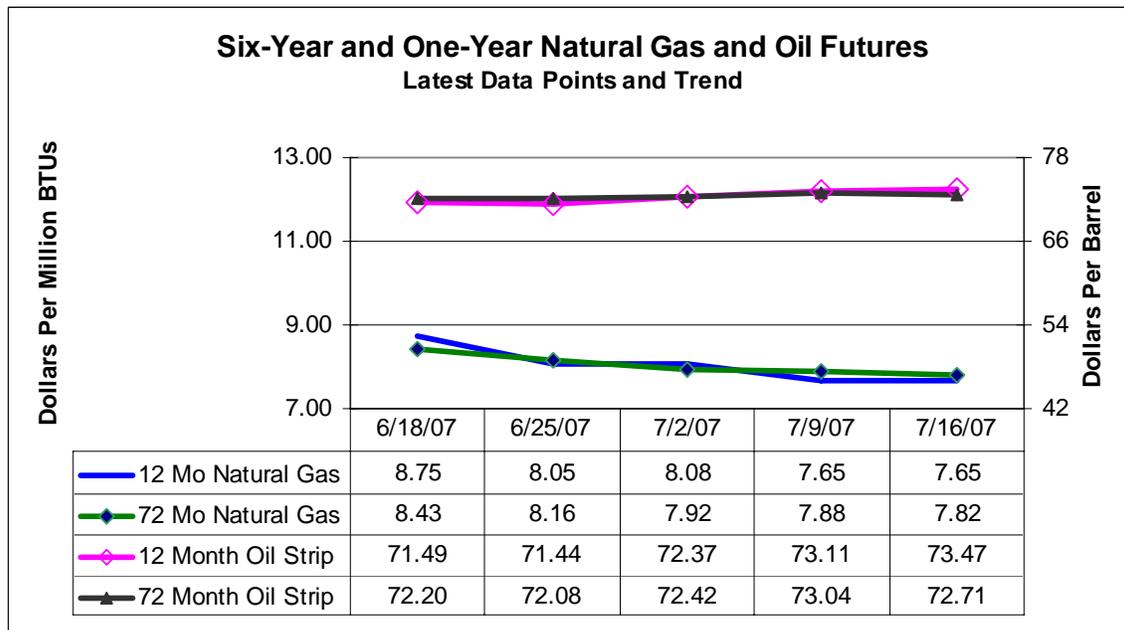


Understated U.S. Oil Benchmark

Summary and Recommendation

The commodity price for crude oil may be stronger, the margin for oil refining more sustainable and the oil-equivalent commodity price for natural gas producers higher than we have represented using the understated U.S. crude oil benchmark. The quote for immediate delivery of U.S. light, sweet crude oil of about \$74 a barrel ought to be \$79 to match the price quoted for Brent, the European benchmark. Since our cautious increase in long-term crude oil price for estimating present value to \$66 a barrel on May 29, stock prices have increased to reflect about \$54 a barrel. Refining margins that looked unsustainably high when measured against the low U.S. crude oil benchmark look more long-lasting when measured against actual crude oil cost. At the same time, natural gas is even more depressed relative to crude oil than we have emphasized. Low McDep Ratio buy recommendations up less in stock price compared to the 60-day average include crude oil producer **Encore Acquisition (EAC)**, integrated refiner **BP plc (BP)** and natural gas producer **Devon Energy (DVN)**.

Kurt H. Wulff, CFA



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Oil and Gas Producers - Rank by McDep Ratio

	Symbol/ Rating		Price (US\$/sh) 16-Jul 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	89.70	5,714	513,000	92.00	0.05	0.98
Total S.A.	TOT	B	85.33	2,281	195,000	89.00	0.13	0.96
Royal Dutch Shell plc	RDS-A	B	82.91	3,153	261,000	94.00	0.13	0.90
Chevron Corporation	CVX	B	92.12	2,206	203,000	105.00	0.09	0.89
BP plc	BP	B	73.94	3,231	239,000	87.00	0.16	0.87
ConocoPhillips	COP	B	87.13	1,669	145,000	112.00	0.18	0.82
Gazprom (50%)	OGZPY	B	46.01	2,855	131,400	62.00	0.07	0.76
<i>Total or Median</i>					<i>1,687,000</i>		<i>0.13</i>	<i>0.89</i>
Producer/Refiners - Large Cap								
Norsk Hydro ASA (post Oct 1)	NHY	H	14.66	1,241	18,190	11.00	0.13	1.29
Imperial Oil Limited (30%)	IMO	B	49.05	287	14,100	42.00	0.07	1.16
Petro-Canada	PCZ	B	57.37	502	28,800	55.00	0.18	1.04
Marathon Oil Corporation	MRO	H	63.20	694	43,860	62.00	0.13	1.02
PetroChina Company Ltd (10%)	PTR	B	156.51	181	28,330	166.00	0.05	0.95
Statoil ASA (29%)	STO	B	32.59	928	30,240	35.00	0.11	0.94
Suncor Energy	SU	B	93.53	461	43,130	105.00	0.07	0.90
Lukoil Oil Company	LUKOY	B	84.50	831	70,000	121.00	0.02	0.71
<i>Total or Median</i>					<i>277,000</i>		<i>0.09</i>	<i>0.98</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	119.94	140	16,770	108.00	-	1.11
Encana Corporation	ECA	B	62.83	780	49,000	72.00	0.14	0.89
XTO Energy Inc.	XTO	B	59.34	372	22,070	70.00	0.13	0.87
Anadarko Petroleum Corp.	APC	B	52.32	465	24,300	74.00	0.38	0.82
Occidental Petroleum Corp.	OXY	B	61.54	847	52,100	77.00	0.07	0.81
EOG Resources	EOG	B	73.05	247	18,000	102.00	0.05	0.73
Devon Energy Corporation	DVN	B	79.15	450	35,600	129.00	0.15	0.67
<i>Total or Median</i>					<i>218,000</i>		<i>0.13</i>	<i>0.82</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	39.18	45	1,750	44.00	0.24	0.92
Encore Acquisition Company	EAC	B	28.36	53	1,510	54.00	0.34	0.69
Energy Partners Ltd.	EPL	B	17.36	31	540	38.00	0.35	0.65
Cimarex Energy Company	XEC	B	39.97	84	3,370	76.00	0.09	0.57
<i>Total or Median</i>					<i>7,200</i>		<i>0.29</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.91	172	9,600	15.00	0.54	2.25
Kinder Morgan Management, LLC	KMR	S	52.30	62	3,230	15.00	0.54	2.14
Pengrowth Energy Trust	PGH		19.60	244	4,780	17.00	0.29	1.11
Penn West Energy Trust	PWE	B	34.14	240	8,180	36.00	0.17	0.96
Enerplus Resources Fund	ERF		46.49	123	5,740	52.00	0.13	0.91
San Juan Basin Royalty Trust	SJT	B	33.54	47	1,560	40.00	-	0.84
Canadian Oil Sands Trust	COSWF	B	31.39	479	15,040	39.00	0.08	0.82
Hugoton Royalty Trust	HGT	B	25.54	40	1,020	34.00	-	0.75
<i>Total or Median</i>					<i>49,200</i>		<i>0.15</i>	<i>0.93</i>

B = Buy, S = Sell, 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

	<i>Symbol/ Rating</i>	<i>Price (US\$/sh) 16-Jul 2007</i>	<i>Adjustd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Divd or Distrib NTM (%)</i>
Mega Cap							
Gazprom (50%)	OGZPY B	46.01	24.6	9.4	7.2	11	0.9
Exxon Mobil Corporation	XOM B	89.70	11.5	7.0	6.8	12	1.6
Total S.A.	TOT B	85.33	9.4	6.5	6.3	11	1.4
BP plc	BP B	73.94	9.6	6.9	6.0	10	3.4
Chevron Corporation	CVX B	92.12	10.0	6.4	5.7	10	2.5
Royal Dutch Shell plc	RDS-A B	82.91	7.9	6.0	5.4	10	3.5
ConocoPhillips	COP B	87.13	11.2	6.6	5.4	9	1.9
	<i>Median</i>		<i>10.0</i>	<i>6.6</i>	<i>6.0</i>	<i>10</i>	<i>1.9</i>
Producer/Refiners - Large Cap							
Imperial Oil Limited (30%)	IMO B	49.05	13.3	8.3	9.6	16	0.6
Suncor Energy	SU B	93.53	23.6	9.6	8.6	15	0.3
Norsk Hydro ASA (post Oct 1)	NHY H	14.66	-	6.5	8.4	15	1.2
PetroChina Company Ltd (10%)	PTR B	156.51	15.0	7.8	7.4	15	3.0
Marathon Oil Corporation	MRO H	63.20	7.8	6.0	6.1	11	1.5
Petro-Canada	PCZ B	57.37	6.9	5.5	5.7	12	0.9
Statoil ASA (29%)	STO B	32.59	7.7	6.0	5.7	13	4.8
Lukoil Oil Company	LUKOY B	84.50	17.8	7.6	5.3	9	1.7
	<i>Median</i>		<i>10.6</i>	<i>7.1</i>	<i>6.7</i>	<i>14</i>	<i>1.3</i>
Independent Natural Gas and Oil - Large Cap							
XTO Energy Inc.	XTO B	59.34	12.2	9.2	8.0	13	0.8
Encana Corporation	ECA B	62.83	9.5	8.0	7.1	14	1.3
Anadarko Petroleum Corp.	APC B	52.32	11.2	8.7	7.1	14	1.4
CNOOC Limited (34%)	CEO B	119.94	10.6	6.1	6.7	12	2.8
EOG Resources	EOG B	73.05	9.6	8.2	6.0	14	0.5
Occidental Petroleum Corp.	OXY B	61.54	11.9	7.1	5.8	11	1.4
Devon Energy Corporation	DVN B	79.15	9.4	8.5	5.7	11	0.7
	<i>Median</i>		<i>10.6</i>	<i>8.2</i>	<i>6.7</i>	<i>13</i>	<i>1.3</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	39.18	10.3	8.8	8.1	14	0.8
Encore Acquisition Company	EAC B	28.36	14.8	8.9	6.1	14	-
Cimarex Energy Company	XEC B	39.97	8.1	7.2	4.1	10	0.4
Energy Partners Ltd.	EPL B	17.36	5.4	5.6	3.6	-	-
	<i>Median</i>		<i>9.2</i>	<i>8.0</i>	<i>5.1</i>	<i>14</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S	55.91		7.9	17.8	54	5.9
Kinder Morgan Management, LLC	KMR S	52.30		7.9	16.9	51	6.3
San Juan Basin Royalty Trust	SJT B	33.54	10.2	12.7	10.6	13	7.6
Canadian Oil Sands Trust	COSWF B	31.39	21.1	10.8	8.8	11	6.4
Pengrowth Energy Trust	PGH	19.60	7.5	7.8	8.6	35	14.6
Hugoton Royalty Trust	HGT B	25.54	14.0	11.3	8.5	12	8.3
Enerplus Resources Fund	ERF	46.49	9.0	8.0	7.3	14	10.3
Penn West Energy Trust	PWE B	34.14	7.6	7.6	7.3	16	11.4
	<i>Median</i>		<i>9.6</i>	<i>8.0</i>	<i>8.7</i>	<i>15</i>	<i>8.0</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**McDep Energy Portfolio
Composite of Buy Recommendations**

Symbol	Price (US\$/sh)	Portfolio Weight		Non- U.S. HQ	North	Rest	Oil Prod'n (%)	Down- stream (%)	McDep Ratio		
		16-Jul 2007	Equity (%)		EV (%)	Amer. Natural Gas (%)				of World Natural Gas (%)	
Mega Cap											
Exxon Mobil Corporation	XOM	89.70	1.6	1.4			0.1	0.2	0.8	0.4	0.98
Total S.A.	TOT	85.33	2.9	2.9	2.9			0.7	1.5	0.6	0.96
Royal Dutch Shell plc	RDS-A	82.91	2.8	2.9	2.9		0.1	0.4	1.4	1.0	0.90
Chevron Corporation	CVX	92.12	6.0	5.7			0.3	0.4	3.6	1.5	0.89
BP plc	BP	73.94	2.7	2.9	2.9		0.2	0.3	1.7	0.7	0.87
ConocoPhillips	COP	87.13	5.2	5.7			0.9	0.4	3.0	1.4	0.82
Gazprom	OGZPY	46.01	9.1	8.6	8.6			6.6	2.0		0.76
Producer/Refiners - Large Cap											
Imperial Oil Limited	IMO	49.05	1.6	1.4	1.4				1.1	0.2	1.16
Petro-Canada	PCZ	57.37	1.4	1.4	1.4		0.2	0.0	1.0	0.2	1.04
PetroChina Company Ltd.	PTR	156.51	3.1	2.9	2.9			0.2	2.5	0.2	0.95
Statoil ASA	STO	32.59	1.5	1.4	1.4			0.5	0.9	-	0.94
Suncor Energy	SU	93.53	1.5	1.4	1.4		0.1		1.3	0.1	0.90
Lukoil Oil Company	LUKOY	84.50	6.5	5.7	5.7				4.1	1.6	0.71
Independent Natural Gas and Oil - Large Cap											
CNOOC Limited	CEO	119.94	3.3	2.9	2.9				0.3	2.6	1.11
Encana Corporation	ECA	62.83	4.2	4.3	4.3				0.9	0.1	0.89
XTO Energy Inc.	XTO	59.34	4.2	4.3			3.2		1.0		0.87
Anadarko Petroleum Corp.	APC	52.32	1.8	2.9			3.3		1.3	0.1	0.82
Occidental Petroleum Corp	OXY	61.54	3.0	2.9			1.5		2.2	0.3	0.81
EOG Resources	EOG	73.05	6.2	5.7			0.4	0.0	4.3	0.4	0.73
Devon Energy Corporation	DVN	79.15	5.2	5.7			4.3		3.2		0.67
Independent Natural Gas and Oil - Small Cap											
Berry Petroleum Company	BRY	39.18	1.2	1.4					0.4	1.0	0.92
Encore Acquisition Comp	EAC	28.36	1.7	2.9					0.5	2.4	0.69
Energy Partners Ltd.	EPL	17.36	1.5	2.9					1.4	1.5	0.65
Cimarex Energy Company	XEC	39.97	2.8	2.9					2.0	0.9	0.57
Income											
Penn West Energy Trust	PWE	34.14	2.7	2.9	2.9				0.9	1.9	0.96
San Juan Basin Royalty Tr	SJT	33.54	6.7	5.7					5.7		0.84
Canadian Oil Sands Trust	COSWF	31.39	6.0	5.7	5.7				(0.6)	6.3	0.82
Hugoton Royalty Trust	HGT	25.54	3.3	2.9					2.9		0.75
Portfolio Composite			100	100	47	31	10	50	8	0.81	
Canada					17						
Russia					14						
Europe					10						
China					6						

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 8.6% to half at 1.4%.

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
16-Jul	PTR	PetroChina Company Limited	Raise NPV to \$166 a Share
29-Jun	OGZPY	Gazprom	Raise NPV to \$62 a Share
29-Jun	LUKOY	Lukoil Oil Company	Raise NPV to \$121 a Share
1-Jun	* SJT	San Juan Basin Royalty Trust	Stable Present Value (RT Weekly)
1-Jun	* HGT	Hugoton Royalty Trust	Stable Present Value (RT Weekly)
31-May	* NHY	Norsk Hydro ASA	Hold New NHY, Buy Statoil
18-May	* MRO	Marathon Oil Corporation	Downgrade to Hold from Buy on Price
9-May	* XEC	Cimarex Energy Company	Lowest McDep Ratio
8-May	* PWE	Penn West Energy Trust	Committed to Income Distributions
7-May	* EAC	Encore Acquisition	Encore for Bell Creek
4-May	* TOT	Total S.A.	Integrated Model
4-May	* EPL	Energy Partners, Ltd.	Strategic Alternatives Disappointment
3-May	* RDSA	Royal Dutch Shell plc	Record Results
2-May	* BRY	Berry Petroleum	Piceance and Diatomite
2-May	* DVN	Devon Energy Corporation	Low McDep Ratio Natural Gas
2-May	* IMO	Imperial Oil Limited	Oil Sands Deal Unmasks Value
1-May	* EOG	EOG Resources Inc.	Productive Drilling Boosts Cash Flow
1-May	* MRO	Marathon Oil Corporation	Stock Split Declared
1-May	* APC	Anadarko Petroleum Corporation	Adjust NPV to \$70 a Share on Lower Debt
27-Apr	* CVX	Chevron Corporation	Solid Results
26-Apr	* CEO	CNOOC Ltd	Volume up 5%
26-Apr	* XOM	Exxon Mobil Corporation	Another Record Quarter
26-Apr	* COSWF	Canadian Oil Sands Trust	Distribution Raised 33%
25-Apr	* XTO	XTO Energy Inc.	Buy for Natural Gas
25-Apr	* ECA	EnCana Corporation	Buy for Natural Gas
25-Apr	* COP	ConocoPhillips	Strong Demand, Constrained Supply
25-Apr	* BP	BP p.l.c.	CEO Cycle
24-Apr	* OXY	Occidental Petroleum Corporation	Well-Positioned in Oil
24-Apr	* PCZ	Petro-Canada	Volume Up 15%
18-Apr	* KMx	Kinder Morgan	Deal Delayed

Meter Reader - A Weekly Analysis

17-Jul		Understated U.S. Oil Benchmark
10-Jul		Natural Gas Price Extremely Low
3-Jul	*	New Oil Sands Breakeven - \$50 a Barrel
26-Jun	*	Our Friend, the Trend

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

13-Jul		Too Much Coal
6-Jul		Permian for Patient Investors
29-Jun	*	Honest Ed Stemplach
22-Jun	*	CAPPitalizing Canadian Oil Sands Trust

* Archived on www.mcdep.com

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