



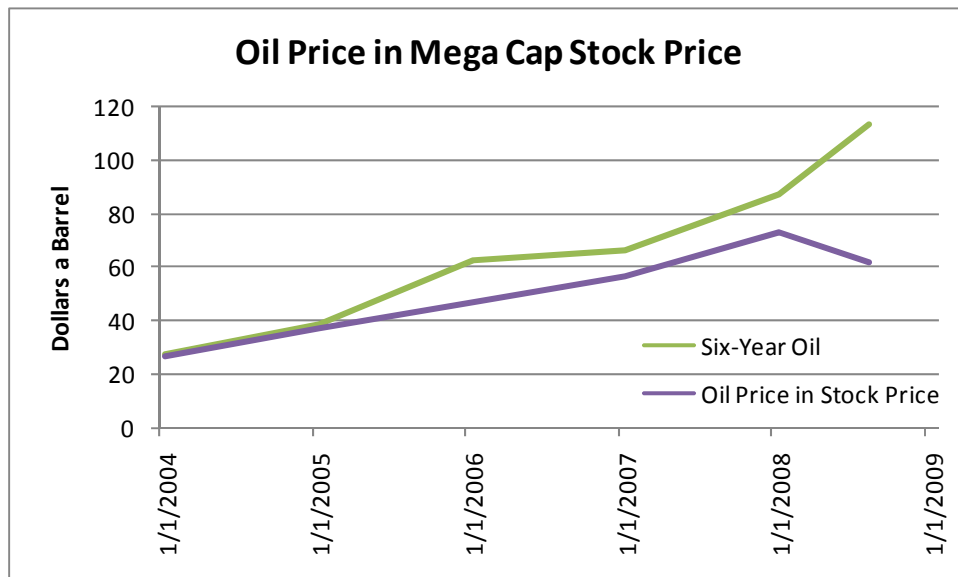
Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio
August 19, 2008

Five Years of Oil Price in Stock Price

Summary and Recommendation

Stock prices of Mega Cap buy recommendations including **ExxonMobil (XOM)** and **Total S.A. (TOT)** are likely to be higher by the turn of the year if the five-year pattern of oil price and stock price continues (see chart Oil Price in Mega Cap Stock Price). Since 2003, stock price has marched upward with the price of oil for delivery over the next six-years. Recently, a particularly wide gap has opened between oil price and stock price that we are sure will narrow though we can't be as sure of when or how. To measure oil price in stock price we multiply McDep Ratio times our assumed long-term oil price in our calculations of Present Value, the denominator of the McDep Ratio. For example, if the price of oil was \$60 a barrel today, we calculate that an investor who bought all of Total S.A. at the current McDep Ratio of 0.60 could expect to earn 7% a year before adjustment for inflation and financial leverage.



The End of the Decline, Georgia and Supply/Demand

A more immediate question may be when might the current stock price declines stop? Our optimistic response is now, the month of the 26th anniversary of the turn in 1982. Seasonally, October may be a bottom. By the four-year election cycle, the bottom may be two years from now. That seems too pessimistic because the stock market has already been declining for a year and recently has taken oil stocks down as well.

Meanwhile, in the news currently, the conflict in Georgia is lamentable for the tragic loss of lives. Otherwise it looks, regrettably, like political game playing. As a result of Russia reasserting its



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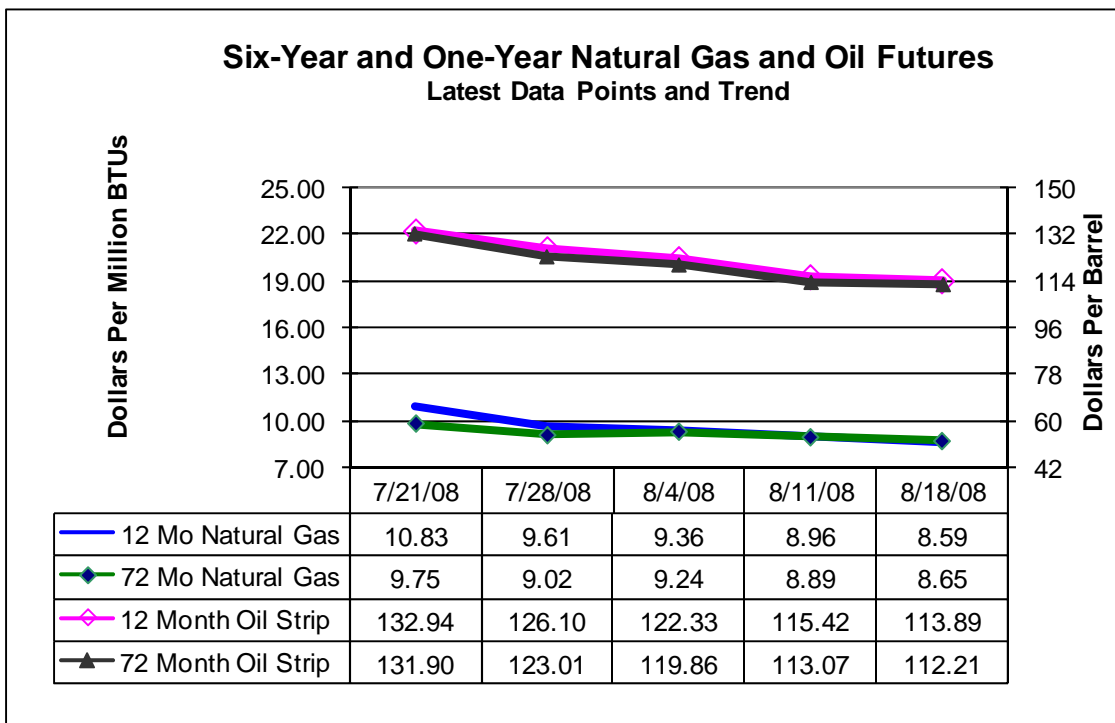
influence in the Caucasus and Caspian region there is risk to the availability and profitability of oil and gas supply from Kazakhstan, Azerbaijan and Turkmenistan.

On the supply/demand front, world oil production may be breaking through its 85 million barrels daily (mmbd) ceiling for the past few years, but then it may not be. The U.S. Energy Information Administration earlier reported that production exceeded 86 mmbd in February and in March of 2008. Last week's monthly update revised those numbers back down in to the 85 range. Summer U.S. oil demand is reported to be down 2% while world oil demand is up 1%. Recent world demand estimates are more unreliable than supply. Longer term we believe in global growth in energy demand and constrained supply of easy-to-refine oil.

Oil Price above 200-Day Average

Current quotes for near-month, twelve months and 72 month oil are \$113, \$114, and \$112 a barrel compared to 200-day or 40-week averages of \$110, \$110 and \$106 respectively (see chart, page 2, [Six-Year and One-Year Oil and Natural Gas Futures](#)). Amid signs of slowing economic activity the trend could be flat for awhile as it was during 2006 (see chart, page 6, [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA





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Oil and Gas Producers - Rank by McDep Ratio									
			Price			Net			
			(US\$/sh)			Market	Present	Debt/	
	Symbol/		18-Aug	Shares		Cap	Value	Present	
	Rating		2008	(mm)		(US\$m)	(US\$/sh)	Value	
								McDep	
								Ratio	
Mega Cap									
Petrobras	PBR		47.77	4,387		209,570	75.00	0.10	0.67
Exxon Mobil Corporation	XOM	B	76.53	5,261		403,000	118.00	0.05	0.67
Chevron Corporation	CVX	B	83.19	2,206		184,000	135.00	0.09	0.65
BP plc	BP	B	57.52	3,137		180,000	104.00	0.17	0.63
Royal Dutch Shell plc	RDS-A	B	67.31	3,095		208,000	120.00	0.11	0.61
Total S.A.	TOT	B	70.46	2,253		159,000	125.00	0.09	0.60
ConocoPhillips	COP	B	77.00	1,555		120,000	150.00	0.17	0.60
Gazprom (50%)	OGZPY	B	42.30	2,865		121,200	88.00	0.09	0.53
<i>Total or Median</i>						1,585,000		0.10	0.62
Producer/Refiners - Large Cap									
BG Group plc	BRGXF		20.50	3,384		69,370	28.00	0.07	0.75
Imperial Oil Limited (30%)	IMO	B	46.02	269		12,360	65.00	0.05	0.72
Marathon Oil Corporation	MRO	H	44.25	714		31,590	70.00	0.21	0.71
Suncor Energy	SU	B	50.02	953		47,670	75.00	0.08	0.69
StatoilHydro ASA (29%)	STO	B	28.75	928		26,680	52.00	0.12	0.60
PetroChina Company Ltd (14%)	PTR	B	124.48	256		31,890	220.00	0.04	0.58
Petro-Canada	PCZ	B	42.53	484		20,580	90.00	0.11	0.53
Lukoil Oil Company	LUKOY	B	75.30	826		62,000	170.00	0.01	0.45
<i>Total or Median</i>						302,000		0.08	0.65
Independent Natural Gas and Oil - Large Cap									
CNOOC Limited (34%)	CEO	H	133.37	152		20,310	180.00	-	0.74
Encana Corporation	ECA	B	66.18	751		49,700	100.00	0.19	0.73
EOG Resources	EOG	B	94.74	251		23,800	140.00	0.07	0.70
Anadarko Petroleum Corp.	APC	B	56.42	471		26,600	100.00	0.27	0.68
Canadian Natural Resources	CNQ	B	75.01	541		40,600	124.00	0.18	0.68
Chesapeake Energy Corporation	CHK		44.92	550		24,710	80.00	0.26	0.68
Occidental Petroleum Corp.	OXY	B	75.62	826		62,400	120.00	0.06	0.65
XTO Energy Inc.	XTO	B	45.45	571		25,940	88.00	0.19	0.61
Devon Energy Corporation	DVN	B	93.22	450		41,900	170.00	0.10	0.59
<i>Total or Median</i>						316,000		0.18	0.68
Independent Natural Gas and Oil - Small Cap									
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.17	117		1,310	14.00	0.10	0.82
Berry Petroleum Company	BRY	B	40.72	46		1,860	65.00	0.37	0.77
Encore Acquisition Company	EAC	B	47.70	52		2,490	75.00	0.28	0.74
Energy Partners Ltd.	EPL		11.08	32		360	30.00	0.39	0.62
Cimarex Energy Company	XEC	B	49.60	86		4,250	100.00	0.06	0.53
<i>Total or Median</i>						10,300		0.28	0.74
Income									
Canadian Oil Sands Trust	COSWF	B	45.15	480		21,670	57.00	0.04	0.80
Pengrowth Energy Trust	PGH		16.65	248		4,130	24.00	0.26	0.77
San Juan Basin Royalty Trust	SJT	B	37.09	47		1,730	48.00	-	0.77
Penn West Energy Trust	PWE	B	27.48	380		10,440	40.00	0.26	0.77
Hugoton Royalty Trust	HGT	B	28.65	40		1,150	42.00	-	0.68
Enerplus Resources Fund	ERF		38.78	165		6,380	63.00	0.13	0.66
<i>Total or Median</i>						45,500		0.08	0.77
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									
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.									



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Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib
	Symbol/ Rating		18-Aug 2008	NTM	NTM	NTM	NTM	NTM (%)
Mega Cap								
Petrobras	PBR		47.77	10.4	9.1	6.1	12	1.8
Gazprom (50%)	OGZPY	B	42.30	24.6	11.0	5.8	8	1.0
Exxon Mobil Corporation	XOM	B	76.53	12.2	7.2	4.8	8	2.1
Chevron Corporation	CVX	B	83.19	9.5	6.9	4.5	7	3.1
BP plc	BP	B	57.52	10.0	6.8	4.3	6	5.8
ConocoPhillips	COP	B	77.00	10.9	7.0	4.2	6	2.4
Total S.A.	TOT	B	70.46	9.1	6.8	4.1	7	4.4
Royal Dutch Shell plc	RDS-A	B	67.31	7.6	6.3	3.9	6	4.8
	<i>Median</i>			10.2	6.9	4.4	7	2.8
Producer/Refiners - Large Cap								
BG Group plc	BRGXF		20.50	7.5	9.3	7.0	13	1.0
Suncor Energy	SU	B	50.02	22.6	9.7	6.8	11	0.4
Imperial Oil Limited (30%)	IMO	B	46.02	14.2	9.0	6.5	11	0.7
Marathon Oil Corporation	MRO	H	44.25	8.8	6.9	4.9	9	2.2
PetroChina Company Ltd (14%)	PTR	B	124.48	14.4	7.2	4.2	8	4.2
StatoilHydro ASA (29%)	STO	B	28.75	7.9	6.7	4.0	8	5.5
Petro-Canada	PCZ	B	42.53	7.2	6.0	3.2	6	1.8
Lukoil Oil Company	LUKOY	B	75.30	18.4	6.8	3.1	5	2.1
	<i>Median</i>			11.5	7.0	4.5	8	1.9
Independent Natural Gas and Oil - Large Cap								
Chesapeake Energy Corporation	CHK		44.92	11.1	10.4	7.1	13	0.7
Canadian Natural Resources	CNQ	B	75.01	9.0	9.2	6.2	13	0.5
XTO Energy Inc.	XTO	B	45.45	11.7	9.6	5.8	12	1.1
EOG Resources	EOG	B	94.74	9.8	8.2	5.7	13	0.6
Encana Corporation	ECA	B	66.18	8.6	7.4	5.3	15	2.4
Anadarko Petroleum Corp.	APC	B	56.42	9.7	7.6	5.2	11	1.3
CNOOC Limited (34%)	CEO	H	133.37	9.2	6.4	4.8	9	2.9
Devon Energy Corporation	DVN	B	93.22	9.3	8.0	4.8	9	0.7
Occidental Petroleum Corp.	OXY	B	75.62	11.9	7.3	4.7	8	1.7
	<i>Median</i>			9.7	8.0	5.3	12	1.1
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.17	7.2	11.6	9.5	82	-
Berry Petroleum Company	BRY	B	40.72	9.7	7.6	5.8	13	0.7
Encore Acquisition Company	EAC	B	47.70	13.9	7.7	5.7	10	-
Cimarex Energy Company	XEC	B	49.60	7.4	6.1	3.2	7	0.3
Energy Partners Ltd.	EPL		11.08	7.2	5.0	3.1	-	-
	<i>Median</i>			7.4	7.6	5.7	12	-
Income								
San Juan Basin Royalty Trust	SJT	B	37.09	10.6	11.3	8.8	10	9.7
Canadian Oil Sands Trust	COSWF	B	45.15	22.2	9.9	7.9	9	11.7
Hugoton Royalty Trust	HGT	B	28.65	13.1	9.9	6.8	10	10.2
Enerplus Resources Fund	ERF		38.78	9.6	7.7	5.1	180	13.4
Pengrowth Energy Trust	PGH		16.65	9.1	6.5	5.0	(19)	15.2
Penn West Energy Trust	PWE	B	27.48	7.5	6.6	5.0	10	13.9
	<i>Median</i>			10.1	8.8	6.0	10	12.5
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



Meter Reader

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
15-Aug	SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income (Income Weekl
8-Aug	PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	EAC	Encore Acquisition Company	Sale Called Off
6-Aug	DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	CVX	Chevron Corporation	Income Model
1-Aug	TOT	Total S.A.	Oil Sands Strategy
1-Aug	STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	XOM	Exxon Mobil Corporation	Income Model
31-Jul	RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	BP	BP p.l.c.	Control Dispute in Russia
25-Jul	BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	SU	Suncor Energy	Operations Challenge
24-Jul	PCZ	Petro-Canada	Construction Challenge
23-Jul	* COP	ConocoPhillips	Income Model
22-Jul	* XTO	XTO Energy Inc.	Stock Price Momentum Changes
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
4-Jun	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$170 a Share
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share
18-Apr	* HGT	Hugoton Royalty Trust	Simpson Sustainability (Income Weekly)

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12-Aug		Weekly	
12-Aug		Weekly	Producers below 1982 Values
5-Aug		Weekly	Takeover Climate
29-Jul	*	Weekly	Oil and Stocks Diverge

Oil and Gas Income Stocks

15-Aug		San Juan Basin Royalty Trust	Long-Term Natural Gas Income
8-Aug		Penn West Energy Trust	Distribution Yield 13%
1-Aug		Weekly	Oil Income
25-Jul	*	Weekly	Income Stability

* Archived on www.mcdep.com

Please see disclosures on the final page.

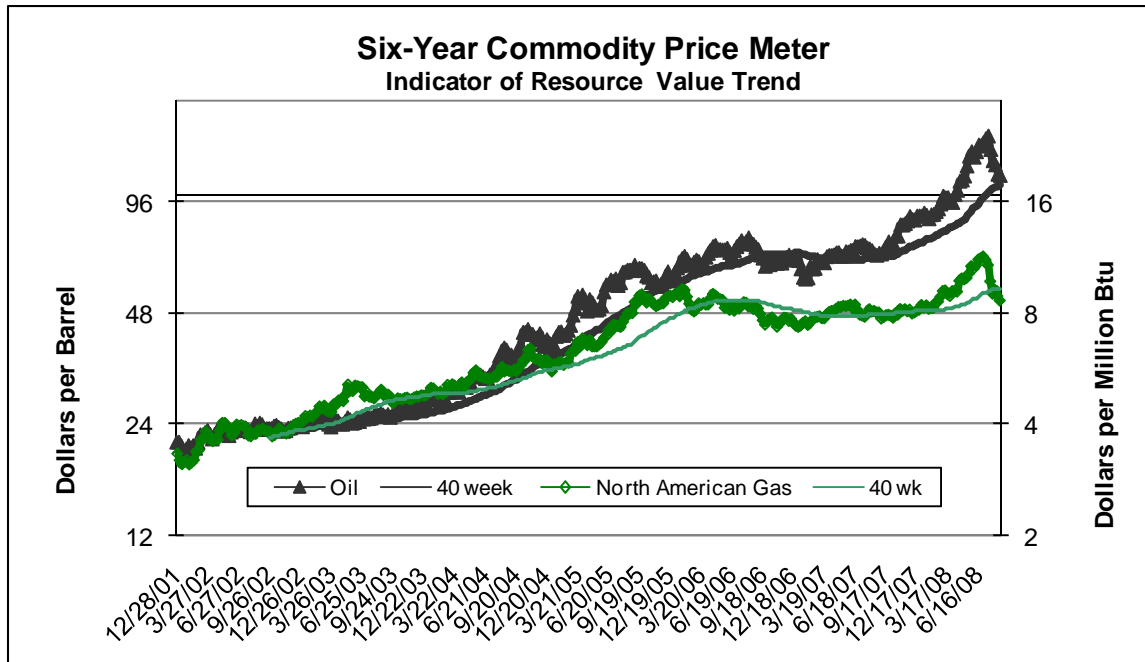
Page 5



Meter Reader

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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.