

Rating: Buy
 S&P 500: 1235

Encore Acquisition Company

Raise Net Present Value to \$50 a Share

| | | | |
|-------------------------------------|--------|---|-------|
| <i>Symbol</i> | EAC | <i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i> | 390 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 30 |
| <i>Price (\$/sh)</i> | 32.16 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 8/1/05 | <i>Adjusted Reserves/Production NTM</i> | 14.7 |
| <i>Shares (mm)</i> | 49 | <i>EV/Ebitda</i> | 5.3 |
| <i>Market Capitalization (\$mm)</i> | 1,590 | <i>PV/Ebitda</i> | 7.6 |
| <i>Debt (\$mm)</i> | 500 | <i>Undeveloped Reserves (%)</i> | 29 |
| <i>Enterprise Value (EV) (\$mm)</i> | 2,090 | <i>Natural Gas and Oil Ebitda (\$/boe)</i> | 38.80 |
| <i>Present Value (PV) (\$mm)</i> | 2,970 | <i>Present Value Proven Reserves(\$/boe)</i> | 17.20 |
| <i>Net Present Value (\$/share)</i> | 50 | <i>Present Value Proven Reserves(\$/mcf)</i> | 2.90 |
| <i>Debt/Present Value</i> | 0.17 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 2.64 |
| <i>McDep Ratio - EV/PV</i> | 0.70 | <i>Price/Earnings Next Twelve Months</i> | 12 |
| <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.

Summary and Recommendation

We raise our estimated net present value of buy-recommended **Encore Acquisition (EAC)** to \$50 a share from \$38 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. The stock has 55% appreciation potential to net present value. The main risk in independent producer stocks is commodity price, the flip side of the opportunity. Small cap stocks can be more volatile in price.

Kurt H. Wulff, CFA

Encore Acquisition Company Functional Cash Flow and Present Value

| | <i>NTM Ebitda</i> | <i>Adjusted</i> | <i>PV/</i> | <i>Present</i> | |
|-----------------------------|-------------------|-----------------|---------------|----------------|------|
| | <i>(US\$m)</i> | <i>R/P</i> | <i>Ebitda</i> | <i>Value</i> | |
| | | | | <i>(US\$m)</i> | |
| North American Natural Gas | 117 | 9.9 | 6.8 | 800 | 27% |
| Oil | 273 | 17.1 | 7.9 | 2,170 | 73% |
| | 390 | 14.7 | 7.6 | 2,970 | 100% |
| Debt (US\$m) | | | | 500 | |
| Net Present Value (US\$m) | | | | 2,470 | |
| Shares (mm) | | | | 49 | |
| Net Present Value (US\$/sh) | | | | 50 | |

Please see disclosures on the final page.

Encore Acquisition Company
Next Twelve Months Operating and Financial Estimates

| | <i>Q4</i> | <i>Year</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Next</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>Twelve</i> |
| | | | | | | | | | | <i>Months</i> |
| | | | | | | | | | | <i>6/30/06</i> |
| Volume | | | | | | | | | | |
| Natural Gas (mmcf) | 46.7 | 38.5 | 49.5 | 54.2 | 54.2 | 54.2 | 53.0 | 54.2 | 54.2 | 54.2 |
| Oil (mbd) | 18.32 | 18.25 | 18.97 | 18.66 | 18.5 | 18.5 | 18.66 | 18.5 | 18.5 | 18.50 |
| Total (mbd) | 26.1 | 24.7 | 27.2 | 27.7 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 |
| Price | | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.10 | 6.15 | 6.27 | 6.76 | 7.60 | 8.69 | 7.33 | 9.44 | 8.04 | 8.44 |
| Differential (\$/mmbtu) | 0.41 | 0.39 | 0.41 | 0.19 | 0.21 | 0.24 | 0.25 | 0.24 | 0.22 | 0.24 |
| EAC (\$/mcf) | 6.69 | 5.76 | 5.77 | 6.57 | 7.39 | 8.45 | 7.08 | 9.18 | 7.82 | 8.20 |
| WTI Cushing (\$/bbl) | 48.31 | 41.44 | 49.65 | 53.05 | 60.62 | 63.32 | 56.66 | 64.52 | 63.88 | 63.09 |
| Differential | 4.46 | 3.19 | 4.64 | 5.84 | 6.68 | 6.97 | 6.04 | 6.97 | 7.04 | 6.96 |
| EAC (\$/bbl) | 43.85 | 38.25 | 45.01 | 47.21 | 53.95 | 56.34 | 50.62 | 57.42 | 56.85 | 56.13 |
| Total (\$/bbl) | 42.74 | 37.29 | 41.86 | 44.67 | 50.78 | 54.49 | 48.01 | 56.64 | 53.59 | 53.86 |
| Revenue (\$mm) | | | | | | | | | | |
| Natural Gas | 29 | 81 | 26 | 32 | 37 | 42 | 137 | 45 | 39 | 162 |
| Oil | 74 | 255 | 77 | 80 | 92 | 96 | 345 | 96 | 96 | 379 |
| Total | 103 | 336 | 103 | 113 | 129 | 138 | 482 | 140 | 134 | 541 |
| Expense | | | | | | | | | | |
| Lease operating | 13 | 47 | 15 | 16 | 18 | 18 | 66 | 17 | 18 | 70 |
| Production taxes | 9 | 30 | 9 | 10 | 12 | 12 | 43 | 13 | 12 | 49 |
| General and administrative | 5 | 17 | 6 | 8 | 8 | 8 | 30 | 8 | 8 | 32 |
| Total | 28 | 94 | 30 | 34 | 37 | 38 | 139 | 38 | 38 | 151 |
| Ebitda | 75 | 242 | 73 | 79 | 91 | 100 | 343 | 102 | 97 | 390 |
| Exploration | 2 | 4 | 3 | 4 | 4 | 4 | 14 | 4 | 4 | 15 |
| Deprec., Deplet., & Amort. | 15 | 49 | 17 | 19 | 22 | 22 | 79 | 21 | 21 | 85 |
| Hedging and other | 11 | 39 | 13 | 12 | 17 | 19 | 62 | 20 | 17 | 74 |
| Ebit | 47 | 150 | 40 | 44 | 53 | 59 | 196 | 61 | 58 | 231 |
| Interest | 7 | 23 | 7 | 7 | 7 | 7 | 29 | 7 | 8 | 30 |
| Ebt | 40 | 126 | 33 | 37 | 46 | 52 | 167 | 54 | 50 | 201 |
| Income Tax | 14 | 44 | 12 | 13 | 16 | 18 | 58 | 19 | 17 | 70 |
| Net Income (\$mm) | 26 | 82 | 22 | 24 | 30 | 33 | 109 | 35 | 32 | 131 |
| Per Share (\$) | 0.53 | 1.71 | 0.44 | 0.48 | 0.60 | 0.68 | 2.20 | 0.71 | 0.66 | 2.64 |
| Shares (millions) | 49 | 48 | 49 | 49 | 49 | 49 | 49 | 49 | 49 | 49 |
| Lease operating (\$/bbl) | 5.58 | 5.24 | 6.07 | 6.24 | 7.00 | 7.00 | 6.58 | 7.00 | 7.00 | 7.00 |
| Production taxes (%rev) | 9.0 | 9.0 | 8.9 | 8.7 | 9.0 | 9.0 | 8.9 | 9.0 | 9.0 | 9.0 |
| General and admin (\$/bbl) | 2.20 | 1.87 | 2.45 | 3.16 | 3.15 | 3.15 | 2.98 | 3.22 | 3.18 | 3.17 |
| Deprec., D.& A (\$/bbl) | 6.36 | 5.39 | 6.81 | 7.55 | 8.50 | 8.50 | 7.85 | 8.50 | 8.50 | 8.50 |
| Ebitda Margin | 73% | 72% | 71% | 70% | 71% | 72% | 71% | 73% | 72% | 72% |
| Tax rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |

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

| | <i>Symbol/</i> | <i>Rating</i> | <i>Price</i> | <i>Shares</i> | <i>Market</i> | <i>Net</i> | <i>Debt/</i> | <i>McDep</i> |
|--|------------------------|---------------|----------------|---------------|---------------|----------------|----------------|--------------|
| | <i>Rating</i> | | <i>(\$/sh)</i> | <i>(mm)</i> | <i>Cap</i> | <i>Present</i> | <i>Present</i> | <i>Ratio</i> |
| | | | <i>1-Aug</i> | | <i>(\$mm)</i> | <i>Value</i> | <i>Value</i> | |
| | | | <i>2005</i> | | | <i>(\$/sh)</i> | | |
| Independent Natural Gas and Oil - Small Cap | | | | | | | | |
| Berry Petroleum Company | BRY | B | 58.66 | 22 | 1,320 | 65.00 | 0.10 | 0.91 |
| Energy Partners Ltd. | EPL | B | 26.80 | 40 | 1,080 | 38.00 | 0.16 | 0.75 |
| Cimarex Energy Company | XEC | B | 42.86 | 81 | 3,470 | 64.00 | 0.13 | 0.71 |
| Encore Acquisition Company | EAC | B | 32.16 | 49 | 1,590 | 50.00 | 0.17 | 0.70 |
| | <i>Total or Median</i> | | | | <i>7,500</i> | | <i>0.15</i> | <i>0.73</i> |

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