



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 4, 2012

Lukoil (LUKOY) Proven Competitor, Uncommon Value

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i>	19,800
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	56.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	65
<i>Pricing Date</i>	8/31/12	<i>Adjusted Reserves/Production NTM</i>	16.5
<i>Shares (mm)</i>	780	<i>EV/Ebitda</i>	2.4
<i>Market Capitalization (US\$m)</i>	44,300	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$m)</i>	2,900	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$m)</i>	47,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	19.07
<i>Present Value (PV) (US\$m)</i>	119,900	<i>Present Value Proven Reserves(US\$/boe)</i>	5.78
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.96
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.99
<i>McDep Ratio - EV/PV</i>	0.39	<i>Price/Earnings Next Twelve Months</i>	4
<i>Dividend Yield (%/year)</i>	4.1	<i>Indicated Annual Dividend (US\$/sh)</i>	2.32
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
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 Lukoil since 2004 see www.mcdep.com/2luk.htm			

Summary and Recommendation

Contrarian Buy **Lukoil (LUKOY)**, Russia's largest non-government oil company, leads its domestic competitors in fracking, offshore oil, refined product quality, operating efficiency and new international production while its stock trades at the lowest McDep Ratio, 0.39, and unlevered cash flow multiple (EV/Ebitda), 2.4 times, of any in our global coverage (see [Tables 1-3](#) on pages 2-4). Latest quarterly results released on August 31 were lower than trend, mainly because of timing differences affecting currency and taxes (see table [Next Twelve Months Operating and Financial Estimates](#) on page 5). With high cash flow generation expected to continue there is ample quantitative justification of estimated Net Present Value (NPV) of \$150 a share (see table [Functional Cash Flow and Present Value](#) on page 6). Russia's most active horizontal driller, Lukoil has arrested the decline of oil production in its mainstay Western Siberian basin (see slide [Horizontal](#) on page 6). Along with 15-stage hydraulic fracturing, the new technology shows great promise in Russia's equivalent of the Permian Basin of Texas. Tax breaks have made it profitable for Lukoil to lead Russian companies in offshore development (see slide [Caspian](#) on page 7). Though high taxes onshore keep profit per barrel low, costs are also lower and the company's return on capital employed is within the range for global peers (see slide [Competitive Position](#) on page 7). Finally, stymied at selling its natural gas in Russia at a profitable price, the capitalist company uncovered a profitable natural gas opportunity in the Central Asian country of Uzbekistan producing natural gas for delivery to China (see slide [Uzbekistan](#) on page 8). In short, Lukoil appears to be performing much better than its low stock market valuation implies.

Kurt H. Wulff, CFA



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	Symbol/Rating B = Buy, CB (see below)	Price (US\$/sh) 31-Aug 2012	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					Natural Amer. Gas	Rest of World Gas	Oil Prod'n	Down- stream		
U.S. and Europe Integrated										
BG Group	BRGYY	20.53	1.23	86,500		24	42	34	0.98	
Exxon Mobil Corporation	XOM B	87.30	1.17	475,000	7	20	56	16	0.82	
Royal Dutch Shell plc	RDS-A B	69.97	1.27	278,000	3	22	56	19	0.73	
Chevron Corporation	CVX B	112.16	1.12	248,000	3	11	76	10	0.69	
Statoil ASA (33%)	STO B	25.57	1.49	40,000		35	65	-	0.67	
BP plc	BP	42.06	1.64	222,000	4	8	63	25	0.62	
Total S.A.	TOT B	49.86	1.37	155,000		22	63	14	0.58	
<i>Total or Median</i>				<i>1,505,000</i>			<i>63</i>		<i>0.69</i>	
Brazil/Russia/Australia/China										
Woodside Petroleum Ltd.	WOPEY	35.60	1.27	36,000		69	31	-	0.83	
CNOOC Limited (36%)	CEO	189.40	1.02	31,100		9	91	-	0.76	
PetroChina Company Ltd (14%)	PTR CB	120.30	1.39	42,800		15	77	9	0.65	
Petrobras	PBR CB	21.14	1.55	214,000		5	81	14	0.58	
Gazprom (50%)	OGZPY CB	9.74	1.34	75,000		11	13	76	0.42	
Lukoil Oil Company	LUKOY CB	56.82	1.06	47,200			71	29	0.39	
<i>Total or Median</i>				<i>446,000</i>			<i>74</i>		<i>0.61</i>	
U.S. Independent										
Chesapeake Energy Corp.	CHK	19.35	2.43	35,500	64		36	-	0.86	
EOG Resources, Inc.	EOG B	108.30	1.20	35,100	32	4	64	-	0.86	
Southwestern Energy Company	SWN	31.13	1.16	12,600	100			-	0.80	
Anadarko Petroleum Corp.	APC	69.27	1.48	51,400	34		63	3	0.77	
Occidental Petroleum Corp.	OXY CB	85.01	1.13	78,000	8	1	81	10	0.73	
ConocoPhillips	COP B	56.79	1.56	109,000	13	13	74	-	0.69	
Devon Energy Corporation	DVN CB	57.83	1.36	31,800	46		54	-	0.64	
Marathon Oil Corporation	MRO CB	27.82	1.45	28,600	7	3	90	-	0.61	
<i>Total or Median</i>				<i>382,000</i>			<i>64</i>		<i>0.75</i>	
Canada										
Penn West Exploration	PWE	14.20	1.66	11,600	18		82	-	0.83	
Imperial Oil Limited (30%)	IMO B	45.68	1.17	13,700	2		84	14	0.77	
Cenovus Energy Inc.	CVE CB	32.70	1.29	32,100	11		73	16	0.73	
EnCana Corporation	ECA B	22.20	1.52	24,700	86		14	-	0.69	
Suncor Energy	SU B	31.28	1.29	62,800	2		80	18	0.55	
Canadian Oil Sands Limited	COSWF B	21.35	1.23	12,700			100	-	0.53	
<i>Total or Median</i>				<i>158,000</i>			<i>81</i>		<i>0.71</i>	
Composite				2,491,000	8	14	63	16	0.68	

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



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			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		31-Aug 2012	(mm)				
B = Buy, CB (see below)								
U.S. and Europe Integrated								
BG Group plc	BRGYY		20.53	3,415	70,100	21.00	0.19	0.98
Exxon Mobil Corporation	XOM	B	87.30	4,657	407,000	110.00	0.12	0.82
Royal Dutch Shell plc	RDS-A	B	69.97	3,133	219,000	102.00	0.15	0.73
Chevron Corporation	CVX	B	112.16	1,968	221,000	170.00	0.07	0.69
Statoil ASA (33%)	STO	B	25.57	1,050	26,900	44.00	0.22	0.67
BP plc	BP		42.06	3,214	135,000	84.00	0.24	0.62
Total S.A.	TOT	B	49.86	2,264	113,000	100.00	0.16	0.58
<i>Total or Median</i>					<i>1,192,000</i>		<i>0.16</i>	<i>0.69</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		35.60	797	28,400	45.00	0.17	0.83
CNOOC Limited (36%)	CEO		189.40	161	30,500	250.00	0.02	0.76
PetroChina Company Ltd (14%)	PTR	CB	120.30	256	30,800	210.00	0.18	0.65
Petrobras	PBR	CB	21.14	6,522	137,900	45.00	0.21	0.58
Gazprom (50%)	OGZPY	CB	9.74	5,750	56,000	28.00	0.10	0.42
Lukoil Oil Company	LUKOY	CB	56.82	780	44,300	150.00	0.02	0.39
<i>Total or Median</i>					<i>328,000</i>		<i>0.14</i>	<i>0.61</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		19.35	753	14,600	27.00	0.51	0.86
EOG Resources, Inc.	EOG	B	108.30	270	29,200	130.00	0.14	0.86
Southwestern Energy Company	SWN		31.13	348	10,800	40.00	0.11	0.80
Anadarko Petroleum Corp.	APC		69.27	500	34,600	100.00	0.25	0.77
Occidental Petroleum Corp.	OXY	CB	85.01	811	68,900	120.00	0.08	0.73
ConocoPhillips	COP	B	56.79	1,236	70,000	96.00	0.25	0.69
Devon Energy Corporation	DVN	CB	57.83	405	23,400	102.00	0.17	0.64
Marathon Oil Corporation	MRO	CB	27.82	709	19,720	54.00	0.19	0.61
<i>Total or Median</i>					<i>271,200</i>		<i>0.18</i>	<i>0.75</i>
Canada								
Penn West Exploration	PWE		14.20	473	7,000	20.00	0.33	0.83
Imperial Oil Limited (30%)	IMO	B	45.68	256	11,700	62.00	0.11	0.77
Cenovus Energy Inc.	CVE	CB	32.70	758	24,800	48.00	0.17	0.73
EnCana Corporation	ECA	B	22.20	736	16,300	37.00	0.24	0.69
Suncor Energy	SU	B	31.28	1,558	48,700	64.00	0.12	0.55
Canadian Oil Sands Limited	COSWF	B	21.35	485	10,400	45.00	0.10	0.53
<i>Total or Median</i>					<i>119,000</i>		<i>0.15</i>	<i>0.71</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 (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend NTM
	Symbol/Rating		31-Aug 2012	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. and Europe Integrated								
BG Group plc	BRGY		20.53	8.9	7.7	7.5	14	1.2
Exxon Mobil Corporation	XOM	B	87.30	13.1	7.9	6.4	11	2.6
Royal Dutch Shell plc	RDS-A	B	69.97	10.1	7.0	5.2	10	4.9
BP plc	BP		42.06	11.4	8.3	5.2	7	4.6
Chevron Corporation	CVX	B	112.16	9.2	7.2	5.0	10	3.2
Total S.A.	TOT	B	49.86	10.2	7.8	4.5	8	5.9
Statoil ASA (33%)	STO	B	25.57	6.3	6.3	4.3	8	4.2
	<i>Median</i>			<i>10.1</i>	<i>7.7</i>	<i>5.2</i>	<i>10</i>	<i>4.2</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		35.60	13.2	8.7	7.2	11	3.1
Petrobras	PBR	CB	21.14	13.1	8.2	4.7	7	4.9
PetroChina Company Ltd (14%)	PTR	CB	120.30	13.1	7.0	4.5	8	4.1
CNOOC Limited (36%)	CEO		189.40	6.9	5.6	4.2	8	3.6
Lukoil Oil Company	LUKOY	CB	56.82	16.5	6.1	2.4	4	4.1
Gazprom (50%)	OGZPY	CB	9.74	31.2	5.7	2.4	3	5.8
	<i>Median</i>			<i>13.2</i>	<i>6.5</i>	<i>4.4</i>	<i>7</i>	<i>4.1</i>
U.S. Independent								
Southwestern Energy Company	SWN		31.13	7.5	16.5	13.3	25	-
Chesapeake Energy Corp.	CHK		19.35	9.8	10.6	9.1	17	1.8
EOG Resources, Inc.	EOG	B	108.30	9.2	7.6	6.5	26	0.6
Anadarko Petroleum Corp.	APC		69.27	8.3	7.9	6.0	20	0.5
ConocoPhillips	COP	B	56.79	12.7	8.3	5.8	10	4.6
Devon Energy Corporation	DVN	CB	57.83	9.9	9.0	5.7	17	1.4
Occidental Petroleum Corp.	OXY	CB	85.01	10.0	7.6	5.6	12	2.5
Marathon Oil Corporation	MRO	CB	27.82	9.7	6.8	4.1	9	2.4
	<i>Median</i>			<i>9.8</i>	<i>8.1</i>	<i>5.9</i>	<i>17</i>	<i>1.6</i>
Canada								
EnCana Corporation	ECA	B	22.20	8.8	16.2	11.3		3.6
Imperial Oil Limited (30%)	IMO	B	45.68	36.9	11.6	8.9	12	1.1
Penn West Exploration	PWE		14.20	7.3	8.7	7.2	18	7.7
Cenovus Energy Inc.	CVE	CB	32.70	13.1	9.2	6.8	16	2.7
Canadian Oil Sands Limited	COSWF	B	21.35	19.4	11.4	6.0	9	6.6
Suncor Energy	SU	B	31.28	17.1	9.4	5.2	14	1.7
	<i>Median</i>			<i>15.1</i>	<i>10.4</i>	<i>7.0</i>	<i>14</i>	<i>3.2</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								



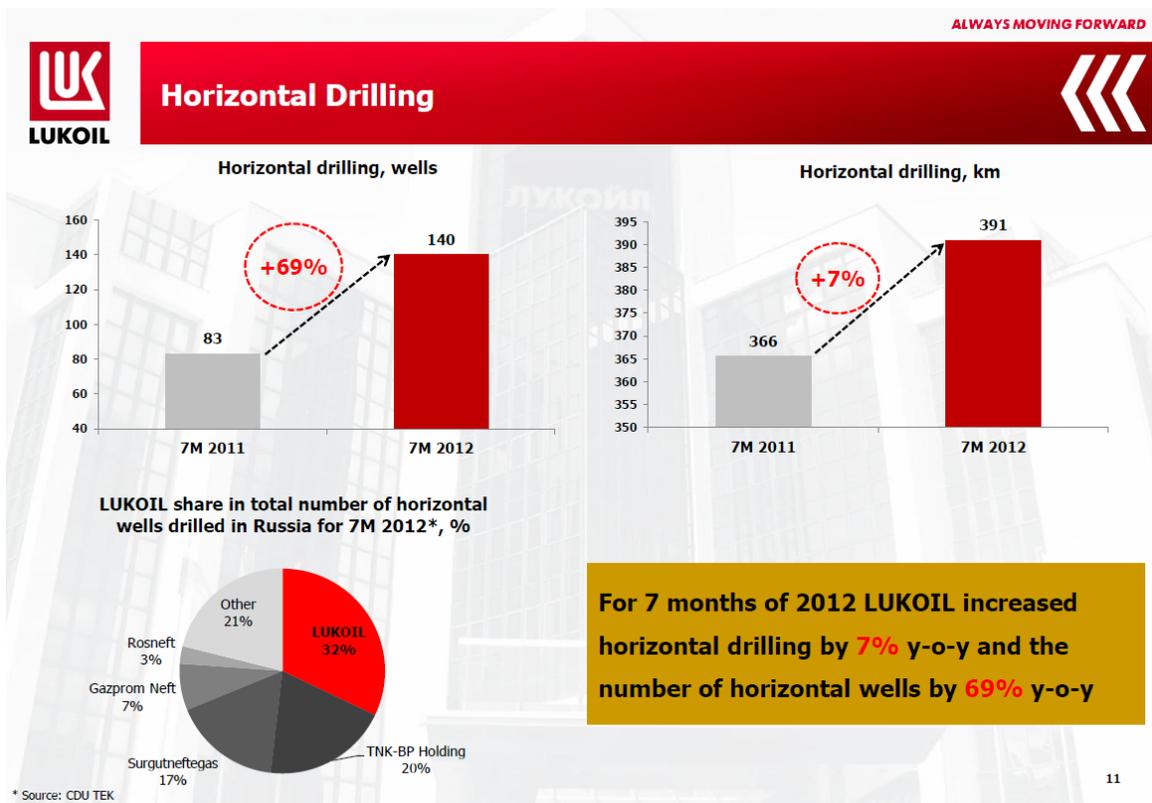
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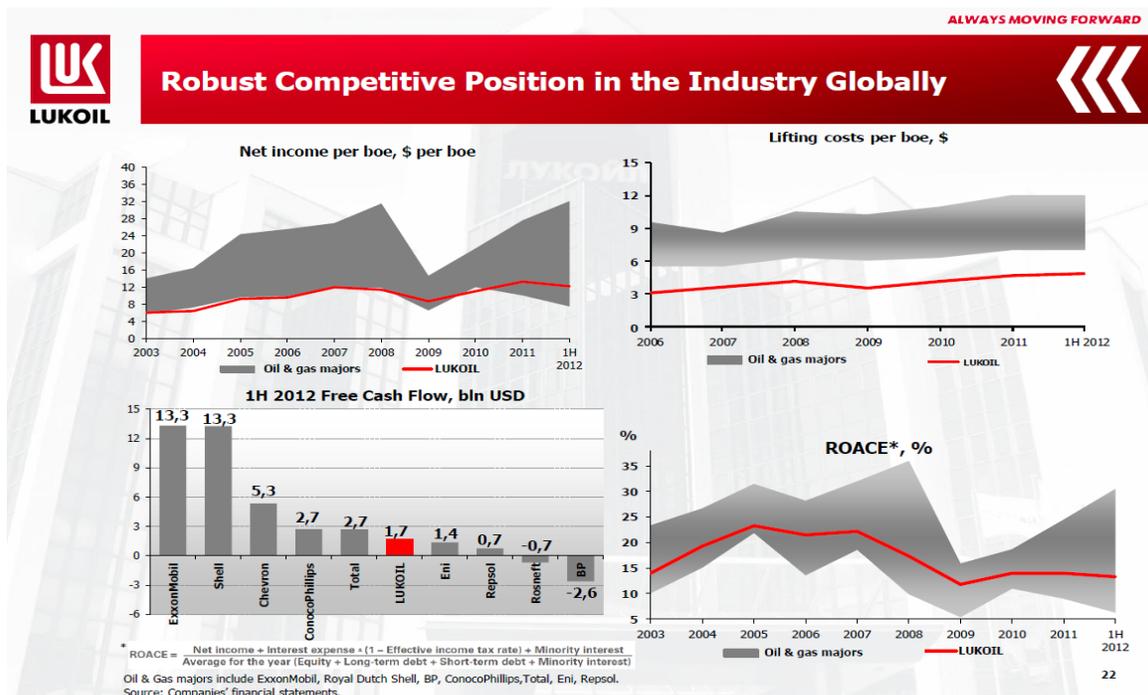
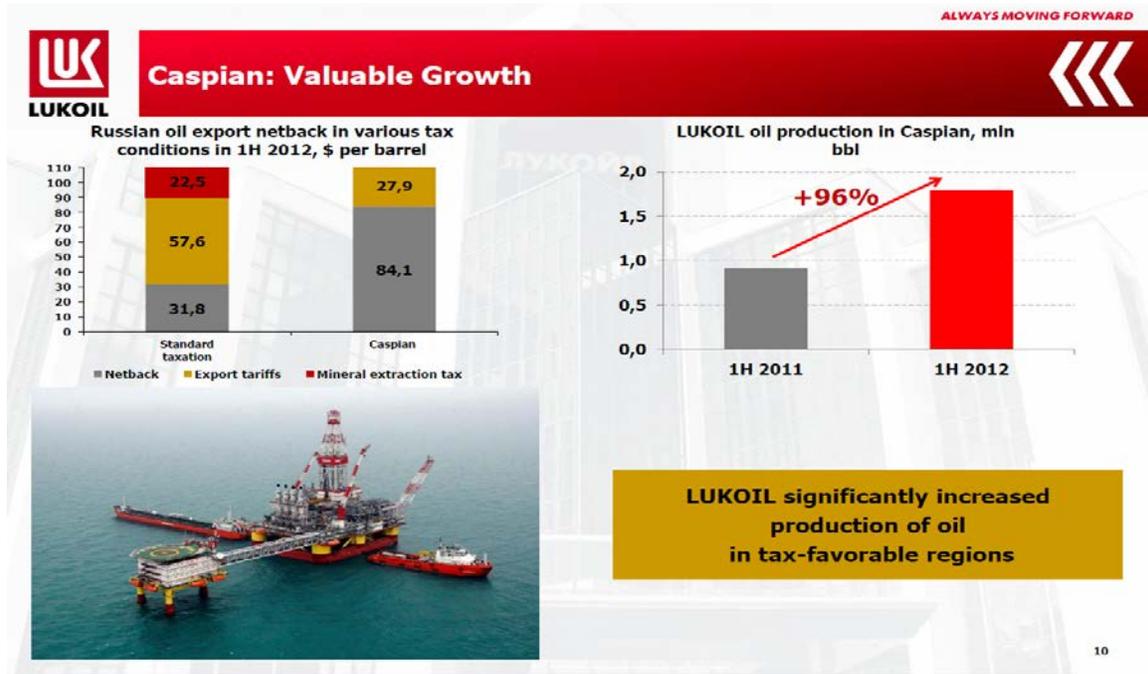
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Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q2E</i>	
	<i>6/30/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>6/30/13</i>	<i>6/30/13</i>
Volume									
Natural gas (bcf)	160	657	186	165	167	167	686	165	684
Natural Gas (mmcf)	1,758	1,800	2,046	1,818	1,818	1,818	1,875	1,818	1,874
Days	91	365	91	91	92	92	366	91	365
Oil (mmb)	168	672	169	167	169	169	675	167	672
Oil (mbd)	1,844	1,840	1,857	1,840	1,840	1,840	1,844	1,840	1,840
Price									
Natural gas (\$/mcf)	1.00	1.00	1.36	1.82	1.82	1.82	1.70	1.82	1.82
Oil (\$/bbl)									
WTI Cushing	102.55	95.12	102.93	93.32	92.57	95.99	96.20	97.03	95.66
Lukoil export	113.75	109.09	117.02	106.84	105.98	109.89	109.94	111.09	109.50
NY Harbor 3-2-1 (\$/bbl)	27.68	25.56	24.31	30.77	31.15	27.90	28.53	25.97	27.09
Revenue (\$mm)									
Natural Gas	160	657	253	301	304	304	1,163	301	1,245
Oil	19,088	73,267	19,775	17,889	17,940	18,603	74,207	18,601	73,542
Other	15,824	60,383	15,486	14,508	14,508	14,508	59,009	14,508	58,031
Total	34,912	133,650	35,261	32,397	32,752	33,415	133,825	33,410	132,818
Ebitda (\$mm)									
Exploration and Production	3,724	13,123	3,716	3,132	3,124	3,238	13,211	3,237	12,808
Other	1,683	6,750	1,602	408	2,044	1,436	5,490	1,952	7,000
Total Ebitda	5,407	19,874	5,318	3,541	5,168	4,674	18,701	5,189	19,808
Exploration	85	532	43	104	104	104	355	104	416
Deprec., Deplet., & Amort.	1,149	4,473	1,095	1,177	1,177	1,177	4,626	1,177	4,708
Ebit	4,173	14,869	4,180	2,260	3,887	3,393	13,720	3,908	14,684
Interest	87	294	10	57	57	57	182	57	229
Ebt	4,086	14,574	4,170	2,203	3,830	3,335	13,538	3,851	14,454
Income Tax	814	3,293	367	1,173	1,146	998	3,684	1,152	4,325
Net Income (\$mm)									
Exploration and Production	1,583	7,620	2,811	1,593					
Other	482	3,533	1,077	(556)					
Unallocated	1,207	128	(85)	(7)					
Total	3,272	11,281	3,803	1,030	2,684	2,337	9,854	2,699	10,129
Shares (millions)									
Per share (\$)	802	798	794	780	780	780	785	780	780
Per share (\$)	4.08	14.14	4.79	1.32	3.44	3.00	12.55	3.46	12.99
Ebitda Margin (E&P)	20%	18%	19%	18%	17%	17%	18%	17%	17%
Tax Rate	20%	23%	9%	53%	30%	30%	27%	30%	30%

Lukoil					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	213	23.9	6.6	1,400	1%
Oil	12,590	16.5	6.7	84,500	70%
Downstream	7,000		4.9	34,000	28%
	19,800	17.6	6.1	119,900	100%
Debt (US\$mm)					2,900
Net Present Value (US\$mm)					117,000
Shares (mm)					780
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					224







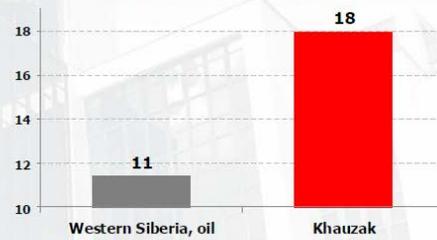
Uzbekistan: Strong Growth



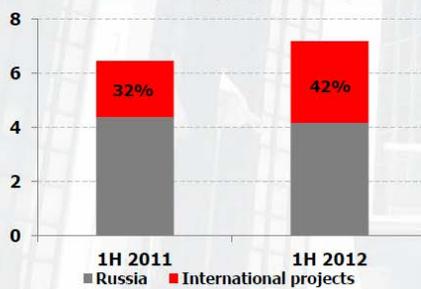
LUKOIL natural gas production in Uzbekistan, bcm



Net Income in 2011, \$ per boe



LUKOIL natural gas production, bcm



LUKOIL significantly increased production of highly marginal natural gas in Uzbekistan with the start of production on Gissar project



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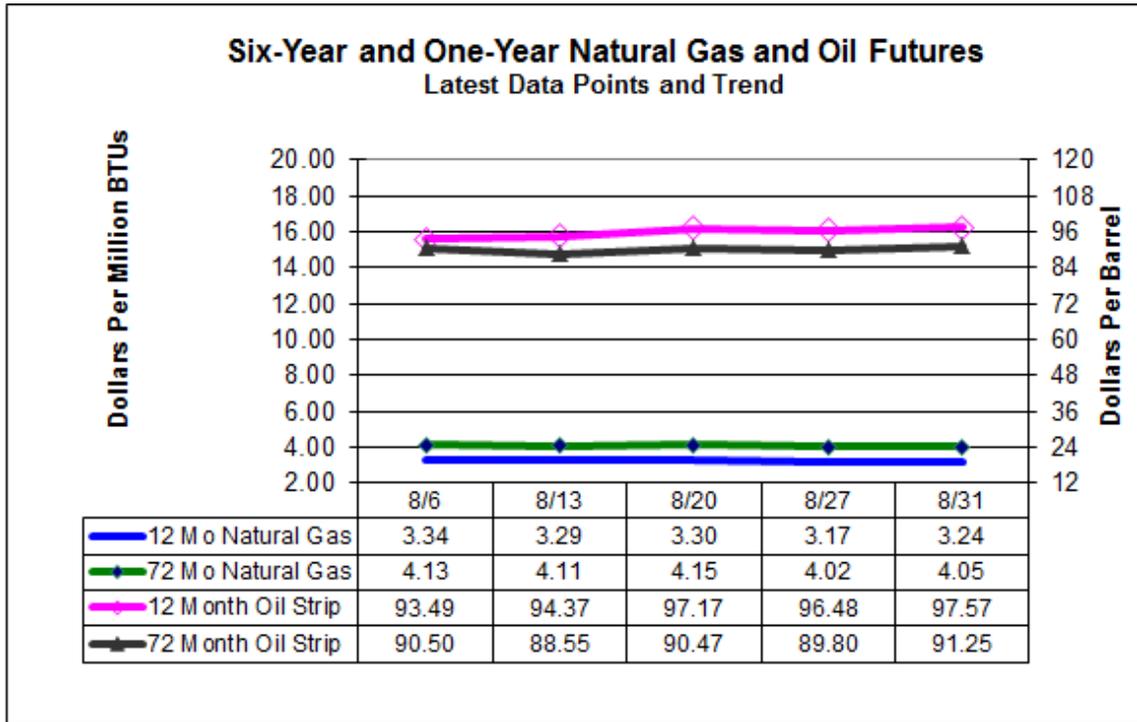
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Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
28-Aug	PTR	PetroChina	Pent-Up Profits (Meter Reader)
24-Aug	HGT	Hugoton Royalty Trust	Highest Return for the Next Year (Income and Small Cap Weekly)
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price (Meter Reader)
17-Aug	HK	Halcón Resources	Billion Barrel Resource Potential (Income and Small Cap Weekly)
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues (Meter Reader)
10-Aug	CLR	Continental Resources	Bakken Billions (ISCW)
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return (Meter Reader)
3-Aug	XEC	Cimarex Energy	West Texas Wolfcamp Shale Oil (ISCW)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
30-Jul	COSWF	Canadian Oil Sands Limited	Robust Volume Outlook
27-Jul	RRC	Range Resources	Oil-Enhanced Natural Gas Growth (ISCW)
24-Jul	CEO	CNOOC Ltd.	60% Premium in \$21 Billion Deal (Meter Reader)
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
17-Jul	XOM	Exxon Mobil	Low U.S. Energy Price Outperformer (Meter Reader)
10-Jul	MRO	Marathon Oil	Shale Growth, Dollar Hedge (Meter Reader)
3-Jul	OGZPY	Gazprom	Dividend Double Approved (Meter Reader)
26-Jun	STO	Statoil	Financially Strong Norse Explorers (Meter Reader)
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	RDS	Royal Dutch Shell	LNG and GTL Profit Gains (Meter Reader)
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)
20-Mar	CVX	Chevron	Investing in Australian LNG for Growth (Meter Reader)
6-Mar	IMO	Imperial Oil	Kearl Startup Late This Year (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
28-Aug	PTR	PetroChina	Pent-Up Profits
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
31-Aug			Royalty Trust McDep Opportunities
24-Aug	HGT	Hugoton Royalty Trust	Highest Return for the Next Year
17-Aug	HK	Halcón Resources	Billion Barrel Resource Potential
10-Aug	CLR	Continental Resources	Bakken Billions
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