

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

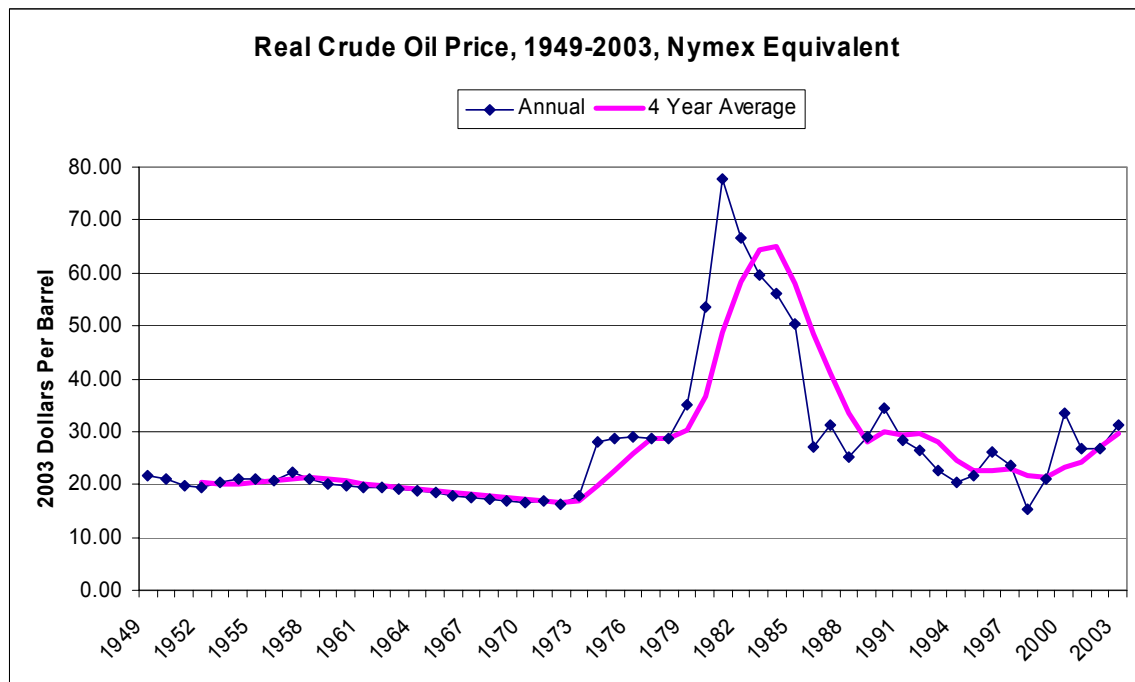
January 21, 2004

Oil Looks Higher

Summary and Recommendation

Despite risk of a seasonal decline from current levels, oil price looks higher than widely perceived for the next decade. Measured by the four-year average, oil climbed from \$17 a barrel in 1973 to \$65 in 1984 and slid to \$21 in 1999 (see chart). At \$30 a barrel last year we seem to be only a few dollars and a few years into a new climb that may see the real price of oil double again. The fundamental business cycle also appears to be working as price is increasing to encourage investment in new capacity. In an ironic sidelight to the new cycle, the leader of oil producer Libya appears to be working to bring back the companies that were thrown out three decades ago including our buy recommendations **ConocoPhillips (COP)** and **Marathon (MRO)**.

New Oil Cycle Rising



To build the price chart we took Energy Information Administration data for the average domestic first purchase price for crude oil for the U.S. from 1949 to 1976 and for Texas thereafter. We used the Texas data rather than the national data after 1976 because new

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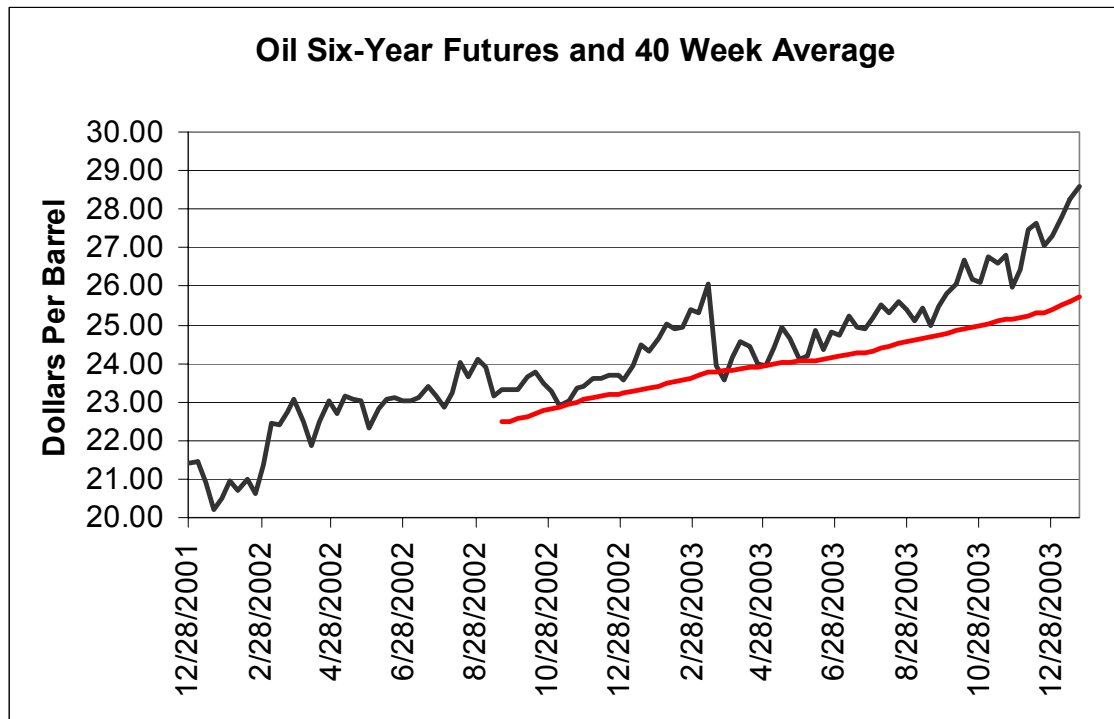
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volumes from Alaska made the national data less representative of the single grade of crude oil quoted on the New York Mercantile Exchange (Nymex). We further scaled up the historical data by 9.8% to make it more comparable to the Nymex pricing point for West Texas Intermediate grade delivered to Cushing, Oklahoma. The suspiciously smooth trends through 1973 and from 1974 to 1978 are partly due to import quotas and then price controls. Finally we adjusted nominal price to real price in constant 2003 dollars using the consumer price index from the Bureau of Labor Statistics.

A rising oil price trend can be even more powerful than it looks. The futures market regularly indicates lower future prices. Wall Street oil analysts and investment strategists typically forecast oil price declines. A change in mentality from decline to just moderate advance would have a magnified impact on the valuation of oil and gas producers.

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) 20-Jan 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM	40.88	6,652	272,000	43.00	0.08	0.95	
Total S.A.	TOT	91.50	1,261	115,400	105.00	0.17	0.89	
BP plc	BP	48.76	3,682	180,000	60.00	0.13	0.84	
Royal Dutch/Shell	RD	B	48.01	3,473	167,000	60.00	0.17	0.83
ChevronTexaco Corporation	CVX	B	86.03	1,064	91,500	115.00	0.17	0.79
	<i>Total or Median</i>			826,000		0.17	0.84	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S	60.44	124	7,520	14.00	0.80	1.67
Imperial Oil Limited (30%)	IMO		48.17	111	5,350	43.00	0.12	1.11
Murphy Oil Corporation	MUR		64.10	93	5,950	62.00	0.20	1.03
Petro-Canada	PCZ		52.32	265	13,860	54.00	0.12	0.97
Valero Energy Corporation	VLO		52.10	120	6,250	55.00	0.42	0.97
Suncor Energy	SU		26.84	475	12,750	30.00	0.12	0.91
ENI S.p.A.	E		94.98	755	71,700	108.00	0.16	0.90
Petroleo Brasileiro S. A.	PBR		34.11	1,096	37,400	40.00	0.28	0.89
ConocoPhillips	COP	B	66.57	680	45,300	88.00	0.33	0.84
PetroChina Company Ltd (10%)	PTR	B	51.75	176	9,100	65.00	0.09	0.81
Marathon Oil Corporation	MRO	B	34.12	310	10,580	47.00	0.27	0.80
Norsk Hydro ASA	NHY	B	65.60	257	16,860	95.00	0.19	0.75
Lukoil Oil Company	LUKOY	B	100.00	211	21,000	140.00	0.07	0.73
	<i>Total or Median</i>			264,000		0.19	0.90	
Independent Natural Gas and Oil								
Pogo Producing Company	PPP		47.37	64	3,030	50.00	0.10	0.95
Apache Corporation	APA		42.40	324	13,700	47.00	0.19	0.92
Occidental Petroleum Corp.	OXY		44.38	391	17,400	50.00	0.26	0.92
CNOOC Limited (19%)	CEO	B	41.84	78	3,270	48.00	-	0.87
XTO Energy Inc.	XTO	B	27.75	186	5,170	33.00	0.19	0.87
Canadian Natural Resources Limited	CNQ		53.96	137	7,390	72.00	0.34	0.83
Unocal Corporation	UCL		38.66	273	10,600	52.00	0.28	0.82
Encana Corporation	ECA	B	43.31	470	20,400	56.00	0.19	0.82
Pioneer Natural Resources Company	PXD		33.05	119	3,930	45.00	0.26	0.80
Burlington Resources	BR	B	58.45	201	11,700	80.00	0.21	0.78
Anadarko Petroleum Corp.	APC	B	52.16	251	13,100	76.00	0.26	0.77
Devon Energy	DVN		60.10	241	14,500	90.00	0.30	0.77
	<i>Total or Median</i>			124,000		0.23	0.83	
Service								
Baker Hughes Inc.	BHI		34.14	336	11,500	30.00	0.07	1.13
Halliburton Company	HAL		28.40	435	12,400	28.00	0.28	1.01
Schlumberger Ltd.	SLB		55.63	585	32,500	60.00	0.17	0.94
	<i>Total or Median</i>			56,000		0.17	1.01	

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 21, 2004

Table 1-2

Energy Producers

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

	Symbol/ Rating	Price (\$/sh) 20-Jan 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM
Mega Cap							
Exxon Mobil Corporation	XOM	40.88	1.2	8.1	16	2.4	8.4
Total S.A.	TOT	91.50	1.2	7.2	14	3.8	8.1
BP plc	BP	48.76	0.9	6.8	14	3.2	8.1
Royal Dutch/Shell	RD B	48.01	1.0	6.2	13	4.6	7.4
ChevronTexaco Corporation	CVX B	86.03	0.9	5.8	10	3.4	7.3
	<i>Median</i>		<i>1.0</i>	<i>6.8</i>	<i>14</i>	<i>3.4</i>	<i>8.1</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S	60.44	3.0	12.9	19	2.6	7.7
Imperial Oil Limited (30%)	IMO	48.17	1.4	8.2	16	1.4	7.4
Murphy Oil Corporation	MUR	64.10	1.6	7.7	19	1.2	7.5
Suncor Energy	SU	26.84	2.9	7.6	14	0.6	8.4
Valero Energy Corporation	VLO	52.10	0.3	6.6	10	0.9	6.9
ConocoPhillips	COP B	66.57	0.7	5.8	9	2.6	6.9
ENI S.p.A.	E	94.98	1.6	5.7	12	4.6	6.3
Marathon Oil Corporation	MRO B	34.12	0.4	5.5	12	2.9	6.9
Petro-Canada	PCZ	52.32	1.7	5.1	15	0.6	5.3
PetroChina Company Ltd (10%)	PTR B	51.75	2.7	4.8	10	3.9	5.9
Petroleo Brasileiro S. A.	PBR	34.11	1.8	4.4	6	3.0	4.9
Norsk Hydro ASA	NHY B	65.60	0.8	4.3	11	2.4	5.7
Lukoil Oil Company	LUKOY B	100.00	0.9	3.9	6	2.6	5.4
	<i>Median</i>		<i>1.6</i>	<i>5.7</i>	<i>12</i>	<i>2.6</i>	<i>6.9</i>
Independent Natural Gas and Oil							
CNOOC Limited (19%)	CEO B	41.84	4.8	6.1	12	3.8	7.0
XTO Energy Inc.	XTO B	27.75	4.2	5.6	10	0.1	6.4
Pioneer Natural Resources Company	PXD	33.05	3.9	5.4	14	-	6.7
Encana Corporation	ECA B	43.31	2.6	5.4	13	0.7	6.6
Occidental Petroleum Corp.	OXY	44.38	2.5	5.3	9	2.3	5.8
Unocal Corporation	UCL	38.66	2.5	5.2	11	2.1	6.3
Anadarko Petroleum Corp.	APC B	52.16	3.7	5.2	9	1.1	6.7
Apache Corporation	APA	42.40	3.6	5.1	10	0.6	5.5
Burlington Resources	BR B	58.45	3.6	5.0	10	1.0	6.4
Canadian Natural Resources Limited	CNQ	53.96	3.3	4.7	10	0.8	5.6
Devon Energy	DVN	60.10	2.8	4.2	7	-	5.4
Pogo Producing Company	PPP	47.37	2.8	4.0	9	0.4	4.2
	<i>Median</i>		<i>3.4</i>	<i>5.2</i>	<i>10</i>	<i>0.8</i>	<i>6.4</i>
Service							
Baker Hughes Inc.	BHI	34.14	2.3	12.4	32	1.3	11.0
Halliburton Company	HAL	28.40	1.0	12.3	26	1.8	12.1
Schlumberger Ltd.	SLB	55.63	2.8	10.0	34	1.3	10.7
	<i>Median</i>		<i>2.3</i>	<i>12.3</i>	<i>32</i>	<i>1.3</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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Table 1-3
Energy Producers
Determinants of Present Value

	Symbol/ Rating		NG & O Prod/ Ebitda (%)	N. Am. Gas/ Ebitda (%)	Adjusted Reserves/ Prod NTM	PV/ Ebitda NTM	NG&O Ebitda/ mcf	McDep Ratio 20-Jan 2004
Mega Cap								
Royal Dutch/Shell	RD	B	74	6	8.4	7.4	2.92	0.83
Total S.A.	TOT		76	1	9.3	8.1	2.80	0.89
BP plc	BP		79	13	10.3	8.1	3.13	0.84
ChevronTexaco Corporation	CVX	B	78	12	10.5	7.3	2.78	0.79
Exxon Mobil Corporation	XOM		74	12	11.3	8.4	3.02	0.95
		<i>Median</i>	76	12	10.3	8.1	2.92	0.84
Producer/Refiners - Large Cap and Mid Cap								
Valero Energy Corporation	VLO		-	-		6.9		0.97
Kinder Morgan, Inc.	KMI	S	-	-		7.7		1.67
Petro-Canada	PCZ		82	24	7.2	5.3	2.16	0.97
Murphy Oil Corporation	MUR		93	30	7.3	7.5	3.43	1.03
Norsk Hydro ASA	NHY	B	67	-	8.9	5.7	1.08	0.75
Marathon Oil Corporation	MRO	B	74	27	9.0	6.9	2.81	0.80
Petroleo Brasileiro S. A.	PBR		93	-	9.9	4.9	2.47	0.89
ENI S.p.A.	E		56	-	9.9	6.3	2.52	0.90
Imperial Oil Limited (30%)	IMO		72	19	10.2	7.4	2.29	1.11
ConocoPhillips	COP	B	74	17	11.2	6.9	2.70	0.84
PetroChina Company Ltd (10%)	PTR	B	78	-	16.0	5.9	3.94	0.81
Suncor Energy	SU		93	9	19.0	8.4	3.07	0.91
Lukoil Oil Company	LUKOY	B	49	-	20.0	5.4	0.80	0.73
		<i>Median</i>	74	-	9.9	6.9	2.52	0.90
Independent Natural Gas and Oil								
Pogo Producing Company	PPP		100	36	5.8	4.2	3.43	0.95
Canadian Natural Resources Limited	CNQ		100	51	7.2	5.6	2.56	0.83
Devon Energy	DVN		100	68	7.5	5.4	3.81	0.77
Apache Corporation	APA		100	46	8.1	5.5	3.54	0.92
Unocal Corporation	UCL		100	35	8.4	6.3	3.22	0.82
Encana Corporation	ECA	B	98	72	9.0	6.6	2.72	0.82
XTO Energy Inc.	XTO	B	100	88	9.5	6.4	3.94	0.87
Anadarko Petroleum Corp.	APC	B	100	60	10.1	6.7	3.33	0.77
Pioneer Natural Resources Company	PXD		100	66	10.3	6.7	3.01	0.80
Burlington Resources	BR	B	100	73	10.4	6.4	3.35	0.78
CNOOC Limited (19%)	CEO	B	100	-	10.7	7.0	3.63	0.87
Occidental Petroleum Corp.	OXY		90	19	10.9	5.8	3.65	0.92
		<i>Median</i>	100	56	9.3	6.4	3.39	0.83

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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

	Symbol/ Rating	Price (\$/sh) 20-Jan 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Short Life								
Spinnaker Exploration Company	SKE	33.50	33.9	1,140	28.00	0.08	1.18	
Southwestern Energy Company	SWN	23.43	36.0	840	21.00	0.28	1.08	
Western Gas Resources	WGR	48.85	37.0	1,810	50.00	0.17	0.98	
Energy Partners Ltd.	EPL	14.50	39.1	567	15.00	0.18	0.97	
Newfield Exploration Company	NFX	46.77	56.0	2,620	52.00	0.24	0.92	
Chesapeake Energy Corporation	CHK	13.64	220	3,000	18.00	0.35	0.84	
Stone Energy Company	SGY	43.70	26.6	1,160	58.00	0.23	0.81	
Westport Resources Corporation	WRC	31.25	68.0	2,130	42.00	0.22	0.80	
Range Resources Corporation	RRC	10.60	57.0	600	15.00	0.32	0.80	
Cimarex Energy Company	XEC	B	27.50	42.0	1,160	35.00	0.00	0.79
Denbury Resources Inc.	DNR	14.22	55.7	790	20.00	0.25	0.78	
St. Mary Land and Exploration Company	SM	30.44	29.0	880	43.00	0.12	0.74	
Forest Oil Corporation	FST	28.05	49.0	1,370	45.00	0.30	0.73	
The Houston Exploration Company	THX	37.50	31.0	1,160	55.00	0.13	0.72	
		<i>Total or Median</i>		<i>19,200</i>		<i>0.23</i>	<i>0.81</i>	
Long Life								
Ultra Petroleum Corp.	UPL	25.24	78.0	1,970	16.00	0.08	1.53	
Unit Corporation	UNT	25.56	43.7	1,120	22.00	0.02	1.16	
Penn Virginia Corporation	PVA	60.10	9.1	550	56.00	0.17	1.06	
Quicksilver Resources Inc.	KWK	37.23	23.0	860	37.00	0.25	1.00	
Berry Petroleum Company	BRY	20.49	22.1	453	22.00	0.12	0.94	
Swift Energy Company	SFY	19.00	27.4	520	22.00	0.37	0.92	
Evergreen Resources, Inc.	EVG	34.73	44.0	1,530	42.00	0.12	0.85	
Encore Acquisition Corp.	EAC	B	25.75	30.3	781	33.00	0.13	0.81
Magnum Hunter Resources, Inc.	MHR	9.37	68.0	640	15.00	0.38	0.77	
Vintage Petroleum, Inc.	VPI	13.45	63.0	850	27.00	0.32	0.66	
		<i>Total or Median</i>		<i>9,300</i>		<i>0.15</i>	<i>0.93</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.78	35.8	64	1.00	0.84	1.13	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.00	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.

		<i>Price</i> <i>(\$/sh)</i>	<i>EV/</i> <i>Sales</i>	<i>EV/</i> <i>Ebitda</i>	<i>P/E</i> <i>NTM</i>	<i>Divd or</i> <i>Distrib</i> <i>NTM</i>	<i>PV/</i> <i>Ebitda</i> <i>NTM</i>	
<i>Symbol/</i>	<i>Rating</i>	<i>20-Jan</i> <i>2004</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>NTM</i>	
Short Life								
Western Gas Resources	WGR	48.85	0.8	9.5	20	-	9.7	
Southwestern Energy Company	SWN	23.43	3.3	5.8	11	-	5.3	
Spinnaker Exploration Company	SKE	33.50	4.6	5.1	14	-	4.3	
Energy Partners Ltd.	EPL	14.50	2.9	4.5	16	-	4.6	
Chesapeake Energy Corporation	CHK	13.64	3.3	4.4	8	0.9	5.2	
Denbury Resources Inc.	DNR	14.22	2.9	4.3	7	-	5.4	
Stone Energy Company	SGY	43.70	3.0	4.2	9	-	5.1	
Cimarex Energy Company	XEC	B	27.50	3.2	4.1	10	-	5.2
Westport Resources Corporation	WRC	31.25	3.1	4.0	10	-	5.0	
Range Resources Corporation	RRC	10.60	3.1	3.9	7	0.4	4.9	
Newfield Exploration Company	NFX	46.77	2.8	3.9	9	-	4.2	
St. Mary Land and Exploration Company	SM	30.44	2.6	3.9	10	0.3	5.2	
Forest Oil Corporation	FST	28.05	2.9	3.8	6	-	5.2	
The Houston Exploraton Company	THX	37.50	2.3	2.8	6	-	3.9	
	<i>Median</i>		<i>3.0</i>	<i>4.1</i>	<i>9</i>	<i>-</i>	<i>5.1</i>	
Long Life								
Ultra Petroleum Corp.	UPL	25.24	12.7	16.6	28	-	10.8	
Quicksilver Resources Inc.	KWK	37.23	5.8	8.6	16	-	8.6	
Berry Petroleum Company	BRY	20.49	3.6	7.6	15	2.1	8.0	
Unit Corporation	UNT	25.56	3.4	7.5	17	-	6.4	
Evergreen Resources, Inc.	EVG	34.73	5.4	7.3	12	-	8.6	
Penn Virginia Corporation	PVA	60.10	3.6	6.3	14	1.5	5.9	
Swift Energy Company	SFY	19.00	3.9	5.9	14	-	6.5	
Encore Acquisition Corp.	EAC	B	25.75	3.6	5.0	10	-	6.2
Magnum Hunter Resources, Inc.	MHR	9.37	3.1	4.8	9	-	6.2	
Vintage Petroleum, Inc.	VPI	13.45	2.3	3.9	8	1.3	5.9	
	<i>Median</i>		<i>3.6</i>	<i>6.8</i>	<i>14</i>	<i>-</i>	<i>6.5</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.78	7.3	11.4		-	10.1	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.00	3.5	4.8	9	-	6.0	

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

	Symbol/ Rating	NG & O Prod/ Ebitda (%)	N. Am. Gas/ Ebitda (%)	Adjusted Reserves/ Prod NTM	PV/ Ebitda NTM	NG&O Ebitda/ mcf	McDep Ratio 20-Jan 2004	
Short Life								
Spinnaker Exploration Company	SKE	100	83	4.3	4.3	5.20	1.18	
Newfield Exploration Company	NFX	100	86	5.2	4.2	4.08	0.92	
The Houston Exploraton Company	THX	100	94	5.2	3.9	4.80	0.72	
Energy Partners Ltd.	EPL	100	66	5.5	4.6	3.53	0.97	
Cimarex Energy Company	XEC	B	100	79	6.2	5.2	4.32	0.79
St. Mary Land and Exploration Company	SM	100	68	6.8	5.2	3.52	0.74	
Stone Energy Company	SGY	100	68	7.1	5.1	4.19	0.81	
Chesapeake Energy Corporation	CHK	100	91	7.8	5.2	4.13	0.84	
Westport Resources Corporation	WRC	100	74	7.8	5.0	4.32	0.80	
Western Gas Resources	WGR	61	61	7.9	9.7	2.57	0.98	
Southwestern Energy Company	SWN	90	76	8.4	5.3	4.06	1.08	
Range Resources Corporation	RRC	100	79	8.6	4.9	4.40	0.80	
Forest Oil Corporation	FST	100	79	8.7	5.2	4.12	0.73	
Denbury Resources Inc.	DNR	100	53	8.9	5.4	3.80	0.78	
	<i>Median</i>		77	7.4	5.1	4.12	0.81	
Long Life								
Penn Virginia Corporation	PVA	79	65	9.4	5.9	2.49	1.06	
Unit Corporation	UNT	64	57	9.5	6.4	4.09	1.16	
Magnum Hunter Resources, Inc.	MHR	100	71	10.0	6.2	3.57	0.77	
Swift Energy Company	SFY	100	33	11.1	6.5	2.74	0.92	
Encore Acquisition Corp.	EAC	B	100	22	12.0	6.2	3.76	0.81
Ultra Petroleum Corp.	UPL	100	96	14.5	10.8	3.88	1.53	
Berry Petroleum Company	BRY	100	-	14.6	8.0	1.90	0.94	
Vintage Petroleum, Inc.	VPI	100	32	15.9	5.9	2.61	0.66	
Evergreen Resources, Inc.	EVG	100	100	17.2	8.6	4.12	0.85	
Quicksilver Resources Inc.	KWK	100	88	18.5	8.6	3.37	1.00	
	<i>Median</i>		61	13.2	6.5	3.47	0.93	
Micro Cap								
Purcell Energy, Ltd. (US\$)	PEL.TO	100	79	6.4	6.0	2.00	0.79	
Abraxas Petroleum Corporation	ABP	100	79	11.7	10.1	3.02	1.13	

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