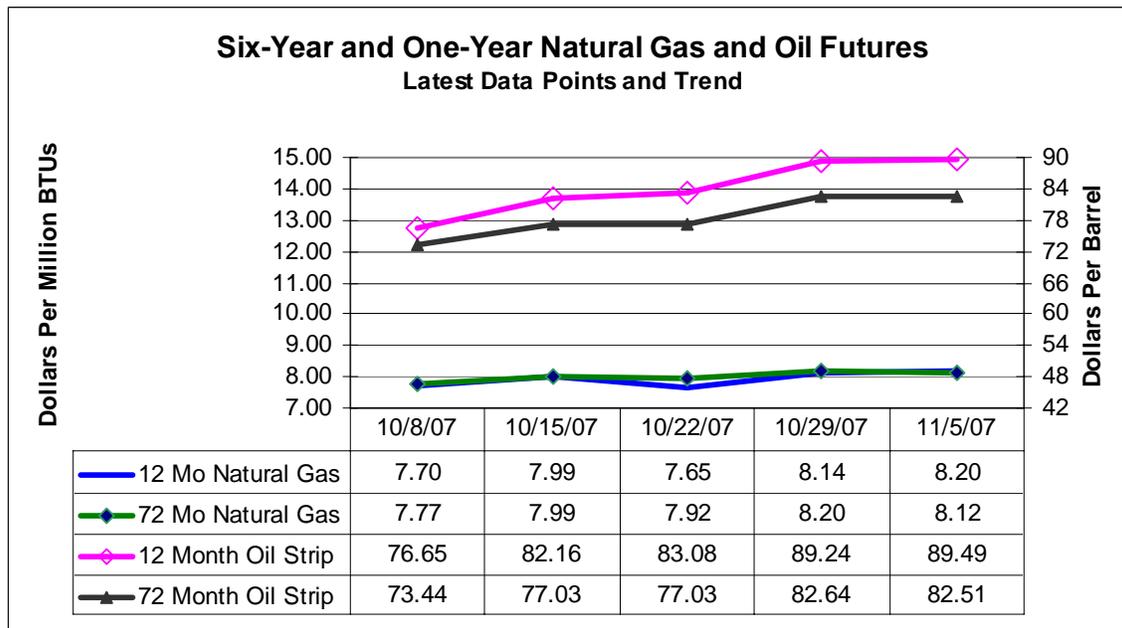


Desert Deep Throat

Summary and Recommendation

A source from within Saudi Arabia has come public with a floor price for oil of \$100 a barrel in 2010 lending strength to the outlook for our buy recommendations from **Imperial Oil (IMO)** to **Cimarex Energy (XEC)**. Ironically, as long ago as August 21, 2005, the *New York Times* reported that Mr. Sadad al Husseini, arguably who “knows more about [oil] than anyone else”, delivered a clear message “the world is heading for an oil shortage”. It was too soon in 2005 for the political leadership in producing and consuming countries to recognize that reality. Now that oil price continues to rise and global oil production has been flat for three years, the Desert Deep Throat was apparently allowed by his country, Saudi Arabia, to present his analysis to an industry forum in London last week. A “chilling assessment” reported the *Wall Street Journal* on October 31. Explaining that Middle East reserves are inflated and that production will likely not increase from current levels, Mr. Husseini thought the \$100 floor price would be necessary to limit demand to supply. Markets are reflecting those prospects quickly and our vision of \$150 in 2010 may be getting closer to reality, albeit on a volatile path.

Kurt H. Wulff, CFA



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Oil and Gas Producers - Rank by McDep Ratio

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>5-Nov</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$mm)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
BP plc	BP	B	78.79	3,177	250,000	75.00	0.18	1.04
Exxon Mobil Corporation	XOM	B	87.66	5,536	485,000	92.00	0.05	0.96
Royal Dutch Shell plc	RDS-A	B	84.79	3,143	267,000	94.00	0.11	0.91
Total S.A.	TOT	B	78.81	2,278	180,000	89.00	0.13	0.90
Chevron Corporation	CVX	B	88.48	2,206	195,000	105.00	0.08	0.86
Gazprom (50%)	OGZPY	B	50.30	2,990	150,400	62.00	0.07	0.82
ConocoPhillips	COP	B	83.92	1,644	138,000	112.00	0.19	0.80
	<i>Total or Median</i>				<i>1,665,000</i>		<i>0.11</i>	<i>0.90</i>
Producer/Refiners - Large Cap								
PetroChina Company Ltd (10%)	PTR	H	222.10	178	39,510	166.00	0.06	1.32
Imperial Oil Limited (30%)	IMO	B	55.59	278	15,480	42.00	0.08	1.30
Norsk Hydro ASA	NHY	H	14.77	1,223	18,060	13.00	0.04	1.13
Petrobras	PBR	B	90.26	2,194	197,990	80.00	0.13	1.11
Suncor Energy	SU	B	107.10	472	50,550	105.00	0.09	1.02
Marathon Oil Corporation	MRO	H	58.75	719	42,240	62.00	0.20	0.96
StatoilHydro ASA (29%)	STO	B	32.97	928	30,600	35.00	0.14	0.95
Petro-Canada	PCZ	B	57.41	493	28,300	65.00	0.16	0.90
Lukoil Oil Company	LUKOY	B	92.30	832	77,000	121.00	0.03	0.77
	<i>Total or Median</i>				<i>500,000</i>		<i>0.09</i>	<i>1.02</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	188.80	149	28,180	108.00	-	1.75
Encana Corporation	ECA	B	71.73	756	54,200	72.00	0.19	1.00
Canadian Natural Resources	CNQ		81.28	539	43,800	87.00	0.23	0.95
Occidental Petroleum Corp.	OXY	B	70.74	837	59,200	77.00	0.07	0.92
XTO Energy Inc.	XTO	B	66.46	391	25,970	75.00	0.17	0.91
EOG Resources	EOG	B	87.00	247	21,500	102.00	0.06	0.86
Anadarko Petroleum Corp.	APC	B	57.83	467	27,000	74.00	0.35	0.86
Devon Energy Corporation	DVN	B	92.41	450	41,600	129.00	0.14	0.76
	<i>Total or Median</i>				<i>301,000</i>		<i>0.16</i>	<i>0.92</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	46.25	45	2,080	44.00	0.23	1.04
Encore Acquisition Company	EAC	B	35.76	54	1,940	54.00	0.32	0.77
Energy Partners Ltd.	EPL	B	14.85	35	510	38.00	0.31	0.58
Cimarex Energy Company	XEC	B	39.90	85	3,380	76.00	0.09	0.57
	<i>Total or Median</i>				<i>7,900</i>		<i>0.27</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.95	178	9,260	17.00	0.54	1.94
Kinder Morgan Management, LLC	KMR	S	50.28	63	3,170	17.00	0.54	1.90
Pengrowth Energy Trust	PGH		18.97	246	4,670	17.00	0.29	1.08
Canadian Oil Sands Trust	COSWF	B	39.00	479	18,680	39.00	0.07	1.00
Penn West Energy Trust	PWE	B	31.59	242	7,630	34.00	0.22	0.94
Enerplus Resources Fund	ERF		48.65	128	6,230	52.00	0.13	0.94
San Juan Basin Royalty Trust	SJT	B	37.73	47	1,760	40.00	-	0.94
Hugoton Royalty Trust	HGT	B	25.06	40	1,000	34.00	-	0.74
	<i>Total or Median</i>				<i>52,400</i>		<i>0.18</i>	<i>0.97</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

	Symbol/ Rating		Price (US\$/sh) 5-Nov 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	50.30	24.6	9.7	8.0	12	0.8
BP plc	BP	B	78.79	10.0	6.2	6.4	11	3.3
Exxon Mobil Corporation	XOM	B	87.66	12.1	6.2	5.9	10	1.6
Total S.A.	TOT	B	78.81	9.7	5.6	5.1	9	3.6
Royal Dutch Shell plc	RDS-A	B	84.79	8.1	5.4	4.9	9	3.4
Chevron Corporation	CVX	B	88.48	10.2	5.8	4.9	9	2.6
ConocoPhillips	COP	B	83.92	10.7	6.0	4.8	8	2.0
	<i>Median</i>			10.2	6.0	5.1	9	2.6
Producer/Refiners - Large Cap								
Suncor Energy	SU	B	107.10	26.6	9.4	9.5	17	0.4
PetroChina Company Ltd (10%)	PTR	H	222.10	15.0	6.5	8.6	17	2.1
Imperial Oil Limited (30%)	IMO	B	55.59	13.7	6.6	8.6	14	0.7
Norsk Hydro ASA	NHY	H	14.77	-	6.4	7.2	12	1.3
Petrobras	PBR		90.26	9.8	5.6	6.2	11	1.9
Marathon Oil Corporation	MRO	H	58.75	9.1	5.6	5.4	9	1.6
StatoilHydro ASA (29%)	STO	B	32.97	7.7	5.4	5.1	11	5.2
Lukoil Oil Company	LUKOY	B	92.30	17.8	6.3	4.9	8	1.7
Petro-Canada	PCZ	B	57.41	6.4	5.0	4.5	9	0.9
	<i>Median</i>			9.8	6.3	6.2	11	1.6
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	188.80	10.6	5.4	9.5	17	1.8
XTO Energy Inc.	XTO	B	66.46	11.1	8.4	7.6	15	0.7
Canadian Natural Resources	CNQ		81.28	8.2	7.8	7.4	15	0.4
Encana Corporation	ECA	B	71.73	8.9	7.0	7.0	13	1.1
EOG Resources	EOG	B	87.00	9.0	7.4	6.4	16	0.4
Anadarko Petroleum Corp.	APC	B	57.83	11.2	7.1	6.1	10	1.2
Occidental Petroleum Corp.	OXY	B	70.74	11.8	6.1	5.6	11	1.4
Devon Energy Corporation	DVN	B	92.41	9.0	7.2	5.5	10	0.6
	<i>Median</i>			9.8	7.2	6.7	14	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	46.25	9.9	6.7	7.0	12	0.6
Encore Acquisition Company	EAC	B	35.76	14.5	7.1	5.5	13	-
Cimarex Energy Company	XEC	B	39.90	7.9	6.4	3.6	8	0.4
Energy Partners Ltd.	EPL	B	14.85	5.9	5.2	3.0	-	-
	<i>Median</i>			8.9	6.6	4.5	12	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.95		7.9	15.4	33	6.8
Kinder Morgan Management, LLC	KMR	S	50.28		7.9	15.0	31	7.0
San Juan Basin Royalty Trust	SJT	B	37.73	10.3	13.0	12.3	15	6.7
Canadian Oil Sands Trust	COSWF	B	39.00	21.7	8.4	8.4	10	8.2
Hugoton Royalty Trust	HGT	B	25.06	13.8	11.2	8.2	12	8.3
Enerplus Resources Fund	ERF		48.65	9.4	7.7	7.3	14	10.8
Pengrowth Energy Trust	PGH		18.97	7.1	6.5	7.1	29	15.6
Penn West Energy Trust	PWE	B	31.59	7.7	6.5	6.2	11	13.6
	<i>Median</i>			9.8	7.9	8.3	14	8.2

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

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**McDep Energy Portfolio
Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 5-Nov 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 (%)							
Mega Cap										
BP plc	BP	78.79	3.1	3.2	3.2	0.3	0.3	2.1	0.6	1.04
Exxon Mobil Corporation	XOM	87.66	1.8	1.6		0.1	0.2	0.9	0.4	0.96
Royal Dutch Shell plc	RDS-A	84.79	3.4	3.2	3.2	0.1	0.4	1.6	1.1	0.91
Total S.A.	TOT	78.81	3.3	3.2	3.2		0.9	1.7	0.7	0.90
Chevron Corporation	CVX	88.48	3.4	3.2		0.2	0.2	2.2	0.8	0.86
Gazprom	OGZPY	50.30	10.5	9.7	9.7		7.3	2.4		0.82
ConocoPhillips	COP	83.92	5.8	6.5		1.1	0.4	3.5	1.5	0.80
Producer/Refiners - Large Cap										
Imperial Oil Limited	IMO	55.59	1.4	1.3	1.3	0.1		1.0	0.2	1.30
Suncor Energy	SU	107.10	1.4	1.3	1.3	0.0		1.2	0.1	1.02
StatoilHydro ASA	STO	32.97	1.6	1.6	1.6		0.6	1.0	-	0.95
Petro-Canada	PCZ	57.41	1.3	1.3	1.3	0.2	0.0	0.9	0.2	0.90
Lukoil Oil Company	LUKOY	92.30	7.4	6.5	6.5			4.7	1.8	0.77
Independent Natural Gas and Oil - Large Cap										
Encana Corporation	ECA	71.73	3.7	3.9	3.9	2.6		1.0	0.3	1.00
Occidental Petroleum Corp	OXY	70.74	3.5	3.2		0.4	0.0	2.5	0.3	0.92
XTO Energy Inc.	XTO	66.46	4.6	4.9		3.9		1.0		0.91
EOG Resources	EOG	87.00	7.1	6.5		5.1	0.2	1.2		0.86
Anadarko Petroleum Corp	APC	57.83	2.3	3.2		1.8		1.3	0.1	0.86
Devon Energy Corporation	DVN	92.41	6.2	6.5		3.6		2.9		0.76
Independent Natural Gas and Oil - Small Cap										
Berry Petroleum Company	BRY	46.25	1.5	1.6		0.4		1.2		1.04
Encore Acquisition Comp.	EAC	35.76	2.2	3.2		0.7		2.6		0.77
Energy Partners Ltd.	EPL	14.85	1.8	3.2		1.6		1.6		0.58
Cimarex Energy Company	XEC	39.90	3.2	3.2		2.2		1.0		0.57
Income										
Canadian Oil Sands Trust	COSWF	39.00	5.7	5.2	5.2	(0.5)		5.7		1.00
Penn West Energy Trust	PWE	31.59	2.3	2.6	2.6	0.8		1.8		0.94
San Juan Basin Royalty Tr	SJT	37.73	7.6	6.5		6.5				0.94
Hugoton Royalty Trust	HGT	25.06	3.8	3.2		3.2				0.74
Portfolio Composite										
			100	100	43	34	11	47	8	0.84
	Canada				16					
	Russia				16					
	Europe				11					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.7% to four-tenths at 1.3%.

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
2-Nov	CVX	Chevron Corporation	A Bias to be Oilier
1-Nov	MRO	Marathon Oil Corporation	Oil Sands Deal Closed
1-Nov	CNQ	Canadian Natural Resources	Heavy Oil, Natural Gas and Oil Sands
1-Nov	XOM	Exxon Mobil Corporation	Energy Money Fund
31-Oct	COSWF	Canadian Oil Sands Trust	Oil Price Trumps Alberta Tax Hike
31-Oct	EAC	Encore Acquisition	Oil with Income Alternative in Encore Energy Partners
31-Oct	BRY	Berry Petroleum	Plans Master Limited Partnership (MLP)
30-Oct	IMO	Imperial Oil Limited	Oil Price Yes, Alberta Royalties No
30-Oct	NHY	Norsk Hydro ASA	Real Growth in Materials
30-Oct	CEO	CNOOC Ltd	Flourishing China Stock Market
29-Oct	EOG	EOG Resources Inc.	Natural Gas Sleeper
29-Oct	STO	StatoilHydro ASA	Shtokman Partner
26-Oct	PTR	PetroChina Company Limited	Revise to Hold from Buy on Price
25-Oct	ECA	EnCana Corporation	Political Cloud over Canada
25-Oct	SU	Suncor Energy	Political Pall over Canada
25-Oct	RDSA	Royal Dutch Shell plc	Healthy Business
25-Oct	PCZ	Petro-Canada	Political Pall over Canada
24-Oct	OXY	Occidental Petroleum Corporation	Preferred Operator in the Middle East
24-Oct	COP	ConocoPhillips	Low Stock Price for Strong Cash Flow
23-Oct	XTO	XTO Energy Inc.	Raise Net Present Value to \$75 A Share
23-Oct	BP	BP p.l.c.	Lower Net Present Value to \$75 A Share
17-Oct	KMP	Kinder Morgan	A Little Corruption, American Style
15-Oct	* PTR	PetroChina Company Limited	Stock Price Advance Carries Higher Risk
8-Oct	* OGZPY	Gazprom	The Saudi Arabia of Natural Gas
12-Sep	* LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	* SJT	San Juan Basin Royalty Trust	Mountains and Valleys
8-Aug	* EPL	Energy Partners, Ltd.	Oversold
3-Aug	* PWE	Penn West Energy Trust	High Return from Distributions
2-Aug	* TOT	Total S.A.	Constructive Russo-French Interdependence
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait

Meter Reader

6-Nov	Weekly	Desert Deep Throat
30-Oct	Weekly	\$90 Oil and Alberta Tax
23-Oct	* Weekly	China Omen
16-Oct	* Weekly	The Black Swan

Oil and Gas Income Stocks (previously Natural Gas and Oil Royalty Trusts)

2-Nov	Weekly	Penn West to Acquire Canetic
26-Oct	Weekly	McDep Ratio Opportunity in Hugoton
19-Oct	* Weekly	Optimum Price for Natural Gas
12-Oct	* Weekly	Caution in Buoyant Times

Industry Ideas

26-Oct	Alberta's New Royalty Framework	Gradually Reduce Canadian Weighting
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