

Rating: Buy
S&P 500: 1198

Burlington Resources **Natural Gas Beneficiary**

<i>Symbol</i>	BR	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	7,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (\$/sh)</i>	71.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/28/05	<i>Adjusted Reserves/Production NTM</i>	10.0
<i>Shares (mm)</i>	381	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (\$mm)</i>	27,400	<i>PV/Ebitda</i>	4.6
<i>Debt (\$mm)</i>	3,200	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (\$mm)</i>	30,600	<i>Natural Gas and Oil Ebitda (\$/mcfe)</i>	7.40
<i>Present Value (PV) (\$mm)</i>	36,000	<i>Present Value Proven Reserves(\$/boe)</i>	18.00
<i>Net Present Value (\$/share)</i>	86	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.00
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.23
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40

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

Buy-recommended **Burlington Resources (BR)** offers 20% appreciation potential to estimated net present value of \$86 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$18 a share higher than estimated. One uncertainty in projected cash flow is the degree to which natural gas wellhead price west of hurricane country reflects the steep increases in the industry pricing point at the Henry Hub in Louisiana, a facility that was temporarily closed and is still not back to full operation. Concentration of value on natural gas is comforting as the industry faces winter with practically the tightest supply in decades in the aftermath of some of the worst hurricanes.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$18 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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Burlington Resources
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	5,410	10.0	4.6	25,000	69%
Rest of World Natural Gas	240	11.5	7.1	1,700	5%
Oil	2,150	9.6	4.3	9,300	26%
	7,800	10.0	4.6	36,000	100%
Debt (US\$mm)					3,200
Net Present Value (US\$mm)					32,800
Shares (mm)					381
Net Present Value (US\$/sh)					86
Over (-)/ Under (+) Correlation (US\$/sh)					18

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Friday, October 28, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
Crude Oil	\$/barrel	58.57	61.96	50
Natural Gas	\$/million btu	8.57	11.47	10
	<i>Stocks</i>			<i>Median</i>
	Independent Producer - Large Cap			0.77
	BR			0.85

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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Burlington Resources Inc.
 Next Twelve Months Operating and Financial Results

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mmcf)											
U.S.	916	912	906	950	952	970	945	970	970	970	970
Canada	800	821	809	830	799	799	809	799	799	800	799
Overseas	184	187	181	129	137	155	150	181	130	130	149
Total	1,900	1,920	1,896	1,909	1,888	1,924	1,904	1,950	1,899	1,900	1,918
Oil (mbd)	158	150	158	162	159	159	160	159	159	159	159
Total gas & oil (bcf)	262	1,031	256	262	262	265	1,044	261	260	263	1,049
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.36	8.74	13.20	10.56	10.56	11.92
U.S.	5.95	5.57	5.60	6.42	7.76	12.11	8.04	11.97	9.58	9.57	10.80
Canada	6.46	5.85	6.21	6.47	7.47	12.11	8.06	11.97	9.58	9.57	10.80
Overseas	4.26	3.64	5.26	4.45	4.19	5.60	4.93	5.62	5.65	5.65	5.63
Total	6.00	5.50	5.83	6.31	7.38	11.58	7.80	11.38	9.31	9.30	10.40
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	61.62	56.71	61.79	62.15	62.16	61.93
Worldwide	35.59	31.97	39.41	39.81	48.11	47.42	43.71	47.55	47.83	47.83	47.66
Total gas & oil (\$/mcf)	5.95	5.44	6.15	6.43	7.47	10.36	7.62	10.24	8.86	8.86	9.58
Revenue (\$mm)											
Natural Gas											
U.S.	501	1,852	457	555	680	1,081	2,773	1,045	845	854	3,825
Canada	475	1,754	452	489	549	890	2,380	861	696	704	3,152
Overseas	72	249	86	52	53	80	271	92	67	68	306
Total	1,049	3,855	995	1,096	1,282	2,051	5,423	1,997	1,608	1,626	7,282
Oil	516	1,760	561	586	704	694	2,545	681	692	700	2,767
Other	(7)	(5)	20	4	(33)		(9)				-
Total	1,558	5,610	1,576	1,686	1,953	2,745	7,960	2,678	2,301	2,326	10,050
Expense											
Production taxes	72	260	74	82	94	130	380	127	109	110	476
Cash costs	383	1,321	329	338	319	508	1,494	492	397	404	1,801
Ebitda (\$mm)	1,103	4,029	1,173	1,266	1,540	2,107	6,086	2,060	1,795	1,812	7,773
Exploration	81	258	51	67	100	100	318	100	80	80	360
Deprec., Deplet., & Amort.	306	1,137	328	322	325	344	1,319	340	338	341	1,363
Hedging and other						227	227	124	7	5	363
Ebit	716	2,634	794	877	1,115	1,435	4,222	1,496	1,370	1,386	5,687
Interest	71	282	70	70	70	70	280	70	70	70	280
Ebt	645	2,352	724	807	1,045	1,365	3,942	1,426	1,300	1,316	5,407
Income Tax	188	774	253	268	371	478	1,370	499	455	461	1,893
Net Income (\$mm)	457	1,578	471	539	674	887	2,571	927	845	855	3,515
Shares (millions)	391	395	389	385	381	381	383	381	381	381	381
Per Share (\$)	1.17	4.00	1.21	1.40	1.77	2.33	6.71	2.43	2.22	2.24	9.23
Ebitda Margin	71%	72%	74%	75%	79%	77%	76%	77%	78%	78%	77%
Tax Rate	29%	33%	35%	33%	35%	35%	35%	35%	35%	35%	35%

Buy Independent Natural Gas and Oil Producers

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. Headquartered in China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table [Rank by McDep Ratio](#)).

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>28-Oct</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>(\$/sh)</i>	<i>Value</i>	
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	43.26	370	16,010	48.00	0.20	0.92
Encana Corporation	ECA	B	45.78	876	40,100	51.00	0.20	0.92
Burlington Resources	BR	B	71.85	381	27,400	86.00	0.09	0.85
CNOOC Limited (29%)	CEO	B	64.44	119	7,690	84.00	0.01	0.77
Devon Energy Corporation	DVN	B	60.40	471	28,400	86.00	0.15	0.75
Anadarko Petroleum Corp.	APC	B	90.69	238	21,600	140.00	0.12	0.69
Occidental Petroleum Corp.	OXY	B	76.90	406	31,200	120.00	0.11	0.68
	<i>Total or Median</i>				<i>172,000</i>		<i>0.12</i>	<i>0.77</i>

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Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

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