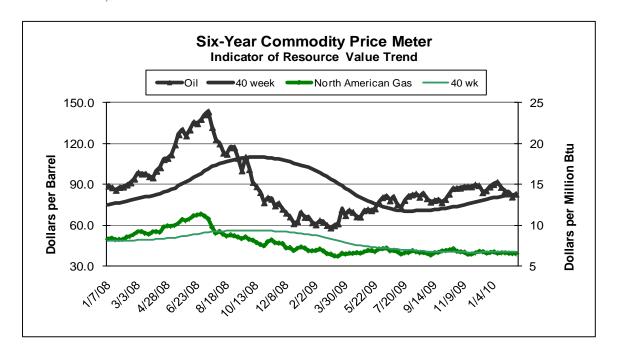
Free Downstream in Stock Prices

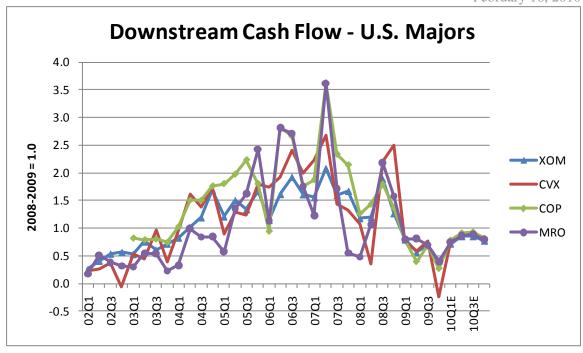
Summary and Recommendation

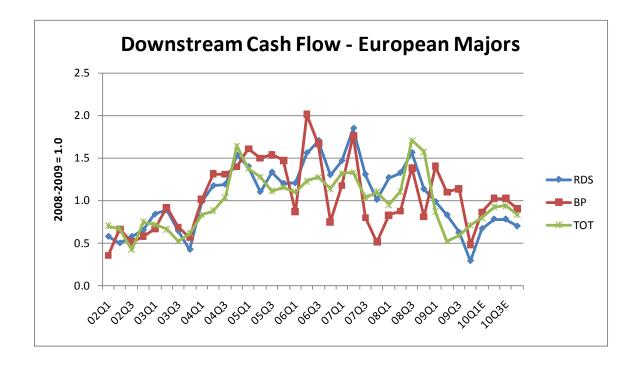
McDep Ratios for companies with downstream operations are lower than McDep Ratios of companies without downstream operations by as much as the whole value of downstream. For example, the median McDep Ratio of U.S. Integrated Companies at 0.67 is 0.24 less than the median McDep Ratio of U.S. Independent Producers at 0.91. That discount is more than the median 17% of value for downstream in the same integrated companies (see Table 1). One could say that investors buying integrated companies are getting the downstream for free. Even if recent conditions have been highly competitive, the petroleum products and other economically sensitive businesses may see moderate improvement in unlevered cash flow (Ebitda) in 2010 (see charts on page 2, Downstream Cash Flow). Of the seven U.S. and European oil companies in the charts, ConocoPhillips (COP) and BP plc (BP) are Buy recommendations with stock price in an uptrend indicated by current price above the 200-day average. The other five are Contrarian Buys with current stock price below the 200-day average. The number of Contrarian Buys reclassified from Buy expands by one to fourteen this week with the addition of Gazprom (OGZPY). At the same time, six-year oil at \$83 a barrel crosses back above the 40-week average of \$82 (see chart below, Six-Year Commodity Price Meter and on last page, Six-Year and One-Year Natural Gas and Oil Futures). Whether the companies are integrated or independent, whether stock price is above or below the moving average, McDep Ratios imply attractive investment value by our fundamental analysis (see Tables 1-3).

Kurt H. Wulff, CFA











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					Portfoli					
	Geogr	aphic	Domic	cile and	l Busines	s Segn	nents			
						D	. 17 1 1	C.	(0/)	
							ıt Value by -	Segment	t (%)	
			Price	F77.7/	.	North	Rest			
			(US\$/sh)	EV/	Enterprise	Amer.	v		_	
	Symbol		12-Feb	Market	Value	Natural	Natural	Oil		McDep
	y, CB (see	below)	2010	Сар	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
U.S. Integrated										
Exxon Mobil Corporation	XOM	CB	64.80	1.18	400,000	10	23	50	17	0.76
Chevron Corporation	CVX	CB	71.01	1.21	173,000	4	10	72	14	0.69
Marathon Oil Corporation	MRO	CB	28.61	1.56	31,700	8	3	63	26	0.65
ConocoPhillips	COP	В	48.67	1.72	125,000	12	10	64	13	0.60
Total or Median *	30%	9%	13%		730,000					0.67
Europe										
BG Group	BRGXF	CB	17.89	1.14	69,500		21	48	31	0.83
Royal Dutch Shell plc	RDS-A	CB	54.55	1.37	230,000	3	26	48	23	0.75
BP plc	BP	В	54.67	1.34	232,000	6	9	63	22	0.74
Statoil ASA (33%)	STO	CB	21.74	1.46	33,300		49	51	-	0.70
Total S.A.	TOT	CB	56.94	1.27	163,000		19	59	22	0.69
Total or Median *	30%	11%	17%		728,000					0.74
Australia/Brazil/China/Russi	ia									
CNOOC Limited (34%)	CEO	В	155.15	1.01	23,800		11	89	-	1.15
Woodside Petroleum Ltd.	WOPEY	СВ	38.00	1.22	33,000		78	22	_	0.89
Petrobras	PBR	CB	40.88	1.29	232,000		5	80	15	0.76
PetroChina Company Ltd (14%		CB	109.71	1.09	30,700		15	69	15	0.75
Gazprom (50%)	OGZPY	CB	21.90	1.33	86,000		76	24	_	0.41
Lukoil Oil Company	LUKOY	CB	50.60	1.13	48,500		, 0	66	34	0.40
Total or Median *	19%	13%	20%	1110	454,000			- 00	υ.	0.75
U.S. Independent	1,,,,	10,0	2070		72 7,000					01,2
Anadarko Petroleum Corp.	APC	В	65.32	1.43	46,300	46		50	4	1.02
EOG Resources	EOG		90.98	1.14	26,000	69	5	27		0.99
XTO Energy Inc.	XTO	В	45.63	1.42	37,500	73	3	27	_	0.98
Occidental Petroleum Corp.	OXY	В	79.80	1.42	70,000	10	1	82	7	0.85
Chesapeake Energy Corp.	CHK	ь	24.96	1.83	28,500	88	1	12	-	0.83
	DVN	В				61		39	-	0.74
Devon Energy Corporation	10%		67.08	1.31	39,400	01		39	-	
Total or Median *	10%	13%	17%		248,000					0.91
Canada	ECA	D	21.01	1.07	22 000	02		7		0.02
EnCana Corporation	ECA	В	31.91	1.37	32,800	93		7	-	0.93
Cenovus Energy Inc.	CVE		23.94	1.38	24,800	23		70	7	0.92
Canadian Natural Resources	CNQ	В	66.99	1.32	47,900	20		80	-	0.87
Imperial Oil Limited (30%)	IMO	CB	37.43	1.09	10,400	5		79	16	0.79
Canadian Oil Sands Trust	COSWF	В	27.83	1.10	14,800			100	-	0.75
Suncor Energy	SU	CB	29.20	1.40	63,900	5		84	11	0.69
Total or Median *	8%	13%	20%		195,000					0.83
Income and Small Cap (see se										
	2%	41%	13%		50,700	37		63		0.95
Composite										
Enterprise Value Weighting	100%				2,405,700	12	16	58	15	0.73
Equal Weighting		100%				32	8	54	6	0.84
Equal Weighted Buys			100%			15	12	64	9	0.78
CB=Contrarian Buy, Stock Pric	e annaren	tly in do	wntrend c	ompared to	200-day ave	rage.				



			Table 2					
	McD	ep E	nergy I	Portfoli	0			
Net		_			p Ratio			
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/R		12-Feb	Shares	Сар	Value	Present	McDep
B = Buy	, CB (see b	elow)	2010	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	СВ	64.80	5,215	338,000	89.00	0.12	0.76
Chevron Corporation	CVX	СВ	71.01	2,004	142,000	110.00	0.12	0.69
Marathon Oil Corporation	MRO	CB	28.61	711	20,340	53.00	0.12	0.65
ConocoPhillips	COP	В	48.67	1,501	73,000	105.00	0.25	0.60
Total or Median		ь	40.07	1,501	573,000	105.00	0.23	0.67
Total of meaning					373,000		0.10	0.07
Europe								
BG Group plc	BRGXF	CB	17.89	3,397	60,800	22.00	0.10	0.83
Royal Dutch Shell plc	RDS-A	CB	54.55	3,064	167,000	79.00	0.21	0.75
BP plc	BP	В	54.67	3,162	173,000	80.00	0.19	0.74
Statoil ASA (33%)	STO	CB	21.74	1,050	22,800	35.00	0.22	0.70
Total S.A.	TOT	CB	56.94	2,241	128,000	90.00	0.15	0.69
Total or Median					552,000		0.19	0.74
Australia/Brazil/China/Russia	OTE O	-		150	22 500	127.00	0.01	
CNOOC Limited (34%)	CEO	В	155.15	152	23,600	135.00	0.01	1.15
Woodside Petroleum Ltd.	WOPEY	CB	38.00	709	26,900	44.00	0.16	0.89
Petrobras	PBR	CB	40.88	4,387	179,300	58.00	0.17	0.76
PetroChina Company Ltd (14%)	PTR	CB	109.71	256	28,100	150.00	0.06	0.75
Gazprom (50%)	OGZPY	CB	21.90	2,955	64,700	64.00	0.10	0.41
Lukoil Oil Company	LUKOY	CB	50.60	847	42,900	135.00	0.05	0.40
Total or Median					366,000		0.08	0.75
U.S. Independent								
Anadarko Petroleum Corp.	APC	В	65.32	494	32,300	64.00	0.31	1.02
EOG Resources	EOG	В	90.98	251	22,900	92.00	0.12	0.99
XTO Energy Inc.	XTO	В	45.63	580	26,500	47.00	0.29	0.98
Occidental Petroleum Corp.	OXY	В	79.80	814	64,900	95.00	0.06	0.85
Ches apeake Energy Corp.	CHK	Б	24.96	626	15,600	34.00	0.38	0.83
Devon Energy Corporation	DVN	В	67.08	450	30,200	98.00	0.17	0.74
Total or Median			07.00	130	192,400	70.00	0.23	0.91
Canada	200							
EnCana Corporation	ECA	В	31.91	751	24,000	35.00	0.25	0.93
Cenovus Energy Inc.	CVE	В	23.94	751	18,000	27.00	0.25	0.92
Canadian Natural Resources	CNQ	В	66.99	542	36,300	80.00	0.21	0.87
Imperial Oil Limited (30%)	IMO	CB	37.43	256	9,600	48.00	0.06	0.79
Canadian Oil Sands Trust	COSWF	В	27.83	484	13,500	38.00	0.07	0.75
Suncor Energy	SU	CB	29.20	1,562	45,600	48.00	0.20	0.69
Total or Median					147,000		0.20	0.83
CB=Contrarian Buy, Stock Price appa								
McDep Ratio = Market cap and Debt Estimated present value presumes a le								



			Table 3				ebruary	
	McDe	n F	nergy l	Portfoli	0			
Value		_	and Dis			d d		
value	- Traitip	ICS	ana Di		on rich			
			Price	Adjustd				Divd or
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib
S	ymbol/Rai	ing	12-Feb	Prod	Ebitda	Ebitda	P/E	NTM
B = Buy, G	CB (see be	low)	2010	NTM	NTM	NTM	NTM	(%)
·								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	64.80	12.1	8.4	6.4	12	2.6
Marathon Oil Corporation	MRO	CB	28.61	10.9	7.6	4.9	10	3.4
ConocoPhillips	COP	В	48.67	11.0	8.1	4.8	9	4.1
Chevron Corporation	CVX	CB	71.01	9.5	6.9	4.7	10	3.8
Total or Median				11.0	7.8	4.9	10	3.6
Flymous								
Europe BG Group plc	BRGXF	СВ	17.89	8.3	9.1	7.6	15	1.1
BP plc	BP	В	54.67	9.5	7.0	5.2	9	6.1
Fotal S.A.	TOT	СВ	56.94	9.3	7.5	5.2	10	5.5
Royal Dutch Shell plc	RDS-A	СВ	54.55	7.8	6.6	5.0	10	6.2
Statoil ASA (33%)	STO	СВ	21.74	7.4	6.4	4.5	11	4.7
Total or Median		СБ	21.74	8.3	7.0	5.2	10	5.5
Total of Meatan				0.5	7.0	3.2	10	3.3
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	38.00	15.0	13.3	11.8	27	2.6
Petrobras	PBR	CB	40.88	9.1	9.5	7.2	12	3.3
CNOOC Limited (34%)	CEO	В	155.15	6.5	5.7	6.5	12	3.3
PetroChina Company Ltd (14%)	PTR	CB	109.71	13.9	7.7	5.8	14	3.6
Lukoil Oil Company	LUKOY	CB	50.60	16.4	8.9	3.6	7	2.5
Gazprom (50%)	OGZPY	CB	21.90	24.6	8.6	3.5	4	0.2
Total or Median				14.5	8.7	6.1	12	2.9
U.S. Independent								
Chesapeake Energy Corp.	CHK		24.96	11.1	12.5	10.4	21	1.2
XTO Energy Inc.	XTO	В	45.63	10.7	9.9	9.7	19	1.1
EOG Resources	EOG	В	90.98	10.7	9.2	9.1	37	0.7
Anadarko Petroleum Corp.	APC	В	65.32	9.1	7.4	7.6	31	0.6
Occidental Petroleum Corp.	OXY	В	79.80	10.9	7.9	6.7	15	1.7
Devon Energy Corporation	DVN	В	67.08	8.9	7.5	5.6	10	1.0
Total or Median			07.00	10.7	8.5	8.3	19	1.0
Canada								
Canadian Oil Sands Trust	COSWF	В	27.83	23.1	15.2	11.4	27	4.8
Imperial Oil Limited (30%)	IMO	CB		19.2	12.2	9.7	19	1.0
EnCana Corporation	ECA	В	31.91	9.1	8.9	8.3	42	2.5
Cenovus Energy Inc.	CVE	В	23.94	10.2	9.0	8.3	17	3.3
Canadian Natural Resources	CNQ	В	66.99	7.5	8.5	7.4	13	0.6
Suncor Energy	SU	CB	29.20	14.3	10.7	7.3	22	1.3
Total or Median				12.2	9.9	8.3	21	1.9
CB=Contrarian Buy, Stock Price apparen								
EV = Enterprise Value = Market Cap and								
and amortization; NTM = Next Twelve M				, 2010; P/E	= Stock Pri	ice to		
Earnings; PV = Present Value of oil and g	gas and otl	ier b	usinesses					

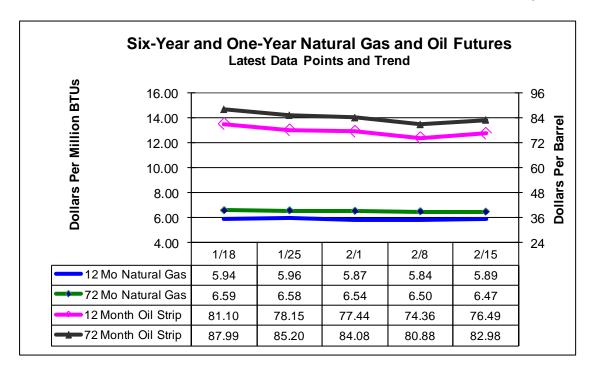


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		ı	Index of Reco	ent Kesea	rch			
	H							
Stock 1	[de	as						
<u>Date</u>		Symbol	Subject	Theme				
15-Feb	H	CVE	Cenovus Energy Inc.		Bitumen by	, 2017		
15-Feb	\vdash	STO	Statoil ASA		n Dividend f			
15-Feb	H	EOG	EOG Resources Inc.		serves Incre			
12-Feb		TOT	Total S.A.		come at 5.5%			
12-Feb	H	ECA				Energy Inve	ctmont	
	\vdash		EnCana Corporation		•			
9-Feb	H	PTR	PetroChina Company Limited			rian Buy (M		
8-Feb	H	XEC	Cimarex Energy Company			Estimated up	18% in 2010)
5-Feb	H	BRGXF	BG Group		as Growth in			
4-Feb	H	RDSA	Royal Dutch Shell plc		Outlook, Nic			
3-Feb	H	IMO	Imperial Oil Limited		r Shale Gas			
3-Feb	H	CEO	CNOOC Ltd		er Growth F			
3-Feb	L	MRO	Marathon Oil Corporation			Demand for		
3-Feb	L	APC	Anadarko Petroleum Corporation			ue to \$64 a S		
2-Feb		SU	Suncor Energy			alue to US\$4	8 a Share from	om US\$52
2-Feb	L	BP	BP p.l.c.		Reestablish			
1-Feb		XOM	ExxonMobil Corporation	Modify to	Contrarian	Buy from Bu	y	
1-Feb		OGZPY	Gazprom	European	Natural Gas	Sales Rebou	ınd	
29-Jan		CVX	Chevron Corporation	Raise Net	Present Valu	ue to \$110 a	Share from S	5102
29-Jan		COSWF	Canadian Oil Sands Trust	Distribution	on Unchang	ed, Reduce l	NPV to \$38 f	rom \$US4
28-Jan		OXY	Occidental Petroleum Corporation	Volume Gr	rowth Suppo	orting Appre	ciation Pote	ntial
27-Jan		COP	ConocoPhillips	Lowest La	arge Cap Mc	Dep Ratio		
8-Jan	*	HGT	Hugoton Royalty Trust	Lower Net	t Present Val	lue to \$21 a l	Unit from \$2	3
29-Dec	*	WOPEY	Woodside Petroleum	Buy for A	ustralian LN	G (Meter Re	ader)	
15-Dec	*	XTO, XOM	XTO Energy, ExxonMobil	ExxonMol	oil Offers \$52	2 a Share for	XTO Energ	y (MR)
11-Dec	*	SJT	San Juan Basin Royalty Trust			ith Upside (l		
8-Dec	*	PBR	Petrobras			owth (Meter		
8-Dec	*	LUKOY	Lukoil Oil Company	Reemphas				
20-Nov	_	FRHLF	Freehold Royalty Trust			Rate Unhedg	ed (ISC We	ekly)
13-Nov	*	PEYUF	Peyto Energy Trust			Going to Exp		-
6-Nov	_	DMLP	Dorchester Minerals, L.P.		ling on DMI		(, , ,
5-Nov	-	CNQ	Canadian Natural Resources		Mining Cha			
4-Nov	_	DVN	Devon Energy Corporation		n Shale Gas			
2-Nov	-	EAC	Encore Acquisition Company			offers \$50 a S	hare to Aca	uire Enco
Meter			Encore requisition company	Denouty 1	icsources C	ποι σ φου α υ	naic to ricq	une Lineo
16-Feb			Weekly					
9-Feb	H		Weekly	Designate	Seven Mor	e Contrarian	Ruve	
2-Feb	H		Weekly			(CB) Catego		
26-Jan	*		Weekly			(CD) Catego	Ji y	
		nd Small (Cap Weekly	A Few Price	cc rags			
	. a	na Siliali (Weekly	Natural Ga	na Idaaa			
12-Feb	\vdash	COCKE						
5-Feb	H	COSWF	Weekly			n the Works		
29-Jan			Weekly	Tenuous			aı ·	
22-Jan	*		Weekly	III S. Natuu	ral Gas Invei	atoriae Dron	Sharnly	



DEP Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks February 16, 2010



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