

Rating: Buy
S&P 500: 1509

Encore Acquisition Company Encore for Bell Creek

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$m)</i>	481
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	25
<i>Price (\$/sh)</i>	27.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/7/07	<i>Adjusted Reserves/Production NTM</i>	14.5
<i>Shares (mm)</i>	53	<i>EV/Ebitda</i>	6.8
<i>Market Capitalization (\$mm)</i>	1,450	<i>PV/Ebitda</i>	9.0
<i>Debt (\$mm)</i>	1,800	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	3,250	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.90
<i>Present Value (PV) (\$mm)</i>	4,350	<i>Present Value Proven Reserves(\$/boe)</i>	17.60
<i>Net Present Value (\$/share)</i>	48	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.41	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.66
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00

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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

For historical research on Encore since 2003 see <http://www.mcdep.com/4eac.htm>

Summary and Recommendation

First quarter 2007 results covered in a conference call on May 7 support estimated net present value (NPV) of \$48 a share for buy-rated **Encore Acquisition (EAC)** and point to new opportunity in the northern Rockies. Declaring, 'what we do best is give old fields their encore', Chief Executive Jonny Brumley described enhanced recovery progress in the Bell Creek field in Montana. A new water injection effort is starting to show results and there may be 30 million barrels to be recovered with the help of future carbon dioxide injection. The company has "hit the ground running" in the Bakken shale of North Dakota with drilling underway to add a few thousand barrels daily production in a few years in a property just acquired on April 11, 2007. Our projections include volumes for more than \$800 million of acquisitions, but do not adjust yet for expected property sales including some \$200 million in master limited partnership (MLP) units. The new properties throw off predictable cash which we consider in our valuation, while higher depreciation charges and interest payments reduce reported earnings. Back in favor with stock price above the 200-day average, Encore has a full unlevered weight in the illustrative McDep Energy Portfolio concentrated on real assets promising a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

Encore Acquisition Company
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>
Volume									
Natural Gas (mmcf)	67.9	64.1	64.3	67.9	72.0	72.0	72.0	71.0	72.0
Oil (mbd)	20.7	20.0	20.10	21.2	28.0	28.0	28.0	26.32	28.00
Total (mb)	2,883	2,825	11,244	2,924	3,640	3,680	3,680	13,924	14,600
Total (mbd)	32.0	30.7	30.8	32.5	40.0	40.0	40.0	38.1	40.0
Price									
Henry Hub (\$/mmbtu)	8.97	6.57	7.23	6.81	7.62	8.04	8.90	7.84	8.60
Differential (\$/mmbtu)	2.08	0.25	0.70	0.99	1.11	1.17	1.29	1.12	1.25
EAC (\$/mcf)	6.89	6.32	6.54	5.82	6.51	6.87	7.61	6.72	7.34
WTI Cushing (\$/bbl)	63.33	59.99	66.05	58.08	62.29	64.45	66.72	62.88	65.39
Differential	14.71	10.06	11.11	9.05	9.70	10.04	10.39	9.51	10.19
EAC (\$/bbl)	48.62	49.93	54.95	49.03	52.59	54.41	56.33	53.37	55.19
Total (\$/bbl)	46.05	45.75	49.48	44.12	48.53	50.45	53.12	49.33	51.85
Revenue (\$mm)									
Natural Gas	42	37	153	36	43	46	50	174	193
Oil	91	92	403	93	134	140	145	513	564
Total	133	129	556	129	177	186	195	687	757
Expense									
Lease operating	23	28	98	31	40	40	40	152	161
Production taxes	12	11	50	13	17	18	19	66	72
General and administrative	9	10	32	10	11	11	11	43	44
Total	44	49	180	53	68	69	70	260	276
Ebitda	89	80	376	76	109	117	125	427	481
Exploration	2	14	32	12	12	12	12	46	46
Deprec., Deplet., & Amort.	27	31	114	35	51	52	52	189	204
Hedging and other	19	10	54	5	12	13	15	45	57
Ebit	40	25	177	25	45	52	59	181	219
Interest	12	11	44	16	21	21	21	79	84
Ebt	29	14	133	9	24	31	38	102	135
Income Tax	11	4	55	3	9	11	13	36	47
Net Income (\$mm)	18	10	79	6	16	20	25	66	88
Per Share (\$)	0.36	0.19	1.49	0.11	0.30	0.37	0.47	1.25	1.66
Shares (millions)	50	54	53	53	53	53	53	53	53
Lease operating (\$/bbl)	7.89	9.86	8.73	10.44	11.00	11.00	11.00	10.88	11.00
Production taxes (%rev)	9.2	8.8	9.0	9.7	9.5	9.5	9.5	9.5	9.5
General and admin (\$/bbl)	3.14	3.36	2.83	3.39	3.00	3.00	3.00	3.08	3.00
Deprec., D,& A (\$/bbl)	9.37	10.97	10.09	11.98	14.00	14.00	14.00	13.58	14.00
Ebitda Margin	67%	62%	68%	59%	62%	63%	64%	62%	64%
Tax rate	37%	28%	41%	35%	35%	35%	35%	35%	35%

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Encore Acquisition Company
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	123	11.1	8.2	1,000	23%
Oil	358	15.9	9.4	3,350	77%
	481	14.5	9.0	4,350	100%
Debt (US\$mm)				1,800	
Net Present Value (US\$mm)				2,550	
Shares (mm)				53	
Net Present Value - Standard Estimate (US\$/sh)				48	
Net Present Value - Approximation by Correlation (US\$/sh)				46	

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