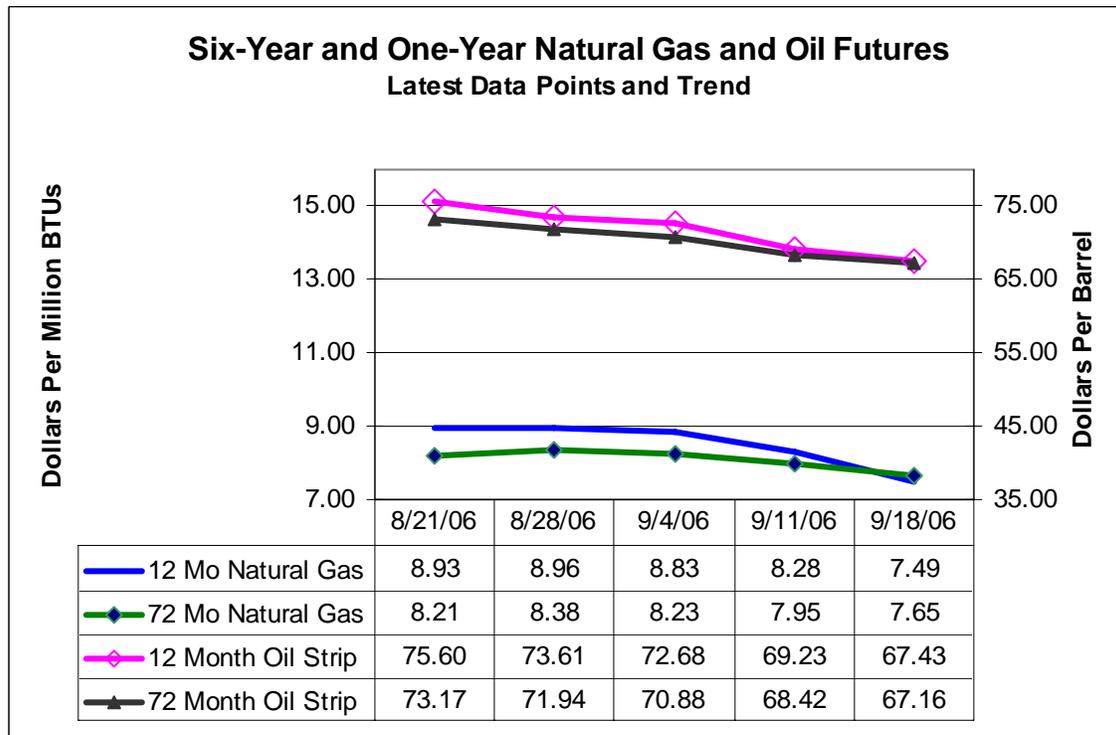


Oil Price Breaks Trend

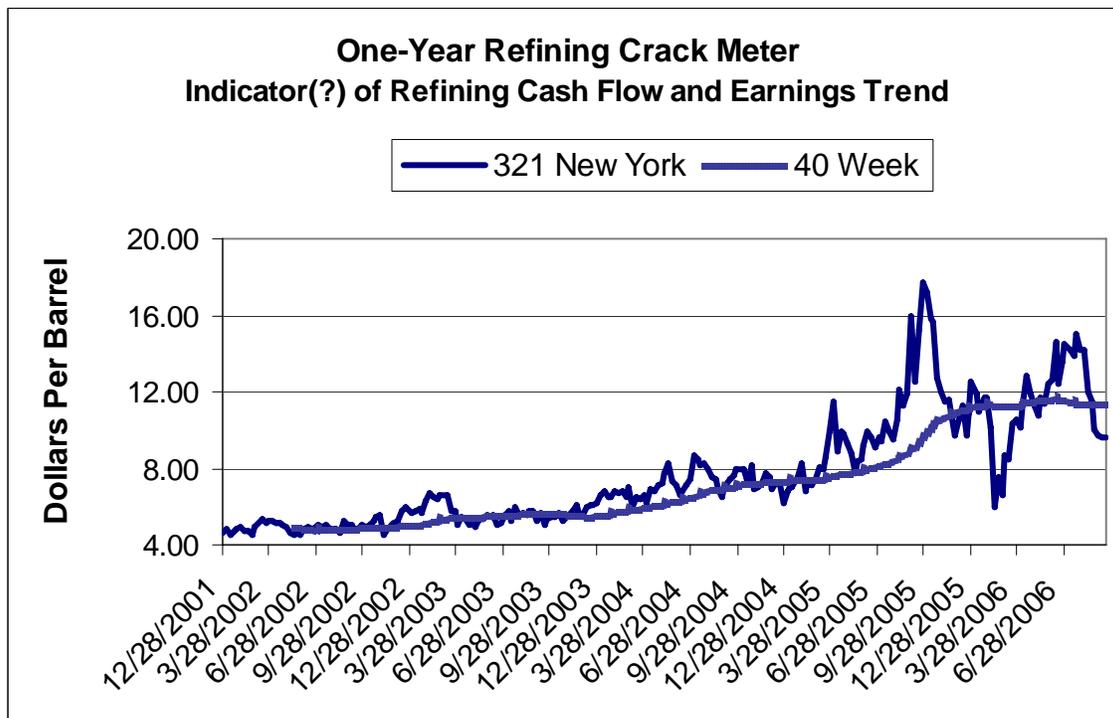
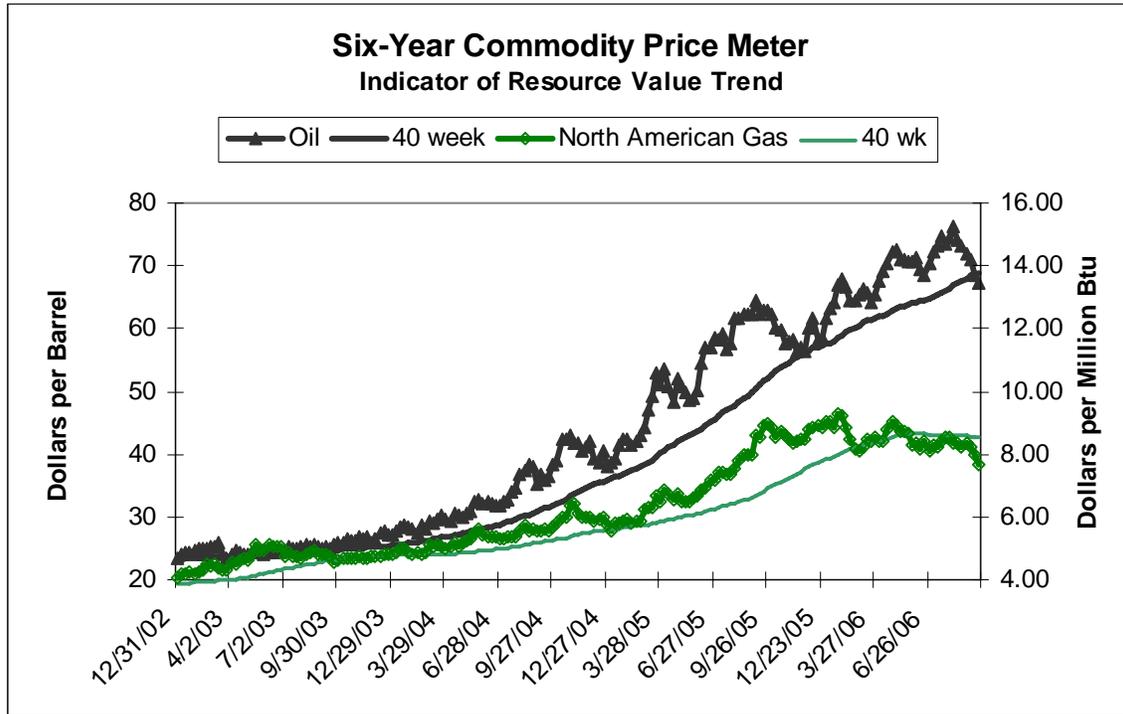
Summary and Recommendation

We change one of our 28 Buy recommendations to Hold to recognize that the price of crude oil to be delivered over the next six-years at \$67 a barrel is below its 40-week average of \$69. At least for now by that measure, oil price is no longer in the uptrend it had been for more than the past three years. Buyers of oil recommendations may have to be patient in expecting immediate appreciation. Our fundamental outlook as expressed by estimated present value remains unchanged as it is tied to a long-term oil price of \$60 a barrel, a level exceeded by current price. Though our vision of \$150 a barrel in 2010 continues to characterize the upside potential, investors may give that potential more weight when current oil price momentum is positive. Meanwhile Hold-rated **Imperial Oil (IMO)** offers solid fundamental value at a McDep Ratio of 0.92. After the change in rating for IMO, concentrated 71% on oil, the composite representation in our illustrative portfolio is little changed at 48% oil, 42% natural gas and 10% downstream (see page 5).

Kurt H. Wulff, CFA



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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (US\$/sh) 18-Sep 2006	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	66.30	6,030	400,000	78.00	0.04	0.86
BP plc	BP	B	65.54	3,362	220,000	80.00	0.16	0.85
Total S.A.	TOT	B	64.12	2,323	149,000	80.00	0.13	0.83
Royal Dutch Shell plc	RDS-A	B	65.87	3,242	214,000	84.00	0.10	0.81
Gazprom (50%)	OGZPY	B	44.05	2,845	125,300	56.00	0.06	0.80
Chevron Corporation	CVX	B	62.90	2,206	139,000	88.00	0.10	0.74
ConocoPhillips	COP	B	59.08	1,678	99,000	100.00	0.21	0.68
<i>Total or Median</i>					<i>1,346,000</i>		<i>0.10</i>	<i>0.81</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	104.45	135	14,100	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	H	34.35	295	10,140	37.00	0.08	0.93
Petro-Canada	PCZ	B	40.71	512	20,840	49.00	0.18	0.86
Norsk Hydro ASA	NHY	B	24.00	1,247	29,930	31.00	0.14	0.81
Marathon Oil Corporation	MRO	B	75.53	367	27,720	98.00	0.14	0.80
PetroChina Company Ltd (10%)	PTR	B	108.63	179	19,440	140.00	0.04	0.78
Suncor Energy	SU	B	70.41	461	32,470	95.00	0.06	0.76
Lukoil Oil Company	LUKOY	B	79.60	830	66,000	110.00	0.01	0.73
<i>Total or Median</i>					<i>221,000</i>		<i>0.11</i>	<i>0.80</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	83.31	119	9,940	98.00	-	0.85
XTO Energy Inc.	XTO	B	41.86	369	15,450	52.00	0.18	0.84
Encana Corporation	ECA	B	47.27	845	39,900	60.00	0.13	0.82
Anadarko Petroleum Corp.	APC	B	44.36	463	20,500	77.00	0.46	0.77
EOG Resources	EOG	B	62.63	246	15,400	92.00	0.07	0.70
Occidental Petroleum Corp.	OXY	B	45.82	868	39,800	69.00	0.08	0.69
Devon Energy Corporation	DVN	B	66.84	446	29,800	115.00	0.13	0.64
<i>Total or Median</i>					<i>171,000</i>		<i>0.13</i>	<i>0.77</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	24.38	75	1,830	31.00	0.44	0.88
Berry Petroleum Company	BRY	B	28.45	45	1,280	39.00	0.19	0.78
Cimarex Energy Company	XEC	B	35.54	85	3,020	68.00	0.09	0.57
Encore Acquisition Company	EAC	B	24.75	54	1,320	54.00	0.19	0.56
<i>Total or Median</i>					<i>7,500</i>		<i>0.19</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.40	165	7,320	15.00	0.56	1.87
Kinder Morgan Management, LLC	KMR	S3	42.00	60	2,500	15.00	0.56	1.80
Enerplus Resources Fund	ERF		50.44	123	6,200	47.00	0.11	1.06
Pengrowth Energy Trust	PGH		21.13	161	3,410	20.00	0.17	1.05
Penn West Energy Trust	PWE	B	38.12	246	9,380	39.00	0.13	0.98
San Juan Basin Royalty Trust	SJT	B	34.43	47	1,600	40.00	-	0.86
Canadian Oil Sands Trust	COSWF	B	28.31	466	13,190	35.00	0.09	0.83
<i>Total or Median</i>					<i>43,600</i>		<i>0.13</i>	<i>1.05</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position, H = Hold

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (US\$/sh) 18-Sep 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	44.05	20.0	9.1	7.2	13	0.5
BP plc	BP	B	65.54	9.3	7.0	5.9	10	3.6
Exxon Mobil Corporation	XOM	B	66.30	11.4	6.6	5.6	10	1.9
Total S.A.	TOT	B	64.12	9.8	6.5	5.4	9	3.2
Royal Dutch Shell plc	RDS-A	B	65.87	7.4	5.7	4.6	8	3.9
Chevron Corporation	CVX	B	62.90	10.9	6.0	4.5	8	3.3
ConocoPhillips	COP	B	59.08	10.9	5.8	3.9	6	2.4
	<i>Median</i>			10.9	6.5	5.4	9	3.2
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	104.45		8.8	13.5	22	3.4
Suncor Energy	SU	B	70.41	18.8	10.2	7.7	14	0.3
Imperial Oil Limited (30%)	IMO	H	34.35	9.6	7.8	7.3	12	0.8
Petro-Canada	PCZ	B	40.71	6.8	6.8	5.9	11	0.9
Lukoil Oil Company	LUKOY	B	79.60	18.9	7.2	5.2	8	1.5
PetroChina Company Ltd (10%)	PTR	B	108.63	14.7	6.3	5.0	10	4.4
Norsk Hydro ASA	NHY	B	24.00	7.9	5.6	4.5	9	2.8
Marathon Oil Corporation	MRO	B	75.53	8.6	4.7	3.8	6	1.7
	<i>Median</i>			9.6	7.0	5.6	10	1.6
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	41.86	11.6	8.6	7.2	13	0.5
EOG Resources	EOG	B	62.63	9.7	9.1	6.4	15	0.4
Anadarko Petroleum Corp.	APC	B	44.36	11.2	7.9	6.1	9	1.6
Encana Corporation	ECA	B	47.27	8.7	7.0	5.7	13	0.8
Occidental Petroleum Corp.	OXY	B	45.82	10.6	7.1	4.9	9	1.9
Devon Energy Corporation	DVN	B	66.84	8.7	7.7	4.9	9	0.7
CNOOC Limited (29%)	CEO	B	83.31	10.6	5.3	4.5	8	3.4
	<i>Median</i>			10.6	7.7	5.7	9	0.8
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	28.45	9.9	7.2	5.6	14	1.1
Energy Partners Ltd.	EPL	B	24.38	6.2	5.7	5.0	122	-
Encore Acquisition Company	EAC	B	24.75	14.9	8.2	4.6	10	-
Cimarex Energy Company	XEC	B	35.54	7.8	7.2	4.1	9	0.5
	<i>Median</i>			8.9	7.2	4.8	12	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.40		7.9	14.7	24	7.3
Kinder Morgan Management, LLC	KMR	S3	42.00		7.9	14.2	23	7.7
San Juan Basin Royalty Trust	SJT	B	34.43	14.6	12.4	10.6	13	7.5
Canadian Oil Sands Trust	COSWF	B	28.31	24.4	11.8	9.7	13	6.6
Enerplus Resources Fund	ERF		50.44	9.4	7.6	8.1	17	8.9
Penn West Energy Trust	PWE	B	38.12	8.0	8.1	8.0	14	9.5
Pengrowth Energy Trust	PGH		21.13	7.9	6.9	7.2	11	12.7
	<i>Median</i>			9.4	7.9	9.7	14	7.7

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Oil and Gas Producers
Portfolio Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 18-Sep 2006	Portfolio Weight		Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
Mega Cap										
Exxon Mobil Corporation	XOM	66.30	3.3	2.9		0.2	0.7	1.2	0.9	0.86
BP plc	BP	65.54	2.8	2.9	2.9	0.2	0.3	1.4	1.0	0.85
Total S.A.	TOT	64.12	2.9	2.9	2.9		0.9	1.2	0.8	0.83
Royal Dutch Shell plc	RDS-A	65.87	3.0	2.9	2.9	0.1	0.5	1.1	1.2	0.81
Gazprom	OGZPY	44.05	9.6	8.8	8.8		8.8			0.80
Chevron Corporation	CVX	62.90	6.0	5.9		0.4	0.6	3.3	1.6	0.74
ConocoPhillips	COP	59.08	4.8	5.9		0.9	0.5	2.9	1.5	0.68
Producer/Refiners - Large Cap and Mid Cap										
Petro-Canada	PCZ	40.71	1.4	1.5	1.5	0.2	0.0	1.0	0.2	0.86
Norsk Hydro ASA	NHY	24.00	1.4	1.5	1.5		0.4	0.6	0.5	0.81
Marathon Oil Corporation	MRO	75.53	1.4	1.5		0.2	0.1	0.5	0.6	0.80
PetroChina Company Ltd.	PTR	108.63	3.3	2.9	2.9		0.2	2.5	0.2	0.78
Suncor Energy	SU	70.41	1.6	1.5	1.5	0.0		1.3	0.1	0.76
Lukoil Oil Company	LUKOY	79.60	6.8	5.9	5.9			4.4	1.5	0.73
Independent Natural Gas and Oil - Large Cap and Mid Cap										
CNOOC Limited	CEO	83.31	3.5	2.9	2.9		0.3	2.6		0.85
XTO Energy Inc.	XTO	41.86	2.7	2.9		2.2		0.7		0.84
Encana Corporation	ECA	47.27	2.9	2.9	2.9	2.2		0.7		0.82
Anadarko Petroleum Corp.	APC	44.36	1.4	2.9		1.7		1.2		0.77
EOG Resources	EOG	62.63	6.2	5.9		4.6	0.4	0.9		0.70
Occidental Petroleum Corp	OXY	45.82	3.0	2.9		0.4	0.0	2.2	0.3	0.69
Devon Energy Corporation	DVN	66.84	5.5	5.9		3.2		2.7		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	24.38	0.9	1.5		0.8		0.6		0.88
Berry Petroleum Company	BRY	28.45	1.3	1.5		0.2		1.3		0.78
Cimarex Energy Company	XEC	35.54	2.9	2.9		2.0		1.0		0.57
Encore Acquisition Compæ	EAC	24.75	2.3	2.9		0.7		2.2		0.56
Income										
Penn West Energy Trust	PWE	38.12	6.0	5.9	5.9	1.8		4.1		0.98
San Juan Basin Royalty Tr	SJT	34.43	6.9	5.9		5.9				0.86
Canadian Oil Sands Trust	COSWF	28.31	6.2	5.9	5.9			5.9		0.83
Portfolio Composite			100	100	49	28	14	48	10	0.76

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
19-Sep	IMO	Imperial Oil Limited	Change to Hold on Oil Price Momentum
15-Sep	PTR	PetroChina Company Limited	Future Natural Gas and Downstream Profits
15-Sep	SJT	San Juan Basin Royalty Trust	Sub \$5 Natural Gas and SJT
7-Sep	EPL	Energy Partners, Ltd.	Woodside Offers \$23 a Share
6-Sep	DVN	Devon Energy Corporation	Raise NPV to \$115 a Share
29-Aug	CEO	CNOOC Ltd	Volume Growth and Commodity Price
23-Aug	PTR	PetroChina Company Limited	Profits despite Government Limits
15-Aug	* PWTF	Penn West Energy Trust	Marketable High Current Income
10-Aug	* BRY	Berry Petroleum	Oil Rich
10-Aug	* EPL	Energy Partners, Ltd.	Gulf of Mexico and Natural Gas
7-Aug	* OXY	Occidental Petroleum Corporation	Positive Profit and Volume Trends
4-Aug	* EAC	Encore Acquisition Company	Abundant Appreciation Potential
4-Aug	* SU	Suncor Energy Inc.	Trading Oil Sands Leadership
4-Aug	* TOT	Total S.A.	Positioned to Profit
3-Aug	* XEC	Cimarex Energy Company	Volume Slippage
3-Aug	* DVN	Devon Energy Corporation	Best Value Large Cap Producer
2-Aug	* MRO	Marathon Oil Corporation	Raise NPV to \$98 a Share
2-Aug	* EOG	EOG Resources Inc.	Add Natural Gas to Your Portfolio
28-Jul	* CVX	Chevron Corporation	Lagging a Little Lately
28-Jul	* APC	Anadarko Petroleum Corporation	Favorable Volume Trend
28-Jul	* XOM	Exxon Mobil Corporation	Volume and Cash Advancing
28-Jul	* PCZ	Petro-Canada	Temporary Difficulties
28-Jul	* RDSA	Royal Dutch Shell plc	Share Buyback Enhances Return
26-Jul	* COP	ConocoPhillips	Raise NPV to \$100 a Share
26-Jul	* BP	BP p.l.c.	Cash Flow per Barrel Lags
26-Jul	* COSWF	Canadian Oil Sands Trust	0.7% Opportunity Loss
26-Jul	* XTO	XTO Energy Inc.	Growth Standout
25-Jul	* ECA	EnCana Corporation	Raise NPV to \$60 a Share
25-Jul	* NHY	Norsk Hydro ASA	Commodity Price Beneficiary
20-Jul	* KMx	Kinder Morgan	Focus Sharpens on Limited Partners
10-Jul	* OGZPY	Gazprom	Number One in Global Energy
30-Jun	* LUKOY	Lukoil Oil Company	Russia Stronger than Ever

Meter Reader - A Weekly Analysis

19-Sep		Oil Price Breaks Trend
12-Sep	*	A Dip to Buy
5-Sep	*	A 1978 Pause
15-Aug	*	Unchanged Thesis

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

15-Sep		Sub \$5 Natural Gas and SJT
8-Sep		HGT Boosts Reinvestment
18-Aug	*	Widely-Held PBT
11-Aug	*	Oily Gassy

Industry Ideas

27-Jun	*	Presentation Slides	Oil and Gas Investment to 2010
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* Archived on www.mcdep.com

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