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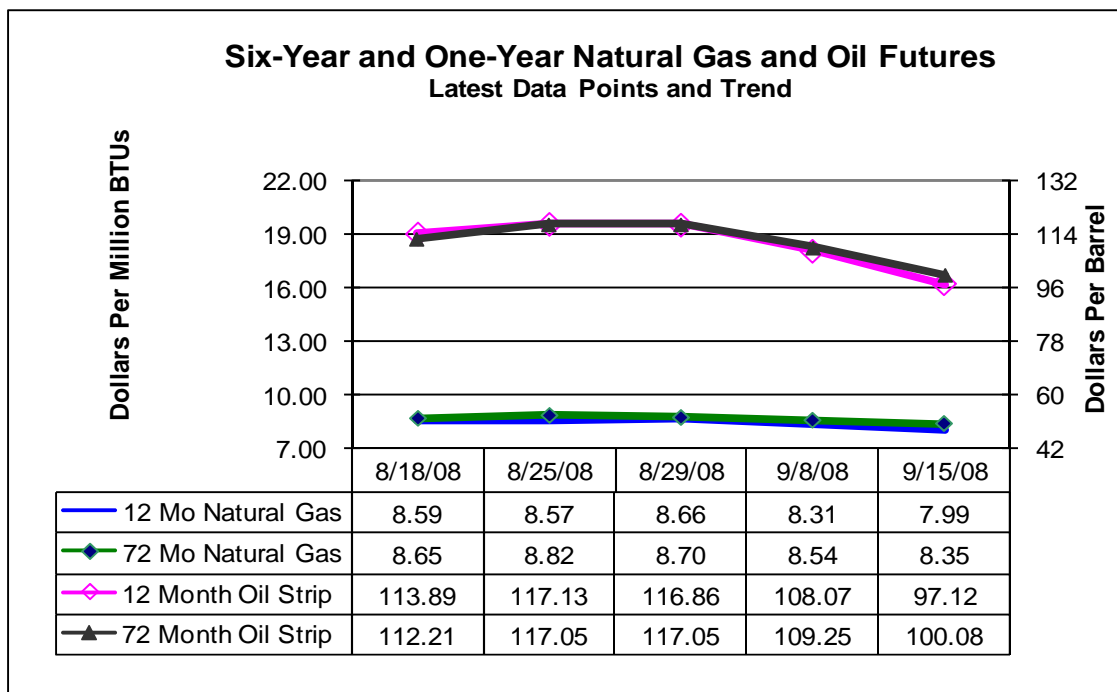
A Weekly Analysis of Energy Stocks Using the McDep Ratio
September 16, 2008

Deep Water Brazil

Summary and Recommendation

Among stocks in our coverage, **Petrobras (PBR)** and **BG Group (BRGXF)** offer exciting long-term participation in the world's most important oil discoveries of the past three years. The finds are in the Pre-Salt formation of the Santos Basin offshore Brazil under water a mile deep. After the market decline of recent months, both stocks offer better entry points for accumulating shares. Though our buy ratings remain suspended amid tumultuous financial markets, we believe in the long-term appeal of energy investments. Meanwhile, in a press release last week, Petrobras estimated recoverable reserves of 3 to 4 billion barrels at Yara (65% PBR, 25% BG) (see map, page 2, from PBR disclosures). Combined with last year's estimate of 5 to 8 billion barrels at nearby Tupi (65% PBR, 25% BG), the range of total recoverable reserves has a midpoint of 10 billion barrels. That is enough to support a million barrels a day from the ten platforms PBR has ordered for delivery in 2013 to 2016. Estimates of Present Value include \$102 billion in PBR and \$24 billion in BG for the Pre-Salt off Brazil (see tables Functional Cash Flow and Present Value). McDep Ratios imply that market cap and debt is 0.58 and 0.73 times PV for PBR and BG respectively. Finally, six-year oil ended its uptrend compared to the 40-week average signaling a need for more patience in anticipating renewed price gains (see chart below and on last page).

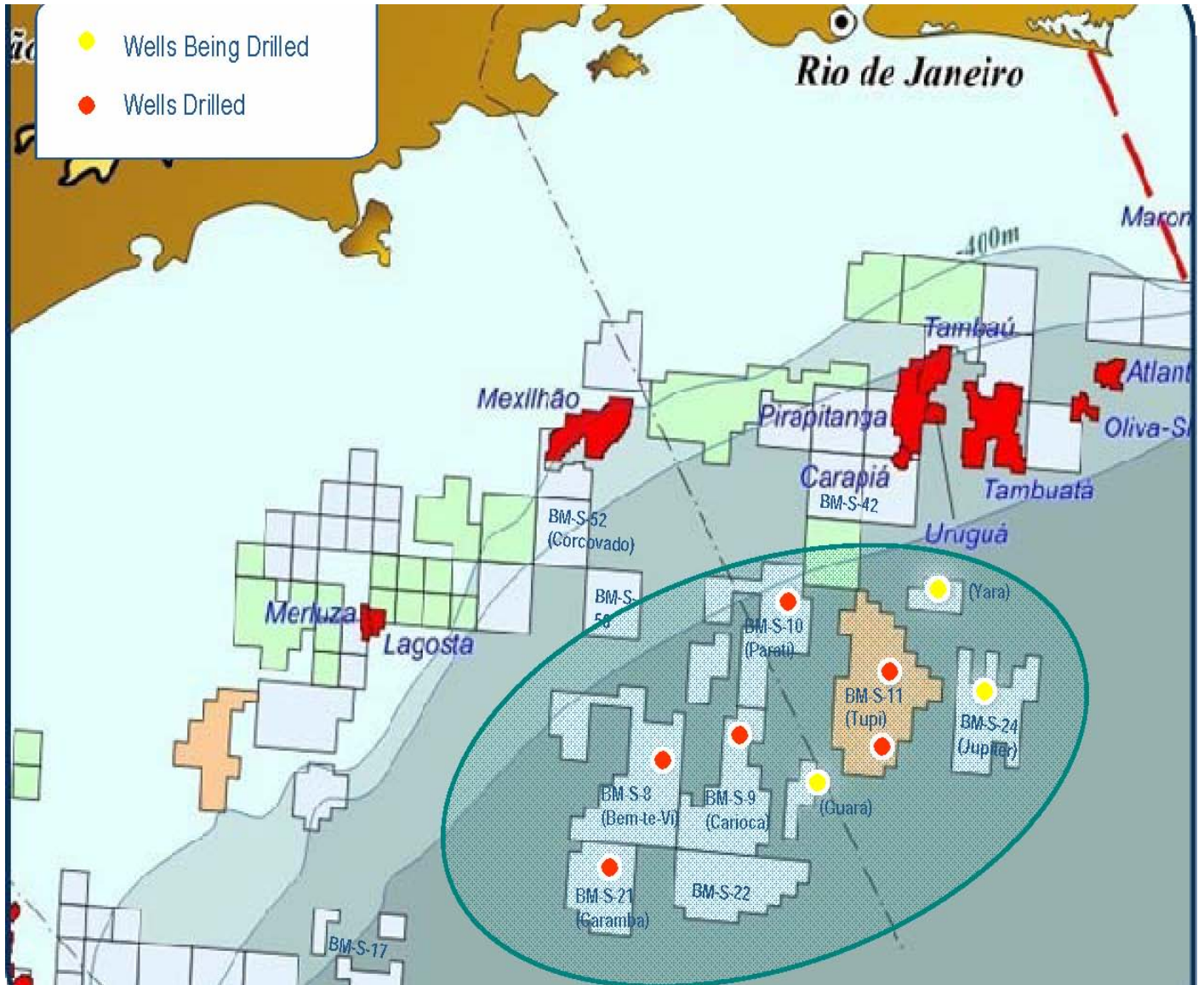
Kurt H. Wulff, CFA





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Petrobras					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Rest of World Natural Gas	2,902	10.3	6.2	18,000	5%
Oil	26,194	10.4	8.5	222,000	61%
Downstream	5,660		3.9	22,000	6%
Pre Salt Deep Water Oil				102,000	28%
	34,757	10.4	10.5	364,000	100%
Debt (US\$mm)					35,000
Net Present Value (US\$mm)					329,000
Shares (mm)					4,387
Net Present Value - Standard Estimate (US\$/sh)					75

BG Group plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Rest of World Natural Gas	2,670	7.8	8.6	23,000	23%
Oil	3,750	6.8	9.3	35,000	34%
Downstream	3,580		5.6	20,000	20%
Offshore Brazil				24,000	24%
	10,000	7.5	10.2	102,000	100%
Debt (US\$mm)					7,000
Net Present Value (US\$mm)					95,000
Shares (mm)					3,384
Net Present Value - Standard Estimate (US\$/sh)					28



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Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		15-Sep	Shares	Cap	Value	Present	
	Rating		2008	(mm)	(US\$m)	(US\$/sh)	Value	
							Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM		74.62	5,261	393,000	118.00	0.05	0.65
Chevron Corporation	CVX		80.52	2,206	178,000	135.00	0.09	0.63
BP plc	BP		51.93	3,137	163,000	104.00	0.17	0.59
Petrobras	PBR		40.40	4,387	177,230	75.00	0.10	0.58
Royal Dutch Shell plc	RDS-A		60.07	3,095	186,000	120.00	0.11	0.56
ConocoPhillips	COP		68.70	1,555	107,000	150.00	0.17	0.55
Total S.A.	TOT		60.78	2,253	137,000	125.00	0.09	0.53
Gazprom (50%)	OGZPY		31.29	2,865	89,600	88.00	0.09	0.41
<i>Total or Median</i>					1,431,000		0.09	0.57
Producer/Refiners - Large Cap								
BG Group plc	BRGXF		19.75	3,384	66,830	28.00	0.07	0.73
Imperial Oil Limited (30%)	IMO		43.05	269	11,560	65.00	0.05	0.68
Marathon Oil Corporation	MRO		40.93	714	29,220	70.00	0.21	0.67
Suncor Energy	SU		43.74	953	41,680	75.00	0.08	0.62
StatoilHydro ASA (29%)	STO		23.57	928	21,870	52.00	0.12	0.52
PetroChina Company Ltd (14%)	PTR		105.97	257	27,270	220.00	0.04	0.50
Petro-Canada	PCZ		37.37	484	18,090	90.00	0.11	0.48
Lukoil Oil Company	LUKOY		60.70	839	51,000	170.00	0.03	0.37
<i>Total or Median</i>					268,000		0.08	0.57
Independent Natural Gas and Oil - Large Cap								
Encana Corporation	ECA		63.78	751	47,900	100.00	0.19	0.71
Canadian Natural Resources	CNQ		72.11	541	39,000	124.00	0.18	0.66
Anadarko Petroleum Corp.	APC		50.90	471	24,000	100.00	0.27	0.64
EOG Resources	EOG		85.10	251	21,400	140.00	0.07	0.63
CNOOC Limited (34%)	CEO		113.76	152	17,320	180.00	-	0.63
XTO Energy Inc.	XTO		46.99	580	27,250	88.00	0.19	0.62
Chesapeake Energy Corporation	CHK		38.25	550	21,040	80.00	0.26	0.62
Occidental Petroleum Corp.	OXY		67.73	826	55,900	120.00	0.06	0.59
Devon Energy Corporation	DVN		89.49	450	40,300	170.00	0.10	0.57
<i>Total or Median</i>					294,000		0.18	0.63
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC		43.52	52	2,280	75.00	0.28	0.70
Berry Petroleum Company	BRY		33.33	46	1,520	65.00	0.37	0.69
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.03	117	1,060	14.00	0.10	0.68
Energy Partners Ltd.	EPL		9.01	32	290	30.00	0.39	0.57
Cimarex Energy Company	XEC		45.95	86	3,930	100.00	0.06	0.49
<i>Total or Median</i>					9,100		0.28	0.68
Income								
San Juan Basin Royalty Trust	SJT		36.91	47	1,720	48.00	-	0.77
Pengrowth Energy Trust	PGH		15.59	248	3,870	24.00	0.26	0.74
Penn West Energy Trust	PWE		24.41	380	9,280	40.00	0.26	0.71
Canadian Oil Sands Trust	COSWF		37.71	481	18,140	57.00	0.04	0.68
Hugoton Royalty Trust	HGT		26.88	40	1,080	42.00	-	0.64
Enerplus Resources Fund	ERF		35.95	165	5,910	63.00	0.13	0.63
<i>Total or Median</i>					40,000		0.08	0.69
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	15-Sep 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM	NTM (%)
Mega Cap							
Petrobras	PBR	40.40	10.4	10.4	6.1	12	2.1
Exxon Mobil Corporation	XOM	74.62	12.2	8.1	5.3	9	2.1
Chevron Corporation	CVX	80.52	9.5	7.9	5.0	8	3.2
Gazprom (50%)	OGZPY	31.29	24.6	11.5	4.7	6	1.3
BP plc	BP	51.93	10.0	7.9	4.6	7	6.5
ConocoPhillips	COP	68.70	10.9	8.0	4.4	7	2.7
Total S.A.	TOT	60.78	9.1	7.8	4.1	7	5.3
Royal Dutch Shell plc	RDS-A	60.07	7.6	7.1	3.9	7	5.3
	<i>Median</i>		10.2	8.0	4.7	7	3.0
Producer/Refiners - Large Cap							
BG Group plc	BRGXF	19.75	7.5	10.1	7.4	14	1.0
Imperial Oil Limited (30%)	IMO	43.05	14.2	10.3	7.0	11	0.8
Suncor Energy	SU	43.74	21.7	11.1	6.9	11	0.4
Marathon Oil Corporation	MRO	40.93	8.8	7.8	5.3	10	2.3
PetroChina Company Ltd (14%)	PTR	105.97	14.3	8.7	4.4	9	4.0
StatoilHydro ASA (29%)	STO	23.57	7.9	7.8	4.1	8	6.2
Petro-Canada	PCZ	37.37	7.2	7.0	3.4	6	2.1
Lukoil Oil Company	LUKOY	60.70	18.6	7.5	2.8	4	2.5
	<i>Median</i>		11.5	8.3	4.8	10	2.2
Independent Natural Gas and Oil - Large Cap							
Chesapeake Energy Corporation	CHK	38.25	11.1	12.6	7.8	15	0.8
Canadian Natural Resources	CNQ	72.11	9.0	11.4	7.5	18	0.5
XTO Energy Inc.	XTO	46.99	11.4	11.4	7.1	16	1.0
EOG Resources	EOG	85.10	9.8	9.8	6.2	15	0.6
Encana Corporation	ECA	63.78	8.6	8.7	6.1	23	2.5
Anadarko Petroleum Corp.	APC	50.90	9.7	9.0	5.8	16	1.4
Devon Energy Corporation	DVN	89.49	9.3	9.9	5.7	13	0.7
Occidental Petroleum Corp.	OXY	67.73	11.8	8.6	5.0	9	1.9
CNOOC Limited (34%)	CEO	113.76	9.3	7.2	4.6	8	4.2
	<i>Median</i>		9.7	9.8	6.1	15	1.0
Independent Natural Gas and Oil - Small Cap							
Birchcliff Energy Ltd. (US\$)	BIR.TO	9.03	7.1	14.2	9.7	(256)	-
Encore Acquisition Company	EAC	43.52	13.9	9.3	6.5	14	-
Berry Petroleum Company	BRY	33.33	9.7	9.2	6.4	16	0.9
Energy Partners Ltd.	EPL	9.01	7.2	6.5	3.7	-	-
Cimarex Energy Company	XEC	45.95	7.4	7.4	3.7	8	0.5
	<i>Median</i>		7.4	9.2	6.4	11	-
Income							
San Juan Basin Royalty Trust	SJT	36.91	10.6	14.7	11.3	14	7.2
Canadian Oil Sands Trust	COSWF	37.71	21.6	12.2	8.3	10	11.6
Hugoton Royalty Trust	HGT	26.88	13.1	13.3	8.6	12	8.4
Pengrowth Energy Trust	PGH	15.59	9.1	8.0	6.0	(134)	16.6
Enerplus Resources Fund	ERF	35.95	9.6	9.3	5.8	27	15.0
Penn West Energy Trust	PWE	24.41	7.5	8.1	5.8	13	16.0
	<i>Median</i>		10.1	10.7	7.1	12	13.3
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 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											
Geographic Domicile and Business Segments											
	Symbol	Price (US\$/sh) 15-Sep 2008	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio	
					North Amer.		Rest of World		Oil Prod'n		Down- stream
					Natural Gas	Natural Gas	Natural Gas	Natural Gas			
U.S. Integrated											
Marathon Oil Corporation	MRO	40.93	1.45	42,300	8	6	66	20	0.67		
Exxon Mobil Corporation	XOM	74.62	1.09	426,000	7	17	57	20	0.65		
Chevron Corporation	CVX	80.52	1.16	205,000	5	8	75	12	0.63		
ConocoPhillips	COP	68.70	1.45	155,000	15	7	59	19	0.55		
<i>Total or Median *</i>		<i>13%</i>	<i>33%</i>	<i>828,000</i>					<i>0.64</i>		
Europe											
BG Group	BRGXF	19.75	1.11	74,100		23	58	20	0.73		
BP plc	BP	51.93	1.42	232,000	9	10	70	11	0.59		
Royal Dutch Shell plc	RDS-A	60.07	1.26	233,000	3	16	55	26	0.56		
Total S.A.	TOT	60.78	1.20	165,000		17	68	15	0.53		
StatoilHydro ASA (29%)	STO	23.57	1.31	28,600		38	62		0.52		
<i>Total or Median *</i>		<i>11%</i>	<i>29%</i>	<i>733,000</i>					<i>0.56</i>		
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	113.76	1.00	17,300		9	91		0.63		
Petrobras	PBR	40.40	1.20	212,000			85	8	0.58		
PetroChina Company Ltd (14%)	PTR	105.97	1.10	29,900		9	80	12	0.50		
Gazprom (50%)	OGZPY	31.29	1.27	114,000		82	18		0.41		
Lukoil Oil Company	LUKOY	60.70	1.08	55,000			66	34	0.37		
<i>Total or Median *</i>		<i>18%</i>	<i>17%</i>	<i>428,000</i>					<i>0.50</i>		
U.S. Independent											
San Juan Basin Royalty Trust	SJT	36.91	1.00	1,720	100				0.77		
Encore Acquisition Company	EAC	43.52	1.66	3,780	17		83		0.70		
Berry Petroleum Company	BRY	33.33	2.15	3,280	38		62		0.69		
Hugoton Royalty Trust	HGT	26.88	1.00	1,080	100				0.64		
Anadarko Petroleum Corp.	APC	50.90	1.72	41,400	51		46	3	0.64		
EOG Resources	EOG	85.10	1.12	23,800	69	5	26		0.63		
XTO Energy Inc.	XTO	46.99	1.44	39,200	74		26		0.62		
Chesapeake Energy Corporation	CHK	38.25	1.74	36,700	84		16		0.62		
Occidental Petroleum Corp.	OXY	67.73	1.10	61,700	12	1	81	6	0.59		
Devon Energy Corporation	DVN	89.49	1.21	48,900	55		45		0.57		
Energy Partners Ltd.	EPL	9.01	3.11	900	38		62		0.57		
Cimarex Energy Company	XEC	45.95	1.15	4,520	63		37		0.49		
<i>Total or Median *</i>		<i>41%</i>	<i>11%</i>	<i>267,000</i>					<i>0.63</i>		
Canada											
Pengrowth Energy Trust	PGH	15.59	1.55	6,000	33		67		0.74		
Penn West Energy Trust	PWE	24.41	1.57	14,600	31		69		0.71		
Encana Corporation	ECA	63.78	1.36	65,200	69		25	6	0.71		
Birchcliff Energy Ltd. (US\$)	BIR.TO	9.03	1.17	1,240	69		31		0.68		
Imperial Oil Limited (30%)	IMO	43.05	1.08	12,500	6		81	13	0.68		
Canadian Oil Sands Trust	COSWF	37.71	1.06	19,300			100		0.68		
Canadian Natural Resources	CNQ	72.11	1.38	53,900	27		73		0.66		
Enerplus Resources Fund	ERF	35.95	1.26	7,440	48		52		0.63		
Suncor Energy	SU	43.74	1.16	48,200	3		93	4	0.62		
Petro-Canada	PCZ	37.37	1.30	23,600	11	3	73	13	0.48		
<i>Total or Median *</i>		<i>17%</i>	<i>10%</i>	<i>252,000</i>					<i>0.68</i>		
Composite											
<i>Present Value Weighting</i>		<i>100%</i>	<i>100%</i>	<i>2,508,000</i>	<i>11</i>	<i>14</i>	<i>61</i>	<i>13</i>	<i>0.59</i>		
<i>Equal Weighting</i>					<i>29</i>	<i>7</i>	<i>57</i>	<i>7</i>	<i>0.61</i>		
<i>Former Recommended Wtg.</i>					<i>31</i>	<i>11</i>	<i>51</i>	<i>7</i>			
* Percentages in Symbol column refer to former recommended weightings. Percentages in Price column refer to current market Enterprise Value weightings.											



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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
2-Sep	LUKOY	Lukoil Oil Company	Domestic Demand Up, Exports Down
27-Aug	PTR	PetroChina Company Limited	Sacrifice Acknowledged
27-Aug	CEO	CNOOC Ltd	Strong Operating and Financial Results
22-Aug	* HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
15-Aug	* SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
8-Aug	* PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	* CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	* EAC	Encore Acquisition Company	Sale Called Off
6-Aug	* DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	* XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	* APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	* PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	* CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	* CVX	Chevron Corporation	Income Model
1-Aug	* TOT	Total S.A.	Oil Sands Strategy
1-Aug	* STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	* IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	* MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	* XOM	Exxon Mobil Corporation	Income Model
31-Jul	* RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	* EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	* BP	BP p.l.c.	Control Dispute in Russia
25-Jul	* BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	* ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	* OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	* SU	Suncor Energy	Operations Challenge
24-Jul	* PCZ	Petro-Canada	Construction Challenge
23-Jul	* COP	ConocoPhillips	Income Model
22-Jul	* XTO	XTO Energy Inc.	Stock Price Momentum Changes
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share

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16-Sep	Weekly	Deep Water Brazil
9-Sep	Weekly	Now What?
5-Sep	Flash	Suspend Buy Recommendations
2-Sep	Weekly	Obama for Natural Gas

Oil and Gas Income Stocks

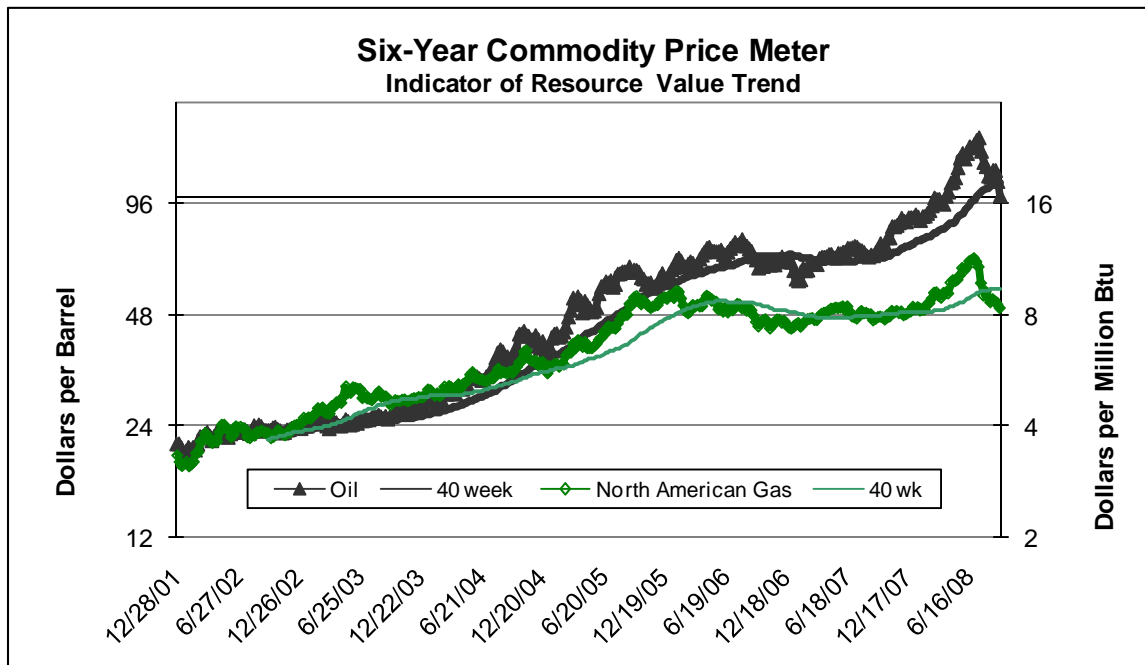
12-Sep		Canadian Oil Sands Trust	Distribution Yield of 9.4% if \$80 Oil
5-Sep		Weekly	Long-Term Oil Price in Uptrend
29-Aug		Weekly	Opportunity in Long-Term Natural Gas Futures
22-Aug	* HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income

* Archived on www.mcdep.com



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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.