The
PETROLEUM POST

News and Views from Capital City Petroleum

Q4 2007

Investing in America's Energy Future

Capital City Energy Funds

Capital City Petroleum invests in oil and gas by acquiring interests in producing oil and gas wells through active partnerships with qualified and successful oil and gas operators. We also acquire interests in exploration and development wells to be drilled, along with royalty acreage, mineral rights, and pipeline transportation agreements.

Capital City Petroleum's operations are comprised of three distinct divisions referred to as the "Triad". The Triad consists of:

Fund Management Division
The purpose is to structure, fund and manage energy assets for retail and institutional investors. The company partners with successful oil and gas companies that have established operating histories, but may require additional capital to develop and exploit their potential assets.

Principal Investments Division
The Company deploys its own capital through Principal Investments in energy assets which have a greater long term potential for higher returns, and which may not be contemplated or be appropriate for the income oriented fund management business.

Strategic Acquisition Division
The acquisition of operating companies is considered strategic to our core fund management and principal investment divisions. We intend to acquire and/or partner with companies such as drillers, operators, pipelines, and lease owners among others. This strategy allows the Company to become more opportunistic and achieve greater control over its investments through vertical integration.

Utilizing the Triad model will allow Capital City Petroleum to significantly accelerate its development, be more diversified in its business activities, and have greater access to the capital markets in order to implement its long term growth plan of becoming a fully integrated energy company.

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Alaskans Get $1,654 Each From Oil Fund

(Excerpted from an article by Steve Quinn, Associated Press Writer, MSNBC News, September 19, 2007)

JUNEAU, Alaska - Nearly every Alaskan will soon receive a check for $1,654, their share of the state's oil riches, Gov. Sarah Palin announced Wednesday.

The dividend checks are derived from the state's oil royalty investment program and distributed each year to eligible residents—just for living here for a full calendar year.

Slightly more than 600,000 men, women and children in 248 communities will receive the dividend this year, according to the Revenue Department. The state's estimated population is just over 670,000 people.

Anyone who has lived in Alaska for a full calendar year can apply for the money—including children. Of those receiving checks this year, about 41 percent or 244,695 of the state's residents were born in Alaska.

"I want you guys to invest this wisely," Palin told the large crowd that gathered for the announcement of this year's dividend in Valdez, the terminus of the state's 800-mile trans-Alaska oil pipeline.

It's a perk that separates Alaska from the rest of the union and was recently parodied in "The Simpsons Movie," which prominently features the television cartoon family's journey to Alaska.

The movie depicts Alaska almost as a separate country. As Homer Simpson crosses the border with Canada, he's greeted

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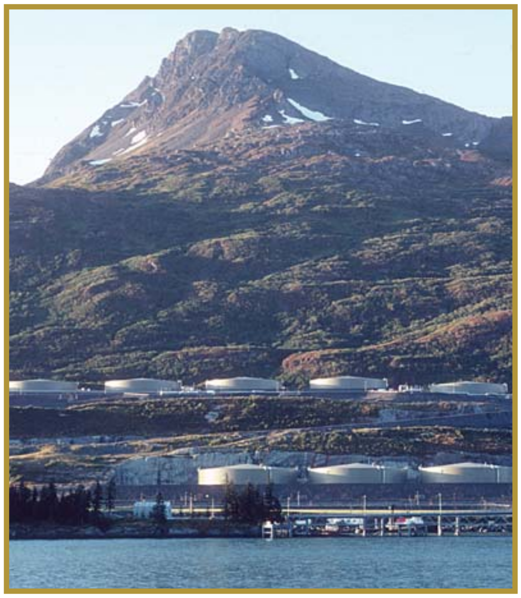
by a customs agent who says, "Welcome to Alaska," then hands Homer a wad of cash, saying every Alaskan gets a stack of bills so oil companies can exploit the environment.

But for many residents, the check is no joke.

It means getting caught up on bills and supplementing income that for some is a week-to-week living in Alaska, where the cost of living is high due in part because of its distance from shipping centers in the Lower 48.



In Galena, a town of 600 residents located 250 miles west of Fairbanks, air taxi pilot Colin Brown said the money will help cover rising fuel costs that have beset the state's isolated rural villages. Brown says he pays about $4.70 for a gallon of gasoline, about $2 per gallon more than national average, according to the Energy Department's most recent data.

Others use the bonus to supplement their subsistent lifestyles.

"A lot of times village people will spend it on fishnets to renew their equipment that's worn out," he said.

The state established the Alaska Permanent Fund in 1976 after North Slope oil was discovered. Dividends have been paid since 1982, ranging from $331 to a record high of $1,963 in 2000. Last year's dividend check was $1,106.

The fund is valued at a near-record $38.7 billion, with total returns at 17.1 percent in the fiscal year that ended June 30. In the last fiscal year, the fund earned $622,000 an hour.

Dividend totals are not directly tied to the fund's total value or robust oil prices, said fund spokeswoman Laura Achee. Oil prices, which topped $80 a barrel this week, can boost the fund's principal, but the money must be invested. Payouts then get calculated on a five-year average of investment income.

The fund's stock investments include high-profile brands such as Pepsico Inc., Microsoft Corp. and Apple Inc., along with North Slope oil producers Exxon Mobil Corp., ConocoPhillips and BP PLC.

More than $15.2 billion has been distributed to eligible residents since the dividend program began, five years after oil began flowing in the state's pipeline 30 years ago.

If a resident has received a check every year since the first was issued in 1982, their total take in the program would be $27,536.

Capital City Energy Funds

Capital City Petroleum is the manager for the Capital City Energy Funds (CCEF). The performance of each Fund is continually monitored, and when necessary, positions are either bought or sold for the benefit of the Fund. Therefore, it is not unusual to have new wells drilling in some or all of the previous Funds. The table to the right summarizes the current status of each Fund.

Effective 1-Oct-07	Drilled & Producing	Currently Drilling	To Be Drilled
CCEF V	96%	4%	0%
CCEF VI	88%	9%	3%
CCEF VIII	97%	3%	0%
CCEF IX	94%	6%	0%
CCEF X	74%	13%	13%
CCEF XI	90%	0%	10%
CCEF XII	83%	15%	2%
CCEF XIV	75%	16%	9%

Congress Fiddles In Face Of A Looming Energy Crisis

(Excerpted from an article by Andy Weissman, Energy Business Watch, August 2007)

The financial markets this summer have been focused primarily on what the media is calling the "subprime mess." We might be better off, however, if more attention was being paid to energy, and in particular to Congress' failure to come up with a rational strategy for meeting our future supply needs.

Oil is as vital to our economy as oxygen is to life. There have been clear warning signs this summer of a crisis far more severe than the price shocks of the past three years. Yet remarkably little attention is being paid to these warning signs-even within the industry, let alone by the popular press.

The normally-cautious International Energy Agency, for example, in its medium-term oil report, estimates that existing fields are likely to decline by an average of 3.2 million barrels a day every year going forward. In a similar vein, the National Petroleum Council has advised Energy Secretary Samuel Bodman that by 2030, production from existing fields could decline by 80 percent.

With average income in China expected to soon reach $3,000 a year, a level at which demand for oil in other countries often has begun to soar, this threatens to create an unprecedented gap between available supplies and expected global needs (Figure 1).

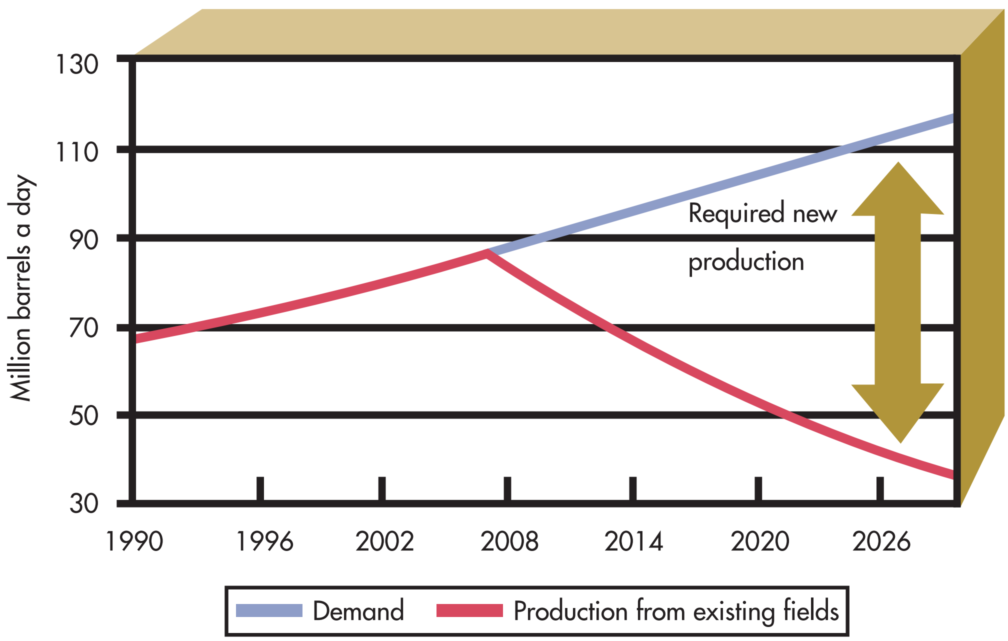
Can production from new fields make up this huge difference, potentially providing the equivalent of eight new Saudi Arabias over the next 20-25 years? The IEA and NPC reports raise substantial doubt even on a near-term basis.

The IEA medium-term report, for example, estimates increased production from non-OPEC sources will fall rapidly after the next two years, with expected growth (after subtracting declines) of only 333,000 bbl/d during 2010-12, and potentially even lower growth rates in the next decade.

IEA believes that, at least in theory, between now and 2009 or 2010, increased production by OPEC members can bridge this gap. This assumption depends on:

- Saudi Arabia increasing production by 1.8 MMbbl/d;
- Large increases by the United Arab Emirates and Kuwait; and
- Stronger performance then may be realistic by Iran, Iraq, Mexico and Venezuela (among others).

Figure 1



Even with these optimistic assumptions, however, supplies available to the global market begin to fall increasingly short of expected growth in global demand after 2010.

Many factors could affect the supply/demand balance over the next 5-10 years. What are the potential risks for the United States, as the world's largest oil importer, if global supplies fall increasingly short of global needs?

By any measure, they are huge. Energy prices are extremely sensitive to even small imbalances between supply and demand. This is because energy is an essential commodity, and the ability to expand supplies short term is limited at best (other than reversing OPEC production cuts, which IEA already assumes will occur). If global needs significantly outpace global supplies by only another $5 or $10 a barrel. Far steeper increases are likely.

A Comparison of 2006 Industry Earnings
(cents per dollar of sales)

- All Manufacturing Industry...8.2¢
- Oil and Natural Gas Industry...9.5¢

In 2006, the oil and natural gas industry earned a little over one cent per dollar more than the average by all other manufacturing industries.

Source: U.S. Census Bureau for U.S. manufacturing and API calculations based on company filings with the federal government for the oil and natural gas industry.

CAPITAL CITY PETROLEUM
investing in america's energy future

Our office will be closed on the following days:

Monday, December 24, 2007
Christmas Eve

Tuesday, December 24, 2007
Christmas Day

Tuesday, January 1, 2008
New Year's Day

MARKETS
Crude Oil: $81.65/ barrel
RBOB Gasoline: $2.0683/ gallon
Natural Gas: $6.879/ MMBTU
Heating Oil: $2.2379/ gallon

* As of NYMEX Market Close on September 28, 2007

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