

Twice-in-a-Lifetime Oil Opportunity

Summary and Recommendation

Every day that goes by with oil futures at high levels compared to recent history persuades more investors that the long term price of oil is higher than that reflected in stock price. Yet, only a minority of investors, it seems, give much credence to our headline. Presuming the premise is valid as we believe to be the case, the appreciation in oil stocks has further to run. Analytically oriented investors might scan our rankings for the lowest McDep Ratio stock, buy as much as risk tolerance allows, and move on to the next lowest McDep Ratio. Taking that approach, we recommend a half unlevered position each in **Lukoil (LUKOY)** and **PetroChina (PTR)**, full unlevered positions in **Burlington Resources (BR)** and **Canadian Oil Sands Trust (COSWF)** and so on.

Prophets of Boom

Six-year futures of oil and natural gas have been derided as “That is just hedge funds!” Others would scoff at the influence of “speculators” and present detailed statistics to make the point. We see six-year futures as the leading, objective, far-sighted indicator of where commodity prices may be headed.

Last time around, in the mid 1970s, the leading, objective, far-sighted indicator was acquisition price for small independent producers. Smart persons were paying prices for companies that seemed far out of line with prevailing oil and gas prices. There was no transparent futures market for oil and gas in those days.

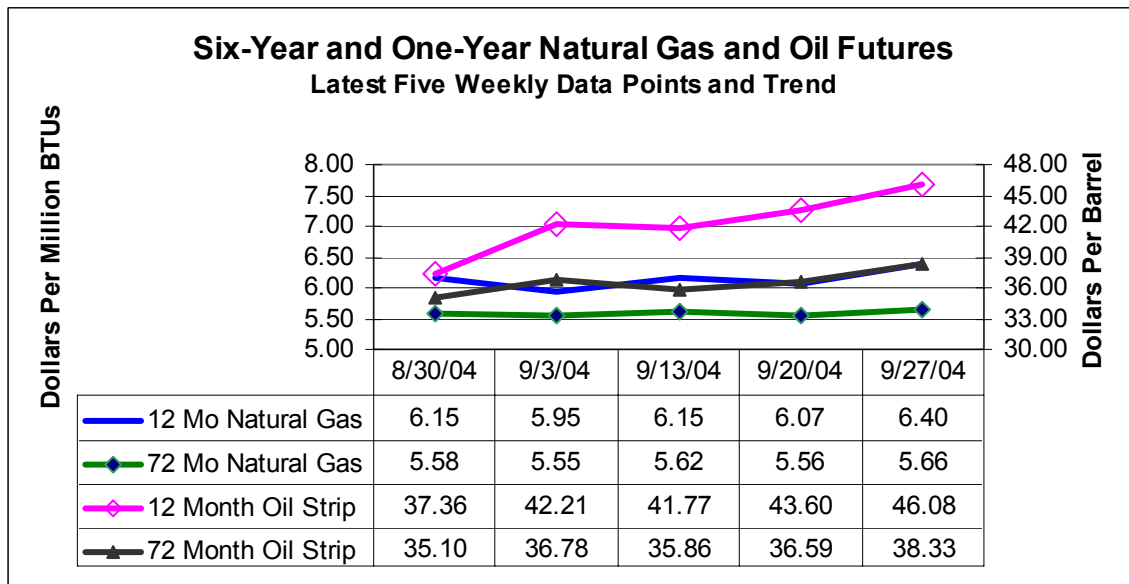
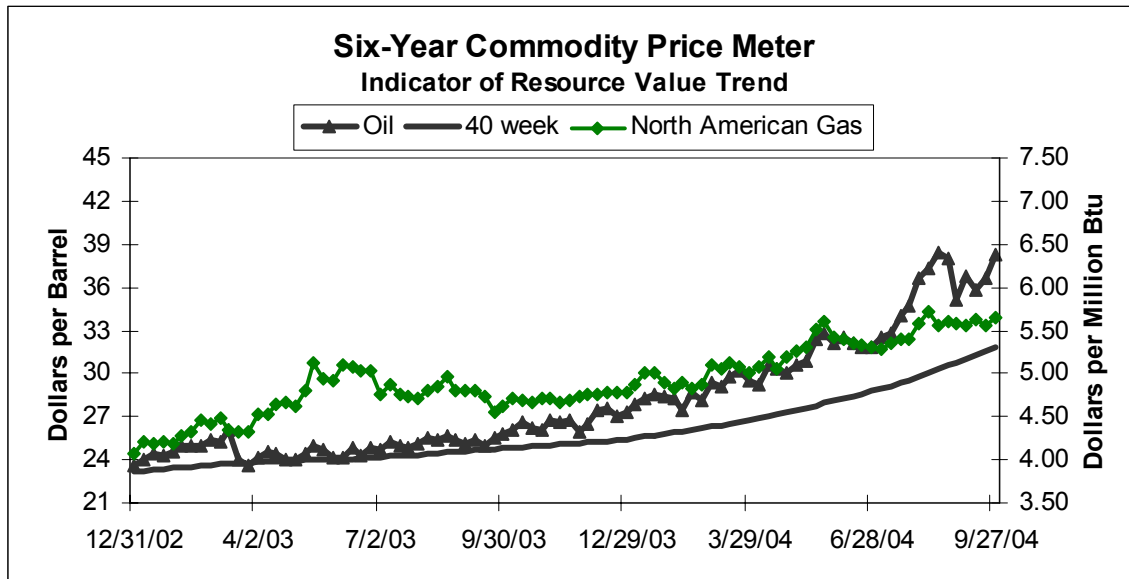
Indicators, though objective, can still be wrong. We think six-year futures are too low. It takes time for major changes in expectations to gain credibility. Yet the futures trend could also slow and even reverse temporarily without changing the direction of the positive investment case.

Kurt H. Wulff, CFA

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 28, 2004



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Rated Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 27-Sep 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B3	47.96	6,547	314,000	43.00	0.08	1.11
BP plc	BP	B3	57.88	3,651	211,000	60.00	0.13	0.97
Total S.A.	TOT	B3	104.38	1,237	129,200	113.00	0.16	0.94
Shell Transport and Trading Co. plc	SC	B3	44.69	1,587	71,000	51.20	0.17	0.89
Royal Dutch Petroleum	RD	B1	51.26	2,031	104,000	60.00	0.17	0.88
ChevronTexaco Corporation	CVX	B1	53.70	2,130	114,400	62.50	0.14	0.88
					<i>Total or Median</i>			
					944,000		0.15	0.92
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	61.64	125	7,710	20.00	0.73	1.56
Marathon Oil Corporation	MRO	B3	40.46	346	14,000	41.00	0.30	0.99
Imperial Oil Limited (30%)	IMO	B3	50.05	108	5,390	52.00	0.11	0.97
Suncor Energy	SU	B3	31.06	460	14,290	38.00	0.13	0.84
Norsk Hydro ASA	NHY	B1	72.31	256	18,480	90.00	0.16	0.84
ConocoPhillips	COP	B1	81.06	699	56,700	110.00	0.25	0.80
Petro-Canada	PCZ	B3	50.59	266	13,470	68.00	0.15	0.78
PetroChina Company Ltd (10%)	PTR	B2	52.04	176	9,150	82.00	0.06	0.65
Lukoil Oil Company	LUKOY	B2	125.75	209	26,000	208.00	0.05	0.62
					<i>Total or Median</i>			
					165,000		0.15	0.84
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	32.46	276	8,970	38.00	0.21	0.88
CNOOC Limited (19%)	CEO	B2	51.37	78	4,010	59.00	-	0.87
Unocal Corporation	UCL	B3	42.12	278	11,700	54.00	0.25	0.83
Encana Corporation	ECA	B1	45.21	471	21,300	63.00	0.25	0.79
Occidental Petroleum Corp.	OXY	B3	54.84	399	21,900	75.00	0.18	0.78
Anadarko Petroleum Corp.	APC	B1	65.24	254	16,600	94.00	0.21	0.76
Devon Energy Corporation	DVN	B3	73.87	249	18,400	110.00	0.24	0.75
Burlington Resources	BR	B1	39.90	397	15,800	58.00	0.14	0.73
					<i>Total or Median</i>			
					119,000		0.21	0.78
Independent Natural Gas and Oil - Small Cap								
Cimarex Energy Company	XEC	B2	34.49	43	1,470	38.00	0.00	0.91
Berry Petroleum Company	BRY	B2	37.69	22	840	43.00	0.06	0.88
Encore Acquisition Company	EAC	B2	33.60	33	1,100	47.00	0.20	0.77
Energy Partners Ltd.	EPL	B3	16.01	38	610	22.00	0.14	0.76
					<i>Total or Median</i>			
					4,000		0.10	0.83
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.33	145	6,720	15.00	0.49	2.06
Kinder Morgan Management, LLC	KMR	S3	40.68	54	2,200	15.00	0.49	1.87
San Juan Basin Royalty Trust	SJT	H	30.30	47	1,410	22.00	-	1.38
Canadian Oil Sands Trust (US\$)	COSWF	B1	42.59	93	3,970	62.00	0.19	0.75
					<i>Total or Median</i>			
					14,300		0.34	1.62

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy

S2 = Short half unlevered position, S3 = Short quarter unlevered position

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Rated Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 27-Sep 2004	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B3	47.96	11.1	6.2	6.8	12	2.3
Total S.A.	TOT	B3	104.38	9.1	6.7	6.3	11	2.8
BP plc	BP	B3	57.88	9.7	6.4	6.2	12	2.9
Shell Transport and Trading Co. plc	SC	B3	44.69	8.2	5.4	4.8	9	4.2
ChevronTexaco Corporation	CVX	B1	53.70	11.0	5.4	4.7	8	3.0
Royal Dutch Petroleum	RD	B1	51.26	8.2	5.4	4.7	9	4.2
	<i>Median</i>			9.4	5.8	5.5	10	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	61.64		8.5	13.2	16	3.7
Suncor Energy	SU	B3	31.06	18.3	7.8	6.6	15	0.6
Imperial Oil Limited (30%)	IMO	B3	50.05	10.9	6.1	5.8	10	1.4
Marathon Oil Corporation	MRO	B3	40.46	7.4	5.1	5.1	9	2.5
ConocoPhillips	COP	B1	81.06	11.2	5.6	4.5	7	2.1
Norsk Hydro ASA	NHY	B1	72.31	9.4	5.3	4.4	10	2.2
PetroChina Company Ltd (10%)	PTR	B2	52.04	13.5	6.3	4.1	8	4.5
Petro-Canada	PCZ	B3	50.59	7.7	5.1	4.0	8	0.9
Lukoil Oil Company	LUKOY	B2	125.75	20.0	4.8	3.0	5	2.6
	<i>Median</i>			11.0	5.6	4.5	9	2.2
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	32.46	11.7	6.8	6.0	12	0.1
CNOOC Limited (19%)	CEO	B2	51.37	10.4	6.0	5.2	10	3.5
Unocal Corporation	UCL	B3	42.12	9.0	5.6	4.7	9	1.9
Burlington Resources	BR	B1	39.90	10.2	6.4	4.6	9	0.9
Occidental Petroleum Corp.	OXY	B3	54.84	11.1	5.8	4.5	7	2.0
Anadarko Petroleum Corp.	APC	B1	65.24	11.4	5.9	4.5	8	0.9
Encana Corporation	ECA	B1	45.21	6.7	5.6	4.4	9	0.9
Devon Energy Corporation	DVN	B3	73.87	6.6	5.1	3.8	7	0.5
	<i>Median</i>			10.3	5.9	4.6	9	0.9
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B2	33.60	12.0	7.1	5.5	11	-
Berry Petroleum Company	BRY	B2	37.69	12.8	5.8	5.1	11	1.2
Cimarex Energy Company	XEC	B2	34.49	5.2	4.0	3.6	8	-
Energy Partners Ltd.	EPL	B3	16.01	5.0	3.9	3.0	9	-
	<i>Median</i>			8.6	4.9	4.3	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.33	12.0	7.9	16.2	23	6.1
Kinder Morgan Management, LLC	KMR	S3	40.68	12.0	7.9	14.7	20	7.0
San Juan Basin Royalty Trust	SJT	H	30.30	12.5	7.4	10.2	12	8.6
Canadian Oil Sands Trust (US\$)	COSWF	B1	42.59	20.0	7.9	5.9	7	3.7
	<i>Median</i>			12.2	7.9	12.4	16	6.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2005; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Index of Stock Ideas Recent Written Analyses

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
28-Sep	RD	Royal Dutch Petroleum	Low Risk, Attractive Reward
28-Sep	SC	Shell Transport & Trading Company, p.l.c.	Low Risk, Attractive Reward
20-Sep	BP	BP p.l.c.	Betting on Putin
20-Sep	LUKOY	Lukoil Oil Company	ConocoPhillips Partner
8-Sep	CEO	CNOOC Ltd ADS	Offshore China Independent Oil Producer
8-Sep	PTR	PetroChina Company Limited	Emerging Mega Cap
8-Sep	XTO	XTO Energy Inc.	Breakthrough Acquisitions
7-Sep	APC	Anadarko Petroleum Corporation	Commodity Alternative
7-Sep	XEC	Cimarex Energy Company	High Present Value per Barrel
3-Sep	EAC	Encore Acquisition Company	Rising Recovery and Leadership
2-Sep	ECA	EnCana Corporation	Encomparable
2-Sep	KMI	Kinder Morgan Inc.	Momentum Challenge
2-Sep	KMP	Kinder Morgan Energy Partners, L.P.	Momentum Challenge
2-Sep	KMR	Kinder Morgan Management, LLC	Momentum Challenge
31-Aug	COP	ConocoPhillips	Lukoil Investor?
27-Aug	EPL	Energy Partners, Ltd.	Volume Acceleration
27-Aug	MRO	Marathon Oil Corporation	Tilting to Refining
26-Aug	BP	BP p.l.c.	Russia Distinction
26-Aug	* TOT	Total S.A.	Shell Acquirer?
23-Aug	* OXY	Occidental Petroleum Corporation	Oil Rich
23-Aug	* UCL	Unocal Corporation	Asian Natural Gas and Oil
16-Aug	* IMO	Imperial Oil Limited	Choice Piece of ExxonMobil
16-Aug	* PCZ	Petro-Canada	Encana Partner
16-Aug	* SU	Suncor Energy Inc.	A Boone and Charlie Favorite
13-Aug	* BRY	Berry Petroleum Company	New Leader, New Prospects
12-Aug	* DVN	Devon Energy Corporation	Capable Leader, Short Reserve Life
10-Aug	* NHY	Norsk Hydro ASA	Tempered by Taxes
6-Aug	* XOM	Exxon Mobil Corporation	Low Risk with Oil Price Upside
4-Aug	* CVX	ChevronTexaco Corporation	Stock Price Lagging Oil Price
2-Aug	* SJT	San Juan Basin Royalty Trust	Change Buy to Hold on Price
29-Jul	* COSWF	Canadian Oil Sands Trust	Great North American Energy Resource
23-Jul	* BR	Burlington Resources, Inc.	Large Cap, Long Life, Low Debt Natural Gas

* Archived on www.mcdep.com

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