

Oil and Gas Investment to 2010

By

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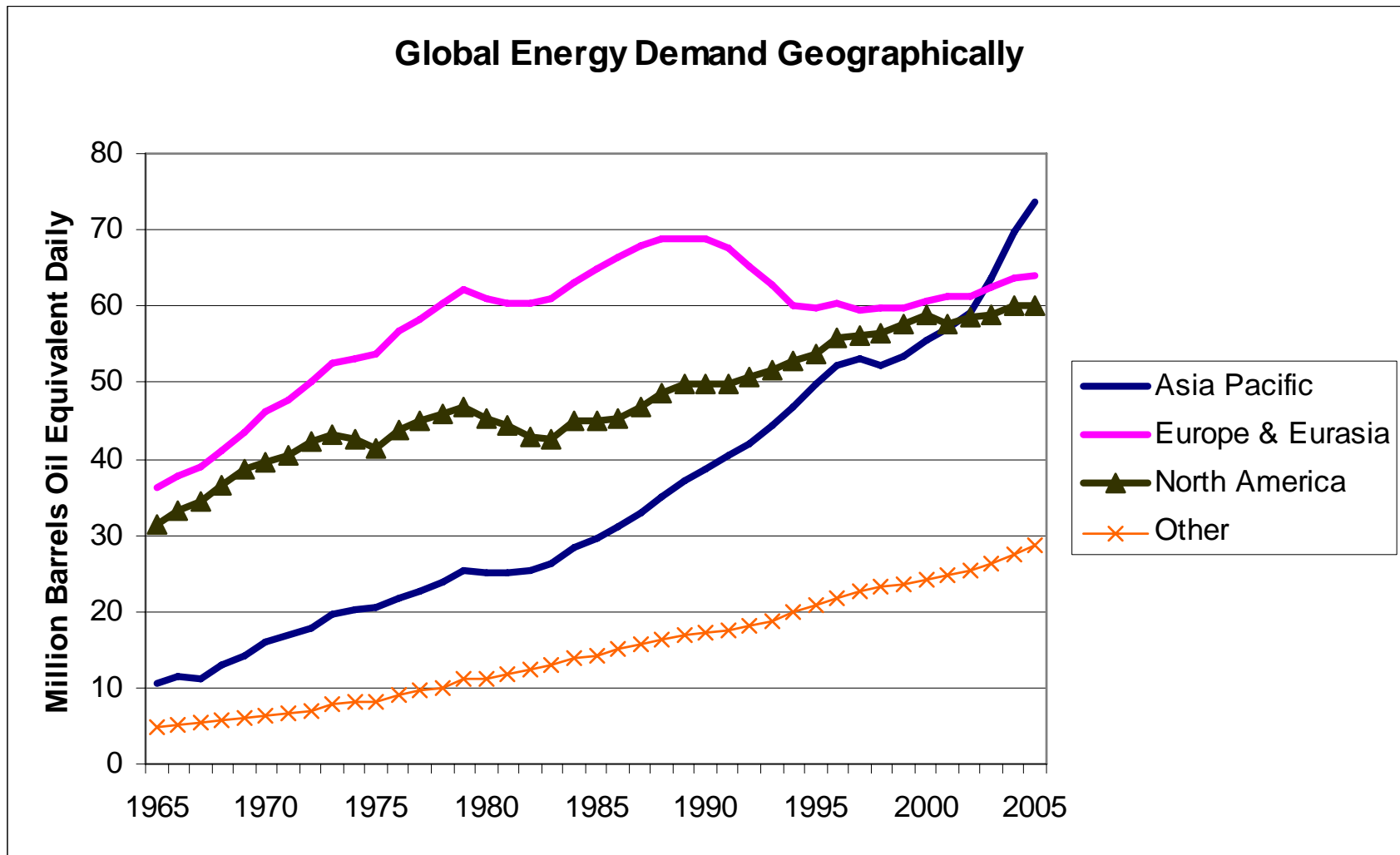
Summary and Recommendation

- Invest in oil and gas for the long-term
 - Vision of \$150 a barrel in 2010
 - Six-year oil futures at \$70 in steady uptrend
 - Stocks priced at about \$47 a barrel
- Opportunities in near-term divergence
 - Natural gas futures at wide gap to oil
 - Two-thirds of stocks off upward trend
 - Corporations buying on pullback

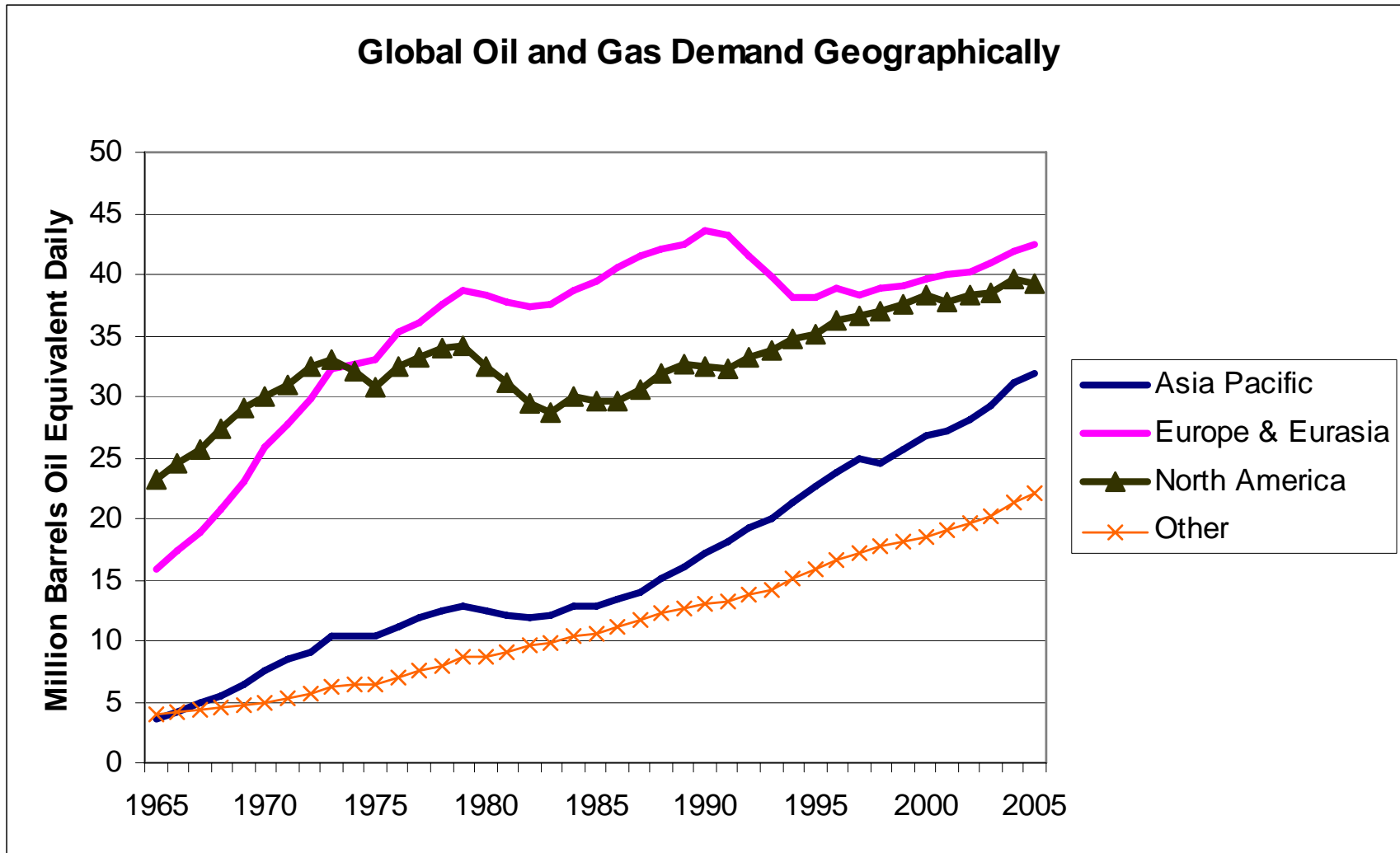
Outline

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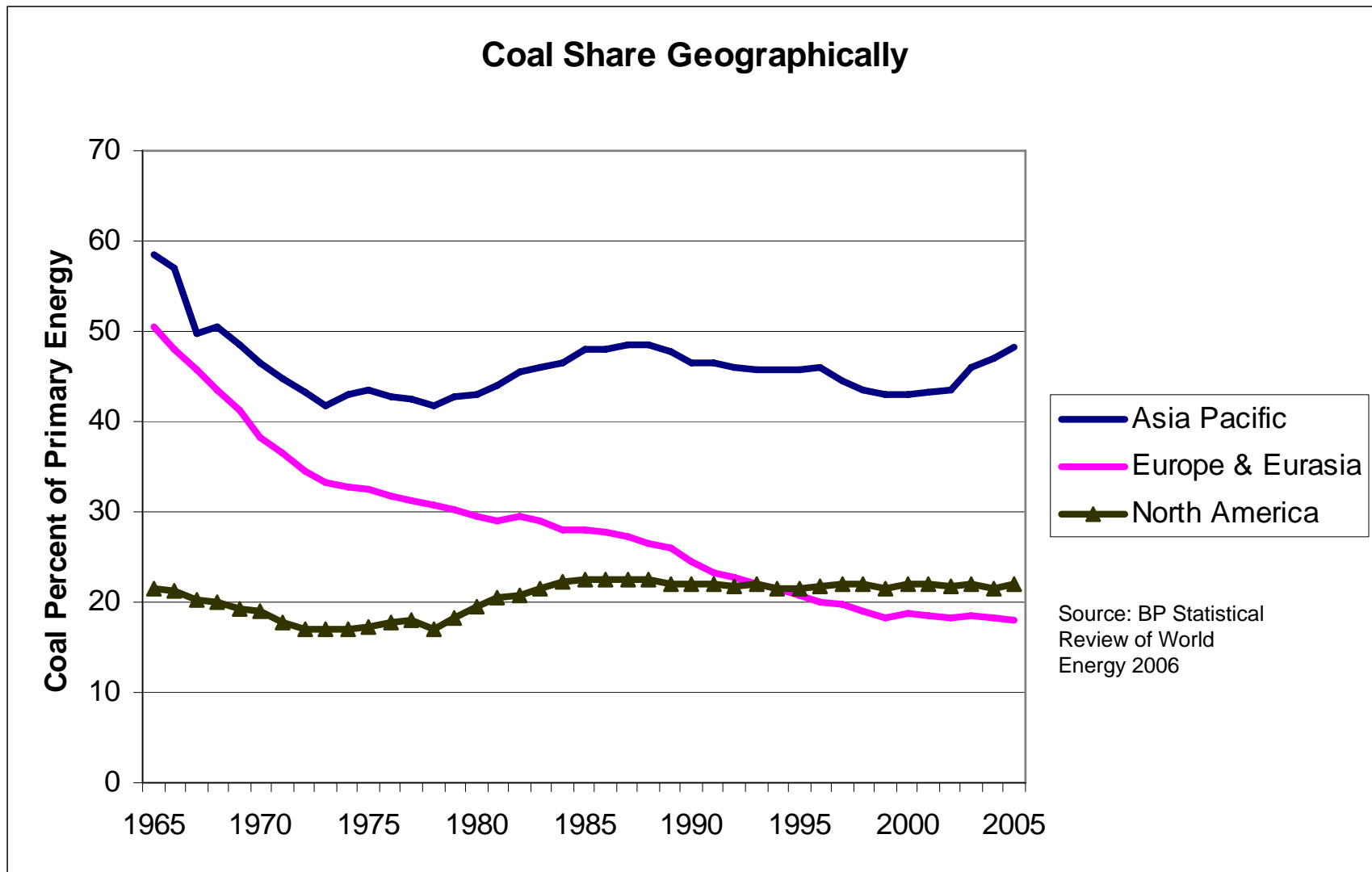
Asia Accelerates Energy Demand



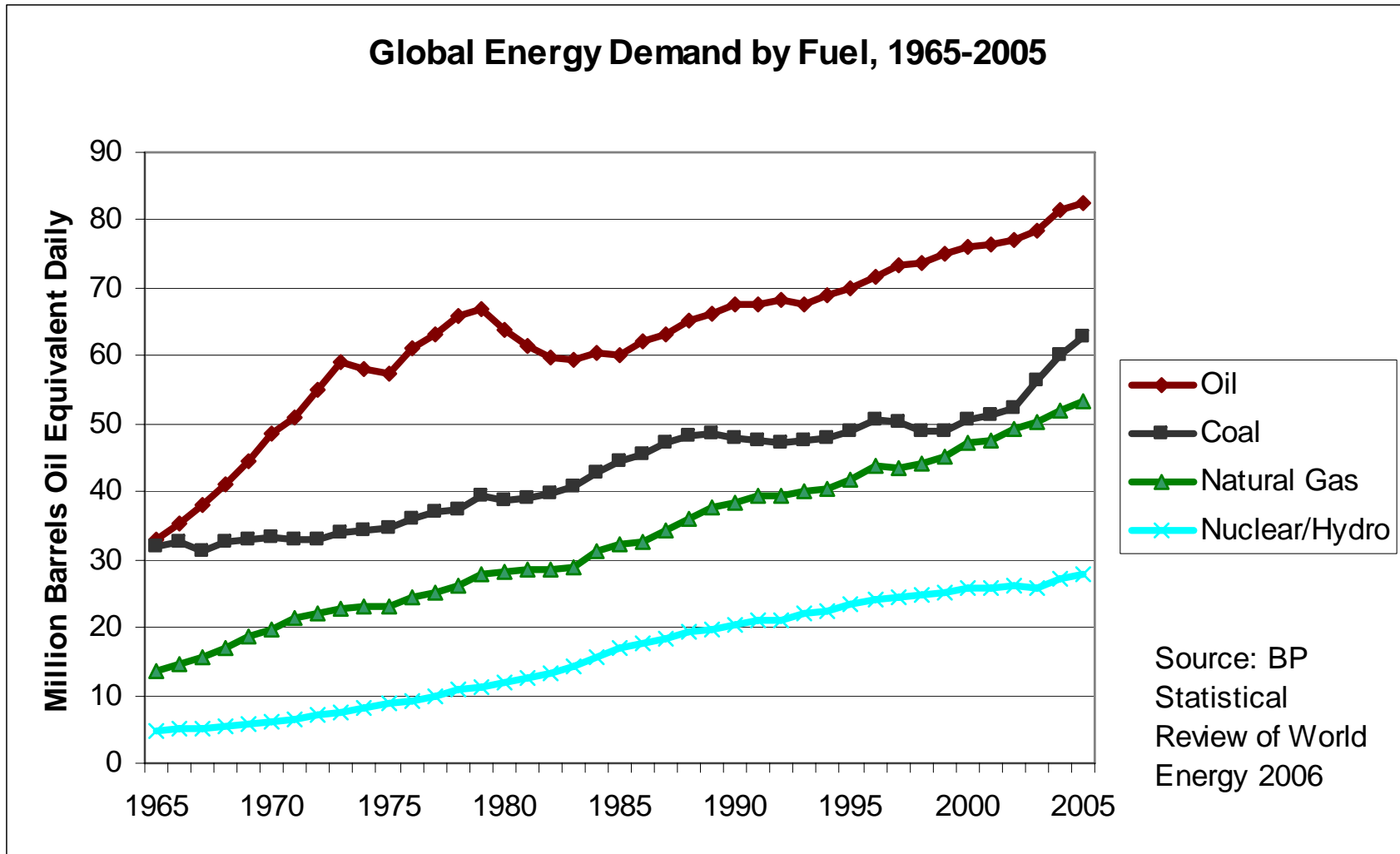
Asia Oil & Gas Share Low



Asia Coal Share Too High

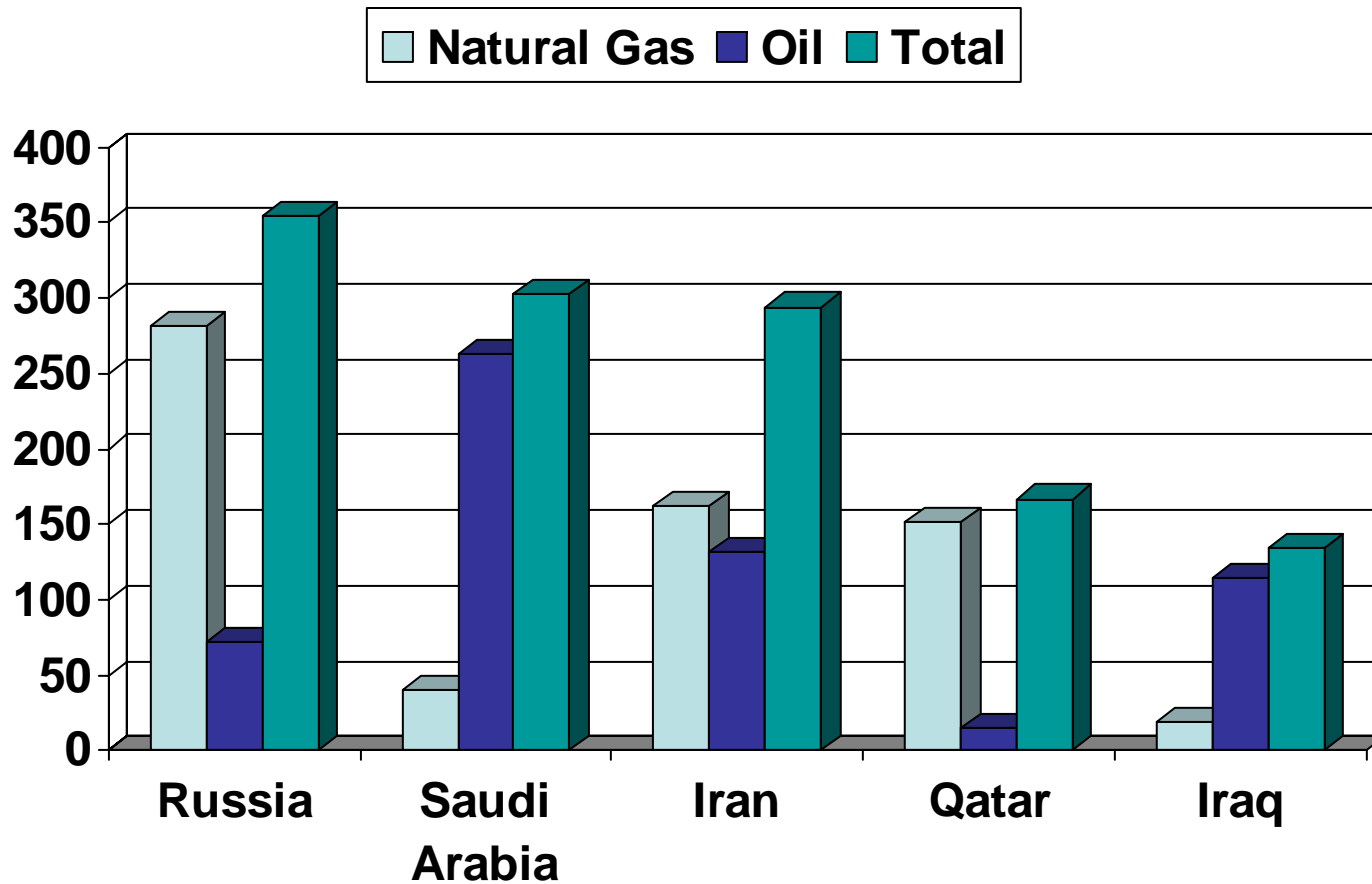


Asia Coal Boom is Unsatisfied Oil and Gas Demand



World Oil and Gas Reserves

Billion Barrels Equivalent

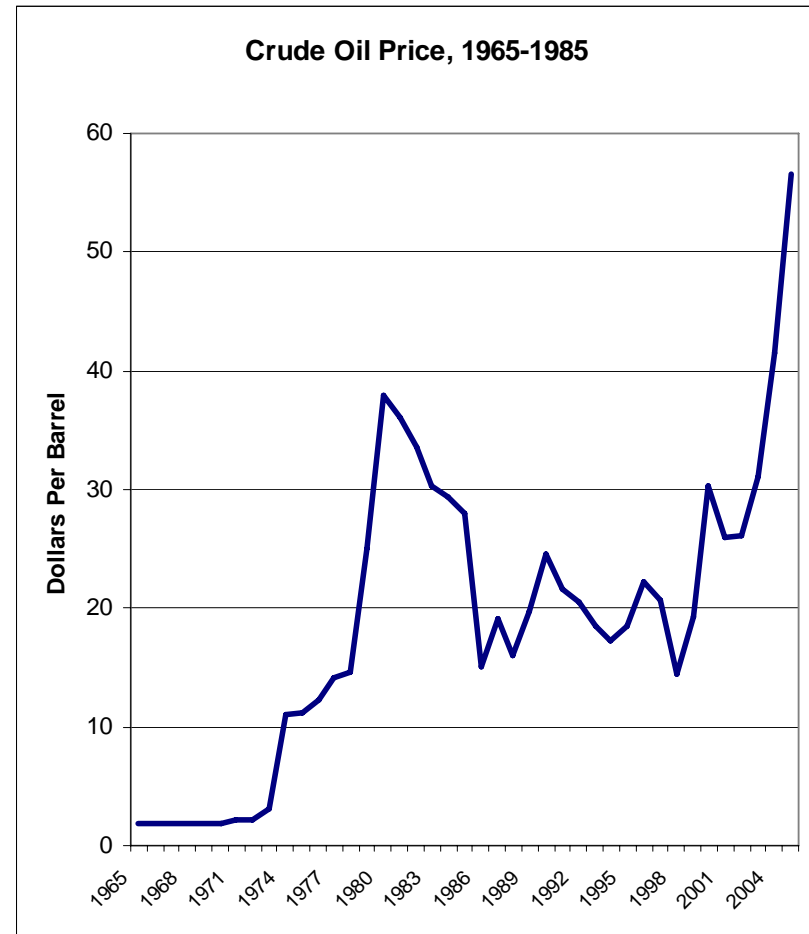


Points of View

- Peak Oil
- Twilight in the Desert
- ExxonMobil
- Cambridge Energy
- Bin Laden
- Chavez
- Putin
- Ukraine
- Bernanke

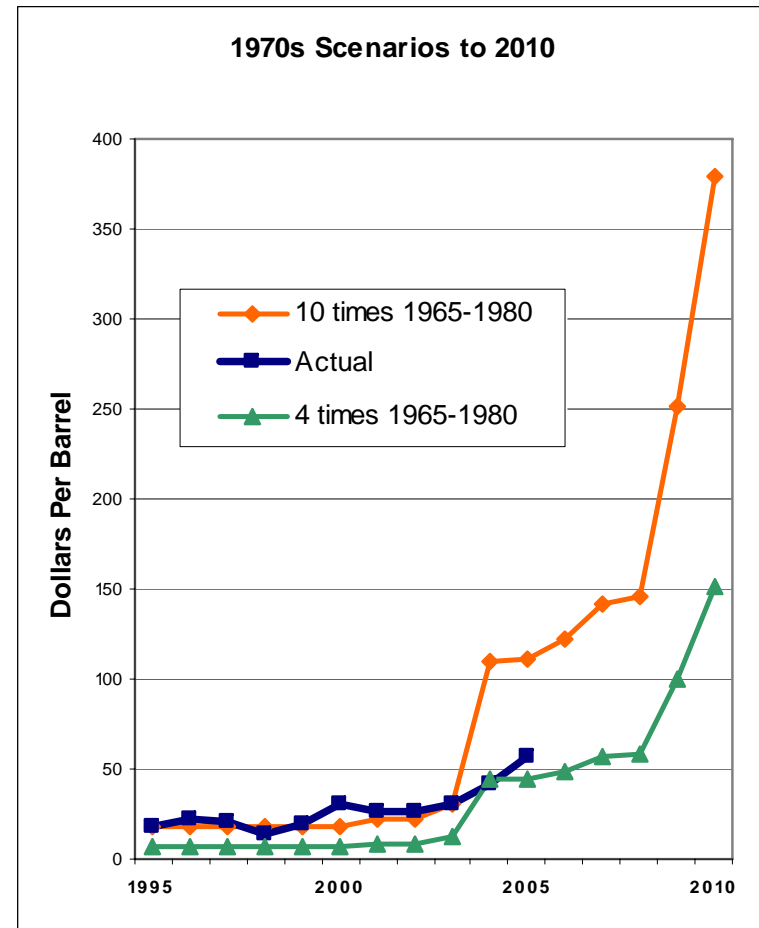
Oil Price History

- Pre-1970 price base
 - \$2 International
 - \$3 U.S.
- Pre-2000 price base
 - \$20 International
 - \$20 U.S.
- 2010 price “vision”
 - \$150
 - 7.5 times \$20 base

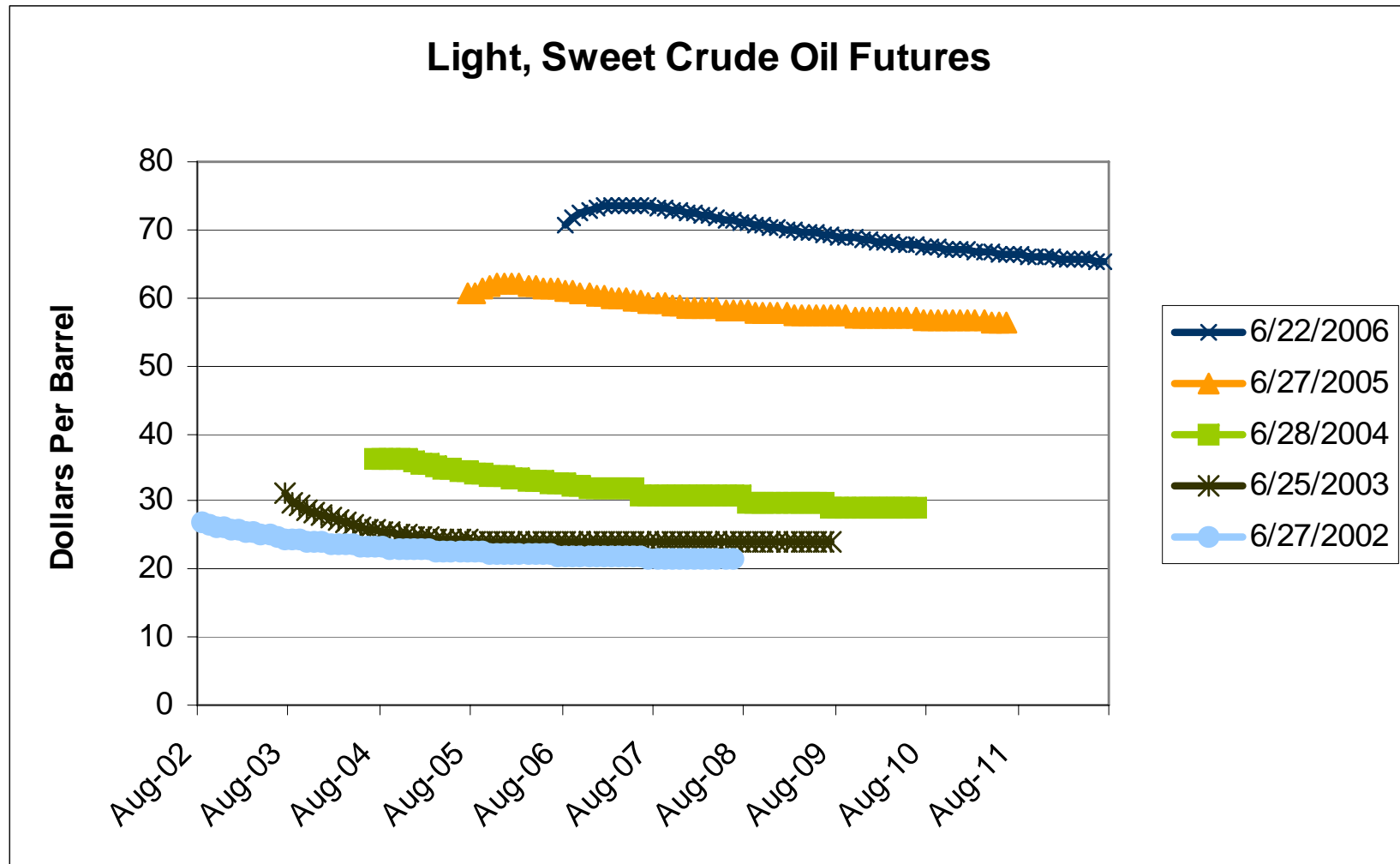


Oil Price Overlay

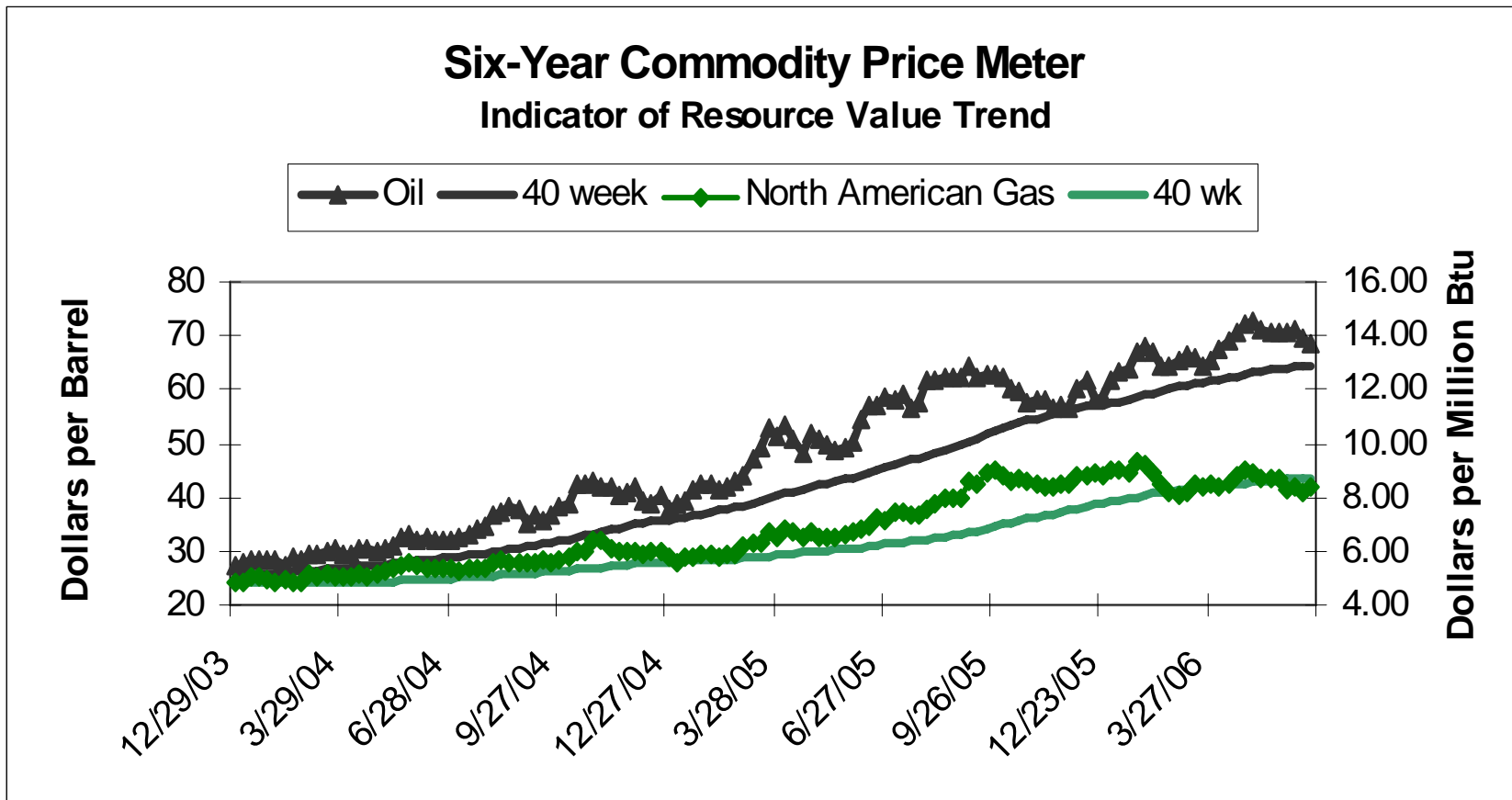
- Overlay 1965 to 1980 onto 1995 to 2010
- 1995 to 2010 Not 10 Times 1965-1980
- 1995 to 2010 More than 4 times 1965-1980
- CPI Up 4 Times in 30 yrs



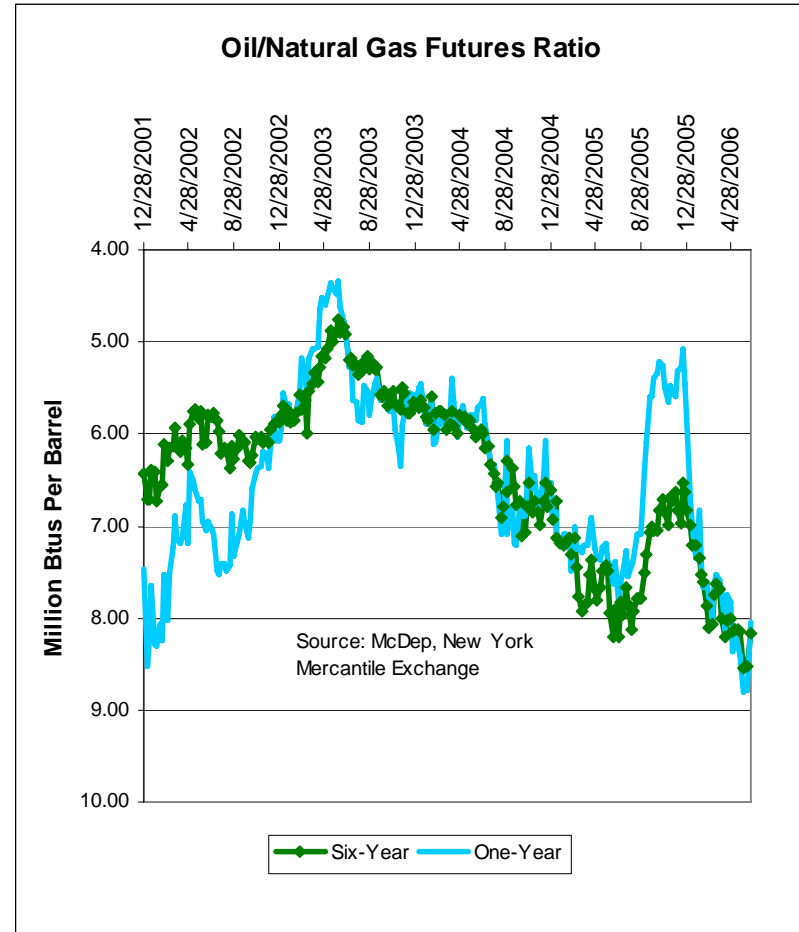
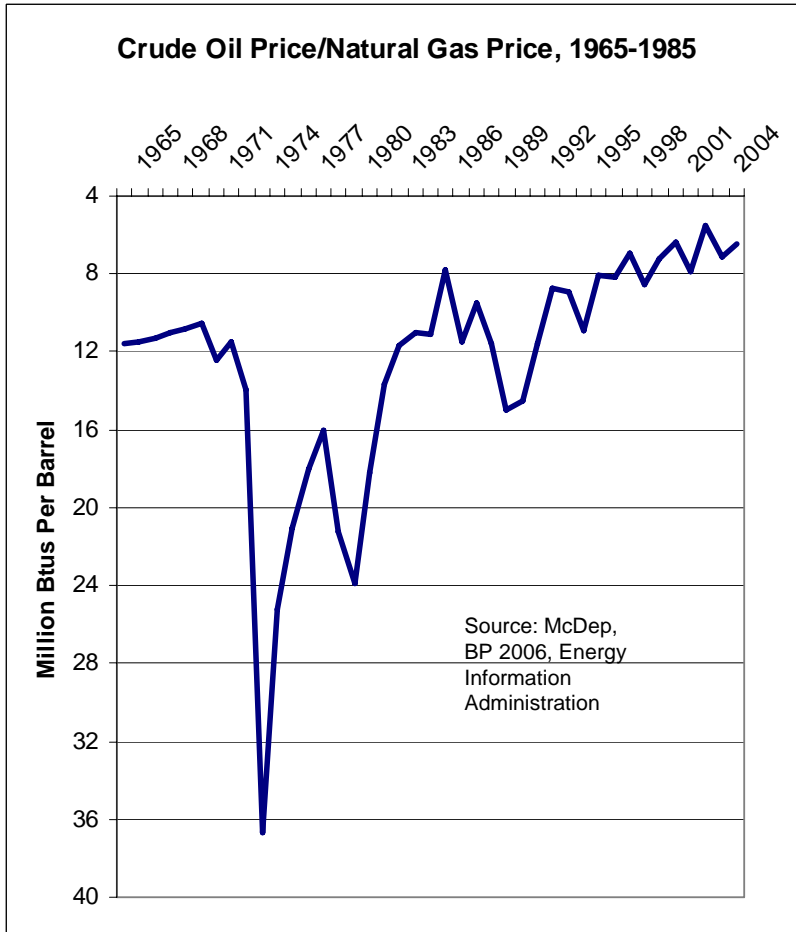
Oil Price in Futures



Oil Futures Momentum Positive



Natural Gas Diverges



Oil Price in Stocks Diverges

- Estimate Present Value at long-term real oil price of \$60 a barrel; natural gas, \$10 a mmbtu; oil refining, \$10 a barrel crack; 7% a year real return.
- Median McDep Ratio (Market Cap and Debt to Present Value) about 0.78
- Stocks priced for \$47 oil (60 times 0.78)

Stock Price Momentum Mixed

		Ratio to 200 Day Average	Ratio to 52-Week High
Gazprom	OGZPY	1.16	0.72
Canadian Oil Sands Trust	COSWF	1.12	0.84
PetroChina	PTR	1.08	0.82
Encana	ECA	1.05	0.84
Lukoil	LUKOY	1.01	0.73
Chevron	CVX	0.99	0.89
XTO Energy	XTO	0.98	0.85
ConocoPhillips	COP	0.97	0.84
Anadarko	APA	0.92	0.79
Devon Energy	DVN	0.91	0.79
San Juan Basin Royalty Trust	SJT	0.88	0.71
Encore Acquisition	EAC	0.78	0.63

Source: Bloomberg as of June 25, 2006

Divergence Sets Up Deals

- ConocoPhillips/Burlington Resources
 - 4.6 times cash flow, \$36 billion
- Shell Canada/Blackrock
 - 35 times cash flow, \$2 billion
- Energy Partners/Stone Energy
 - 3 times cash flow, \$2 billion
- Anadarko/Kerr-McGee/Western Gas
 - 8 times cash flow, \$21 billion
 - 9 times cash flow, \$5 billion

Mega Cap Energy Companies

		<i>Portfolio Equity Weight</i>	<i>McDep Ratio</i>
	<i>Symbol</i>	<i>(%)</i>	
Mega Cap			
BP plc	BP	2.8	0.86
Total S.A.	TOT	2.8	0.81
Royal Dutch Shell plc	RDS-A	3.0	0.78
Exxon Mobil Corporation	XOM	3.2	0.76
ConocoPhillips	COP	4.7	0.72
Chevron Corporation	CVX	5.7	0.70
Gazprom	OGZPY	9.8	0.70

Producer/Refiners

		<i>Portfolio Equity Weight</i>	<i>McDep Ratio</i>
	<i>Symbol</i>	<i>(%)</i>	
Producer/Refiners - Large Cap and Mid Cap			
Petro-Canada	PCZ	1.4	0.92
Marathon Oil Corporation	MRO	1.4	0.91
Imperial Oil Limited	IMO	1.5	0.91
Norsk Hydro ASA	NHY	1.4	0.86
Suncor Energy	SU	1.5	0.79
PetroChina Company Ltd.	PTR	3.2	0.73
Lukoil Oil Company	LUKOY	6.6	0.65

Large Independent Producers

	<i>Symbol</i>	<i>Portfolio Equity Weight (%)</i>	<i>McDep Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap			
Encana Corporation	ECA	2.9	0.93
XTO Energy Inc.	XTO	2.7	0.82
CNOOC Limited	CEO	3.4	0.78
Anadarko Petroleum Corp.	APC	1.4	0.77
Occidental Petroleum Corp.	OXY	2.9	0.73
EOG Resources	EOG	6.4	0.71
Devon Energy Corporation	DVN	5.5	0.60

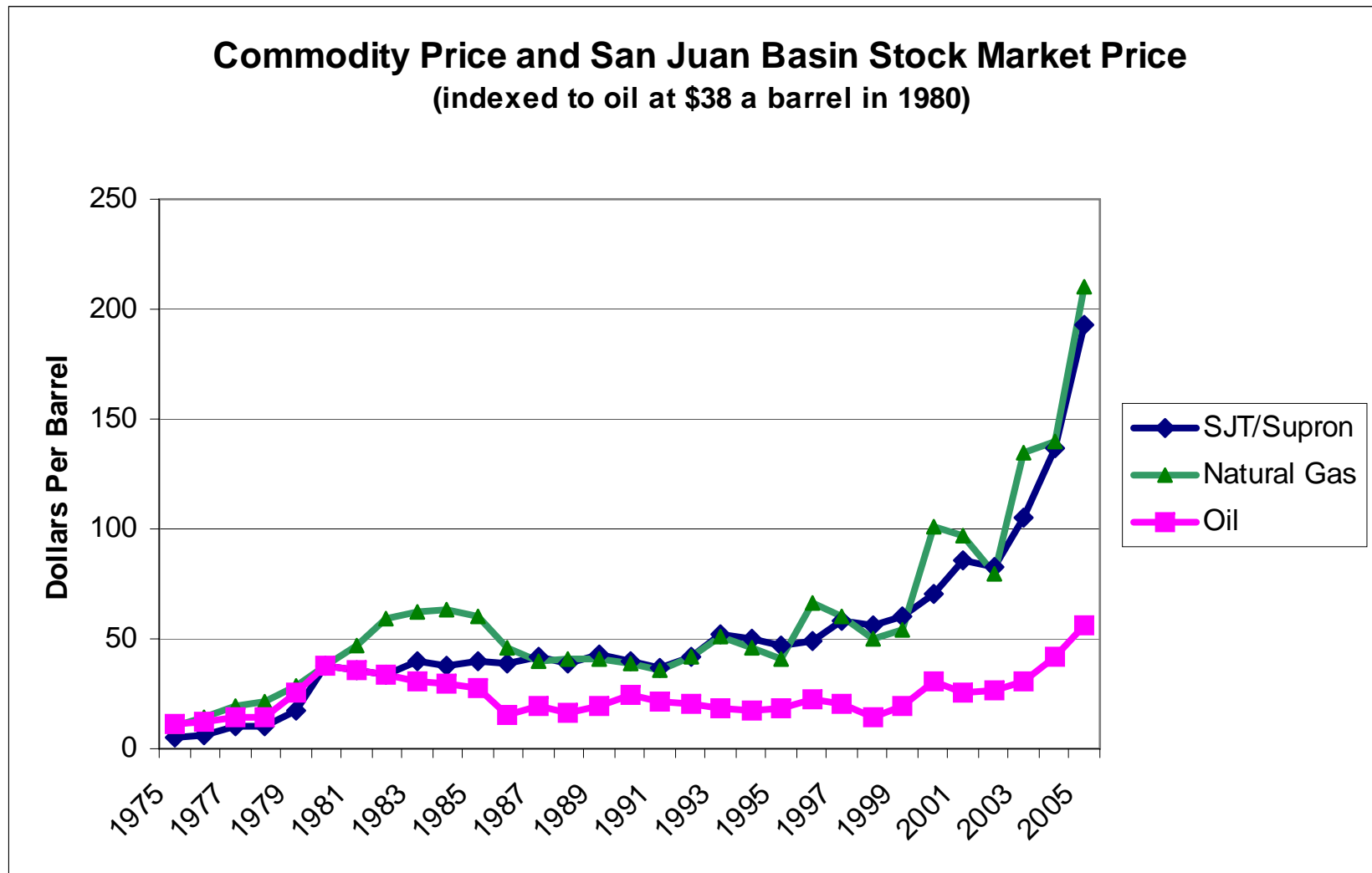
Small Independent Producers

	<i>Symbol</i>	<i>Portfolio Equity Weight (%)</i>	<i>McDep Ratio</i>
Independent Natural Gas and Oil - Small Cap			
Berry Petroleum Company	BRY	1.3	0.81
Energy Partners Ltd.	EPL	0.7	0.79
Cimarex Energy Company	XEC	2.9	0.61
Encore Acquisition Company	EAC	2.3	0.56

Energy Income Stocks

	<i>Symbol</i>	<i>Portfolio Equity Weight (%)</i>	<i>McDep Ratio</i>
Income			
Penn West Energy Trust (US\$)	PWE	6.0	1.07
San Juan Basin Royalty Trust	SJT	6.8	0.92
Canadian Oil Sands Trust (US\$)	COSWF	6.0	0.84
<i>Portfolio Composite (Five Groups)</i>		<i>100</i>	<i>0.75</i>

Natural Gas Pure Play



Conclusion

- Oil cycle is long
- Peak price appears years away
- Volatility renews opportunity
- Sound, long-term oil and gas investments likely to be rewarding, in our opinion