

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 21, 2005

Oil Sands Miners

Summary and Recommendation

Small cap, pure plays on oil sands mining and upgrading seem appealing though for many investors a similar risk and reward position can be created by owning more buy-recommended, mid-cap **Canadian Oil Sands Trust (COSWF)**. Publicly-traded Western Oil Sands (WTO.TO), Deer Creek Energy (DCE.TO) and UTS Energy (UTS.TO) are each exciting small companies with big company projects in early stages of development. Syncrude, owned 25% by COS, is close to payoff as it has just about completed the spending on a 100 thousand barrels daily (mbd) expansion that ought to be fully operable a year from now. The project risks appear low for Syncrude and the stock price for COS does not seem to have reflected much of the reward of the expansion. Eight industry projects would add some 1900 mbd of production by 2020 (see table).

Oil Sands Mining Projects

<u>Project</u>	<u>Owners</u>	<u>Volume (thousand barrels daily)</u>				
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2010</u>	<u>2020</u>
Syncrude	35% Canadian Oil Sands Trust (COSWF) 25% Imperial Oil (IMO) 12% Petro-Canada (PCZ) 9% ConocoPhillips (COP) 19% Others	226	280	350	390	500
Suncor	100% Suncor (SU)	171	260	260	350	500
Athabasca	60% Shell Canada (SHC) 20% Chevron (CVX) 20% Western Oil Sands (WTO.TO)	130	130	190	300	500
Horizon	100% Canadian Natural Resources (CNQ)				110	230
Joslyn	84% Deer Creek Energy (DCE.TO) 16% Enerplus (ERF)				25	200
Fort Hills	60% Petro-Canada (PCZ) 40% UTS Energy (UTS.TO)				20	100
Northern Lights	60% Synenco 40% Sinopec (SHI)					100
Kearl	70% Imperial Oil (IMO) 30% ExxonMobil (XOM) direct ownership					300
		527	670	800	1195	2430

McDep Buy Recommendations in **bold type**.

Source: Company presentations, McDep estimates.

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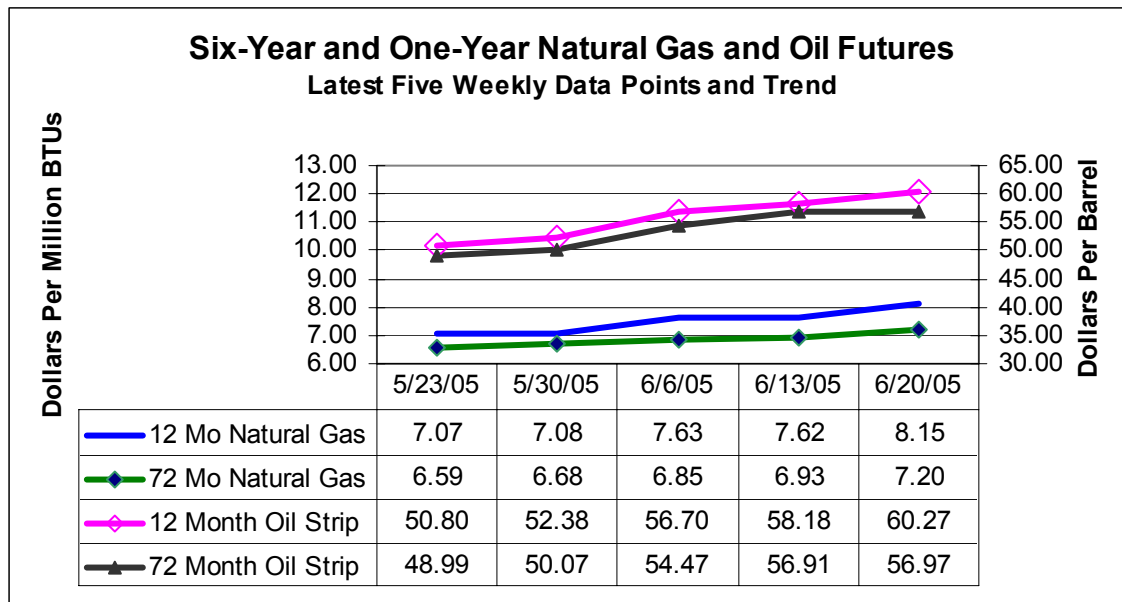
Futures Make a Strong Case for Oil Sands

As we visited with companies and viewed presentations in Canada last week we appreciated the illustrations of potential that projected cash flow at different oil price assumptions and discounted it to present value. Most of the projects can be justified assuming oil at \$30 or less. Each increment to project size and each increment to oil price make the investment look more attractive by the mechanism of the calculations.

Operating risk is surely downplayed. New capacity almost always takes longer to bring on and costs more than most of us are willing to admit. After construction is complete operating conditions are difficult. Costly mistakes inevitably occur.

Increments to oil price assumptions seem more obvious every day if one were to give any weight to futures prices. Since higher oil price adds to future profits, the invisible hand of supply and demand encourages companies to commit to new investment.

The futures market estimate for the long-term price has moved well past the \$40 a barrel standard in our present value estimates. The current quote for six-year futures reached a new high of \$56.97 a barrel (see chart [Latest Five Weekly Data Points and Trend](#)). Six-year natural gas also reached a new high of \$7.20. Dividing the oil price by 5 to get the competitive equivalent of fuel for power generation implies that six-year natural gas should be 58% higher at \$11.39 a million btu.



Kurt H. Wulff, CFA

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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 20-Jun 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Shell Transport and Trading Co. plc	SC	B	56.99	1,587	90,000	56.00	0.14	1.02
Exxon Mobil Corporation	XOM	B	60.85	6,421	391,000	60.00	0.06	1.01
BP plc	BP	B	64.70	3,574	231,000	64.00	0.13	1.01
Royal Dutch Petroleum	RD	B	63.34	2,018	128,000	66.00	0.14	0.97
Total S.A.	TOT	B	118.54	1,192	141,000	126.00	0.15	0.95
Chevron Corporation	CVX	B	59.34	2,311	137,000	70.00	0.13	0.87
<i>Total or Median</i>					<i>1,118,000</i>		<i>0.13</i>	<i>0.99</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	82.75	125	10,340	20.00	0.74	1.82
Imperial Oil Limited (30%)	IMO	B	83.95	105	8,800	64.00	0.10	1.28
Marathon Oil Corporation	MRO	B	54.64	349	19,050	42.00	0.30	1.21
Petro-Canada	PCZ	B	64.90	263	17,090	70.00	0.19	0.94
Suncor Energy	SU	B	47.60	461	21,950	54.00	0.10	0.89
ConocoPhillips	COP	B	60.12	1,420	85,400	70.00	0.21	0.89
Norsk Hydro ASA	NHY	B	89.10	251	22,350	110.00	0.13	0.83
PetroChina Company Ltd (10%)	PTR	B	71.73	176	12,610	94.00	0.05	0.78
Lukoil Oil Company	LUKOY	B	35.50	834	30,000	52.00	0.03	0.69
<i>Total or Median</i>					<i>228,000</i>		<i>0.13</i>	<i>0.89</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	41.28	909	37,500	38.50	0.19	1.06
Unocal Corporation	UCL	B	63.47	273	17,300	65.00	0.19	0.98
XTO Energy Inc.	XTO	B	34.38	366	12,590	36.00	0.19	0.96
Occidental Petroleum Corp.	OXY	B	80.68	406	32,800	94.00	0.13	0.88
Burlington Resources	BR	B	56.85	389	22,100	67.00	0.12	0.87
Devon Energy Corporation	DVN	B	49.70	496	24,700	63.00	0.16	0.82
CNOOC Limited (19%)	CEO	B	54.15	78	4,230	67.00	0.01	0.81
Anadarko Petroleum Corp.	APC	B	83.15	239	19,900	113.00	0.14	0.77
<i>Total or Median</i>					<i>171,000</i>		<i>0.15</i>	<i>0.87</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	53.92	22	1,210	50.00	0.12	1.07
Energy Partners Ltd.	EPL	B	26.22	40	1,060	30.00	0.20	0.90
Cimarex Energy Company	XEC	B	40.10	81	3,250	50.00	0.17	0.84
Encore Acquisition Company	EAC	B	42.30	33	1,390	57.00	0.18	0.79
<i>Total or Median</i>					<i>6,900</i>		<i>0.17</i>	<i>0.87</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.85	150	7,630	15.00	0.52	2.16
Kinder Morgan Management, LLC	KMR	S3	46.15	56	2,600	15.00	0.52	2.00
Pengrowth Energy Trust	PGH		22.13	153	3,390	16.00	0.19	1.31
San Juan Basin Royalty Trust	SJT		41.70	47	1,940	32.00	-	1.30
Enerplus Resources Fund	ERF		37.74	105	3,960	32.00	0.16	1.15
Canadian Oil Sands Trust (US\$)	COSWF	B	74.53	93	6,900	94.00	0.16	0.83
<i>Total or Median</i>					<i>26,400</i>		<i>0.17</i>	<i>1.31</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position

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: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 20-Jun 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B	60.85	11.2	6.1	6.2	11	1.8
BP plc	BP	B	64.70	9.4	5.0	5.1	9	3.2
Total S.A.	TOT	B	118.54	9.0	5.3	5.0	8	2.8
Shell Transport and Trading Co. plc	SC	B	56.99	7.3	4.6	4.7	9	3.3
Royal Dutch Petroleum	RD	B	63.34	7.3	4.6	4.4	8	3.5
Chevron Corporation	CVX	B	59.34	9.6	5.0	4.4	7	3.0
	<i>Median</i>			9.2	5.0	4.8	9	3.1
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	82.75		7.4	13.5	18	3.4
Imperial Oil Limited (30%)	IMO	B	83.95	9.9	6.3	8.1	15	0.8
Suncor Energy	SU	B	47.60	20.1	8.5	7.6	16	0.4
Marathon Oil Corporation	MRO	B	54.64	7.5	3.9	4.8	8	2.0
Petro-Canada	PCZ	B	64.90	5.4	4.7	4.4	8	0.7
PetroChina Company Ltd (10%)	PTR	B	71.73	13.7	5.7	4.4	8	4.4
ConocoPhillips	COP	B	60.12	11.6	4.9	4.4	7	4.1
Norsk Hydro ASA	NHY	B	89.10	8.2	4.7	3.9	8	3.5
Lukoil Oil Company	LUKOY	B	35.50	20.0	4.3	3.0	5	2.8
	<i>Median</i>			10.7	4.9	4.4	8	2.8
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	34.38	11.8	6.0	5.8	11	0.6
Encana Corporation	ECA	B	41.28	7.2	5.0	5.3	11	1.5
Occidental Petroleum Corp.	OXY	B	80.68	11.5	5.3	4.6	8	1.5
Burlington Resources	BR	B	56.85	9.9	5.2	4.5	9	0.6
Anadarko Petroleum Corp.	APC	B	83.15	12.3	5.6	4.3	8	0.9
Unocal Corporation	UCL	B	63.47	8.5	4.4	4.3	8	1.3
CNOOC Limited (19%)	CEO	B	54.15	9.6	4.8	3.9	7	3.8
Devon Energy Corporation	DVN	B	49.70	7.8	4.5	3.7	8	0.6
	<i>Median</i>			9.7	5.1	4.4	8	1.1
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRYP	B	53.92	11.2	4.9	5.2	13	0.9
Encore Acquisition Company	EAC	B	42.30	15.4	6.3	5.0	11	-
Cimarex Energy Company	XEC	B	40.10	7.5	4.3	3.6	8	-
Energy Partners Ltd.	EPL	B	26.22	4.8	3.1	2.8	6	-
	<i>Median</i>			9.4	4.6	4.3	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.85		7.5	16.1	21	5.7
Kinder Morgan Management, LLC	KMR	S3	46.15		7.5	15.0	19	6.3
San Juan Basin Royalty Trust	SJT		41.70	12.0	8.1	10.6	12	8.6
Pengrowth Energy Trust	PGH		22.13	7.4	5.0	6.6	10	9.9
Canadian Oil Sands Trust (US\$)	COSWF	B	74.53	20.0	7.5	6.2	6	2.1
Enerplus Resources Fund	ERF		37.74	9.4	5.2	6.0	10	8.9
	<i>Median</i>			10.7	7.5	8.6	11	7.5

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
8-Jun	CEO	CNOOC Ltd	Unocal Bid?
8-Jun	PTR	PetroChina Company Limited	News Pending
8-Jun	OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$94 a Share
6-Jun	NHY	Norsk Hydro ASA	European Natural Gas Awakes
3-Jun	EPL	Energy Partners, Ltd.	Exploration Exposure
1-Jun	RD	Royal Dutch Petroleum	Nice Return for Low Risk
1-Jun	SC	Shell Transport & Trading Company, p.l.c.	Nice Return for Low Risk
1-Jun	BP	BP p.l.c.	Nice Return for Low Risk
1-Jun	XOM	Exxon Mobil Corporation	Nice Return for Low Risk
31-May	ECA	EnCana Corporation	Clean Fuel Supplier
31-May	DVN	Devon Energy Corporation	Clean Fuel Supplier
31-May	BR	Burlington Resources, Inc.	Clean Fuel Supplier
31-May	* APC	Anadarko Petroleum Corporation	Clean Fuel Supplier
31-May	* LUKOY	Lukoil Oil Company	Profits in Refining
26-May	* UCL	Unocal Corporation	Buy Chevron at a Discount
26-May	* CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
25-May	* XEC	Cimarex Energy Company	Natural Gas Growth
23-May	* SU	Suncor Energy Inc.	Syncrude Sister
20-May	* COP	ConocoPhillips	Raise Net Present Value to \$140 a Share
16-May	* EAC	Encore Acquisition Company	Momentum Test
11-May	* XTO	XTO Energy Inc.	Raise Net Present Value to \$36 a Share
9-May	* TOT	Total S.A.	Raise Net Present Value to \$120 a Share
6-May	* IMO	Imperial Oil Limited	Oil Sands Strategy
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter
29-Apr	* MRO	Marathon Oil Corporation	Between China and Canada
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger
27-Apr	* PCZ	Petro-Canada	Oil Sands Strategy
26-Apr	* COSWF	Canadian Oil Sands Trust	If You Could Own Only One
14-Apr	* KMx	Kinder Morgan	Our Contrary View

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21-Jun		Oil Sands Miners
14-Jun	*	Canada Re-Capp
7-Jun	*	Rest of World Natural Gas
31-May	*	Europe Bids Natural Gas Higher
24-May	*	Clean Air Tradeoff Indicator

* Archived on www.mcdep.com

Also see

U.S. Natural Gas Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses

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