

Rating: Buy  
S&P 500: 1364

## **Berry Petroleum Company** **Raise NPV to \$44 a Share on Election Eve**

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	276
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (\$/sh)</i>	30.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/2/06	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	6.5
<i>Market Capitalization (\$mm)</i>	1,380	<i>PV/Ebitda</i>	8.6
<i>Debt (\$mm)</i>	400	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	1,780	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.60
<i>Present Value (PV) (\$mm)</i>	2,380	<i>Present Value Proven Reserves(\$/boe)</i>	18.80
<i>Net Present Value (\$/share)</i>	44	<i>Present Value Proven Reserves(\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.04
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.31

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.

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 Berry since 2004 see <http://www.mcdep.com/4bry.htm>

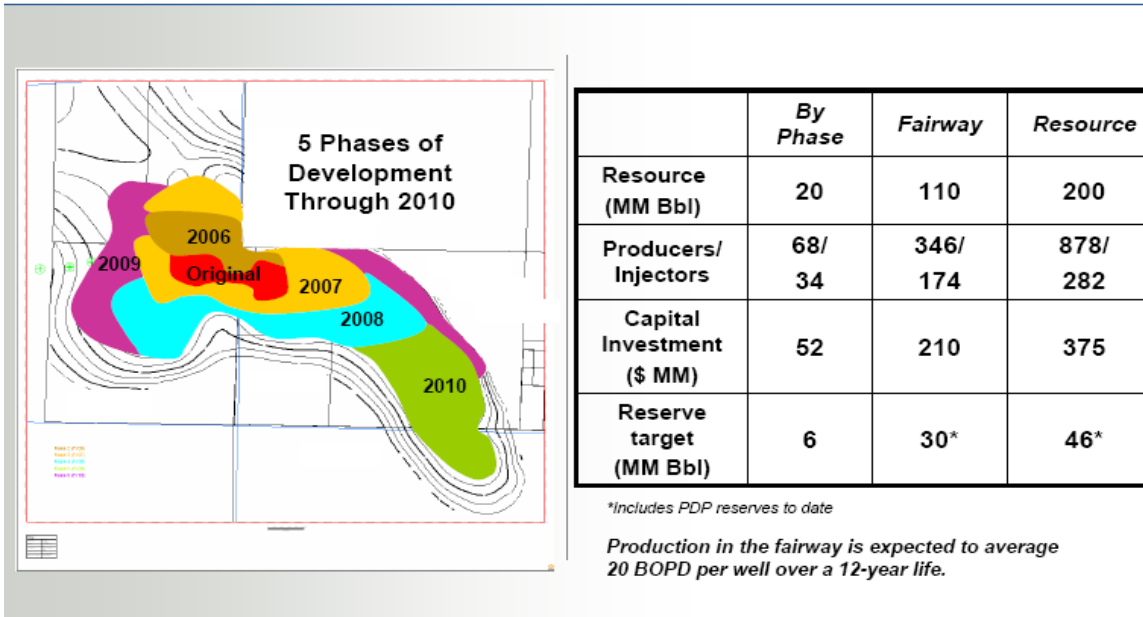
### **Summary and Recommendation**

Buy-recommended **Berry Petroleum (BRY)** in a keenly awaited announcement declared on November 1 the commerciality of its diatomite oil resource. A \$250 million program will develop 30 million barrels of reserves over the next four years that we value at \$250 million, \$5 a share, in their undeveloped state. The ultimate value of 200 million barrels in place may be multiples of that. Meanwhile on November 7, Californians will vote on Proposition 87 that would assess a 6% tax on oil produced in the state and have the proceeds allocated by a new bureaucracy to alternative energy schemes. A close call, we are optimistic that declining support for the measure indicated in successive Field Polls points to a wise choice by voters to turn down the self-flagellating tax. Should Prop 87 pass instead, we would trim our estimated net present value (NPV) just increased to \$44 a share with the diatomite announcement to \$42 a share. Below the 200-day average price signifying an out-of-favor stock, small cap Berry has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

**Please see disclosures on the final page.**

## Berry Will Develop the Asset in Phases



Berry Petroleum, Diatomite Development Update, November 1, 2006

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## Strong Project Economic Metrics and Margins

- Diatomite project economics are strong at moderate pricing and SOR
- The fairway development invests \$210 million of capital over the next 4 years.
- This plan will develop 30 million barrels of net reserves.
- Appraisal drilling outside the fairway will assess an additional 15-20 million barrels of upside potential.
- AFIT ROR exceeds 40% when:
  - SOR is decreased by 25% which lowers the operating cost to \$16.50/bbl, or
  - WTI is \$60 per barrel and HH is \$7.50/ mcf

### Point Forward Economics @\$50 WTI; \$6.25 HH; 6 SOR

AFIT ROR (%)	30%
Net Reserves (MM Bbl)	30*
Capital (\$MM)	250**
Wells	520
F&D	\$8.33/bbl
Operating Exp.	\$20.35/bbl

*\*Includes PDP reserves to date*  
*\*\*Includes \$40 MM capital to date*

Berry Petroleum, Diatomite Development Update, November 1, 2006

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**Berry Petroleum Company**  
**Quarterly Results**

	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>9/30/07</i>
<b>Volume</b>									
Natural Gas (mmcf)	21.8	31.1	31.1	31.1	<b>30.4</b>	31.1	31.1	31.1	<b>31.1</b>
Oil (mbd)	20.00	19.59	19.59	19.59	<b>19.37</b>	19.59	19.59	19.59	<b>19.59</b>
Total (mb)	2,174	2,254	2,278	2,278	<b>8,922</b>	2,229	2,254	2,278	<b>9,039</b>
Total (mbd)	23.6	24.8	24.8	24.8	<b>24.4</b>	24.8	24.8	24.8	<b>24.8</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.30	<b>7.17</b>	8.30	7.74	7.94	<b>7.57</b>
Differential (\$/mmbtu)	0.78	1.22	1.18	1.13	<b>1.44</b>	1.13	1.39	1.42	<b>1.36</b>
Company (\$/mcf)	7.78	5.59	5.40	5.17	<b>5.73</b>	6.81	6.35	6.52	<b>6.21</b>
WTI Cushing (\$/bbl)	62.52	70.47	70.42	58.20	<b>65.60</b>	60.80	63.32	64.77	<b>61.77</b>
Differential	10.68	13.90	13.89	11.48	<b>12.71</b>	11.99	12.49	12.77	<b>12.18</b>
Company	51.84	56.57	56.53	46.72	<b>52.89</b>	48.81	50.83	52.00	<b>49.59</b>
Total (\$/bbl)	51.05	51.76	51.49	43.44	<b>49.05</b>	47.15	48.17	49.31	<b>47.02</b>
<b>Revenue (\$mm)</b>									
Natural Gas	16	16	15	15	<b>64</b>	19	18	19	<b>70</b>
Oil	95	101	102	84	<b>374</b>	86	91	94	<b>355</b>
Other, incl hedge	(15)	(6)			<b>(9)</b>				
Total	96	111	117	99	<b>429</b>	105	109	112	<b>425</b>
<b>Expense</b>									
Lease operating	28	31	31	26	<b>116</b>	28	29	30	<b>112</b>
General and administrative	6	8	9	9	<b>34</b>	9	9	9	<b>36</b>
Total	34	38	40	35	<b>150</b>	37	38	39	<b>148</b>
<b>Ebitda</b>	62	72	78	64	<b>279</b>	68	71	73	<b>276</b>
Exploration	4	3	3	3	<b>16</b>	3	3	3	<b>12</b>
Deprec., Deplet., & Amort.	10	17	16	16	<b>63</b>	16	16	16	<b>63</b>
Other, incl hedge	(1)	(3)	20	9	<b>31</b>	12	14	15	<b>50</b>
<b>Ebit</b>	50	55	38	36	<b>169</b>	38	38	39	<b>151</b>
Interest	2	3	3	3	<b>10</b>	3	3	3	<b>10</b>
<b>Ebt</b>	49	52	36	33	<b>159</b>	35	35	37	<b>141</b>
Income Tax	15	18	12	12	<b>57</b>	12	12	13	<b>49</b>
<b>Net Income (\$mm)</b>	34	34	23	22	<b>102</b>	23	23	24	<b>91</b>
Per Share (\$)	0.76	0.76	0.52	0.48	<b>2.27</b>	0.51	0.51	0.53	<b>2.04</b>
<b>Shares (millions)</b>	45	45	45	45	<b>45</b>	45	45	45	<b>45</b>
Lease operating (\$/bbl)	12.92	13.53	13.47	11.36	<b>13.01</b>	12.51	12.77	13.08	<b>12.43</b>
General and admin (\$/bbl)	2.76	3.51	4.00	4.00	<b>3.83</b>	4.00	4.00	4.00	<b>4.00</b>
Deprec., D,& A (\$/bbl)	4.42	7.54	7.00	7.00	<b>7.05</b>	7.00	7.00	7.00	<b>7.00</b>
Ebitda Margin	65%	65%	66%	65%	<b>65%</b>	65%	65%	65%	<b>65%</b>
Tax rate	30%	35%	35%	35%	<b>36%</b>	35%	35%	35%	<b>35%</b>

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**Berry Petroleum 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	50	9.1	8.0	400	17%
Oil	226	10.1	8.7	1,980	83%
	276	9.9	8.6	2,380	100%
Debt (US\$mm)				400	
Net Present Value (US\$mm)				1,980	
Shares (mm)				45	
Net Present Value - Standard Estimate (US\$/sh)				44	
Net Present Value - Approximation by Correlation (US\$/sh)				37	

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