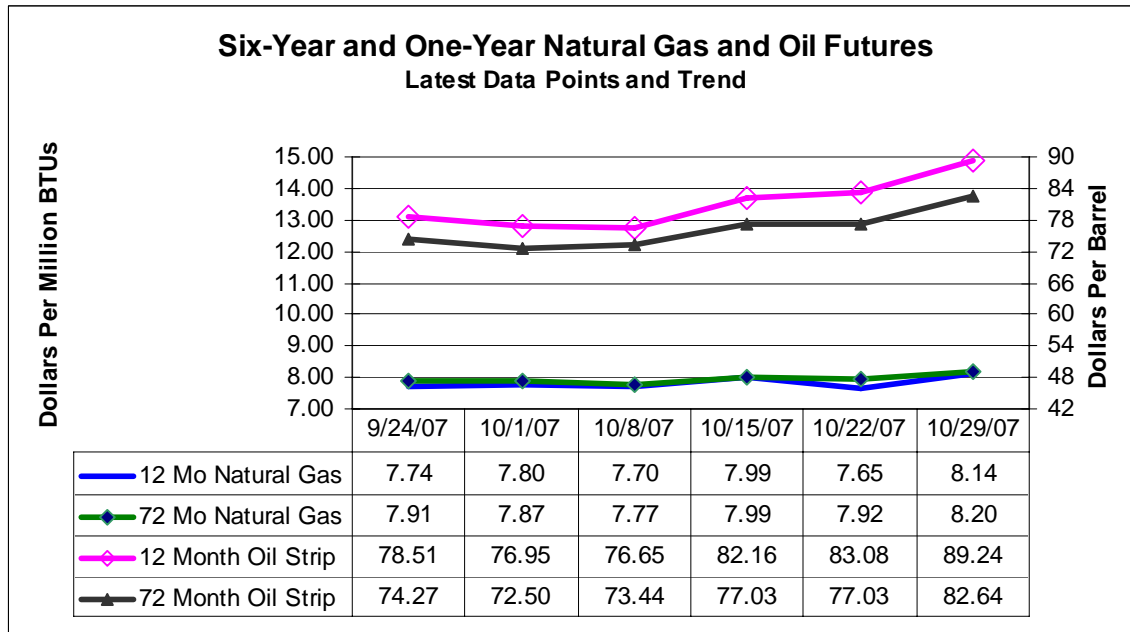


\$90 Oil and Alberta Tax

Summary and Recommendation

With the positive implications of \$90 oil outweighing the negative implications of higher taxes in Alberta, we continue to expect to make money in our Canadian buy recommendations where we have the largest illustrative weightings in **Canadian Oil Sands Trust (COSWF)** at 5% and **Encana (ECA)** at 4%. Prices almost always increase eventually to offset new taxes. Six-year oil is up \$10 a barrel and climbing since the Alberta Royalty Review Panel issued its recommendations in September. Coincidentally, that matches the increase of about \$10 a barrel we figure in breakeven oil price for new investment with Premier Stelmach’s plan announced last week (see *Flash*, Alberta’s New Royalty Framework, October 26, 2007). Six-year oil is up \$17 a barrel in the year since Canadian Finance Minister Flaherty announced his tax increase for income trusts. Don’t dwell too long on how high oil price may go or on the unfairness of the “fair” plans pushed by politicians, buy oil and gas stocks. Though we have scaled it back, we still like Canada for 16% of the McDep Energy Portfolio along with Russia, 16%; Europe, 11% and the U.S. 57% (see table, page 4, Portfolio Composite).

Kurt H. Wulff, CFA



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Oil and Gas Producers - Rank by McDep Ratio

	Symbol/ Rating		Price (US\$/sh) 29-Oct 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	78.20	3,177	248,000	75.00	0.18	1.03
Exxon Mobil Corporation	XOM	B	93.61	5,620	526,000	92.00	0.05	1.02
Royal Dutch Shell plc	RDS-A	B	87.95	3,143	276,000	94.00	0.11	0.94
Total S.A.	TOT	B	80.76	2,278	184,000	89.00	0.13	0.92
Chevron Corporation	CVX	B	92.88	2,206	205,000	105.00	0.08	0.89
ConocoPhillips	COP	B	84.63	1,644	139,000	112.00	0.19	0.80
Gazprom (50%)	OGZPY	B	48.45	2,990	144,900	62.00	0.07	0.80
<i>Total or Median</i>					<i>1,723,000</i>		<i>0.11</i>	<i>0.92</i>
Producer/Refiners - Large Cap								
PetroChina Company Ltd (10%)	PTR	H	254.30	178	45,240	166.00	0.06	1.50
Imperial Oil Limited (30%)	IMO	B	53.84	282	15,180	42.00	0.08	1.26
Norsk Hydro ASA	NHY	H	15.85	1,241	19,670	13.00	0.12	1.19
Petrobras	PBR		94.48	2,194	207,240	80.00	0.13	1.16
Suncor Energy	SU	B	107.49	472	50,740	105.00	0.09	1.02
StatoilHydro ASA (29%)	STO	B	35.31	928	32,770	35.00	0.14	1.01
Marathon Oil Corporation	MRO	H	60.50	722	43,680	62.00	0.18	0.98
Petro-Canada	PCZ	B	56.58	493	27,890	65.00	0.16	0.89
Lukoil Oil Company	LUKOY	B	88.90	832	74,000	121.00	0.03	0.74
<i>Total or Median</i>					<i>516,000</i>		<i>0.12</i>	<i>1.02</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	212.57	149	31,730	108.00	-	1.97
Canadian Natural Resources	CNQ		82.28	539	44,300	87.00	0.23	0.96
Encana Corporation	ECA	B	67.09	756	50,700	72.00	0.19	0.94
Occidental Petroleum Corp.	OXY	B	70.23	837	58,800	77.00	0.07	0.92
XTO Energy Inc.	XTO	B	65.57	391	25,620	75.00	0.17	0.90
Anadarko Petroleum Corp.	APC	B	59.40	467	27,700	74.00	0.35	0.87
EOG Resources	EOG	B	82.51	247	20,400	102.00	0.05	0.82
Devon Energy Corporation	DVN	B	93.50	450	42,100	129.00	0.14	0.76
<i>Total or Median</i>					<i>301,000</i>		<i>0.16</i>	<i>0.91</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	46.50	45	2,090	44.00	0.23	1.04
Encore Acquisition Company	EAC	B	34.29	54	1,850	54.00	0.32	0.75
Energy Partners Ltd.	EPL	B	15.04	35	520	38.00	0.31	0.58
Cimarex Energy Company	XEC	B	39.68	85	3,360	76.00	0.09	0.56
<i>Total or Median</i>					<i>7,800</i>		<i>0.27</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.90	178	9,260	17.00	0.54	1.94
Kinder Morgan Management, LLC	KMR	S	50.17	63	3,160	17.00	0.54	1.90
Pengrowth Energy Trust	PGH		19.09	246	4,700	17.00	0.29	1.09
Penn West Energy Trust	PWE	B	32.78	242	7,920	36.00	0.21	0.93
Enerplus Resources Fund	ERF		47.25	128	6,050	52.00	0.13	0.92
Canadian Oil Sands Trust	COSWF	B	35.63	479	17,070	39.00	0.08	0.92
San Juan Basin Royalty Trust	SJT	B	36.43	47	1,700	40.00	-	0.91
Hugoton Royalty Trust	HGT	B	23.77	40	950	34.00	-	0.70
<i>Total or Median</i>					<i>50,800</i>		<i>0.17</i>	<i>0.93</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

	Symbol/ Rating		Price (US\$/sh) 29-Oct 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	48.45	24.6	9.7	7.8	11	0.8
BP plc	BP	B	78.20	10.0	6.2	6.4	11	3.3
Exxon Mobil Corporation	XOM	B	93.61	11.7	5.9	6.0	10	1.5
Total S.A.	TOT	B	80.76	9.7	5.6	5.2	9	3.5
Royal Dutch Shell plc	RDS-A	B	87.95	8.1	5.4	5.1	9	3.3
ConocoPhillips	COP	B	84.63	10.7	6.0	4.8	8	1.9
Chevron Corporation	CVX	B	92.88	10.1	5.4	4.8	8	2.5
	<i>Median</i>			10.1	5.9	5.2	9	2.5
Producer/Refiners - Large Cap								
PetroChina Company Ltd (10%)	PTR	H	254.30	15.0	6.5	9.8	19	1.9
Suncor Energy	SU	B	107.49	26.6	9.4	9.6	17	0.4
Imperial Oil Limited (30%)	IMO	B	53.84	13.3	6.7	8.4	14	0.7
Norsk Hydro ASA	NHY	H	15.85	-	6.3	7.5	12	1.2
Petrobras	PBR	B	94.48	9.8	5.6	6.5	11	1.8
StatoilHydro ASA (29%)	STO	B	35.31	7.7	5.4	5.4	11	4.7
Marathon Oil Corporation	MRO	H	60.50	8.6	4.9	4.8	8	1.6
Lukoil Oil Company	LUKOY	B	88.90	17.8	6.3	4.7	8	1.7
Petro-Canada	PCZ	B	56.58	6.4	5.0	4.4	8	1.0
	<i>Median</i>			9.8	6.3	6.5	11	1.6
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	212.57	10.7	5.5	10.8	19	1.6
Canadian Natural Resources	CNQ	B	82.28	8.1	7.9	7.5	15	0.4
XTO Energy Inc.	XTO	B	65.57	11.1	8.4	7.5	15	0.7
Encana Corporation	ECA	B	67.09	8.9	7.0	6.6	13	1.2
EOG Resources	EOG	B	82.51	9.3	7.7	6.3	15	0.4
Anadarko Petroleum Corp.	APC	B	59.40	11.2	7.1	6.2	11	1.2
Occidental Petroleum Corp.	OXY	B	70.23	11.8	6.1	5.6	11	1.4
Devon Energy Corporation	DVN	B	93.50	9.0	7.2	5.5	11	0.6
	<i>Median</i>			10.0	7.1	6.5	14	1.0
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	46.50	10.2	7.1	7.4	14	0.6
Encore Acquisition Company	EAC	B	34.29	15.5	6.8	5.1	10	-
Cimarex Energy Company	XEC	B	39.68	8.0	6.5	3.7	9	0.4
Energy Partners Ltd.	EPL	B	15.04	5.9	5.2	3.0	-	-
	<i>Median</i>			9.1	6.7	4.4	10	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.90		7.9	15.4	32	6.8
Kinder Morgan Management, LLC	KMR	S	50.17		7.9	15.0	31	7.0
San Juan Basin Royalty Trust	SJT	B	36.43	10.3	12.9	11.7	14	7.0
Hugoton Royalty Trust	HGT	B	23.77	13.8	11.2	7.8	11	8.8
Canadian Oil Sands Trust	COSWF	B	35.63	21.7	8.4	7.8	9	9.0
Pengrowth Energy Trust	PGH		19.09	7.1	6.5	7.1	29	15.5
Enerplus Resources Fund	ERF		47.25	9.4	7.7	7.1	13	11.1
Penn West Energy Trust	PWE	B	32.78	7.7	6.8	6.3	11	12.9
	<i>Median</i>			9.8	7.9	7.8	14	8.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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McDep Energy Portfolio
Composite of Buy Recommendations

Symbol	Price (US\$/sh)	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		29-Oct 2007	Equity (%)							EV (%)
Mega Cap										
BP plc	BP	78.20	3.1	3.2	3.2	0.3	0.3	2.1	0.6	1.03
Exxon Mobil Corporation	XOM	93.61	1.8	1.6		0.1	0.2	0.9	0.4	1.02
Royal Dutch Shell plc	RDS-A	87.95	3.4	3.2	3.2	0.1	0.4	1.6	1.1	0.94
Total S.A.	TOT	80.76	3.3	3.2	3.2		0.9	1.7	0.7	0.92
Chevron Corporation	CVX	92.88	3.5	3.2		0.2	0.2	2.1	0.8	0.89
ConocoPhillips	COP	84.63	5.8	6.5		1.1	0.4	3.5	1.5	0.80
Gazprom	OGZPY	48.45	10.4	9.7	9.7		7.3	2.4		0.80
Producer/Refiners - Large Cap										
Imperial Oil Limited	IMO	53.84	1.4	1.3	1.3	0.1		1.0	0.2	1.26
Suncor Energy	SU	107.49	1.4	1.3	1.3	0.0		1.2	0.1	1.02
StatoilHydro ASA	STO	35.31	1.7	1.6	1.6		0.6	1.0	-	1.01
Petro-Canada	PCZ	56.58	1.3	1.3	1.3	0.2	0.0	0.9	0.2	0.89
Lukoil Oil Company	LUKOY	88.90	7.4	6.5	6.5			4.7	1.8	0.74
Independent Natural Gas and Oil - Large Cap										
Encana Corporation	ECA	67.09	3.7	3.9	3.9	2.6		1.0	0.3	0.94
Occidental Petroleum Corj	OXY	70.23	3.5	3.2		0.4	0.0	2.5	0.3	0.92
XTO Energy Inc.	XTO	65.57	4.6	4.9		3.9		1.0		0.90
Anadarko Petroleum Corp	APC	59.40	2.3	3.2		1.8		1.3	0.1	0.87
EOG Resources	EOG	82.51	7.1	6.5		5.1	0.2	1.1		0.82
Devon Energy Corporatioi	DVN	93.50	6.2	6.5		3.6		2.9		0.76
Independent Natural Gas and Oil - Small Cap										
Berry Petroleum Company	BRY	46.50	1.5	1.6		0.4		1.2		1.04
Encore Acquisition Comp:	EAC	34.29	2.2	3.2		0.6		2.7		0.75
Energy Partners Ltd.	EPL	15.04	1.8	3.2		1.6		1.6		0.58
Cimarex Energy Company	XEC	39.68	3.2	3.2		2.2		1.0		0.56
Income										
Penn West Energy Trust	PWE	32.78	2.4	2.6	2.6	0.8		1.8		0.93
Canadian Oil Sands Trust	COSWF	35.63	5.6	5.2	5.2	(0.5)		5.7		0.92
San Juan Basin Royalty T1	SJT	36.43	7.6	6.5		6.5				0.91
Hugoton Royalty Trust	HGT	23.77	3.8	3.2		3.2				0.70
Portfolio Composite			100	100	43	34	11	47	8	0.83
Canada					16					
Russia					16					
Europe					11					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.7% to four-tenths at 1.3%.

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
29-Oct	STO	StatoilHydro ASA	Shtokman Partner
26-Oct	PTR	PetroChina Company Limited	Revise to Hold from Buy on Price
25-Oct	ECA	EnCana Corporation	Political Cloud over Canada
25-Oct	SU	Suncor Energy	Political Pall over Canada
25-Oct	RDSA	Royal Dutch Shell plc	Healthy Business
25-Oct	PCZ	Petro-Canada	Political Pall over Canada
24-Oct	OXY	Occidental Petroleum Corporation	Preferred Operator in the Middle East
24-Oct	COP	ConocoPhillips	Low Stock Price for Strong Cash Flow
23-Oct	XTO	XTO Energy Inc.	Raise Net Present Value to \$75 A Share
23-Oct	BP	BP p.l.c.	Lower Net Present Value to \$75 A Share
17-Oct	KMP	Kinder Morgan	A Little Corruption, American Style
15-Oct	PTR	PetroChina Company Limited	Stock Price Advance Carries Higher Risk
8-Oct	OGZPY	Gazprom	The Saudi Arabia of Natural Gas
2-Oct	* COSWF	Canadian Oil Sands Trust	Operating Interruption
24-Sep	* CEO	CNOOC Ltd	Revise to Hold from Buy on Price
12-Sep	* LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	* SJT	San Juan Basin Royalty Trust	Mountains and Valleys
8-Aug	* EPL	Energy Partners, Ltd.	Oversold
3-Aug	* EOG	EOG Resources Inc.	Natural Gas with North Dakota Oil
3-Aug	* PWE	Penn West Energy Trust	High Return from Distributions
3-Aug	* IMO	Imperial Oil Limited	High Return from Stock Repurchase
2-Aug	* TOT	Total S.A.	Constructive Russo-French Interdependence
2-Aug	* BRY	Berry Petroleum	Rocky Mountain Constraints
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
1-Aug	* EAC	Encore Acquisition	Nice to be Oily
31-Jul	* MRO	Marathon Oil Corporation	Oil Sands Acquirer
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
27-Jul	* CVX	Chevron Corporation	Oil and Downstream Vigor
26-Jul	* XOM	Exxon Mobil Corporation	Steady Strength
24-Jul	* NHY	Norsk Hydro ASA	Confidence in Aluminium
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait

Meter Reader

30-Oct		Weekly	\$90 Oil and Alberta Tax
23-Oct		Weekly	China Omen
16-Oct	*	Weekly	The Black Swan
9-Oct	*	Weekly	Oil Stocks Lead Natural Stocks

Oil and Gas Income Stocks (previously Natural Gas and Oil Royalty Trusts)

26-Oct		Weekly	McDep Ratio Opportunity in Hugoton
19-Oct		Weekly	Optimum Price for Natural Gas
12-Oct	*	Weekly	Caution in Buoyant Times
5-Oct	*	Weekly	Linn Energy, LLC

Industry Ideas

26-Oct		Alberta's New Royalty Framework	Gradually Reduce Canadian Weighting
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* Archived on www.mcdep.com

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