

Purcell Energy Ltd.
Continue Buy on Steady Stock Price

Symbol	Price	Price	Market	Net	Debt/	EV/	EV/	Div'd	PV/			
	(C\$/sh)	(US\$/sh)								Cap	Present	Present
	30-Apr	30-Apr	Shares	Value	Value	McDep	2001E	NTM	NTM	(%)	NTM	
	2002	2002	(mm)	(US\$mm)	(US\$/sh)	Ratio						
PEL.TO	3.00	1.92	29	56	3.00	0.14	0.66	3.2	4.3	13.5	-	6.5

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt:

US\$mm 67

Ebitda = Earnings before interest, tax, depreciation and amortization:

US\$mm 16

NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings

PV = Present Value of oil and gas:

US\$mm 101

Present Value of Equity:

US\$mm 87

Reserve Life Index...(Proved + 0.25 Probable) / NTM Production:

Years 6.6

Summary and Recommendation

We continue our Buy recommendation for the common stock of Purcell Energy Ltd. initiated late last year, as the stock appears to be lagging other energy ideas in stock price. Investors may be concerned about increasing water content limiting natural gas production in the company's largest field, a lower estimate of net asset value by management, and high finding costs for 2001. Counters to those concerns include the consideration that water production was expected, net asset value was strongly influenced by lower commodity price at year end and much of 2001 spending was on new projects where it is too soon to expect proven reserves. In the end oil and gas exploration and production is a difficult business at lower commodity price and becomes quite attractive at higher commodity price. Since we like the commodity prospects we like the investment prospects in stocks like Purcell that are priced at a low McDep Ratio with reasonable debt and appear to have honest and competent management.

Fort Liard Performs Well, Maybe Not Quite As Well Expected

While water content is no surprise to ChevronTexaco, the operator of Purcell's largest field, the current production rate is limited by the ability to handle water at the well site. Facilities apparently will be installed in a few months that are likely to allow boosting natural gas production.

Independent engineers, Gilbert Laustsen Jung Ltd., have confirmed estimated reserves for the field. In fact the engineers credit Purcell with more proven reserves than a year ago.

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April 30, 2002

New facilities are not free as Purcell is likely to have to meet some capital calls in the second half of 2002.

The industry remains enthusiastic about the Northwest Territories in the area around Fort Liard. More drilling will take place in there this year and explorers expect new lands to be offered for lease next year.

Updated Net Asset Value Still Strong

Management releases a net asset value (NAV) calculation using the estimates of independent engineers. On a diluted basis, NAV declined to C\$4.48 per share as of December 31, 2001 from C\$5.47 per share as of December 31, 2000. The most important factor contributing to the change appears to be commodity price expectations.

Using our own projections, we estimated Net Present Value at US\$3.46 (C\$5.50) in our initial recommendation dated November 16, 2001. Our current estimate is US\$3.00 (C\$4.70) per share. Whereas we had been lower than management's estimate we now are slightly higher.

High Finding Costs in 2001 Not Unusual

Purcell conducts a surprisingly aggressive capital program. The stock that was repurchased last year was reissued with favorable tax treatment for oil and gas investment. Debt is also up from our analysis of five months ago, but remains at a low ratio to present value.

Our concern would be whether Purcell is reinvesting at an attractive return. The answer seems to be it is too soon to tell. The superficial numbers did not look good with management's calculation of a finding cost per barrel in double-digit range. Three-year averages remain under an efficient C\$10 per barrel.

Oil and gas producers often experience high costs in years of high commodity prices. When commodity price is high, cash flow is high and the companies tend to spend more. The service companies charge more and the producers are not as cost conscious as in leaner times.

Last year was one of redeployment of cash from Fort Liard into new projects. The time of reckoning may come in 2002 results when reserves should advance to justify a high level of spending.

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Volume Gains Ahead

Management expects the company to produce 6000 barrels equivalent daily in 2002 compared to an average of 5100 bbl/d in the fourth quarter. Recalling that expectations had been for 7000 bbl/d we hold our projection flat at the most recently achieved level (see Table). We allow for the beginning of royalty payments at Fort Liard in Other Revenue.

Our hopefully cautious projection leads to a cash flow multiple, EV/Ebitda, among the lowest in our coverage at 4.3 times, or years. Considering a reserve life index near 7 years we assess present value at 6.5 years, or US\$3.00 per share. That implies attractive appreciation potential.

Small Cap Canadian Oil and Gas Stocks Have High Risk

Though we feel comfortable in our analytical justification, American investors are usually going to be behind Canadian investors in learning new company-specific information. Another risk is that the industry outlook can change rapidly. Moreover there is little liquidity for large investors to get in and out of a small stock and transaction costs may also be high for small investors. At the same time there is an active market in deals, particularly with U.S. companies looking to Canada and with Canadian royalty trusts acquiring producers and turning them into income generators. Thus despite the risks, there also appear to be opportunities to realize eventually the values we see.

Kurt H. Wulff, CFA

McDep Associates

Stock Idea

April 30, 2002

Purcell Energy Ltd. Operating and Financial Results

	Q1	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	3/31/01	6/30/01	9/30/01	12/31/01	2001	3/31/02	6/30/02	9/30/02	12/31/200	2002E	3/31/03	3/31/03
Volume												
Natural Gas (bcf)	1.90	1.95	2.60	2.48	8.93	2.43	2.45	2.48	2.48	9.84	2.43	9.84
Natural Gas (mmcf)	21.1	21.4	28.3	27.0	24.5	27.0	27.0	27.0	27.0	27.0	27.0	27.0
Days	90	91	92	92	365	90	91	92	92	365	90	365
Oil (mb)	48	44	45	57	193	56	56	57	57	226	56	226
Oil (mbd)	0.53	0.48	0.49	0.62	0.53	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Total (mb)	364	368	478	470	1,681	460	465	470	470	1,866	460	1,866
Total (mbd)	4.0	4.0	5.2	5.1	4.6	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Price												
Henry Hub (\$/mmbtu)	6.31	4.36	2.75	2.41	3.96	2.53	3.36	3.38	3.62	3.22	3.82	3.55
Differential (\$/mmbtu)	0.66	(0.29)	0.44	(0.07)	0.38	(0.07)	0.20	0.20	(0.07)	0.06	(0.07)	0.07
PEL (C\$/mcf)	5.65	4.65	2.31	2.48	3.58	2.60	3.16	3.18	3.70	3.16	3.90	3.48
WTI Cushing (\$/bbl)	28.81	27.88	26.69	20.40	25.95	21.60	26.43	26.10	25.37	24.88	24.72	25.66
Differential	(1.92)	(4.38)	(6.08)	(0.61)	(2.74)	(0.61)	(0.61)	(0.61)	(0.61)	(0.62)	(0.61)	(0.61)
PEL (C\$/bbl)	30.73	32.26	32.77	21.01	28.68	22.21	27.04	26.71	25.98	25.50	25.33	26.27
Revenue (C\$mm)												
Natural Gas	10.7	9.1	6.0	6.2	31.9	6.3	7.7	7.9	9.2	31.1	9.5	34.2
Oil	1.5	1.4	1.5	1.2	5.5	1.2	1.5	1.5	1.5	5.8	1.4	5.9
Other	(0.8)	(2.7)	(2.6)	(0.5)	(6.6)	(0.8)	(1.4)	(1.4)	(1.6)	(5.2)	(1.6)	(6.0)
Total	11.4	7.7	4.9	6.4	30.4	6.8	7.9	8.0	9.0	31.7	9.2	34.1
Expense												
Production	1.4	1.6	1.8	1.6	6.4	1.8	1.9	1.9	1.9	7.5	1.8	7.5
General and administrative	0.4	0.4	0.5	0.7	2.0	0.5	0.5	0.5	0.5	1.9	0.5	1.9
Other	0.8	(0.2)	(1.3)	(0.0)	(0.7)							
Total	2.6	1.8	1.0	2.3	7.7	2.3	2.3	2.4	2.4	9.3	2.3	9.3
Ebitda	8.8	6.0	3.9	4.1	22.7	4.5	5.6	5.6	6.7	22.4	6.9	24.8
Deprec., Deplet., & Amort.	2.1	2.0	2.8	3.2	10.2	3.2	3.3	3.3	3.3	13.1	3.2	13.1
Ebit	6.7	3.9	1.0	0.9	12.5	1.3	2.3	2.3	3.4	9.3	3.7	11.8
Interest	0.2	0.2	0.3	0.3	1.0	0.3	0.3	0.3	0.3	1.2	0.3	1.2
Ebt	6.5	3.8	0.7	0.6	11.5	1.0	2.0	2.0	3.1	8.1	3.4	10.5
Income Tax	2.3	1.3	0.3	0.2	4.0	0.3	0.7	0.7	1.1	2.8	1.2	3.7
Net Income (\$mm)	4.2	2.4	0.5	0.4	7.5	0.6	1.3	1.3	2.0	5.2	2.2	6.8
Per Share (C\$)	0.16	0.09	0.02	0.01	0.28	0.02	0.04	0.05	0.07	0.18	0.08	0.24
Shares (millions)	26	27	26	26	26	29	29	29	29	29	29	29
Production (C\$/bbl)	3.96	4.22	3.73	3.45	3.81	4.00	4.00	4.00	4.00	4.00	4.00	4.00
General and admin (C\$/bbl)	0.99	1.18	1.06	1.48	1.19	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Deprec., D.& A (C\$/bbl)	5.83	5.50	5.91	6.86	6.07	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Ebitda Margin	77%	77%	79%	64%	75%	66%	70%	71%	74%	71%	75%	73%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Balance Sheet												
Total Assets	73	76	78	83								
Current Assets	14	10	6	5								
Deferred Taxes	10	12	11	11								
Equity	41	41	32	45								
Debt	10	14	29	22								22

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