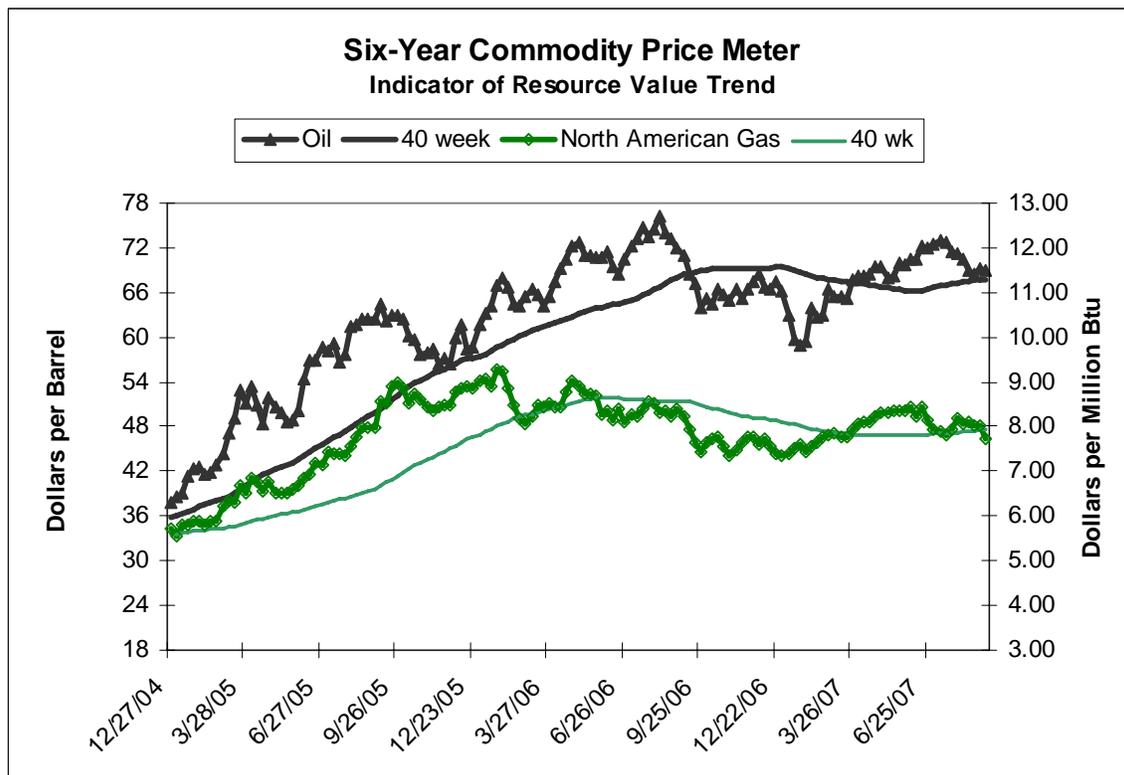


## Oil Looking Up

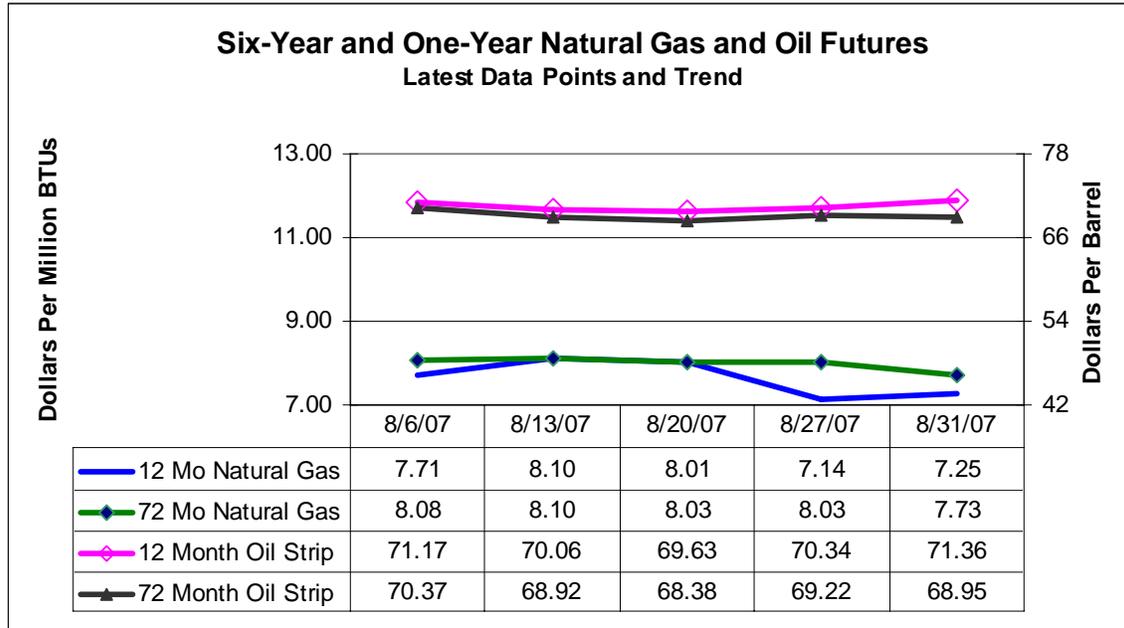
### Summary and Recommendation

The most fundamental measure of industry opportunity, the long-term oil price, has further upside, we believe, from the six-year futures price of \$69 a barrel that is also above its 40-week average. Priced at \$54 a barrel -- McDep Ratio of 0.83 times \$66 basis for present value -- oil stocks look more attractive to us than the commodity. As for natural gas, six-year futures at \$7.70 a million btu are low at oil price divided by 9 and natural gas stocks are also priced low at \$8.10 – McDep Ratio of 0.74 times \$11 basis for present value. Near-term natural gas price is especially low ahead of winter as was the case last year and frequently in the past. Buy-recommended oil stocks include **ConocoPhillips (COP)**, **Lukoil (LUKOY)** and **Occidental Petroleum (OXY)** and favorite natural gas stocks include **Gazprom (OGZPY)**, **Devon Energy (DVN)** and **XTO Energy (XTO)**. **Canadian Natural Resources (CNQ)**, constructing an oil sands mine and upgrader in northern Alberta, joins our coverage while we hold a buy rating in reserve for possible implementation in the event of unexpected oil stock price decline.

Kurt H. Wulff, CFA



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.



**CNQ Benefit on the Horizon**

After Suncor, Syncrude and Athabasca, Horizon is the fourth giant mine/upgrader to join the Western Canada oil sands fleet with expected startup in 2008. While it is still under construction, we estimate the Horizon Oil Sands Project, wholly owned by CNQ, has a present value of \$14.5 billion, or \$132,000 dollars a daily barrel of Phase I capacity (see table Functional Cash Flow and Present Value). **Marathon Oil (MRO)** paid \$200,000 a daily barrel of existing production for 20% of Athabasca with expectations for expanded volume (see *Stock Idea, Marathon Oil*, July 31, 2007). Estimated present value of **Canadian Oil Sands Trust (COSWF)**, 37% owner of Syncrude, is about \$155,000 a daily barrel for completed capacity.

**Canadian Natural Resources**  
**Functional Cash Flow and Present Value**

	<i>NTM</i> <u>Ebitda</u>	<i>Adjusted</i> <u>R/P</u>	<i>PV/</i> <u>Ebitda</u>	<i>Present</i> <u>Value</u>	
North American Natural Gas	2,570	6.5	7.0	18,000	30%
Oil	4,030	9.5	6.7	27,000	45%
Horizon				14,500	24%
	6,600	8.1	9.0	59,500	100%
Debt				12,600	
Net Present Value (US\$mm)				46,900	
Shares				539	
Net Present Value - Standard Estimate (US\$/sh)				87	

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

**Oil and Gas Producers - Rank by McDep Ratio**

	Symbol/ Rating		Price (US\$/sh) 31-Aug 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	85.73	5,620	482,000	92.00	0.05	0.94
Total S.A.	TOT	B	75.09	2,278	171,000	89.00	0.13	0.86
Chevron Corporation	CVX	B	87.76	2,206	194,000	105.00	0.08	0.85
Royal Dutch Shell plc	RDS-A	B	77.35	3,152	244,000	94.00	0.10	0.84
BP plc	BP	B	67.36	3,198	215,000	87.00	0.16	0.81
ConocoPhillips	COP	B	81.89	1,658	136,000	112.00	0.19	0.78
Gazprom (50%)	OGZPY	B	41.80	2,855	119,300	62.00	0.07	0.70
<i>Total or Median</i>					<i>1,561,000</i>		<i>0.10</i>	<i>0.84</i>
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	43.83	282	12,360	42.00	0.07	1.04
Norsk Hydro ASA (post Oct 1)	NHY	H	11.96	1,241	14,840	13.00	0.11	0.93
Marathon Oil Corporation	MRO	H	53.89	722	38,910	62.00	0.18	0.89
PetroChina Company Ltd (10%)	PTR	B	144.33	178	25,680	166.00	0.06	0.88
Suncor Energy	SU	B	89.39	472	42,190	105.00	0.08	0.86
Statoil ASA (29%)	STO	B	28.78	928	26,710	35.00	0.14	0.85
Petro-Canada	PCZ	B	51.05	498	25,420	65.00	0.15	0.82
Lukoil Oil Company	LUKOY	B	74.10	831	62,000	121.00	0.02	0.62
<i>Total or Median</i>					<i>248,000</i>		<i>0.10</i>	<i>0.87</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	B	122.90	149	18,340	108.00	-	1.14
Encana Corporation	ECA	B	58.50	765	44,800	72.00	0.18	0.85
Canadian Natural Resources	CNQ		68.31	539	36,800	87.00	0.21	0.83
XTO Energy Inc.	XTO	B	54.36	390	21,200	70.00	0.15	0.81
Anadarko Petroleum Corp.	APC	B	48.98	467	22,900	74.00	0.35	0.78
Occidental Petroleum Corp.	OXY	B	56.69	842	47,700	77.00	0.07	0.75
EOG Resources	EOG	B	67.36	247	16,700	102.00	0.05	0.68
Devon Energy Corporation	DVN	B	75.31	450	33,900	129.00	0.14	0.64
<i>Total or Median</i>					<i>242,000</i>		<i>0.15</i>	<i>0.80</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	34.08	45	1,530	44.00	0.23	0.83
Encore Acquisition Company	EAC	B	27.79	54	1,500	54.00	0.32	0.67
Energy Partners Ltd.	EPL	B	13.67	35	470	38.00	0.31	0.56
Cimarex Energy Company	XEC	B	35.81	85	3,040	76.00	0.09	0.52
<i>Total or Median</i>					<i>6,500</i>		<i>0.27</i>	<i>0.61</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.29	179	8,980	17.00	0.53	1.93
Kinder Morgan Management, LLC	KMR	S	48.14	62	2,970	17.00	0.53	1.87
Pengrowth Energy Trust	PGH		17.06	246	4,200	17.00	0.26	1.00
Penn West Energy Trust	PWE	B	28.66	242	6,920	36.00	0.19	0.84
Enerplus Resources Fund	ERF		42.11	128	5,390	52.00	0.12	0.83
San Juan Basin Royalty Trust	SJT	B	31.80	47	1,480	40.00	-	0.79
Canadian Oil Sands Trust	COSWF	B	28.89	479	13,840	39.00	0.07	0.76
Hugoton Royalty Trust	HGT	B	23.69	40	950	34.00	-	0.70
<i>Total or Median</i>					<i>44,700</i>		<i>0.16</i>	<i>0.83</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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

**Oil and Gas Producers - Rank by EV/Ebitda**

	Symbol/ Rating		Price (US\$/sh) 31-Aug 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	41.80	24.6	9.4	6.6	10	0.9
Exxon Mobil Corporation	XOM	B	85.73	11.7	6.7	6.3	11	1.6
BP plc	BP	B	67.36	9.6	7.0	5.7	9	3.9
Total S.A.	TOT	B	75.09	9.7	6.5	5.6	10	3.4
Chevron Corporation	CVX	B	87.76	10.1	6.2	5.2	9	2.6
ConocoPhillips	COP	B	81.89	10.3	6.5	5.1	8	2.0
Royal Dutch Shell plc	RDS-A	B	77.35	8.1	5.7	4.8	9	3.7
	<i>Median</i>			10.1	6.5	5.6	9	2.6
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	89.39	23.8	10.6	9.2	17	0.4
Imperial Oil Limited (30%)	IMO	B	43.83	13.2	7.9	8.2	14	0.8
PetroChina Company Ltd (10%)	PTR	B	144.33	15.0	7.6	6.7	13	3.3
Norsk Hydro ASA (post Oct 1)	NHY	H	11.96	-	6.6	6.1	10	1.4
Statoil ASA (29%)	STO	B	28.78	7.7	6.1	5.2	11	5.4
Marathon Oil Corporation	MRO	H	53.89	8.6	5.5	4.9	8	1.8
Lukoil Oil Company	LUKOY	B	74.10	17.8	7.7	4.8	8	2.0
Petro-Canada	PCZ	B	51.05	6.5	5.8	4.7	9	1.0
	<i>Median</i>			10.9	7.1	5.7	10	1.6
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	B	122.90	10.7	6.8	7.7	14	2.8
Canadian Natural Resources	CNQ		68.31	8.1	9.1	7.5	15	0.5
XTO Energy Inc.	XTO	B	54.36	11.3	8.6	7.0	12	0.9
Encana Corporation	ECA	B	58.50	9.2	7.7	6.5	12	1.4
Anadarko Petroleum Corp.	APC	B	48.98	11.2	8.4	6.5	12	1.5
EOG Resources	EOG	B	67.36	9.3	8.7	5.9	16	0.5
Devon Energy Corporation	DVN	B	75.31	9.0	8.5	5.4	11	0.7
Occidental Petroleum Corp.	OXY	B	56.69	11.5	7.1	5.3	10	1.8
	<i>Median</i>			10.0	8.4	6.5	12	1.1
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	34.08	10.2	8.9	7.3	15	0.9
Encore Acquisition Company	EAC	B	27.79	15.5	9.0	6.1	16	-
Cimarex Energy Company	XEC	B	35.81	8.0	7.5	3.9	10	0.4
Energy Partners Ltd.	EPL	B	13.67	5.9	6.4	3.5	-	-
	<i>Median</i>			9.1	8.2	5.0	15	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.29		8.0	15.4	35	6.8
Kinder Morgan Management, LLC	KMR	S	48.14		8.0	14.9	33	7.1
San Juan Basin Royalty Trust	SJT	B	31.80	10.0	13.9	11.0	14	7.3
Hugoton Royalty Trust	HGT	B	23.69	14.1	12.9	9.0	13	7.6
Pengrowth Energy Trust	PGH		17.06	7.1	8.1	8.1	56	16.7
Canadian Oil Sands Trust	COSWF	B	28.89	20.9	10.5	8.0	10	9.2
Enerplus Resources Fund	ERF		42.11	9.4	9.3	7.7	16	11.3
Penn West Energy Trust	PWE	B	28.66	7.7	8.1	6.8	14	13.5
	<i>Median</i>			9.7	8.7	8.6	15	8.4

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

**McDep Energy Portfolio  
Composite of Buy Recommendations**

	Symbol	Price (US\$/sh) 31-Aug 2007	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio
			Equity (%)	EV (%)						
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	85.73	1.6	1.4		0.1	0.2	0.8	0.4	0.94
Total S.A.	TOT	75.09	2.9	2.9	2.9		0.8	1.4	0.6	0.86
Chevron Corporation	CVX	87.76	6.1	5.7		0.3	0.3	3.6	1.5	0.85
Royal Dutch Shell plc	RDS-A	77.35	3.0	2.9	2.9	0.1	0.4	1.4	1.0	0.84
BP plc	BP	67.36	2.7	2.9	2.9	0.2	0.3	1.7	0.7	0.81
ConocoPhillips	COP	81.89	5.1	5.7		0.9	0.4	3.1	1.3	0.78
Gazprom	OGZPY	41.80	9.2	8.6	8.6		6.6	2.0		0.70
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	43.83	1.6	1.4	1.4	0.1		1.1	0.2	1.04
PetroChina Company Ltd.	PTR	144.33	3.2	2.9	2.9		0.2	2.5	0.2	0.88
Suncor Energy	SU	89.39	1.5	1.4	1.4	0.0		1.3	0.1	0.86
Statoil ASA	STO	28.78	1.4	1.4	1.4		0.5	0.9	-	0.85
Petro-Canada	PCZ	51.05	1.4	1.4	1.4	0.2	0.0	1.0	0.2	0.82
Lukoil Oil Company	LUKOY	74.10	6.5	5.7	5.7			4.1	1.6	0.62
<b>Independent Natural Gas and Oil - Large Cap</b>										
CNOOC Limited	CEO	122.90	3.4	2.9	2.9		0.2	2.6		1.14
Encana Corporation	ECA	58.50	4.0	4.3	4.3	2.9		1.1	0.3	0.85
XTO Energy Inc.	XTO	54.36	4.1	4.3		3.4		0.8		0.81
Anadarko Petroleum Corp.	APC	48.98	1.9	2.9		1.6		1.2	0.1	0.78
Occidental Petroleum Corp	OXY	56.69	3.1	2.9		0.4	0.0	2.2	0.2	0.75
EOG Resources	EOG	67.36	6.2	5.7		4.5	0.2	1.0		0.68
Devon Energy Corporatior	DVN	75.31	5.2	5.7		3.2		2.5		0.64
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	34.08	1.2	1.4		0.4		1.0		0.83
Encore Acquisition Compæ	EAC	27.79	1.7	2.9		0.5		2.4		0.67
Energy Partners Ltd.	EPL	13.67	1.5	2.9		1.4		1.4		0.56
Cimarex Energy Company	XEC	35.81	2.8	2.9		2.0		0.9		0.52
<b>Income</b>										
Penn West Energy Trust	PWE	28.66	2.6	2.9	2.9	0.9		2.0		0.84
San Juan Basin Royalty Tr	SJT	31.80	6.8	5.7		5.7				0.79
Canadian Oil Sands Trust	COSWF	28.89	6.1	5.7	5.7	(0.6)		6.3		0.76
Hugoton Royalty Trust	HGT	23.69	3.4	2.9		2.9				0.70
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>47</b>	<b>31</b>	<b>10</b>	<b>50</b>	<b>9</b>	<b>0.75</b>
	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%.

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

**Index of Recent Research****Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
29-Aug	CEO	CNOOC Ltd	Making Money Offshore China
23-Aug	PTR	PetroChina Company Limited	Price Controls Ease in 2007 Half
8-Aug	EPL	Energy Partners, Ltd.	Oversold
3-Aug	EOG	EOG Resources Inc.	Natural Gas with North Dakota Oil
3-Aug	PWE	Penn West Energy Trust	High Return from Distributions
3-Aug	IMO	Imperial Oil Limited	High Return from Stock Repurchase
2-Aug	TOT	Total S.A.	Constructive Russo-French Interdependence
2-Aug	BRY	Berry Petroleum	Rocky Mountain Constraints
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
1-Aug	* EAC	Encore Acquisition	Nice to be Oily
31-Jul	* MRO	Marathon Oil Corporation	Oil Sands Acquirer
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
30-Jul	* STO	Statoil ASA	Norwegian Oil and Gas Champion
27-Jul	* CVX	Chevron Corporation	Oil and Downstream Vigor
26-Jul	* SU	Suncor Energy	Oil Sands Growth Stock
26-Jul	* XOM	Exxon Mobil Corporation	Steady Strength
26-Jul	* PCZ	Petro-Canada	Raise NPV to US\$65 a Share
26-Jul	* RDSA	Royal Dutch Shell plc	Downstream Benefit
25-Jul	* ECA	EnCana Corporation	Downstream Blessing
25-Jul	* COP	ConocoPhillips	Downstream Blessing
25-Jul	* BP	BP p.l.c.	Controversy Diminishing
25-Jul	* COSWF	Canadian Oil Sands Trust	Potential Distribution Double
24-Jul	* XTO	XTO Energy Inc.	Volume Growth in Underpriced Natural Gas
24-Jul	* OXY	Occidental Petroleum Corporation	Ready for Peak Oil Test
24-Jul	* NHY	Norsk Hydro ASA	Confidence in Aluminium
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait
19-Jul	* KMx	Kinder Morgan	Suggestions for New General Partner Owners
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)

**Meter Reader - A Weekly Analysis**

4-Sep		
14-Aug	*	Refresh and Reload
7-Aug	*	Buy Something
31-Jul	*	Value Growth

**Natural Gas and Oil Royalty Trusts - A Weekly Analysis**

7-Sep		
17-Aug	*	Buy Systematically
10-Aug	*	Real Assets for a Time of Financial Turmoil
6-Aug	*	Seymour Schulich's Book

\* Archived on [www.mcdep.com](http://www.mcdep.com)

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.