

McDep Associates

Stock Idea

July 17, 2002

Buy/Sell Rating: 3 – Neutral

S&P 500: 901

Purcell Energy Ltd. Revise to Neutral from Buy to Stop Loss

Symbol	Price	Price	Shares	Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio	EV/ Sales 2001E	EV/ Ebitda NTM	P/E NTM	Div'd NTM (%)	PV/ Ebitda NTM
	(C\$/sh) 16-Jul 2002	(US\$/sh) 16-Jul 2002										
PEL.TO	2.35	1.53	27	42	3.00	0.19	0.60	2.9	3.9	8.8	-	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 61

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

US\$mm 16

NTM = Next Twelve Months Ended June 30, 2003; P/E = Stock Price to Earnings

PV = Present Value of oil and gas:

US\$mm 101

Present Value of Equity:

US\$mm 82

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

Years 7.2

Summary and Recommendation

We no longer recommend current purchase of the common shares of Purcell Energy Ltd. because the stock price has dropped nearly 20% from the time of our recommendation and the current price is below its 200-day moving average. We do not necessarily expect further decline and the decline that has taken place is slightly less than for the stock market as whole as measured by the S&P 500 average. A 20% decline is an arbitrary trigger that forces us to recognize that the stock did not perform as we expected. Though the trend of the 200-day average is negative, that is the case for most stocks today. If we had to find an explanation for the underperformance we would point to volume that seems to fall short of expectations expressed by management. We think the resource base is solid. The company is in good financial condition with only moderate debt, but ambitious spending may have to be scaled back. Finally a low McDep Ratio implies appreciation potential ultimately.

Kurt H. Wulff, CFA

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Purcell Energy Ltd. Operating and Financial Results

	Q2	Q3	Q4	Year	Q1	Q2E	Year	Next Twelve Months
	6/30/01	9/30/01	12/31/01	2001	3/31/02	6/30/02	2002E	6/30/03
Volume								
Natural Gas (bcf)	1.95	2.60	2.48	8.93	2.19	2.22	8.89	8.87
Natural Gas (mmcf)	21.4	28.3	27.0	24.5	24.4	24.4	24.4	24.4
Days	91	92	92	365	90	91	365	364
Oil (mb)	44	45	57	193	57	57	229	229
Oil (mbd)	0.48	0.49	0.62	0.53	0.63	0.63	0.63	0.63
Total (mb)	368	478	470	1,681	422	427	1,711	1,706
Total (mbd)	4.0	5.2	5.1	4.6	4.7	4.7	4.7	4.7
Price								
Henry Hub (\$/mmbtu)	4.36	2.75	2.41	3.96	2.53	3.38	3.04	3.34
Differential (\$/mmbtu)	(0.29)	0.44	(0.07)	0.38	(0.12)	0.20	0.04	(0.12)
PEL (C\$/mcf)	4.65	2.31	2.48	3.58	2.65	3.18	3.00	3.46
WTI Cushing (\$/bbl)	27.88	26.69	20.40	25.95	21.60	26.27	25.31	26.31
Differential	(4.38)	(6.08)	(0.61)	(2.74)	(7.42)	(7.42)	(7.43)	(7.26)
PEL (C\$/bbl)	32.26	32.77	21.01	28.68	29.02	33.68	32.74	33.57
Revenue (C\$m)								
Natural Gas	9.1	6.0	6.2	31.9	5.8	7.0	26.7	30.7
Oil	1.4	1.5	1.2	5.5	1.6	1.9	7.5	7.7
Other	(2.7)	(2.6)	(0.5)	(6.6)	(0.5)	(1.3)	(4.5)	(5.8)
Total	7.7	4.9	6.4	30.4	6.7	7.6	29.4	32.6
Expense								
Production	1.6	1.8	1.6	6.4	1.7	1.7	6.9	6.8
General and administrative	0.4	0.5	0.7	2.0	0.6	0.4	1.9	1.7
Other	(0.2)	(1.3)	(0.0)	(0.7)	0.2			
Total	1.8	1.0	2.3	7.7	2.5	2.1	9.0	8.5
Ebitda	6.0	3.9	4.1	22.7	4.2	5.5	20.5	24.1
Deprec., Deplet., & Amort.	2.0	2.8	3.2	10.2	3.3	3.0	12.4	11.9
Ebit	3.9	1.0	0.9	12.5	0.8	2.5	8.1	12.1
Interest	0.2	0.3	0.3	1.0	0.2	0.2	0.8	0.8
Ebt	3.8	0.7	0.6	11.5	0.6	2.3	7.3	11.3
Income Tax	1.3	0.3	0.2	4.0	0.2	0.8	2.5	3.9
Net Income (\$mm)	2.4	0.5	0.4	7.5	0.4	1.5	4.7	7.3
Per Share (C\$)	0.09	0.02	0.01	0.28	0.02	0.05	0.17	0.27
Shares (millions)	27	26	26	26	27	27	27	27
Production (C\$/bbl)	4.22	3.73	3.45	3.81	4.12	4.00	4.03	4.00
General and admin (C\$/bbl)	1.18	1.06	1.48	1.19	1.36	1.00	1.09	1.00
Deprec., D,& A (C\$/bbl)	5.50	5.91	6.86	6.07	7.92	7.00	7.23	7.00
Ebitda Margin	77%	79%	64%	75%	62%	72%	70%	74%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%

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