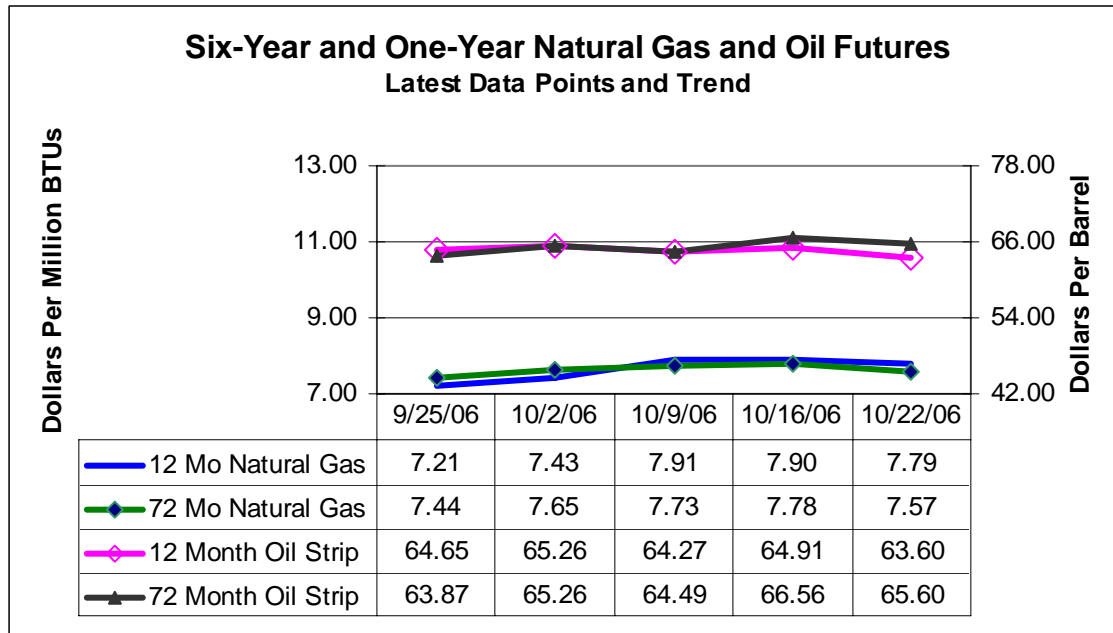


Shell Canada at 0.99 McDep Ratio on Buyout Bid

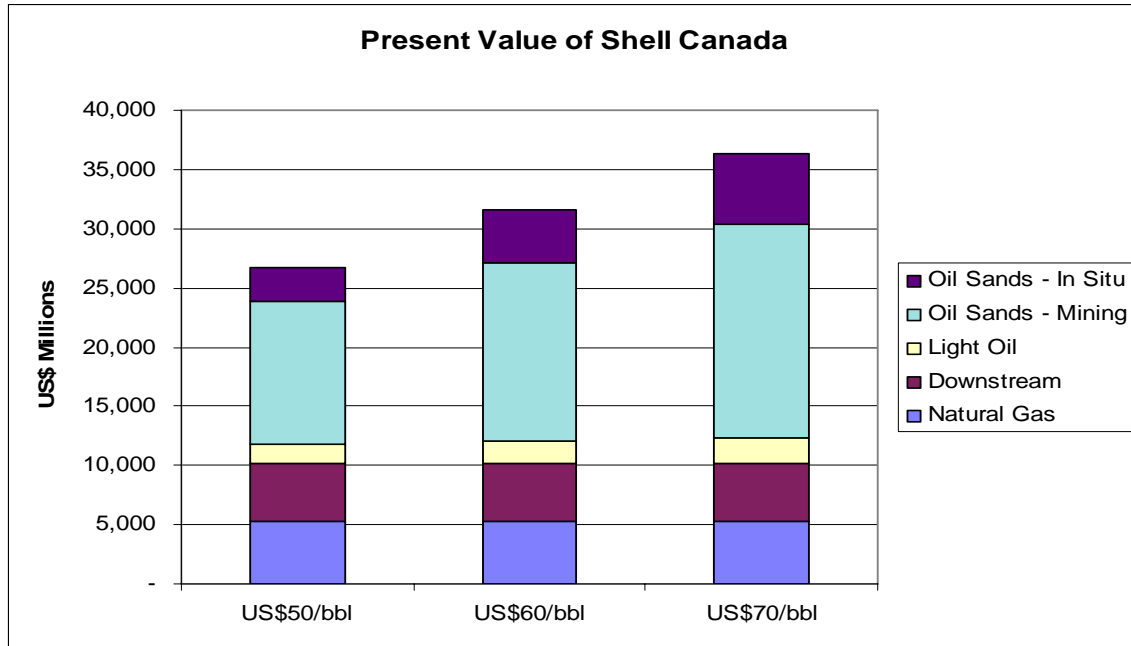
Summary and Recommendation

Buy-recommended **Royal Dutch Shell (RDS)**'s bid for the 22% publicly-traded interest in Shell Canada (SHC.TO), announced on October 23, implies higher stock price for related oil sands buy-recommendations **Canadian Oil Sands Trust (COSWF)**, **Encana (ECA)**, **Suncor (SU)** and **Petro-Canada (PCZ)**. SHC closing price of C\$42.55 on the day of the RDS bid at C\$40 a share translates to a McDep Ratio of 0.99 compared to McDep Ratios at today's market price of 0.77, 0.76, 0.80 and 0.86 respectively for COSWF, ECA, SU and PCZ. Hold-rated **Imperial Oil (IMO)** at a McDep Ratio of 0.93 is a natural target for 70% owner buy-rated **ExxonMobil (XOM)**. Characterizing the strategic appeal, Chief Executive Jeroen van der Veer declares Canadian oil sands the top growth asset in Royal Dutch Shell's portfolio. Our analysis of SHC done a few months ago on a custom basis for a single client illustrates how oil sands value relates to long-term oil price (see chart and table on page 2, Present Value of Shell Canada). A buyout at C\$43 for SHC implies a long-term oil price of about US\$60 a barrel for light, sweet crude compared to the futures quote for the next six-years of \$66. The inescapable conclusion to us is that Canadian oil sands are cheap in the stock market.

Kurt H. Wulff, CFA



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**Shell Canada Limited
 Present Value**

	<i>US\$50/bbl</i> <i>(US\$mm)</i>	<i>US\$60/bbl</i> <i>(US\$mm)</i>	<i>US\$70/bbl</i> <i>(US\$mm)</i>
North American Natural Gas	5,300	5,300	5,300
Light Oil	1,600	1,900	2,200
Oil Sands - <i>In Situ</i>	2,900	4,500	6,000
Oil Sands - Mining	12,000	15,000	18,000
Downstream	4,900	4,900	4,900
	26,700	31,600	36,400
Debt (US\$mm)	-	-	-
Net Present Value (US\$mm)	26,700	31,600	36,400
Shares (mm)	835	835	835
Net Present Value (US\$/share)	32	38	44
Net Present Value (C\$/share)	36	43	49

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

	Symbol/ Rating		Price (US\$/sh) 23-Oct 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	69.92	6,030	422,000	78.00	0.04	0.90
BP plc	BP	B	67.86	3,362	228,000	80.00	0.16	0.87
Total S.A.	TOT	B	67.83	2,323	158,000	80.00	0.13	0.87
Royal Dutch Shell plc	RDS-A	B	66.29	3,242	215,000	84.00	0.10	0.81
Gazprom (50%)	OGZPY	B	44.25	2,847	126,000	56.00	0.05	0.80
Chevron Corporation	CVX	B	65.64	2,206	145,000	88.00	0.10	0.77
ConocoPhillips	COP	B	60.71	1,678	102,000	100.00	0.21	0.69
<i>Total or Median</i>					<i>1,396,000</i>		<i>0.10</i>	<i>0.81</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	106.00	135	14,310	33.00	0.75	1.55
Imperial Oil Limited (30%)	IMO	H	34.05	295	10,050	37.00	0.07	0.93
Marathon Oil Corporation	MRO	B	87.24	367	32,020	98.00	0.14	0.91
Petro-Canada	PCZ	B	40.87	512	20,930	49.00	0.18	0.86
Suncor Energy	SU	B	74.96	461	34,560	95.00	0.06	0.80
PetroChina Company Ltd (10%)	PTR	B	109.69	179	19,630	140.00	0.04	0.79
Norsk Hydro ASA	NHY	B	22.64	1,247	28,230	31.00	0.14	0.77
Lukoil Oil Company	LUKOY	B	80.75	830	67,000	110.00	0.02	0.74
<i>Total or Median</i>					<i>227,000</i>		<i>0.11</i>	<i>0.83</i>
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	44.27	369	16,340	52.00	0.18	0.88
CNOOC Limited (34%)	CEO	B	83.21	140	11,630	98.00	-	0.85
Anadarko Petroleum Corp.	APC	B	46.07	463	21,300	75.00	0.43	0.78
Encana Corporation	ECA	B	47.32	845	40,000	65.00	0.12	0.76
EOG Resources	EOG	B	66.11	246	16,300	92.00	0.07	0.74
Occidental Petroleum Corp.	OXY	B	46.39	860	39,900	69.00	0.09	0.70
Devon Energy Corporation	DVN	B	66.52	446	29,700	115.00	0.13	0.64
<i>Total or Median</i>					<i>175,000</i>		<i>0.12</i>	<i>0.76</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	25.20	41	1,020	31.00	0.23	0.85
Berry Petroleum Company	BRY	B	29.56	45	1,330	39.00	0.19	0.80
Cimarex Energy Company	XEC	B	35.68	85	3,030	68.00	0.09	0.57
Encore Acquisition Company	EAC	B	24.44	54	1,310	54.00	0.19	0.55
<i>Total or Median</i>					<i>6,700</i>		<i>0.19</i>	<i>0.69</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.73	168	7,670	15.00	0.54	1.94
Kinder Morgan Management, LLC	KMR	S3	42.80	61	2,590	15.00	0.54	1.85
Enerplus Resources Fund	ERF		52.89	123	6,510	47.00	0.11	1.11
Pengrowth Energy Trust	PGH		19.44	220	4,280	20.00	0.22	0.98
Penn West Energy Trust	PWE	B	36.93	246	9,080	39.00	0.13	0.95
San Juan Basin Royalty Trust	SJT	B	37.66	47	1,760	40.00	-	0.94
Canadian Oil Sands Trust	COSWF	B	26.36	466	12,290	35.00	0.09	0.77
<i>Total or Median</i>					<i>44,200</i>		<i>0.13</i>	<i>0.98</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) 23-Oct 2006	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	44.25	24.0	9.0	7.2	11	0.5
BP plc	BP	B	67.86	9.3	7.3	6.4	10	3.5
Exxon Mobil Corporation	XOM	B	69.92	11.4	6.8	6.1	11	1.8
Total S.A.	TOT	B	67.83	9.8	6.8	5.9	10	3.0
Chevron Corporation	CVX	B	65.64	10.9	6.3	4.9	9	3.2
Royal Dutch Shell plc	RDS-A	B	66.29	7.4	5.9	4.8	9	3.8
ConocoPhillips	COP	B	60.71	11.3	6.3	4.3	7	2.4
	<i>Median</i>			10.9	6.8	5.9	10	3.0
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	106.00		8.8	13.6	22	3.3
Suncor Energy	SU	B	74.96	18.8	11.1	8.9	17	0.3
Imperial Oil Limited (30%)	IMO	H	34.05	10.6	8.3	7.7	13	0.8
Petro-Canada	PCZ	B	40.87	6.8	7.2	6.3	12	0.9
Lukoil Oil Company	LUKOY	B	80.75	18.7	7.7	5.7	10	1.5
PetroChina Company Ltd (10%)	PTR	B	109.69	15.1	6.4	5.1	10	4.4
Norsk Hydro ASA	NHY	B	22.64	7.9	5.8	4.5	9	2.9
Marathon Oil Corporation	MRO	B	87.24	8.6	4.8	4.4	7	1.5
	<i>Median</i>			10.6	7.5	6.0	11	1.5
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	44.27	11.6	8.8	7.7	14	0.5
Anadarko Petroleum Corp.	APC	B	46.07	11.5	9.0	7.0	13	1.6
EOG Resources	EOG	B	66.11	9.7	9.2	6.8	16	0.4
Encana Corporation	ECA	B	47.32	8.7	7.6	5.8	13	0.8
Occidental Petroleum Corp.	OXY	B	46.39	11.0	7.5	5.3	10	-
Devon Energy Corporation	DVN	B	66.52	8.7	7.9	5.0	10	0.7
CNOOC Limited (34%)	CEO	B	83.21	10.6	5.7	4.8	9	3.4
	<i>Median</i>			10.6	7.9	5.8	13	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	29.56	9.9	7.7	6.2	15	1.0
Encore Acquisition Company	EAC	B	24.44	15.5	9.1	5.1	12	-
Energy Partners Ltd.	EPL	B	25.20	5.0	4.9	4.2	-	-
Cimarex Energy Company	XEC	B	35.68	7.8	7.4	4.2	10	0.4
	<i>Median</i>			8.9	7.6	4.6	12	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.73		7.8	15.1	31	7.1
Kinder Morgan Management, LLC	KMR	S3	42.80		7.8	14.4	29	7.6
San Juan Basin Royalty Trust	SJT	B	37.66	9.3	11.1	10.5	13	7.7
Canadian Oil Sands Trust	COSWF	B	26.36	24.4	13.1	10.1	14	7.1
Enerplus Resources Fund	ERF		52.89	9.4	8.0	8.9	20	8.5
Penn West Energy Trust	PWE	B	36.93	8.0	8.6	8.2	15	9.8
Pengrowth Energy Trust	PGH		19.44	7.4	7.3	7.2	10	13.7
	<i>Median</i>			9.3	8.0	10.1	15	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) 23-Oct 2006	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
Mega Cap										
Exxon Mobil Corporation	XOM	69.92	3.2	2.9		0.2	0.6	1.1	0.8	0.90
BP plc	BP	67.86	1.4	1.4	1.4	0.1	0.2	0.7	0.5	0.87
Total S.A.	TOT	67.83	2.8	2.9	2.9		0.9	1.2	0.8	0.87
Royal Dutch Shell plc	RDS-A	66.29	2.9	2.9	2.9	0.1	0.5	1.1	1.1	0.81
Gazprom	OGZPY	44.25	9.4	8.6	8.6		8.6	1.1		0.80
Chevron Corporation	CVX	65.64	5.8	5.7		0.4	0.6	3.3	1.5	0.77
ConocoPhillips	COP	60.71	4.6	5.7		0.9	0.5	3.0	1.3	0.69
Producer/Refiners - Large Cap										
Marathon Oil Corporation	MRO	87.24	1.4	1.4		0.2	0.1	0.5	0.6	0.91
Petro-Canada	PCZ	40.87	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.86
Suncor Energy	SU	74.96	1.5	1.4	1.4	0.0		1.3	0.1	0.80
PetroChina Company Ltd.	PTR	109.69	3.2	2.9	2.9		0.2	2.4	0.2	0.79
Norsk Hydro ASA	NHY	22.64	2.7	2.9	2.9		0.7	1.1	1.1	0.77
Lukoil Oil Company	LUKOY	80.75	6.5	5.7	5.7			4.3	1.4	0.74
Independent Natural Gas and Oil - Large Cap										
XTO Energy Inc.	XTO	44.27	2.7	2.9		2.2		0.7		0.88
CNOOC Limited	CEO	83.21	3.3	2.9	2.9		0.3	2.6		0.85
Anadarko Petroleum Corp.	APC	46.07	1.5	2.9		1.6		1.2		0.78
Encana Corporation	ECA	47.32	5.6	5.7	5.7	4.0		1.3	0.4	0.76
EOG Resources	EOG	66.11	6.0	5.7		4.4	0.4	0.9		0.74
Occidental Petroleum Corp	OXY	46.39	2.9	2.9		0.4	0.0	2.1	0.3	0.70
Devon Energy Corporation	DVN	66.52	5.3	5.7		3.1		2.6		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	25.20	1.2	1.4		0.8		0.6		0.85
Berry Petroleum Company	BRY	29.56	1.3	1.4		0.2		1.2		0.80
Cimarex Energy Company	XEC	35.68	2.8	2.9		1.9		0.9		0.57
Encore Acquisition Compæ	EAC	24.44	2.2	2.9		0.7		2.1		0.55
Income										
Penn West Energy Trust	PWE	36.93	5.8	5.7	5.7	1.7		4.0		0.95
San Juan Basin Royalty Tr	SJT	37.66	6.7	5.7		5.7				0.94
Canadian Oil Sands Trust	COSWF	26.36	5.9	5.7	5.7			5.7		0.77
Portfolio Composite			100	100	50	29	14	48	11	0.77

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Oct	LUKOY	Lukoil Oil Company	Presents to Investors in New York
19-Oct	KMX	Kinder Morgan	Dilution Ahead
19-Oct	OXY	Occidental Petroleum Corporation	Stock Cheaper than Oil
16-Oct	EPL	Energy Partners, Ltd.	Live Acquisition Target
6-Oct	ECA	EnCana Corporation	Raise NPV to \$65 a Share
6-Oct	COP	ConocoPhillips	Oil Sands Link with Encana
5-Oct	OGZPY	Gazprom	Russian Natural Gas Price Too Low
5-Oct	APC	Anadarko Petroleum Corporation	Financial Risk Declines
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
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
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	* 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	* 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	* NHY	Norsk Hydro ASA	Commodity Price Beneficiary

Meter Reader - A Weekly Analysis

24-Oct		Shell Canada Bid at 0.94 McDep Ratio
17-Oct	*	Own More Norsk Hydro, Less BP
10-Oct	*	Russian Resource Recommendations
3-Oct	*	Value Buoyed by Calendar and Chart

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

20-Oct		Momentum Returning
13-Oct		Pengrowth Indicates Highest Rate of Distribution
6-Oct	*	Basic Reasons
29-Sep	*	Mesa Royalty Trust Liquidity Opportunity

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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