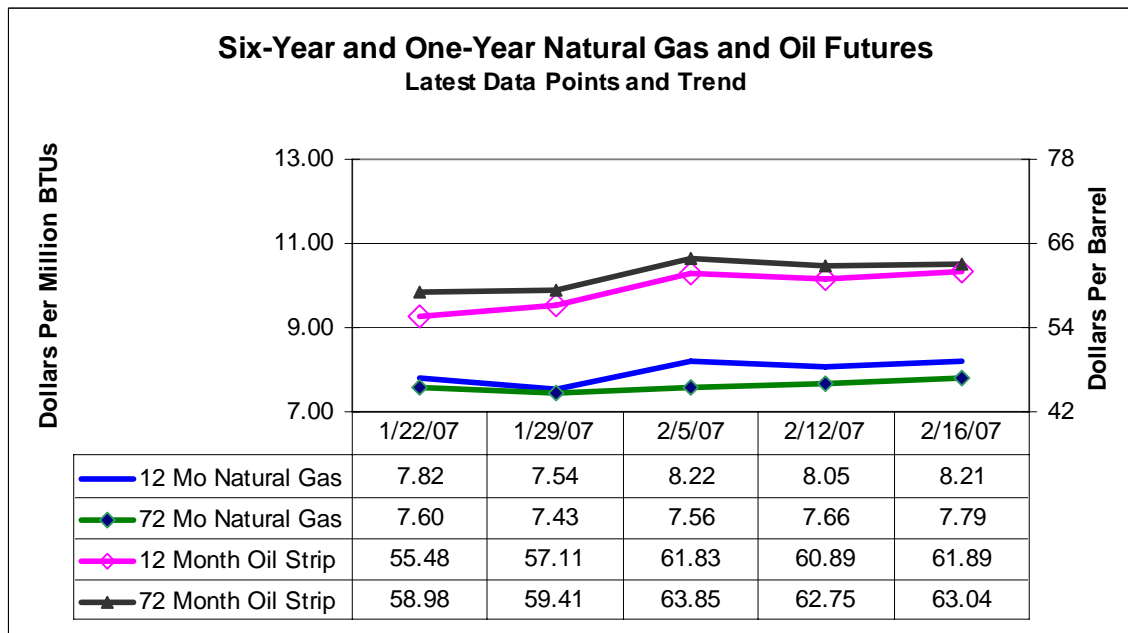


Oil Sands Tax Review

Summary and Recommendation

The political risk/reward tradeoff will be tested as a six member panel just appointed by new Alberta Premier Ed Stelmach prepares to deliver recommendations on oil sands royalties by August 31. The positive outcome would be to satisfy citizens of the province that the current deal serves well toward fulfilling a vision of Alberta as a Clean Energy Super Power, in the words of Shell Canada Chief Executive Clive Mather. The negative outcome would be another blind sided blow to investors on top of the Ottawa Finance Minister’s proposal to renege on tax treatment of income trusts. We take comfort from the fact that Mr. Stelmach was a minister in the previous administration of Mr. Ralph Klein, the creator of the current tax regime relied upon for billions of dollars of long-term investments. Canadian stocks account for about a 19% unlevered weight in the illustrative McDep Energy Portfolio (see table Portfolio Composite). Two double-weighted buy recommendations are clean energy super power leaders, **Canadian Oil Sands Trust (COSWF)** for oil and **Encana (ECA)** mostly for natural gas. Meanwhile, natural gas for delivery over the next six years quoted at \$7.79 a million btu is within 11 cents of crossing above the 40-week average, possibly ending the downtrend for most of last year.

Kurt H. Wulff, CFA



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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>16-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$m)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	B	75.29	5,816	438,000	82.40	0.04	0.92
Total S.A.	TOT	B	70.19	2,288	161,000	80.00	0.14	0.89
Royal Dutch Shell plc	RDS-A	B	66.59	3,171	211,000	84.00	0.14	0.82
BP plc	BP	B	62.66	3,268	205,000	80.00	0.17	0.82
Chevron Corporation	CVX	B	70.81	2,206	156,000	92.00	0.09	0.79
Gazprom (50%)	OGZPY	B	43.25	2,849	123,200	56.00	0.06	0.79
ConocoPhillips	COP	B	66.15	1,672	111,000	100.00	0.20	0.73
			<i>Total or Median</i>		<i>1,405,000</i>		<i>0.14</i>	<i>0.82</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	105.94	133	14,120	33.00	0.76	1.53
Imperial Oil Limited (30%)	IMO	H	36.89	289	10,660	37.00	0.07	1.00
PetroChina Company Ltd (10%)	PTR	B	122.83	179	21,990	140.00	0.04	0.88
Norsk Hydro (pro forma)	NHY	B	32.13	1,229	39,490	38.00	0.19	0.88
Marathon Oil Corporation	MRO	B	91.03	352	32,040	110.00	0.12	0.85
Petro-Canada	PCZ	B	38.55	498	19,200	49.00	0.19	0.83
Suncor Energy	SU	B	75.01	461	34,590	95.00	0.07	0.80
Lukoil Oil Company	LUKOY	B	80.69	835	67,000	110.00	0.02	0.74
			<i>Total or Median</i>		<i>239,000</i>		<i>0.10</i>	<i>0.86</i>
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	50.88	371	18,880	60.00	0.14	0.87
CNOOC Limited (34%)	CEO	B	84.27	140	11,780	98.00	-	0.86
Encana Corporation	ECA	B	48.94	806	39,500	65.00	0.13	0.79
Anadarko Petroleum Corp.	APC	B	41.33	464	19,200	75.00	0.44	0.75
EOG Resources	EOG	B	67.00	247	16,500	92.00	0.05	0.74
Occidental Petroleum Corp.	OXY	B	47.52	853	40,500	69.00	0.09	0.72
Devon Energy Corporation	DVN	B	66.69	448	29,900	115.00	0.14	0.64
			<i>Total or Median</i>		<i>176,000</i>		<i>0.13</i>	<i>0.75</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	22.01	41	890	31.00	0.25	0.78
Berry Petroleum Company	BRY	B	30.84	45	1,380	44.00	0.22	0.77
Encore Acquisition Company	EAC	B	24.90	54	1,340	48.00	0.23	0.63
Cimarex Energy Company	XEC	B	36.05	84	3,030	68.00	0.09	0.57
			<i>Total or Median</i>		<i>6,600</i>		<i>0.22</i>	<i>0.70</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.50	171	8,610	15.00	0.54	2.10
Kinder Morgan Management, LLC	KMR	S	49.59	62	3,060	15.00	0.54	2.07
Enerplus Resources Fund	ERF		43.75	123	5,390	47.00	0.11	0.94
Pengrowth Energy Trust	PGH		17.38	241	4,190	20.00	0.27	0.90
Penn West Energy Trust	PWE	B	30.94	239	7,390	39.00	0.13	0.82
San Juan Basin Royalty Trust	SJT	B	32.23	47	1,500	40.00	-	0.80
Hugoton Royalty Trust	HGT	B	24.56	40	980	34.00	-	0.72
Canadian Oil Sands Trust	COSWF	B	23.95	479	11,470	35.00	0.08	0.71
			<i>Total or Median</i>		<i>42,600</i>		<i>0.12</i>	<i>0.86</i>

B = Buy, S = Sell, H = Hold

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) 16-Feb 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	43.25	24.0	8.8	6.9	11	0.2
Exxon Mobil Corporation	XOM	B	75.29	11.5	6.8	6.2	11	1.7
Total S.A.	TOT	B	70.19	9.6	6.7	6.0	11	3.5
BP plc	BP	B	62.66	9.8	7.3	6.0	10	3.8
Chevron Corporation	CVX	B	70.81	10.9	6.5	5.1	9	2.9
Royal Dutch Shell plc	RDS-A	B	66.59	7.4	5.7	4.7	9	4.3
ConocoPhillips	COP	B	66.15	10.9	6.2	4.5	7	2.5
	<i>Median</i>			10.9	6.7	6.0	10	2.9
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	105.94		8.9	13.6	21	3.3
Suncor Energy	SU	B	75.01	18.3	13.2	10.6	20	0.4
Imperial Oil Limited (30%)	IMO	H	36.89	11.5	9.3	9.3	16	0.7
PetroChina Company Ltd (10%)	PTR	B	122.83	15.2	6.6	5.8	12	4.0
Lukoil Oil Company	LUKOY	B	80.69	18.1	7.4	5.5	9	1.5
Marathon Oil Corporation	MRO	B	91.03	8.3	6.1	5.2	9	1.5
Petro-Canada	PCZ	B	38.55	6.5	5.9	4.9	9	1.2
Norsk Hydro (pro forma)	NHY	B	32.13	8.5	3.4	3.0	6	2.5
	<i>Median</i>			11.5	7.0	5.6	11	1.5
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	50.88	12.3	8.6	7.5	13	0.7
Anadarko Petroleum Corp.	APC	B	41.33	10.3	8.5	6.4	10	1.7
Encana Corporation	ECA	B	48.94	9.2	7.6	6.0	12	1.6
EOG Resources	EOG	B	67.00	9.7	7.9	5.9	15	0.5
CNOOC Limited (34%)	CEO	B	84.27	10.6	6.7	5.7	11	3.3
Occidental Petroleum Corp.	OXY	B	47.52	11.9	7.9	5.7	12	1.9
Devon Energy Corporation	DVN	B	66.69	9.1	7.8	5.0	10	0.7
	<i>Median</i>			10.3	7.9	5.9	12	1.6
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	30.84	10.1	8.8	6.8	11	1.0
Encore Acquisition Company	EAC	B	24.90	15.0	10.0	6.3	26	-
Cimarex Energy Company	XEC	B	36.05	8.1	7.1	4.0	10	0.4
Energy Partners Ltd.	EPL	B	22.01	5.0	5.0	3.9	-	-
	<i>Median</i>			9.1	7.9	5.2	11	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.50		7.8	16.4	39	6.6
Kinder Morgan Management, LLC	KMR	S	49.59		7.8	16.1	39	6.7
Canadian Oil Sands Trust	COSWF	B	23.95	23.3	14.2	10.1	15	6.5
San Juan Basin Royalty Trust	SJT	B	32.23	11.7	11.6	9.3	11	8.9
Hugoton Royalty Trust	HGT	B	24.56	14.0	11.4	8.2	12	8.2
Enerplus Resources Fund	ERF		43.75	9.5	7.9	7.5	17	9.9
Penn West Energy Trust	PWE	B	30.94	8.1	8.8	7.2	13	11.3
Pengrowth Energy Trust	PGH		17.38	7.1	7.2	6.5	11	14.8
	<i>Median</i>			10.6	8.4	8.8	14	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) 16-Feb 2007	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	75.29	3.2	2.9		0.2	0.5	1.3	0.9	0.92
Total S.A.	TOT	70.19	2.8	2.9	2.9		0.8	1.2	0.8	0.89
Royal Dutch Shell plc	RDS-A	66.59	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.82
BP plc	BP	62.66	1.3	1.4	1.4	0.1	0.2	0.7	0.4	0.82
Chevron Corporation	CVX	70.81	5.9	5.7		0.4	0.4	3.4	1.5	0.79
Gazprom	OGZPY	43.25	9.2	8.6	8.6		6.8	1.8		0.79
ConocoPhillips	COP	66.15	4.9	5.7		1.0	0.4	2.9	1.4	0.73
Producer/Refiners - Large Cap										
PetroChina Company Ltd.	PTR	122.83	3.2	2.9	2.9		0.2	2.4	0.2	0.88
Norsk Hydro (pro forma)	NHY	32.13	2.6	2.9	2.9		0.7	1.1	1.1	0.88
Marathon Oil Corporation	MRO	91.03	1.4	1.4		0.1	0.1	0.5	0.6	0.85
Petro-Canada	PCZ	38.55	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.83
Suncor Energy	SU	75.01	1.5	1.4	1.4	0.1		1.3	0.1	0.80
Lukoil Oil Company	LUKOY	80.69	6.5	5.7	5.7			4.3	1.4	0.74
Independent Natural Gas and Oil - Large Cap										
XTO Energy Inc.	XTO	50.88	2.8	2.9		2.0		0.8		0.87
CNOOC Limited	CEO	84.27	3.3	2.9	2.9		0.3	2.6		0.86
Encana Corporation	ECA	48.94	5.6	5.7	5.7	4.2		1.1	0.4	0.79
Anadarko Petroleum Corp.	APC	41.33	1.4	2.9		1.5		1.3	0.1	0.75
EOG Resources	EOG	67.00	6.2	5.7		4.3	0.4	1.0		0.74
Occidental Petroleum Corp	OXY	47.52	2.9	2.9		0.4	0.0	2.1	0.3	0.72
Devon Energy Corporation	DVN	66.69	5.2	5.7		3.2		2.6		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	22.01	1.1	1.4		0.8		0.7		0.78
Berry Petroleum Company	BRY	30.84	1.2	1.4		0.2		1.2		0.77
Encore Acquisition Comp	EAC	24.90	2.1	2.9		0.8		2.1		0.63
Cimarex Energy Company	XEC	36.05	2.8	2.9		2.0		0.9		0.57
Income										
Penn West Energy Trust	PWE	30.94	4.2	4.3	4.3	1.3		3.0		0.82
San Juan Basin Royalty Tr	SJT	32.23	6.7	5.7		5.7				0.80
Hugoton Royalty Trust	HGT	24.56	1.7	1.4		1.4				0.72
Canadian Oil Sands Trust	COSWF	23.95	6.0	5.7	5.7			5.7		0.71
Portfolio Composite			100	100	49	30	11	48	11	0.76

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Feb	NHY	Norsk Hydro ASA	Raise NPV to \$36 a Share
16-Feb	XEC	Cimarex Energy Company	Dry Spell
16-Feb	ECA	EnCana Corporation	Home-Grown, Clean Energy in the Stock Market
15-Feb	EAC	Encore Acquisition	Reduce NPV to \$48 a Share
15-Feb	TOT	Total S.A.	Thank You, Thierry Desmarest
14-Feb	XTO	XTO Energy Inc.	The Trend Goes On
13-Feb	OGZPY	Gazprom	Enlightened Self Interest
7-Feb	DVN	Devon Energy Corporation	Current Favorite Large Cap Independent
7-Feb	APC	Anadarko Petroleum Corporation	Avarice in Algiers
6-Feb	BP	BP p.l.c.	Difficult Execution
5-Feb	CVX	Chevron Corporation	Momentum despite Chavez
2-Feb	MRO	Marathon Oil Corporation	Emphasis on Refining
2-Feb	IMO	Imperial Oil Limited	Near Present Value
1-Feb	EOG	EOG Resources Inc.	Reserves Up Ten Percent in 2006
1-Feb	XOM	Exxon Mobil Corporation	Raise Present Value to a Half Trillion Dollars
1-Feb	RDSA	Royal Dutch Shell plc	Reserves and Earnings Ahead
30-Jan	COSWF	Canadian Oil Sands Trust	Record Quarterly Volume
26-Jan	* SU	Suncor Energy Inc.	Committed to 500,000 Barrels Daily
26-Jan	* OXY	Occidental Petroleum Corporation	Largest Oil Independent
26-Jan	* PCZ	Petro-Canada	Volume Corner Turned
24-Jan	* COP	ConocoPhillips	Buying Itself
18-Jan	* KMx	Kinder Morgan	Good Bye KMI
16-Jan	* PTR	PetroChina Company Limited	Fourth Largest Oil and Gas Company
16-Jan	* BP	BP p.l.c.	New Leader Designated
16-Jan	* COP	ConocoPhillips	Weather Deal
12-Jan	* LUKOY	Lukoil Oil Company	Downside Oil Price Protection
5-Jan	* HGT	Hugoton Royalty Trust	New Buy for Natural Gas Income
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

Meter Reader - A Weekly Analysis

20-Feb		Oil Sands Tax Review
13-Feb	*	Trend Change or Winter Peak?
6-Feb	*	Organization of Natural Gas Exporting Countries
30-Jan	*	Cantarell over the Cliff

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

16-Feb		Distributions Rise, Canada Tax Threat Weakens
9-Feb		Future Energy Income Stocks
2-Feb	*	Adios El Nino
26-Jan	*	Shell Canada Bid Raised

Industry Ideas

14-Feb	*	Flash	Canada Tax Bomb Defused
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* Archived on www.mcdep.com

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