

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

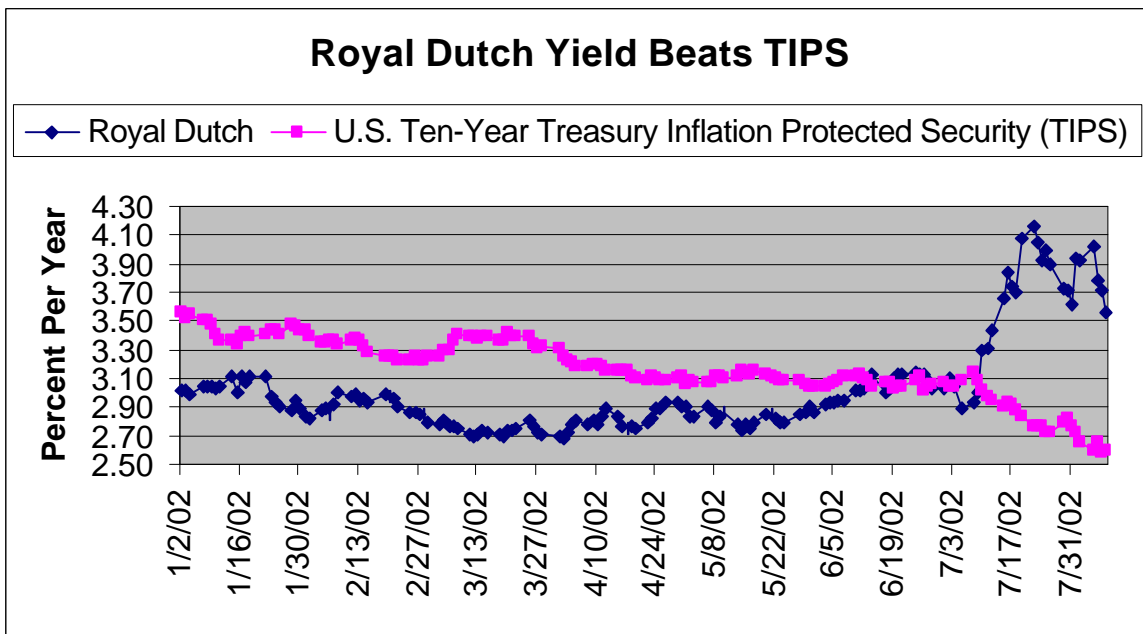
August 12, 2002

Real Return in International Oil Dividends

Summary and Recommendation

Looking ahead, real yield favors new investment in high quality international oil equity over high quality government bonds. The relationship reversed dramatically in just the past month (see Chart). The real yield on the Ten Year U.S. Inflation Indexed Note has fallen to 2.60%. The indicated dividend for the stock of recommended **Royal Dutch Petroleum**, converted at the latest exchange rate for the Euro, reached a yield of more than 4% and remains above 3.5%. That relationship gives us the conviction to recommend RD and the McDep Ratio gives the confidence to support additional recommendations. In particular at this time of turmoil in the international capital markets, we initiated a new buy recommendation of **Petrobras**, a world technological leader in deep-water offshore oil. All of our current buy recommendations of non U.S. oil stocks, major U.S. oil stocks, and natural gas stocks as well as our sell recommendations are highlighted in the weekly valuation tables for Large Cap, Mid Cap and Small Cap groups (see Table L-1, L-2, M-1, M-2, S-1, and S-2).

Equity Premium Restored for Oil



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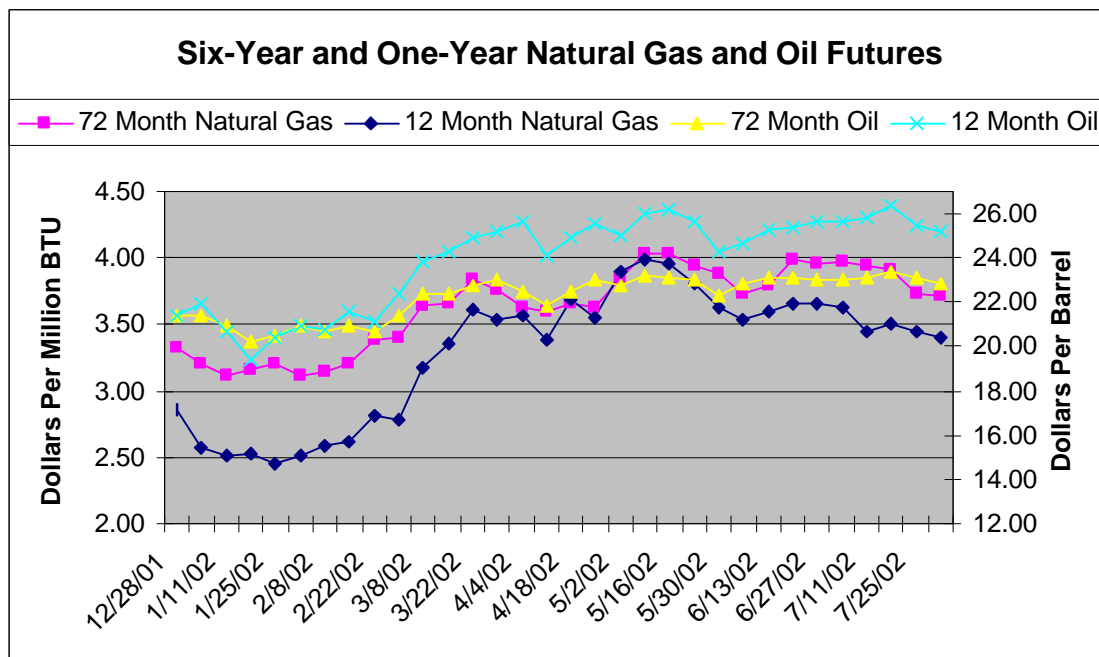
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Ominously just before the recent acceleration in stock market decline there appeared to be much public discussion about what the academics call the equity premium. Stocks should promise a better inflation adjusted return than bonds and that did not seem to be the case by traditional measures. Reviewing our own research published in 1974 and 1982, we were surprised to be reminded of 8% and 10% dividends yields on major oil stocks. Does that mean we have to see even higher yields today? Not necessarily. Nominal interest rates were higher in both 1974 and 1982. Though we did not have an easy measure of long-term inflation expectations, we know they were higher also. Now interest rates, the standard of comparison, are lower. There may be lower stock prices ahead, but for our buy recommendations, prices are low enough for diversified investors to be building rather than trimming positions.

Commodity Prices Firm

The trend remains up for wellhead commodity futures (see Chart). Six-year and one-year oil trend up at 4% above the 29-week average. Six-year natural gas trends up at 2% above and one-year natural gas is on the trend. That implies favorable momentum for oil and gas prices even though one cannot say the same for most stock prices. One-year refining margin futures are about 3% below the approximate 200-day trend.

Kurt H. Wulff, CFA



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Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 8-Aug 2002</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	36.00	6,858	247,000	36.00	0.09	1.00	
BP plc	BP	47.56	3,734	178,000	50.00	0.15	0.96	
TotalFinaElf S.A.	TOT	72.47	1,352	98,000	90.00	0.14	0.83	
Royal Dutch/Shell	RD	2	45.65	3,502	160,000	60.00	0.12	0.79
ChevronTexaco Corporation	CVX	2	74.56	1,062	79,200	110.00	0.16	0.73
	<i>Total or Median</i>			<i>762,000</i>		<i>0.14</i>	<i>0.83</i>	
Energy Infrastructure								
Southern Company	SO	28.79	701	20,200	23.90	0.47	1.11	
Duke Energy Corporation	DUK	26.09	792	20,700	30.40	0.48	0.93	
American Electric Power Co. Inc.	AEP	3	32.03	322	10,300	42.20	0.63	0.91
Dominion Resources	D	60.55	269	16,300	76.20	0.45	0.89	
Enel S.p.a. (32%)	EN	25.50	388	9,900	32.70	0.39	0.87	
Exelon Corporation	EXC	3	48.82	323	15,800	70.80	0.45	0.83
El Paso Corporation	EP	14.89	546	8,100	27.30	0.61	0.82	
	<i>Total or Median</i>			<i>81,000</i>		<i>0.47</i>	<i>0.88</i>	
Natural Gas and Oil								
Occidental Petroleum Corp.	OXY	27.30	372	10,200	30.00	0.48	0.95	
ENI S.p.A.	E	76.74	776	59,600	85.00	0.18	0.92	
OAO Lukoil	LUKOY	60.50	299	18,100	70.00	0.08	0.88	
Devon Energy	DVN	41.37	165	6,800	55.00	0.48	0.87	
Encana Corporation	ECA	2	28.65	484	13,900	35.00	0.25	0.87
Unocal Corporation	UCL	33.42	245	8,200	45.00	0.33	0.83	
Anadarko Petroleum Corp.	APC	41.15	266	10,900	56.00	0.26	0.80	
ConocoPhillips	P	2	51.00	680	34,700	80.00	0.32	0.75
Marathon Oil Corporation	MRO	1	23.90	310	7,400	40.00	0.36	0.74
Burlington Resources	BR	1	36.16	202	7,300	57.00	0.28	0.74
Petroleo Brasileiro S. A.	PBR	2	16.89	1,086	18,300	30.00	0.27	0.68
	<i>Total or Median</i>			<i>185,000</i>		<i>0.28</i>	<i>0.81</i>	
Service								
Baker Hughes Inc.	BHI	25.28	338	8,500	24.50	0.13	1.02	
Schlumberger Ltd.	SLB	39.46	581	22,900	44.00	0.12	0.91	
Halliburton Company	HAL	13.21	430	5,700	25.00	0.14	0.60	

Buy/Sell rating after symbol: 1-Strong Buy, 2-Buy, 3-Neutral, 4-Sell, 5-Strong Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Table L-2
Mega Cap and Large Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 8-Aug 2002</i>	<i>EV/ Sales NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	36.00	1.5	10.1	22	2.6	10.1	
BP plc	BP	47.56	1.4	8.8	18	2.9	9.2	
TotalFinaElf S.A.	TOT	72.47	1.3	7.9	16	2.6	9.4	
ChevronTexaco Corporation	CVX	2	74.56	1.1	6.8	13	3.8	9.2
Royal Dutch/Shell	RD	2	45.65	1.2	6.2	12	3.7	7.9
	<i>Median</i>		<i>1.3</i>	<i>7.9</i>	<i>16</i>	<i>2.9</i>	<i>9.2</i>	
Energy Infrastructure								
Southern Company	SO	28.79	3.5	10.0	17	4.7	9.0	
Duke Energy Corporation	DUK	26.09	0.8	8.3	10	4.2	9.0	
American Electric Power Co. Inc.	AEP	3	32.03	0.5	8.2	9	7.5	9.0
Dominion Resources	D	60.55	3.3	8.0	12	4.3	9.0	
Enel S.p.a. (32%)	EN	25.50	2.1	7.8	31	6.4	9.0	
Exelon Corporation	EXC	3	48.82	2.3	7.5	11	3.6	9.0
El Paso Corporation	EP	14.89	0.6	7.4	8	6.0	9.0	
	<i>Median</i>		<i>2.1</i>	<i>8.0</i>	<i>11</i>	<i>4.7</i>	<i>9.0</i>	
Natural Gas and Oil								
Occidental Petroleum Corp.	OXY	27.30	1.5	7.7	13	3.7	8.1	
ConocoPhillips	P	2	51.00	0.8	7.0	15	2.8	9.3
ENI S.p.A.	E	76.74	1.6	6.7	15	4.4	7.3	
Anadarko Petroleum Corp.	APC	41.15	2.6	6.5	13	0.7	8.1	
Devon Energy	DVN	41.37	2.9	6.4	42	0.5	7.4	
Burlington Resources	BR	1	36.16	4.4	5.9	14	1.5	8.0
Encana Corporation	ECA	2	28.65	3.7	5.6	12	0.9	6.5
Marathon Oil Corporation	MRO	1	23.90	0.4	5.4	10	3.8	7.3
Unocal Corporation	UCL	33.42	2.3	5.1	12	2.4	6.2	
OAOLukoil	LUKOY	60.50	1.6	4.3	9	1.8	4.9	
Petroleo Brasileiro S. A.	PBR	2	16.89	1.4	3.7	5	8.0	5.5
	<i>Median</i>		<i>1.6</i>	<i>5.9</i>	<i>13</i>	<i>2.4</i>	<i>7.3</i>	
Service								
Baker Hughes Inc.	BHI	25.28	1.6	8.2	18	1.8	9.0	
Schlumberger Ltd.	SLB	39.46	2.1	7.3	20	1.9	9.0	
Halliburton Company	HAL	13.21	0.6	4.9	10	3.8	8.2	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table M-1
Mid Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 8-Aug 2002</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
Energy Infrastructure								
Enterprise Products Part.	EPD	21.00	175	3,700	9.50	0.43	1.69	
Kinder Morgan Energy Partners, L.P.	KMP	5	29.20	136	4,000	14.00	0.49	1.55
Kinder Morgan Management, LLC	KMR	5	28.65	30	900	14.00	0.49	1.54
Kinder Morgan, Inc.	KMI	5	40.93	123	5,000	8.10	0.87	1.53
Calpine Corporation	CPN	3	3.03	375	1,100	1.00	0.97	1.06
Dynegy Inc.	DYN		1.89	419	800	1.00	0.94	1.05
Williams Companies	WMB		2.82	521	1,500	1.00	0.97	1.05
AES Corporation	AES		2.09	543	1,100	1.00	0.98	1.02
Sempra Energy	SRE		21.58	203	4,400	41.70	0.50	0.76
Valero Energy Corporation	VLO		33.00	104	3,400	60.00	0.46	0.76
Mirant Corporation	MIR		3.04	353	1,100	18.60	0.65	0.71
CMS Energy Corporation	CMS		9.38	128	1,200	43.80	0.62	0.70
Consol Energy Inc.	CNX		12.79	79	1,000	35.90	0.51	0.68
Constellation Energy Group	CEG		27.95	152	4,300	56.50	0.35	0.67
	<i>Total or Median</i>			<i>33,500</i>		<i>0.57</i>	<i>1.04</i>	
Natural Gas and Oil								
Suncor Energy	SU		17.26	454	7,800	17.00	0.25	1.01
Ocean Energy, Inc.	OEI		20.25	178	3,600	20.00	0.30	1.01
Murphy Oil Corporation	MUR		80.65	46	3,700	82.00	0.18	0.99
Petro-Canada	PCZ		29.05	262	7,600	31.00	0.11	0.94
Imperial Oil Limited (30%)	IMO		27.16	114	3,100	30.00	0.14	0.92
Norsk Hydro ASA (49%)	NHY		41.06	126	5,200	54.00	0.18	0.80
XTO Energy Inc.	XTO	2	18.54	124	2,300	26.00	0.23	0.78
PetroChina Company Ltd (10%)	PTR	2	20.85	176	3,700	30.00	0.17	0.75
	<i>Total or Median</i>			<i>37,000</i>		<i>0.18</i>	<i>0.93</i>	

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 5 - Strong Sell

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Table M-2
Mid Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
	Symbol/ Rating	8-Aug 2002	8-Aug 2002	Sales NTM	Ebitda NTM	P/E NTM	NTM (%)	PV/ Ebitda NTM
Energy Infrastructure								
	Enterprise Products Part.	EPD	21.00	1.8	18.6	45	6.0	11.0
	Kinder Morgan Energy Partners, L.P.	KMP	5	29.20	3.0	14.0	15	8.4
	Kinder Morgan Management, LLC	KMR	5	28.65	2.9	13.8	15	8.5
	Kinder Morgan, Inc.	KMI	5	40.93	3.6	13.7	17	0.5
	Calpine Corporation	CPN	3	3.03	1.8	10.8		10.2
	Dynegy Inc.	DYN		1.89	0.2	9.5	-	9.0
	Williams Companies	WMB		2.82	1.9	9.4	-	9.0
	AES Corporation	AES		2.09	2.7	9.2		9.0
	Sempra Energy	SRE		21.58	1.1	6.8	8	4.6
	Mirant Corporation	MIR		3.04	0.4	6.3	1	-
	CMS Energy Corporation	CMS		9.38	0.7	6.3	5	7.7
	Consol Energy Inc.	CNX		12.79	1.7	6.1	4	4.4
	Constellation Energy Group	CEG		27.95	1.8	6.1	9	1.7
	Valero Energy Corporation	VLO		33.00	0.2	5.1	6	1.2
	<i>Median</i>				1.8	9.3	9	3.0
Natural Gas and Oil								
	Suncor Energy	SU		17.26	3.6	10.9	24	1.3
	Imperial Oil Limited (30%)	IMO		27.16	1.3	9.4	21	2.0
	Murphy Oil Corporation	MUR		80.65	0.9	7.9	38	1.9
	Ocean Energy, Inc.	OEI		20.25	4.7	7.9	35	0.8
	Petro-Canada	PCZ		29.05	1.8	7.0	18	0.9
	XTO Energy Inc.	XTO	2	18.54	3.4	6.5	13	0.2
	Norsk Hydro ASA (49%)	NHY		41.06	0.7	3.8	11	2.5
	PetroChina Company Ltd (10%)	PTR	2	20.85	1.6	3.8	7	6.1
	<i>Median</i>				1.7	7.4	20	1.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>McDep</i>
			<i>8-Aug</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	<i>Ratio</i>
			<i>2002</i>			<i>(\$/sh)</i>		
Energy Infrastructure								
El Paso Energy Partners	EPN	5	33.65	42.8	1,440	10.20	0.64	1.84
Enbridge Energy Partners,	EEP		43.38	31.0	1,340	16.60	0.58	1.67
TEPPCO Partners, L.P.	TPP		30.15	46.5	1,400	12.90	0.61	1.52
Plains All Amer. Pipeline	PAA		24.80	41.6	1,030	14.90	0.39	1.41
Northern Border Partners	NBP		36.10	42.0	1,520	20.10	0.57	1.35
AmeriGas Partners, L.P.	APU		22.79	49.0	1,120	23.50	0.47	0.99
Penn Virginia Res. Part, L.P.(48%)	PVR		17.55	7.7	130	17.90	0.12	0.98
Penn Virginia Corporation	PVA		31.66	9.0	290	35.00	0.10	0.91
	<i>Total or Median</i>				8,300		0.52	1.38
Natural Gas and Oil								
Provident Energy Trust	PVX		6.99	36.0	250	5.00	0.46	1.22
Dorchester Hugoton, Ltd.	DHULZ		13.24	10.7	142	11.60	(0.17)	1.16
Quicksilver Resources Inc.	KWK		21.00	19.4	410	19.00	0.44	1.06
Pogo Producing Company	PPP		30.85	60.5	1,870	32.00	0.27	0.97
Newfield Exploration Company	NFX		31.59	48.6	1,540	33.00	0.25	0.97
Enerplus Resources Fund	ERF		17.83	69.6	1,240	20.00	0.19	0.91
CNOOC Limited (19%)	CEO	2	27.25	78.0	2,130	30.00	-	0.91
Stone Energy Company	SGY		35.10	26.4	930	42.00	0.29	0.88
Encore Acquisition Corp. (25%)	EAC		16.05	7.5	120	20.00	0.18	0.84
Southwestern Energy Company	SWN		10.95	25.6	280	17.00	0.44	0.80
Forest Oil Corporation	FST	3	22.45	46.8	1,050	35.00	0.30	0.75
Unit Corporation	UNT		15.44	36.2	560	21.00	0.03	0.74
Spinnaker Exploration Company	SKE		25.10	28.5	720	35.00	0.03	0.73
Swift Energy Company	SFY		13.00	24.8	320	22.00	0.32	0.72
Magnum Hunter Resources, Inc.	MHR		5.30	71.5	380	11.00	0.46	0.72
Canadian Oil Sands Trust (US\$)	COS_u.TO	2	23.86	56.9	1,360	40.00	0.12	0.64
	<i>Total or Median</i>				13,300		0.26	0.86
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		15.14	6.0	91	20.10	-	0.75
San Juan Basin Royalty Trust	SJT	2	10.31	46.6	480	15.60	-	0.66
Hugoton RoyaltyTrust (46%)	HGT		10.20	18.4	190	15.40	-	0.66
Micro Cap								
Abraxas Petroleum Corporation	ABP		0.47	27.0	13	2.00	0.84	0.88
Energy Partners Ltd.(30%)	EPL	2	7.25	8.2	60	10.00	0.38	0.83
Purcell Energy, Ltd. (US\$)	PEL.TO	3	1.42	27.3	39	3.00	0.19	0.57

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 4 - Sell, 5 - Strong Sell
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Energy Infrastructure								
El Paso Energy Partners	EPN	5	33.65	9.3	16.5	25	8.0	9.0
Enbridge Energy Partners,	EEP		43.38	6.7	15.1	83	8.1	9.0
TEPPCO Partners, L.P.	TPP		30.15	1.1	13.7	19	7.6	9.0
Plains All Amer. Pipeline	PAA		24.80	0.2	12.7	18	8.3	9.0
Northern Border Partners	NBP		36.10	7.6	12.1	16	8.9	9.0
AmeriGas Partners, L.P.	APU		22.79	1.5	8.9	13	9.7	9.0
Penn Virginia Res. Part, L.P.(48%)	PVR		17.55	6.6	8.8	9	11.4	9.0
Penn Virginia Corporation	PVA		31.66	2.9	4.4	11	2.8	4.8
	<i>Median</i>			<i>4.7</i>	<i>12.4</i>	<i>17</i>	<i>8.2</i>	<i>9.0</i>
Natural Gas and Oil								
Dorchester Hugoton, Ltd.	DHULZ		13.24	6.5	9.8	14	8.8	8.5
Quicksilver Resources Inc.	KWK		21.00	4.7	8.8	23	-	8.3
Provident Energy Trust	PVX		6.99	3.7	7.4	91	15.9	6.1
Pogo Producing Company	PPP		30.85	4.2	7.1	44	0.4	7.3
Enerplus Resources Fund	ERF		17.83	4.7	6.7	16	12.2	7.4
Canadian Oil Sands Trust (US\$)	COS_u.TO	2	23.86	3.6	6.6	7	5.4	10.3
Encore Acquisition Corp. (25%)	EAC		16.05	4.1	6.2	14	-	7.4
CNOOC Limited (19%)	CEO	2	27.25	4.6	6.0	12	0.9	6.5
Magnum Hunter Resources, Inc.	MHR		5.30	2.9	5.9	15	-	8.3
Forest Oil Corporation	FST	3	22.45	3.5	5.9	18	-	7.8
Swift Energy Company	SFY		13.00	3.9	5.9	27	-	8.1
Southwestern Energy Company	SWN		10.95	2.1	5.1	11	-	6.3
Unit Corporation	UNT		15.44	2.7	4.9	11	-	6.6
Newfield Exploration Company	NFX		31.59	3.2	4.5	18	-	4.7
Stone Energy Company	SGY		35.10	3.4	4.5	10	-	5.0
Spinnaker Exploration Company	SKE		25.10	3.0	3.5	11	-	4.8
	<i>Median</i>			<i>3.6</i>	<i>6.0</i>	<i>14</i>	<i>-</i>	<i>7.3</i>
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		15.14	5.8	8.5	9	10.9	11.2
Hugoton RoyaltyTrust (46%)	HGT		10.20	4.8	7.3	11	9.2	11.0
San Juan Basin Royalty Trust	SJT	2	10.31	5.6	7.2	10	10.1	10.9
Micro Cap								
Abraxas Petroleum Corporation	ABP		0.47	4.2	6.1	-	-	6.9
Energy Partners Ltd.(30%)	EPL	2	7.25	2.5	5.2	-	-	6.3
Purcell Energy, Ltd. (US\$)	PEL.TO	3	1.42	2.7	3.7	8	-	6.4

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating.