

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 18, 2003

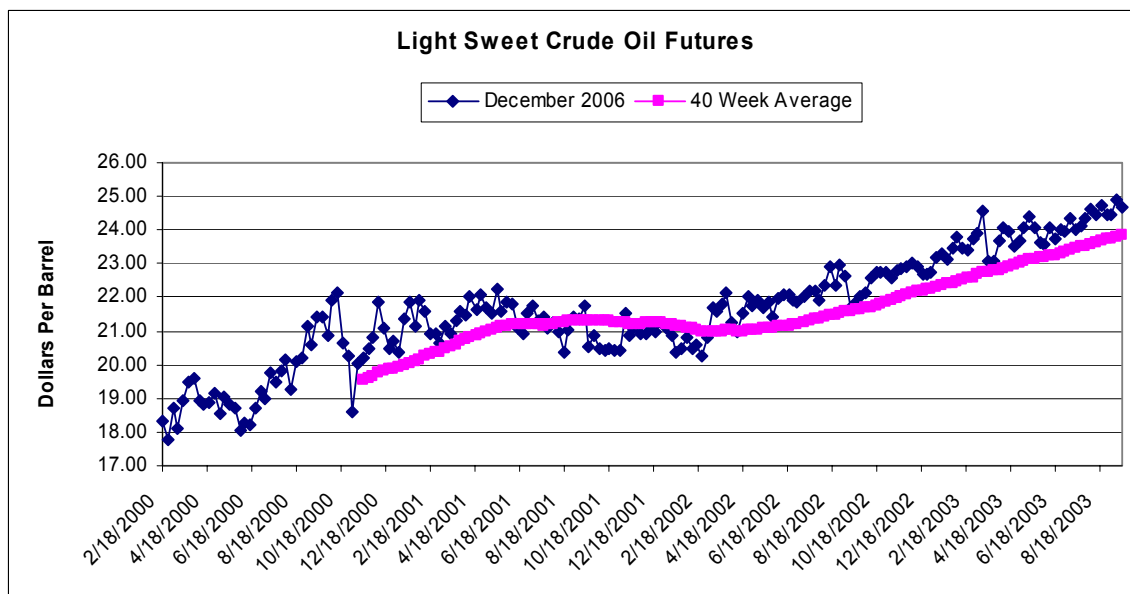
New High for Oil Futures

Summary and Recommendation

Oil futures march to regular new highs for contracts that expire in August 2005 and beyond. That supports our buy recommendation of oil producers **Canadian Oil Sands Trust (COSWF)**, **CNOOC Ltd (CEO)** and **Encore Acquisition (EAC)**. That trend is important to keep in mind when short-term price may be lower seasonally while we are in between the higher energy consumption periods of summer and winter. We believe we are now in a rising phase of the long-term oil price cycle that may last a decade. While we are not looking for 25% per year that oil price increased from 1970 to 1980, it might be 10-15% per year 2000-2010. The 40 week moving average of 2006 futures is currently rising at 10% per year.

Rising Long-Term Oil Futures

The decade of the 2000s is proving to be one of rising energy commodity prices so far. To pick an oil futures contract that has been trading for practically the whole decade, i.e. December 2006, we see that today's price of near \$25 a barrel is up 10% per year from \$18 in early 2000 (see table). The initial rise was faster during the California electricity shortage and then flattened for awhile. The pace resumed in early 2002 and hardly skipped a beat at the end of the Saddam regime in Iraq in early 2003.



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Stocks Concentrated on Oil Production

Taking the same approach we used a week ago for natural gas producers we screen our coverage of about 100 stocks to find 24 concentrated more than 50% on oil production (see Table). We treat natural gas production outside of North American like oil on the assumption that long-term pricing is related to oil.

Oil and Overseas Natural Gas Producers Ranked in Ascending Order of Concentration

	<i>Symbol/ Rating</i>	<i>Oil & Oseas Gas/ Ebitda (%)</i>	<i>Adjusted Reserves/ Production NTM</i>	<i>PV/ Ebitda NTM</i>	<i>9/17/03</i>	
					<i>EV/ Boe</i>	<i>McDep Ratio</i>
Denbury Resources Inc.	DNR	54	8.3	4.9	9.35	0.87
Royal Dutch/Shell	RD B	54	9.7	7.3	4.99	0.85
Imperial Oil Limited (30%)	IMO	55	11.4	7.4	6.62	1.04
Petro-Canada	PCZ	56	7.0	4.9	5.73	0.91
ConocoPhillips	COP B	56	11.1	6.8	5.08	0.87
Exxon Mobil Corporation	XOM	57	11.0	7.3	7.28	1.05
Murphy Oil Corporation	MUR	58	7.7	8.1	17.11	1.28
BP plc	BP	59	11.1	7.9	7.12	0.87
Pengrowth Energy Trust	PGH	61	10.2	6.2	8.35	1.10
ENI S.p.A.	E	63	10.1	4.7	5.10	0.87
Pogo Producing Company	PPP	63	5.8	5.2	16.39	1.14
Swift Energy Company	SFY	63	12.0	7.0	7.04	0.92
Unocal Corporation	UCL	66	8.4	6.4	9.80	0.86
Vintage Petroleum, Inc.	VPI	66	15.0	6.1	3.55	0.73
Norsk Hydro ASA (49%)	NHY	68	10.0	4.0	5.14	0.91
ChevronTexaco Corporation	CVX B	68	10.1	8.1	7.31	0.81
Total S.A.	TOT	73	9.3	7.3	8.20	0.93
PetroChina Company Ltd (10%)	PTR B	78	16.0	5.5	3.74	0.69
Occidental Petroleum Corp.	OXY	79	10.7	6.7	8.77	1.00
Encore Acquisition Corp. (40%)	EAC B	81	12.9	6.2	7.01	0.86
Suncor Energy	SU	85	19.0	8.1	5.23	0.80
Petroleo Brasileiro S. A.	PBR	88	11.3	4.6	3.60	0.82
CNOOC Limited (19%)	CEO B	100	10.7	6.9	10.03	0.84
Canadian Oil Sands Trust (US\$)	COSWF B	110	20.0	9.3	5.03	0.71

The three featured stocks are among the most concentrated. The artificially high ratio for Canadian Oil Sands Trust reflects the consumption of natural gas as a fuel in oil production. Major oil company buy recommendations also appear on the list implying that for those stocks, oil and overseas natural gas production generate more cash flow and value than North American natural gas and refining/marketing businesses combined. Lastly, our primary valuation measure, the McDep Ratio supports our recommendations and points to alternatives that may also be attractive investments.

Kurt H. Wulff, CFA

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

	Symbol/ Rating	Price (\$/sh) 17-Sep 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	36.84	6,687	246,000	35.00	0.10	1.05
Total S.A.	TOT	77.75	1,276	99,200	85.00	0.19	0.93
BP plc	BP	42.65	3,694	158,000	50.00	0.15	0.87
Royal Dutch/Shell	RD B	45.08	3,473	157,000	55.00	0.18	0.85
ChevronTexaco Corporation	CVX B	72.27	1,064	76,900	95.00	0.22	0.81
<i>Total or Median</i>				<i>737,000</i>		<i>0.18</i>	<i>0.87</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	56.73	92	5,240	41.00	0.26	1.28
Imperial Oil Limited (30%)	IMO	37.58	113	4,260	36.00	0.12	1.04
Norsk Hydro ASA (49%)	NHY	52.90	126	6,690	60.00	0.27	0.91
Petro-Canada	PCZ	39.84	265	10,560	45.00	0.19	0.91
Valero Energy Corporation	VLO	37.89	114	4,320	50.00	0.50	0.88
ConocoPhillips	COP B	55.82	681	38,000	70.00	0.38	0.87
OAo Lukoil	LUKOY	76.80	206	16,000	90.00	0.12	0.87
ENI S.p.A.	E	76.50	750	57,400	90.00	0.14	0.87
Petroleo Brasileiro S. A.	PBR	22.95	1,096	25,200	30.00	0.25	0.82
Suncor Energy	SU	19.05	476	9,070	25.00	0.14	0.80
Marathon Oil Corporation	MRO B	28.09	310	8,710	40.00	0.31	0.79
PetroChina Company Ltd (10%)	PTR B	32.61	176	5,730	50.00	0.11	0.69
<i>Total or Median</i>				<i>186,000</i>		<i>0.19</i>	<i>0.87</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	44.72	65	2,880	38.00	0.22	1.14
Occidental Petroleum Corp.	OXY	34.93	383	13,400	35.00	0.38	1.00
Apache Corporation	APA	66.55	159	10,600	70.00	0.20	0.96
Encana Corporation	ECA B	35.71	472	16,800	40.00	0.20	0.91
XTO Energy Inc.	XTO B	20.04	184	3,690	24.00	0.25	0.88
Unocal Corporation	UCL	31.21	255	8,000	40.00	0.35	0.86
Devon Energy	DVN	47.95	163	7,800	65.00	0.42	0.85
CNOOC Limited (19%)	CEO B	33.71	78	2,630	40.00	-	0.84
Burlington Resources	BR B	45.18	202	9,100	60.00	0.27	0.82
Anadarko Petroleum Corp.	APC B	41.55	252	10,500	60.00	0.32	0.79
Pioneer Natural Resources Company	PXD	24.00	119	2,860	35.00	0.33	0.79
Canadian Natural Resources Limited	CNQ	38.55	139	5,360	55.00	0.29	0.79
<i>Total or Median</i>				<i>94,000</i>		<i>0.28</i>	<i>0.85</i>
Service							
Baker Hughes Inc.	BHI	30.65	339	10,400	25.00	0.09	1.21
Halliburton Company	HAL	24.13	434	10,500	22.00	0.25	1.08
Schlumberger Ltd.	SLB	48.25	581	28,000	44.00	0.22	1.07

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

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

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Table 1-2
Energy Producers
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 17-Sep 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Mega Cap								
Exxon Mobil Corporation	XOM	36.84	1.2	7.6	15	2.7	7.3	
BP plc	BP	42.65	0.8	6.9	15	3.7	7.9	
Total S.A.	TOT	77.75	1.1	6.8	13	4.5	7.3	
ChevronTexaco Corporation	CVX	B	72.27	0.9	6.6	12	4.0	8.1
Royal Dutch/Shell	RD	B	45.08	1.0	6.2	12	4.4	7.3
	<i>Median</i>			<i>1.0</i>	<i>6.8</i>	<i>13</i>	<i>4.0</i>	<i>7.3</i>
Producer/Refiners - Large Cap and Mid Cap								
Murphy Oil Corporation	MUR	56.73	1.7	10.4	37	1.4	8.1	
Imperial Oil Limited (30%)	IMO	37.58	1.1	7.7	14	1.5	7.4	
Suncor Energy	SU	19.05	2.4	6.5	12	0.7	8.1	
ConocoPhillips	COP	B	55.82	0.7	6.0	9	2.9	6.8
Marathon Oil Corporation	MRO	B	28.09	0.4	5.4	13	3.6	6.8
Valero Energy Corporation	VLO	37.89	0.3	4.8	5	1.1	5.5	
Petro-Canada	PCZ	39.84	1.4	4.5	11	0.7	4.9	
ENI S.p.A.	E	76.50	1.7	4.1	9	5.6	4.7	
PetroChina Company Ltd (10%)	PTR	B	32.61	2.1	3.8	8	6.3	5.5
Petroleo Brasileiro S. A.	PBR	22.95	1.4	3.8	5	3.7	4.6	
OAOLukoil	LUKOY	76.80	1.1	3.7	6	2.5	4.2	
Norsk Hydro ASA (49%)	NHY	52.90	0.8	3.6	10	2.8	4.0	
	<i>Median</i>			<i>1.3</i>	<i>4.6</i>	<i>9</i>	<i>2.7</i>	<i>5.5</i>
Independent Natural Gas and Oil								
XTO Energy Inc.	XTO	B	20.04	5.1	8.3	19	0.2	9.4
Pioneer Natural Resources Company	PXD	24.00	5.0	6.8	22	-	8.6	
Occidental Petroleum Corp.	OXY	34.93	2.5	6.7	12	3.0	6.7	
Apache Corporation	APA	66.55	4.5	6.2	14	0.6	6.5	
Pogo Producing Company	PPP	44.72	3.8	6.0	17	0.3	5.2	
CNOOC Limited (19%)	CEO	B	33.71	4.5	5.8	12	4.7	6.9
Unocal Corporation	UCL	31.21	2.1	5.5	15	2.6	6.4	
Anadarko Petroleum Corp.	APC	B	41.55	3.6	5.4	10	1.0	6.8
Burlington Resources	BR	B	45.18	3.7	5.4	12	1.3	6.6
Encana Corporation	ECA	B	35.71	2.3	4.9	12	0.8	5.3
Devon Energy	DVN	47.95	2.9	4.5	7	-	5.3	
Canadian Natural Resources Limited	CNQ	38.55	2.2	3.6	7	1.1	4.5	
	<i>Median</i>			<i>3.6</i>	<i>5.7</i>	<i>12</i>	<i>0.9</i>	<i>6.6</i>
Service								
Baker Hughes Inc.	BHI	30.65	2.2	13.0	36	1.5	10.8	
Halliburton Company	HAL	24.13	1.1	9.7	22	2.1	9.0	
Schlumberger Ltd.	SLB	48.25	2.6	9.6	35	1.6	8.9	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table 2-1
Energy Pipeline and Power Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 17-Sep 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Large Cap Power							
Duke Energy Corporation	DUK	17.74	832	14,800	16.00	0.69	1.03
Southern Company	SO	28.87	696	20,100	28.00	0.43	1.02
Exelon Corporation	EXC	61.59	325	20,000	65.00	0.51	0.97
American Electric Power Co. Inc.	AEP	29.08	348	10,100	35.00	0.60	0.93
Enel S.p.a. (32%)	EN	30.79	388	12,000	37.00	0.40	0.90
Dominion Resources	D	61.00	294	17,900	76.00	0.44	0.89
	<i>Total or Median</i>			<i>94,900</i>		<i>0.47</i>	<i>0.95</i>
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	41.89	138	5,760	14.00	0.47	2.06
Kinder Morgan Management, LLC	KMR S	37.60	46	1,730	14.00	0.47	1.89
Kinder Morgan, Inc.	KMI S	52.48	123	6,460	14.00	0.80	1.54
Williams Companies	WMB	8.94	518	4,630	1.00	0.97	1.25
Constellation Energy Group	CEG	36.28	164	5,950	25.00	0.61	1.18
AES Corporation	AES	7.42	558	4,140	1.00	0.98	1.12
Calpine Corporation	CPN	5.15	381	1,960	1.00	0.98	1.10
Dynegy Inc.	DYN	3.57	418	1,490	1.00	0.97	1.08
CMS Energy Corporation	CMS	7.56	139	1,050	5.00	0.93	1.04
Sempra Energy	SRE	29.40	206	6,060	30.00	0.59	0.99
El Paso Corporation	EP	7.75	589	4,600	10.00	0.79	0.95
	<i>Total or Median</i>			<i>43,830</i>		<i>0.80</i>	<i>1.12</i>
Small Cap Pipeline							
Enterprise Products Part (44%)	EPD	22.20	96	2,130	8.50	0.49	1.83
Gulfterra Energy Partners	GTM S	40.03	55	2,200	15.70	0.56	1.67
Enbridge Energy Partners, L.P.	EEP S	48.46	39	1,890	19.00	0.57	1.67
Plains All Amer. Pipeline, L.P.	PAA	30.75	50	1,540	15.00	0.44	1.59
Enbridge Energy Management, L.L.C	EEQ S	44.05	9	420	19.00	0.57	1.58
TEPPCO Partners, L.P.	TPP	35.25	58	2,040	18.00	0.52	1.46
Northern Border Partners	NBP	43.91	47	2,040	20.00	0.62	1.45
Magellan Midstream Partners, L.P.	MMP	44.20	27	1,210	29.00	0.38	1.33
AmeriGas Partners, L.P.	APU	24.92	52	1,310	20.00	0.46	1.14
Western Gas Resources	WGR	37.67	37	1,390	40.00	0.27	0.96
	<i>Total or Median</i>			<i>64,600</i>		<i>0.54</i>	<i>1.46</i>
Coal							
Arch Coal	ACI	22.20					
Peabody Energy	BTU	31.03		Update			
Massey Energy	MEE	13.71					
Penn Virginia Res. Part, L.P.	PVR	29.10			Pending		
Consol Energy Inc.	CNX	18.50					
Alliance Res. Part, L.P.	ARLP	28.20					
	<i>Total or Median</i>						

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

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Table 3-1
Independent Natural Gas and Oil Producers - Small Cap
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 17-Sep 2003</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>	
Short Life								
Dorchester Minerals, L.P.	DMLP	17.75	27.0	480	13.00	-	1.36	
Southwestern Energy Company	SWN	17.55	36.0	630	17.00	0.30	1.02	
Newfield Exploration Company	NFX	37.75	51.7	1,950	40.00	0.31	0.96	
Energy Partners Ltd.	EPL	B	11.06	37.3	412	12.00	0.26	0.94
Spinnaker Exploration Company	SKE	22.87	33.8	770	25.00	-	0.91	
Denbury Resources Inc.	DNR	12.25	55.0	670	15.00	0.29	0.87	
Stone Energy Company	SGY	37.75	26.5	1,000	46.00	0.27	0.87	
Cimarex Energy Company	XEC	20.68	41.0	850	24.00	0.03	0.87	
Wesport Resources Corporation	WRC	23.20	68.0	1,580	30.00	0.29	0.84	
Chesapeake Energy Corporation	CHK	10.13	220	2,230	14.00	0.38	0.83	
The Houston Exploraton Company	THX	34.66	31.0	1,070	45.00	0.16	0.81	
St. Mary Land and Exploration Company	SM	26.15	29.0	760	35.00	0.11	0.77	
Forest Oil Corporation	FST	22.49	48.2	1,080	35.00	0.33	0.76	
<i>Total or Median</i>				<i>13,500</i>		<i>0.27</i>	<i>0.87</i>	
Long Life								
Ultra Petroleum Corp.	UPL	13.48	78.0	1,050	7.00	0.15	1.79	
Unit Corporation	UNT	19.90	43.6	870	18.00	0.04	1.10	
Quicksilver Resources Inc.	KWK	24.64	20.4	500	25.00	0.35	0.99	
Penn Virginia Corporation	PVA	43.56	9.0	390	45.00	0.06	0.97	
Swift Energy Company	SFY	13.71	27.2	370	16.00	0.43	0.92	
Evergreen Resources, Inc.	EVG	27.04	44.0	1,190	30.00	0.10	0.91	
Encore Acquisition Corp. (40%)	EAC	B	19.90	11.2	223	24.00	0.18	0.86
Magnum Hunter Resources, Inc.	MHR	7.72	69.0	530	11.00	0.45	0.84	
Vintage Petroleum, Inc.	VPI	10.96	63.0	690	20.00	0.40	0.73	
<i>Total or Median</i>				<i>5,800</i>		<i>0.18</i>	<i>0.92</i>	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	25.80	83.7	2,160	20.00	0.16	1.24	
Provident Energy Trust	PVX	7.82	68.8	540	6.00	0.25	1.23	
Pengrowth Energy Trust	PGH	12.44	112.0	1,390	11.00	0.20	1.10	
Canadian Oil Sands Trust (US\$)	COSWF	B	28.93	86.3	2,500	45.00	0.19	0.71
<i>Total or Median</i>				<i>6,600</i>		<i>0.19</i>	<i>1.17</i>	
Natural Gas Royalty Trusts								
Hugoton Royalty Trust (46%)	HGT	18.87	18.4	350	15.40	-	1.22	
Cross Timbers Royalty Trust	CRT	21.14	6.0	127	19.70	-	1.07	
San Juan Basin Royalty Trust	SJT	B	17.63	46.6	820	17.80	-	0.99
Micro Cap								
Abraxas Petroleum Corporation	ABP	0.99	30.0	30	1.00	0.85	1.00	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.83	27.9	51	2.80	0.32	0.76	

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Independent Natural Gas and Oil Producers - Small Cap
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	Symbol/ Rating	Price (\$/sh) 17-Sep 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Short Life							
	DMLP	17.75	8.5	10.6	14	8.5	7.7
	SWN	17.55	3.0	6.3	13	-	6.1
	FST	22.49	3.5	5.7	19	-	7.5
	CHK	10.13	3.8	5.5	12	1.2	6.6
	EPL	B 11.06	3.1	5.3	28	-	5.6
	WRC	23.20	3.6	5.1	16	-	6.1
	XEC	20.68	3.2	4.7	13	-	5.4
	SM	26.15	2.9	4.5	13	0.4	5.9
	DNR	12.25	3.0	4.2	9	-	4.9
	SGY	37.75	3.0	4.0	9	-	4.6
	NFX	37.75	2.9	3.7	8	-	3.9
	THX	34.66	2.9	3.5	9	-	4.4
	SKE	22.87	3.1	3.5	13	-	3.8
	<i>Median</i>		<i>3.1</i>	<i>4.7</i>	<i>13</i>	<i>-</i>	<i>5.6</i>
Long Life							
	UPL	13.48	12.0	19.5	38	-	10.9
	EVG	27.04	7.1	10.2	18	-	11.2
	UNT	19.90	3.7	8.5	22	-	7.7
	KWK	24.64	4.8	7.2	14	-	7.3
	SFY	13.71	4.2	6.5	23	-	7.0
	MHR	7.72	3.3	5.7	15	-	6.8
	PVA	43.56	3.0	5.5	14	2.1	5.7
	EAC	B 19.90	3.7	5.3	12	-	6.2
	VPI	10.96	2.4	4.4	39	1.5	6.1
	<i>Median</i>		<i>3.7</i>	<i>6.5</i>	<i>18</i>	<i>-</i>	<i>7.0</i>
Canadian Royalty Trusts							
	ERF	25.80	6.8	9.1	14	12.4	7.4
	PGH	12.44	4.6	6.8	13	13.7	6.2
	COSWF	B 28.93	3.6	6.6	7	5.0	9.3
	PVX	7.82	4.1	5.9	13	16.6	4.8
Natural Gas Royalty Trusts							
	CRT	21.14	7.1	10.2	10	9.6	9.5
	HGT	18.87	6.8	9.2	11	9.3	7.5
	SJT	B 17.63	6.3	7.8	9	11.1	7.8
Micro Cap							
	ABP	0.99	6.9	13.3		-	13.3
	PEL.TO	1.83	3.5	5.3	18	-	6.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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