



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 17, 2009

Prices Intraday April 16

Readjust NPV for Volume Trend

Summary and Recommendation

Taking a new look back at the five-year volume trend for no-debt, no-hedge income stocks, we raise our estimate of Net Present Value (NPV) to \$32 from \$24 a unit for **Dorchester Minerals, L.P. (DMLP)** and to \$60 from \$47 a unit for **Sabine Royalty Trust (SBR)**. At the same time we lower estimated NPV to \$26 from \$34 for hold-rated **San Juan Basin Royalty Trust (SJT)** and to \$32 from \$42 for unrated **Cross Timbers Royalty Trust (CRT)**. DMLP and SBR appear to be registering no decline in volume recently while SJT and CRT appear to be registering a decline of about 3% a year (see charts Volume – Revenue Royalty Trusts and Volume – Profits Royalty Trusts on page 2). Meanwhile continuing low natural gas price limits current cash flow illustrated in minimal distributions for buy-recommended **Hugoton Royalty Trust (HGT)** in the next few months (see tables Monthly Declarations, page 3; Next Twelve Months Operating and Financial Performance, page 4). We also illustrate how a 2% decline rate contributes to NPV of \$28 a unit for HGT (see table Present Value, page 5). The range of McDep Ratios has narrowed for U.S. Royalty Trusts (see Table 1, page 6 and Table 2, page 7). As a result, we believe that all six of the U.S. Royalty Trusts and DMLP, which has similar characteristics, are attractive commitments. Yet, despite our positive view, five of the seven stocks are among the most out of favor in our coverage measured by stock price to moving average. Investors may need to be patient and have tolerance for possible unfavorable stock price surprise.

Minimal Distributions, Better Value for Hugoton Royalty Trust

On the downside, low natural gas price and low distributions are depressing stock price. On the upside, the price structure in the futures market illustrates a possible recovery pattern. Beyond the latest futures price of \$3.60 a million btu for May 2009, the average for the twelve months ending in April 2010 is \$4.70 and for the next six years ending in April 2015 is \$6.60. Moreover we believe natural gas futures are underpriced relative to six-year oil futures at \$69 a barrel, which implies an energy equivalent price for natural gas of more than \$11. On the latter basis our long-term natural gas price of \$10 for calculating Net Present Value (NPV) for HGT of \$28 a unit looks reasonable to us. Looked at in reverse, current stock price of \$10 a unit implies a long-term natural gas price of \$4, which is less than the 12-months futures quote.

Some Ratios Too Low for Estimating NPV

Looking to our final comparison, the stable volume trends for SBR and DMLP are strong evidence as to why some reserve ratios are too low for valuation purposes (see Table 3, page 8). Similarly, because Ebitda excludes amounts spent by others for revenue royalty beneficiaries, cash flow multiples like EV/Ebitda could be misleadingly high.

Kurt H. Wulff, CFA

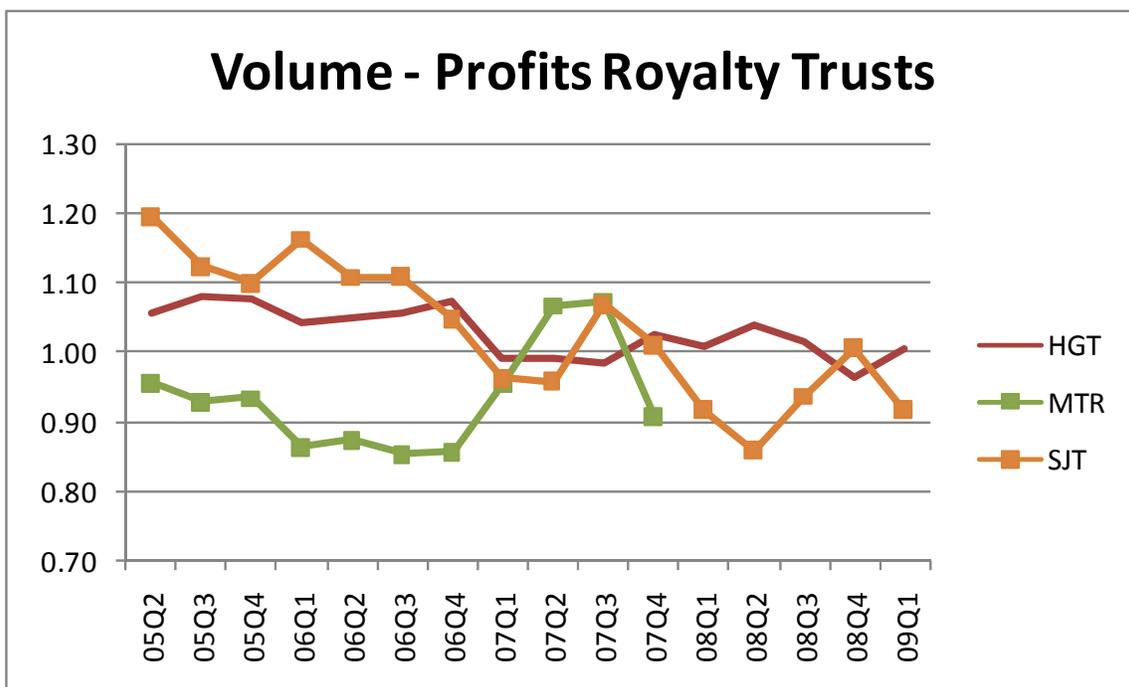
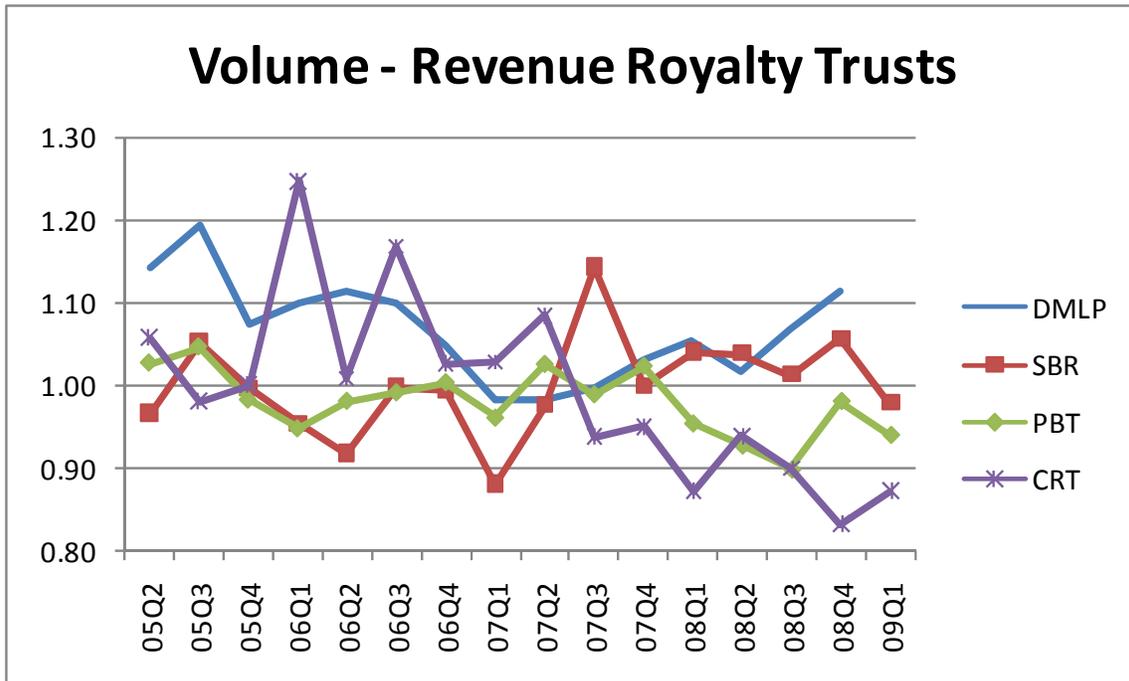


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Hugoton Royalty Trust									
Monthly Declarations									
	Apr-08	May-08	Jun-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Distribution (\$/unit)									
Declared	0.23	0.30	0.31	0.03	0.06	0.05			
Projected							0.02	0.01	-
Volume									
Natural Gas (bcf)	2.28	2.45	2.38	2.63	2.28	2.20	2.28	2.45	2.38
Natural Gas (mmcf)	78	79	79	88	74	71	76	76	76
Days	29	31	30	30	31	31	28	32	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	7.99	8.93	9.58	6.47	6.91	6.13	4.49	4.07	3.63
HGT/Henry Hub	0.96	0.94	0.90	0.53	0.59	0.73	0.77	0.76	0.74
HGT (\$/mcf)	7.66	8.42	8.65	3.41	4.11	4.49	3.47	3.08	2.69
Revenue (\$mm)									
Natural Gas	17.4	20.6	20.5	9.0	9.4	9.9	7.9	7.6	6.4
Other	0.8	0.6	2.0	(0.3)	0.0	(1.0)	0.2	0.0	0.7
Total	18.2	21.2	22.5	8.6	9.4	8.9	8.1	7.6	7.1
Cost (\$mm)									
Production	2.3	1.6	2.4	2.1	1.8	1.6	2.2	2.2	2.3
Overhead	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.9
Total	3.1	2.3	3.2	3.0	2.6	2.5	3.1	3.1	3.1
Cash flow (\$mm)									
Development	3.8	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0
Net proceeds (\$mm)									
	11.4	15.2	15.5	1.6	2.8	2.4	1.0	0.5	-
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Distributable income (\$mm)									
	9.1	12.1	12.4	1.3	2.2	1.9	0.8	0.4	-
Units (millions)									
	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Distribution (\$/unit)									
	0.23	0.30	0.31	0.03	0.06	0.05	0.02	0.01	-
<i>Latest Twelve Month Average</i>									
Natural Gas (mmcf)	77	78	78	78	77	77	77	77	76
HGT/Henry Hub	0.84	0.85	0.86	0.82	0.79	0.77	0.76	0.74	0.73
Other revenue (\$mm)	0.3	0.4	0.5	0.9	0.9	0.8	0.7	0.7	0.6
Development (\$mm)	3.6	3.8	3.8	3.9	3.9	3.9	3.9	3.9	4.0
Production (\$mm)	1.9	1.9	2.0	2.3	2.3	2.2	2.2	2.3	2.3
Overhead (\$mm)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9



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Hugoton Royalty Trust									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>Months</i>
									<i>3/31/10</i>
Highlights									
Revenue (\$mm) (80%)	42.8	38.6	203.2	25.4	20.2	20.8	23.5	89.9	94.0
Cash flow (\$mm) (80%)	31.7	27.2	154.8	16.5	10.9	11.3	13.8	52.6	55.3
Per unit	0.79	0.68	3.87	0.41	0.27	0.28	0.35	1.31	1.38
Distributable Income (\$mm)	21.8	17.5	116.6	5.5	1.2	5.5	8.8	21.0	29.9
Per unit	0.54	0.44	2.91	0.14	0.03	0.14	0.22	0.53	0.75
Units (millions)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Volume									
Natural Gas (bcf)	7.2	6.8	28.2	7.1	7.1	7.3	7.3	28.7	28.9
Natural Gas (mmcf)	77.9	74.0	77.2	77.3	78.9	78.9	78.9	78.7	78.9
Days	92	92	366	92	90	92	92	366	366
Oil (mb)	74	78	342	78	76	78	78	310	310
Oil (mbd)	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.8
Days	92	92	366	92	90	92	92	366	366
Total (bcf)	7.6	7.3	30.2	7.6	7.6	7.7	7.7	30.6	30.7
Price									
Natural Gas (HH lagged two months)									
Henry Hub (\$/mmbtu)	7.21	8.37	9.13	6.50	4.06	3.78	4.14	4.62	4.34
Differential (%)	10	28	15	39	24	20	17	27	19
HGT (\$/mcf)	6.49	6.03	7.75	3.97	3.08	3.02	3.44	3.38	3.50
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	93.03	99.06	106.87	46.82	45.80	52.79	57.81	50.81	54.17
HGT	94.27	91.81	104.62	45.84	44.84	51.68	56.59	49.76	53.09
Total (\$/mcf)	7.02	6.63	8.40	4.20	3.34	3.36	3.80	3.67	3.82
Revenue (\$mm)									
Natural Gas	46.5	41.1	218.3	28.2	21.8	21.9	25.0	97.0	101.0
Oil	7.0	7.2	35.8	3.6	3.4	4.0	4.4	15.4	16.5
Total	53.5	48.2	254.0	31.8	25.3	26.0	29.4	112.4	117.5
Cost (\$mm)									
Tax, transport & other	5.5	4.6	23.3	3.0	2.4	2.5	2.8	10.7	11.2
Production	6.1	7.0	27.4	5.5	6.8	6.8	6.8	25.8	27.0
Overhead	2.3	2.6	9.8	2.6	2.5	2.5	2.5	10.2	10.2
Total	13.8	14.2	60.5	11.1	11.7	11.8	12.1	46.7	48.4
Cash flow (\$mm)									
Development	11.3	12.0	46.0	12.0	12.0	7.0	6.0	37.0	31.0
Excess costs	0.9		0.9					-	
Net proceeds (\$mm)	27.5	22.0	147.5	8.7	1.6	7.2	11.3	28.7	38.2
Royalty income (\$mm)									
Royalty/Net proceeds	80%	80%	80%	80%	80%	80%	80%	80%	80%
Administration	0.3	0.1	0.7	1.5	0.1	0.2	0.2	1.9	0.7
Distributable income (\$mm)									
Tax and other/revenue	10.2%	9.6%	9.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Production cost (\$/mcf)	0.80	0.97	0.91	0.73	0.89	0.88	0.88	0.84	0.88
Overhead cost (\$/mcf)	0.30	0.35	0.33	0.34	0.34	0.33	0.33	0.33	0.33
Development/Cash flow	0.28	0.35	0.24	0.58	0.88	0.49	0.35	0.56	0.45
Production/Revenue	0.11	0.15	0.11	0.17	0.27	0.26	0.23	0.23	0.23
Overhead/Revenue	0.04	0.05	0.04	0.08	0.10	0.10	0.09	0.09	0.09
Distributable Income/Revenue	0.41	0.36	0.46	0.17	0.05	0.21	0.30	0.19	0.25



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Hugoton Royalty Trust Present Value

Oil Volume Decline (%/yr):	2	Oil Price Post 2010 (2010\$/bbl)	75
Nat Gas Volume Decline (%/yr):	2	Nat Gas Price Post 2010 (2010\$/mcf)	10
		Real Discount Rate (%/yr):	7.0
Variable Cost (%):	20	PV/EBITDA 2011:	8
Cumul. Vol/Prod 2010:	23	Capex/Cash Flow (%):	22

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2010 through 2039; years ending on 3/31												
	5.6	525			4623	616	925	691	2391	59.79	0.47	28
2010	0.25	23.10	53.09	3.50	94.0	20.5	18.8	24.8	29.9	0.75	0.97	0.72
2011	0.24	22.64	67.50	8.30	204.3	20.5	40.9	31.4	111.5	2.79	0.90	2.52
2012	0.24	22.18	67.50	8.30	200.2	20.5	40.0	30.7	108.9	2.72	0.84	2.30
2013	0.23	21.74	67.50	8.30	196.2	20.5	39.2	30.0	106.4	2.66	0.79	2.10
2014	0.23	21.31	67.50	8.30	192.3	20.5	38.5	29.3	104.0	2.60	0.74	1.92
2015	0.22	20.88	67.50	8.30	188.4	20.5	37.7	28.6	101.6	2.54	0.69	1.75
2016	0.22	20.46	67.50	8.30	184.7	20.5	36.9	28.0	99.2	2.48	0.64	1.60
2017	0.22	20.05	67.50	8.30	181.0	20.5	36.2	27.3	96.9	2.42	0.60	1.46
2018	0.21	19.65	67.50	8.30	177.4	20.5	35.5	26.7	94.6	2.37	0.56	1.33
2019	0.21	19.26	67.50	8.30	173.8	20.5	34.8	26.1	92.4	2.31	0.53	1.22
2020	0.20	18.87	67.50	8.30	170.3	20.5	34.1	25.5	90.3	2.26	0.49	1.11
2021	0.20	18.50	67.50	8.30	166.9	20.5	33.4	24.9	88.1	2.20	0.46	1.01
2022	0.19	18.13	67.50	8.30	163.6	20.5	32.7	24.3	86.1	2.15	0.43	0.92
2023	0.19	17.76	67.50	8.30	160.3	20.5	32.1	23.7	84.0	2.10	0.40	0.84
2024	0.19	17.41	67.50	8.30	157.1	20.5	31.4	23.1	82.0	2.05	0.37	0.77
2025	0.18	17.06	67.50	8.30	154.0	20.5	30.8	22.6	80.1	2.00	0.35	0.70
2026	0.18	16.72	67.50	8.30	150.9	20.5	30.2	22.0	78.1	1.95	0.33	0.64
2027	0.18	16.38	67.50	8.30	147.9	20.5	29.6	21.5	76.2	1.91	0.31	0.58
2028	0.17	16.06	67.50	8.30	144.9	20.5	29.0	21.0	74.4	1.86	0.29	0.53
2029	0.17	15.74	67.50	8.30	142.0	20.5	28.4	20.5	72.6	1.81	0.27	0.49
2030	0.17	15.42	67.50	8.30	139.2	20.5	27.8	20.0	70.8	1.77	0.25	0.44
2031	0.16	15.11	67.50	8.30	136.4	20.5	27.3	19.5	69.1	1.73	0.23	0.40
2032	0.16	14.81	67.50	8.30	133.7	20.5	26.7	19.0	67.4	1.68	0.22	0.37
2033	0.16	14.51	67.50	8.30	131.0	20.5	26.2	18.5	65.7	1.64	0.20	0.34
2034	0.15	14.22	67.50	8.30	128.4	20.5	25.7	18.1	64.1	1.60	0.19	0.31
2035	0.15	13.94	67.50	8.30	125.8	20.5	25.2	17.6	62.5	1.56	0.18	0.28
2036	0.15	13.66	67.50	8.30	123.3	20.5	24.7	17.2	60.9	1.52	0.17	0.25
2037	0.14	13.39	67.50	8.30	120.8	20.5	24.2	16.7	59.4	1.48	0.16	0.23
2038	0.14	13.12	67.50	8.30	118.4	20.5	23.7	16.3	57.9	1.45	0.15	0.21
2039	0.14	12.86	67.50	8.30	116.0	20.5	23.2	15.9	56.4	1.41	0.14	0.19



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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value				
						by Segment (%)				
	Symbol/Rating		Price (US\$/sh)	EV/Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
	B = Buy H = Hold		16-Apr 2009	Cap						
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	H	11.09	1.78	8,100	29	71	1.46	13.2	0.59
Canadian Oil Sands Trust	COSWF	B	22.68	1.10	12,100		100	0.49	2.2	0.56
Pengrowth Energy Trust	PGH		6.21	2.02	3,200	40	60	0.98	15.7	0.56
Enerplus Resources Fund	ERF		19.05	1.25	3,900	46	54	1.76	9.2	0.49
<i>Total or Median</i>					27,300					
Small Cap Independent Producers										
Encore Acquisition Company	EAC	H	27.55	1.78	2,580	26	74	-	-	0.75
Berry Petroleum Company	BRY	H	15.21	2.59	1,790	36	64	0.30	2.0	0.62
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.44	1.33	880	72	28	-	-	0.61
Cimarex Energy Company	XEC	B	24.53	1.42	2,900	66	34	0.24	1.0	0.53
<i>Total or Median</i>					8,150					
U.S. Royalty Trusts										
Cross Timbers Royalty Trust	CRT		19.80	1.00	120	69	31	1.65	8.3	0.62
Sabine Royalty Trust	SBR		36.45	1.00	530	43	57	2.43	6.7	0.61
San Juan Basin Royalty Trust	SJT	H	14.64	1.00	680	100	-	0.82	5.6	0.56
Permian Basin RT	PBT		9.27	1.00	430	33	67	0.76	8.2	0.49
Mesa RoyaltyTrust	MTR		28.00	1.00	50	75	25	2.96	10.6	0.42
Hugoton RoyaltyTrust	HGT	B	10.28	1.00	410	91	9	0.75	7.3	0.37
<i>Total or Median</i>					2,220					
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE		15.67	1.98	3,530	48	52	2.52	16.1	1.06
Encore Energy Partners, L.P. (ENP		14.40	1.26	190	34	66	2.00	13.9	0.87
Dorchester Minerals, L.P.	DMLP		17.64	1.00	500	51	49	1.48	8.4	0.55
<i>Total or Median</i>					4,220					
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					29,800	43	57			0.60
<i>Equal Weighting</i>						54	46			0.61
<i>Equal Weighted Buys</i>						69	31			0.45
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)			Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		16-Apr 2009	Shares (mm)	Market Cap (\$mm)	(\$/un)	Value	
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE	H	11.09	410.0	4,550	25.00	0.26	0.59
Canadian Oil Sands Trust	COSWF	B	22.68	482.0	10,930	42.00	0.05	0.56
Pengrowth Energy Trust	PGH		6.21	255.5	1,590	16.00	0.28	0.56
Enerplus Resources Fund	ERF		19.05	165.3	3,150	44.00	0.10	0.49
<i>Total or Median</i>					20,200		0.18	0.56
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	27.55	52.6	1,450	44.00	0.33	0.75
Berry Petroleum Company	BRY	H	15.21	45.2	690	40.00	0.38	0.62
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.44	122.0	660	10.00	0.15	0.61
Cimarex Energy Company	XEC	B	24.53	83.2	2,040	55.00	0.16	0.53
<i>Total or Median</i>					4,840		0.24	0.61
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		19.80	6.0	120	32.00	-	0.62
Sabine Royalty Trust	SBR		36.45	14.6	530	60.00	-	0.61
San Juan Basin Royalty Trust	SJT	H	14.64	46.6	680	26.00	-	0.56
Permian Basin RT	PBT		9.27	46.6	430	19.00	-	0.49
Mesa RoyaltyTrust	MTR		28.00	1.9	50	67.00	-	0.42
Hugoton RoyaltyTrust	HGT	B	10.28	40.0	410	28.00	-	0.37
<i>Total or Median</i>					2,220			0.53
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.67	114.0	1,790	14.00	0.52	1.06
Encore Energy Partners, L.P. (32%)	ENP		14.40	10.6	150	17.00	0.18	0.87
Dorchester Minerals, L.P.	DMLP		17.64	28.2	500	32.00	-	0.55
<i>Total or Median</i>					2,440		0.18	0.87
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		16-Apr 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	22.68		0.22	23.2	19.0	10.7
Pengrowth Energy Trust	PGH		6.21		0.87	7.8	14.3	8.1
Penn West Energy Trust	PWE	H	11.09		0.65	8.2	11.1	6.5
Enerplus Resources Fund	ERF		19.05		0.49	8.9	12.3	6.0
	<i>Median</i>					8.5	13.3	7.3
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.44		-	9.5	20.7	12.6
Berry Petroleum Company	BRY	H	15.21		-	11.8	14.2	8.7
Encore Acquisition Company	EAC	H	27.55		-	12.0	11.6	8.7
Cimarex Energy Company	XEC	B	24.53		-	7.3	9.5	5.1
	<i>Median</i>					10.7	12.9	8.7
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		36.45	100	1.00	9.7	24.7	15.0
San Juan Basin Royalty Trust	SJT	H	14.64		0.70	9.1	22.2	12.5
Cross Timbers Royalty Trust	CRT		19.80	84	0.92	12.1	17.8	11.1
Permian Basin RT	PBT		9.27	32	0.84	10.4	21.0	10.2
Mesa RoyaltyTrust	MTR		28.00		0.87	13.5	19.7	8.2
Hugoton RoyaltyTrust	HGT	B	10.28		0.54	11.9	20.2	7.4
	<i>Median</i>					11.2	20.6	10.6
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.67		4.46	17.7	24.8	26.2
Encore Energy Partners, L.P.	ENP		14.40		1.62	10.9	13.8	12.1
Dorchester Minerals, L.P.	DMLP		17.64	64	0.94	7.9	20.4	11.2
	<i>Median</i>					10.9	20.4	12.1
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 17, 2009

Prices Intraday April 16

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