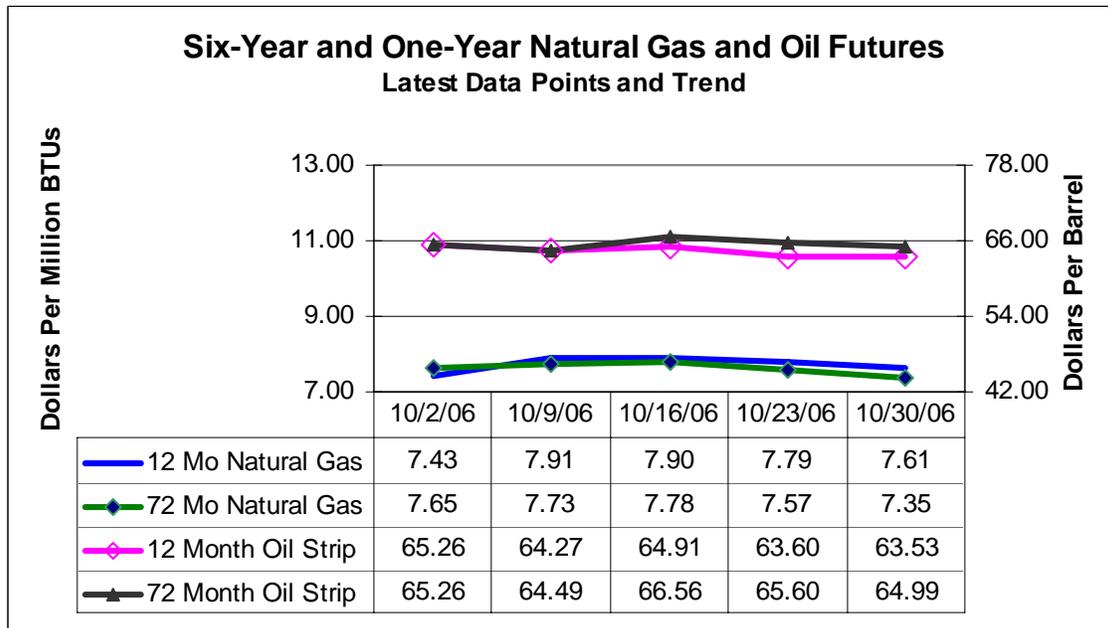


Small Cap Upside

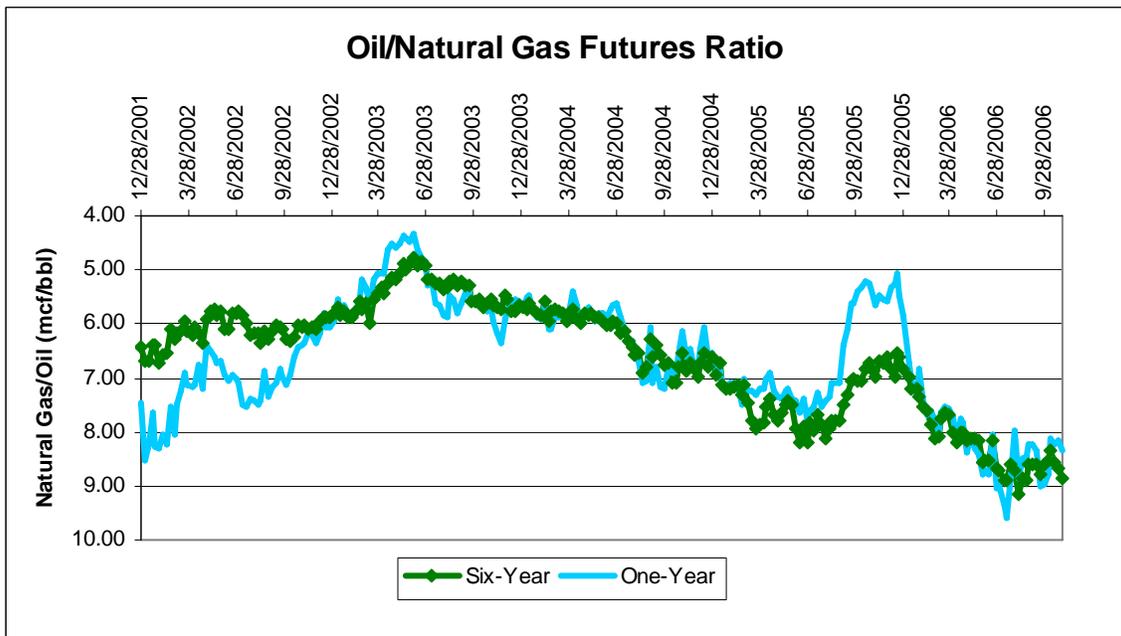
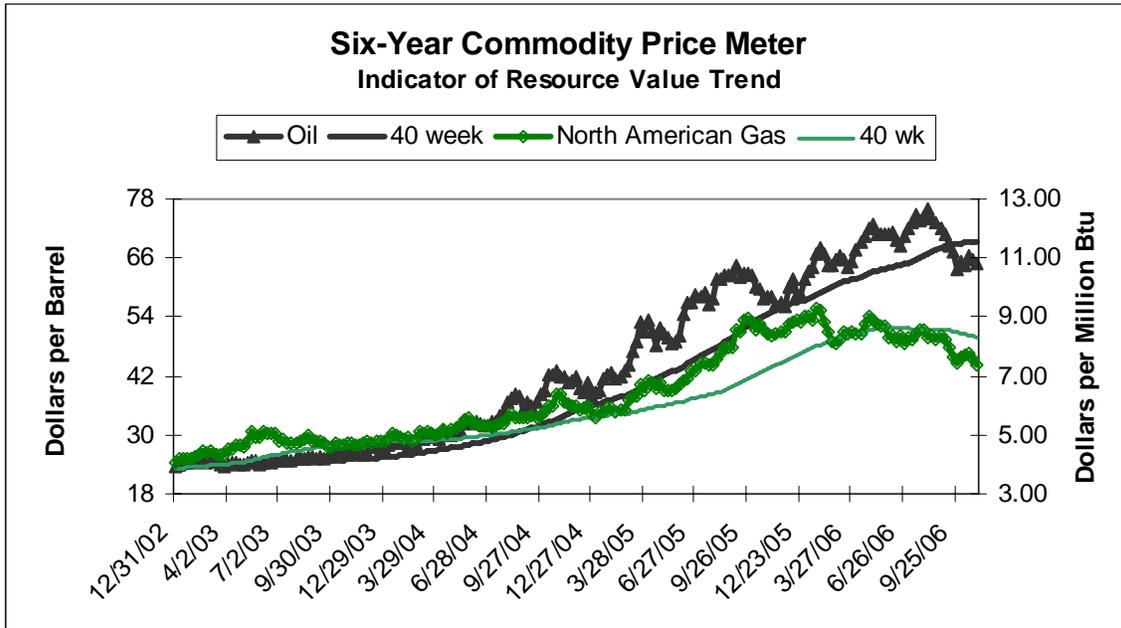
Summary and Recommendation

Buy-recommended small cap producers **Encore Acquisition (EAC)**, **Cimarex (XEC)** and **Berry Petroleum (BRY)** are among our best U.S. ideas for appreciation considering the commodity outlook, equity valuation and a catalyst to spur new interest. The quote for six-year oil remains above the long-term expectation of \$60 a barrel in our current valuation analysis. After declining in price since last winter, natural gas has been advancing relative to oil since the summer and now the new winter season is about to begin. McDep Ratios at 0.56 for EAC and 0.57 for XEC, the lowest in our coverage, imply that those stocks are priced for the unlikely case that oil would be less than \$40 a barrel. A possible catalyst for investors may be developing as buy-recommended peer, **Energy Partners (EPL)**, trades at a McDep Ratio of 0.85 in anticipation of an improved takeover offer perhaps up to a McDep Ratio of 1.0. Greater price volatility in the small producer stocks that has meant more downside looking back may mean more upside looking ahead for patient, contrarian investors.

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) 30-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	70.84	5,922	420,000	78.00	0.04	0.91
BP plc	BP	B	67.08	3,303	222,000	80.00	0.16	0.86
Total S.A.	TOT	B	67.43	2,323	157,000	80.00	0.13	0.86
Royal Dutch Shell plc	RDS-A	B	69.05	3,200	221,000	84.00	0.13	0.84
Gazprom (50%)	OGZPY	B	42.50	2,847	121,000	56.00	0.05	0.77
Chevron Corporation	CVX	B	66.39	2,206	147,000	92.00	0.10	0.75
ConocoPhillips	COP	B	59.80	1,676	100,000	100.00	0.21	0.68
<i>Total or Median</i>					<i>1,388,000</i>		<i>0.13</i>	<i>0.84</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	105.10	135	14,190	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	H	35.50	295	10,480	37.00	0.07	0.96
Marathon Oil Corporation	MRO	B	85.29	367	31,300	98.00	0.14	0.89
Petro-Canada	PCZ	B	41.95	506	21,230	49.00	0.18	0.88
Suncor Energy	SU	B	75.04	461	34,600	95.00	0.06	0.80
PetroChina Company Ltd (10%)	PTR	B	109.44	179	19,590	140.00	0.04	0.79
Norsk Hydro ASA	NHY	B	22.66	1,236	28,010	31.00	0.14	0.77
Lukoil Oil Company	LUKOY	B	81.70	830	68,000	110.00	0.02	0.75
<i>Total or Median</i>					<i>227,000</i>		<i>0.11</i>	<i>0.84</i>
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	45.98	371	17,060	52.00	0.18	0.91
CNOOC Limited (34%)	CEO	B	83.49	140	11,670	98.00	-	0.85
Anadarko Petroleum Corp.	APC	B	46.20	463	21,400	75.00	0.43	0.78
Encana Corporation	ECA	B	47.22	824	38,900	65.00	0.12	0.76
EOG Resources	EOG	B	67.00	246	16,500	92.00	0.07	0.75
Occidental Petroleum Corp.	OXY	B	46.33	860	39,800	69.00	0.09	0.70
Devon Energy Corporation	DVN	B	66.29	446	29,600	115.00	0.13	0.63
<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	24.59	41	1,000	31.00	0.23	0.84
Berry Petroleum Company	BRY	B	30.49	45	1,370	39.00	0.19	0.82
Cimarex Energy Company	XEC	B	36.03	85	3,060	68.00	0.09	0.57
Encore Acquisition Company	EAC	B	24.90	54	1,330	54.00	0.19	0.56
<i>Total or Median</i>					<i>6,800</i>		<i>0.19</i>	<i>0.70</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.42	168	7,450	15.00	0.54	1.90
Kinder Morgan Management, LLC	KMR	S3	42.98	61	2,600	15.00	0.54	1.86
Enerplus Resources Fund	ERF		54.03	123	6,650	47.00	0.11	1.13
Pengrowth Energy Trust	PGH		19.77	220	4,350	20.00	0.22	0.99
Penn West Energy Trust	PWE	B	37.34	246	9,190	39.00	0.13	0.96
San Juan Basin Royalty Trust	SJT	B	36.79	47	1,710	40.00	-	0.92
Canadian Oil Sands Trust	COSWF	B	26.94	468	12,600	35.00	0.08	0.79
<i>Total or Median</i>					<i>44,600</i>		<i>0.13</i>	<i>0.99</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) 30-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	42.50	24.0	9.0	6.9	10	0.5
Exxon Mobil Corporation	XOM	B	70.84	11.4	6.6	6.0	11	1.8
Total S.A.	TOT	B	67.43	9.8	6.8	5.8	10	3.0
BP plc	BP	B	67.08	9.5	6.5	5.6	9	3.5
Royal Dutch Shell plc	RDS-A	B	69.05	7.4	5.8	4.9	9	3.6
Chevron Corporation	CVX	B	66.39	10.9	6.3	4.7	8	3.1
ConocoPhillips	COP	B	59.80	11.0	6.6	4.5	8	2.4
	<i>Median</i>			10.9	6.6	5.6	9	3.0
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	105.10		8.8	13.6	22	3.3
Suncor Energy	SU	B	75.04	20.8	11.8	9.5	17	0.4
Imperial Oil Limited (30%)	IMO	H	35.50	10.6	8.1	7.8	13	0.8
Petro-Canada	PCZ	B	41.95	7.2	7.2	6.3	12	0.8
Lukoil Oil Company	LUKOY	B	81.70	18.7	7.6	5.7	10	1.5
PetroChina Company Ltd (10%)	PTR	B	109.44	15.1	6.4	5.0	10	4.4
Marathon Oil Corporation	MRO	B	85.29	8.6	4.8	4.3	7	1.5
Norsk Hydro ASA	NHY	B	22.66	8.2	5.4	4.1	9	2.9
	<i>Median</i>			10.6	7.4	6.0	11	1.5
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	45.98	11.3	7.8	7.1	11	0.4
Anadarko Petroleum Corp.	APC	B	46.20	11.5	8.7	6.8	13	1.6
EOG Resources	EOG	B	67.00	9.7	9.1	6.8	15	0.4
Encana Corporation	ECA	B	47.22	8.7	7.5	5.7	11	0.8
Occidental Petroleum Corp.	OXY	B	46.33	11.0	7.4	5.2	10	-
Devon Energy Corporation	DVN	B	66.29	8.7	7.8	4.9	10	0.7
CNOOC Limited (34%)	CEO	B	83.49	10.6	5.6	4.8	9	3.4
	<i>Median</i>			10.6	7.8	5.7	11	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	30.49	9.9	7.6	6.2	15	1.0
Encore Acquisition Company	EAC	B	24.90	15.5	8.9	5.0	11	-
Cimarex Energy Company	XEC	B	36.03	7.8	7.2	4.1	10	0.4
Energy Partners Ltd.	EPL	B	24.59	5.0	4.8	4.0	-	-
	<i>Median</i>			8.9	7.4	4.6	11	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.42		7.8	14.8	30	7.3
Kinder Morgan Management, LLC	KMR	S3	42.98		7.8	14.5	29	7.5
Canadian Oil Sands Trust	COSWF	B	26.94	24.4	12.8	10.1	13	6.9
San Juan Basin Royalty Trust	SJT	B	36.79	9.3	10.9	10.0	12	8.1
Enerplus Resources Fund	ERF		54.03	9.4	7.8	8.9	20	8.3
Penn West Energy Trust	PWE	B	37.34	8.0	8.4	8.1	14	9.7
Pengrowth Energy Trust	PGH		19.77	7.4	7.2	7.1	10	13.5
	<i>Median</i>			9.3	7.8	10.0	14	8.1

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) 30-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	70.84	3.2	2.9		0.2	0.5	1.3	0.9	0.91
BP plc	BP	67.08	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.86
Total S.A.	TOT	67.43	2.8	2.9	2.9		0.9	1.2	0.8	0.86
Royal Dutch Shell plc	RDS-A	69.05	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.84
Gazprom	OGZPY	42.50	9.4	8.6	8.6		8.6	1.1		0.77
Chevron Corporation	CVX	66.39	5.8	5.7		0.4	0.4	3.4	1.5	0.75
ConocoPhillips	COP	59.80	4.6	5.7		0.9	0.4	3.0	1.3	0.68
Producer/Refiners - Large Cap										
Marathon Oil Corporation	MRO	85.29	1.4	1.4		0.2	0.1	0.5	0.6	0.89
Petro-Canada	PCZ	41.95	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.88
Suncor Energy	SU	75.04	1.5	1.4	1.4	0.1		1.3	0.1	0.80
PetroChina Company Ltd.	PTR	109.44	3.2	2.9	2.9		0.2	2.4	0.2	0.79
Norsk Hydro ASA	NHY	22.66	2.7	2.9	2.9		0.7	1.1	1.1	0.77
Lukoil Oil Company	LUKOY	81.70	6.5	5.7	5.7			4.3	1.4	0.75
Independent Natural Gas and Oil - Large Cap										
XTO Energy Inc.	XTO	45.98	2.7	2.9		2.2		0.7		0.91
CNOOC Limited	CEO	83.49	3.3	2.9	2.9		0.3	2.6		0.85
Anadarko Petroleum Corp.	APC	46.20	1.5	2.9		1.6		1.2		0.78
Encana Corporation	ECA	47.22	5.6	5.7	5.7	4.1		1.2	0.4	0.76
EOG Resources	EOG	67.00	6.0	5.7		4.4	0.4	0.9		0.75
Occidental Petroleum Corp	OXY	46.33	2.9	2.9		0.4	0.0	2.1	0.3	0.70
Devon Energy Corporation	DVN	66.29	5.3	5.7		3.1		2.6		0.63
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	24.59	1.2	1.4		0.8		0.6		0.84
Berry Petroleum Company	BRY	30.49	1.3	1.4		0.2		1.2		0.82
Cimarex Energy Company	XEC	36.03	2.8	2.9		1.9		0.9		0.57
Encore Acquisition Compæ	EAC	24.90	2.2	2.9		0.7		2.1		0.56
Income										
Penn West Energy Trust	PWE	37.34	5.8	5.7	5.7	1.7		4.0		0.96
San Juan Basin Royalty Tr	SJT	36.79	6.7	5.7		5.7				0.92
Canadian Oil Sands Trust	COSWF	26.94	6.0	5.7	5.7			5.7		0.79
Portfolio Composite			100	100	50	29	13	48	10	0.77

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
30-Oct	CVX	Chevron Corporation	Raise NPV to \$92 a Share
27-Oct	XOM	Exxon Mobil Corporation	Oil Production Per Share Grows
27-Oct	SU	Suncor Energy Inc.	Next Milestone 2008
27-Oct	PCZ	Petro-Canada	Volume Growth around the Corner
26-Oct	RDSA	Royal Dutch Shell plc	New Structure Working
26-Oct	ECA	EnCana Corporation	Beating Cost Inflation
26-Oct	COP	ConocoPhillips	Volume Growth Adjusted for Debt and Shares
25-Oct	COSWF	Canadian Oil Sands Trust	Syncrude at 97% of New Capacity
25-Oct	XTO	XTO Energy Inc.	CEO May Be Winning Billion Dollar Bet
25-Oct	BP	BP p.l.c.	Solid Cash Flow
24-Oct	NHY	Norsk Hydro ASA	Lowest EV/Ebitda
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	* PWTFF	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	* 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

Meter Reader - A Weekly Analysis

31-Oct		Small Cap Upside
24-Oct	*	Shell Canada at 0.99 McDep Ratio on Buyout Bid
17-Oct	*	Own More Norsk Hydro, Less BP
10-Oct	*	Russian Resource Recommendations

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

27-Oct		Last Chance to Buy Cyclically
20-Oct		Momentum Returning
13-Oct	*	Pengrowth Indicates Highest Rate of Distribution
6-Oct	*	Basic Reasons

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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