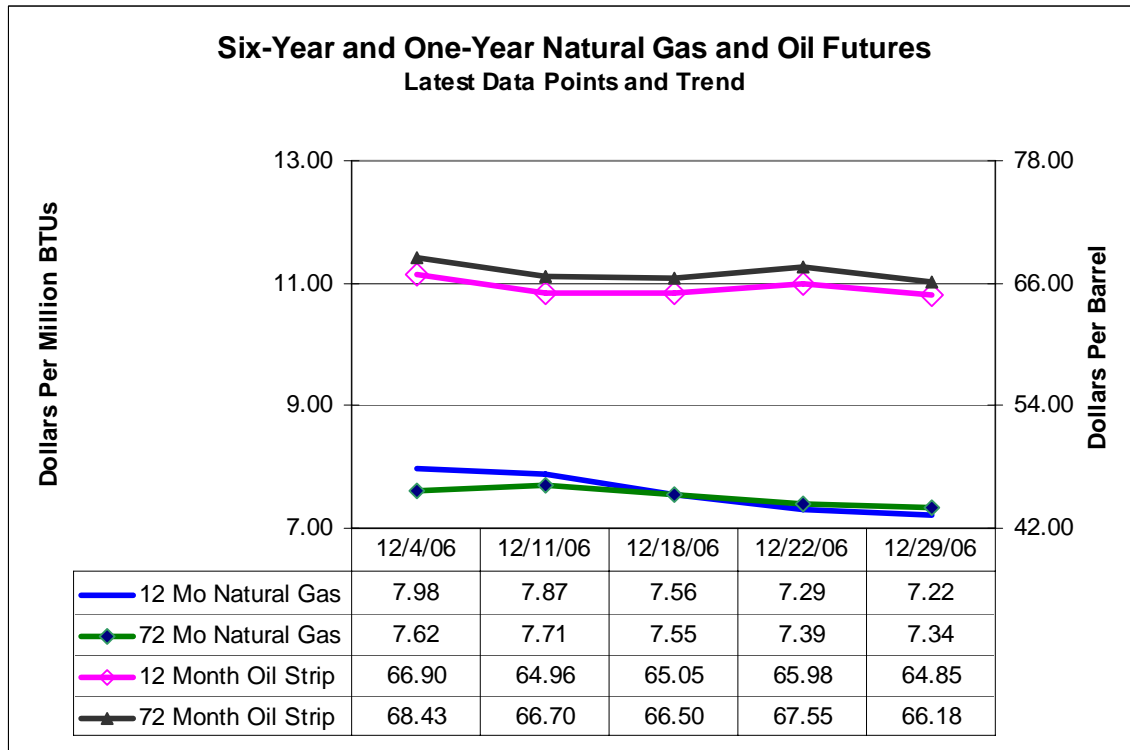


Expected Return in 2007

Summary and Recommendation

A stock at a McDep Ratio of 0.98, like buy-recommended **ExxonMobil (XOM)**, would return 7% unlevered in 2007 plus 2% for an increase in McDep Ratio to 1.0. The return would be boosted by another 10% if equity investors were to believe that the long-term oil outlook was \$66 a barrel as futures investors price the commodity for the next six years rather than \$60 a barrel that is built into a McDep Ratio of 1.0. Those returns are before adjustment for inflation. Moreover a conservative investor, holding bonds and cash in addition to stocks, could boost the equity return with replication of the leverage a hedge fund or private equity fund might apply by holding less fixed income and more XOM stock. Expected return for a stock at a low McDep Ratio of 0.64, like buy-recommended **Devon Energy (DVN)**, would be 7% in 2007 plus 56% unlevered, possibly within a year, with an increase in McDep Ratio to 1.0. Among other risks and depending on each company's mix of operations, expected returns also depend on natural gas, which we believe has sharp price recovery potential eventually, and on refining margins near those currently being achieved.

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 (US\$/sh) 29-Dec 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	76.63	5,922	454,000	78.00	0.04	0.98
Total S.A.	TOT	B	71.92	2,302	166,000	80.00	0.14	0.91
BP plc	BP	B	67.10	3,303	222,000	80.00	0.16	0.86
Royal Dutch Shell plc	RDS-A	B	70.79	3,200	227,000	84.00	0.13	0.86
Gazprom (50%)	OGZPY	B	46.40	2,850	132,200	56.00	0.06	0.84
Chevron Corporation	CVX	B	73.53	2,206	162,000	92.00	0.10	0.82
ConocoPhillips	COP	B	71.95	1,676	121,000	100.00	0.21	0.78
<i>Total or Median</i>					<i>1,484,000</i>		<i>0.13</i>	<i>0.86</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	105.75	135	14,280	33.00	0.75	1.54
PetroChina Company Ltd (10%)	PTR	B	140.78	179	25,200	140.00	0.04	1.01
Imperial Oil Limited (30%)	IMO	H	36.83	292	10,760	37.00	0.07	1.00
Norsk Hydro ASA	NHY	B	30.67	1,236	37,910	31.00	0.15	0.99
Petro-Canada	PCZ	B	41.04	506	20,770	49.00	0.17	0.87
Marathon Oil Corporation	MRO	B	92.50	359	33,210	110.00	0.12	0.86
Suncor Energy	SU	B	78.91	461	36,390	95.00	0.06	0.84
Lukoil Oil Company	LUKOY	B	88.51	830	73,000	110.00	0.02	0.81
<i>Total or Median</i>					<i>252,000</i>		<i>0.10</i>	<i>0.93</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	94.63	140	13,230	98.00	-	0.97
XTO Energy Inc.	XTO	B	47.05	371	17,460	60.00	0.14	0.81
Anadarko Petroleum Corp.	APC	B	43.52	463	20,100	75.00	0.42	0.75
Encana Corporation	ECA	B	45.95	824	37,900	65.00	0.12	0.74
Occidental Petroleum Corp.	OXY	B	48.83	860	42,000	69.00	0.09	0.73
EOG Resources	EOG	B	62.45	246	15,400	92.00	0.04	0.69
Devon Energy Corporation	DVN	B	67.08	447	30,000	115.00	0.13	0.64
<i>Total or Median</i>					<i>176,000</i>		<i>0.12</i>	<i>0.74</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	24.42	41	990	31.00	0.25	0.84
Berry Petroleum Company	BRY	B	31.01	45	1,390	44.00	0.22	0.77
Cimarex Energy Company	XEC	B	36.50	84	3,080	68.00	0.08	0.58
Encore Acquisition Company	EAC	B	24.53	54	1,320	54.00	0.19	0.56
<i>Total or Median</i>					<i>6,800</i>		<i>0.20</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	47.90	168	8,030	15.00	0.54	2.01
Kinder Morgan Management, LLC	KMR	S	45.68	61	2,770	15.00	0.54	1.94
Enerplus Resources Fund	ERF		43.61	123	5,370	47.00	0.11	0.94
Pengrowth Energy Trust	PGH		17.21	241	4,150	20.00	0.26	0.90
San Juan Basin Royalty Trust	SJT	B	32.85	47	1,530	40.00	-	0.82
Canadian Oil Sands Trust	COSWF	B	28.07	479	13,440	35.00	0.09	0.82
Penn West Energy Trust	PWE	B	30.56	239	7,300	39.00	0.13	0.81
<i>Total or Median</i>					<i>42,600</i>		<i>0.13</i>	<i>0.90</i>

B = Buy, H = Hold, S = Sell

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

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (US\$/sh) 29-Dec 2006	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	46.40	24.0	8.8	7.4	12	0.2
Exxon Mobil Corporation	XOM	B	76.63	11.4	6.5	6.4	11	1.7
Total S.A.	TOT	B	71.92	9.7	6.6	6.1	11	3.0
BP plc	BP	B	67.10	9.5	6.5	5.6	9	3.5
Chevron Corporation	CVX	B	73.53	10.9	6.2	5.1	9	2.8
ConocoPhillips	COP	B	71.95	11.0	6.4	5.0	9	2.0
Royal Dutch Shell plc	RDS-A	B	70.79	7.4	5.7	4.9	9	3.7
	<i>Median</i>			10.9	6.5	5.6	9	2.8
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	105.75		8.8	13.6	22	3.3
Suncor Energy	SU	B	78.91	20.8	11.6	9.8	18	0.3
Imperial Oil Limited (30%)	IMO	H	36.83	10.3	8.1	8.0	13	0.7
PetroChina Company Ltd (10%)	PTR	B	140.78	15.1	6.3	6.4	13	3.5
Petro-Canada	PCZ	B	41.04	7.2	7.1	6.2	11	1.1
Lukoil Oil Company	LUKOY	B	88.51	18.7	7.5	6.0	10	1.4
Marathon Oil Corporation	MRO	B	92.50	8.6	6.1	5.3	9	1.4
Norsk Hydro ASA	NHY	B	30.67	8.1	5.1	5.1	11	2.3
	<i>Median</i>			10.3	7.3	6.3	12	1.4
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	47.05	11.3	8.4	6.8	11	0.8
CNOOC Limited (34%)	CEO	B	94.63	10.6	6.5	6.2	12	3.0
EOG Resources	EOG	B	62.45	9.3	9.0	6.2	16	0.4
Anadarko Petroleum Corp.	APC	B	43.52	11.5	8.1	6.1	9	1.7
Encana Corporation	ECA	B	45.95	8.7	7.9	5.9	12	0.9
Occidental Petroleum Corp.	OXY	B	48.83	11.0	7.4	5.4	10	1.8
Devon Energy Corporation	DVN	B	67.08	8.2	7.4	4.7	9	0.7
	<i>Median</i>			10.6	7.9	6.1	11	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	31.01	10.1	8.6	6.6	11	1.0
Encore Acquisition Company	EAC	B	24.53	15.5	9.7	5.4	14	-
Energy Partners Ltd.	EPL	B	24.42	5.0	5.3	4.5	-	-
Cimarex Energy Company	XEC	B	36.50	7.8	7.3	4.2	12	0.4
	<i>Median</i>			9.0	8.0	4.9	12	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	47.90		7.8	15.6	33	6.8
Kinder Morgan Management, LLC	KMR	S	45.68		7.8	15.1	31	7.1
Canadian Oil Sands Trust	COSWF	B	28.07	23.0	12.9	10.6	15	6.4
San Juan Basin Royalty Trust	SJT	B	32.85	9.3	11.5	9.5	12	8.5
Enerplus Resources Fund	ERF		43.61	9.5	8.1	7.6	17	9.9
Penn West Energy Trust	PWE	B	30.56	8.1	8.8	7.2	13	11.4
Pengrowth Energy Trust	PGH		17.21	7.1	7.3	6.6	11	14.9
	<i>Median</i>			9.3	8.1	9.5	15	8.5

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Oil and Gas Producers
Portfolio Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 29-Dec 2006	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
Mega Cap										
Exxon Mobil Corporation	XOM	76.63	3.2	2.9		0.2	0.5	1.3	0.9	0.98
Total S.A.	TOT	71.92	2.8	2.9	2.9		0.9	1.2	0.8	0.91
BP plc	BP	67.10	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.86
Royal Dutch Shell plc	RDS-A	70.79	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.86
Gazprom	OGZPY	46.40	9.2	8.6	8.6		6.8	1.8		0.84
Chevron Corporation	CVX	73.53	5.8	5.7		0.4	0.4	3.4	1.5	0.82
ConocoPhillips	COP	71.95	4.8	5.7		0.9	0.4	3.0	1.3	0.78
Producer/Refiners - Large Cap										
PetroChina Company Ltd.	PTR	140.78	3.2	2.9	2.9		0.2	2.4	0.2	1.01
Norsk Hydro ASA	NHY	30.67	2.8	2.9	2.9		0.7	1.1	1.0	0.99
Petro-Canada	PCZ	41.04	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.87
Marathon Oil Corporation	MRO	92.50	1.4	1.4		0.1	0.1	0.6	0.6	0.86
Suncor Energy	SU	78.91	1.5	1.4	1.4	0.1		1.3	0.1	0.84
Lukoil Oil Company	LUKOY	88.51	6.5	5.7	5.7			4.3	1.4	0.81
Independent Natural Gas and Oil - Large Cap										
CNOOC Limited	CEO	94.63	3.3	2.9	2.9		0.3	2.6		0.97
XTO Energy Inc.	XTO	47.05	2.8	2.9		2.0		0.8		0.81
Anadarko Petroleum Corp.	APC	43.52	1.5	2.9		1.6		1.2	0.1	0.75
Encana Corporation	ECA	45.95	5.5	5.7	5.7	4.1		1.2	0.4	0.74
Occidental Petroleum Corp	OXY	48.83	2.9	2.9		0.4	0.0	2.1	0.3	0.73
EOG Resources	EOG	62.45	6.2	5.7		4.4	0.4	1.0		0.69
Devon Energy Corporation	DVN	67.08	5.3	5.7		3.1		2.6		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	24.42	1.2	1.4		0.8		0.7		0.84
Berry Petroleum Company	BRY	31.01	1.2	1.4		0.2		1.2		0.77
Cimarex Energy Company	XEC	36.50	2.8	2.9		2.0		0.9		0.58
Encore Acquisition Compæ	EAC	24.53	2.2	2.9		0.7		2.1		0.56
Income										
San Juan Basin Royalty Tr	SJT	32.85	6.6	5.7		5.7				0.82
Canadian Oil Sands Trust	COSWF	28.07	5.9	5.7	5.7			5.7		0.82
Penn West Energy Trust	PWE	30.56	5.6	5.7	5.7	1.8		4.0		0.81
Portfolio Composite			100	100	50	29	12	49	11	0.79

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
28-Dec	XTO	XTO Energy Inc.	Raise NPV to \$60 a Share
22-Dec	OGZPY	Gazprom	World's Greatest Energy Company
19-Dec	NHY	Norsk Hydro ASA	Happy Holidеals!
11-Dec	* COSWF	Canadian Oil Sands Trust	Tax Bomb Opportunity
28-Nov	* PTR	PetroChina Company Limited	U.S./China Dollar Devaluation Accelerates
28-Nov	* CEO	CNOOC Ltd	U.S./China Dollar Devaluation Accelerates
20-Nov	* EPL	Energy Partners, Ltd.	Hostile Bidder Withdraws
17-Nov	* SJT	San Juan Basin Royalty Trust	Dip/Rebound and New Shale Potential
14-Nov	* PWE	Penn West Energy Trust	Canada's Dastardly Deed
9-Nov	* BRY	Berry Petroleum	Election Winner
9-Nov	* TOT	Total S.A.	Steady High Return
7-Nov	* APC	Anadarko Petroleum Corporation	Hedging and Deleveraging
7-Nov	* XEC	Cimarex Energy Company	Steady Operations
7-Nov	* EPL	Energy Partners, Ltd.	Buyers Looking
6-Nov	* BRY	Berry Petroleum	Raise NPV to \$44 a Share on Election Eve
3-Nov	* EOG	EOG Resources Inc.	Stealth Explorer
3-Nov	* IMO	Imperial Oil Limited	Hold While Six-Year Oil below 40-Week Average
3-Nov	* EAC	Encore Acquisition Company	Brown Bassett Wolfcamp
2-Nov	* DVN	Devon Energy Corporation	Deep Gulf Explorer
1-Nov	* MRO	Marathon Oil Corporation	Raise NPV to \$110 a Share
30-Oct	* CVX	Chevron Corporation	Raise NPV to \$92 a Share
27-Oct	* XOM	Exxon Mobil Corporation	Oil Production Per Share Grows
27-Oct	* SU	Suncor Energy Inc.	Next Milestone 2008
27-Oct	* PCZ	Petro-Canada	Volume Growth around the Corner
26-Oct	* RDSA	Royal Dutch Shell plc	New Structure Working
26-Oct	* ECA	EnCana Corporation	Beating Cost Inflation
26-Oct	* COP	ConocoPhillips	Volume Growth Adjusted for Debt and Shares
25-Oct	* BP	BP p.l.c.	Solid Cash Flow
20-Oct	* LUKOY	Lukoil Oil Company	Presents to Investors in New York
19-Oct	* KMx	Kinder Morgan	Dilution Ahead
19-Oct	* OXY	Occidental Petroleum Corporation	Stock Cheaper than Oil

Meter Reader - A Weekly Analysis

1-Jan		Expected Return in 2007
26-Dec	*	Respectable Return in 2006
19-Dec	*	Happy Holidеals!
12-Dec	*	Four More Years

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

22-Dec		Canadians Fighting Back
15-Dec	*	Distribution Anomalies
8-Dec	*	A Thousand Barrels a Second
1-Dec	*	Al Gore's Movie

* Archived on www.mcdep.com

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