

Meter Reader

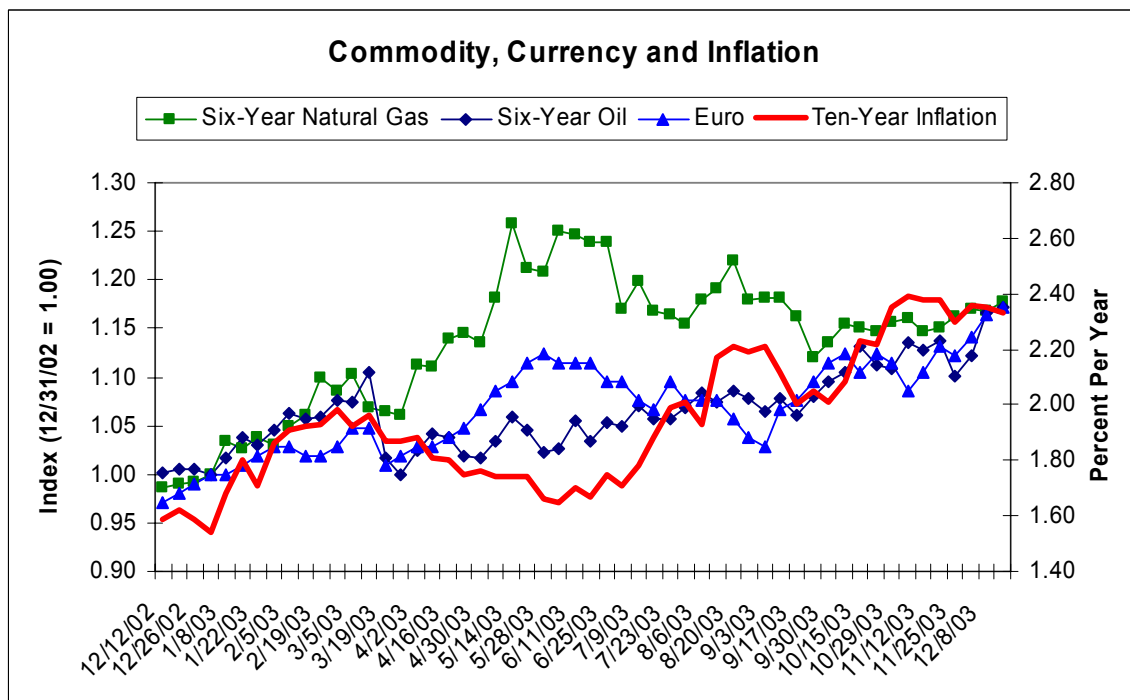
A Weekly Analysis of Energy Stocks Using the McDep Ratio

December 16, 2003

2004: Buy Energy Producers

Summary and Recommendation

Will 2004 bring growth, inflation or deflation? Judging by bond yields as measured in U.S. Treasury securities of ten-year maturity, inflation expectation was the main winner in 2003 while real growth expectation slipped and deflation anticipation melted. Rising inflation expectation in Treasury securities was matched by rising exchange value of the euro, six-year oil futures and six-year natural gas futures (see chart). Our energy recommendations, offering growth with inflation protection and deflation resistance, seem well-positioned whether or not 2004 brings more of 2003. Having featured separately global producer/refiners, small cap stars and large cap luminaries in each of the past three weeks we call attention to the mega cap, micro risk features of recommended **ChevronTexaco (CVX)** and **Royal Dutch (RD)**. Also a favorable chart pattern has emerged for 12-month refining crack futures that supports current interest in integrated oil companies.



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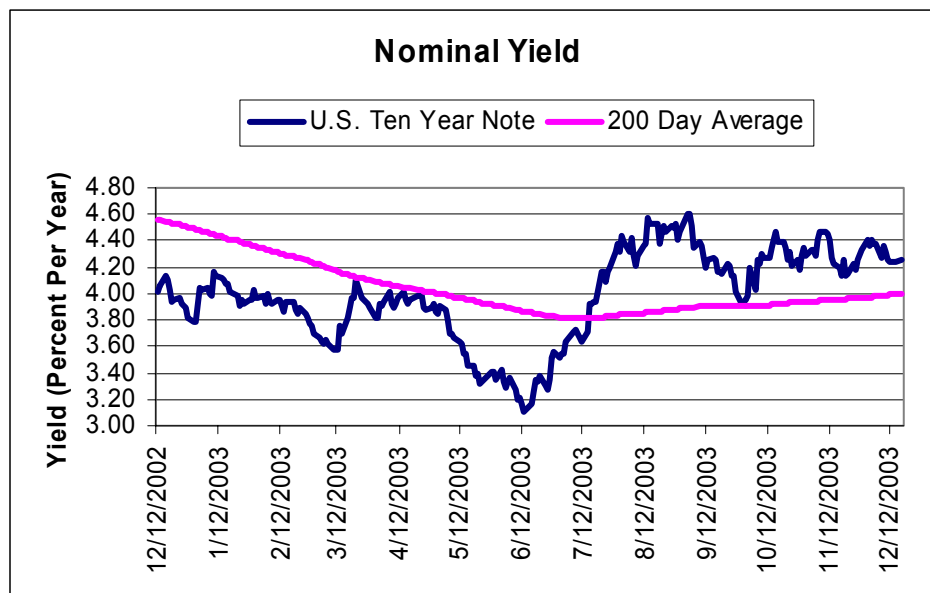
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Deflation Fear Melts

The past does not tell the future, but the recent past tells whether early anticipations materialized. For example, fears of deflation proved to be unrealized in 2003. We draw that conclusion from the upward trend of yield on the U.S. Treasury Ten-Year Note, the benchmark for the investment that offers the most protection from deflation (see chart). The main casualties of deflation would be highly leveraged entities such as the partnerships that we comment on below. The subsiding of deflation fear may have partly accounted for the favorable performance of debt-heavy stocks. Yet, to complicate the interpretation, if interest rates increase too much, it becomes a burden for debt-heavy entities.



Real Growth Prospects Languish

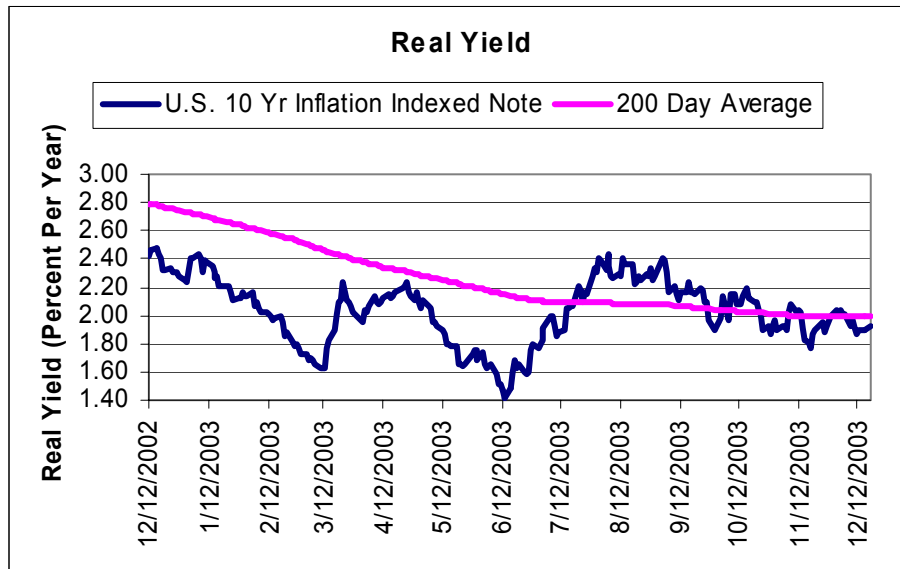
Though the economy has perked up there is little confidence among bond investors that real growth will be lasting. If real growth prospects were stronger, we would expect the real yield on the Ten-Year Inflation Protected Security to rise as bond investors demand a higher real return to compete with other investments. By that rationale, real growth prospects languished in 2003 (see chart).

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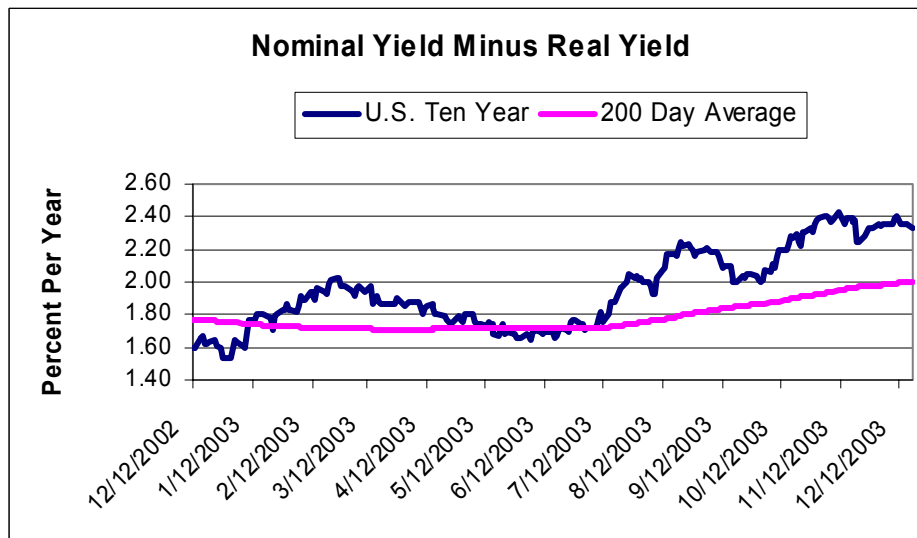
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Economic Gains Expected to be Inflationary rather than Real

Bond investors appear to be betting that current conditions are more like the inflationary 1970s than the real growth 1980s and 1990s. Nominal yield and real yield have diverged with the widening difference attributed to inflation expectation (see chart). Thus, of the three major investment indicators of the future, growth, inflation and deflation, the one that had the strongest trend in 2003 was inflation.



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Currency, Natural Gas and Oil Up with Inflation Expectation

We don't pretend to know any more about currency than we do about bonds, but neither can be ignored. As the chart on the first page indicates, the dollar value of the euro increased more than 15% in the past year as did futures price for the next six years for both natural gas and oil.

The dollar need not continue to decline for inflation to continue. There will likely be some inflation in most currencies, including the euro. Other countries may adopt more inflationary policies to match or partly offset those of the U.S. The three main policy levers we are pulling to stimulate inflation are free money, a trade deficit and a budget deficit.

Mega Cap, Micro Risk

Inflation protection is the strong suit of energy producers. In fact natural gas and oil prices are increasing faster than the consumer price index which includes some components that show no inflation as the government measures it.

What if we are pleasantly surprised that more of the apparent growth in the economy is real and less due to price change? Economic growth may be greater in those parts of the world that are just beginning to use more energy in automobiles and air conditioning and where coal is being displaced by natural gas and oil. Surprising growth means stronger demand, lagging supply and stronger pricing until supply catches up. Mega cap energy companies are also heavily represented in the refining/marketing business where a price increase contributes a disproportionate increase in margin.

What if deflation fears return in 2004? Should the decline in the dollar accelerate uncontrollably, the Federal Reserve may find it necessary to increase interest rates to stabilize the currency. That would probably signal the end of the current economic expansion and threaten the reelection of President Bush. In that event investors can be reassured that mega cap energy companies with little debt are among the strongest entities in the global economy.

Refining Crack Improving

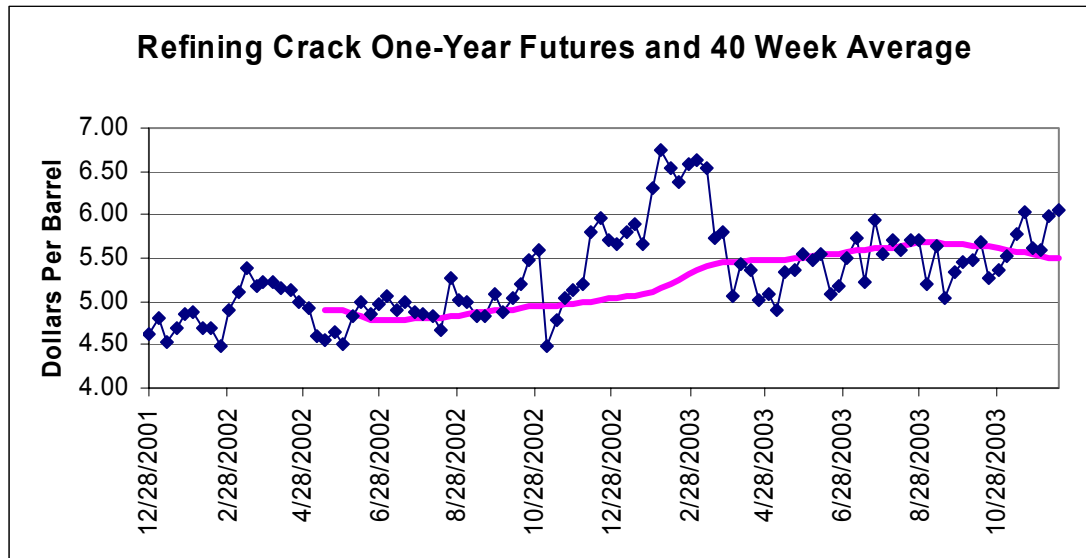
A change in the trend of 12-month refining crack futures may favor new commitments to the stocks of recommended mega caps or producer/refiners. Latest weekly quotes moved above the 40-week moving average as was the case a year ago. Traditional oil analysts like to talk about a seasonal cycle for refining stocks that starts about now and peaks in the spring. It looks like those sentiments are being captured in the time series (see Chart).

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Our data has also improved as the New York Mercantile Exchange is again trading a full 12 months of gasoline futures. Some months were not traded as New York and Connecticut instituted a ban on the oxygenate additive, methyl tertiary butyl ether (MTBE). The exchange decided that gasoline futures would relate to the current variety of fuel that will continue to be available on the New Jersey side of New York Harbor.

El Paso Announces Partial Sale of Gulfterra Energy Partners

In a complex transaction, unitholders of GTM will become unitholders of **Enterprise Products Partners (EPD)**. GTM will cease to exist as a public company although EP will continue to own half of the general partner (GP) in the GTM properties. As we understand it, unitholders of EPD will own the other half of the GP in GTM thereby eliminating the maximum 50% claim that the GP had on GTM distributions.

We have been outspoken in our distaste for the 50% arrangement that is not only too high on an economic basis, but also disguised in the accounting statements of the partnership. EPD has taken the moral high ground for pipeline partnerships by limiting its top compensation to 25%.

The new combination will still be highly leveraged and therefore weak on the deflation resistance we would like to see in buy recommended energy stocks. EP and GTM have been among the most creative in hiding debt.

Sell recommended GTM has gone up, rather than down, in stock price. We regret any opportunity loss any client experienced as a result.

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) 15-Dec 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM	37.80	6,652	251,000	35.00	0.10	1.07	
Total S.A.	TOT	86.17	1,261	108,700	85.00	0.19	1.01	
BP plc	BP	45.60	3,682	168,000	50.00	0.15	0.93	
Royal Dutch/Shell	RD	B	47.94	3,473	167,000	55.00	0.18	0.89
ChevronTexaco Corporation	CVX	B	78.95	1,064	84,000	95.00	0.20	0.86
<i>Total or Median</i>				<i>779,000</i>		<i>0.18</i>	<i>0.93</i>	
Producer/Refiners - Large Cap and Mid Cap								
Murphy Oil Corporation	MUR	61.92	93	5,750	50.00	0.24	1.18	
Imperial Oil Limited (30%)	IMO	41.25	111	4,580	36.00	0.14	1.13	
OAOLukoil	LUKOY	91.25	210	19,000	90.00	0.11	1.01	
ENI S.p.A.	E	90.41	755	68,300	90.00	0.18	1.00	
Petro-Canada	PCZ	45.04	265	11,940	45.00	0.14	1.00	
Valero Energy Corporation	VLO	44.49	120	5,330	50.00	0.45	0.94	
Petroleo Brasileiro S. A.	PBR	26.86	1,096	29,400	30.00	0.35	0.93	
Norsk Hydro ASA (49%)	NHY	58.76	126	7,400	65.00	0.24	0.93	
Suncor Energy	SU	22.57	475	10,720	25.00	0.15	0.92	
ConocoPhillips	COP	B	60.25	680	41,000	70.00	0.38	0.91
PetroChina Company Ltd (10%)	PTR	B	43.26	176	7,610	50.00	0.11	0.88
Marathon Oil Corporation	MRO	B	30.49	310	9,450	40.00	0.31	0.84
<i>Total or Median</i>				<i>220,000</i>		<i>0.21</i>	<i>0.93</i>	
Independent Natural Gas and Oil								
Pogo Producing Company	PPP	47.00	64	3,010	42.00	0.12	1.11	
CNOOC Limited (19%)	CEO	B	41.85	78	3,270	40.00	-	1.05
XTO Energy Inc.	XTO	B	27.20	186	5,070	26.00	0.24	1.04
Apache Corporation	APA	76.08	162	12,300	75.00	0.23	1.01	
Occidental Petroleum Corp.	OXY	39.87	391	15,600	40.00	0.31	1.00	
Unocal Corporation	UCL	34.54	273	9,400	40.00	0.33	0.91	
Pioneer Natural Resources Company	PXD	29.98	119	3,570	35.00	0.31	0.90	
Canadian Natural Resources Limited	CNQ	45.34	137	6,210	55.00	0.40	0.89	
Encana Corporation	ECA	B	37.64	470	17,700	45.00	0.22	0.87
Anadarko Petroleum Corp.	APC	B	48.03	251	12,100	60.00	0.31	0.86
Burlington Resources	BR	B	53.31	201	10,700	65.00	0.25	0.86
Devon Energy	DVN	54.51	241	13,100	70.00	0.36	0.86	
<i>Total or Median</i>				<i>112,000</i>		<i>0.28</i>	<i>0.90</i>	
Service								
Baker Hughes Inc.	BHI	30.50	336	10,200	25.00	0.08	1.20	
Halliburton Company	HAL	24.66	435	10,700	22.00	0.33	1.08	
Schlumberger Ltd.	SLB	50.19	585	29,400	50.00	0.19	1.00	
<i>Total or Median</i>				<i>50,000</i>		<i>0.19</i>	<i>1.08</i>	

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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A Weekly Analysis of Energy Stocks Using the McDep Ratio

December 16, 2003

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

	Symbol/ Rating	Price (\$/sh) 15-Dec 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Mega Cap							
Total S.A.	TOT	86.17	1.2	8.3	17	4.1	8.2
Exxon Mobil Corporation	XOM	37.80	1.1	8.0	16	2.6	7.5
BP plc	BP	45.60	0.8	7.6	17	3.4	8.2
Royal Dutch/Shell	RD B	47.94	1.1	7.1	17	4.2	7.9
ChevronTexaco Corporation	CVX B	78.95	0.9	6.2	12	3.7	7.1
	<i>Median</i>		<i>1.1</i>	<i>7.6</i>	<i>17</i>	<i>3.7</i>	<i>7.9</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	61.92	1.7	8.8	26	1.3	7.5
Imperial Oil Limited (30%)	IMO	41.25	1.3	8.8	19	1.6	7.8
Suncor Energy	SU	22.57	2.7	7.9	16	0.7	8.6
Valero Energy Corporation	VLO	44.49	0.3	7.4	12	1.1	7.9
OAo Lukoil	LUKOY	91.25	1.1	6.7	14	2.8	6.6
ConocoPhillips	COP B	60.25	0.7	6.5	10	2.9	7.1
ENI S.p.A.	E	90.41	1.5	5.9	13	4.9	5.9
Marathon Oil Corporation	MRO B	30.49	0.4	5.6	13	3.3	6.7
Petro-Canada	PCZ	45.04	1.6	5.1	17	0.7	5.1
Norsk Hydro ASA (49%)	NHY	58.76	0.9	4.9	15	2.4	5.3
PetroChina Company Ltd (10%)	PTR B	43.26	2.6	4.7	10	4.7	5.3
Petroleo Brasileiro S. A.	PBR	26.86	1.6	4.4	5	3.8	4.7
	<i>Median</i>		<i>1.4</i>	<i>6.2</i>	<i>13</i>	<i>2.6</i>	<i>6.7</i>
Independent Natural Gas and Oil							
CNOOC Limited (19%)	CEO B	41.85	5.4	6.9	14	3.8	6.6
XTO Energy Inc.	XTO B	27.20	4.9	6.8	13	0.1	6.5
Burlington Resources	BR B	53.31	4.0	5.8	15	1.1	6.8
Occidental Petroleum Corp.	OXY	39.87	2.5	5.6	10	2.6	5.6
Unocal Corporation	UCL	34.54	2.5	5.6	15	2.3	6.2
Pioneer Natural Resources Company	PXD	29.98	4.2	5.6	16	-	6.2
Encana Corporation	ECA B	37.64	2.6	5.6	16	0.8	6.4
Apache Corporation	APA	76.08	3.7	5.5	12	0.6	5.4
Anadarko Petroleum Corp.	APC B	48.03	3.8	5.4	10	1.2	6.3
Canadian Natural Resources Limited	CNQ	45.34	3.4	4.9	13	1.0	5.5
Devon Energy	DVN	54.51	3.0	4.7	9	-	5.5
Pogo Producing Company	PPP	47.00	3.2	4.7	12	0.4	4.2
	<i>Median</i>		<i>3.6</i>	<i>5.6</i>	<i>13</i>	<i>0.9</i>	<i>6.2</i>
Service							
Baker Hughes Inc.	BHI	30.50	2.0	11.1	28	1.5	9.3
Halliburton Company	HAL	24.66	0.9	11.1	22	2.0	10.3
Schlumberger Ltd.	SLB	50.19	2.6	9.2	31	1.5	9.2
	<i>Median</i>		<i>2.0</i>	<i>11.1</i>	<i>28</i>	<i>1.5</i>	<i>9.3</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2004; P/E = Stock Price to

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December 16, 2003

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 15-Dec 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>
Large Cap Power							
Duke Energy Corporation	DUK	19.06	832	15,900	16.00	0.69	1.06
Southern Company	SO	29.60	696	20,600	28.00	0.43	1.03
Exelon Corporation	EXC	62.90	325	20,400	65.00	0.51	0.98
Enel S.p.a. (32%)	EN	32.89	388	12,800	37.00	0.40	0.94
American Electric Power Co. Inc.	AEP	28.36	348	9,900	35.00	0.60	0.92
Dominion Resources	D	61.00	294	17,900	76.00	0.44	0.89
	<i>Total or Median</i>			<i>97,500</i>		<i>0.47</i>	<i>0.96</i>
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	44.26	140	6,200	14.00	0.46	2.17
Kinder Morgan Management, LLC	KMR S	38.90	48	1,860	14.00	0.46	1.96
Kinder Morgan, Inc.	KMI S	54.88	124	6,830	14.00	0.80	1.59
Williams Companies	WMB	9.70	518	5,020	1.00	0.97	1.27
Constellation Energy Group	CEG	37.20	164	6,100	25.00	0.61	1.19
AES Corporation	AES	8.39	558	4,680	1.00	0.98	1.14
Dynegy Inc.	DYN	3.88	418	1,620	1.00	0.97	1.09
Calpine Corporation	CPN	4.19	381	1,600	1.00	0.98	1.08
CMS Energy Corporation	CMS	7.92	139	1,100	5.00	0.93	1.04
Sempra Energy	SRE	28.65	206	5,900	30.00	0.59	0.98
El Paso Corporation	EP	7.32	589	4,300	10.00	0.79	0.94
	<i>Total or Median</i>			<i>45,210</i>		<i>0.80</i>	<i>1.14</i>
Small Cap Pipeline							
Enterprise Products Part (44%)	EPD	23.01	96	2,210	8.50	0.49	1.88
Enbridge Energy Partners, L.P.	EEP S	49.62	39	1,940	19.00	0.57	1.70
Gulfterra Energy Partners	GTM S	40.20	66	2,650	17.30	0.48	1.69
Plains All Amer. Pipeline, L.P.	PAA	32.10	50	1,610	15.00	0.44	1.64
Enbridge Energy Management, L.L.C	EEQ S	46.92	10	460	19.00	0.57	1.62
TEPPCO Partners, L.P.	TPP	40.62	58	2,360	18.00	0.52	1.61
Magellan Midstream Partners, L.P.	MMP	50.61	27	1,380	29.00	0.38	1.46
Northern Border Partners	NBP	38.01	47	1,770	20.00	0.62	1.34
AmeriGas Partners, L.P.	APU	27.71	52	1,450	20.00	0.46	1.21
Western Gas Resources	WGR	45.25	37	1,670	40.00	0.20	1.10
	<i>Total or Median</i>			<i>17,500</i>		<i>0.48</i>	<i>1.61</i>

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

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December 16, 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) 15-Dec 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								
Southwestern Energy Company	SWN	22.00	36.0	790	17.00	0.33	1.20	
Spinnaker Exploration Company	SKE	29.41	33.9	1,000	25.00	0.09	1.16	
Newfield Exploration Company	NFX	43.25	51.7	2,240	40.00	0.31	1.06	
Energy Partners Ltd.	EPL	B	12.72	38.6	491	12.00	0.22	1.05
Cimarex Energy Company	XEC	B	26.85	42.0	1,130	27.00	0.00	0.99
Westport Resources Corporation	WRC		28.84	68.0	1,960	30.00	0.28	0.97
Chesapeake Energy Corporation	CHK		12.80	220	2,820	14.00	0.41	0.95
Denbury Resources Inc.	DNR		13.31	55.7	740	15.00	0.31	0.92
Stone Energy Company	SGY		40.19	26.5	1,070	46.00	0.27	0.91
Forest Oil Corporation	FST		26.78	48.2	1,290	35.00	0.33	0.84
Range Resources Corporation	RRC		8.86	57.0	510	12.00	0.37	0.83
The Houston Exploraton Company	THX		35.95	31.0	1,110	45.00	0.16	0.83
St. Mary Land and Exploration Company	SM		26.47	29.0	770	35.00	0.14	0.79
	<i>Total or Median</i>			<i>15,900</i>		<i>0.28</i>	<i>0.95</i>	
Long Life								
Ultra Petroleum Corp.	UPL		21.50	78.0	1,680	13.00	0.10	1.59
Unit Corporation	UNT		22.35	43.7	980	18.00	0.02	1.24
Penn Virginia Corporation	PVA		54.40	9.1	500	45.00	0.21	1.17
Quicksilver Resources Inc.	KWK		31.25	20.4	640	25.00	0.35	1.16
Evergreen Resources, Inc.	EVG		31.03	44.0	1,370	30.00	0.16	1.03
Swift Energy Company	SFY		16.07	27.4	440	16.00	0.45	1.00
Berry Petroleum Company	BRY		19.92	22.1	440	20.00	0.13	1.00
Encore Acquisition Corp.	EAC	B	23.01	30.3	698	24.00	0.17	0.97
Magnum Hunter Resources, Inc.	MHR		9.21	69.0	640	11.00	0.45	0.91
Vintage Petroleum, Inc.	VPI		11.40	63.0	720	20.00	0.40	0.74
	<i>Total or Median</i>			<i>8,100</i>		<i>0.19</i>	<i>1.02</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP		1.14	35.8	41	1.00	0.84	1.02
Purcell Energy, Ltd. (US\$)	PEL.TO		1.93	48.0	92	2.80	0.28	0.77

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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) 15-Dec 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Short Life							
Southwestern Energy Company	SWN	22.00	3.4	6.1	12	-	5.1
Forest Oil Corporation	FST	26.78	3.5	5.4	14	-	6.4
Spinnaker Exploration Company	SKE	29.41	4.5	5.0	15	-	4.4
Energy Partners Ltd.	EPL	12.72	2.8	4.6	22	-	4.4
Chesapeake Energy Corporation	CHK	12.80	3.5	4.5	9	0.9	4.7
Denbury Resources Inc.	DNR	13.31	3.0	4.5	8	-	4.9
Cimarex Energy Company	XEC	26.85	3.4	4.4	11	-	4.4
Westport Resources Corporation	WRC	28.84	3.2	4.2	11	-	4.3
Range Resources Corporation	RRC	8.86	3.1	4.0	7	0.5	4.7
St. Mary Land and Exploration Company	SM	26.47	2.5	3.9	11	0.4	4.9
Stone Energy Company	SGY	40.19	2.9	3.8	8	-	4.2
Newfield Exploration Company	NFX	43.25	2.9	3.7	7	-	3.5
The Houston Exploraton Company	THX	35.95	2.8	3.3	8	-	4.0
	<i>Median</i>		<i>3.1</i>	<i>4.4</i>	<i>11</i>	<i>-</i>	<i>4.4</i>
Long Life							
Ultra Petroleum Corp.	UPL	21.50	12.0	15.8	27	-	9.9
Berry Petroleum Company	BRY	19.92	3.8	8.7	19	2.2	8.7
Quicksilver Resources Inc.	KWK	31.25	5.1	7.5	14	-	6.4
Evergreen Resources, Inc.	EVG	31.03	5.3	7.2	12	-	7.0
Unit Corporation	UNT	22.35	3.1	7.1	17	-	5.7
Penn Virginia Corporation	PVA	54.40	3.5	6.3	14	1.7	5.4
Swift Energy Company	SFY	16.07	3.9	5.9	16	-	5.9
Magnum Hunter Resources, Inc.	MHR	9.21	3.3	5.6	13	-	6.1
Encore Acquisition Corp.	EAC	23.01	3.6	5.0	10	-	5.2
Vintage Petroleum, Inc.	VPI	11.40	2.2	4.0	16	1.4	5.4
	<i>Median</i>		<i>3.7</i>	<i>6.7</i>	<i>15</i>	<i>-</i>	<i>6.0</i>
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.14	7.4	12.4		-	12.1
Purcell Energy, Ltd. (US\$)	PEL.TO	1.93	3.7	5.3	11	-	6.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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