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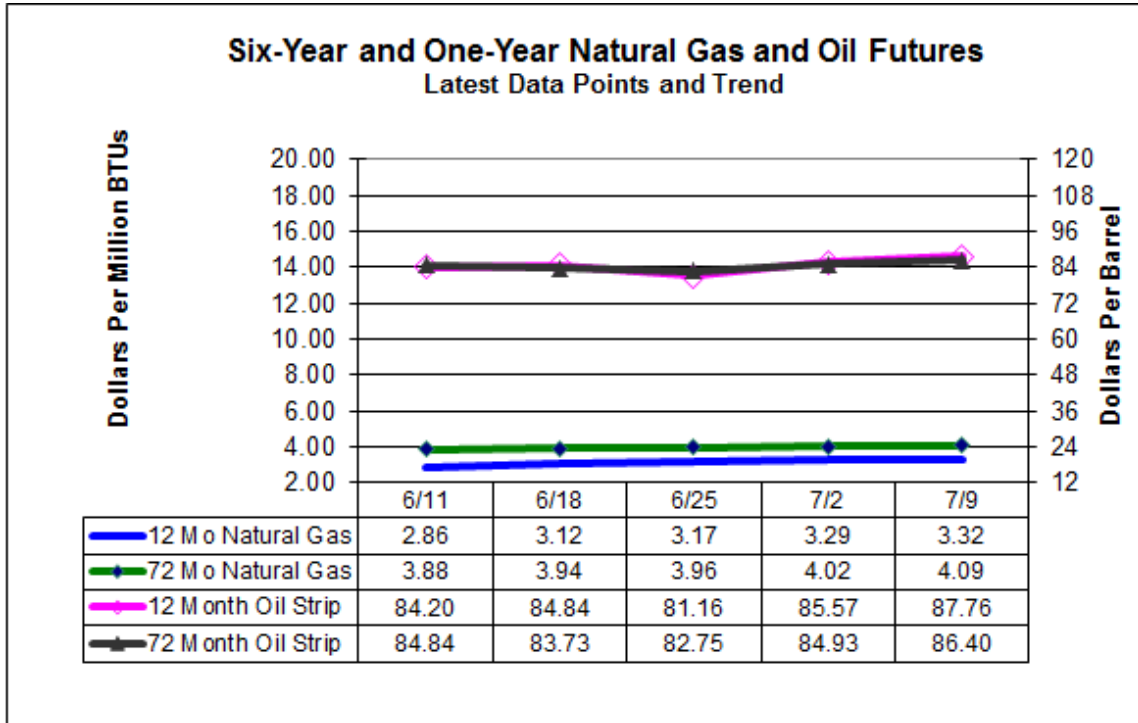
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Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
3-Jul	OGZPY	Gazprom	Dividend Double Approved (Meter Reader)
26-Jun	STO	Statoil	Financially Strong Norse Explorers (Meter Reader)
22-Jun	CLR, HK	Continental, Halcon Resources	Great Energy Entrepreneurs - Hamm (CLR), Wilson (HK) - (ISCW)
19-Jun	CVE	Cenovus	Deep Oil Sands Growth at Lower Price (Meter Reader)
12-Jun	PBR	Petrobras	Deep Water Oil Growth, Lower NPV to \$45 (Meter Reader)
12-Jun	BRGY	BG Group	Lower NPV to \$21 (6/12/12 Meter Reader, page 2)
13-Jun	ERF	Enerplus Corporation	Dividend Reduced by Half
8-Jun	SJT	San Juan Basin Royalty Trust	Price Decline Action in SJT and Royalty Trusts (ISCW)
5-Jun	WOPEY	Woodside Petroleum Ltd.	Pluto LNG Delivering (Meter Reader)
25-May	HGT	Hugoton Royalty Trust	HGT Bargain (Income and Small Cap Weekly)
18-May	BIREF	Birchcliff Energy	Contrarian Buy at Lower NPV (Income and Small Cap Weekly)
15-May	EOG	EOG Resources	Raise NPV to \$130 a Share on Oil Volume (Meter Reader)
11-May	DMLP	Dorchester Minerals, L.P.	Rising Oil Production (Income and Small Cap Wkly)
8-May	ECA	Encana	Long-Term Natural Gas Appeal (Meter Reader)
4-May	WLL	Whiting Petroleum	Oil Price Discount Narrows (Income and Small Cap Weekly)
1-May	COSWF	Canadian Oil Sands Limited	Dividend Raised 17%
1-May	RDS	Royal Dutch Shell	LNG and GTL Profit Gains (Meter Reader)
27-Apr	RRC	Range Resources	Shale Strength (Income and Small Cap Weekly)
17-Apr	COP	ConocoPhillips	Largest North American Independent Producer Debut (MR)
10-Apr	DVN	Devon Energy	Shale Oil Excitement at a Favorite Value Stock (Meter Reader)
3-Apr	PTR	PetroChina	Global Growth in Oil and Gas (Meter Reader)
20-Mar	CVX	Chevron	Investing in Australian LNG for Growth (Meter Reader)
13-Mar	XOM	Exxon Mobil	Renewable Energy Cash Flow (Meter Reader)
6-Mar	IMO	Imperial Oil	Kearl Startup Late This Year (Meter Reader)
20-Feb	OGZPY	Gazprom	Dividend Double Expected (Meter Reader)
17-Feb	XEC	Cimarex Energy	Permian Payoff (ISCW)
13-Feb	TOT	Total	Sharpening Competitive Edge (Meter Reader)
3-Feb	CRT	Cross Timbers Royalty Trust	Firm Oil Balances Soft Natural Gas (ISCW)
31-Jan	OXY	Occidental Petroleum	Delivering U.S. Oil Results (Meter Reader)
27-Jan	PEID	PDC Energy	Raise NPV to \$40 from \$36 on Reserves and Production (ISCW)
24-Jan	SU	Suncor Energy	Oil as a Political Weapon against Canada (Meter Reader)
17-Jan	MRO	Marathon Oil	Oil Resources and Shale Growth (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
3-Jul	OGZPY	Gazprom	Dividend Double Approved
26-Jun	STO	Statoil	Financially Strong Norse Explorers
19-Jun	CVE	Cenovus	Deep Oil Sands Growth at Lower Price
12-Jun	PBR	Petrobras	Deep Water Oil Growth at Deeply Depressed Stock
5-Jun	WOPEY	Woodside Petroleum Ltd.	Pluto LNG Delivering
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
6-Jul			Lowballing LIBOR
29-Jun			Natural Gas Rising from the Price Gloom
22-Jun	CLR, HK	Continental, Halcon Resources	Two Great Energy Entrepreneurs - Hamm (CLR), Wilson (HK)
15-Jun	ERF, HGT	Enerplus, Hugoton Royalty Trust	Energy Price Action and Income Hysteria
8-Jun	SJT	San Juan Basin Royalty Trust	Price Decline Action in SJT and Royalty Trusts
For earlier editions, go to mcdep.com , click on Energy Income .			



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
July 10, 2012



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