

Burlington Resources Inc.
Rocky Mountain Natural Gas Producer

<i>Symbol</i>	<i>Price</i>		<i>Market Cap</i>	<i>Net</i>			<i>EV/ Sales NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Div'd NTM (%)</i>	<i>PV/ Ebitda NTM</i>
	<i>18-May 2001</i>	<i>Shares</i>		<i>Present Value</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>					
BR	49.94	215	10,740	56.30	0.19	0.90	3.6	6.3	9.4	1.1	7.0

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

EV = Enterprise Value = Market Cap and Debt: \$mm 13,500

Ebitda = Earnings before interest, tax, depreciation and amortization: \$mm 2,132

NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings

PV = Present Value of energy businesses: \$mm 14,920

Summary and Recommendation

We recommend current purchase of Burlington Resources common stock because it represents the largest, concentrated natural gas resource readily available to investors or power generators or larger energy companies at a price not much higher than a decade ago. Management finally appears to be acting in the interests of shareholders as it holds the line on spending and applies free cash flow to repurchase shares. Recent proposed acquisitions of **Barrett Resources** by a power company and **HS Resources** by an oil and gas producer imply a price for BR stock of more than \$100 a share to equalize total return for the past ten years. Even the stock price for unmanaged **San Juan Basin Royalty Trust** implies a BR price of more than \$100 on the same basis. The former comparison implies a takeover while the latter implies a new strategy. The main risk in committing to BR stock is that the directors and management will make further poor decisions although it is hard to believe that investors can remain complacent much longer.

Concentrated on Large North American Natural Gas Reserves

BR is the fourth largest holder of reserves of natural gas in the U.S. and Canada. That fact becomes more significant when we consider that the three largest holders are giant energy companies, **Exxon Mobil**, **BP PLC** and **Chevron** (incl. **Texaco**). BR has a market cap of only 3%, 5% or 10% of that for the respective leaders who have far flung oil production as well as operations in refining/marketing, chemicals and power.

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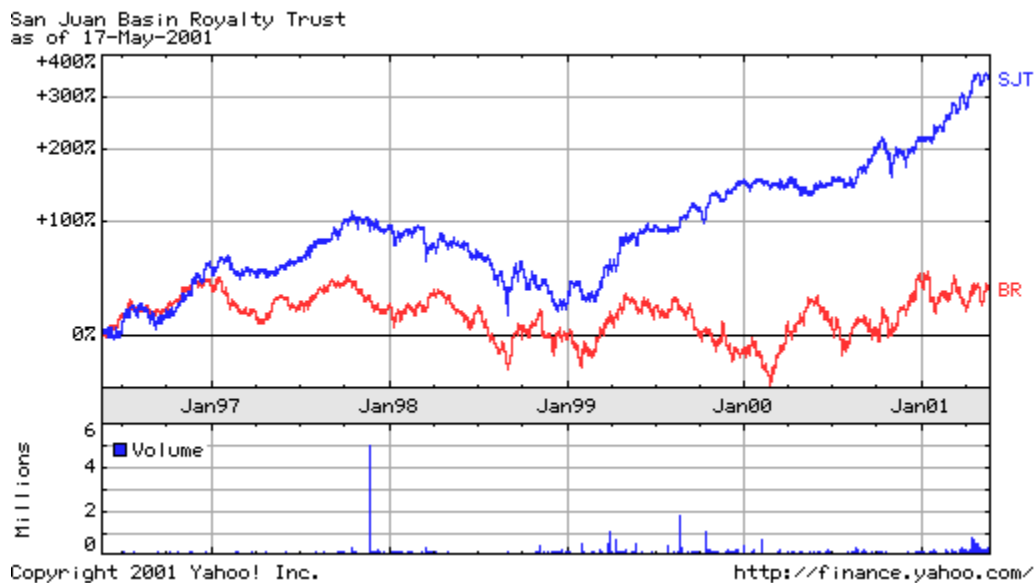
The Strategic Value of Natural Gas Becoming More Evident

It was just a year ago this month that the wellhead price for natural gas started a steep upward trend. From \$3.10 a million Btu's on April 28, 2000, the current price for natural gas at the Henry Hub in Louisiana peaked at \$10.50 on December 21, 2000 and is now about \$4.50 for the next twelve months.

The confluence of circumstances that have produced a shortage of electricity highlight how much more valuable natural gas can become. From some \$31 a Megawatt-hour pre-crisis, California electricity reached a peak for small quantities this month of \$1900 and is still quoted at more than \$300 for the next three months at the Palo Verde switchyard across the border in Arizona. The city of San Francisco signed a five-year contract recently at a minimum \$80 and apparently considered itself fortunate.

For easy figuring consider natural gas equivalent to electricity at 10 million Btu's a Megawatt-hour. On that basis, \$8 gas is comparable to \$80 electricity. We think that \$100 electricity is likely to be common in 2005 just to pick a point for illustration. That could imply \$10 natural gas, and perhaps \$40 oil. BR stock presumably is priced consistent with \$4 gas and \$22 oil, the longest dated futures trading on the New York Mercantile Exchange. BR makes good money at \$4 natural gas and would be worth more than twice as much at \$8 gas.

BR Stock Has Hardly Gone Up



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While BR shares have traded a lot in the 30's last year, they are now only in the 40's. Yet the same stock also traded in the 30's a decade ago. We have frequently pointed out the negative value-added impact of the directors and management by comparing the performance of BR to an unmanaged royalty trust with practically the same properties that made up most of BR ten years ago. In just the past five years, BR has given investors a total return of some 30%, or about 5% a year. During the same time, the unmanaged **San Juan Basin Royalty Trust (SJT)** returned some 350%, or about 35% a year compounded (see chart below). Had BR stock earned the same return as SJT, it would have to be more than \$150 a share.

BR operates the properties of SJT even to this day. There were ample opportunities for BR to acquire SJT at depressed prices. Instead BR diversified to the Gulf of Mexico where its results have been only marginal. Next BR gave up several years of potential appreciation in its stock to give a premium to the selling shareholders of Louisiana Land and Exploration. The acquisition proved the sellers to be smarter than the buyers. The most outrageous miscue occurred when BR sold short half of its production at a low price in advance of the most powerful price move in natural gas history

Some value has been irretrievably lost. Were BR a company whose assets rode up and down the elevator, it would be out of business. Instead, BR is a resource company whose assets are in the ground. The resources continue to have great value, despite poor stewardship. Most of the short sale of natural gas, for example, was for less than a year.

Buyback Acts to Restore Confidence

We haven't been critical of BR's acquisition of the Canadian company, Poco Petroleum, as it at least represented a logical extension of BR's Rocky Mountain strength. The negative of the Poco deal was that management's choice of pooling of interests accounting precluded BR from repurchasing its stock. The sellers dumped BR stock while the directors and management took no action. Finally, after a year passed BR initiated a stock repurchase program that is now underway.

Money spent on stock repurchase can't be spent on projects that might be wasteful. In fact management promises to hold the line on capital spending even though cash flow is up nicely with more favorable pricing. We believe spending plans are still too ambitious for BR's demonstrated ability.

In effect BR is being managed more like a royalty trust to maximize the value of existing resources by distributing maximum cash flow to the owners. While royalty trusts can distribute cash directly to holders without taxation, corporations like BR can distribute cash in a tax efficient manner by stock repurchase. No less than the largest company in the industry, Exxon Mobil, has demonstrated the wisdom of stock repurchase. We believe that stock repurchase by BR should be more aggressive. History strongly implies

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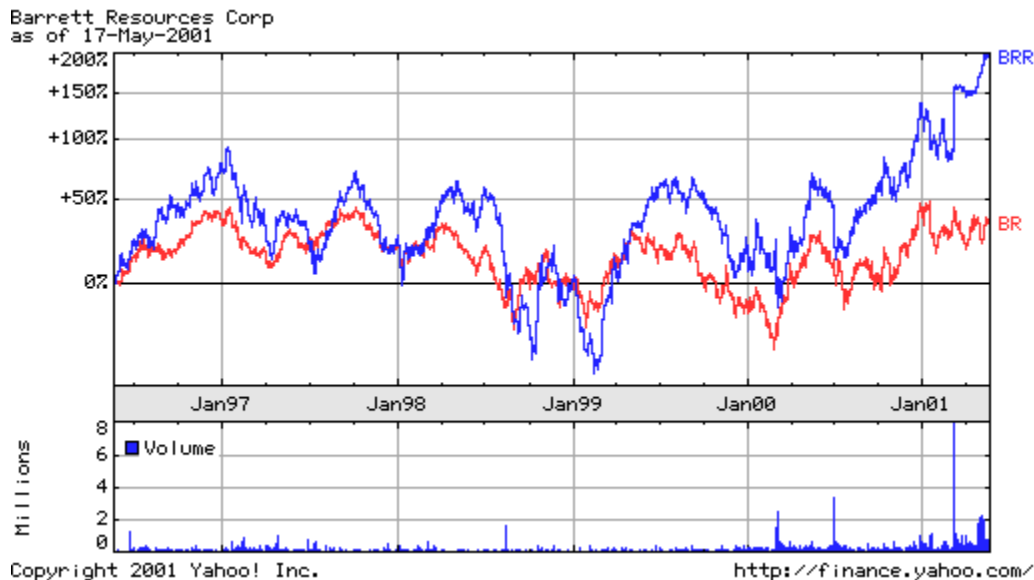
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that BR will not be able to invest shareholder's money on terms any where near as favorable as in BR's own stock.

Natural Gas Acquisitions Attract Investor Attention

After the announcement of its proposed acquisition by **Williams Companies, Barrett Resources'** stock is trading at almost \$72 a share implying a total return of 200% in five years, or about 25% per year. For BR to have earned the same return in the same time BR stock would have to be about \$110.



After the announcement of its proposed acquisition by Kerr-McGee, HS Resources' stock is trading at \$65 a share implying a total return of 440%, or about 40% per year. To be fair, HS has always been a highly levered stock. HS had a debt ratio five years ago of 0.5, while BR's was 0.3. For BR to have earned the same risk-adjusted return in the same time BR stock would have to be about \$150.

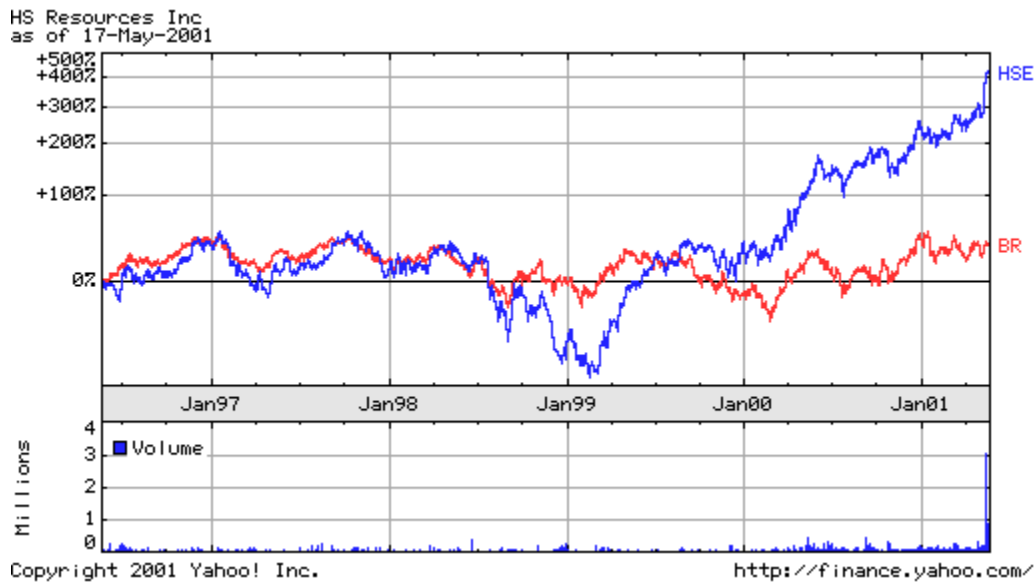
Debt-adjustment works the other way, too. SJT has always had zero debt. BRR had a debt ratio of 0.2 five years ago. As a result, the price comparisons with SJT and BRR are understated.

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When the deals are closed in a few more months the buyers will tell investors more about the romance they saw in the acquired companies. Until then the buyers will say enough to make the deal look reasonable, but not so much as to encourage another buyer to spoil the transaction.

We have known the acquired companies from a research point of view from their beginning as we have know BR from its beginning. At the risk of appearing cynical, we think a prospective buyer of BR could tell a story as compelling as that for Barrett or HS. The very first part of the BR story, to be expressed delicately, would be how a new management could do a better job with BR's superior assets.

Power Points to Potential Profits

Combining natural gas price from the futures market with management's guidance on volumes and costs we see BR generating more than \$2 billion in earnings before interest, tax, depreciation and amortization (Ebitda) in the next twelve months (see first table following). That projection is part of the process in ranking the stock among peers by McDep Ratio (see second table following). The denominator of the McDep Ratio is present value that we assess as a multiple of Ebitda (see third table following).

Power companies, particularly those dealing primarily in unregulated businesses, have the highest valuations. Investors have great expectations for future profits from trading and generating electricity. Meanwhile natural gas is needed to fuel most of the growth in

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electricity in the next several years. We believe that natural gas values will have to trend to electricity values or much of the electricity profits will not be achieved.

Meanwhile natural gas companies seem to have relatively low valuations. Implicitly, investors are encouraging power companies to use their highly valued stock to acquire natural gas companies. Earlier this year Calpine, the well-regarded power company with very little book value or current cash flow, acquired the Canadian natural gas company, Encal. Also as we discussed above, Williams, the power company, easily outbid Royal Dutch, the modestly valued Mega Cap energy company to buy Barrett Resources.

The Barrett deal also suggests a value for BR on a McDep Ratio basis. We can see from our table that Barrett is trading near its acquisition price at a McDep Ratio of 1.27. Taking all our estimates at face value, BR stock price would be \$75 at a McDep Ratio of 1.27.

In Management Risk Lies the Opportunity

Historical performance does not give one confidence in investing in BR. Of course there is the risk that past miscues could be repeated. After all the most of the same directors and management are still in place.

The last thing we want to see now is to have BR pay an acquisition premium to buy someone else's natural gas assets in today's market. On that score we are relieved to see that BR did not acquire Barrett or HS Resources.

Fortunately there has been no dishonesty at BR that we know about. Moreover we believe that the company's leadership is sincere in wanting to do a respectable job. To us the road to success in running BR is so obvious that the directors and management must see it too. Return the maximum funds to investors through stock repurchase so that investors may make their own decisions on where to make the reinvestment.

The opportunity is that the largest publicly traded and concentrated participation in North American natural gas is still available near the stock price that prevailed before the jump shift now underway in energy values. On the optimistic side, a corporate buyer, preferably a power company, might acquire BR for \$70 to \$100 a share. If that doesn't occur, BR's properties have the capacity to pay the same amount to investors over time, in our opinion.

Kurt H. Wulff, CFA

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Burlington Resources
Income Model

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/00</i>	<i>2000</i>	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>	<i>12/31/01</i>	<i>2001E</i>	<i>3/31/02</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,380	1,441	1,360	1,310	1,310	1,310	1,319	1,310	1,310
Canada	403	397	479	440	440	480	458	480	460
Overseas	128	122	170	110	110	140	132	140	125
Total	1,911	1,961	2,009	1,860	1,860	1,930	1,909	1,930	1,895
Oil (mbd)	70	78	70	63	59	54	61	51	57
Total gas & oil (bcf)	214	889	219	204	203	208	833	201	816
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.52	4.31	6.31	4.58	4.43	4.68	5.00	4.87	4.62
U.S.	4.47	3.25	4.98	3.61	3.82	4.18	4.15	4.37	3.99
Canada	6.04	3.96	6.96	4.18	4.03	4.28	4.88	4.47	4.24
Overseas	2.58	2.21	2.94	3.20	3.36	3.22	3.15	3.10	3.21
Total	4.67	3.32	5.28	3.72	3.84	4.13	4.26	4.30	4.00
Oil (\$/bbl)									
WTI Cushing	32.00	30.31	28.81	28.79	30.20	28.97	29.19	27.92	29.06
Worldwide	26.39	25.40	26.43	25.79	27.20	25.97	26.35	24.92	26.01
Total gas & oil (\$/mcf)	4.66	3.54	5.23	3.87	4.00	4.21	4.34	4.33	4.10
Revenue (\$mm)									
Natural Gas									
U.S.	568	1,712	610	430	460	504	2,004	515	1,909
Canada	224	575	300	167	163	189	819	193	712
Overseas	30	99	45	32	34	41	152	39	147
Total	822	2,386	955	630	657	734	2,975	747	2,768
Oil	169	727	166	148	147	130	591	114	538
Other	8	34	22	10	10	10	52	10	40
Total	999	3,147	1,143	788	814	874	3,618	871	3,346
Cost (\$mm)									
Production Taxes	45	147	63	39	41	44	187	44	167
Operating	174	703	183	171	171	174	699	169	685
Administrative	50	165	46	46	46	46	184	184	322
Other	19	23	19	10	10	10	49	10	40
Total	288	1,038	311	266	268	274	1,119	406	1,215
Ebitda	711	2,109	832	521	546	600	2,499	464	2,132
Interest + current tax	58	270	159	81	83	87	411	78	329
Discretionary Cash Flow	653	1,839	673	440	463	513	2,089	387	1,803
Interest + current tax	(58)	(270)	(159)	(81)	(83)	(87)	(411)	(78)	(329)
Exploration	63	237	70	70	60	60	260	70	260
Deprec., Deplet., & Amort.	182	704	170	167	167	170	674	165	669
Other non cash	1	4	(10)	(2)	(2)	(2)	(16)	(2)	(8)
Ebit	465	1,164	602	286	321	372	1,581	232	1,211
Interest	46	197	45	45	45	45	180	45	180
Ebt	419	967	557	241	276	327	1,401	187	1,031
Income Tax Expense	115	292	224	96	111	131	562	75	412
Net Income (\$mm)	304	675	333	145	166	196	840	112	618
Per share (\$)	1.41	3.13	1.55	0.67	0.77	0.91	3.90	0.52	2.88
Shares (millions)	215	216	215	215	215	215	215	215	215

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Rank by McDep Ratio		<i>Price</i> (\$/sh)		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	
	<i>Symbol/</i>	<i>18-May</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>	<i>2001</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
Mega Cap							
	XOM	90.20	3,520	318,000	72.10	0.16	1.21
	BP	54.40	3,720	202,000	48.90	0.17	1.09
	TOT	77.30	1,400	108,000	72.00	0.16	1.06
	RD	61.94	3,580	222,000	60.80	0.09	1.02
	<i>Total or Median</i>			<i>850,000</i>		<i>0.16</i>	<i>1.08</i>
Large Cap Natural Gas and Oil							
	CHV	97.57	1,060	103,400	103.40	0.15	0.95
	BR 2	49.94	215	10,700	56.30	0.19	0.91
	APC	68.34	249	17,000	90.90	0.17	0.79
	COC.B	33.05	623	20,600	48.00	0.21	0.75
	P	67.52	379	25,600	102.10	0.27	0.75
	E	66.48	800	53,200	91.90	0.10	0.75
	<i>Total or Median</i>			<i>231,000</i>		<i>0.18</i>	<i>0.77</i>
Large Cap Power							
	ENE	54.90	795	43,600	14.50	0.70	1.83
	MIR	45.45	353	16,000	9.70	0.78	1.81
	CPN	54.75	313	17,100	21.80	0.47	1.80
	WMB	41.76	485	20,300	16.60	0.69	1.47
	DUK	46.00	752	34,600	20.90	0.62	1.46
	EPG	65.00	521	33,900	40.00	0.50	1.31
	AEP 2	49.75	324	16,100	25.90	0.73	1.25
	SO	22.52	683	15,400	16.90	0.54	1.15
	<i>Total or Median</i>			<i>197,000</i>		<i>0.66</i>	<i>1.46</i>
Mid Cap							
	BRR	72.25	34	2,500	53.80	0.21	1.27
	PCP.TO	47.65	38	1,800	49.10	0.07	0.97
	OXY	31.08	370	11,500	35.60	0.46	0.93
	PTR	22.89	176	4,000	28.40	0.24	0.85
	VLO	51.59	64	3,300	65.00	0.25	0.85
	UCL	39.72	256	10,200	51.90	0.27	0.83
	MRO 1	33.43	360	12,000	47.00	0.30	0.80
	DVN	62.01	135	8,400	89.70	0.15	0.74
	PCZ	27.52	272	7,500	38.70	0.08	0.73
	NHY	41.55	262	10,900	65.90	0.15	0.68
	<i>Total or Median</i>			<i>67,800</i>		<i>0.22</i>	<i>0.84</i>
Small Cap							
	CRT	22.75	6.0	137	18.70	-	1.22
	DHULZ	14.24	10.7	153	13.50	-	1.06
	EAC	16.75	30.0	500	16.70	0.12	1.00
	SJT	17.52	46.6	820	17.80	-	0.98
	HGT	16.61	40.0	660	18.80	-	0.88
	EPL 1	10.94	27.0	300	19.10	0.04	0.59
	<i>Total or Median</i>			<i>2,570</i>		-	<i>0.99</i>

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy

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* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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	Symbol	18-May 2001	2001E	NTM	P/E NTM	NTM (%)	NTM	
Mega Cap								
	Exxon Mobil Corporation	XOM	90.20	1.6	8.5	18	2.0	7.0
	BP PLC	BP	54.40	1.3	7.7	12	2.6	7.0
	TOTAL Fina Elf S.A.	TOT	77.30	1.1	7.4	18	1.4	7.0
	Royal Dutch/Shell	RD	61.94	1.5	7.1	15	2.3	7.0
	<i>Median</i>			1.4	7.5	17	2.1	7.0
Large Cap Natural Gas and Oil								
	Burlington Resources, Inc	BR 2	49.94	3.6	6.3	9	1.1	7.0
	Chevron (incl. Texaco)	CHV	97.57	1.1	5.7	11	2.7	6.0
	Anadarko Petroleum Corp.	APC	68.34	2.2	4.8	10	0.3	6.0
	Conoco Inc.	COC.B	33.05	0.7	4.5	9	2.3	6.0
	Phillips (incl. Tosco)	P	67.52	0.8	4.5	8	2.0	6.0
	ENI S.p.A.	E	66.48	1.2	3.8	7	2.4	5.0
	<i>Median</i>			1.1	4.6	9	2.2	6.0
Large Cap Power								
	Enron Corp.	ENE	54.90	0.4	18.3	31	0.9	10.0
	Calpine Corporation	CPN	54.75	4.7	18.0	30	-	10.0
	Mirant Corporation	MIR	45.45	0.9	14.5	24	-	8.0
	Williams Companies	WMB	41.76	3.8	11.7	18	1.4	8.0
	Duke Energy Corporation	DUK	46.00	1.0	11.7	18	2.4	8.0
	El Paso Corporation	EPG	65.00	0.8	10.5	20	1.3	8.0
	American Electric Power Co. Inc.	AEP 2	49.75	0.7	8.7	14	4.8	7.0
	Southern Company	SO	22.52	2.7	8.1	14	6.0	7.0
	<i>Median</i>			0.9	11.7	19	1.4	8.0
Mid Cap								
	Barrett Resources Corporation	BRR	72.25	5.5	7.6	16	-	6.0
	PanCanadian Pete Ltd. (15%)	PCP.TO	47.65	2.0	5.8	14	0.5	6.0
	Occidental Petroleum	OXY	31.08	1.3	5.6	9	3.2	6.0
	PetroChina Company Ltd (10%)	PTR	22.89	2.1	5.1	7	6.2	6.0
	Valero Energy Corp.	VLO	51.59	0.3	5.1	7	0.6	6.0
	Unocal Corporation	UCL	39.72	1.8	5.0	14	2.0	6.0
	USX-Marathon Group	MRO 1	33.43	0.4	4.8	7	2.8	6.0
	Petro-Canada	PCZ	27.52	1.1	4.4	10	1.0	6.0
	Devon Energy Corporation	DVN	62.01	3.1	4.1	9	0.3	5.5
	Norsk Hydro ASA	NHY	41.55	0.8	2.7	7	2.5	4.0
	<i>Median</i>			1.6	5.0	9	1.5	6.0
Small Cap								
	Cross Timbers Royalty Tr*	CRT	22.75	6.4	9.8	10	9.9	8.0
	San Juan Basin Royalty Tr*	SJT	17.52	6.2	7.6	10	10.0	7.7
	Dorchester Hugoton, Ltd.*	DHULZ	14.24	5.7	7.2	8	8.6	6.8
	Hugoton RoyaltyTrust*	HGT	16.61	5.0	6.9	9	11.0	7.8
	Encore Acquisition Corporation	EAC	16.75	4.4	6.0	-	-	6.0
	Energy Partners Ltd.*	EPL 1	10.94	1.7	2.6	9	-	4.4
	<i>Median</i>			5.4	7.0	9	9.3	7.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to

Earnings; PV = Present Value of oil and gas and other businesses

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