



Meter Reader

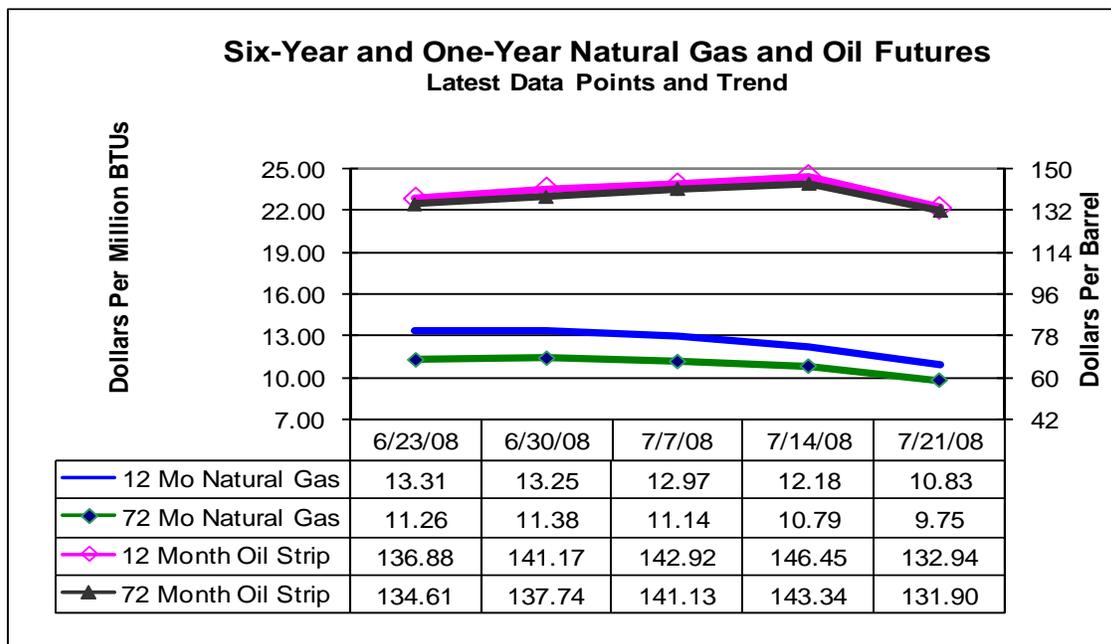
A Weekly Analysis of Energy Stocks Using the McDep Ratio
July 22, 2008

McDep Ratio Says Buy

Summary and Recommendation

Sharp declines in oil and gas prices and stock prices during the past week present attractive opportunities for new investment in buy recommendations at a composite McDep Ratio of 0.70 (see table [McDep Energy Portfolio](#)). That implies stocks are priced for oil at \$70 a barrel when current quotes for the next six years average \$132, above the 40-week average of \$103 (see charts below and on last page). **Petro-Canada (PCZ)** at a McDep Ratio of 0.59, has a cash flow multiple (EV/Ebitda) of 2.7 times that is less than half the life index of proven reserves (see tables [Rank by McDep Ratio](#) and [Rank by EV/Ebitda](#)). Estimated Ebitda for the next twelve months is up to date with July 21 futures prices. Out-of-favor **BP plc (BP)** at a McDep Ratio of 0.67 also has a cash flow multiple (4.0 times) that is less than half the life index of proven reserves. Relative to oil, natural gas has half of its price potential still ahead. Concentrated 53% on the under-appreciated clean fuel, **Devon Energy (DVN)**, too, at a McDep Ratio of 0.65 has a cash flow multiple (4.3 times) that is less than half the life index of proven reserves. While the main risk may be political, we have seen in recent years that commodity markets have adjusted upward for otherwise negative political decisions. Some positive political surprise might help stock prices adjust upward to better reflect the progress of commodity prices.

Kurt H. Wulff, CFA





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Oil and Gas Producers - Rank by McDep Ratio									
			Price (US\$/sh)			Net Present Value	Debt/ Present Value	McDep Ratio	
	Symbol/ Rating		21-Jul 2008	Shares (mm)	Market Cap (US\$mm)	(US\$/sh)			
Mega Cap									
Petrobras	PBR		59.66	4,387	261,730	75.00	0.10	0.82	
Exxon Mobil Corporation	XOM	B	82.98	5,362	445,000	118.00	0.05	0.72	
Chevron Corporation	CVX	B	86.91	2,206	192,000	135.00	0.08	0.67	
BP plc	BP	B	62.99	3,146	198,000	104.00	0.16	0.67	
Royal Dutch Shell plc	RDS-A	B	73.86	3,106	229,000	120.00	0.10	0.66	
Total S.A.	TOT	B	76.37	2,254	172,000	125.00	0.10	0.65	
ConocoPhillips	COP	B	85.86	1,582	136,000	150.00	0.17	0.64	
Gazprom (50%)	OGZPY	B	50.60	2,865	145,000	88.00	0.10	0.62	
<i>Total or Median</i>						1,779,000		0.10	0.66
Producer/Refiners - Large Cap									
Imperial Oil Limited (30%)	IMO	B	49.71	272	13,510	65.00	0.05	0.78	
Suncor Energy	SU	B	56.07	946	53,040	75.00	0.08	0.77	
StatoilHydro ASA (29%)	STO	B	32.55	928	30,210	52.00	0.12	0.67	
Marathon Oil Corporation	MRO	H	44.17	717	31,670	75.00	0.18	0.66	
PetroChina Company Ltd (14%)	PTR	B	132.86	256	34,040	220.00	0.04	0.62	
Petro-Canada	PCZ	B	49.20	488	24,010	90.00	0.10	0.59	
Lukoil Oil Company	LUKOY	B	92.90	826	77,000	170.00	0.01	0.55	
<i>Total or Median</i>						263,000		0.08	0.66
Independent Natural Gas and Oil - Large Cap									
CNOOC Limited (34%)	CEO	H	155.90	152	23,740	180.00	-	0.87	
Encana Corporation	ECA	B	79.99	753	60,200	100.00	0.18	0.84	
EOG Resources	EOG	B	109.03	250	27,200	140.00	0.05	0.79	
Canadian Natural Resources	CNQ	B	89.29	540	48,200	124.00	0.17	0.77	
Chesapeake Energy Corporation	CHK		55.84	556	31,050	80.00	0.22	0.76	
Anadarko Petroleum Corp.	APC	B	64.76	470	30,400	100.00	0.27	0.74	
XTO Energy Inc.	XTO	B	57.98	549	31,820	88.00	0.19	0.72	
Occidental Petroleum Corp.	OXY	B	79.97	828	66,200	120.00	0.05	0.68	
Devon Energy Corporation	DVN	B	103.06	449	46,300	170.00	0.10	0.65	
<i>Total or Median</i>						365,000		0.17	0.76
Independent Natural Gas and Oil - Small Cap									
Birchcliff Energy Ltd. (US\$)	BIR.TO		14.06	112	1,570	14.00	0.09	1.00	
Encore Acquisition Company	EAC	B	67.40	54	3,630	75.00	0.25	0.92	
Berry Petroleum Company	BRY	B	50.57	45	2,290	65.00	0.32	0.85	
Cimarex Energy Company	XEC	B	61.61	85	5,250	100.00	0.07	0.64	
Energy Partners Ltd.	EPL		13.12	32	420	30.00	0.35	0.64	
<i>Total or Median</i>						13,200		0.25	0.85
Income									
Kinder Morgan Energy Partners, L.P.	KMP	S	59.17	184	10,900	17.00	0.60	1.99	
Kinder Morgan Management, LLC	KMR	S	56.24	75	4,220	17.00	0.60	1.93	
Canadian Oil Sands Trust	COSWF	B	47.94	479	22,960	57.00	0.04	0.85	
San Juan Basin Royalty Trust	SJT	B	40.37	47	1,880	48.00	-	0.84	
Penn West Energy Trust	PWE	B	31.04	377	11,700	40.00	0.25	0.83	
Pengrowth Energy Trust	PGH		18.57	247	4,590	24.00	0.25	0.83	
Hugoton Royalty Trust	HGT	B	32.87	40	1,310	42.00	-	0.78	
Enerplus Resources Fund	ERF		42.39	153	6,490	63.00	0.14	0.72	
<i>Total or Median</i>						64,100		0.20	0.84
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									
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.									



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Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		21-Jul 2008	NTM	NTM	NTM	NTM	
Mega Cap								
Petrobras	PBR		59.66	10.4	8.4	6.9	12	1.4
Gazprom (50%)	OGZPY	B	50.60	24.6	10.4	6.4	9	0.9
Exxon Mobil Corporation	XOM	B	82.98	12.2	6.5	4.6	8	1.9
Total S.A.	TOT	B	76.37	9.0	6.2	4.1	7	4.3
BP plc	BP	B	62.99	9.9	6.0	4.0	6	5.2
Chevron Corporation	CVX	B	86.91	9.4	5.9	4.0	7	3.0
ConocoPhillips	COP	B	85.86	10.7	5.9	3.8	6	2.2
Royal Dutch Shell plc	RDS-A	B	73.86	7.5	5.5	3.6	6	4.3
	<i>Median</i>			10.2	6.1	4.0	7	2.6
Producer/Refiners - Large Cap								
Imperial Oil Limited (30%)	IMO	B	49.71	13.9	8.2	6.3	10	0.7
Suncor Energy	SU	B	56.07	21.2	7.8	6.0	10	0.7
PetroChina Company Ltd (14%)	PTR	B	132.86	14.4	6.5	4.0	7	4.0
StatoilHydro ASA (29%)	STO	B	32.55	7.7	5.8	3.9	7	5.1
Marathon Oil Corporation	MRO	H	44.17	8.3	5.6	3.7	6	2.2
Lukoil Oil Company	LUKOY	B	92.90	18.4	6.3	3.5	6	1.8
Petro-Canada	PCZ	B	49.20	6.5	4.6	2.7	5	1.1
	<i>Median</i>			13.9	6.3	3.9	7	1.8
Independent Natural Gas and Oil - Large Cap								
Chesapeake Energy Corporation	CHK		55.84	11.5	8.6	6.6	12	0.5
XTO Energy Inc.	XTO	B	57.98	12.2	7.9	5.7	12	0.8
Canadian Natural Resources	CNQ	B	89.29	8.7	7.4	5.7	11	0.4
Encana Corporation	ECA	B	79.99	8.7	6.4	5.3	10	2.0
EOG Resources	EOG	B	109.03	10.0	6.8	5.3	11	0.4
CNOOC Limited (34%)	CEO	H	155.90	9.2	5.7	4.9	9	2.5
Anadarko Petroleum Corp.	APC	B	64.76	9.5	5.9	4.3	8	1.1
Devon Energy Corporation	DVN	B	103.06	9.4	6.7	4.3	8	0.5
Occidental Petroleum Corp.	OXY	B	79.97	11.6	6.3	4.3	8	1.6
	<i>Median</i>			9.5	6.7	5.3	10	0.8
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		14.06	7.0	8.7	8.7	29	-
Encore Acquisition Company	EAC	B	67.40	13.9	6.7	6.2	11	-
Berry Petroleum Company	BRY	B	50.57	10.2	6.8	5.7	9	0.6
Cimarex Energy Company	XEC	B	61.61	7.5	5.3	3.4	7	0.3
Energy Partners Ltd.	EPL		13.12	7.3	3.7	2.4		-
	<i>Median</i>			7.5	6.7	5.7	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	59.17		7.8	15.6	24	6.7
Kinder Morgan Management, LLC	KMR	S	56.24		7.8	15.1	23	7.0
San Juan Basin Royalty Trust	SJT	B	40.37	10.4	9.5	8.0	10	10.2
Canadian Oil Sands Trust	COSWF	B	47.94	22.0	8.0	6.8	8	12.9
Hugoton Royalty Trust	HGT	B	32.87	13.2	8.6	6.7	10	10.3
Pengrowth Energy Trust	PGH		18.57	8.9	6.0	5.0	99	14.5
Enerplus Resources Fund	ERF		42.39	9.6	6.4	4.6	8	11.8
Penn West Energy Trust	PWE	B	31.04	7.2	5.3	4.4	10	13.8
	<i>Median</i>			10.0	7.8	6.8	10	11.1
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; 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										
						North	Rest			
		Price			Non-	Amer.	of World			
		(US\$/sh)	Portfolio Weight		U.S.	Natural	Natural	Oil	Down-	
		21-Jul	Equity	EV	HQ	Gas	Gas	Prod'n	stream	McDep
	Symbol	2008	(%)	(%)	(%)	(%)	(%)	(%)	(%)	Ratio
Mega Cap										
Exxon Mobil Corporation	XOM	82.98	3.5	3.2		0.2	0.5	1.8	0.6	0.72
Chevron Corporation	CVX	86.91	3.3	3.2		0.2	0.2	2.3	0.5	0.67
BP plc	BP	62.99	2.9	3.2	3.2	0.3	0.3	2.2	0.4	0.67
Royal Dutch Shell plc	RDS-A	73.86	3.2	3.2	3.2	0.1	0.5	1.7	0.8	0.66
Total S.A.	TOT	76.37	3.2	3.2	3.2		0.5	2.2	0.5	0.65
ConocoPhillips	COP	85.86	5.6	6.4		0.9	0.4	3.8	1.2	0.64
Gazprom	OGZPY	50.60	9.5	9.6	9.6		7.7	1.8		0.62
<i>Total or Median</i>				31	32					0.66
Producer/Refiners - Large Cap										
Imperial Oil Limited	IMO	49.71	1.4	1.3	1.3	0.1		1.0	0.2	0.78
Suncor Energy	SU	56.07	1.4	1.3	1.3	0.0		1.2	0.1	0.77
StatoilHydro ASA	STO	32.55	1.5	1.6	1.6		0.5	1.1	-	0.67
PetroChina Company Ltd (14	PTR	132.86	1.8	1.6	1.6	-	0.1	1.3	0.2	0.62
Petro-Canada	PCZ	49.20	1.2	1.3	1.3	0.1	0.0	0.9	0.2	0.59
Lukoil Oil Company	LUKOY	92.90	7.3	6.4	6.4			4.6	1.8	0.55
<i>Total or Median</i>				15	13					0.65
Independent Natural Gas and Oil - Large Cap										
Encana Corporation	ECA	79.99	3.5	3.8	3.8	2.8		0.8	0.2	0.84
EOG Resources	EOG	109.03	5.3	4.8		3.4	0.3	1.2		0.79
Canadian Natural Resources	CNQ	89.29	1.5	1.6	1.6	0.4		1.2		0.77
Anadarko Petroleum Corp.	APC	64.76	3.6	4.8		2.5		2.2	0.1	0.74
XTO Energy Inc.	XTO	57.98	4.2	4.8		3.5		1.3		0.72
Occidental Petroleum Corp.	OXY	79.97	3.5	3.2		0.4	0.0	2.6	0.2	0.68
Devon Energy Corporation	DVN	103.06	6.3	6.4		3.4		3.0		0.65
<i>Total or Median</i>				28	29					0.74
Independent Natural Gas and Oil - Small Cap										
Encore Acquisition Company	EAC	67.40	2.7	3.2		0.5		2.7		0.92
Berry Petroleum Company	BRY	50.57	1.2	1.6		0.7		0.9		0.85
Cimarex Energy Company	XEC	61.61	3.4	3.2		2.0		1.2		0.64
<i>Total or Median</i>				7	8					0.85
Income										
Canadian Oil Sands Trust	COSWF	47.94	5.7	5.1	5.1	(0.5)		5.6		0.85
San Juan Basin Royalty Trust	SJT	40.37	7.5	6.4		6.4				0.84
Penn West Energy Trust	PWE	31.04	2.1	2.6	2.6	0.8		1.8		0.83
Hugoton Royalty Trust	HGT	32.87	3.8	3.2		3.2				0.78
<i>Total or Median</i>				19	17					0.84
Portfolio Composite										
			100	100	46	31	11	50	7	0.70
Canada					17					
Russia					16					
Europe					11					
China					2					
Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.6% 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>
17-Jul	KMP	Kinder Morgan	Oil Hedge Loss Twice Cash Flow
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
17-Jun	* XTO	XTO Energy Inc.	Beating a Tax Deadline
16-Jun	* BRY	Berry Petroleum	Timely Natural Gas Deal
13-Jun	* PWE	Penn West Energy Trust	Raise Distribution, Adjust NPV (Income Weekly)
6-Jun	* COSWF	Canadian Oil Sands Trust	Raise Distribution Estimate 50% (Income Weekly)
4-Jun	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$170 a Share
29-May	* XTO	XTO Energy Inc.	Low McDep Ratio Natural Gas
27-May	* EAC	Encore Acquisition Company	Bullish Encore (Meter Reader)
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share
13-May	* PWE	Penn West Energy Trust	Raise Net Present Value to \$45 a Share
13-May	* STO	StatoilHydro ASA	Raise Net Present Value to \$52 a Share
13-May	* ECA	EnCana Corporation	Splits Natural Gas and Oil Sands (Meter Reader)
9-May	* CNQ	Canadian Natural Resources	Raise Net Present Value to \$124 a Share
8-May	* EAC	Encore Acquisition Company	\$120 a Barrel Excitement
7-May	* DVN	Devon Energy Corporation	Resources Three Times Reserves
7-May	* TOT	Total S.A.	Euro Oil Leader
6-May	* XEC	Cimarex Energy Company	Raise Net Present Value to \$85 a Share
6-May	* APC	Anadarko Petroleum Corporation	Positives Outweigh Negatives
2-May	* CVX	Chevron Corporation	Refining Penalty
2-May	* EOG	EOG Resources Inc.	Stock Outperforms
1-May	* IMO	Imperial Oil Limited	ExxonMobil's Undeveloped Opportunities
1-May	* MRO	Marathon Oil Corporation	Hangover from Last Year's Refining Boom
1-May	* XOM	Exxon Mobil Corporation	World's Safest Investment
29-Apr	* BP	BP p.l.c.	Getting Back on Track
29-Apr	* PCZ	Petro-Canada	Low McDep Ratio
29-Apr	* RDSA	Royal Dutch Shell plc	Non U.S. Energy MegaCap
28-Apr	* PTR	PetroChina Company Limited	Winter Sacrifice
28-Apr	* CEO	CNOOC Ltd	Raise Net Present Value to \$140 a Share
25-Apr	* SJT	San Juan Basin Royalty Trust	Better News Ahead (Income Weekly)
24-Apr	* COP	ConocoPhillips	Timely Investment Choice
24-Apr	* OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$100 a Share
24-Apr	* SU	Suncor Energy	Booming Oil
22-Apr	* ECA	EnCana Corporation	Largest North American Natural Gas Producer
18-Apr	* HGT	Hugoton Royalty Trust	Simpson Sustainability (Income Weekly)

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22-Jul		Weekly	McDep Ratio Says Buy
15-Jul		Weekly	Forty Percent Premium for Natural Gas Explorer
8-Jul		Chesapeake Energy Corporation	Haynesville Natural Gas
1-Jul	*	Gazprom	Cheap Natural Gas

Oil and Gas Income Stocks

18-Jul		Encore Energy Partners, L.P.	Upgrade Estimates for ENP
10-Jul		Weekly	Oil Price Trend Up
3-Jul		Weekly	Twenty Dollar Natural Gas Next Winter
27-Jun	*	Weekly	Monetary Diversification

* Archived on www.mcdep.com

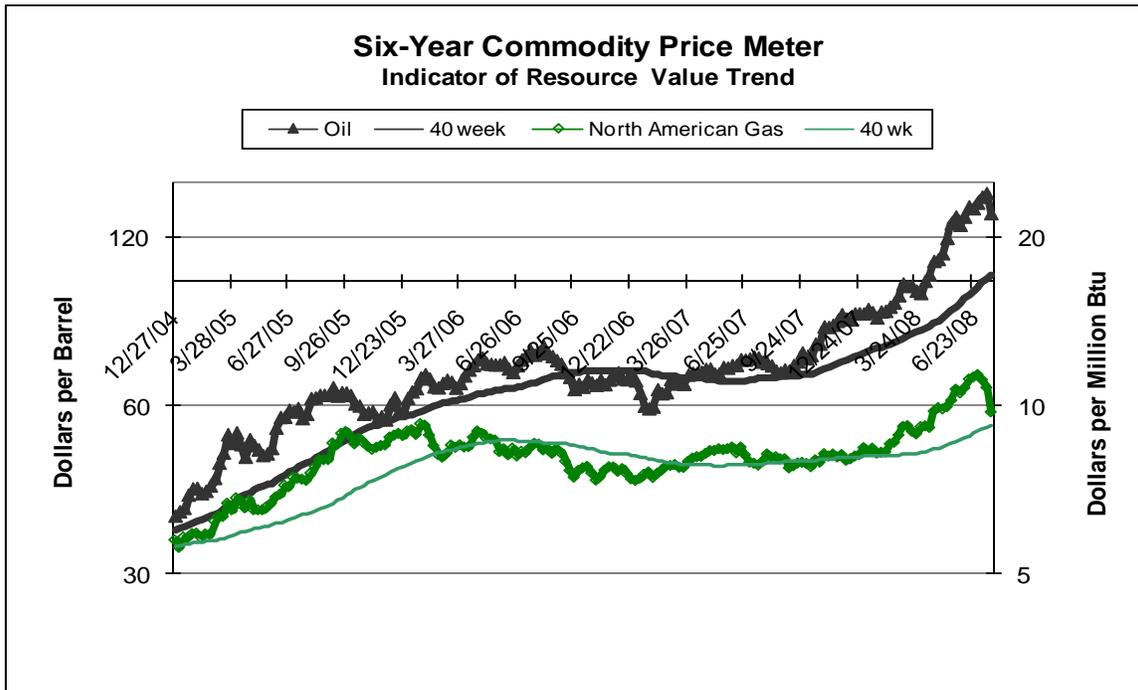
Please see disclosures on the final page.

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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.