

**Burlington Resources Inc.
Upside in Natural Gas and Canada**

Symbol	Price	Shares	Market Cap	Net		McDep Ratio	EV/	EV/	P/E	Div'd	PV/
	(\$/sh)			Present Value	Debt/ Present Value		Sales	Ebitda		NTM	NTM
14-Feb 2002	(\$mm)	(\$mm)	(\$/sh)	Value	Ratio	NTM	NTM	NTM	(%)	NTM	
BR	35.15	201	7,100	48.00	0.33	0.82	5.1	9.1		1.6	11.0

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

EV = Enterprise Value = Market Cap and Debt:

\$mm 11,900

Ebitda = Earnings before interest, tax, depreciation and amortization:

\$mm 1,310

NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings

PV = Present Value of energy businesses:

\$mm 14,500

Present Value of Equity:

\$mm 9,600

Summary and Recommendation

We continue our Strong Buy recommendation of the common stock of Burlington Resources as a large capitalization investment in the future of natural gas. Back down to low levels, futures prices now seem to have more upside than downside. At the same time, the company appears to have upgraded its long-term prospects with the acquisition last year of a Canadian company that has the leading position in an area that has similarities to the San Juan Basin of New Mexico. During the coming year, natural gas volume from Canada may surpass 90% of that from the U.S. for BR. Yet it is no surprise that projected cash flow for the next twelve months is lower than in the recent past. Nonetheless, value is still strong as long life and high concentration on natural gas justify higher multiple of cash flow. The stock also remains a juicy takeover target. The main risk in a low McDep Ratio, moderate debt stock like BR, is that nothing happens. BR stock fits an investment strategy that is optimistic when risk is low and cautious when risk is high.

Natural Gas Futures Point to Growth

We love studying the futures market. The benefit to us is to use futures as the most objective consensus forecast of energy prices. That, in turn, frees us to concentrate on the implications of the price forecast for specific stocks. Let us quickly point out that even though we think futures prices are the best forecast, they are still not a very good forecast.

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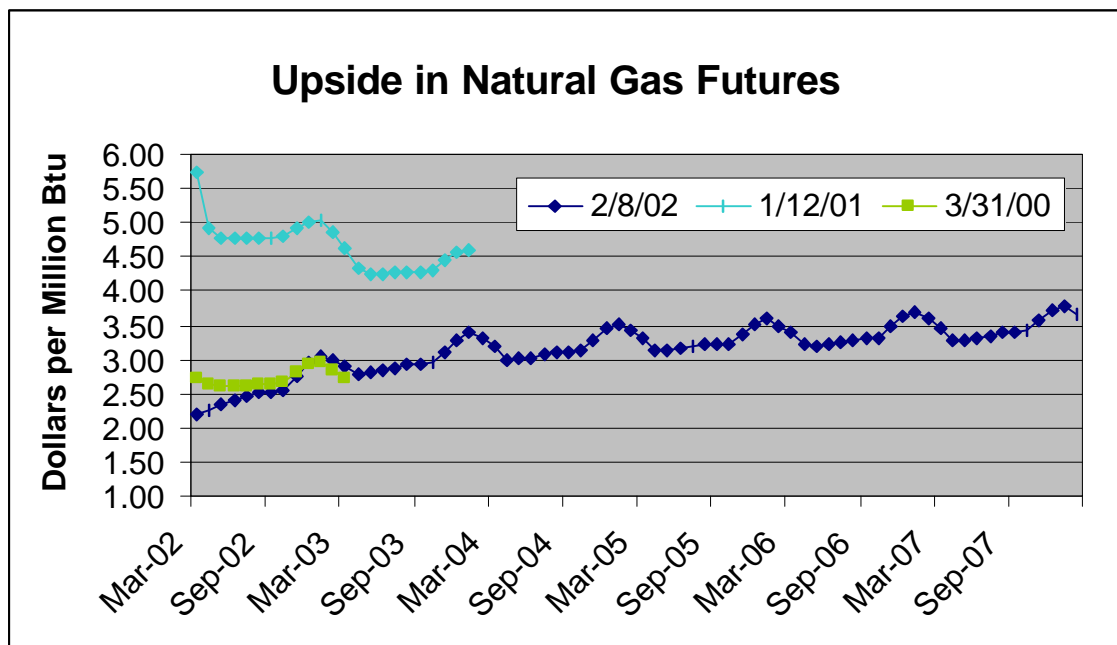
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Hedgers and speculators, two necessary participants for a healthy futures market, still don't know the future. As human beings, they are prone to get carried away on the upside and on the downside.

Our first point on the futures market for natural gas is that we are at the bottom of the two-year range. The latest weekly close (as of 2/8/02) of natural gas to be delivered in March 2003, for example, was \$2.73 a million btu (see Chart). A year ago (as of 1/12/01) we saw the highest weekly close for the same contract at \$4.62. Two years ago (as of 3/31/00) we saw the lowest weekly close for the same contract at \$2.73. We are not saying that we couldn't see another low. We are saying that we expect most of the quotes in the future to be higher than now.



Our second point on the futures market for natural gas is that there is a powerful contango, or rising price trend over time. Thus the consensus for long-term prices is bullish. We believe the consensus is reasonable, even conservative. Our valuation work is tied to the consensus. Our sentiment is more bullish than the consensus. Thus we can be optimistic on stocks that appear reasonably priced and more optimistic on stocks that appear undervalued.

Canada: Where the Gas Is

It has taken a decade, but BR's strategy is beginning to make sense. In preparing this update on the outlook for our Strong Buy recommendation we are struck by two reinforced insights. One is the comparison on the BR website of Canada's Deep Basin Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Owing shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. 2

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with New Mexico's San Juan Basin. The other is that the company's production volumes in Canada are rapidly approaching those in the U.S., as we will discuss below. The company has dramatically reoriented itself from the view a decade ago that Canada was a feared competitor to the view in more recent years that Canada is an opportunity.

The mother lode for Burlington Resources has always been the San Juan Basin. Now management suggests that the company has another San Juan Basin in Canada. The statistics presented on BR's website help make that case (see Table).

	Deep Basin	San Juan Basin
Area (square miles)	4,900	5,300
Production Intervals	~17	~13
Depth (feet)	3,000-10,000	1,500-7,500
BR Ownership (net)	50%	30%
Well Density	>640 acres	80-160 acres
Rock Quality (millidarcies)	.1-1.0	.01-.1
BR Net Production (mmcf/d)	~250	~750

Interpreting the table we see that both areas are large at around 5000 acres. Deep Basin has more production intervals. San Juan is shallower, meaning cheaper to drill. Deep Basin is deeper (surprise!) meaning gas is concentrated under higher pressure. A higher percentage of ownership in the Deep Basin is a nice advantage for BR. It took 50 years to increase well density in the San Juan Basin to 80-160 acres and the trend is continuing. All of that development still lies ahead in the Deep Basin where well density is less than 640 acres. Permeability is higher in the Deep Basin, which means gas flows more freely and lesser well density may drain more area economically. Finally BR's Deep Basin net production is only one third of its San Juan net production.

Source of Cash Flow Shifting North

Closed just before year-end, BR's Canadian Hunter acquisition has only just begun to be reflected in reported production. The addition takes Canadian production to an expected 800 million cubic feet daily for 2002 (see Table NTM on page 5). Meanwhile U.S. production is declining as BR sells some properties and lets its Gulf of Mexico production run off without much reinvestment. We interpret management's guidance to imply that by fourth quarter 2002, U.S. natural gas production may be less than 10% greater than Canadian production.

Over the next several years, management projects volume growth of 3-8% per year. That single digit growth would be impressive if achieved without increasing shares and debt.

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Meanwhile, cash flow, Ebitda, may hit a low point in the current quarter thanks to soft natural gas price in this warm winter. Hedging that we ignore for valuation purposes may offset some of the negative earnings we project.

Reserve Life and Concentration on Natural Gas Enhance Value

BR's adjusted reserve life is 11.3 years (see Table R). That is a half-year higher than the median for mega cap energy companies and perhaps three years longer than the median for small cap companies in our coverage. Reserve life is one of the most important indicators of present value as a multiple of cash flow for natural gas and oil producers.

Moreover natural gas, mostly in North America, accounts for some two thirds of reserves. Considering that the futures price curve for natural gas is upwardly sloping with time while the curve for oil is flat, present value should be a higher multiple of cash flow for natural gas than for oil.

Table R
Burlington Resources Inc.
Natural Gas and Oil Reserves

	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<i>Reserves (bcf or mmb)</i>				
Proven (P)	7925	647	11807	1968
Proven Developed (PD)	6007	426	8563	1427
Proven Undeveloped (PUD)	1918	221	3244	541
<i>Production, 2002</i>				
	674	38	904	151
<i>Reserve Life Index (years)</i>				
R/P P	11.8	16.9	13.1	13.1
R/P PD	8.9	11.1	9.5	9.5
R/P PUD	2.8	5.8	3.6	3.6
R/P PD+.5PUD	10.3	14.0	11.3	11.3

Taking into account reserve life and resource mix, we assess present value at 11.0 times Ebitda for the Next Twelve Months. That becomes the denominator of the McDep Ratio. When compared to other stocks, BR continues to rank at the more undervalued end of the range (see Table L-1 on page 6).

The collapse of Enron and the highflying power stocks followed a frenzy of stock market interest in energy trading and a worldwide boom in new electric generation. The current popularity of energy infrastructure partnerships may also tell us something about the future profitability of that sector. The critical commodity needed to fuel new generators and to fill infrastructure is natural gas. We believe better days are ahead for the out-of-favor natural gas producers and Burlington Resources will be a principal beneficiary.

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Table NTM
Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/01</i>	<i>2001</i>	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/01</i>	<i>12/31/02</i>	<i>2002E</i>	<i>3/31/03</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,076	1,121	1,000	950	900	850	925	850	888
Canada	518	433	800	800	800	800	800	800	800
Overseas	197	170	160	160	160	160	160	160	160
Total	1,791	1,724	1,960	1,910	1,860	1,810	1,885	1,810	1,848
Oil (mb)	11	40	9	10	10	10	38	9	38
Oil (mbd)	115	110	105	105	105	105	105	105	105
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	2.41	3.96	2.21	2.34	2.49	2.75	2.45	2.97	2.64
U.S.	2.40	4.68	2.21	2.33	2.49	2.74	2.43	2.97	2.62
Canada	2.56	4.54	2.35	2.48	2.65	2.74	2.56	2.97	2.71
Overseas	2.41	2.45	2.23	2.31	2.32	2.32	2.29	2.32	2.32
Total	2.45	4.42	2.27	2.39	2.54	2.70	2.47	2.91	2.63
Oil (\$/bbl)									
WTI Cushing	20.40	25.95	20.05	20.75	20.85	20.88	20.63	20.90	20.85
Worldwide	14.12	20.17	13.87	14.36	14.43	14.44	14.28	14.46	14.42
Revenue (\$mm)									
Natural Gas									
U.S.	238	1,913	199	202	206	214	821	227	849
Canada	122	718	169	181	195	202	747	214	791
Overseas	44	152	32	34	34	34	134	33	135
Total	404	2,784	400	416	435	450	1,701	474	1,775
Oil	150	813	131	137	139	140	547	137	553
Other	57	(270)					-		-
Total	611	3,326	531	553	575	590	2,248	611	2,328
Expense									
Production taxes	26	166	25	26	27	28	106	29	109
Cash costs	172	966	233	231	229	224	918	220	904
Other	30	(32)					-		-
Ebitda (\$mm)	383	2,226	273	296	319	338	1,225	362	1,314
Exploration	57	258	65	65	65	65	258	65	258
Deprec., Deplet., & Amort.	203	730	200	200	200	200	802	200	802
Ebit	123	1,238	8	31	54	73	165	97	254
Interest	58	190	70	70	70	70	280	70	280
Ebt	65	1,048	(62)	(39)	(16)	3	(115)	27	(26)
Income Tax	23	367	(22)	(14)	(6)	1	(40)	10	(9)
Net Income (\$mm)	42	681	(40)	(25)	(11)	2	(75)	18	(17)
Shares (millions)	201	212	201	201	201	201	201	201	201
Per Share (\$)	0.21	3.22	(0.20)	(0.13)	(0.05)	0.01	(0.37)	0.09	(0.08)

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Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	
	<i>Rating</i>	<i>14-Feb</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>McDep</i>	
		<i>2002</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	<i>Ratio</i>	
					<i>(\$/sh)</i>			
Mega Cap								
Exxon Mobil Corporation	XOM		6,924	270,000	36.00	0.09	1.08	
BP plc	BP		3,738	182,000	47.00	0.16	1.03	
TotalFinaElf S.A.	TOT		1,382	100,000	80.00	0.15	0.91	
Royal Dutch/Shell	RD	3	3,520	176,000	55.00	0.04	0.91	
ChevronTexaco Corporation	CVX		1,062	87,600	110.00	0.14	0.78	
		<i>Total or Median</i>		<i>816,000</i>		<i>0.14</i>	<i>0.91</i>	
Energy Infrastructure								
American Electric Power Co. Inc.	AEP	3	322	13,500	42.10	0.64	1.00	
Duke Energy Corporation	DUK		781	27,100	36.30	0.44	0.98	
Southern Company	SO		683	17,300	27.40	0.42	0.96	
El Paso Corporation	EPG		532	19,700	44.80	0.49	0.91	
Williams Companies	WMB		521	8,700	22.70	0.58	0.89	
Dominion Resources	D		247	14,500	79.40	0.45	0.86	
Exelon Corporation	EXC	2	323	16,200	84.00	0.40	0.76	
		<i>Total or Median</i>		<i>104,000</i>		<i>0.44</i>	<i>0.90</i>	
Natural Gas and Oil								
ENI S.p.A.	E		789	53,600	71.40	0.19	0.96	
Occidental Petroleum Corp.	OXY		372	9,600	28.50	0.50	0.95	
Unocal Corporation	UCL		257	9,000	38.90	0.35	0.93	
Anadarko Petroleum Corp.	APC		266	13,000	56.00	0.26	0.91	
ConocoPhillips	P		680	39,300	71.20	0.34	0.87	
Devon Energy	DVN		165	6,600	54.60	0.48	0.86	
Encana Corporation	PCX	2	490	13,800	35.00	0.19	0.84	
Burlington Resources	BR	1	201	7,100	48.00	0.33	0.82	
OAO Lukoil	LUKOY		299	16,300	69.10	0.09	0.81	
Marathon Oil Corporation	MRO	1	310	8,600	42.00	0.27	0.75	
		<i>Total or Median</i>		<i>123,000</i>		<i>0.33</i>	<i>0.86</i>	
Service								
Baker Hughes Inc.	BHI		338	11,500	24.50	0.13	1.34	
Schlumberger Ltd.	SLB		581	32,100	44.00	0.12	1.23	
Halliburton Company	HAL		429	6,300	24.90	0.12	0.64	

Buy/Sell rating after symbol: 1-Strong Buy, 2-Buy, 3-Neutral, 4-Sell, 5-Strong Sell

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