

Rating: Buy
 S&P 500: 1306

Encore Acquisition Company

Lower NPV to \$45 a Share

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	473
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	26
<i>Price (\$/sh)</i>	30.42	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/3/06	<i>Adjusted Reserves/Production NTM</i>	14.4
<i>Shares (mm)</i>	54	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (\$mm)</i>	1,640	<i>PV/Ebitda</i>	7.1
<i>Debt (\$mm)</i>	960	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	2,600	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	40.50
<i>Present Value (PV) (\$mm)</i>	3,380	<i>Present Value Proven Reserves(\$/boe)</i>	17.30
<i>Net Present Value (\$/share)</i>	45	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.28	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.78
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	11
<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 48% possible appreciation to estimated net present value (NPV) of \$45 a share, lowered from \$50. NPV is in line with a correlation of present value with adjusted reserve life and next twelve months cash flow taking account of first quarter 2006 results reported the evening of May 2. The steep discount Encore received for its crude oil this year because of refinery difficulties is being restored. Yet a recent offering of four million new shares, hedging losses and a shift in emphasis to drilling in Texas and Oklahoma dilute somewhat the value of the company's unique asset. Most of Encore's long reserve life and prospective worth lies in the Cedar Creek Anticline oil field in Montana and North Dakota. Meanwhile the trend in oil futures prices points to a potential increase in present value that may more than restore the current revision.

Functional Cash Flow and Present Value

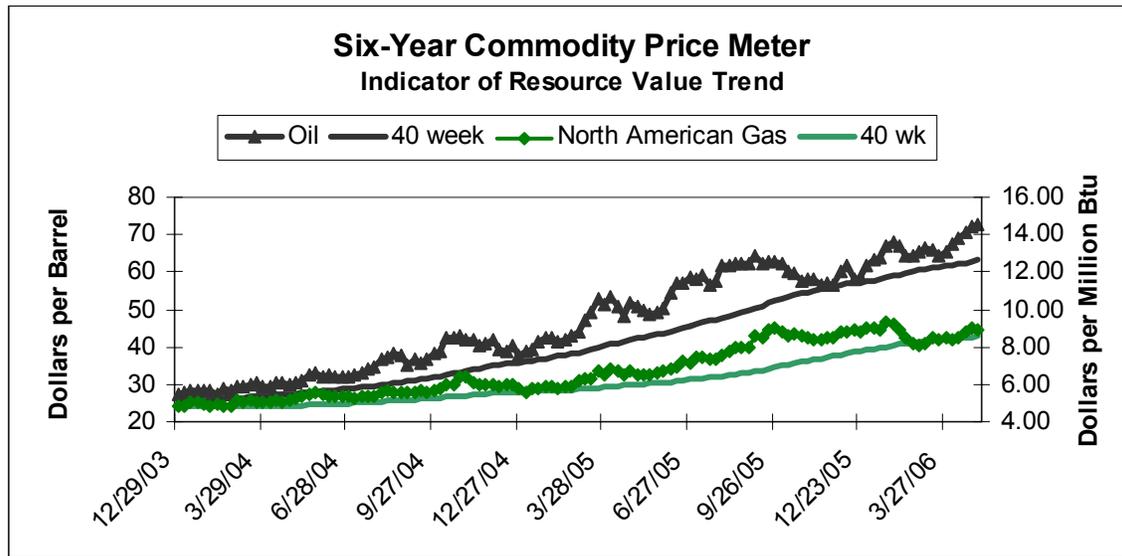
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$m)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$m)</i>	
North American Natural Gas	123	10.4	7.3	900	27%
Oil	350	16.5	7.1	2,480	73%
	473	14.4	7.1	3,380	100%
Debt (US\$m)				960	
Net Present Value (US\$m)				2,420	
Shares (mm)				54	
Net Present Value - Standard Estimate (US\$/sh)				45	
Net Present Value - Approximation by Correlation (US\$/sh)				43	

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</i>
	<i>3/31/05</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>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Natural Gas (mmcf)	49.5	67.2	57.7	67.9	67.9	67.9	67.9	67.9	67.9
Oil (mbd)	18.97	19.45	18.83	20.7	20.7	20.7	20.7	20.72	20.72
Total (mbd)	27.2	30.7	28.4	32.0	32.0	32.0	32.0	32.0	32.0
Price									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.06	7.24	9.35	8.15	8.78
Differential (\$/mmbtu)	0.41	3.11	0.78	2.08	1.64	1.68	2.17	1.89	1.83
EAC (\$/mcf)	5.77	9.89	7.87	6.89	5.42	5.56	7.18	6.26	6.95
WTI Cushing (\$/bbl)	49.65	60.02	56.31	63.33	72.31	75.85	76.87	72.09	75.50
Differential	4.64	6.12	5.25	14.71	12.80	11.42	9.58	12.06	10.85
EAC (\$/bbl)	45.01	53.90	51.06	48.62	59.52	64.43	67.29	60.03	64.65
Total (\$/bbl)	41.86	55.89	49.77	46.05	49.98	53.46	58.73	52.09	56.55
Revenue (\$mm)									
Natural Gas	26	61	166	42	33	35	45	155	172
Oil	77	96	351	91	112	123	128	454	489
Total	103	158	517	133	146	158	173	609	661
Expense									
Lease operating	15	20	68	23	23	24	24	93	94
Production taxes	9	14	46	12	13	14	16	55	60
General and administrative	6	8	28	9	9	9	9	35	35
Total	30	42	142	44	45	47	48	184	188
Ebitda	73	116	375	89	101	111	125	425	473
Exploration	3	3	14	2	2	2	2	8	8
Deprec., Deplet., & Amort.	17	26	86	27	29	29	29	115	117
Hedging and other	13	19	71	19	20	21	25	85	94
Ebit	40	68	203	40	52	60	71	223	262
Interest	7	10	33	12	8	8	8	36	32
Ebt	33	58	170	29	44	52	63	187	230
Income Tax	12	21	54	11	15	18	22	66	81
Net Income (\$mm)	22	37	116	18	28	34	41	121	150
Per Share (\$)	0.44	0.75	2.34	0.36	0.53	0.63	0.76	2.28	2.78
Shares (millions)	49	50	50	50	54	54	54	53	54
Lease operating (\$/bbl)	6.07	7.05	6.59	7.89	8.00	8.00	8.00	7.97	8.00
Production taxes (%rev)	8.9	9.0	8.8	9.2	9.0	9.0	9.0	9.0	9.0
General and admin (\$/bbl)	2.45	2.75	2.72	3.14	3.00	3.00	3.00	3.03	3.00
Deprec., D,& A (\$/bbl)	6.81	9.11	8.25	9.37	10.00	10.00	10.00	9.84	10.00
Ebitda Margin	71%	73%	72%	67%	69%	70%	72%	70%	72%
Tax rate	35%	36%	32%	37%	35%	35%	35%	35%	35%

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