

Rating: Buy
S&P 500: 1287

Encore Acquisition Company Steady Progress

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	394
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	30
<i>Price (\$/sh)</i>	32.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/17/06	<i>Adjusted Reserves/Production NTM</i>	14.8
<i>Shares (mm)</i>	50	<i>EV/Ebitda</i>	6.1
<i>Market Capitalization (\$mm)</i>	1,600	<i>PV/Ebitda</i>	8.3
<i>Debt (\$mm)</i>	800	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	2,400	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	35.00
<i>Present Value (PV) (\$mm)</i>	3,280	<i>Present Value Proven Reserves(\$/boe)</i>	16.80
<i>Net Present Value (\$/share)</i>	50	<i>Present Value Proven Reserves(\$/mcf)</i>	2.80
<i>Debt/Present Value</i>	0.24	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.27
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	14
<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

Buy-recommended **Encore Acquisition (EAC)** offers 55% appreciation potential to estimated net present value of \$50 a share that presumes a long-term oil price of \$50 a barrel. Futures investors price Light, Sweet Crude Oil at \$64 a barrel for the next six years. Management alerts investors that its crude oil price is about \$4 a barrel lower than normal temporarily while local refineries apparently are consuming less crude oil as they reduce operations for unusually intensive maintenance. Meanwhile, reported results for 2005 feature steady progress in reserves, production and cash flow that affirm our estimate of present value. Adjusted reserve life of 14.8 years is the longest among operating companies in our coverage domiciled in the U.S. Unlevered cash flow multiple, EV/Ebitda, of 6.1 years seems low relative to reserve life.

Kurt H. Wulff, CFA

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>(\$/sh)</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>17-Feb</i>		<i>(\$mm)</i>	<i>(\$/sh)</i>	<i>Value</i>	
			<i>2006</i>					
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	71.60	23	1,610	65.00	0.11	1.09
Encore Acquisition Company	EAC	B	32.25	50	1,600	50.00	0.24	0.73
Cimarex Energy Company	XEC	B	44.32	85	3,770	64.00	0.08	0.72
Energy Partners Ltd.	EPL	B	24.28	41	990	38.00	0.19	0.71
			<i>Total or Median</i>		<i>8,000</i>		<i>0.15</i>	<i>0.72</i>

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 17-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B	32.25	14.8	8.3	6.1	14	-
Berry Petroleum Company	BRY	B	71.60	10.1	5.8	6.3	12	0.9
Cimarex Energy Company	XEC	B	44.32	7.3	5.5	3.9	9	0.4
Energy Partners Ltd.	EPL	B	24.28	5.7	5.0	3.5	13	-
	<i>Median</i>			8.7	5.6	5.0	12	0.2

Home Country and Business Segments

	Symbol/ Rating	Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$m)
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC	B	73	-	27	-	5,900
Encore Acquisition Company	EAC	B	24	-	76	-	3,280
Berry Petroleum Company	BRY	B	15	-	85	-	1,950
Energy Partners Ltd.	EPL	B	54	-	46	-	1,930
	<i>Median</i>		39	-	61	-	13,060

**Encore Acquisition Company
Functional Cash Flow and Present Value**

	NTM Ebitda (US\$m)	Adjusted R/P	PV/ Ebitda	Present Value (US\$m)	
North American Natural Gas	118	9.1	6.8	800	24%
Oil	275	18.1	9.0	2,480	76%
	394	14.8	8.3	3,280	100%
Debt (US\$m)				800	
Net Present Value (US\$m)				2,480	
Shares (mm)				50	
Net Present Value - Standard Estimate (US\$/sh)				50	
Net Present Value - Approximation by Correlation (US\$/sh)				52	

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Encore Acquisition Company
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	46.7	59.7	67.2	57.7	67.2	67.2	67.2	67.2	67.2
Oil (mbd)	18.32	18.26	19.45	18.83	19.6	19.6	19.6	19.6	19.60
Total (mbd)	26.1	28.2	30.7	28.4	30.8	30.8	30.8	30.8	30.8
Price									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	8.99	7.52	7.86	8.91	8.32
Differential (\$/mmbtu)	0.41	0.09	3.11	0.78	1.47	1.23	1.28	1.46	1.36
EAC (\$/mcf)	6.69	8.47	9.89	7.87	7.52	6.29	6.58	7.46	6.96
WTI Cushing (\$/bbl)	48.31	62.52	60.02	56.31	62.57	62.26	64.21	65.18	63.56
Differential	4.46	4.43	6.12	5.25	10.38	8.33	6.59	6.69	7.97
EAC (\$/bbl)	43.85	58.09	53.90	51.06	52.19	53.94	57.62	58.50	55.58
Total (\$/bbl)	42.74	55.53	55.89	49.77	49.62	48.05	51.02	53.49	50.56
Revenue (\$mm)									
Natural Gas	29	46	61	166	46	38	41	46	171
Oil	74	98	96	351	92	96	104	105	398
Total	103	144	158	517	138	135	145	152	568
Expense									
Lease operating	13	18	20	68	22	22	23	23	90
Production taxes	9	13	14	46	12	12	13	14	51
General and administrative	5	7	8	28	8	8	9	9	34
Total	28	37	42	142	43	43	44	45	175
Ebitda	75	107	116	375	95	92	100	107	394
Exploration	2	5	3	14	3	3	3	3	13
Deprec., Deplet., & Amort.	15	24	26	86	28	28	28	28	112
Hedging and other	11	27	19	71	19	17	18	20	73
Ebit	47	51	68	203	48	47	54	59	208
Interest	7	9	10	33	10	8	8	8	34
Ebt	40	43	58	170	38	39	46	51	174
Income Tax	14	9	21	54	13	14	16	18	61
Net Income (\$mm)	26	33	37	116	25	25	30	33	113
Per Share (\$)	0.53	0.67	0.75	2.34	0.50	0.51	0.60	0.66	2.27
Shares (millions)									
Lease operating (\$/bbl)	5.58	6.90	7.05	6.59	8.00	8.00	8.00	8.00	8.00
Production taxes (%rev)	9.0	8.7	9.0	8.8	9.0	9.0	9.0	9.0	9.0
General and admin (\$/bbl)	2.20	2.52	2.75	2.72	3.00	3.00	3.00	3.00	3.00
Deprec., D, & A (\$/bbl)	6.36	9.34	9.11	8.25	10.00	10.00	10.00	10.00	10.00
Ebitda Margin	73%	74%	73%	72%	69%	68%	69%	70%	69%
Tax rate	35%	22%	36%	32%	35%	35%	35%	35%	35%

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