

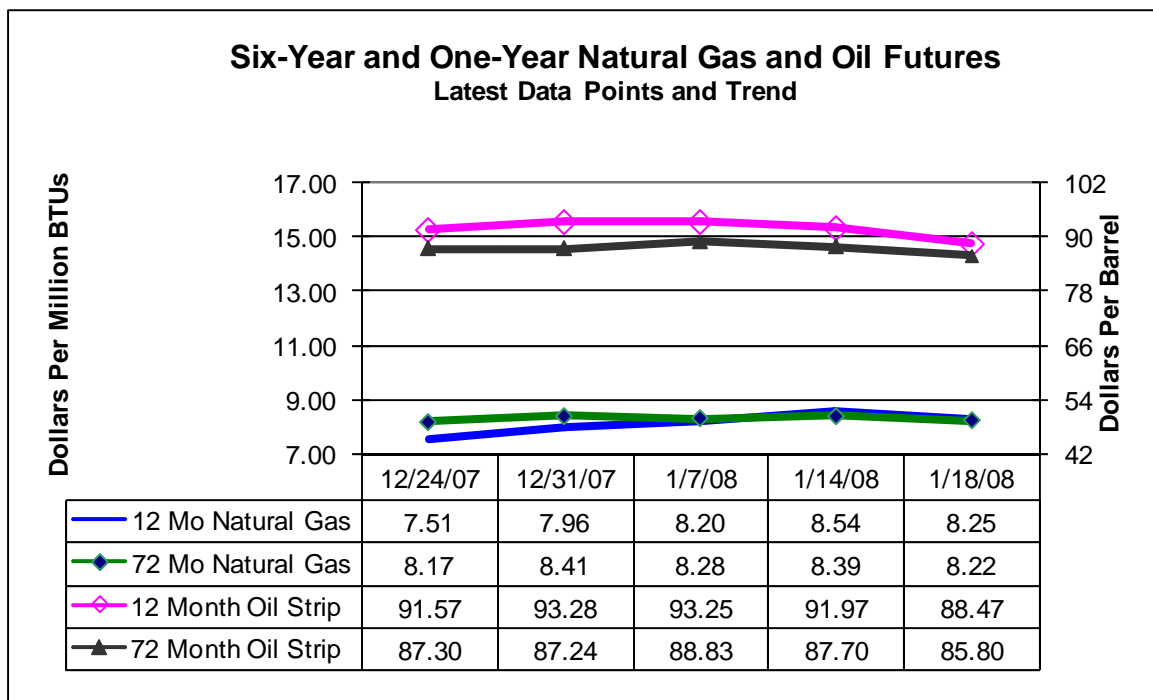


## Small Caps on Sale

### Summary and Recommendation

Because the median McDep Ratio of 0.61 for the small cap producer category is the lowest of five industry groups, we see solid value in buy recommendations **Berry Petroleum (BRY)**, **Cimarex Energy (XEC)**, **Encore Acquisition (EAC)** and **Energy Partners (EPL)** (see table Rank by McDep Ratio). Present Value, the denominator of the McDep Ratio is supported by the relationship of reserve life, *Adjusted Reserves/Prod*, and cash flow multiple, *PV/Ebitda* (see table Rank by EV/Ebitda). We neutralize for higher leverage in three of the four stocks with a recommended *Equity Portfolio Weight* that is lower than the recommended *EV (unlevered) Portfolio Weight* (see table McDep Energy Portfolio). Of 26 small cap producing companies in our coverage four years ago, 18 still trading today returned, on a debt-adjusted basis, about 30% a year in four years, including about 20% for the four in our current coverage. We kept BRY which returned about 50% a year while four stocks returning more - Southwestern Energy (SWN), Denbury Resources (DNR), Ultra Petroleum (UPL) and Range Resources (RRC) - got away in our concentration of coverage. All four of our current recommendations may not do that well in the next few years, but one might.

Kurt H. Wulff, CFA



## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 22, 2008



### Oil and Gas Producers - Rank by McDep Ratio

	Symbol/ Rating		Price (US\$/sh) 18-Jan 2008	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	85.08	5,536	471,000	102.00	0.05	0.84
BP plc	BP	B	65.02	3,177	207,000	84.00	0.17	0.81
Total S.A.	TOT	B	78.21	2,273	178,000	100.00	0.13	0.81
Petrobras	PBR		94.37	2,200	207,610	122.00	0.09	0.79
Royal Dutch Shell plc	RDS-A	B	75.26	3,143	237,000	104.00	0.10	0.75
Gazprom (50%)	OGZPY	B	52.50	2,945	154,600	72.00	0.06	0.75
Chevron Corporation	CVX	B	83.46	2,206	184,000	117.00	0.08	0.74
ConocoPhillips	COP	B	72.89	1,644	120,000	124.00	0.18	0.66
<i>Total or Median</i>					<i>1,759,000</i>		<i>0.09</i>	<i>0.77</i>
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	49.16	278	13,690	48.00	0.07	1.02
PetroChina Company Ltd (10%)	PTR	H	155.16	178	27,600	190.00	0.05	0.83
Suncor Energy	SU	B	90.49	472	42,710	122.00	0.08	0.76
Marathon Oil Corporation	MRO	H	47.49	719	34,150	68.00	0.18	0.75
Petro-Canada	PCZ	B	48.60	493	23,960	72.00	0.14	0.72
StatoilHydro ASA (29%)	STO	B	26.56	928	24,650	41.00	0.12	0.69
Lukoil Oil Company	LUKOY	B	75.70	826	63,000	134.00	0.02	0.58
<i>Total or Median</i>					<i>230,000</i>		<i>0.08</i>	<i>0.75</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	150.01	149	22,390	125.00	-	1.20
Encana Corporation	ECA	B	62.22	756	47,000	75.00	0.18	0.86
XTO Energy Inc.	XTO	B	51.77	489	25,300	63.00	0.17	0.85
EOG Resources	EOG	B	85.13	247	21,100	106.00	0.06	0.82
Occidental Petroleum Corp.	OXY	B	68.04	837	57,000	86.00	0.05	0.80
Anadarko Petroleum Corp.	APC	B	55.73	468	26,100	82.00	0.31	0.78
Canadian Natural Resources	CNQ	B	63.77	539	34,400	99.00	0.19	0.71
Devon Energy Corporation	DVN	B	81.84	450	36,800	139.00	0.14	0.65
<i>Total or Median</i>					<i>270,000</i>		<i>0.16</i>	<i>0.81</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	37.55	45	1,690	50.00	0.21	0.80
Encore Acquisition Company	EAC	B	29.30	54	1,590	60.00	0.29	0.64
Cimarex Energy Company	XEC	B	40.57	84	3,410	76.00	0.09	0.58
Energy Partners Ltd.	EPL	B	10.88	32	350	38.00	0.34	0.53
<i>Total or Median</i>					<i>7,000</i>		<i>0.25</i>	<i>0.61</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.00	179	10,050	17.00	0.56	2.01
Kinder Morgan Management, LLC	KMR	S	53.20	64	3,400	17.00	0.56	1.94
Pengrowth Energy Trust	PGH		16.74	247	4,130	19.00	0.24	0.91
San Juan Basin Royalty Trust	SJT	B	36.25	47	1,690	40.00	-	0.91
Penn West Energy Trust	PWE	B	25.61	280	7,170	37.00	0.28	0.78
Canadian Oil Sands Trust	COSWF	B	33.95	479	16,260	45.00	0.06	0.77
Enerplus Resources Fund	ERF		37.20	129	4,810	52.00	0.13	0.75
Hugoton Royalty Trust	HGT	B	24.73	40	990	34.00	-	0.73
<i>Total or Median</i>					<i>48,500</i>		<i>0.19</i>	<i>0.84</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

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 22, 2008



### Oil and Gas Producers - Rank by EV/Ebitda

	Symbol/ Rating		Price (US\$/sh) 18-Jan 2008	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	52.50	24.6	10.3	7.7	13	0.8
Petrobras	PBR		94.37	9.8	9.6	7.6	14	1.8
Exxon Mobil Corporation	XOM	B	85.08	12.1	6.9	5.8	10	1.6
BP plc	BP	B	65.02	10.0	6.8	5.5	9	4.0
Total S.A.	TOT	B	78.21	9.6	6.6	5.3	9	3.5
Chevron Corporation	CVX	B	83.46	10.2	6.4	4.7	8	2.8
Royal Dutch Shell plc	RDS-A	B	75.26	8.1	6.0	4.5	8	3.8
ConocoPhillips	COP	B	72.89	10.7	6.6	4.3	7	2.2
	<i>Median</i>			10.1	6.7	5.4	9	2.5
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	90.49	26.6	11.5	8.8	15	0.4
Imperial Oil Limited (30%)	IMO	B	49.16	14.0	7.8	8.0	13	0.7
PetroChina Company Ltd (10%)	PTR	H	155.16	15.0	7.5	6.2	12	3.2
Marathon Oil Corporation	MRO	H	47.49	8.7	6.0	4.5	7	2.0
StatoilHydro ASA (29%)	STO	B	26.56	7.7	6.2	4.3	9	6.3
Lukoil Oil Company	LUKOY	B	75.70	18.4	6.9	4.0	6	2.0
Petro-Canada	PCZ	B	48.60	6.4	5.5	3.9	7	1.0
	<i>Median</i>			14.0	6.9	4.5	9	2.0
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	150.01	10.6	6.3	7.5	14	2.3
XTO Energy Inc.	XTO	B	51.77	11.1	8.7	7.5	14	0.9
Canadian Natural Resources	CNQ	B	63.77	8.2	8.7	6.2	12	0.5
EOG Resources	EOG	B	85.13	9.0	7.6	6.2	15	0.4
Encana Corporation	ECA	B	62.22	8.9	7.2	6.2	12	1.3
Anadarko Petroleum Corp.	APC	B	55.73	11.4	7.4	5.8	13	1.3
Occidental Petroleum Corp.	OXY	B	68.04	11.7	6.8	5.4	10	1.5
Devon Energy Corporation	DVN	B	81.84	8.9	7.6	4.9	10	0.7
	<i>Median</i>			9.8	7.5	6.2	12	1.1
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	37.55	9.9	7.4	5.9	10	0.8
Encore Acquisition Company	EAC	B	29.30	14.5	7.5	4.8	11	-
Cimarex Energy Company	XEC	B	40.57	7.9	6.4	3.7	8	0.4
Energy Partners Ltd.	EPL	B	10.88	6.0	5.5	2.9	-	-
	<i>Median</i>			8.9	6.9	4.2	10	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.00		7.8	15.8	29	6.6
Kinder Morgan Management, LLC	KMR	S	53.20		7.8	15.2	28	6.9
San Juan Basin Royalty Trust	SJT	B	36.25	10.3	11.6	10.5	13	7.9
Canadian Oil Sands Trust	COSWF	B	33.95	23.2	10.5	8.1	10	9.6
Hugoton Royalty Trust	HGT	B	24.73	13.6	10.9	7.9	11	8.9
Pengrowth Energy Trust	PGH		16.74	7.4	6.8	6.2	16	15.7
Enerplus Resources Fund	ERF		37.20	9.7	7.9	5.9	9	13.2
Penn West Energy Trust	PWE	B	25.61	7.4	6.0	4.7	12	15.5
	<i>Median</i>			10.0	7.9	8.0	12	9.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

# Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio  
January 22, 2008



## 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	
		18-Jan 2008	Equity (%)							EV (%)
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	85.08	3.6	3.2		0.2	0.4	1.9	0.6	0.84
BP plc	BP	65.02	3.0	3.2	3.2	0.3	0.3	2.1	0.5	0.81
Total S.A.	TOT	78.21	3.2	3.2	3.2		1.0	1.7	0.6	0.81
Royal Dutch Shell plc	RDS-A	75.26	3.3	3.2	3.2	0.1	0.4	1.7	1.0	0.75
Gazprom	OGZPY	52.50	10.4	9.6	9.6		6.3	3.2		0.75
Chevron Corporation	CVX	83.46	3.4	3.2		0.1	0.2	2.2	0.7	0.74
ConocoPhillips	COP	72.89	5.5	6.4		0.9	0.4	3.6	1.4	0.66
<i>Total or Median</i>			32	32						0.75
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	49.16	1.4	1.3	1.3	0.1		1.0	0.2	1.02
Suncor Energy	SU	90.49	1.4	1.3	1.3	0.0		1.2	0.1	0.76
Petro-Canada	PCZ	48.60	1.2	1.3	1.3	0.1	0.0	0.9	0.2	0.72
StatoilHydro ASA	STO	26.56	1.6	1.6	1.6		0.6	1.0	-	0.69
Lukoil Oil Company	LUKOY	75.70	7.3	6.4	6.4			4.7	1.7	0.58
<i>Total or Median</i>			13	12						0.72
<b>Independent Natural Gas and Oil - Large Cap</b>										
Encana Corporation	ECA	62.22	3.6	3.8	3.8	2.5		1.0	0.3	0.86
XTO Energy Inc.	XTO	51.77	4.5	4.8		3.6		1.2		0.85
EOG Resources	EOG	85.13	7.0	6.4		4.8	0.2	1.4		0.82
Occidental Petroleum Corp.	OXY	68.04	3.5	3.2		0.4	0.0	2.5	0.3	0.80
Anadarko Petroleum Corp.	APC	55.73	2.3	3.2		1.7		1.4	0.1	0.78
Canadian Natural Resources	CNQ	63.77	1.4	1.6	1.6	0.4		1.2		0.71
Devon Energy Corporation	DVN	81.84	6.0	6.4		3.3		3.0		0.65
<i>Total or Median</i>			28	29						0.80
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	37.55	1.4	1.6		0.4		1.2		0.80
Encore Acquisition Company	EAC	29.30	2.1	3.2		0.6		2.6		0.64
Cimarex Energy Company	XEC	40.57	3.2	3.2		2.2		1.0		0.58
Energy Partners Ltd.	EPL	10.88	0.7	1.6		0.8		0.8		0.53
<i>Total or Median</i>			7	10						0.61
<b>Income</b>										
San Juan Basin Royalty Trust	SJT	36.25	7.6	6.4		6.4				0.91
Penn West Energy Trust	PWE	25.61	1.9	2.6	2.6	0.8		1.7		0.78
Canadian Oil Sands Trust	COSWF	33.95	5.6	5.1	5.1	(0.5)		5.6		0.77
Hugoton Royalty Trust	HGT	24.73	3.8	3.2		3.2				0.73
<i>Total or Median</i>			19	17						0.77
<b>Portfolio Composite</b>			100	100	44	33	10	50	8	0.74
Canada					17					
Russia					16					
Europe					11					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.6% to four-tenths at 1.3%.

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio  
January 22, 2008



### Index of Recent Research

#### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
17-Jan	KMP	Kinder Morgan	Energy Infrastructure Fee Machine
11-Jan	HGT	Hugoton Royalty Trust	Insider Buying (Income Weekly)
6-Jan	SJT	San Juan Basin Royalty Trust	\$18 a Million Btu for LNG
4-Jan	* COSWF	Canadian Oil Sands Trust	\$100 Oil Gem (Income Weekly)
14-Dec	* LUKOY	Lukoil Oil Company	Our Favorite Russian Oil Stock
6-Dec	* OGZPY	Gazprom	Natural Gas Price Marching Up
28-Nov	* CNQ	Canadian Natural Resources	New Buy Recommendation
11-Nov	* PBR	Petrobras	Energy Mega Cap
9-Nov	* PWE	Penn West Energy Trust	Light Oil Consolidator
8-Nov	* PBR	Petrobras	Bonanza Offshore Brazil
7-Nov	* XEC	Cimarex Energy Company	Timely Turn to Oil
7-Nov	* DVN	Devon Energy Corporation	Oil Strength, Natural Gas Potential
7-Nov	* EPL	Energy Partners, Ltd.	Management Scales Back
7-Nov	* TOT	Total S.A.	Global Natural Gas Competitor
6-Nov	* APC	Anadarko Petroleum Corporation	Natural Gas Resource Value
2-Nov	* CVX	Chevron Corporation	A Bias to be Oilier
1-Nov	* MRO	Marathon Oil Corporation	Oil Sands Deal Closed
1-Nov	* CNQ	Canadian Natural Resources	Heavy Oil, Natural Gas and Oil Sands
1-Nov	* XOM	Exxon Mobil Corporation	Energy Money Fund
31-Oct	* EAC	Encore Acquisition	Oil with Income Alternative in Encore Energy Partners
31-Oct	* BRY	Berry Petroleum	Plans Master Limited Partnership (MLP)
30-Oct	* IMO	Imperial Oil Limited	Oil Price Yes, Alberta Royalties No
30-Oct	* NHY	Norsk Hydro ASA	Real Growth in Materials
30-Oct	* CEO	CNOOC Ltd	Flourishing China Stock Market
29-Oct	* EOG	EOG Resources Inc.	Natural Gas Sleeper
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

#### Meter Reader

22-Jan		Weekly	Small Caps on Sale
15-Jan		Weekly	Price Momentum in Six-Year Natural Gas
8-Jan	*	Weekly	\$18 LNG, \$8 Nymex
31-Dec	*	Weekly	2002 Buys Gain 40% a Year

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

20-Jan		Weekly	Thriving in Debt-Stressed Market
11-Jan		Hugoton Royalty Trust	Insider Buying
4-Jan	*	Canadian Oil Sands Trust	\$100 Oil Gem
28-Dec	*	Weekly	Leaders and Laggards in 2007

\* Archived on [www.mcdep.com](http://www.mcdep.com)

## ***Meter Reader***

### ***A Weekly Analysis of Energy Stocks Using the McDep Ratio***

January 22, 2008



**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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**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**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.