



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 16, 2012

Enerplus (ERF) Bakken Sleeper

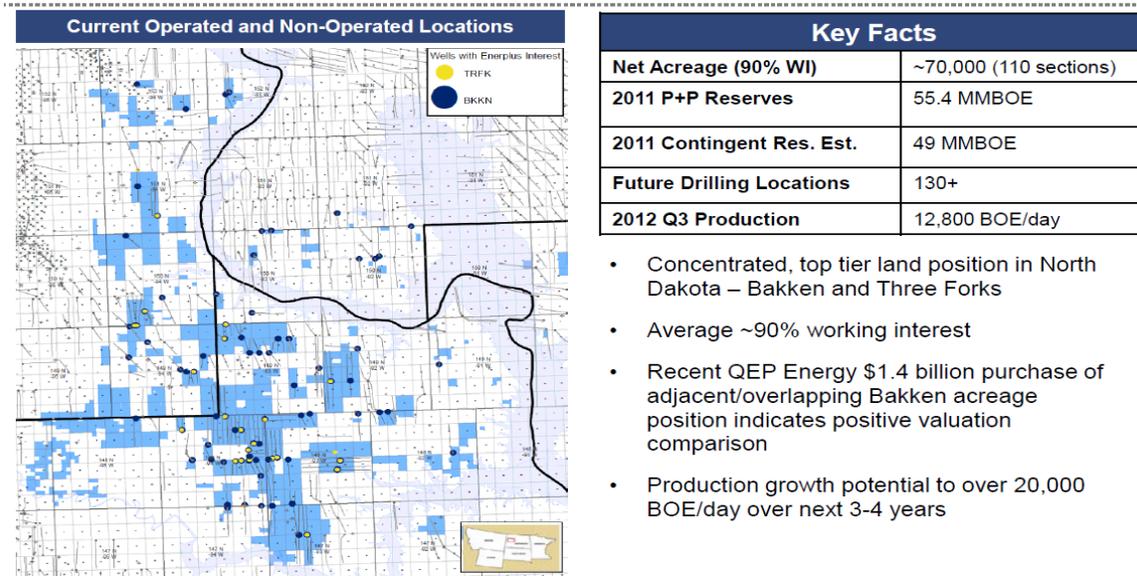
<i>Symbol</i>	ERF	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$mm)</i>	690
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (US\$/sh)</i>	11.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/15/12	<i>Adjusted Reserves/Production NTM</i>	6.3
<i>Shares (mm)</i>	196	<i>EV/Ebitda</i>	6.0
<i>Market Capitalization (US\$mm)</i>	2,310	<i>PV/Ebitda</i>	8.6
<i>Debt (US\$mm)</i>	1,770	<i>Undeveloped Reserves (%)</i>	16
<i>Enterprise Value (EV) (US\$mm)</i>	4,090	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.20
<i>Present Value (PV) (US\$mm)</i>	5,890	<i>Present Value Proven Reserves(US\$/boe)</i>	34.00
<i>Net Present Value (US\$/share)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Debt/Present Value</i>	0.30	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.24
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	49
<i>Dividend Yield (%/year)</i>	9.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.08
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

Estimated Net Present Value of \$21 a share looks stronger to us than the steep decline in stock price to \$12 for Contrarian Buy **Enerplus (ERF)** might suggest. Among its strengths, the company has doubled oil volume to 12 thousand barrels daily (mbd) in the past year in coveted lease rights on the Fort Berthold Indian reservation in North Dakota (see slide [Fort Berthold Oil Growth](#) on page 2). The Bakken shale and the Three Forks formation below it offer increasing promise of greater reserves and production (see slide [Well Spacing](#) on p2). Swooping in with a \$1.5 billion Bakken acquisition announced in recent weeks, independent producer **Halcón Resources** plans to move more rigs to the “more prolific Fort Berthold”. Among larger companies in the past few months, **ExxonMobil** paid more than \$1.6 billion for the Bakken properties of **Denbury**. Elsewhere to the northwest, ERF has stable oil production of more than 16 mbd (see slide [Low Decline Canadian Waterflood Assets](#) on page 3). Though dampened by recent low commodity price, ERF has strong natural gas potential in Pennsylvania and in Canada’s Montney and Duvernay (see slides [Marcellus](#) on page 3 and [Deep Gas](#) on page 4). The buildup in production from all properties remains close to our estimates from mid-year despite a slight reduction in management guidance when third quarter results were disclosed on November 9 (see tables [Functional Cash Flow and Present Value](#) on page 4 and [Next Twelve Months Operating and Financial Results](#) on page 5). Essentially, we see unusual long-term prospects in North Dakota and North American oil and gas at the same time investors appear to be giving away ERF stock. Such are the conditions that set up acquisition opportunities for corporate buyers to offer a premium to stock price and still get a bargain on resource values.

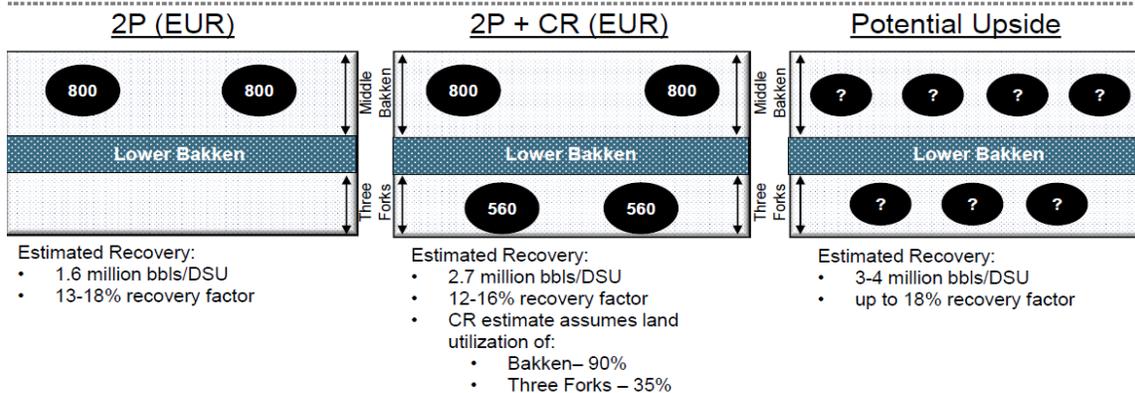
Kurt H. Wulff, CFA

Fort Berthold Leads the Charge in Oil Growth



enerPLUS 7

Fort Berthold Well Spacing (1280 acres per drill spacing unit)



Early Learnings:

- Communication occurring between the Bakken and Three Forks during completion; potentially during production
- Bakken wells appear to outperform – Three Forks contribution?
- 2 wells/DSU likely underdeveloped

Bakken OOIP:

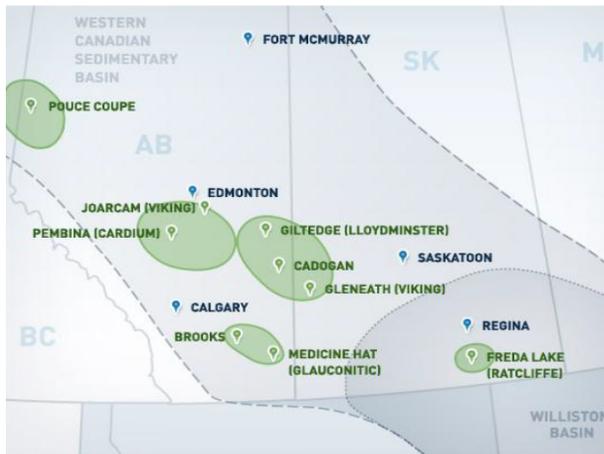
- 9 -12 million bbls/DSU

Three Forks OOIP:

- 8 -10 million bbls/DSU

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Low Decline Canadian Waterflood Assets



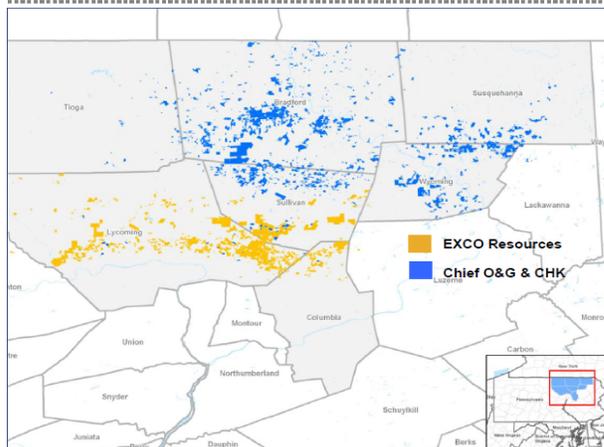
Key Facts	
OOIP*	~1.2 billion barrels (net)
P+P Reserves (YE 2011*)	82 million barrels net (26% recovery)
Recovery to date*	22%
Best Est. Contingent Resources*	53.5 million barrels
Average Oil Quality	30° API
Q3 2012 Production	~16,769 BOE/day

- Significant future drilling potential as well as enhanced oil recovery opportunities
- Moderate growth outlook of ~5% per year

* As at Dec. 31, 2011 and updated to reflect Manitoba asset sale transaction expected to close December 2012

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Marcellus: Retaining Leases for Future Value Capture



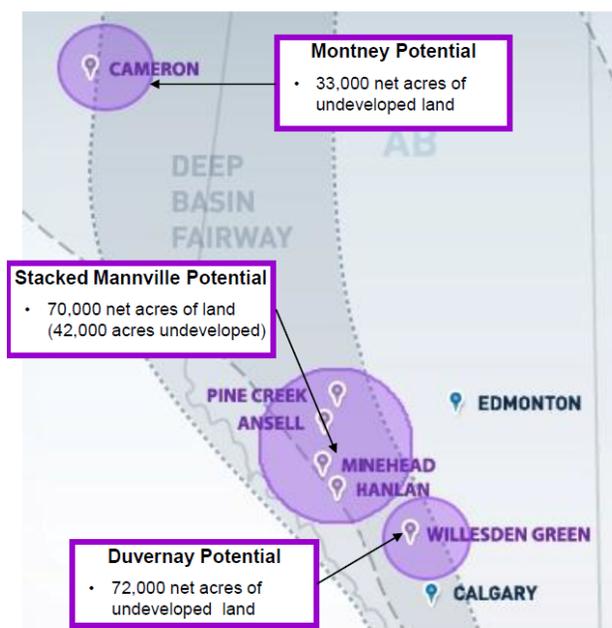
- 47,000 net non-operated acres with 20% avg. working interest
- Major non-op partners:
 - EXCO (22% WI)
 - Chief (18% WI)

- 2012 activity driven by focus on lease retention in non-operated counties – Bradford, Susquehanna and Lycoming
 - ~80% of drilling activity in 7-11 Bcf areas with IRRs of 15% - 30%*
- Expect to have close to 2/3 of core non-operated acreage held by production by year-end
 - Reducing acreage positions in operated areas in Maryland and West Virginia
- Non-operated on-stream activities delayed due to weak natural gas prices resulting in lower than expected production
- November 2012 production ~48 MMcf/day, up 90% year to date

* Rates of return estimated using Oct 11, 2012 forward prices for NYMEX natural gas

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An Abundance of Deep Gas Opportunity



- Approximately 175,000 net acres of high working interest land throughout the region
 - Includes 100% working interest in approximately 145,000 undeveloped acres
 - Multiple contiguous acreage blocks
 - Potential liquids rich zones
- 2012 capital focused on delineation
 - Duvernay – 1 vertical strat well
 - Montney - 1 vertical strat
 - Stacked Mannville (Wilrich) – 2 hz producers

Large, long tenure, high working interest land holdings

Enerplus Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	130	5.7	13.8	1,800	31%
Oil	560	6.9	7.3	4,070	69%
	690	6.3	8.5	5,870	100%
Debt (US\$mm)					1,770
Net Present Value (US\$mm)					4,100
Shares (mm)					196
Net Present Value - Standard Estimate (US\$/sh)					21
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					20



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Enerplus Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/11	6/30/12	9/30/12	12/31/12	2012E	3/31/13	6/30/13	9/30/13	9/30/13
Volume									
Natural Gas (mmcf/d)	244	253	247	247	248	247	247	247	247
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	33	40	40	45	40.8	45	45	45	45.0
Total (mb)	6.74	7.47	7.49	7.93	30.10	7.76	7.84	7.93	31.45
Total (mbd)	73.3	82.1	81.5	86.2	82.2	86.2	86.2	86.2	86.2
Price									
Henry Hub (\$/mmbtu)	4.19	2.21	2.80	3.36	2.78	3.69	3.71	3.80	3.64
Currency (US\$/C\$)	1.02	0.99	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Henry Hub (C\$/mmbtu)	4.11	2.24	2.79	3.36	2.78	3.69	3.71	3.81	3.64
Differential (\$/mmbtu)	0.38	0.18	0.59	0.71	0.49	0.78	0.79	0.81	0.77
Company (\$/mcf)	3.73	2.06	2.20	2.65	2.29	2.91	2.93	3.00	2.87
WTI Cushing (\$/bbl)	89.76	93.32	92.22	87.03	93.87	86.66	88.42	89.43	87.88
WTI Cushing (C\$/bbl)	87.94	94.25	91.79	87.13	94.05	86.77	88.52	89.54	87.99
Differential	11.64	21.11	17.87	16.96	19.29	16.89	18.15	18.36	17.59
Company (\$/bbl)	76.30	73.15	73.93	70.17	74.76	69.88	70.37	71.18	70.40
Total (\$/bbl)	46.38	41.91	43.24	44.24	44.05	44.84	45.14	45.77	45.00
Revenue (C\$m)									
Natural Gas	84	47	50	60	209	65	66	68	259
Oil	229	266	274	291	1,117	283	288	295	1,156
Royalty	(56)	(62)	(65)	(70)	(264)	(70)	(71)	(73)	(284)
Total	257	251	259	280	1,062	278	283	290	1,131
Expense									
Operating	74	81	94						
Other	19	21	24						
Total	93	102	118	110	423	109	111	114	445
Ebitda	164	149	141	170	638	169	172	176	686
Deprec., Deplet., & Amort.	109	128	133	141	521	134	136	137	548
Other Non Cash	(106)	(130)	(95)		(136)				-
Ebit	160	151	103	29	254	34	36	39	139
Interest	11	17	19	19	71	19	19	19	76
Ebt	149	134	84	10	183	15	17	20	63
Income Tax	37	33	21	3	46	4	4	5	16
Net Income (\$mm)	112	100	63	8	137	12	13	15	47
Per Share (\$)	0.62	0.51	0.32	0.04	0.69	0.06	0.07	0.08	0.24
Shares (millions)	181	197	198	198	199	196	196	196	196
Distributions (\$mm)	98	106	107	53	369	53	53	53	212
Per Share (\$)	0.54	0.54	0.54	0.27	1.89	0.27	0.27	0.27	1.08
Ebitda Margin	64%	59%	54%	61%	60%	61%	61%	61%	61%
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%



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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	15-Nov	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	67.33	1.32	14,200	75	25	18.1	0.16	0.2	0.97
PDC Energy	PDCE		27.97	1.93	1,630	52	48	12.6	-	-	0.96
Peyto Exploration and Developmen	PEYUF		24.09	1.21	4,180	76	24	11.3	0.72	3.0	0.91
Birchcliff Energy Ltd.	BIREF	CB	7.93	1.44	1,690	63	37	10.3	-	-	0.74
Continental Resources (32%)	CLR	CB	68.71	1.24	4,980	24	76	7.3	-	-	0.73
Halcón Resources	HK		5.70	1.55	3,860	13	87	7.2	-	-	0.67
Denbury Resources Inc.	DNR		14.32	1.57	8,820	6	94	5.9	-	-	0.62
Berry Petroleum Company	BRY		31.32	2.02	3,490	12	88	5.4	-	-	0.62
Cimarex Energy Company	XEC	CB	60.77	1.26	6,670	41	59	5.5	0.48	0.8	0.61
Whiting Petroleum Corporation	WLL	CB	42.84	1.42	7,230	9	91	4.9	-	-	0.57
<i>Total or Median</i>					56,800			7.3			0.70
Top Line Cash Payers											
Freehold Royalties Ltd.	FRHLF		21.01	1.05	1,430	16	84		1.68	8.0	1.00
Dorchester Minerals, L.P.	DMLP	CB	21.34	1.00	660	57	43		1.74	8.2	0.79
Sabine Royalty Trust	SBR		43.80	1.00	640	51	49		3.90	8.9	0.67
Permian Basin RT	PBT		12.69	1.00	590	37	63		1.08	8.5	0.63
Cross Timbers Royalty Trust	CRT		25.94	1.00	160	70	30		2.58	10.0	0.59
<i>Total or Median</i>					3,500					8.5	0.67
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		36.91	1.67	14,390	43	57	12.9	2.90	7.9	1.13
Vanguard Natural Resources, LLC	VNR		24.93	1.69	2,240	33	67	11.3	2.40	9.6	1.00
Legacy Reserves L.P.	LGCY		23.74	1.52	1,710	25	75	9.2	2.26	9.5	0.85
Enduro Royalty Trust (40%)	NDRO		16.00	1.00	210	43	57	9.0	1.69	10.6	0.76
Enerplus Corporation	ERF	CB	11.81	1.77	4,100	31	69	6.0	1.08	9.1	0.69
San Juan Basin Royalty Trust	SJT	CB	12.67	1.00	590	100	-	8.3	1.15	9.1	0.60
Mesa RoyaltyTrust	MTR		22.06	1.00	41	75	25	8.9	1.95	8.8	0.55
Hugoton RoyaltyTrust	HGT		6.98	1.00	280	88	13	6.4	0.30	4.4	0.50
<i>Total or Median</i>					23,600			9.0		9.1	0.73
Composite											
<i>Enterprise Value Weighting</i>					83,800	39	61				0.77
<i>Equal Weighting</i>						45	55				0.75
<i>Equal Weighted Buys</i>						49	51				0.71

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 September 30, 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)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	15-Nov 2012		(mm)				
Small Cap Independent Producers								
Range Resources	RRC	B	67.33	160.0	10,770	70.00	0.23	0.97
PDC Energy	PDCE		27.97	30.2	840	30.00	0.46	0.96
Peyto Exploration and Development Cor	PEYUF		24.09	143.1	3,450	27.00	0.16	0.91
Birchcliff Energy Ltd.	BIREF	CB	7.93	149.0	1,180	12.00	0.22	0.74
Continental Resources (32%)	CLR	CB	68.71	58.6	4,020	100.00	0.14	0.73
Halcón Resources	HK		5.70	436.0	2,490	10.00	0.24	0.67
Denbury Resources Inc.	DNR		14.32	391.0	5,600	28.00	0.23	0.62
Berry Petroleum Company	BRY		31.32	55.3	1,730	70.00	0.31	0.62
Cimarex Energy Company	XEC	CB	60.77	86.9	5,280	110.00	0.13	0.61
Whiting Petroleum Corporation	WLL	CB	42.84	119.0	5,100	88.00	0.17	0.57
<i>Total or Median</i>					40,460		0.23	0.70
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		21.01	65.1	1,370	21.00	0.05	1.00
Dorchester Minerals, L.P.	DMLP	CB	21.34	30.7	660	27.00	-	0.79
Sabine Royalty Trust	SBR		43.80	14.6	640	65.00	-	0.67
Permian Basin RT	PBT		12.69	46.6	590	20.00	-	0.63
Cross Timbers Royalty Trust	CRT		25.94	6.0	160	44.00	-	0.59
<i>Total or Median</i>					3,420			0.67
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.91	233.0	8,600	30.00	0.45	1.13
Vanguard Natural Resources, LLC	VNR		24.93	53.1	1,320	25.00	0.41	1.00
Legacy Reserves L.P.	LGCY		23.74	47.5	1,130	30.00	0.29	0.85
Enduro Royalty Trust (40%)	NDRO		16.00	13.2	210	21.00	-	0.76
Enerplus Corporation	ERF	CB	11.81	196.0	2,310	21.00	0.30	0.69
San Juan Basin Royalty Trust	SJT	CB	12.67	46.6	590	21.00	-	0.60
Mesa RoyaltyTrust	MTR		22.06	1.9	41	40.00	-	0.55
Hugoton RoyaltyTrust	HGT		6.98	40.0	280	14.00	-	0.50
<i>Total or Median</i>					14,480			0.73
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.								
* PEYUF NPV rased to \$27 from \$24 on November 15 to take account of strong performance in third quarter 2012 disclosed on November 8.								



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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		15-Nov 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	67.33		-	13.9	18.7	18.1
PDC Energy	PDCE		27.97		-	9.9	13.1	12.6
Peyto Exploration and Development Corp	PEYUF		24.09		0.33	9.5	12.5	11.3
Birchcliff Energy Ltd.	BIREF	CB	7.93		-	20.2	14.0	10.3
Continental Resources (32%)	CLR	CB	68.71		-	9.6	10.0	7.3
Halcón Resources	HK		5.70		-	6.7	10.7	7.2
Denbury Resources Inc.	DNR		14.32		-	13.2	9.5	5.9
Cimarex Energy Company	XEC	CB	60.77		-	7.5	9.0	5.5
Berry Petroleum Company	BRY		31.32		-	11.7	8.8	5.4
Whiting Petroleum Corporation	WLL	CB	42.84		-	9.3	8.5	4.9
	<i>Median</i>					9.7	10.4	7.3
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		21.01	73	0.91	5.3	11.4	11.4
Sabine Royalty Trust	SBR		43.80	100	1.00	7.6	16.6	11.2
Dorchester Minerals, L.P.	DMLP	CB	21.34	77	0.90	6.9	13.9	11.0
Cross Timbers Royalty Trust	CRT		25.94	78	0.96	16.5	16.4	9.7
Permian Basin RT	PBT		12.69	52	0.70	9.5	13.0	8.3
	<i>Median</i>					7.6	13.9	11.0
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.91		1.11	14.0	11.5	12.9
Vanguard Natural Resources, LLC	VNR		24.93		1.08	13.2	11.3	11.3
Legacy Reserves L.P.	LGCY		23.74		0.81	11.0	10.8	9.2
Enduro Royalty Trust (40%)	NDRO		16.00		0.96	7.2	11.9	9.0
Mesa RoyaltyTrust	MTR		22.06		0.79	7.7	16.2	8.9
San Juan Basin Royalty Trust	SJT	CB	12.67		0.75	8.7	13.7	8.3
Hugoton RoyaltyTrust	HGT		6.98		0.28	13.5	12.9	6.4
Enerplus Corporation	ERF	CB	11.81		0.44	6.3	8.6	6.0
	<i>Median</i>					9.9	11.7	9.0
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 September 30, 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		15-Nov 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		24.09	0.92	1.48	1.00	1.17	0.91
Range Resources	RRC	B	67.33	0.93	1.20	0.99	1.05	0.97
Birchcliff Energy Ltd.	BIREF	CB	7.93	0.65	1.36	1.04	1.00	0.74
Cimarex Energy Company	XEC	CB	60.77	0.74	1.23	1.01	0.97	0.61
PDC Energy	PDCE		27.97	0.81	1.19	0.94	0.96	0.96
Whiting Petroleum Corporation	WLL	CB	42.84	0.74	1.13	0.95	0.93	0.57
Continental Resources (32%)	CLR	CB	68.71	0.75	1.10	0.92	0.91	0.73
Denbury Resources Inc.	DNR		14.32	0.76	1.06	0.93	0.91	0.62
Berry Petroleum Company	BRY		31.32	0.71	1.01	0.90	0.86	0.62
Halcón Resources	HK		5.70	0.54		0.87	0.74	0.67
	<i>Median</i>			<i>0.75</i>	<i>1.19</i>	<i>0.94</i>	<i>0.94</i>	<i>0.70</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		21.01	0.99	1.24	1.03	1.08	1.00
Dorchester Minerals, L.P.	DMLP	CB	21.34	0.80	1.07	0.96	0.94	0.79
Sabine Royalty Trust	SBR		43.80	0.65	1.01	0.87	0.80	0.67
Cross Timbers Royalty Trust	CRT		25.94	0.51	1.02	0.86	0.69	0.59
Permian Basin RT	PBT		12.69	0.55	1.06	0.86	0.69	0.63
	<i>Median</i>			<i>0.65</i>	<i>1.06</i>	<i>0.87</i>	<i>0.80</i>	<i>0.67</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		36.91	0.92	1.04	0.94	0.97	1.13
Vanguard Natural Resources, LLC	VNR		24.93	0.89	1.05	0.92	0.94	1.00
Legacy Reserves L.P.	LGCY		23.74	0.85	1.02	0.89	0.90	0.85
Enerplus Corporation	ERF	CB	11.81	0.57	1.02	0.83	0.79	0.69
San Juan Basin Royalty Trust	SJT	CB	12.67	0.51	1.05	0.90	0.79	0.60
Hugoton RoyaltyTrust	HGT		6.98	0.31	1.22	1.03	0.71	0.50
Mesa RoyaltyTrust	MTR		22.06	0.49	1.08	0.88	0.69	0.55
	<i>Median</i>			<i>0.57</i>	<i>1.05</i>	<i>0.90</i>	<i>0.79</i>	<i>0.69</i>

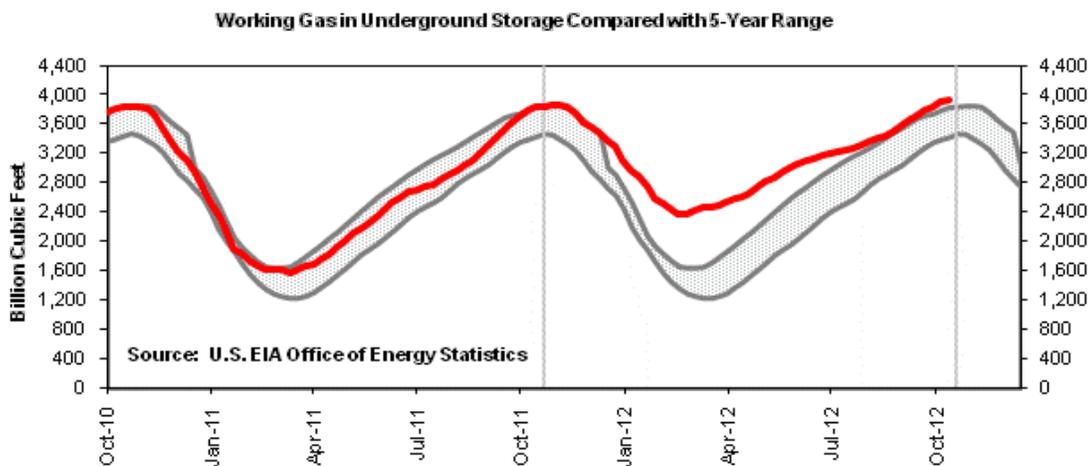
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 16, 2012



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