Rating: Buy
S&P 500: 1122

Burlington Resources, Inc.
Natural Gas Sensitivity

Symbol	BR	*Ebitda Next Twelve Months ending 9/30/05 (US$mm)*	4,800
Rating	Buy	*North American Natural Gas/Ebitda (%)*	63
Price ($/sh)	42.52	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	10/8/04	*Adjusted Reserves/Production NTM*	10.2
Shares (mm)	397	*EV/Ebitda*	4.3
Market Capitalization ($mm)	16,900	*PV/Ebitda*	5.6
Debt ($mm)	3,700	*Undeveloped Reserves (%)*	26
Enterprise Value (EV) ($mm)	20,600	*Natural Gas and Oil Ebitda ($/mcfe)*	4.80
Present Value (PV) ($mm)	26,700	*Present Value Proven Reserves($/boe)*	13.60
Net Present Value ($/share)	58	*Present Value Proven Reserves($/mcfe)*	2.30
Debt/Present Value	0.14	*Earnings Next Twelve Months (US$/sh)*	5.26
McDep Ratio - EV/PV	0.77	*Price/Earnings Next Twelve Months*	8
Dividend Yield (%/year)	0.8	*Indicated Annual Dividend (US$/sh)*	0.34

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

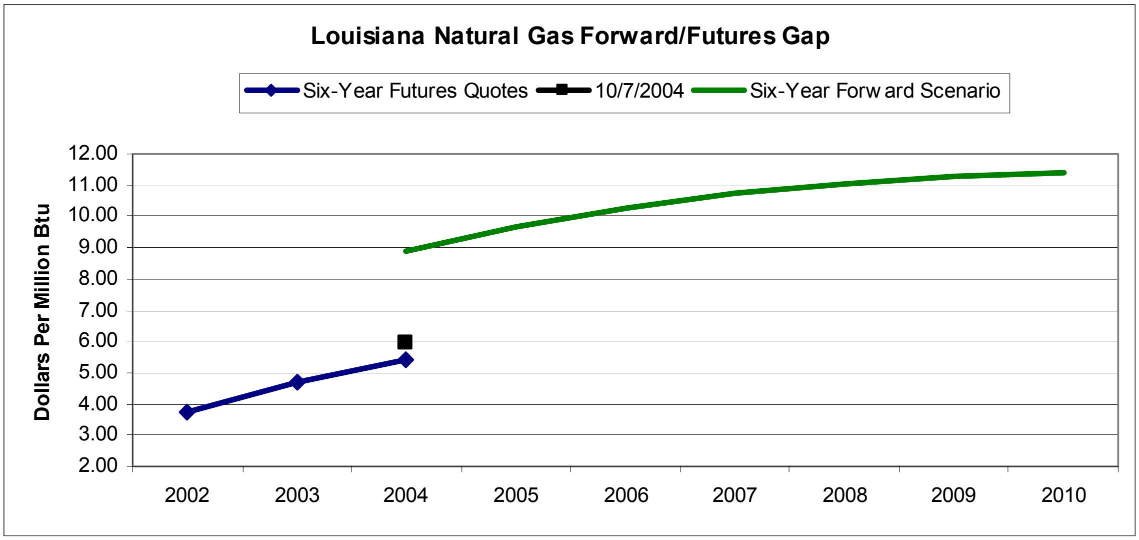
We continue to recommend current purchase of **Burlington Resources, Inc. (BR)** for large cap, long-life, low risk North American natural gas concentration. The stock trades as though the long-term price of the commodity was $27 a barrel according to our illustrative calculation. Estimated net present value of $58 a share presumes oil at $35 a barrel and implies that the stock can appreciate 36% before long. Believing that $35 a barrel is still low we describe a moderate oil price scenario of $50 a barrel. In that case net present value would become $86 a share. We think we are in period in economic history of rising long-term oil and gas value that justifies investment in Burlington Resources despite economic, political, industry and business risk.

Natural Gas Price Gaining with Oil Price

The value of the company depends mostly on natural gas that accounts for 63% of next twelve months production revenue. The actual concentration is even greater because much of BR's oil production is actually natural gas liquids produced in natural gas wells. Natural gas price depends on oil price in a fashion that reflects an increasing premium for environmental advantage. Our scenario for natural gas is our scenario for oil plus an uncompounded 2% per year adjustment that raises the premium 20% in ten years.

Publicly traded in the commodity markets, futures contracts for delivery over the next six years continue in a steep uptrend. Whether the trend will slow for awhile we cannot know. Six-year futures for oil have moved from the low $20s to the low $40s and could reach $50. At the same time, six-year futures for natural gas have moved from under $4 to near $6.

In our "moderate" scenario, oil would peak at $50 dollars in 2003 dollars in the year 2010. Converting oil to natural gas at an increasing premium, adjusting for inflation of 3% annually and cumulating six-year periods gives a six-year "forward" scenario. If the scenario were to materialize we would expect six-year futures to approach the six-year forward curve. As a result we see further upside for six-year futures and consequently present value estimates and ultimately stock prices (see chart Louisiana Natural Gas Forward/Futures Gap).chart).



Economics support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply growth is limited as spare capacity has virtually disappeared. The largest producing fields in the Middle East are now mature. It will take time, large amounts of capital and a secure political climate to boost producing rates.

Monetary factors favor oil investment as interest rates below inflation drive investors to real assets for protection against the dollar losing value. If similar past periods are any guide, the authorities may not raise interest rates above inflation for the rest of the decade.

Environmental factors favor higher oil and gas price. Coal is still a quarter of world primary energy supply. Cleaner oil and gas are undervalued as long as we tolerate environmentally disadvantageous coal. Our justification for a rising price of natural gas relative to oil is merely a continuation of a more than forty-year trend.

Political factors favor higher oil price in consuming countries and producing countries. Consuming governments often resort to artificial forces to hold down oil price that can appear to work temporarily.

In producing countries we have seen time and again that oil production goes down when international oil companies are not welcome. After Iran, Iraq and Venezuela, now Saudi Arabia appears vulnerable to political change that may bring about production decline.

Cash Flow and Profits Expand with Latest Futures Quotes

Far from peaking in profits as analysts have repeatedly forecast for the past several years, BR's cash flow and earnings are likely to continue to increase (see table Next Twelve Months Operations). As futures quotes change our projection changes.

Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	Q1 3/31/04	*Q2 6/30/04*	*Q3E 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	***Next Twelve Months 9/30/05***
Volume									
Natural Gas (mmcfd)									
U.S.	880	905	905	905	**899**	905	905	905	**905**
Canada	846	834	800	800	**820**	800	800	800	**800**
Overseas	227	160	190	220	**199**	227	160	190	**199**
Total	1,953	1,899	1,895	1,925	**1,918**	1,932	1,865	1,895	**1,904**
Oil (mb)	13	13	13	13	**53**	13	13	13	**52**
Oil (mbd)	149	143	143	143	**145**	143	143	143	**143**
Total gas & oil (bcf)	256	251	253	256	**1,017**	251	248	253	**1,009**
Price									
Natural gas ($/mcf)									
Henry Hub ($/mmbtu)	5.64	6.10	5.49	7.22	**6.11**	8.54	6.81	6.77	**7.34**
U.S.	5.49	5.56	5.00	6.58	**5.66**	7.78	6.21	6.16	**6.68**
Canada	5.53	5.76	5.19	6.58	**5.76**	7.78	6.21	6.16	**6.68**
Overseas	3.69	3.12	3.99	4.69	**3.93**	4.62	4.43	4.25	**4.51**
Total	5.30	5.44	4.98	6.36	**5.52**	7.41	6.05	5.97	**6.45**
Oil ($/bbl)									
WTI Cushing	35.23	38.34	43.89	51.60	**42.27**	50.79	48.76	46.77	**49.48**
Worldwide	26.39	30.62	35.05	41.21	**33.29**	40.56	38.94	37.35	**39.51**
Total gas & oil ($/mcf)	5.10	5.31	5.25	6.52	**5.55**	7.21	6.19	6.05	**6.49**
Revenue ($mm)									
Natural Gas									
U.S.	435	458	416	548	**1,857**	633	511	513	**2,205**
Canada	421	437	382	484	**1,724**	560	452	454	**1,950**
Overseas	75	45	70	95	**286**	94	65	74	**328**
Total	932	940	868	1,127	**3,867**	1,288	1,028	1,041	**4,483**
Oil	355	399	462	543	**1,758**	523	507	492	**2,065**
Other	22	(6)			**16**				**-**
Total	1,308	1,333	1,330	1,670	**5,641**	1,810	1,535	1,533	**6,548**
Expense									
Production taxes	59	62	62	77	**260**	84	71	71	**303**
Cash costs	296	328	327	361	**1,311**	375	347	347	**1,431**
Ebitda ($mm)	953	943	941	1,232	**4,069**	1,352	1,116	1,115	**4,814**
Exploration	60	62	62	62	**246**	62	62	62	**248**
Deprec., Deplet., & Amort.	277	270	270	270	**1,087**	270	270	270	**1,080**
Ebit	616	611	609	900	**2,736**	1,020	784	783	**3,486**
Interest	71	69	69	69	**278**	69	69	69	**276**
Ebt	545	542	540	831	**2,458**	951	715	714	**3,210**
Income Tax	193	161	189	291	**834**	333	250	250	**1,124**
Net Income ($mm)	352	381	351	540	**1,625**	618	465	464	**2,087**
Shares (millions)	396	397	397	397	**397**	397	397	397	**397**
Per Share ($)	0.89	0.96	0.88	1.36	**4.09**	1.56	1.17	1.17	**5.26**
Ebitda Margin	73%	71%	71%	74%	**72%**	75%	73%	73%	**74%**
Tax Rate	35%	30%	35%	35%	**34%**	35%	35%	35%	**35%**
Cash costs ($/mcfe)	1.15	1.31	1.29	1.41	**1.29**	1.49	1.40	1.37	**1.42**
D.D.&A. ($/(mcfe)	1.08	1.08	1.07	1.05	**1.07**	1.07	1.09	1.07	**1.07**

Present Value at Real Price and Real Return

Next Twelve Months (NTM) estimates determine the first year of projected cash flow that we discount to present value (see table Present Value of Oil and Gas Reserves). The calculation is set up on the basis of a barrel of proven reserves, 0.74 developed and 0.26 undeveloped.

Burlington Resources Inc.
Present Value of Oil and Gas Reserves

Volume Decline (%/yr):	10	Nymex Oil Price Post 2005 ($/bbl)	35
Volume Enhancement (%/yr):	6	Price/Nymex Post 2005 (%):	86
Variable Cost (%):	20	Real Discount Rate (%/yr):	7.0
Capex/Cash Flow (%):	10		

Year	Basic (bbl)	Volume Enhanced (bbl)	Total (bbl)	Price ($/bbl)	Revenue ($)	Fixed Cost ($)	Var. Cost ($)	Cash Flow ($)	Cap Ex ($)	Free CF ($)	Disc Factor	Present Value ($)
Total 2005 through 2034; years ending on 9/30												
	0.741	0.259	1.000	33.35	33.35	4.30	6.67	22.38	1.22	21.16	0.64	$\boxed{13.60}$
2005	0.085	0.000	0.085	38.95	3.32	0.22	0.66	2.44	0.24	2.20	0.97	2.12
2006	0.077	0.005	0.082	30.10	2.46	0.22	0.49	1.75	0.18	1.58	0.90	1.43
2007	0.069	0.010	0.078	30.51	2.39	0.22	0.48	1.70	0.17	1.53	0.84	1.29
2008	0.062	0.013	0.075	30.93	2.33	0.22	0.47	1.65	0.16	1.48	0.79	1.17
2009	0.056	0.017	0.072	31.34	2.26	0.22	0.45	1.60	0.16	1.44	0.74	1.06
2010	0.050	0.019	0.069	31.75	2.20	0.22	0.44	1.54	0.15	1.39	0.69	0.96
2011	0.045	0.022	0.066	32.17	2.14	0.22	0.43	1.49	0.15	1.35	0.64	0.87
2012	0.040	0.023	0.064	32.58	2.08	0.22	0.42	1.45	0.00	1.45	0.60	0.87
2013	0.036	0.021	0.057	33.00	1.89	0.22	0.38	1.30	0.00	1.30	0.56	0.73
2014	0.033	0.019	0.051	33.41	1.72	0.22	0.34	1.16	0.00	1.16	0.53	0.61
2015	0.029	0.017	0.046	33.82	1.56	0.22	0.31	1.04	0.00	1.04	0.49	0.51
2016	0.026	0.015	0.042	34.24	1.42	0.22	0.28	0.92	0.00	0.92	0.46	0.42
2017	0.024	0.014	0.037	34.65	1.29	0.22	0.26	0.82	0.00	0.82	0.43	0.35
2018	0.021	0.012	0.034	35.06	1.17	0.22	0.23	0.72	0.00	0.72	0.40	0.29
2019	0.019	0.011	0.030	35.48	1.07	0.22	0.21	0.64	0.00	0.64	0.37	0.24
2020	0.017	0.010	0.027	35.89	0.97	0.22	0.19	0.56	0.00	0.56	0.35	0.20
2021	0.015	0.009	0.024	36.30	0.88	0.22	0.18	0.49	0.00	0.49	0.33	0.16
2022	0.014	0.008	0.022	36.72	0.80	0.22	0.16	0.43	0.00	0.43	0.31	0.13
2023	0.012	0.007	0.020	37.13	0.73	0.22	0.15	0.37	0.00	0.37	0.29	0.11
2024	0.011	0.006	0.018	37.54	0.66	0.22	0.13	0.31	0.00	0.31	0.27	0.08

While there are many assumptions that could be discussed, discount rate and oil price are especially important. Price escalation and discount rate interact. We make the simplification of dealing in constant dollars. That assumes price escalation, cost escalation and discount rate are all net of inflation.

For discount rate we use a 7% real return per year on an unlevered basis. That means a buyer who pays present value would earn 7% per year above inflation if all the projections were to materialize as stated.

First year oil price is from the futures market. We hold it constant at an arbitrary level thereafter. Because more of BR's production is natural gas rather than oil, our rising expectations for real natural gas price drive overall price higher.

The assumed price listed in the upper right hand corner is the commonly quoted benchmark Light, Sweet Crude. A price of $35 a barrel leads to present value of future cash flow from a barrel of reserves equal to $13.60 (see box in right hand column).

Present Value per Barrel Leads to Present Value per Share

We illustrate the calculation of Net Present Value (NPV) in a sensitivity table where each column is headed by a different oil price (see table Net Present Value Calculation). Oil price corresponds to present value per barrel which then leads step by step to the final result. The price of $35 a barrel corresponds to our standardized present value of $58 a share. Turn the comparison around and it is evident that current stock price near $42 corresponds to a constant real oil price of $27 a barrel.

Burlington Resources Inc.
Net Present Value Calculation

Constant Oil Price ($/bbl):	27	35	40	50
Present Value per Barrel ($):	10.40	13.60	15.50	19.40
Oil and Gas Reserves (million barrels equivalent):	1,959	1,959	1,959	1,959
Present Value of Oil and Gas Reserves ($mm):	20,370	26,640	30,360	38,000
Debt ($mm):	3,700	3,700	3,700	3,700
Present Value of Equity ($mm):	16,670	22,940	26,660	34,300
Shares (mm):	397	397	397	397
Net Present Value ($/sh):	42	58	67	86

Opportunity in the Rockies

Most of BR's natural gas production is in the U.S. and Canada. Most of that, in turn, is in producing basins that line up along the Rocky Mountains from New Mexico in the south to Alberta and British Columbia in the north. The San Juan Basin and Canada's Deep Basin are among BR's valuable properties that should generate an attractive return in the years ahead.

A publicly traded stock, **San Juan Basin Royalty Trust (SJT)**, is nearly equivalent to a 12% representation in BR's San Juan properties. SJT stock has delivered a favorable total return that points to further potential for BR.

BR appears to have a similar opportunity in the Deep Basin of Canada, a position gained in the acquisition of Canadian Hunter in late 2001. At an earlier stage of development, the Deep Basin is producing less than half its potential rate. Eventually BR's producing rate in the Deep Basin may equal its producing rate in the San Juan Basin.

Management Performing Well in the 2000s

Chief Operating Officer Randy Limbacher has helped redirect the growth of BR toward replicating the combination of high quality assets and continuous exploitation that has built so much value in the San Juan Basin. Chief Financial Officer Steven Shapiro applies a conservative discipline of steady capital spending and returning cash to shareholders through stock repurchase and growing dividends. We are optimistic that BR can continue the favorable momentum it has demonstrated in the 2000s.

Kurt H. Wulff, CFA

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