

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 6, 2004

Up Oil 20%

Summary and Recommendation

When a few of our recommended stocks reached our limiting McDep Ratio of 1.2 last week we decided that the case was stronger for lowering the McDep Ratio than for dropping our recommendation of promising stocks. As a result we have raised estimates of present value, the denominator of the McDep Ratio, by about 20% for almost all of our covered issues. In some respects the current situation reminds us of the presidential election year in 1972 when many thought the economy was being stimulated to help reelect Mr. Nixon. That was followed by “The Energy Shortage of 1973” as our piece read thirty-one years ago this month. While that period ended badly, that need not be the case in 2005 or thereafter. In any event we think the strength in energy pricing has further to go. Large cap independent producers remain among our low McDep Ratio recommendations including **Encana (ECA)**, **Burlington Resources (BR)** and **Anadarko (APC)**.

The Futures Market Appears to be Lagging

Since October 2004, a gap has developed between the energy futures market and the stock market for royalty trusts that offer the purest stock market representation of future natural gas production (*Natural Gas Royalty Trusts*, November 26, 2003). We resolve that dilemma today by taking the side of royalty trust investors. We now take royalty trusts to be the rough standard of value at a McDep Ratio near 1.0 and revise estimates of all energy stocks accordingly. In the updated relationship, the unlevered multiple of present value to cash flow is equal to 0.4 time adjusted reserve life plus 3.3. For small cap producers, adjusted reserve life explains 70% of our estimate of present value and 50% of the market cash flow multiple, EV/Ebitda.

PetroChina Remains a Buy

Steep gains in stock price for **PetroChina (PTR)** got our attention at the turn of the year. As the McDep Ratio exceeded 1.2 we noted the low cash flow multiple and the long reserve life and concluded that valuation was not excessive. New investors can hedge the risk by limiting PTR to the one-half unlevered position we have suggested in the McDep Energy Portfolio. Investors who once had a half position and now have three times that, might trim back to a full position.

Kurt H. Wulff, CFA

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A Weekly Analysis of Energy Stocks Using the McDep Ratio

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

	Symbol/ Rating	Price (\$/sh) 5-Jan 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM	41.58	6,652	277,000	41.00	0.08	1.01	
Total S.A.	TOT	95.46	1,261	120,400	105.00	0.16	0.92	
BP plc	BP	49.90	3,682	184,000	60.00	0.13	0.85	
Royal Dutch/Shell	RD	B	53.53	3,473	186,000	65.00	0.16	0.85
ChevronTexaco Corporation	CVX	B	87.55	1,064	93,200	115.00	0.17	0.80
<i>Total or Median</i>				<i>861,000</i>		<i>0.16</i>	<i>0.85</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S	58.79	124	7,310	14.00	0.80	1.64
Imperial Oil Limited (30%)	IMO		46.46	111	5,160	43.00	0.12	1.07
Murphy Oil Corporation	MUR		64.55	93	5,990	62.00	0.20	1.03
Petro-Canada	PCZ		51.59	265	13,670	54.00	0.12	0.96
PetroChina Company Ltd (10%)	PTR	B	62.10	176	10,920	65.00	0.09	0.96
ENI S.p.A.	E		98.52	755	74,400	108.00	0.16	0.93
Valero Energy Corporation	VLO		47.00	120	5,630	55.00	0.42	0.92
OAO Lukoil	LUKOY		95.00	210	20,000	105.00	0.10	0.91
Suncor Energy	SU		25.70	475	12,210	30.00	0.12	0.87
Petroleo Brasileiro S. A.	PBR		32.40	1,096	35,500	40.00	0.28	0.86
ConocoPhillips	COP	B	67.25	680	45,800	88.00	0.33	0.84
Marathon Oil Corporation	MRO	B	34.08	310	10,560	47.00	0.27	0.80
Norsk Hydro ASA (49%)	NHY	B	65.45	126	8,240	95.00	0.19	0.75
<i>Total or Median</i>				<i>255,000</i>		<i>0.19</i>	<i>0.92</i>	
Independent Natural Gas and Oil								
Pogo Producing Company	PPP		49.55	64	3,170	50.00	0.10	0.99
Occidental Petroleum Corp.	OXY		43.70	391	17,100	50.00	0.26	0.91
CNOOC Limited (19%)	CEO	B	43.12	78	3,370	48.00	-	0.90
Apache Corporation	APA		81.56	162	13,200	94.00	0.19	0.89
XTO Energy Inc.	XTO	B	28.43	186	5,300	33.00	0.19	0.89
Canadian Natural Resources Limited	CNQ		55.17	137	7,560	72.00	0.34	0.84
Pioneer Natural Resources Company	PXD		32.75	119	3,900	45.00	0.26	0.80
Unocal Corporation	UCL		37.40	273	10,200	52.00	0.28	0.80
Encana Corporation	ECA	B	41.29	470	19,400	56.00	0.19	0.79
Anadarko Petroleum Corp.	APC	B	52.55	251	13,200	76.00	0.26	0.77
Burlington Resources	BR	B	56.33	201	11,300	80.00	0.21	0.76
Devon Energy	DVN		58.40	241	14,100	90.00	0.30	0.76
<i>Total or Median</i>				<i>122,000</i>		<i>0.23</i>	<i>0.82</i>	
Service								
Baker Hughes Inc.	BHI		32.65	336	11,000	30.00	0.07	1.09
Halliburton Company	HAL		26.12	435	11,400	28.00	0.28	0.95
Schlumberger Ltd.	SLB		55.51	585	32,500	60.00	0.17	0.94
<i>Total or Median</i>				<i>55,000</i>		<i>0.17</i>	<i>0.95</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

January 6, 2004

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

	Symbol/ Rating	Price (\$/sh) 5-Jan 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Mega Cap							
Exxon Mobil Corporation	XOM	41.58	1.2	7.9	15	2.4	7.8
Total S.A.	TOT	95.46	1.3	7.9	15	3.7	8.5
BP plc	BP	49.90	0.9	7.2	15	3.1	8.5
Royal Dutch/Shell	RD B	53.53	1.1	6.9	16	3.8	8.1
ChevronTexaco Corporation	CVX B	87.55	0.9	5.9	11	3.3	7.4
	<i>Median</i>		<i>1.1</i>	<i>7.2</i>	<i>15</i>	<i>3.3</i>	<i>8.1</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S	58.79	3.0	12.7	18	2.7	7.7
Imperial Oil Limited (30%)	IMO	46.46	1.4	8.0	16	1.4	7.4
Murphy Oil Corporation	MUR	64.55	1.6	7.7	19	1.2	7.5
Suncor Energy	SU	25.70	2.8	7.4	14	0.6	8.4
Valero Energy Corporation	VLO	47.00	0.3	6.3	9	1.0	6.9
ENI S.p.A.	E	98.52	1.6	5.8	12	4.5	6.3
ConocoPhillips	COP B	67.25	0.7	5.8	9	2.6	6.9
PetroChina Company Ltd (10%)	PTR B	62.10	3.1	5.7	12	3.3	5.9
Marathon Oil Corporation	MRO B	34.08	0.4	5.5	12	2.9	6.9
Petro-Canada	PCZ	51.59	1.7	5.1	15	0.6	5.3
OAo Lukoil	LUKOY	95.00	1.0	5.0	9	2.7	5.5
Norsk Hydro ASA (49%)	NHY B	65.45	0.9	4.4	12	2.4	5.9
Petroleo Brasileiro S. A.	PBR	32.40	1.7	4.2	5	3.1	4.9
	<i>Median</i>		<i>1.6</i>	<i>5.8</i>	<i>12</i>	<i>2.6</i>	<i>6.9</i>
Independent Natural Gas and Oil							
CNOOC Limited (19%)	CEO B	43.12	5.0	6.3	12	3.7	7.0
XTO Energy Inc.	XTO B	28.43	4.3	5.7	10	0.1	6.4
Pioneer Natural Resources Company	PXD	32.75	3.8	5.4	14	-	6.7
Occidental Petroleum Corp.	OXY	43.70	2.5	5.2	9	2.4	5.8
Anadarko Petroleum Corp.	APC B	52.55	3.7	5.2	9	1.1	6.7
Encana Corporation	ECA B	41.29	2.5	5.1	12	0.7	6.6
Unocal Corporation	UCL	37.40	2.4	5.1	11	2.1	6.3
Apache Corporation	APA	81.56	3.5	4.9	10	0.6	5.5
Burlington Resources	BR B	56.33	3.5	4.9	10	1.1	6.4
Canadian Natural Resources Limited	CNQ	55.17	3.3	4.7	10	0.8	5.6
Pogo Producing Company	PPP	49.55	2.9	4.2	10	0.4	4.2
Devon Energy	DVN	58.40	2.8	4.1	7	-	5.4
	<i>Median</i>		<i>3.4</i>	<i>5.1</i>	<i>10</i>	<i>0.8</i>	<i>6.4</i>
Service							
Baker Hughes Inc.	BHI	32.65	2.2	11.9	30	1.4	11.0
Halliburton Company	HAL	26.12	1.0	11.6	24	1.9	12.1
Schlumberger Ltd.	SLB	55.51	2.8	10.0	34	1.4	10.7
	<i>Median</i>		<i>2.2</i>	<i>11.6</i>	<i>30</i>	<i>1.4</i>	<i>11.0</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 Earnings; PV = Present Value of oil and gas and other businesses

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A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 6, 2004

Table 1-3
Energy Producers
Determinants of Present Value

	<i>Symbol/ Rating</i>	<i>NG & O Prod/ Ebitda (%)</i>	<i>N. Am. Gas/ Ebitda (%)</i>	<i>Adjusted Reserves/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Mcf</i>	<i>McDep Ratio 5-Jan 2004</i>
Mega Cap							
Total S.A.	TOT	80	1	9.3	8.5	1.74	0.92
Royal Dutch/Shell	RD B	74	5	9.7	8.1	1.27	0.85
BP plc	BP	80	13	10.3	8.5	1.46	0.85
ChevronTexaco Corporation	CVX B	78	12	10.5	7.4	0.98	0.80
Exxon Mobil Corporation	XOM	71	11	11.1	7.8	1.52	1.01
	<i>Median</i>	<i>78</i>	<i>11</i>	<i>10.3</i>	<i>8.1</i>	<i>1.46</i>	<i>0.85</i>
Producer/Refiners - Large Cap and Mid Cap							
Valero Energy Corporation	VLO	-	-	-	6.9	-	0.92
Kinder Morgan, Inc.	KMI S	-	-	-	7.7	-	1.64
Petro-Canada	PCZ	82	24	7.2	5.3	1.21	0.96
Murphy Oil Corporation	MUR	93	30	7.3	7.5	3.49	1.03
Norsk Hydro ASA (49%)	NHY B	66	-	8.9	5.9	0.25	0.75
Marathon Oil Corporation	MRO B	74	27	9.0	6.9	1.02	0.80
Petroleo Brasileiro S. A.	PBR	93	-	9.9	4.9	0.85	0.86
ENI S.p.A.	E	56	-	9.9	6.3	0.77	0.93
Imperial Oil Limited (30%)	IMO	72	19	10.2	7.4	1.39	1.07
ConocoPhillips	COP B	74	17	11.2	6.9	0.88	0.84
PetroChina Company Ltd (10%)	PTR B	78	-	16.0	5.9	1.05	0.96
Suncor Energy	SU	93	9	19.0	8.4	0.97	0.87
OAOLukoil	LUKOY	48	-	20.0	5.5	0.07	0.91
	<i>Median</i>	<i>74</i>	<i>-</i>	<i>9.9</i>	<i>6.9</i>	<i>0.97</i>	<i>0.92</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	100	36	5.8	4.2	2.45	0.99
Canadian Natural Resources Limited	CNQ	100	51	7.2	5.6	1.41	0.84
Devon Energy	DVN	100	68	7.5	5.4	1.59	0.76
Apache Corporation	APA	100	46	8.1	5.5	1.91	0.89
Unocal Corporation	UCL	100	35	8.4	6.3	1.55	0.80
Encana Corporation	ECA B	98	72	9.0	6.6	1.20	0.79
XTO Energy Inc.	XTO B	100	88	9.5	6.4	2.08	0.89
Anadarko Petroleum Corp.	APC B	100	60	10.1	6.7	1.33	0.77
Pioneer Natural Resources Company	PXD	100	66	10.3	6.7	1.24	0.80
Burlington Resources	BR B	100	73	10.4	6.4	1.21	0.76
CNOOC Limited (19%)	CEO B	100	-	10.7	7.0	1.93	0.90
Occidental Petroleum Corp.	OXY	90	19	10.9	5.8	1.43	0.91
	<i>Median</i>	<i>100</i>	<i>56</i>	<i>9.3</i>	<i>6.4</i>	<i>1.49</i>	<i>0.82</i>

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A Weekly Analysis of Energy Stocks Using the McDep Ratio

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Table 2-1
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) 5-Jan 2004</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								
Spinnaker Exploration Company	SKE	32.86	33.9	1,110	28.00	0.08	1.16	
Southwestern Energy Company	SWN	24.45	36.0	880	21.00	0.28	1.12	
Energy Partners Ltd.	EPL	B	14.29	39.2	560	15.00	0.18	0.96
Western Gas Resources	WGR	47.56	37.0	1,760	50.00	0.17	0.96	
Newfield Exploration Company	NFX	44.84	56.0	2,510	52.00	0.24	0.90	
Chesapeake Energy Corporation	CHK	13.74	220	3,020	18.00	0.35	0.85	
Stone Energy Company	SGY	43.78	26.6	1,170	58.00	0.23	0.81	
Westport Resources Corporation	WRC	31.02	68.0	2,110	42.00	0.22	0.80	
Range Resources Corporation	RRC	10.30	57.0	590	15.00	0.32	0.79	
Cimarex Energy Company	XEC	B	27.15	42.0	1,140	35.00	0.00	0.78
Denbury Resources Inc.	DNR	13.68	55.7	760	20.00	0.25	0.76	
Forest Oil Corporation	FST	29.51	49.0	1,450	45.00	0.30	0.76	
The Houston Exploraton Company	THX	37.60	31.0	1,170	55.00	0.13	0.72	
St. Mary Land and Exploration Company	SM	29.25	29.0	850	43.00	0.12	0.72	
<i>Total or Median</i>				<i>19,100</i>		<i>0.23</i>	<i>0.80</i>	
Long Life								
Ultra Petroleum Corp.	UPL	25.43	78.0	1,980	16.00	0.08	1.54	
Unit Corporation	UNT	23.50	43.7	1,030	22.00	0.02	1.07	
Penn Virginia Corporation	PVA	58.85	9.1	540	56.00	0.17	1.04	
Berry Petroleum Company	BRY	20.64	22.1	456	22.00	0.12	0.95	
Quicksilver Resources Inc.	KWK	33.00	23.0	760	37.00	0.25	0.92	
Swift Energy Company	SFY	18.10	27.4	500	22.00	0.37	0.89	
Evergreen Resources, Inc.	EVG	32.95	44.0	1,450	42.00	0.12	0.81	
Magnum Hunter Resources, Inc.	MHR	9.77	68.0	660	15.00	0.38	0.78	
Encore Acquisition Corp.	EAC	B	24.32	30.3	738	33.00	0.13	0.77
Vintage Petroleum, Inc.	VPI	12.31	63.0	780	27.00	0.32	0.63	
<i>Total or Median</i>				<i>8,900</i>		<i>0.15</i>	<i>0.90</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.64	35.8	59	1.00	0.84	1.11	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.01	48.0	96	2.80	0.28	0.79	

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

	Symbol/ Rating	Price (\$/sh) 5-Jan 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Short Life							
Western Gas Resources	WGR	47.56	0.8	9.3	20	-	9.7
Southwestern Energy Company	SWN	24.45	3.5	6.2	12	-	5.6
Spinnaker Exploration Company	SKE	32.86	4.7	5.3	15	-	4.6
Energy Partners Ltd.	EPL	14.29	3.0	4.7	19	-	4.9
Chesapeake Energy Corporation	CHK	13.74	3.4	4.5	9	0.9	5.4
Stone Energy Company	SGY	43.78	3.2	4.4	10	-	5.4
Denbury Resources Inc.	DNR	13.68	2.9	4.3	7	-	5.6
Cimarex Energy Company	XEC	27.15	3.3	4.2	10	-	5.4
Forest Oil Corporation	FST	29.51	3.1	4.2	7	-	5.5
Westport Resources Corporation	WRC	31.02	3.2	4.2	11	-	5.2
Range Resources Corporation	RRC	10.30	3.2	4.0	7	0.4	5.1
Newfield Exploration Company	NFX	44.84	2.8	4.0	9	-	4.4
St. Mary Land and Exploration Company	SM	29.25	2.6	3.9	10	0.3	5.5
The Houston Exploraton Company	THX	37.60	2.4	2.9	6	-	4.0
	<i>Median</i>		<i>3.1</i>	<i>4.3</i>	<i>10</i>	<i>-</i>	<i>5.4</i>
Long Life							
Ultra Petroleum Corp.	UPL	25.43	13.3	17.5	30	-	11.3
Quicksilver Resources Inc.	KWK	33.00	5.5	8.3	15	-	9.0
Berry Petroleum Company	BRY	20.64	3.8	8.1	17	2.1	8.5
Evergreen Resources, Inc.	EVG	32.95	5.4	7.2	12	-	8.9
Unit Corporation	UNT	23.50	3.2	7.1	17	-	6.7
Penn Virginia Corporation	PVA	58.85	3.6	6.4	14	1.5	6.2
Swift Energy Company	SFY	18.10	4.0	6.0	15	-	6.8
Magnum Hunter Resources, Inc.	MHR	9.77	3.3	5.1	10	-	6.5
Encore Acquisition Corp.	EAC	24.32	3.6	5.0	10	-	6.4
Vintage Petroleum, Inc.	VPI	12.31	2.2	3.9	8	1.5	6.1
	<i>Median</i>		<i>3.7</i>	<i>6.8</i>	<i>15</i>	<i>-</i>	<i>6.7</i>
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.64	7.6	12.1		-	10.9
Purcell Energy, Ltd. (US\$)	PEL.TO	2.01	3.7	5.0	10	-	6.4

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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Table 2-3
Independent Natural Gas and Oil Producers - Small Cap
Determinants of Present Value

	<i>Symbol/ Rating</i>	<i>NG & O Prod/ Ebitda (%)</i>	<i>N. Am. Gas/ Ebitda (%)</i>	<i>Adjusted Reserves/ Production NTM</i>	<i>PV/ Ebitda NTM</i>	<i>1/5/04 EV/ Mcfe</i>	<i>McDep Ratio</i>
Short Life							
Spinnaker Exploration Company	SKE	100	83	4.3	4.6	6.05	1.16
Newfield Exploration Company	NFX	100	85	5.2	4.4	2.96	0.90
The Houston Exploraton Company	THX	100	94	5.2	4.0	2.57	0.72
Energy Partners Ltd.	EPL	B	100	65	5.5	4.9	2.87
Cimarex Energy Company	XEC	B	100	79	6.2	5.4	2.80
Stone Energy Company	SGY		100	68	7.1	5.4	2.47
St. Mary Land and Exploration Company	SM		100	67	6.8	5.5	1.94
Chesapeake Energy Corporation	CHK		100	91	7.8	5.4	2.34
Westport Resources Corporation	WRC		100	73	7.8	5.2	2.22
Western Gas Resources	WGR		61	61	7.9	9.7	3.05
Southwestern Energy Company	SWN		89	75	8.4	5.6	2.86
Range Resources Corporation	RRC		100	79	8.6	5.1	1.96
Forest Oil Corporation	FST		100	78	8.7	5.5	1.87
Denbury Resources Inc.	DNR		100	52	8.9	5.6	1.76
	<i>Median</i>		<i>76</i>	<i>7.4</i>	<i>5.4</i>	<i>2.52</i>	<i>0.80</i>
Long Life							
Penn Virginia Corporation	PVA		78	64	9.4	6.2	1.58
Unit Corporation	UNT		63	56	9.5	6.7	2.90
Magnum Hunter Resources, Inc.	MHR		100	71	10.0	6.5	1.74
Swift Energy Company	SFY		100	33	11.1	6.8	1.43
Encore Acquisition Corp.	EAC	B	100	21	12.0	6.4	1.49
Ultra Petroleum Corp.	UPL		100	96	14.5	11.3	4.48
Berry Petroleum Company	BRY		100	-	14.6	8.5	0.99
Vintage Petroleum, Inc.	VPI		100	31	15.9	6.1	0.61
Evergreen Resources, Inc.	EVG		100	100	17.2	8.9	1.67
Quicksilver Resources Inc.	KWK		100	88	18.5	9.0	1.44
	<i>Median</i>		<i>60</i>	<i>13.2</i>	<i>6.7</i>	<i>1.54</i>	<i>0.90</i>
Micro Cap							
Purcell Energy, Ltd. (USS)	PEL.TO		100	79	6.4	6.4	1.49
Abraxas Petroleum Corporation	ABP		100	79	11.7	10.9	2.88

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