

Russian Natural Gas Canadian Tar Sands Offshore Drilling

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Summary and Recommendation

- Buy
 - Gazprom (OGZPF)
 - Canadian Oil Sands Trust (COSWF)
 - Devon Energy (DVN), Encore Acquisition (EAC), ConocoPhillips (COP)
- Why
 - Global Growth
 - Commodity Price Upside 2010
 - Oil \$150 a barrel
 - Natural Gas \$30 a mmbtu

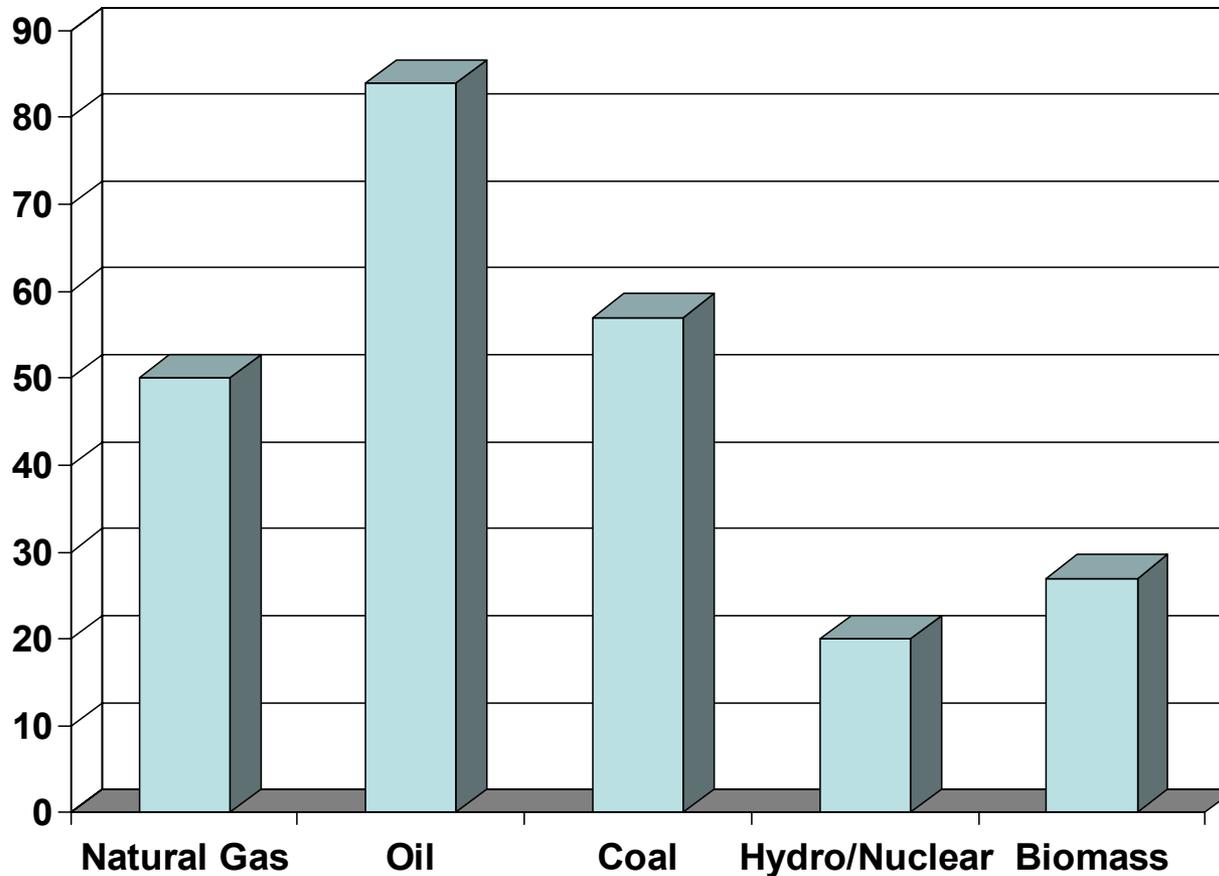
Global Growth

- China, India, Eastern Europe
- Race for Resources
- Environmental Quality

World Energy Demand

Million Barrels Equivalent Daily

Total 238

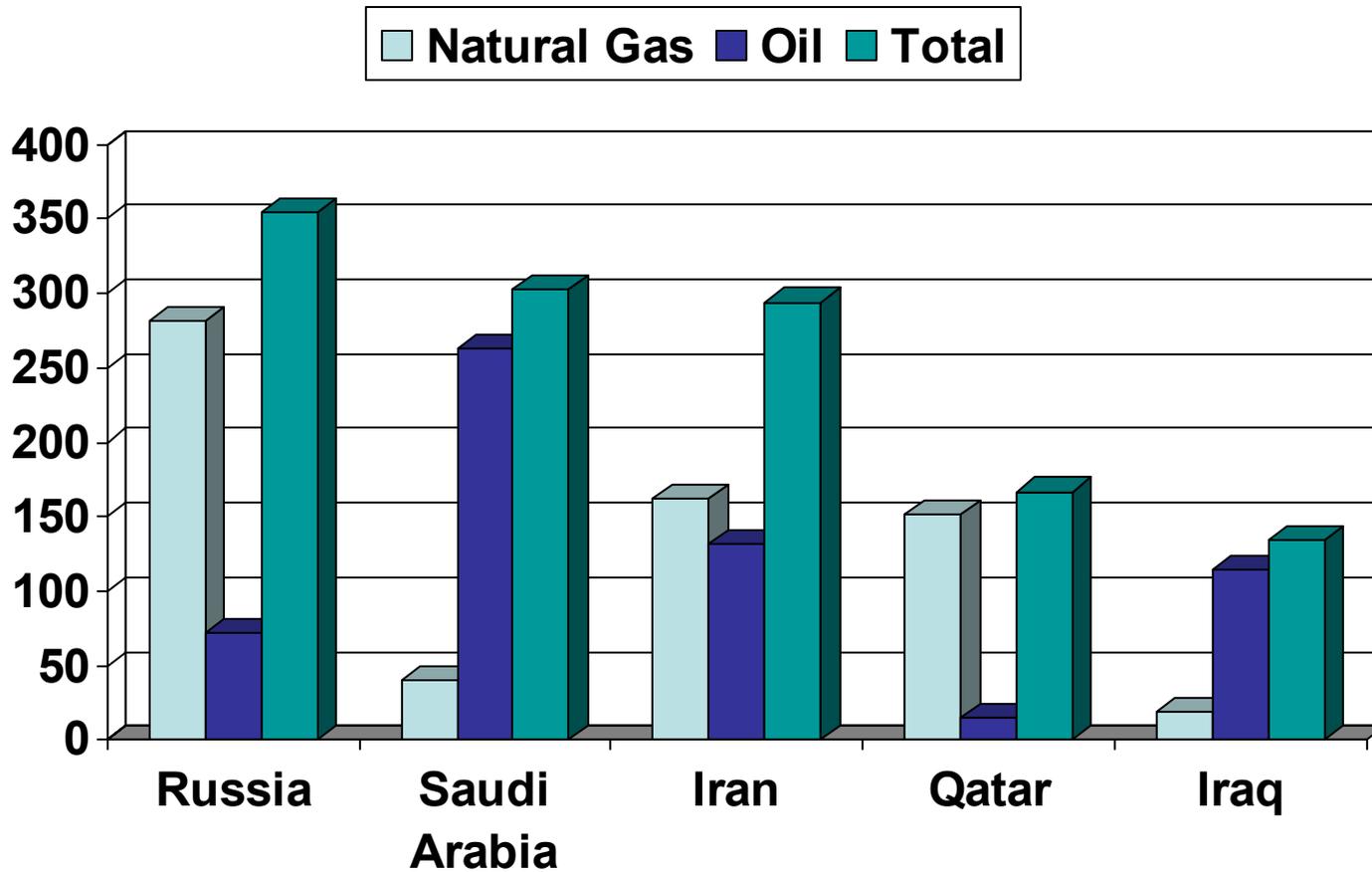


Supply Dynamics

- Close to peak oil production
- Two-thirds of peak natural gas production
- Half world oil and gas reserves in five countries
- Russia has more natural gas than Saudi Arabia has oil

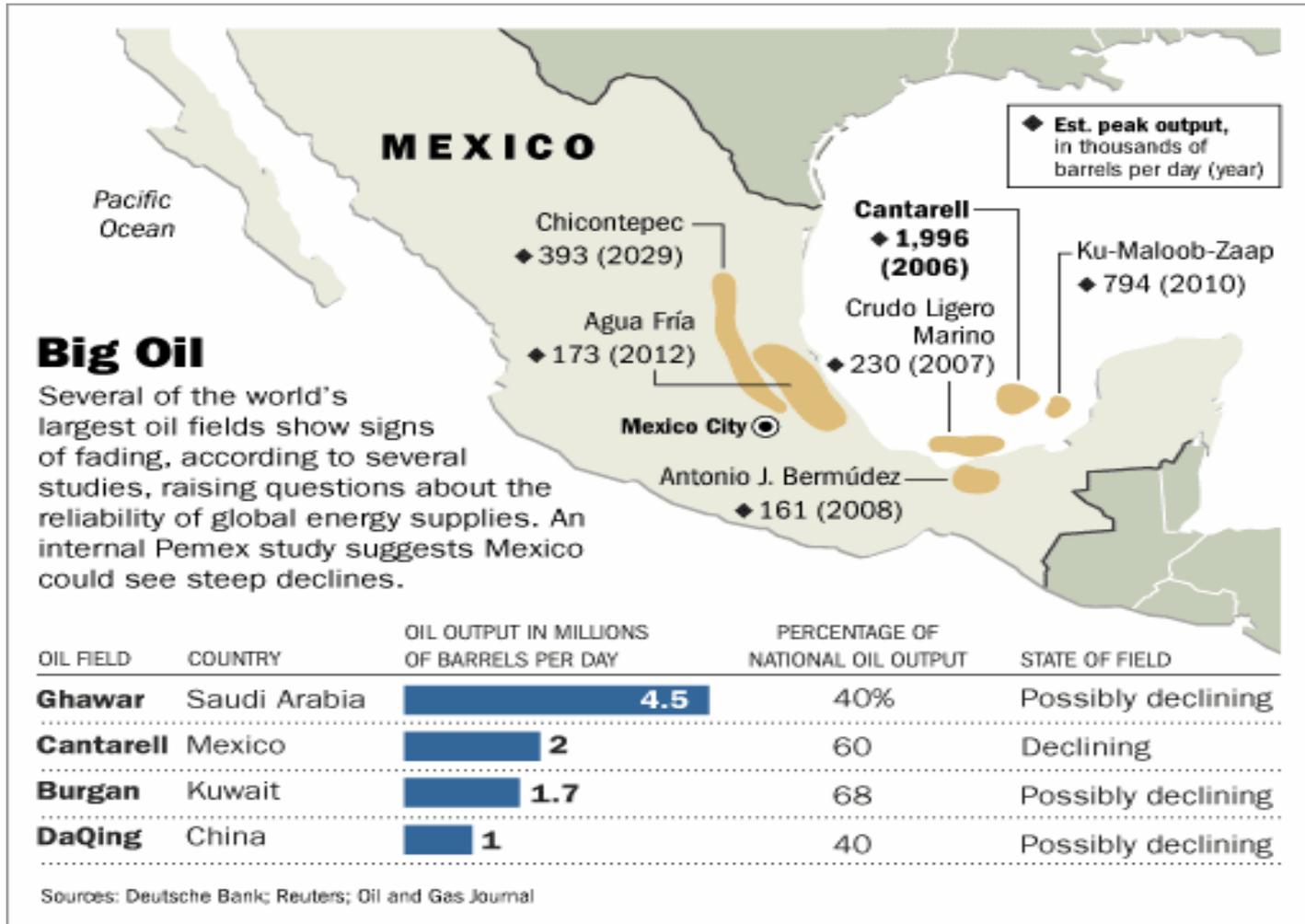
World Oil and Gas Reserves

Billion Barrels Equivalent



Large Fields Peaked

Wall Street Journal 2/9/06



Refining Expands Oil Supply

- Light Sweet Supply Most Valuable
- Refining Upgrades Heavy Sour
- Need Refining Capacity for Oil Sands

LNG Expands Natural Gas Supply

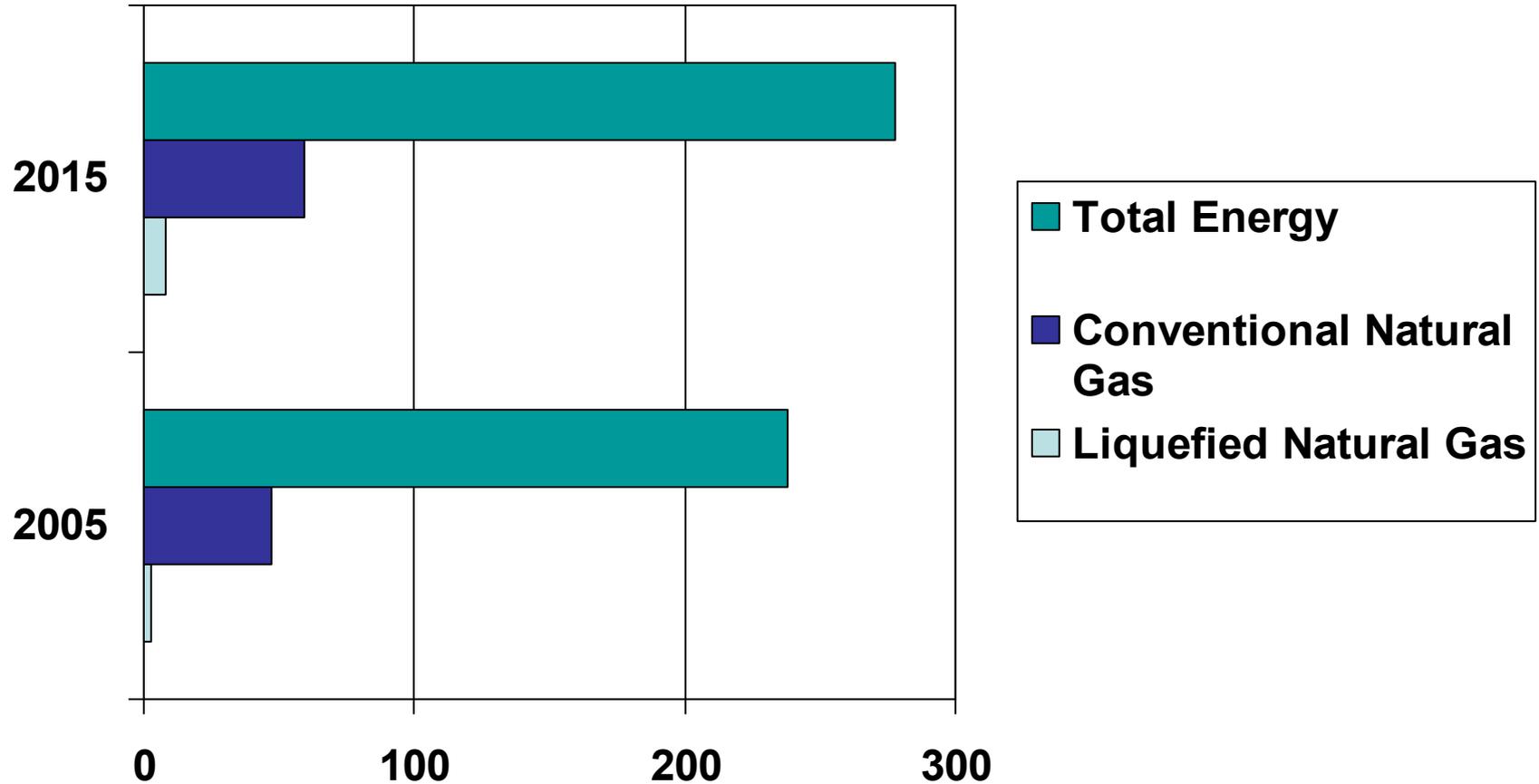
(million barrels daily)

| | <u>2005</u> | | <u>2015</u> | |
|--------|-------------|------|-------------|------|
| Asia | 1.7 | 65% | 2.8 | 35% |
| Europe | 0.7 | 26% | 3.4 | 42% |
| U.S. | 0.3 | 9% | 1.9 | 23% |
| | 2.7 | 100% | 8.1 | 100% |

Source: International Energy Agency, Oil and Gas Journal, McDep Associates

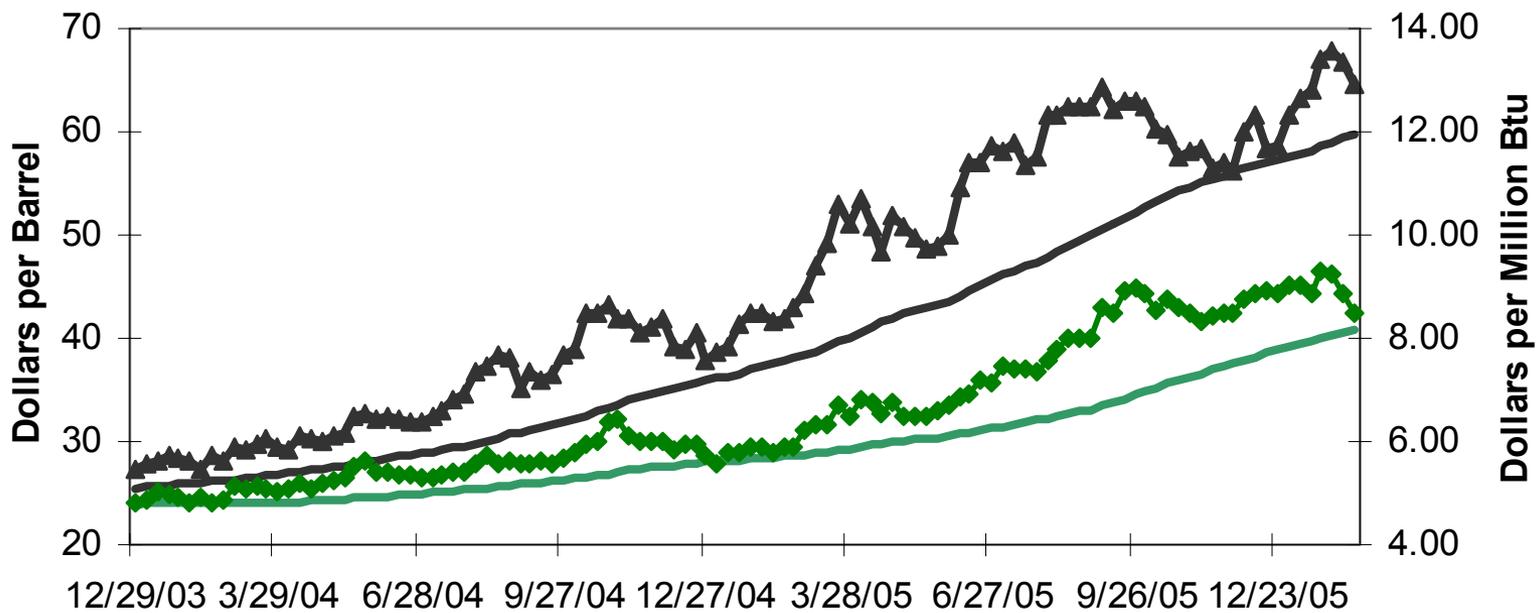
Cleanest Fuel and Total Energy

(Million Barrels Equivalent Daily)

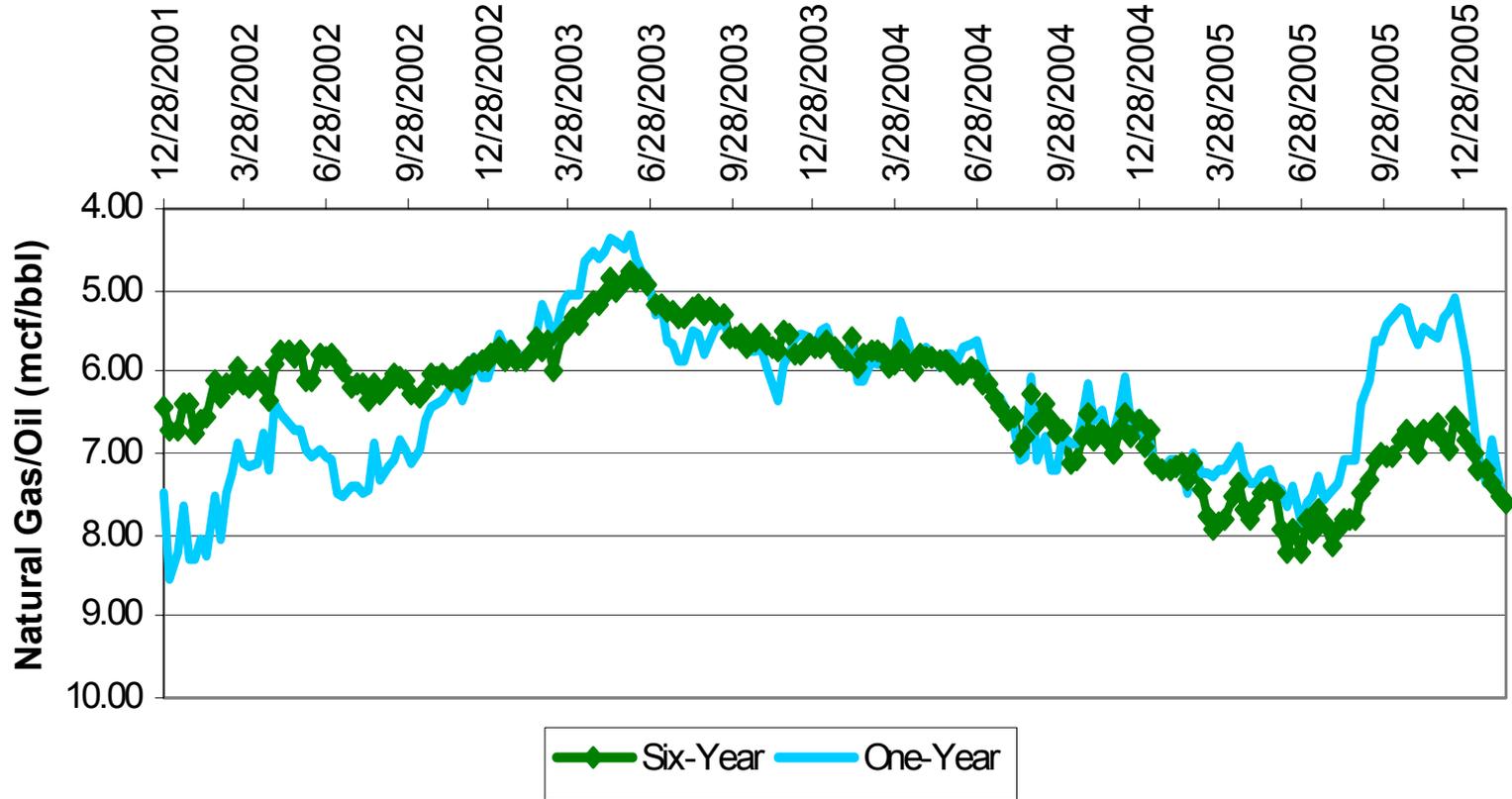


Six-Year Commodity Price Meter Indicator of Resource Value Trend

Oil 40 week North American Gas 40 wk

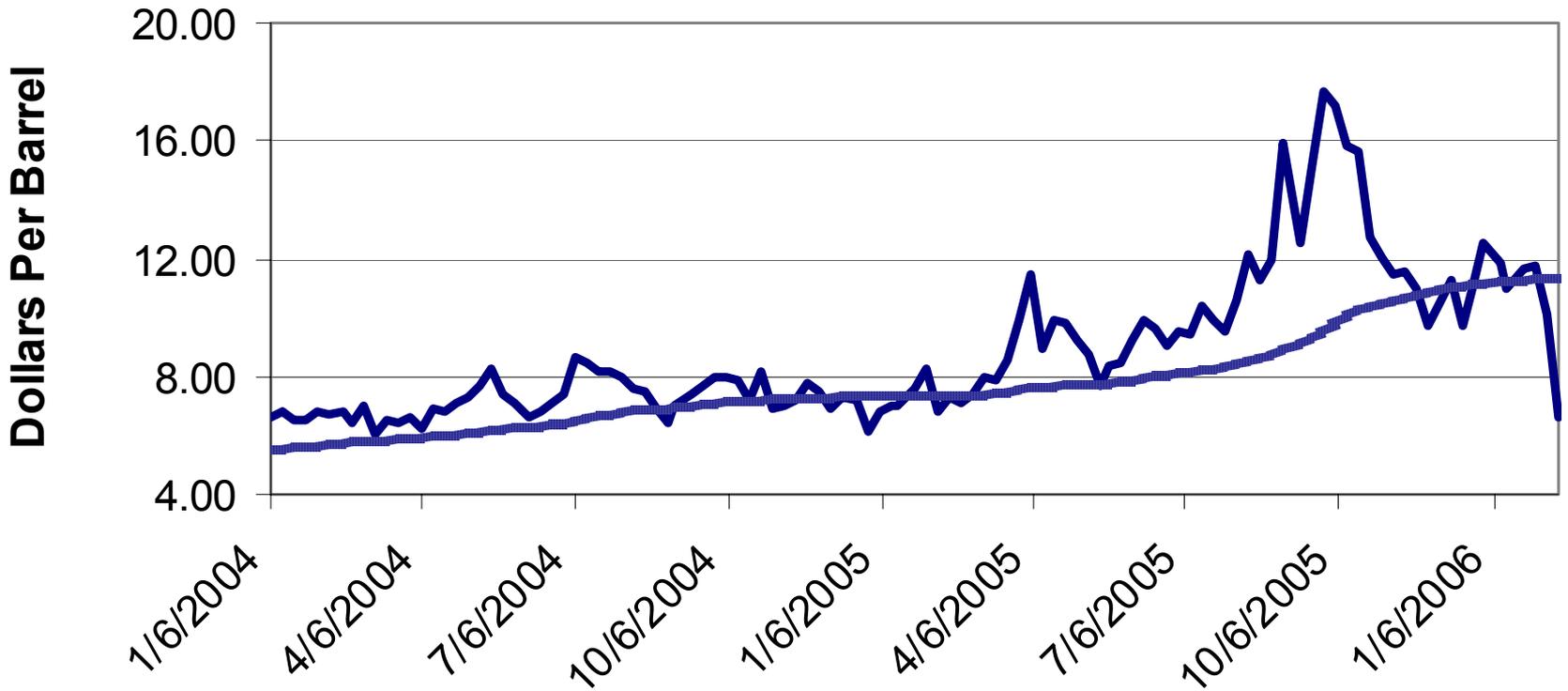


Oil/Natural Gas Futures



One-Year Refining Crack Meter Indicator(?) of Refining Cash Flow and Earnings Trend

— 3-2-1 New York — 40 week



Canadian Tar Sands

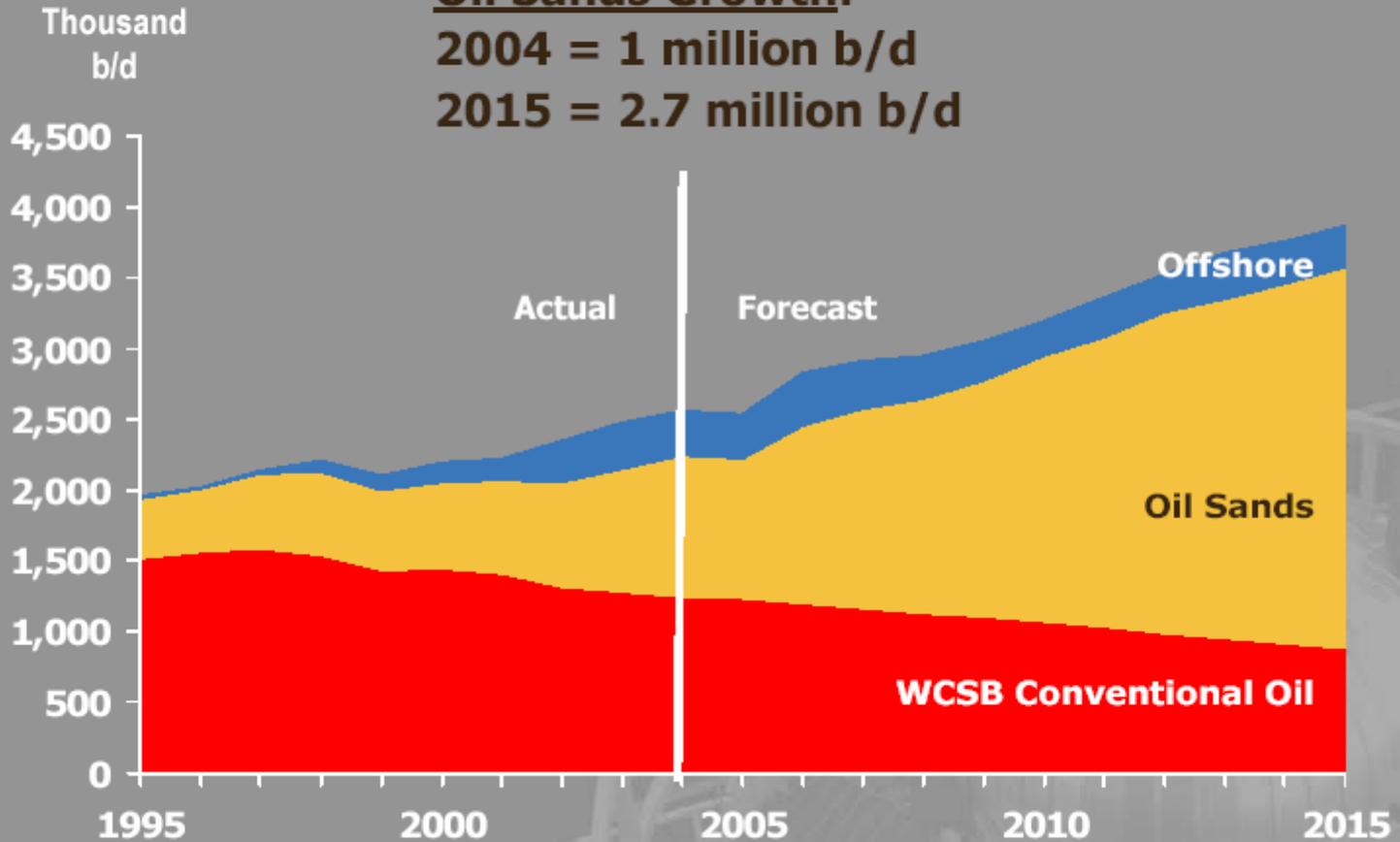
- World Conventional Oil Reserves
 - 1.2 Trillion Barrels Recoverable
- Canadian Oil Sands
 - 175 Billion Barrels
- World Oil Production
 - 84 Million Barrels Daily
- Canadian Oil Sands Production
 - 1 mmbd Now, 2.7 mmbd 2015



CANADIAN OIL SANDS TRUST TSX: COS.UN

Canadian oil production

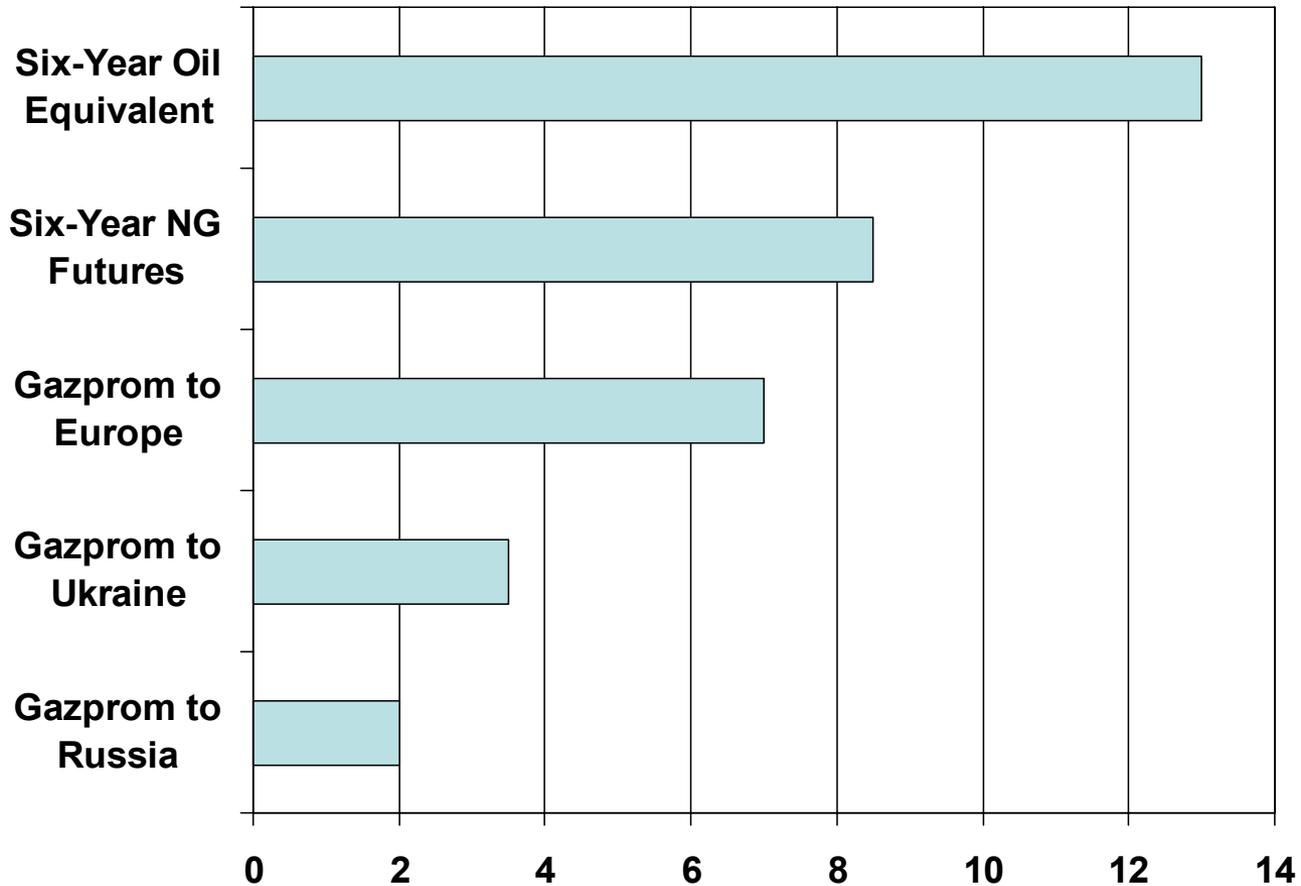
Oil Sands Growth:
2004 = 1 million b/d
2015 = 2.7 million b/d



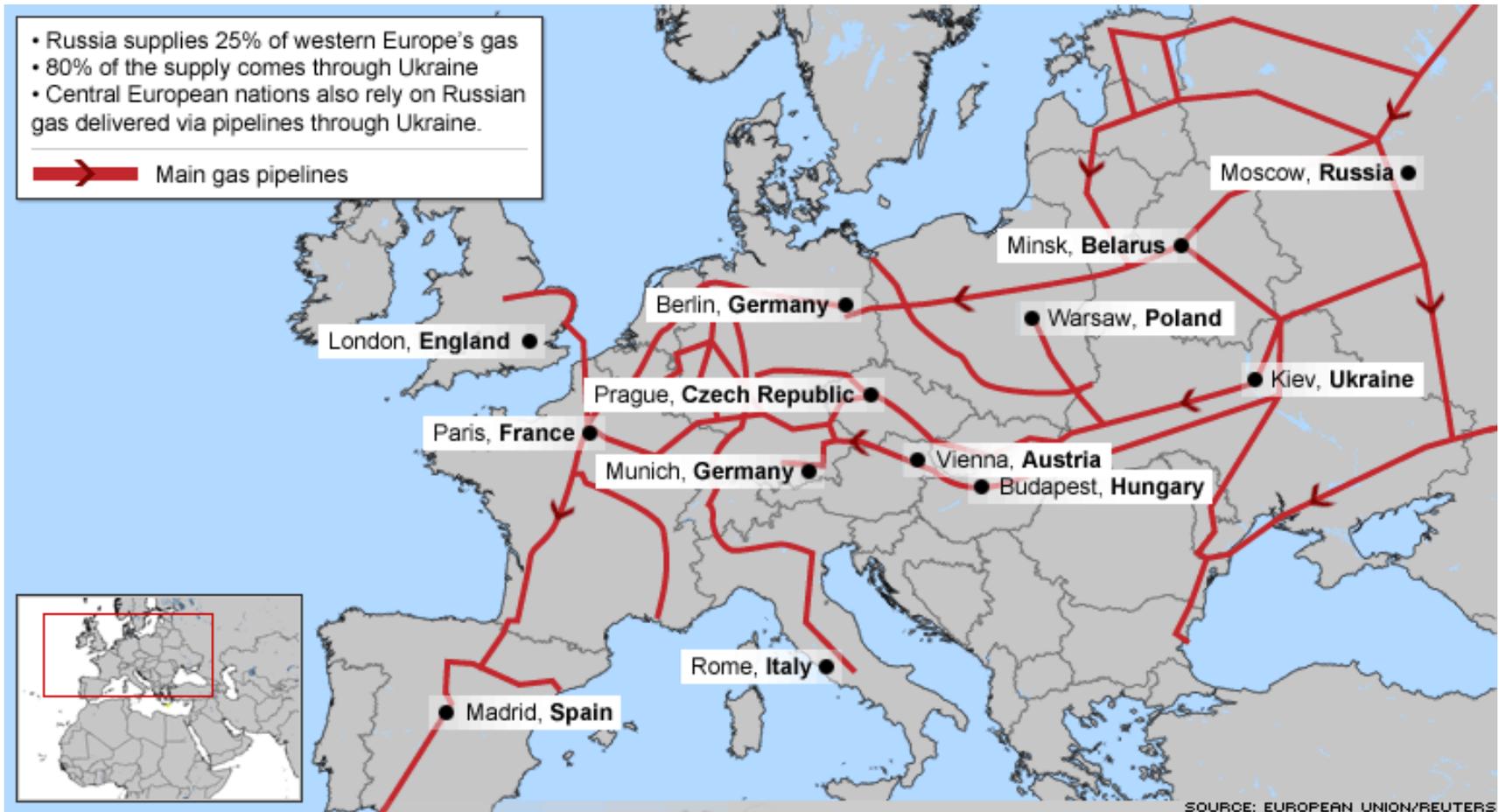
Source: CAPP, Sept. 2005

Russian Natural Gas Underpriced

(Dollars a mmbtu)



Ukraine Siphons Russian Gas



Oil Spill Ignited Environmentalism

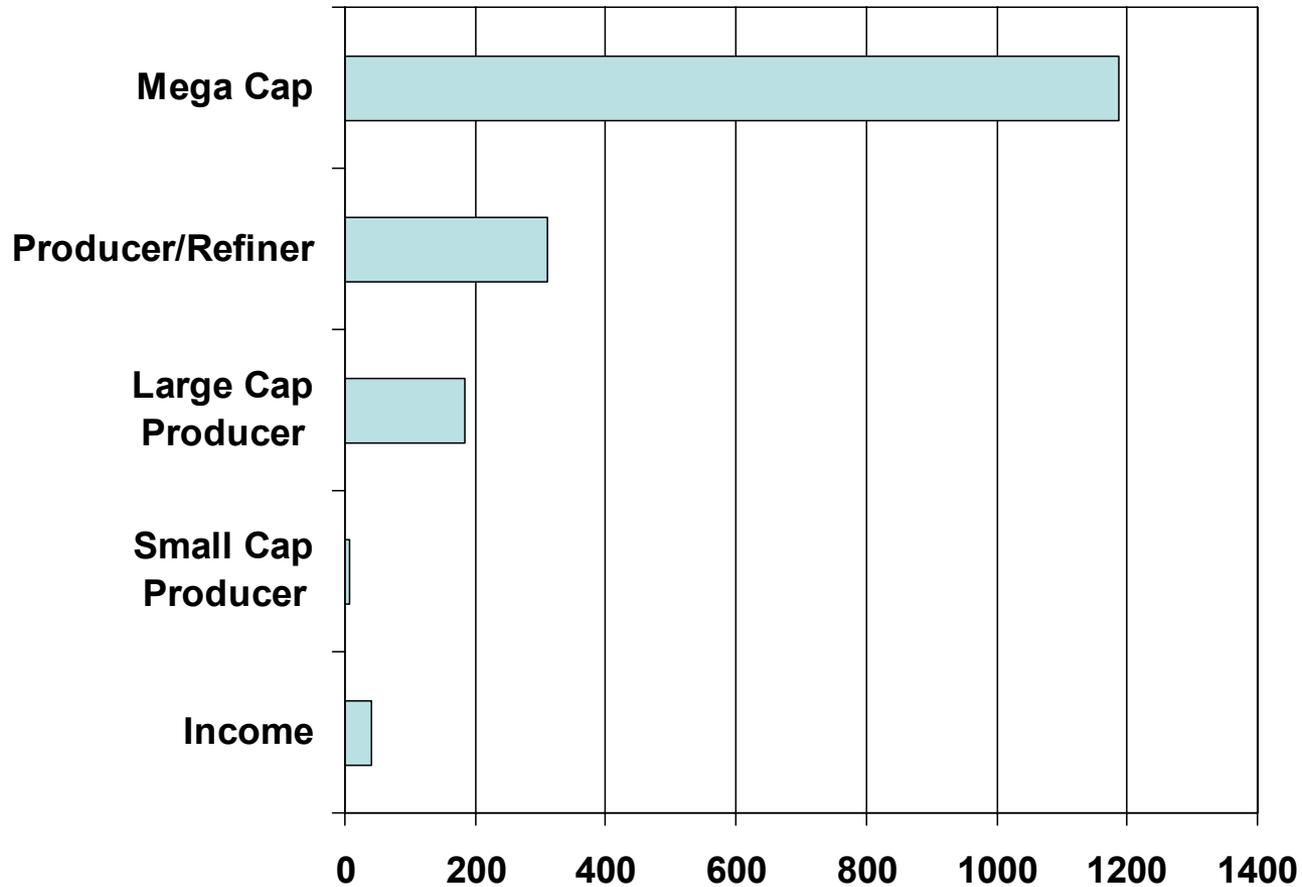
- “I am amazed at the publicity for the loss of a few birds.” Fred L. Hartley, Santa Barbara, California, 1969
- Focus Today on Coal
 - Global Warming
 - Mercury
 - Untold Carcinogens

Coal: Environmental Target

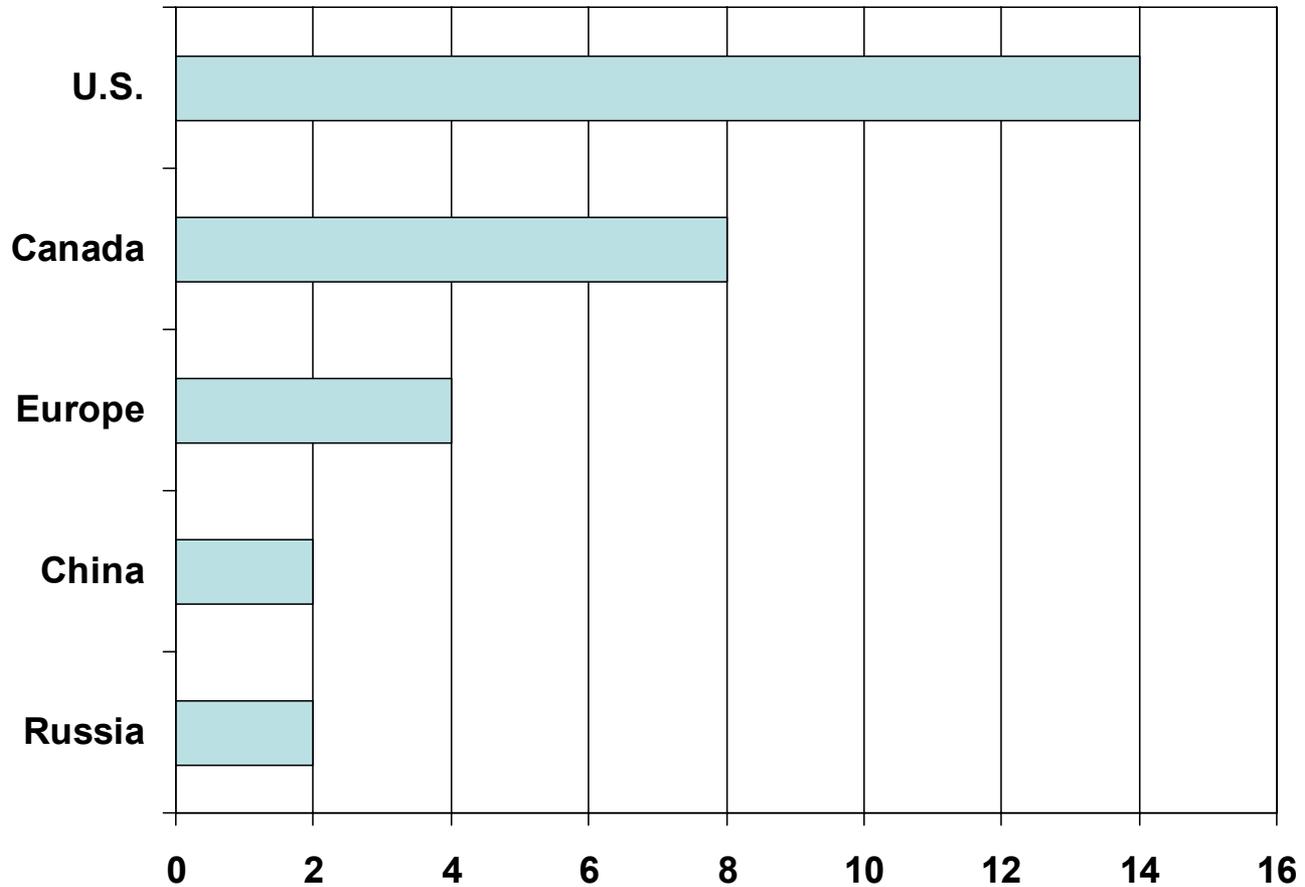
- We burn too much coal
- The dirty fuel is 24% of primary energy
- Coal should be gasified, not burned
- Displacing coal a high value use of oil and natural gas

McDep Energy Stock Groups

Million Dollars Market Cap



McDep Energy Stocks Domicile



Business Concentration

(Percent)

| | Natural Gas | Oil | Downstream |
|--------------------------|-------------|-----|------------|
| ConocoPhillips | 30 | 43 | 28 |
| Gazprom | 100 | * | * |
| Devon Energy | 64 | 36 | |
| Encore Acquisition | 25 | 75 | |
| Canadian Oil Sands Trust | * | 100 | * |

McDep Ratio

Market Cap and Debt
Present Value

- Mc – Market Cap
- De – Debt
- 'p – Present Value of Natural Gas, Oil and Downstream
- Buy Low, Sell High

Producer/Refiner Rank by McDep Ratio

| | <i>Symbol/ Rating</i> | <i>Price (\$/sh) 14-Feb 2006</i> | <i>Net Present Value (\$/sh)</i> | <i>Debt/ Present Value</i> | <i>McDep Ratio</i> |
|----------------------------|---------------------------|--|--|------------------------------------|------------------------|
| Kinder Morgan, Inc. | KMI S2 | 90.30 | 33.00 | 0.74 | 1.45 |
| Imperial Oil Limited (30%) | IMO B | 96.89 | 90.00 | 0.09 | 1.07 |
| Petro-Canada | PCZ B | 45.31 | 42.00 | 0.19 | 1.06 |
| Suncor Energy | SU B | 71.24 | 75.00 | 0.10 | 0.95 |
| Marathon Oil Corporation | MRO B | 66.16 | 75.00 | 0.25 | 0.91 |
| Norsk Hydro ASA | NHY B | 111.05 | 130.00 | 0.15 | 0.88 |
| PetroChina Company Ltd (1 | PTR B | 96.96 | 120.00 | 0.01 | 0.81 |
| Lukoil Oil Company | LUKOY B | 77.10 | 100.00 | 0.01 | 0.77 |
| Gazprom (50%) | OGZPF B | 84.30 | 140.00 | 0.02 | 0.61 |
| <i>Total or Median</i> | | | | <i>0.10</i> | <i>0.91</i> |

Gazprom (OGZPF)

- Produces 90% of Russian Natural Gas
- Price Controls Fading Away
- Multi-Fold Gain Characteristics
 - Enterprise Value Now \$200 billion
 - Next Twelve Months Cash Flow - \$32 billion
 - Unlevered Multiple – 6.2 times
 - Natural Gas Price, Cash Flow, Could be 3-4x
 - Long Life Could Double Multiple

Gazprom (OGZPF), cont'd

- Ownership Aligned
 - Government 51%
 - A Million Russian Stockholders
 - World's Largest Energy Stock Potentially
 - Up to 35% to trade as American Depositary Receipts
 - Ten-fold index weighting increase ahead
- Mr. Putin Chairman 2009?

Large Cap Independent Producer Rank by McDep Ratio

| | <i>Symbol/ Rating</i> | | <i>Price (\$/sh) 14-Feb 2006</i> | <i>Net Present Value (\$/sh)</i> | <i>Debt/ Present Value</i> | <i>McDep Ratio</i> |
|----------------------------|---------------------------|---|--|--|------------------------------------|------------------------|
| CNOOC Limited (29%) | CEO | B | 83.35 | 84.00 | 0.00 | 0.99 |
| XTO Energy Inc. | XTO | B | 40.40 | 48.00 | 0.17 | 0.87 |
| Encana Corporation | ECA | B | 40.50 | 51.00 | 0.20 | 0.83 |
| Burlington Resources | BR | B | 87.07 | 115.00 | - | 0.76 |
| Occidental Petroleum Corp. | OXY | B | 87.53 | 120.00 | 0.12 | 0.76 |
| Devon Energy Corporation | DVN | B | 57.60 | 94.00 | 0.12 | 0.66 |
| Anadarko Petroleum Corp. | APC | B | 96.40 | 160.00 | 0.10 | 0.64 |
| <i>Total or Median</i> | | | | | <i>0.12</i> | <i>0.76</i> |

Devon Energy (DVN)

- Burlington Resources Peer
- Managed by Founder (1973)
- Net Present Value Presumes
 - \$50 Oil
 - \$10 Natural Gas
- Adjusted Reserve Life – 8.6 Years
- Unlevered Cash Flow Multiple – 3.9 times
- 64% Natural Gas, 36% Oil

Small Cap Independent Producer Rank by McDep Ratio

| | <i>Symbol/</i> | | <i>Price</i> | <i>Net</i> | | |
|---------------------------|----------------|---------------|----------------|----------------|----------------|--------------|
| | | <i>Rating</i> | <i>(\$/sh)</i> | <i>Present</i> | <i>Debt/</i> | <i>McDep</i> |
| | | | <i>14-Feb</i> | <i>Value</i> | <i>Present</i> | <i>Ratio</i> |
| | | | <i>2006</i> | <i>(\$/sh)</i> | <i>Value</i> | |
| Berry Petroleum Company | BRY | B | 67.64 | 65.00 | 0.11 | 1.03 |
| Encore Acquisition Compan | EAC | B | 31.31 | 50.00 | 0.21 | 0.70 |
| Energy Partners Ltd. | EPL | B | 23.70 | 38.00 | 0.19 | 0.70 |
| Cimarex Energy Company | XEC | B | 40.46 | 64.00 | 0.10 | 0.67 |
| | | | | | <i>0.15</i> | <i>0.70</i> |

Encore Acquisition Company (EAC)

- Tertiary Recovery May Double Reserves
- Chairman Founder Past Success with Southland Royalty, San Juan Basin Royalty Trust, Permian Basin Royalty Trust, Cross Timbers Oil Company (now XTO Energy) and Cross Timbers Royalty Trust
- Enterprise Value \$2.2 billion
 - Adjusted Reserve Life – 14.3 Years
 - Unlevered Cash Flow Multiple – 5.1 times

Mega Cap Rank by McDep Ratio

| | <i>Symbol/ Rating</i> | <i>Price (\$/sh) 14-Feb 2006</i> | <i>Net Present Value (\$/sh)</i> | <i>Debt/ Present Value</i> | <i>McDep Ratio</i> |
|-------------------------|---------------------------|--|--|------------------------------------|------------------------|
| Mega Cap | | | | | |
| BP plc | BP B | 66.95 | 77.00 | 0.15 | 0.89 |
| Total S.A. | TOT B | 128.13 | 160.00 | 0.12 | 0.82 |
| Exxon Mobil Corporation | XOM B | 59.51 | 74.00 | 0.04 | 0.81 |
| Royal Dutch Shell plc | RDS-A B | 62.23 | 80.00 | 0.11 | 0.80 |
| ConocoPhillips | COP B | 58.48 | 95.00 | 0.22 | 0.70 |
| Chevron Corporation | CVX B | 55.86 | 85.00 | 0.11 | 0.70 |
| | <i>Total or Median</i> | | | <i>0.12</i> | <i>0.81</i> |

ConocoPhillips (COP)

- Natural Gas, Oil, Downstream – 30,43,28
- Includes Burlington Resources
- Low McDep Ratio – 0.70
- Long Life: Adjusted R/P – 10.9 years
- Low Unlevered Cash Flow Multiple – 4.1
- Breakthrough CEO
- Largest San Juan Natural Gas Producer

Energy Income Stocks Rank by McDep Ratio

| | | | <i>Price</i> <i>(\$/sh)</i> | <i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i> | <i>Debt/</i> <i>Present</i> <i>Value</i> | <i>McDep</i> <i>Ratio</i> |
|-----------------------------|---------------|------------------------------|--------------------------------|--|--|------------------------------|
| <i>Symbol/</i> | <i>Rating</i> | <i>14-Feb</i> <i>2006</i> | | | | |
| Kinder Morgan Energy Part | KMP | S3 | 47.09 | 15.00 | 0.55 | 1.97 |
| Kinder Morgan Managemen | KMR | S3 | 42.85 | 15.00 | 0.55 | 1.84 |
| Enerplus Resources Fund | ERF | | 46.95 | 42.00 | 0.14 | 1.10 |
| Pengrowth Energy Trust | PGH | | 21.84 | 20.00 | 0.16 | 1.08 |
| Penn West Energy Trust | PWTFF | B | 34.16 | 33.00 | 0.13 | 1.03 |
| San Juan Basin Royalty Tru | SJT | | 38.19 | 40.00 | - | 0.95 |
| Canadian Oil Sands Trust (U | COSWF | B | 121.45 | 136.00 | 0.12 | 0.91 |
| <i>Total or Median</i> | | | | | <i>0.14</i> | <i>1.08</i> |

Canadian Oil Sands Trust (COSWF)

- 35.5% Syncrude, Largest Oil Sands Plant
- Volume Expanding Now
 - 2005 – 214, 2006 – 274, 2007 – 350 mbd
- Net Present Value Sensitive to Oil Price
 - \$50 oil, \$136 NPV, \$60 oil, \$177 NPV
- Distribution C\$12/unit 2007, 8+% yield
- Ultimate Volume 500 mbd for Thirty Years

Intellectual Challenges

- Politics
- Economics
- Engineering
- Science
- Geography
- Sociology
- Art
- Finance

Second in a Lifetime Opportunity

- Engineer with Chevron in San Francisco
- Studied UK Market for North Sea Natural Gas
- Wall Street 1971
- San Juan Basin Natural Gas Producers
- Marathon, Cities Service, Getty, Gulf Takeovers
- Hugoton Natural Gas Producers
- déjà vu – San Juan, Canada, China, Russia