

A New Currency Warning

Summary and Recommendation

A renewed weakening of the dollar supports our case for energy investment though the fluctuating exchange value of the dollar is less of a concern to long-term investors than the persistently declining purchasing power of the dollar. Federal Reserve data show that after adjusting for consumer price inflation, the exchange value of dollar for the past thirty years has fluctuated from 15% below to 30% above the mean index value. In contrast Bureau of Labor Statistics data on the Consumer Price Index show that the dollar has lost 77% of its purchasing power over the same thirty-year period. Oil and gas stocks, particularly non- U.S. recommendations, diversify exchange value risk and provide inflation protection. At the same time a weakening dollar might also add further incentive for **Royal Dutch (RD)**, a non-U.S recommendation, to buy recommended **Anadarko (APC)** as suggested by press reports. We think that could be a good deal for both parties at an Anadarko stock price of \$60 per share.

Setting Up for an Energy Price Surprise

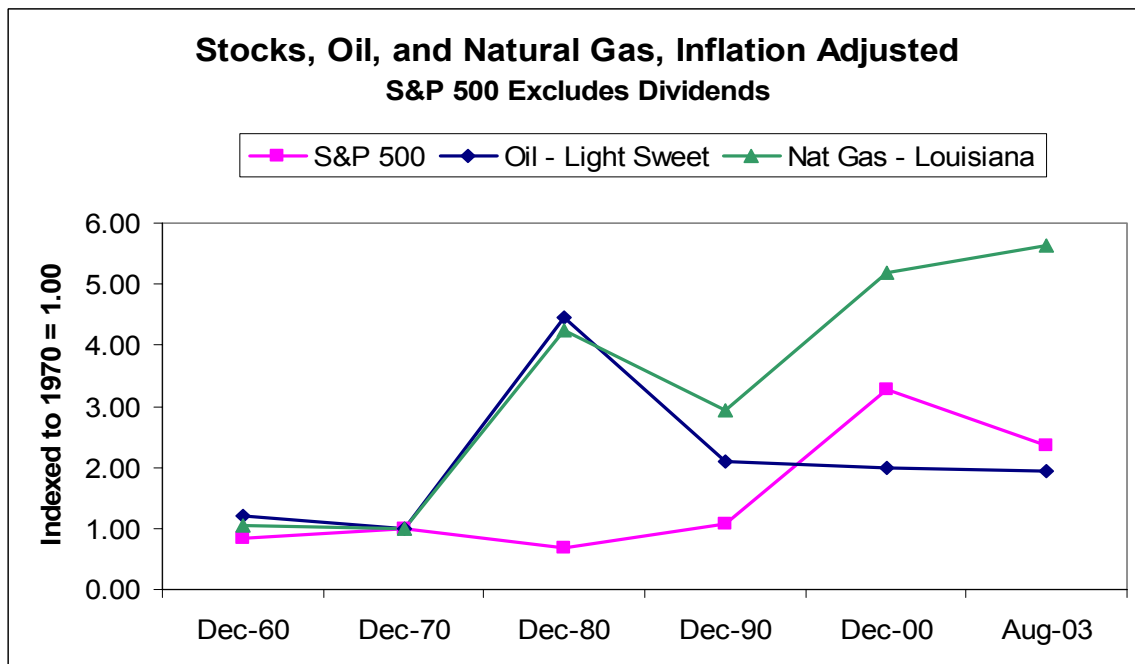
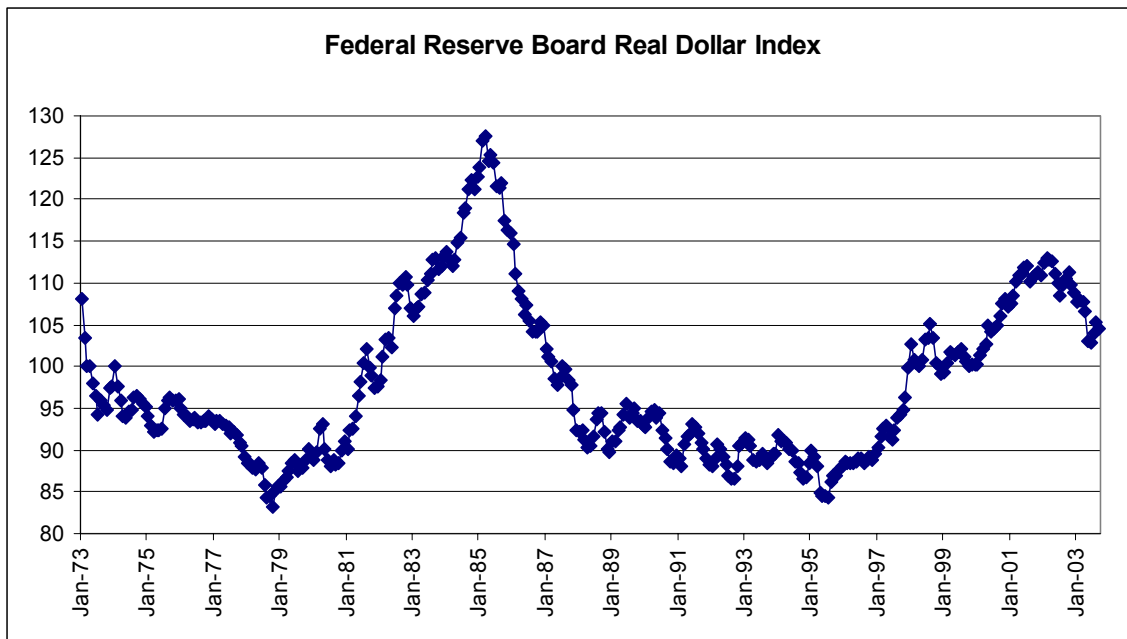
Trade, fiscal and monetary conditions seem to be aligning for sharp energy price moves over the next few years. Volatile exchange rates may be symptomatic of unstable conditions. The dollar went down in the 1970s, a time when energy prices went up. The dollar recovered in the 1980s, a time when energy prices declined. Despite the fluctuations, the real exchange value of the dollar has not shown much of a trend up or down (see Chart).

Dollar inflation risk seems to be greater than dollar exchange rate risk. The dollar has held its exchange value in part because other currencies have also lost value through price inflation. As a result, inflation protection is even more important than exchange rate protection. Since 1970 oil has offered inflation protection comparable to the stock market without dividends with oil way ahead in the 1970s and stocks way ahead in the 1990s (see Chart). Looking to the future we think we are in a period where oil will deliver valuable inflation protection. Natural gas, our cleanest fuel, appears likely to continue to offer even better inflation protection than oil.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 25, 2003



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Currency May Make Anadarko More Tempting to Royal Dutch

Euro-based companies might see dollar-based companies more attractive for acquisition at today's higher rate for the euro or lower rate for the dollar. The London Sunday Times reports that recommended Royal Dutch may be contemplating a bid of \$19.5 billion for recommended Anadarko.

Our price for the possible deal is our net present value of \$60 a share. That would be a McDep Ratio of 1.0. The price could be as low as \$55 and still be within a margin of error for our estimate. The total value of the supposed deal reported in the newspaper implies a price of about \$49 a share. As a result the newspaper story is plausible, but we would expect the final price to be higher.

In McDep analysis we estimate total present value of about \$22.2 billion. Thus, the hypothetical \$19.5 billion deal implies a McDep Ratio of about 0.88. If the buyer were to increase the total payment by 14%, the ultimate takeover would be priced at present value, or a McDep Ratio of 1.0.

Where can one find \$22.2 billion in our valuation tables? It takes some calculation. We print net present value of \$60.00 per share, shares of 252 million and a ratio of Debt/Present Value of 0.32 (see Table 1-1). \$60.00 times 252 million divided by (1.00-0.32) equals \$22.2 billion.

How do we get a price per share for \$19.5 billion quoted by the London newspaper? One approach estimates Debt at \$7.1 billion. (\$22.2 billion of present value times 0.32 equals \$7.1 billion.) Subtract Debt from \$19.5 billion to derive \$12.4 billion for equity. Divide that by 252 million shares and the newspaper quote works out to about \$49 a share.

Anadarko Makes Strategic Sense for Royal Dutch

If Royal Dutch were to acquire Anadarko, is that negative for our buy recommendation of RD? We believe that producing property acquisitions are strategically valuable for a company that can tap vastly unused debt capacity at a time that oil and gas assets appear to be in a multi-year upward revaluation.

As a current and prospective leader in the development of liquefied natural gas, Royal Dutch also has a strong reason to bolster its holdings of the conventional resource in North America. LNG, like nuclear power at one time, looks most promising as a future energy source. Yet, by the time all those billions are invested, costs may be much higher as a result of regulatory complications and inflation. Our experience tells us that the better that LNG appears to be, the better that the conventional resource really is.

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) 24-Sep 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	36.90	6,687	247,000	35.00	0.10	1.05
Total S.A.	TOT	76.84	1,276	98,000	85.00	0.19	0.92
BP plc	BP	42.65	3,694	158,000	50.00	0.15	0.87
Royal Dutch/Shell	RD B	45.00	3,473	156,000	55.00	0.18	0.85
ChevronTexaco Corporation	CVX B	72.33	1,064	77,000	95.00	0.22	0.82
<i>Total or Median</i>				<i>736,000</i>		<i>0.18</i>	<i>0.87</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	59.83	92	5,530	41.00	0.26	1.34
Imperial Oil Limited (30%)	IMO	37.81	113	4,290	36.00	0.12	1.04
Petro-Canada	PCZ	40.35	265	10,690	45.00	0.19	0.92
Norsk Hydro ASA (49%)	NHY	52.74	126	6,670	60.00	0.27	0.91
OAo Lukoil	LUKOY	77.60	206	16,000	90.00	0.12	0.88
Valero Energy Corporation	VLO	37.70	114	4,300	50.00	0.50	0.88
ENI S.p.A.	E	77.15	750	57,900	90.00	0.14	0.88
ConocoPhillips	COP B	55.75	681	38,000	70.00	0.38	0.87
Petroleo Brasileiro S. A.	PBR	22.44	1,096	24,600	30.00	0.25	0.81
Marathon Oil Corporation	MRO B	28.35	310	8,790	40.00	0.31	0.80
Suncor Energy	SU	18.66	476	8,880	25.00	0.14	0.78
PetroChina Company Ltd (10%)	PTR B	32.85	176	5,780	50.00	0.11	0.70
<i>Total or Median</i>				<i>186,000</i>		<i>0.19</i>	<i>0.88</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	45.94	65	2,960	38.00	0.22	1.16
Occidental Petroleum Corp.	OXY	35.11	383	13,500	35.00	0.38	1.00
Apache Corporation	APA	69.09	159	11,000	70.00	0.20	0.99
Encana Corporation	ECA B	37.01	472	17,500	40.00	0.20	0.94
XTO Energy Inc.	XTO B	21.27	184	3,910	24.00	0.25	0.91
Unocal Corporation	UCL	31.69	255	8,100	40.00	0.35	0.87
Burlington Resources	BR B	48.48	202	9,800	60.00	0.27	0.86
Devon Energy	DVN	49.14	163	8,000	65.00	0.42	0.86
CNOOC Limited (19%)	CEO B	34.15	78	2,670	40.00	-	0.86
Anadarko Petroleum Corp.	APC B	44.16	252	11,100	60.00	0.32	0.82
Pioneer Natural Resources Company	PXD	25.50	119	3,040	35.00	0.33	0.82
Canadian Natural Resources Limited	CNQ	40.68	139	5,660	55.00	0.29	0.82
<i>Total or Median</i>				<i>97,000</i>		<i>0.28</i>	<i>0.86</i>
Service							
Baker Hughes Inc.	BHI	30.87	339	10,500	25.00	0.09	1.22
Schlumberger Ltd.	SLB	50.93	581	29,600	44.00	0.22	1.12
Halliburton Company	HAL	25.01	434	10,800	22.00	0.25	1.10

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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September 25, 2003

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

	Symbol/ Rating	Price (\$/sh) 24-Sep 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Mega Cap								
Exxon Mobil Corporation	XOM	36.90	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	76.84	1.1	6.7	12	4.6	7.3	
ChevronTexaco Corporation	CVX	B	72.33	0.9	6.6	12	4.0	8.1
Royal Dutch/Shell	RD	B	45.00	1.0	6.2	12	4.4	7.3
	<i>Median</i>			<i>1.0</i>	<i>6.7</i>	<i>12</i>	<i>4.0</i>	<i>7.3</i>
Producer/Refiners - Large Cap and Mid Cap								
Murphy Oil Corporation	MUR	59.83	1.7	10.8	39	1.3	8.1	
Imperial Oil Limited (30%)	IMO	37.81	1.2	7.7	14	1.5	7.4	
Suncor Energy	SU	18.66	2.3	6.4	11	0.7	8.1	
ConocoPhillips	COP	B	55.75	0.7	6.0	9	2.9	6.8
Marathon Oil Corporation	MRO	B	28.35	0.4	5.4	13	3.5	6.8
Valero Energy Corporation	VLO	37.70	0.3	4.8	5	1.1	5.5	
Petro-Canada	PCZ	40.35	1.4	4.5	11	0.7	4.9	
ENI S.p.A.	E	77.15	1.7	4.1	9	5.5	4.7	
PetroChina Company Ltd (10%)	PTR	B	32.85	2.2	3.9	8	6.2	5.5
Petroleo Brasileiro S. A.	PBR	22.44	1.4	3.7	5	3.8	4.6	
OAo Lukoil	LUKOY	77.60	1.1	3.7	6	2.5	4.2	
Norsk Hydro ASA (49%)	NHY	52.74	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	21.27	5.3	8.6	21	0.2	9.4
Pioneer Natural Resources Company	PXD	25.50	5.2	7.0	23	-	8.6	
Occidental Petroleum Corp.	OXY	35.11	2.5	6.7	12	3.0	6.7	
Apache Corporation	APA	69.09	4.6	6.4	15	0.6	6.5	
Pogo Producing Company	PPP	45.94	3.9	6.1	18	0.3	5.2	
CNOOC Limited (19%)	CEO	B	34.15	4.5	5.9	12	4.7	6.9
Burlington Resources	BR	B	48.48	3.8	5.7	13	1.2	6.6
Anadarko Petroleum Corp.	APC	B	44.16	3.7	5.6	10	0.9	6.8
Unocal Corporation	UCL	31.69	2.1	5.5	15	2.5	6.4	
Encana Corporation	ECA	B	37.01	2.4	5.0	13	0.8	5.3
Devon Energy	DVN	49.14	3.0	4.6	7	-	5.3	
Canadian Natural Resources Limited	CNQ	40.68	2.3	3.7	7	1.0	4.5	
	<i>Median</i>			<i>3.8</i>	<i>5.8</i>	<i>13</i>	<i>0.8</i>	<i>6.6</i>
Service								
Baker Hughes Inc.	BHI	30.87	2.2	13.1	37	1.5	10.8	
Schlumberger Ltd.	SLB	50.93	2.7	10.0	37	1.5	8.9	
Halliburton Company	HAL	25.01	1.2	9.9	22	2.0	9.0	

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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Meter Reader

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September 25, 2003

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

	Symbol/ Rating	Price (\$/sh) 24-Sep 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Large Cap Power							
Duke Energy Corporation	DUK	17.91	832	14,900	16.00	0.69	1.04
Southern Company	SO	28.71	696	20,000	28.00	0.43	1.01
Exelon Corporation	EXC	61.63	325	20,000	65.00	0.51	0.97
American Electric Power Co. Inc.	AEP	28.65	348	10,000	35.00	0.60	0.93
Enel S.p.a. (32%)	EN	31.09	388	12,100	37.00	0.40	0.91
Dominion Resources	D	60.62	294	17,800	76.00	0.44	0.89
<i>Total or Median</i>				<i>94,800</i>		<i>0.47</i>	<i>0.95</i>
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	42.09	138	5,790	14.00	0.47	2.07
Kinder Morgan Management, LLC	KMR S	37.20	46	1,710	14.00	0.47	1.88
Kinder Morgan, Inc.	KMI S	53.63	123	6,600	14.00	0.80	1.56
Williams Companies	WMB	9.25	518	4,790	1.00	0.97	1.26
Constellation Energy Group	CEG	35.84	164	5,880	25.00	0.61	1.17
AES Corporation	AES	7.06	558	3,940	1.00	0.98	1.12
Calpine Corporation	CPN	5.06	381	1,930	1.00	0.98	1.10
Dynegy Inc.	DYN	3.75	418	1,570	1.00	0.97	1.09
CMS Energy Corporation	CMS	7.69	139	1,070	5.00	0.93	1.04
Sempra Energy	SRE	29.49	206	6,070	30.00	0.59	0.99
El Paso Corporation	EP	7.80	589	4,600	10.00	0.79	0.95
<i>Total or Median</i>				<i>43,950</i>		<i>0.80</i>	<i>1.12</i>
Small Cap Pipeline							
Enterprise Products Part (44%)	EPD	22.85	96	2,190	8.50	0.49	1.87
Enbridge Energy Partners, L.P.	EEP S	48.99	39	1,910	19.00	0.57	1.68
Gulfterra Energy Partners	GTM S	40.38	55	2,220	15.70	0.56	1.68
Enbridge Energy Management, L.L.C	EEQ S	44.39	9	420	19.00	0.57	1.58
Plains All Amer. Pipeline, L.P.	PAA	30.48	50	1,520	15.00	0.44	1.57
TEPPCO Partners, L.P.	TPP	35.27	58	2,050	18.00	0.52	1.46
Northern Border Partners	NBP	43.05	47	2,000	20.00	0.62	1.44
Magellan Midstream Partners, L.P.	MMP	46.29	27	1,260	29.00	0.38	1.37
AmeriGas Partners, L.P.	APU	25.02	52	1,310	20.00	0.46	1.14
Western Gas Resources	WGR	38.49	37	1,420	40.00	0.27	0.97
<i>Total or Median</i>				<i>64,850</i>		<i>0.54</i>	<i>1.45</i>
Coal							
Arch Coal	ACI	22.34					
Peabody Energy	BTU	31.40		Update			
Massey Energy	MEE	13.72					
Penn Virginia Res. Part, L.P.	PVR	29.20			Pending		
Consol Energy Inc.	CNX	18.95					
Alliance Res. Part, L.P.	ARLP	28.96					
<i>Total or Median</i>							

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September 25, 2003

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) 24-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	17.07	27.0	460	13.00	-	1.31	
Southwestern Energy Company	SWN	17.28	36.0	620	17.00	0.30	1.01	
Newfield Exploration Company	NFX	37.93	51.7	1,960	40.00	0.31	0.96	
Energy Partners Ltd.	EPL	B	11.33	37.3	422	12.00	0.26	0.96
Spinnaker Exploration Company	SKE	23.91	33.8	810	25.00	-	0.96	
Denbury Resources Inc.	DNR	12.50	55.0	690	15.00	0.29	0.88	
Stone Energy Company	SGY	38.50	26.5	1,020	46.00	0.27	0.88	
Chesapeake Energy Corporation	CHK	10.78	220	2,370	14.00	0.38	0.86	
Wesport Resources Corporation	WRC	23.54	68.0	1,600	30.00	0.29	0.85	
Cimarex Energy Company	XEC	20.20	41.0	830	24.00	0.03	0.85	
The Houston Exploraton Company	THX	36.01	31.0	1,120	45.00	0.16	0.83	
St. Mary Land and Exploration Company	SM	26.25	29.0	760	35.00	0.11	0.78	
Forest Oil Corporation	FST	23.05	48.2	1,110	35.00	0.33	0.77	
<i>Total or Median</i>				<i>13,800</i>		<i>0.27</i>	<i>0.88</i>	
Long Life								
Ultra Petroleum Corp.	UPL	14.80	78.0	1,150	7.00	0.15	1.95	
Unit Corporation	UNT	19.80	43.6	860	18.00	0.04	1.10	
Quicksilver Resources Inc.	KWK	24.76	20.4	510	25.00	0.35	0.99	
Penn Virginia Corporation	PVA	44.16	9.0	400	45.00	0.06	0.98	
Swift Energy Company	SFY	14.57	27.2	400	16.00	0.43	0.95	
Evergreen Resources, Inc.	EVG	27.50	44.0	1,210	30.00	0.10	0.92	
Encore Acquisition Corp. (40%)	EAC	B	19.58	11.2	219	24.00	0.18	0.85
Magnum Hunter Resources, Inc.	MHR	7.95	69.0	550	11.00	0.45	0.85	
Vintage Petroleum, Inc.	VPI	10.80	63.0	680	20.00	0.40	0.73	
<i>Total or Median</i>				<i>6,000</i>		<i>0.18</i>	<i>0.95</i>	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	25.61	83.7	2,140	20.00	0.16	1.24	
Provident Energy Trust	PVX	7.81	68.8	540	6.00	0.25	1.23	
Pengrowth Energy Trust	PGH	12.80	112.0	1,430	11.00	0.20	1.13	
Canadian Oil Sands Trust (US\$)	COSWF	B	28.95	86.3	2,500	45.00	0.19	0.71
<i>Total or Median</i>				<i>6,600</i>		<i>0.19</i>	<i>1.18</i>	
Natural Gas Royalty Trusts								
Hugoton Royalty Trust (46%)	HGT	19.13	18.4	350	14.60	-	1.31	
Cross Timbers Royalty Trust	CRT	20.70	6.0	124	18.40	-	1.12	
San Juan Basin Royalty Trust	SJT	B	17.88	46.6	830	17.30	-	1.03
Micro Cap								
Abraxas Petroleum Corporation	ABP	0.98	30.0	29	1.00	0.85	0.99	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.85	27.9	52	2.80	0.32	0.77	

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Table 3-2
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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 24-Sep 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Short Life								
Dorchester Minerals, L.P.	DMLP	17.07	8.1	10.2	13	8.9	7.7	
Southwestern Energy Company	SWN	17.28	3.0	6.2	13	-	6.1	
Forest Oil Corporation	FST	23.05	3.5	5.7	20	-	7.5	
Chesapeake Energy Corporation	CHK	10.78	3.9	5.6	13	1.1	6.6	
Energy Partners Ltd.	EPL	B	11.33	3.2	5.4	29	-	5.6
Wesport Resources Corporation	WRC	23.54	3.7	5.2	16	-	6.1	
Cimarex Energy Company	XEC	20.20	3.2	4.6	13	-	5.4	
St. Mary Land and Exploration Company	SM	26.25	3.0	4.6	13	0.4	5.9	
Denbury Resources Inc.	DNR	12.50	3.1	4.3	9	-	4.9	
Stone Energy Company	SGY	38.50	3.0	4.1	9	-	4.6	
Newfield Exploration Company	NFX	37.93	2.9	3.7	8	-	3.9	
Spinnaker Exploration Company	SKE	23.91	3.2	3.7	14	-	3.8	
The Houston Exploraton Company	THX	36.01	3.0	3.6	9	-	4.4	
	<i>Median</i>		3.2	4.6	13	-	5.6	
Long Life								
Ultra Petroleum Corp.	UPL	14.80	13.1	21.2	42	-	10.9	
Evergreen Resources, Inc.	EVG	27.50	7.2	10.3	18	-	11.2	
Unit Corporation	UNT	19.80	3.6	8.5	22	-	7.7	
Quicksilver Resources Inc.	KWK	24.76	4.8	7.2	14	-	7.3	
Swift Energy Company	SFY	14.57	4.4	6.7	25	-	7.0	
Magnum Hunter Resources, Inc.	MHR	7.95	3.3	5.8	16	-	6.8	
Penn Virginia Corporation	PVA	44.16	3.0	5.6	15	2.0	5.7	
Encore Acquisition Corp. (40%)	EAC	B	19.58	3.6	5.2	11	-	6.2
Vintage Petroleum, Inc.	VPI	10.80	2.4	4.4	38	1.5	6.1	
	<i>Median</i>		3.6	6.7	18	-	7.0	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	25.61	6.8	9.1	14	12.5	7.4	
Pengrowth Energy Trust	PGH	12.80	4.7	7.0	14	13.3	6.2	
Canadian Oil Sands Trust (US\$)	COSWF	B	28.95	3.6	6.6	7	5.0	9.3
Provident Energy Trust	PVX	7.81	4.1	5.9	13	16.6	4.8	
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT	20.70	7.2	10.4	11	9.3	9.3	
Hugoton RoyaltyTrust (46%)	HGT	19.13	6.8	9.4	11	9.2	7.1	
San Juan Basin Royalty Trust	SJT	B	17.88	6.5	8.0	9	10.6	7.7
Micro Cap								
Abraxas Petroleum Corporation	ABP	0.98	6.9	13.2		-	13.3	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.85	3.5	5.4	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

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. Neither he nor his spouse act contrary to a buy or sell rating.