

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

October 30, 2003

McDep Energy Portfolio

Summary and Recommendation

The combination of stock ideas in the McDep Energy Portfolio is intended to offer a superior return/risk combination compared to any single buy idea and to holding a sell idea. To offer real gain, we expect the highest unlevered return from low McDep Ratio buy ideas and we expect the lowest unlevered return from high McDep Ratio sell ideas. To offer inflation protection we emphasize independent natural gas and oil producers and non-U.S stocks. To offer deflation resistance we adjust for financial leverage and emphasize low-debt buys and high-debt sells. While no investor is likely to own all of our recommendations in the relative size suggested, the exercise applies important principles of investment relevant to most portfolios, large or small. Finally, though we express our expectations confidently, no one can know the actual outcome in advance.

From Stock Ideas to the McDep Energy Portfolio

The main practical question in building a portfolio is how much to invest in each stock idea. We recognize that analysts normally are expected to identify, evaluate and recommend stock ideas and portfolio managers are expected to decide when and how much to invest in any idea. Though we envision our contribution as primarily that of the analyst, we think that some discussion of how our ideas might fit in a portfolio is part of understanding the idea better.

An investor needs only a few good ideas for lifetime success. The difficulty is in knowing in advance which few ideas are going to be the big winners. Thus, our starting position is that each idea has about an equal chance to be a winner and we adjust from there.

Why not weight issues with extreme McDep Ratios more heavily? That could be reasonable. Our tendency is to focus on the extreme valuation cases first and then limit the risk of not getting an early revaluation by moving on to the next attraction.

Should we make unlevered weightings by our estimate of Present Value or the market's pricing of Enterprise Value? Present Value seems more consistent theoretically and it would have the effect of weighting the low McDep Ratio buys more. Enterprise Value is less dependent on our estimates and it has the effect of weighting high McDep Ratio sells more. Our suggested weightings are related to the amount of debt in Enterprise Value (see Table).

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			Price (\$/sh)	McDep	Market	Unlevered	Equity
	Symbol/ Rating		29-Oct 2003	Ratio	Cap/EV	Weight	Weight
Mega Cap							
ChevronTexaco Corporation	CVX	B	73.10	0.82	0.73	8.0%	7.7%
Royal Dutch/Shell	RD	B	44.36	0.84	0.79	8.0%	8.3%
Producer/Refiners - Large Cap and Mid Cap							
ConocoPhillips	COP	B	56.97	0.88	0.57	8.0%	6.1%
Marathon Oil Corporation	MRO	B	29.19	0.81	0.62	8.0%	6.6%
PetroChina Company Ltd (10%)	PTR	B	37.15	0.77	0.85	4.0%	4.5%
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Anadarko Petroleum Corp.	APC	B	42.34	0.80	0.60	8.0%	6.3%
Burlington Resources	BR	B	47.70	0.85	0.69	8.0%	7.4%
CNOOC Limited (19%)	CEO	B	37.75	0.94	1.00	4.0%	5.3%
Encana Corporation	ECA	B	34.80	0.90	0.78	8.0%	8.2%
XTO Energy Inc.	XTO	B	23.57	0.99	0.75	8.0%	7.9%
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC	B	20.80	0.77	1.00	4.0%	5.3%
Encore Acquisition Corp. (40%)	EAC	B	22.94	0.96	0.81	4.0%	4.3%
Energy Partners Ltd.	EPL	B	12.02	1.00	0.74	4.0%	3.9%
Natural Gas and Oil Royalty Trusts							
Canadian Oil Sands Trust (US\$)	COSWF	B	29.70	0.73	0.70	8.0%	7.4%
San Juan Basin Royalty Trust	SJT	B	18.51	1.05	1.00	8.0%	10.6%
<i>Total Buy</i>						<i>100.0%</i>	<i>100.0%</i>
Pipeline and Power							
Kinder Morgan, Inc.	KMI	S	53.18	1.56	0.49	-4.0%	-2.6%
Kinder Morgan Energy Partners, L.P.	KMP	S	42.96	2.12	0.78	-2.0%	-2.1%
Kinder Morgan Management, LLC	KMR	S	37.85	1.92	0.76	-2.0%	-2.0%
Enbridge Energy Partners, L.P.	EEP	S	50.71	1.72	0.67	-2.0%	-1.8%
Enbridge Energy Management, L.L.C	EEQ	S	46.38	1.63	0.65	-2.0%	-1.7%
Gulfterra Energy Partners	GTM	S	39.64	1.66	0.66	-4.0%	-3.5%
<i>Total Sell</i>						<i>-16.0%</i>	<i>-13.7%</i>

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

Kurt H. Wulff, CFA

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 29-Oct 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>
Mega Cap							
Exxon Mobil Corporation	XOM	37.81	6,687	253,000	35.00	0.10	1.07
Total S.A.	TOT	78.12	1,276	99,600	85.00	0.19	0.93
BP plc	BP	42.25	3,694	156,000	50.00	0.15	0.87
Royal Dutch/Shell	RD B	44.36	3,473	154,000	55.00	0.18	0.84
ChevronTexaco Corporation	CVX B	73.10	1,064	77,800	95.00	0.22	0.82
	<i>Total or Median</i>			<i>740,000</i>		<i>0.18</i>	<i>0.87</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	60.47	92	5,590	41.00	0.26	1.35
Imperial Oil Limited (30%)	IMO	39.90	113	4,520	36.00	0.12	1.09
Norsk Hydro ASA (49%)	NHY	55.10	126	6,970	60.00	0.27	0.94
OAo Lukoil	LUKOY	83.30	210	18,000	90.00	0.11	0.93
Petro-Canada	PCZ	40.43	265	10,710	45.00	0.19	0.92
ENI S.p.A.	E	79.77	750	59,800	90.00	0.14	0.90
Valero Energy Corporation	VLO	39.52	114	4,510	50.00	0.50	0.90
ConocoPhillips	COP B	56.97	681	38,800	70.00	0.38	0.88
Petroleo Brasileiro S. A.	PBR	24.17	1,096	26,500	30.00	0.25	0.85
Suncor Energy	SU	20.57	474	9,750	25.00	0.14	0.85
Marathon Oil Corporation	MRO B	29.19	310	9,050	40.00	0.31	0.81
PetroChina Company Ltd (10%)	PTR B	37.15	176	6,530	50.00	0.11	0.77
	<i>Total or Median</i>			<i>195,000</i>		<i>0.19</i>	<i>0.90</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	42.80	65	2,760	38.00	0.22	1.10
Occidental Petroleum Corp.	OXY	35.85	383	13,700	35.00	0.38	1.02
Apache Corporation	APA	69.95	159	11,100	70.00	0.20	1.00
XTO Energy Inc.	XTO B	23.57	186	4,390	24.00	0.25	0.99
CNOOC Limited (19%)	CEO B	37.75	78	2,950	40.00	-	0.94
Encana Corporation	ECA B	34.80	472	16,400	40.00	0.20	0.90
Unocal Corporation	UCL	31.80	255	8,100	40.00	0.35	0.87
Canadian Natural Resources Limited	CNQ	43.83	139	6,090	55.00	0.29	0.86
Burlington Resources	BR B	47.70	201	9,600	60.00	0.26	0.85
Devon Energy	DVN	47.90	163	7,800	65.00	0.42	0.85
Pioneer Natural Resources Company	PXD	26.30	119	3,130	35.00	0.33	0.83
Anadarko Petroleum Corp.	APC B	42.34	252	10,700	60.00	0.32	0.80
	<i>Total or Median</i>			<i>97,000</i>		<i>0.28</i>	<i>0.88</i>
Service							
Baker Hughes Inc.	BHI	27.10	339	9,200	25.00	0.09	1.08
Halliburton Company	HAL	23.52	434	10,200	22.00	0.25	1.05
Schlumberger Ltd.	SLB	46.50	581	27,000	44.00	0.22	1.04

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.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 29-Oct 2003</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	37.81	1.2	7.8	15	2.6	7.3	
Total S.A.	TOT	78.12	1.1	6.8	13	4.5	7.3	
BP plc	BP	42.25	0.8	6.7	15	4.1	7.7	
Royal Dutch/Shell	RD	B	44.36	1.0	6.7	16	4.6	8.0
ChevronTexaco Corporation	CVX	B	73.10	0.9	6.7	13	4.0	8.2
	<i>Median</i>		<i>1.0</i>	<i>6.7</i>	<i>15</i>	<i>4.1</i>	<i>7.7</i>	
Producer/Refiners - Large Cap and Mid Cap								
Murphy Oil Corporation	MUR	60.47	1.8	10.9	40	1.3	8.1	
Imperial Oil Limited (30%)	IMO	39.90	1.2	8.1	15	1.4	7.4	
Suncor Energy	SU	20.57	2.9	7.9	16	0.7	9.3	
OAOLukoil	LUKOY	83.30	1.0	6.3	13	3.1	6.8	
ConocoPhillips	COP	B	56.97	0.7	6.0	9	3.0	6.8
Marathon Oil Corporation	MRO	B	29.19	0.4	5.2	11	3.4	6.4
Valero Energy Corporation	VLO	39.52	0.3	4.9	5	1.0	5.5	
Petro-Canada	PCZ	40.43	1.4	4.5	11	0.7	4.9	
PetroChina Company Ltd (10%)	PTR	B	37.15	2.4	4.2	9	5.5	5.4
ENI S.p.A.	E	79.77	1.7	4.2	9	5.4	4.7	
Petroleo Brasileiro S. A.	PBR	24.17	1.5	3.9	6	3.5	4.6	
Norsk Hydro ASA (49%)	NHY	55.10	0.9	3.7	10	2.7	4.0	
	<i>Median</i>		<i>1.3</i>	<i>5.1</i>	<i>11</i>	<i>2.9</i>	<i>5.9</i>	
Independent Natural Gas and Oil								
Pioneer Natural Resources Company	PXD	26.30	5.3	7.2	24	-	8.6	
Occidental Petroleum Corp.	OXY	35.85	2.6	6.8	12	2.9	6.7	
Apache Corporation	APA	69.95	4.6	6.5	15	0.5	6.5	
CNOOC Limited (19%)	CEO	B	37.75	4.9	6.3	13	4.2	6.7
XTO Energy Inc.	XTO	B	23.57	4.3	5.8	11	0.2	5.9
Pogo Producing Company	PPP	42.80	3.7	5.7	16	0.3	5.2	
Unocal Corporation	UCL	31.80	2.1	5.5	15	2.5	6.4	
Anadarko Petroleum Corp.	APC	B	42.34	3.7	5.5	10	0.9	6.8
Burlington Resources	BR	B	47.70	3.6	5.2	12	1.3	6.1
Encana Corporation	ECA	B	34.80	2.3	4.8	12	0.8	5.3
Devon Energy	DVN	47.90	2.9	4.5	7	-	5.3	
Canadian Natural Resources Limited	CNQ	43.83	2.4	3.9	8	0.9	4.5	
	<i>Median</i>		<i>3.6</i>	<i>5.6</i>	<i>12</i>	<i>0.9</i>	<i>6.3</i>	
Service								
Baker Hughes Inc.	BHI	27.10	1.9	11.6	32	1.7	10.8	
Halliburton Company	HAL	23.52	1.1	9.5	21	2.1	9.0	
Schlumberger Ltd.	SLB	46.50	2.5	9.3	34	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) 29-Oct 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Large Cap Power							
Southern Company	SO	30.33	696	21,100	28.00	0.43	1.05
Duke Energy Corporation	DUK	17.70	832	14,700	16.00	0.69	1.03
Exelon Corporation	EXC	63.75	325	20,700	65.00	0.51	0.99
American Electric Power Co. Inc.	AEP	28.74	348	10,000	35.00	0.60	0.93
Enel S.p.a. (32%)	EN	31.55	388	12,200	37.00	0.40	0.91
Dominion Resources	D	61.47	294	18,000	76.00	0.44	0.89
<i>Total or Median</i>				96,700		0.47	0.96
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	42.96	140	6,020	14.00	0.46	2.12
Kinder Morgan Management, LLC	KMR S	37.85	48	1,810	14.00	0.46	1.92
Kinder Morgan, Inc.	KMI S	53.18	124	6,620	14.00	0.80	1.56
Williams Companies	WMB	10.04	518	5,200	1.00	0.97	1.28
Constellation Energy Group	CEG	35.25	164	5,780	25.00	0.61	1.16
AES Corporation	AES	8.13	558	4,540	1.00	0.98	1.14
Dynegy Inc.	DYN	3.52	418	1,470	1.00	0.97	1.08
Calpine Corporation	CPN	4.26	381	1,620	1.00	0.98	1.08
CMS Energy Corporation	CMS	8.05	139	1,120	5.00	0.93	1.05
Sempra Energy	SRE	28.05	206	5,780	30.00	0.59	0.97
El Paso Corporation	EP	7.27	589	4,300	10.00	0.79	0.94
<i>Total or Median</i>				44,260		0.80	1.14
Small Cap Pipeline							
Enterprise Products Part (44%)	EPD	21.47	96	2,060	8.50	0.49	1.79
Enbridge Energy Partners, L.P.	EEP S	50.71	39	1,980	19.00	0.57	1.72
Gulfterra Energy Partners	GTM S	39.64	55	2,180	15.70	0.56	1.66
Enbridge Energy Management, L.L.C	EEQ S	46.38	9	440	19.00	0.57	1.63
Plains All Amer. Pipeline, L.P.	PAA	30.65	50	1,530	15.00	0.44	1.58
TEPPCO Partners, L.P.	TPP	37.62	58	2,180	18.00	0.52	1.52
Magellan Midstream Partners, L.P.	MMP	49.32	27	1,350	29.00	0.38	1.44
Northern Border Partners	NBP	40.17	47	1,870	20.00	0.62	1.38
AmeriGas Partners, L.P.	APU	26.89	52	1,410	20.00	0.46	1.19
Western Gas Resources	WGR	41.76	37	1,550	40.00	0.27	1.03
<i>Total or Median</i>				16,550		0.50	1.55

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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) 29-Oct 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	18.15	27.0	490	13.00	-	1.40	
Southwestern Energy Company	SWN	19.70	36.0	710	17.00	0.30	1.11	
Spinnaker Exploration Company	SKE	25.54	33.8	860	25.00	-	1.02	
Energy Partners Ltd.	EPL	B	12.02	37.3	449	12.00	0.26	1.00
Newfield Exploration Company	NFX	40.01	51.7	2,070	40.00	0.31	1.00	
Chesapeake Energy Corporation	CHK	11.79	220	2,590	14.00	0.38	0.90	
Denbury Resources Inc.	DNR	12.78	55.0	700	15.00	0.29	0.90	
Westport Resources Corporation	WRC	23.98	68.0	1,630	30.00	0.29	0.86	
Stone Energy Company	SGY	35.62	26.5	940	46.00	0.27	0.83	
The Houston Exploraton Company	THX	35.84	31.0	1,110	45.00	0.16	0.83	
Forest Oil Corporation	FST	24.08	48.2	1,160	35.00	0.33	0.79	
Cimarex Energy Company	XEC	B	20.80	42.0	870	27.00	0.00	0.77
St. Mary Land and Exploration Company	SM	26.00	29.0	750	35.00	0.11	0.77	
<i>Total or Median</i>				<i>14,300</i>		<i>0.27</i>	<i>0.90</i>	
Long Life								
Ultra Petroleum Corp.	UPL	18.10	78.0	1,410	7.00	0.15	2.36	
Unit Corporation	UNT	18.65	43.6	810	18.00	0.04	1.03	
Quicksilver Resources Inc.	KWK	26.00	20.4	530	25.00	0.35	1.03	
Penn Virginia Corporation	PVA	45.35	9.0	410	45.00	0.06	1.01	
Encore Acquisition Corp. (40%)	EAC	B	22.94	11.2	257	24.00	0.18	0.96
Evergreen Resources, Inc.	EVG	28.20	44.0	1,240	30.00	0.10	0.95	
Swift Energy Company	SFY	13.85	27.2	380	16.00	0.43	0.92	
Magnum Hunter Resources, Inc.	MHR	8.74	69.0	600	11.00	0.45	0.89	
Vintage Petroleum, Inc.	VPI	11.35	63.0	720	20.00	0.40	0.74	
<i>Total or Median</i>				<i>6,400</i>		<i>0.18</i>	<i>0.96</i>	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	28.22	83.7	2,360	20.00	0.16	1.34	
Provident Energy Trust	PVX	8.51	68.8	590	6.00	0.25	1.31	
Pengrowth Energy Trust	PGH	13.34	112.0	1,490	11.00	0.20	1.17	
Canadian Oil Sands Trust (US\$)	COSWF	B	29.70	86.3	2,560	45.00	0.22	0.73
<i>Total or Median</i>				<i>7,000</i>		<i>0.21</i>	<i>1.24</i>	
Natural Gas Royalty Trusts								
Hugoton RoyaltyTrust (46%)	HGT	19.89	18.4	370	15.30	-	1.30	
Cross Timbers Royalty Trust	CRT	25.08	6.0	150	20.30	-	1.23	
Sabine Royalty Trust	SBR	26.53	14.6	390	22.00	-	1.21	
Permian Basin RT (41%)	PBT	8.23	19.1	160	7.00	-	1.17	
San Juan Basin Royalty Trust	SJT	B	18.51	46.6	860	17.70	-	1.05
<i>Total or Median</i>				<i>1,900</i>		<i>-</i>	<i>1.21</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	0.96	30.0	29	1.00	0.85	0.99	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.02	27.9	56	2.80	0.32	0.81	

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Table 3-2
Independent Natural Gas and Oil Producers - Small Cap
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 29-Oct 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Short Life								
Dorchester Minerals, L.P.	DMLP	18.15	11.8	13.7	49	7.3	9.8	
Southwestern Energy Company	SWN	19.70	3.2	6.7	14	-	6.0	
Chesapeake Energy Corporation	CHK	11.79	4.1	5.9	13	1.0	6.5	
Forest Oil Corporation	FST	24.08	3.5	5.7	18	-	7.2	
Energy Partners Ltd.	EPL	B	12.02	3.2	5.4	26	-	5.4
Westport Resources Corporation	WRC	23.98	3.6	5.1	15	-	6.0	
St. Mary Land and Exploration Company	SM	26.00	2.9	4.4	12	0.4	5.7	
Denbury Resources Inc.	DNR	12.78	3.0	4.3	9	-	4.8	
Cimarex Energy Company	XEC	B	20.80	3.2	4.2	12	-	5.5
Spinnaker Exploration Company	SKE	25.54	3.4	3.8	14	-	3.7	
Newfield Exploration Company	NFX	40.01	2.9	3.8	8	-	3.8	
Stone Energy Company	SGY	35.62	2.8	3.8	8	-	4.5	
The Houston Exploraton Company	THX	35.84	2.9	3.5	9	-	4.3	
	<i>Median</i>		3.2	4.4	13	-	5.5	
Long Life								
Ultra Petroleum Corp.	UPL	18.10	15.5	25.0	49	-	10.6	
Evergreen Resources, Inc.	EVG	28.20	7.1	10.2	18	-	10.8	
Unit Corporation	UNT	18.65	3.4	7.8	20	-	7.6	
Quicksilver Resources Inc.	KWK	26.00	4.8	7.2	14	-	7.0	
Swift Energy Company	SFY	13.85	4.2	6.3	21	-	6.9	
Magnum Hunter Resources, Inc.	MHR	8.74	3.4	5.9	15	-	6.6	
Encore Acquisition Corp. (40%)	EAC	B	22.94	4.0	5.8	13	-	6.0
Penn Virginia Corporation	PVA	45.35	3.1	5.6	15	2.0	5.6	
Vintage Petroleum, Inc.	VPI	11.35	2.3	4.4	28	1.4	5.9	
	<i>Median</i>		4.0	6.3	18	-	6.9	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	28.22	7.3	9.8	15	11.3	7.3	
Canadian Oil Sands Trust (US\$)	COSWF	B	29.70	4.0	7.9	9	5.1	10.8
Pengrowth Energy Trust	PGH	13.34	4.7	6.9	13	13.4	5.9	
Provident Energy Trust	PVX	8.51	4.3	6.1	13	15.2	4.7	
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT	25.08	8.2	11.7	12	8.3	9.5	
Hugoton RoyaltyTrust (46%)	HGT	19.89	7.2	9.8	11	8.8	7.6	
Sabine Royalty Trust	SBR	26.53	9.0	9.5	9	10.6	7.8	
Permian Basin RT (41%)	PBT	8.23	6.0	9.4	13	9.1	8.0	
San Juan Basin Royalty Trust	SJT	B	18.51	6.8	8.4	10	9.6	8.0
Micro Cap								
Abraxas Petroleum Corporation	ABP	0.96	6.7	12.6		-	12.6	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.02	3.6	5.4	18	-	6.7	

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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