

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 9, 2003

Repeal the Dividend Tax

Summary and Recommendation

Recommending high dividend paying oil and gas stocks like **Royal Dutch (RD)***, **ChevronTexaco (CVX)**, **Marathon (MRO)** and **PetroChina (PTR)***, we believe eliminating double taxation of dividends is good for the capital markets and for the economy. The move would encourage taxable energy investors to redirect capital toward efficient companies and away from inefficient high-greed partnerships like sell recommended **Kinder Morgan (KMI, KMR, KMP)**, **El Paso Energy Partners (EPN)** and **Enbridge (EEP, EEQ)**. The potential improvement in tax fairness could also be the catalyst for more equity financing for the power companies whose stocks currently appear too leveraged to justify buy recommendation. We highlight current sell and buy recommendations in our ranking of 85 stocks by McDep Ratio and unlevered cash flow multiple (see Tables L-1, L-2, M-1, M-2, S-1, S-2).

Soak Rich!

Those who oppose the repeal of the dividend tax on the basis that the current tax soaks the rich may be getting the argument backwards in energy. It is the general partners of partnerships formed in part to avoid double taxation that are getting rich at the expense of retirement investors. Mr. Kinder, who goes by "Rich", is so successful in getting investors to pay him instead of the government that others want to get in on the game. The chairman of Qwest Communications, Mr. Anschutz, who sold a few billion dollars of stock before the price collapsed following apparent fraud, set up a new high greed entity, Pacific Energy Partners. The coal guys don't even pretend that excessive general partner compensation is earned. Natural Resource Partners and **Penn Virginia Resource Partners (PVR)** have separated the excess compensation rights from normal general partner compensation apparently for use as a potential kickback to sellers of coal properties to the partnerships.

Repower the Power Companies with Equity

Nor would we consider utility investment to be dominated by investors too rich to deserve fair tax treatment. Our impression is that most investors in utility stocks are retirees or soon to be retirees who need the income. Here is another case where double taxation appears to have helped skew financing in an undesirable direction. Power companies have too much debt in part because it appeared to be cheaper financing. Unlike dividends where the payor and the payee are assessed income tax, only the payee is assessed tax on interest. Thus practically the whole power industry overdosed on debt. 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. He and his spouse do not sell short nor act contrary to a buy or sell rating except for tax loss purposes. 1

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and could not withstand the pressures of the past year without inordinate stock price decline. The antidote to too much debt is more equity. The equity could be created in bankruptcy by giving it to creditors or the equity could be raised from new investors attracted to the dividend that would no longer be taxed twice.

A Populist Idea

If the taxation were fairer, retirement investors would put more money into dividend paying companies. More investors would find more places to put their money to work more efficiently.

Kurt H. Wulff, CFA

* President Bush's proposal apparently would apply only to dividends paid by corporations with U.S. taxable income. In that case PTR dividends would still be taxable to U.S. taxpayers. RD dividends may or may not be taxable to U.S. taxpayers.

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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

	Symbol/ Rating	Price (\$/sh) 8-Jan 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM	35.00	6,787	238,000	37.00	0.09	0.95	
TotalFinaElf S.A.	TOT	69.46	1,336	92,800	90.00	0.15	0.81	
BP plc	BP	40.15	3,735	150,000	52.00	0.14	0.80	
Royal Dutch/Shell	RD	B	44.60	3,481	155,000	60.00	0.15	0.78
ChevronTexaco Corporation	CVX	B	67.95	1,062	72,200	101.00	0.17	0.73
	<i>Total or Median</i>			708,000		0.15	0.80	
Energy Infrastructure								
Southern Company	SO		29.51	701	20,700	23.90	0.47	1.13
American Electric Power Co. Inc.	AEP	N	29.74	326	9,700	27.40	0.74	1.02
Enel S.p.a. (32%)	EN		26.86	388	10,400	32.70	0.39	0.89
Exelon Corporation	EXC	N	53.76	323	17,400	70.80	0.45	0.87
Dominion Resources	D		56.36	269	15,200	76.20	0.45	0.86
Duke Energy Corporation	DUK		21.16	792	16,800	30.40	0.48	0.84
El Paso Corporation	EP	N	8.50	590	5,000	20.00	0.66	0.80
	<i>Total or Median</i>			75,000		0.47	0.86	
Natural Gas and Oil								
ENI S.p.A.	E		77.20	776	59,900	90.00	0.17	0.88
Occidental Petroleum Corp.	OXY		28.35	380	10,800	35.00	0.36	0.88
OAO Lukoil	LUKOY		60.70	299	18,200	70.00	0.08	0.88
Encana Corporation	ECA	B	30.39	470	14,300	38.00	0.26	0.85
Unocal Corporation	UCL		29.59	245	7,200	40.00	0.37	0.83
Anadarko Petroleum Corp.	APC		46.05	258	11,900	60.00	0.25	0.83
Devon Energy	DVN		45.12	158	7,100	65.00	0.42	0.82
Burlington Resources	BR	B	41.20	202	8,300	60.00	0.27	0.77
ConocoPhillips	COP	B	47.58	680	32,400	75.00	0.36	0.77
Marathon Oil Corporation	MRO	B	21.15	310	6,600	40.00	0.37	0.70
Petroleo Brasileiro S. A.	PBR	N	16.06	1,086	17,400	30.00	0.27	0.66
	<i>Total or Median</i>			134,000		0.32	0.82	
Service								
Baker Hughes Inc.	BHI		30.30	339	10,300	25.00	0.09	1.20
Schlumberger Ltd.	SLB		41.08	581	23,900	44.00	0.22	0.95
Halliburton Company	HAL		18.82	434	8,200	22.00	0.25	0.89

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - 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.

			Price (\$/sh)	EV/ Sales	EV/ Ebitda	Dividend or Distribution	PV/ Ebitda
	Symbol/ Rating	8-Jan 2003	NTM	NTM	P/E NTM	NTM (%)	NTM
Mega Cap							
Exxon Mobil Corporation	XOM		35.00	1.2	8.4	17	8.9
TotalFinaElf S.A.	TOT		69.46	1.1	7.1	13	8.8
BP plc	BP		40.15	0.9	6.9	15	8.6
Royal Dutch/Shell	RD	B	44.60	1.0	6.7	14	8.6
ChevronTexaco Corporation	CVX	B	67.95	0.9	6.0	12	8.2
	<i>Median</i>			<i>1.0</i>	<i>6.9</i>	<i>14</i>	<i>8.6</i>
Energy Infrastructure							
Southern Company	SO		29.51	3.5	10.1	17	9.0
American Electric Power Co. Inc.	AEP	N	29.74	0.6	9.2	10	9.0
Enel S.p.a. (32%)	EN		26.86	2.2	8.0	32	9.0
Exelon Corporation	EXC	N	53.76	2.4	7.8	12	9.0
Dominion Resources	D		56.36	3.2	7.7	12	9.0
Duke Energy Corporation	DUK		21.16	0.7	7.6	8	9.0
El Paso Corporation	EP	N	8.50	2.3	6.2	5	7.7
	<i>Median</i>			<i>2.3</i>	<i>7.8</i>	<i>12</i>	<i>9.0</i>
Natural Gas and Oil							
ConocoPhillips	COP	B	47.58	0.7	6.6	12	8.6
ENI S.p.A.	E		77.20	1.6	5.9	12	6.7
Encana Corporation	ECA	B	30.39	2.5	5.7	12	6.7
Anadarko Petroleum Corp.	APC		46.05	3.8	5.5	10	6.7
Burlington Resources	BR	B	41.20	3.9	5.5	13	7.1
Unocal Corporation	UCL		29.59	2.3	5.1	11	6.1
Occidental Petroleum Corp.	OXY		28.35	2.2	4.8	7	5.5
Devon Energy	DVN		45.12	2.9	4.8	8	5.8
Marathon Oil Corporation	MRO	B	21.15	0.4	4.6	7	6.6
OAOLukoil	LUKOY		60.70	1.6	3.6	7	4.1
Petroleo Brasileiro S. A.	PBR	N	16.06	1.3	3.3	4	4.9
	<i>Median</i>			<i>2.2</i>	<i>5.1</i>	<i>10</i>	<i>6.6</i>
Service							
Baker Hughes Inc.	BHI		30.30	2.1	12.9	36	10.8
Schlumberger Ltd.	SLB		41.08	2.3	8.5	30	8.9
Halliburton Company	HAL		18.82	1.0	8.1	17	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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

	<i>Symbol/ Rating</i>		<i>Price (\$/sh)</i>	<i>Shares</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
			<i>8-Jan 2003</i>	<i>(mm)</i>				
Energy Infrastructure								
Kinder Morgan Energy Partners, L.P.	KMP	S	35.47	135	4,800	14.00	0.47	1.80
Kinder Morgan Management, LLC	KMR	S	32.04	40	1,300	14.00	0.47	1.68
Kinder Morgan, Inc.	KMI	S	43.43	123	5,300	8.10	0.87	1.55
Constellation Energy Group	CEG		29.60	164	4,900	20.00	0.69	1.15
Calpine Corporation	CPN	N	4.22	375	1,600	1.00	0.97	1.09
Dynegy Inc.	DYN		2.20	418	900	1.00	0.94	1.07
Williams Companies	WMB		3.14	521	1,600	1.00	0.97	1.06
AES Corporation	AES		3.33	543	1,800	1.00	0.98	1.05
Sempra Energy	SRE		25.49	207	5,300	24.30	0.64	1.02
CMS Energy Corporation	CMS		9.92	137	1,400	8.70	0.90	1.01
Valero Energy Corporation	VLO		35.53	115	4,100	40.00	0.60	0.96
Mirant Corporation	MIR		2.45	413	1,000	4.00	0.86	0.94
	<i>Total or Median</i>				<i>34,000</i>		<i>0.87</i>	<i>1.06</i>
Natural Gas and Oil								
Murphy Oil Corporation	MUR		41.57	92	3,800	41.00	0.24	1.01
Petro-Canada	PCZ		30.82	262	8,100	31.00	0.11	0.99
Ocean Energy, Inc.	OEI		19.07	178	3,400	20.00	0.30	0.97
XTO Energy Inc.	XTO	B	23.95	125	3,000	26.00	0.25	0.94
Suncor Energy	SU		15.38	454	7,000	17.00	0.25	0.93
Imperial Oil Limited (30%)	IMO		28.65	114	3,300	33.00	0.13	0.89
Norsk Hydro ASA (49%)	NHY		44.10	126	5,600	54.00	0.18	0.85
CNOOC Limited (19%)	CEO	B	26.06	78	2,030	33.00	-	0.79
PetroChina Company Ltd (10%)	PTR	B	19.84	176	3,500	30.00	0.17	0.72
	<i>Total or Median</i>				<i>39,700</i>		<i>0.18</i>	<i>0.93</i>
Coal Producers (Small Cap)								
Consol Energy Inc.	CNX		16.50	79	1,300	5.00	0.88	1.27
Penn Virginia Res. Part, L.P.	PVR		22.03	15	300	18.00	-	1.23
Peabody Energy	BTU		27.29	55	1,500	18.00	0.75	1.13
Alliance Res. Part, L.P.	ARLP		24.16	16	400	20.00	0.45	1.11
Arch Coal	ACI		20.68	48	1,000	18.00	0.61	1.06
Fording Inc (US\$)	FDG		21.60	52	1,100	23.00	0.04	0.94
Massey Energy	MEE		9.54	75	700	18.00	0.37	0.71
					<i>6,300</i>		<i>0.45</i>	<i>1.11</i>

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

	Symbol/ Rating		Price (\$/sh) 8-Jan 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Energy Infrastructure								
Kinder Morgan Energy Partners, L.P.	KMP	S	35.47	3.4	15.2	18	6.9	8.4
Kinder Morgan Management, LLC	KMR	S	32.04	3.1	14.2	16	7.6	8.4
Kinder Morgan, Inc.	KMI	S	43.43	3.7	13.7	16	0.5	8.8
Calpine Corporation	CPN	N	4.22	1.9	11.2			10.2
Constellation Energy Group	CEG		29.60	3.0	10.5	11	3.2	9.2
Dynegy Inc.	DYN		2.20	0.2	9.6		-	9.0
Williams Companies	WMB		3.14	1.9	9.5		-	9.0
AES Corporation	AES		3.33	2.8	9.5			9.0
Sempra Energy	SRE		25.49	2.6	9.2	9	3.9	9.0
CMS Energy Corporation	CMS		9.92	1.3	9.1	6	7.3	9.0
Mirant Corporation	MIR		2.45	0.4	8.5	2	-	9.0
Valero Energy Corporation	VLO		35.53	0.4	7.5	9	1.1	7.8
	<i>Median</i>			2.3	9.6	10	2.2	9.0
Natural Gas and Oil								
Suncor Energy	SU		15.38	3.3	10.0	22	1.4	10.8
Ocean Energy, Inc.	OEI		19.07	4.5	7.6	32	0.8	7.8
Petro-Canada	PCZ		30.82	1.9	7.3	19	0.8	7.4
Imperial Oil Limited (30%)	IMO		28.65	1.1	7.2	14	1.9	8.1
Murphy Oil Corporation	MUR		41.57	1.1	6.8	19	1.9	6.7
XTO Energy Inc.	XTO	B	23.95	4.1	5.5	10	0.2	5.8
CNOOC Limited (19%)	CEO	B	26.06	3.5	4.5	9	2.4	5.7
Norsk Hydro ASA (49%)	NHY		44.10	0.8	4.0	12	2.4	4.8
PetroChina Company Ltd (10%)	PTR	B	19.84	1.6	3.6	7	6.4	5.1
	<i>Median</i>			1.9	6.8	14	1.9	6.7
Coal Producers (Small Cap)								
Consol Energy Inc.	CNX		16.50	2.0	12.3	38	3.4	9.7
Penn Virginia Res. Part, L.P.	PVR		22.03	8.2	10.6	12	9.1	8.6
Peabody Energy	BTU		27.29	1.6	10.1	23	1.5	9.0
Arch Coal	ACI		20.68	1.6	9.5	116	1.1	9.0
Fording Inc (US\$)	FDG		21.60	1.9	8.4	20	1.8	9.0
Alliance Res. Part, L.P.	ARLP		24.16	1.2	7.7	20	8.3	7.0
Massey Energy	MEE		9.54	1.1	6.3	239	1.7	8.9
				1.6	9.5	23	1.8	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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	Symbol/ Rating		Price (\$/sh) 8-Jan 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Energy Infrastructure								
El Paso Energy Partners	EPN	S	30.00	57.0	1,710	5.60	0.64	2.56
Enbridge Energy Partners, L.P.	EEP	S	42.67	35.0	1,490	14.90	0.64	1.68
Enterprise Products Part (16%)	EPD		18.24	28.5	520	6.70	0.63	1.63
Plains All Amer. Pipeline	PAA		24.86	50.0	1,240	11.60	0.49	1.58
Enbridge Energy Management, L.L.C	EEQ	S	37.50	9.0	340	14.90	0.64	1.56
Northern Border Partners	NBP		37.76	44.0	1,660	20.40	0.62	1.32
TEPPCO Partners, L.P.	TPP		28.81	50.0	1,440	17.70	0.56	1.27
AmeriGas Partners, L.P.	APU		23.79	49.4	1,180	18.30	0.51	1.15
Western Gas Resources	WGR		34.75	33.8	1,170	37.60	0.28	0.94
			<i>Total or Median</i>		10,800		0.62	1.56
Natural Gas and Oil								
Dorchester Hugoton, Ltd.	DHULZ		14.95	10.7	161	11.60	(0.17)	1.34
Provident Energy Trust	PVX		7.00	63.5	450	5.00	0.24	1.31
Pogo Producing Company	PPP		36.52	64.5	2,360	35.00	0.23	1.03
Quicksilver Resources Inc.	KWK		22.30	20.4	460	22.00	0.38	1.01
Enerplus Resources Fund	ERF		17.95	75.0	1,350	18.00	0.16	1.00
Newfield Exploration Company	NFX		33.67	48.9	1,650	35.00	0.24	0.97
Pengrowth Energy Trust	PGH		9.15	110.0	1,010	9.50	0.19	0.97
Unit Corporation	UNT		16.87	40.0	680	18.00	0.03	0.94
Encore Acquisition Corp. (25%)	EAC		18.47	7.0	129	21.00	0.20	0.90
Stone Energy Company	SGY		32.96	26.5	870	42.00	0.28	0.85
Spinnaker Exploration Company	SKE		20.85	34.0	710	25.00	-	0.83
Swift Energy Company	SFY		8.79	27.1	240	13.00	0.48	0.83
Southwestern Energy Company	SWN		11.62	26.1	300	17.00	0.46	0.83
Forest Oil Corporation	FST	N	24.21	48.1	1,170	35.00	0.32	0.79
Penn Virginia Corporation	PVA		34.80	9.0	310	45.00	0.06	0.79
Magnum Hunter Resources, Inc.	MHR		5.58	69.0	390	11.00	0.45	0.73
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.94	57.3	1,370	40.00	0.13	0.65
			<i>Total or Median</i>		13,600		0.23	0.90
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		20.51	6.0	123	20.90	-	0.98
San Juan Basin Royalty Trust	SJT	B	13.66	46.6	640	17.20	-	0.79
Hugoton RoyaltyTrust (46%)	HGT		12.71	18.4	230	16.80	-	0.76
Micro Cap								
Energy Partners Ltd.(30%)	EPL	B	10.70	8.3	88	10.00	0.38	1.04
Abraxas Petroleum Corporation	ABP		0.62	30.0	19	1.00	0.91	0.97
Purcell Energy, Ltd. (US\$)	PEL.TO	N	1.84	26.6	49	2.50	0.29	0.81

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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	<i>Symbol/</i>		<i>Price</i>	<i>EV/</i>	<i>EV/</i>	<i>Dividend or</i>	<i>PV/</i>
	<i>Rating</i>		<i>8-Jan</i>	<i>Sales</i>	<i>Ebitda</i>	<i>Distribution</i>	<i>Ebitda</i>
			<i>2003</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
						<i>(%)</i>	
Energy Infrastructure							
El Paso Energy Partners	EPN	S	30.00	8.5	23.0	75	9.0
Enbridge Energy Partners, L.P.	EEP	S	42.67	2.0	15.1	32	8.4
Enterprise Products Part (16%)	EPD		18.24	1.6	14.6	25	7.6
Plains All Amer. Pipeline	PAA		24.86	0.2	14.2	20	8.6
Enbridge Energy Management, L.L.C	EEQ	S	37.50	1.8	14.0	28	9.6
Northern Border Partners	NBP		37.76	6.8	11.9	14	8.5
TEPPCO Partners, L.P.	TPP		28.81	1.0	11.5	15	8.3
AmeriGas Partners, L.P.	APU		23.79	1.6	10.3	23	9.2
Western Gas Resources	WGR		34.75	0.7	8.5	19	0.6
	<i>Median</i>			<i>1.6</i>	<i>14.0</i>	<i>23</i>	<i>8.5</i>
Natural Gas and Oil							
Unit Corporation	UNT		16.87	3.3	9.2	29	-
Quicksilver Resources Inc.	KWK		22.30	5.2	8.6	21	-
Dorchester Hugoton, Ltd.	DHULZ		14.95	6.0	8.6	11	10.3
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.94	3.8	7.3	8	5.4
Enerplus Resources Fund	ERF		17.95	4.8	6.5	11	13.0
Swift Energy Company	SFY		8.79	3.8	6.2	33	-
Forest Oil Corporation	FST	N	24.21	3.6	5.9	18	-
Provident Energy Trust	PVX		7.00	3.9	5.8	15	20.5
Encore Acquisition Corp. (25%)	EAC		18.47	4.0	5.8	12	-
Magnum Hunter Resources, Inc.	MHR		5.58	3.2	5.8	23	-
Pengrowth Energy Trust	PGH		9.15	3.7	5.7	14	16.5
Pogo Producing Company	PPP		36.52	3.6	5.7	19	0.3
Southwestern Energy Company	SWN		11.62	2.6	5.2	8	-
Penn Virginia Corporation	PVA		34.80	2.4	4.7	13	2.6
Stone Energy Company	SGY		32.96	3.2	4.5	12	-
Newfield Exploration Company	NFX		33.67	3.0	4.3	14	-
Spinnaker Exploration Company	SKE		20.85	3.0	3.5	13	-
	<i>Median</i>			<i>3.6</i>	<i>5.8</i>	<i>14</i>	<i>-</i>
Natural Gas Royalty Trusts							
Cross Timbers Royalty Trust	CRT		20.51	6.3	8.8	9	10.6
San Juan Basin Royalty Trust	SJT	B	13.66	4.9	6.0	8	12.4
Hugoton RoyaltyTrust (46%)	HGT		12.71	4.4	5.9	8	12.1
Micro Cap							
Abraxas Petroleum Corporation	ABP		0.62	5.6	9.2	-	9.5
Purcell Energy, Ltd. (US\$)	PEL.TO	N	1.84	4.2	6.4	22	-
Energy Partners Ltd.(30%)	EPL	B	10.70	3.1	6.1	-	5.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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