

Rating: Buy
 S&P 500: 1543

Encore Acquisition Company

Oil Production with Income Alternative in Encore Energy Partners

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$m)</i>	612
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (\$/sh)</i>	35.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/31/07	<i>Adjusted Reserves/Production NTM</i>	14.5
<i>Shares (mm)</i>	54	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (\$mm)</i>	1,940	<i>PV/Ebitda</i>	7.1
<i>Debt (\$mm)</i>	1,400	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	3,340	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	45.30
<i>Present Value (PV) (\$mm)</i>	4,330	<i>Present Value Proven Reserves(\$/boe)</i>	18.70
<i>Net Present Value (\$/share)</i>	54	<i>Present Value Proven Reserves(\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.32	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.70
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	13
<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\$66 a barrel and natural gas, \$11 a million btu.
 For historical research on Encore since 2003 see <http://www.mcdep.com/4eac.htm>

<i>Symbol</i>	ENP	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$m)</i>	67
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (\$/sh)</i>	20.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/31/07	<i>Adjusted Reserves/Production NTM</i>	12.2
<i>Shares (mm)</i>	23	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (\$mm)</i>	460	<i>PV/Ebitda</i>	7.4
<i>Debt (\$mm)</i>	80	<i>Undeveloped Reserves (%)</i>	14
<i>Enterprise Value (EV) (\$mm)</i>	540	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	52.80
<i>Present Value (PV) (\$mm)</i>	490	<i>Present Value Proven Reserves(\$/boe)</i>	23.00
<i>Net Present Value (\$/share)</i>	18	<i>Present Value Proven Reserves(\$/mcf)</i>	3.80
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.43
<i>McDep Ratio - EV/PV</i>	1.09	<i>Price/Earnings Next Twelve Months</i>	47
<i>Distribution Yield (%/year)</i>	7.0	<i>Indicated Annual Distribution (US\$/sh)</i>	1.40

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\$66 a barrel and natural gas, \$11 a million btu.
 Encore Acquisition Company (EAC) owns about 61% of the units of ENP

Summary and Recommendation

Buy-recommended **Encore Acquisition (EAC)** offers unlevered appreciation potential of 29% to estimated net present value (NPV) of \$54 a share. Related **Encore Energy Partners (ENP)** distributes cash at an indicated 7% a year along with oil price participation. Third quarter results reported today point to rising unlevered cash flow (Ebitda) for both stocks along with oil price (see tables [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports estimated NPV concentrated on oil in each case (see tables [Functional Cash Flow and Present](#)

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Value). The operational characteristics of the underlying properties are similar and we have attempted to value EAC and ENP consistently regardless of whether the ownership is a corporation or a partnership. We expect the resulting gap in McDep Ratio to close with that for EAC moving up while NPV for both can gain with oil price. Six-year oil price is rising again, perhaps to another double as was the case from the end of 2004 to mid 2006, subject to short declines from time to time (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA

Encore Acquisition Company
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)	59.5	76.1	57.9	57.9	64.9	57.9	57.9	57.9	57.9
Oil (mbd)	19.7	28.7	27.3	27.3	26.13	27.3	27.3	27.3	27.28
Total (mb)	2,728	3,766	3,396	3,396	13,483	3,360	3,360	3,396	13,512
Total (mbd)	29.7	41.4	36.9	36.9	36.9	36.9	36.9	36.9	36.9
Price									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	7.46	7.00	8.26	7.90	8.11	7.93
Differential (\$/mmbtu)	0.52	1.04	0.07	0.08	0.56	0.09	0.09	0.09	0.09
EAC (\$/mcf)	6.06	6.52	6.09	7.38	6.44	8.17	7.82	8.03	7.85
WTI Cushing (\$/bbl)	70.42	64.91	75.48	91.02	72.37	91.70	89.32	87.41	89.86
Differential	8.22	7.90	12.00	14.47	10.11	14.57	14.20	13.89	14.29
EAC (\$/bbl)	62.20	57.01	63.48	76.55	62.26	77.12	75.12	73.51	75.57
Total (\$/bbl)	53.56	51.53	56.44	68.12	55.34	69.78	67.75	66.89	68.13
Revenue (\$mm)									
Natural Gas	33	45	32	39	152	43	41	43	166
Oil	113	149	159	192	594	191	186	184	754
Total	146	194	192	231	746	234	228	227	921
Expense									
Lease operating	25	38	37	44	149	44	44	44	176
Production taxes	14	19	20	23	75	23	23	23	92
General and administrative	6	9	13	10	41	10	10	10	41
Total	44	65	70	77	266	77	77	77	308
Ebitda	102	129	122	154	481	157	151	150	612
Exploration	12	3	9	9	33	9	9	9	36
Deprec., Deplet., & Amort.	28	52	49	54	191	54	54	54	216
Hedging and other	5	9	2	20	36	21	20	20	81
Ebit	57	64	62	79	230	82	77	76	315
Interest	11	27	24	24	91	24	21	21	90
Ebt	46	37	38	55	139	58	56	55	225
Income Tax	25	13	13	19	49	20	20	19	79
Net Income (\$mm)	21	24	25	36	91	38	37	36	146
Per Share (\$)	0.39	0.44	0.46	0.66	1.67	0.70	0.67	0.66	2.70
Shares (millions)									
Lease operating (\$/bbl)	8.98	9.98	10.92	13.00	11.08	13.00	13.00	13.00	13.00
Production taxes (%rev)	9.3	9.9	10.4	10.0	10.0	10.0	10.0	10.0	10.0
General and admin (\$/bbl)	2.31	2.28	3.74	3.00	3.07	3.00	3.00	3.00	3.00
Deprec., D, & A (\$/bbl)	10.08	13.89	14.43	16.00	14.14	16.00	16.00	16.00	16.00
Ebitda Margin	70%	66%	64%	67%	64%	67%	66%	66%	67%
Tax rate	54%	35%	35%	35%	35%	35%	35%	35%	35%

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Encore Energy Partners
Next Twelve Months Operating and Financial Estimates

	<i>Year</i>	<i>H1</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</i>
	2006	6/30/07	9/30/07	12/31/07	2007E	3/31/08	6/30/08	9/30/08	Months
									9/30/08
Volume									
Natural Gas (bcf)	2.16	0.90	0.54	0.54	1.98	0.53	0.53	0.54	2.14
Natural Gas (mmcf)	5.9	5.0	5.8	5.8	5.4	5.8	5.8	5.8	5.8
Days	365	181	92	92	365	91	91	92	366
Oil (mb)	1,273	617	319	319	1,255	315	315	319	1,269
Oil (mbd)	3.5	3.4	3.5	3.5	3.4	3.5	3.5	3.5	3.5
Total (mb)	1,273	617	319	319	1,255	316	316	319	1,269
Total (mbd)	3.5	3.4	3.5	3.5	3.4	3.5	3.5	3.5	3.5
Price									
Henry Hub (\$/mmbtu)	7.23	7.18	6.16	7.46	7.00	8.26	7.90	8.11	7.93
Differential (\$/mmbtu)	0.40	0.49	0.73	0.88	0.68	0.97	0.93	0.96	0.94
ENP (\$/mcf)	6.83	6.69	5.43	6.58	6.32	7.28	6.97	7.16	7.00
WTI Cushing (\$/bbl)	66.05	61.49	75.48	91.02	72.37	91.70	89.32	87.41	89.86
Differential	15.69	11.36	18.69	22.53	15.88	22.70	22.11	21.64	22.25
ENP (\$/bbl)	50.36	50.13	56.79	68.49	56.49	68.99	67.20	65.77	67.61
Total (\$/bbl)	61.92	59.88	65.91	79.54	66.41	81.23	78.92	77.79	79.37
Revenue (\$mm)									
Natural Gas	15	6	3	4	12	4	4	4	15
Oil	64	31	18	22	71	22	21	21	86
Total	79	37	21	25	83	26	25	25	101
Expense									
Lease operating	9	7	4	4	16	4	4	4	18
Production taxes	9	5	3	3	10	3	3	3	12
General and administrative	3	1	7	1	9	1	1	1	4
Total	21	13	14	8	35	8	8	8	34
Ebitda	58	24	7	17	49	17	17	16	67
Deprec., Deplet., & Amort.	31	15	8	8	31	8	8	8	30
Hedging and other	3	6	2	2	10	2	2	2	7
Ebit	24	3	(3)	7	8	8	7	7	29
Interest	4	2	5	5	12	5	5	5	19
Ebt	20	1	(8)	3	(4)	3	2	2	10
Income Tax									
Net Income (\$mm)	20	1	(8)	3	(4)	3	2	2	10
Per Unit (\$)	0.85	0.04	(0.33)	0.11	(0.18)	0.13	0.10	0.09	0.43
Units (millions)									
Lease operating (\$/bbl)	7.15	11.18	13.79	14.00	12.56	14.00	14.00	14.00	14.00
Production taxes (%rev)	11.5	12.2	12.4	12.0	12.2	12.0	12.0	12.0	12.0
General and admin (\$/bbl)	2.28	2.11	20.69	3.00	7.06	3.00	3.00	3.00	3.00
Deprec., D,& A (\$/bbl)	24.26	24.14	26.33	24.00	24.66	24.00	24.00	24.00	24.00
Ebitda Margin	73%	66%	35%	67%	58%	67%	66%	66%	67%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%

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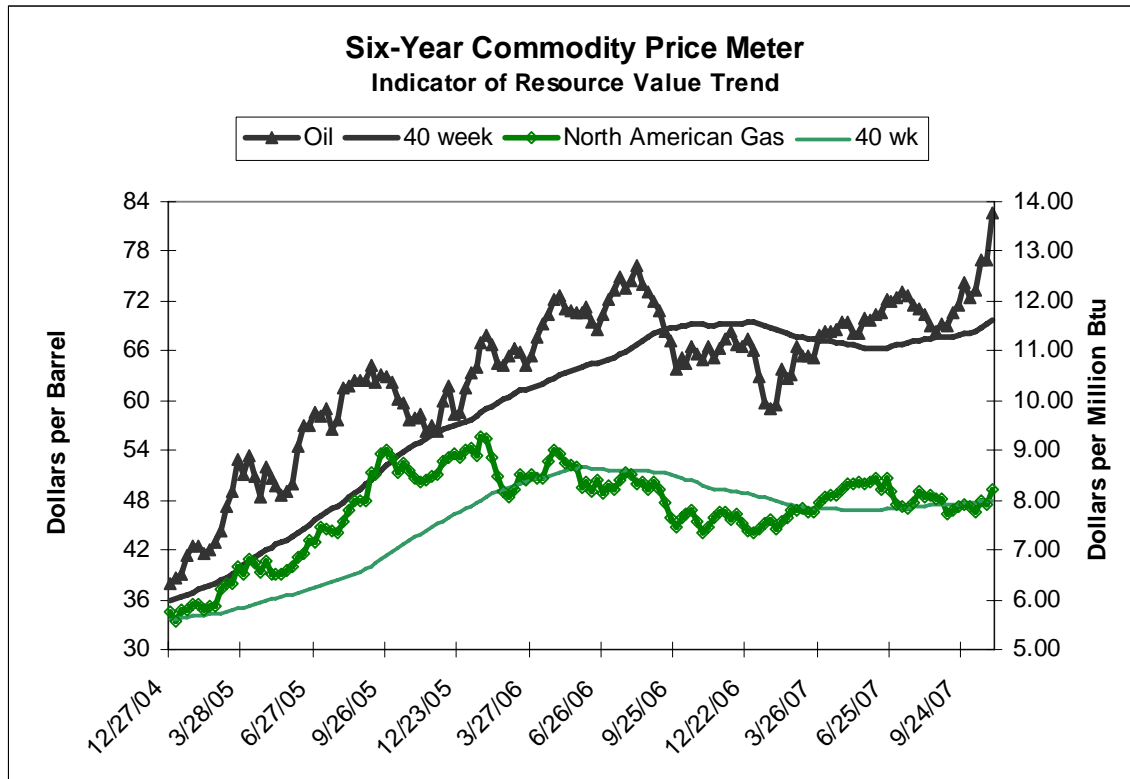
Encore Acquisition Company
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	111	9.6	8.0	880	20%
Oil	502	16.3	6.9	3,450	80%
	612	14.5	7.1	4,330	100%
Debt (US\$mm)					1,400
Net Present Value (US\$mm)					2,930
Shares (mm)					54
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					61

Encore Energy Partners
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	10	17.8	14.1	140	28%
Oil	57	10.6	6.3	360	72%
	67	12.2	7.5	500	100%
Debt (US\$mm)					80
Net Present Value (US\$mm)					420
Shares (mm)					23
Net Present Value - Standard Estimate (US\$/sh)					18
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					18

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