Oil and Gas E&P

Estimate Change

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Raising estimates on higher ’08 nat gas forecast

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EPS and CFPS 14%/8.7% above the street in 2008

We are adjusting estimates for the new ML 2008 natural gas price forecast. We recently increased our 2008 nat gas forecast by 19% to $11.00/MMBtu from $9.25/MMBtu. After adjusting for our updated forecast, our 2008 EPS and CFPS estimates are 14.0% and 8.7% above consensus estimates. Our most out of consensus call from this point of view are COG, BBG, and DVN where we are 26%, 23%, and 21% above the street. As a result of our higher nat gas forecast, the average 2008E EV/EBITDAX multiple for our group has decreased to 8.0x (from 8.5x previously).

Tightening fundamentals provide upside to gas forecast

In February, our commodity team initiated a constructive call on US nat gas prices arguing that LNG bottlenecks would impact NA imports and lift US gas prices. Despite the recent run (in nat gas prices) and recessionary risks to the broader economy, our commodity team now sees the possibility for additional upside this summer as a weak US dollar supports industrial gas demand from the manufacturing sector and an agricultural boom increases domestic consumption (both nitrogen fertilizer and ethanol production require substantial amounts of natural gas). As a result, our ML energy team has increased its 2008 natural gas forecast to $11.00/MMBtu, from $9.25/MMBtu. For additional details on our natural gas outlook please see US nat gas desperately chasing oil this summer.

E&Ps up 45% YTD, catalyst pipeline provides add’l upside

Our NA E&P coverage group has returned 45% YTD on the back of rising commodity prices (crude +37% YTD, nat gas +50% YTD), upward guidance revisions, and positive developments from emerging horizontal plays. The steady flow of positive news surrounding next generation shale plays has laid the ground work for a catalyst rich second half, in our opinion. In our group, we believe COG and HK could benefit from several near-term catalysts and drill bit optionality not discounted in the current price. COG’s exposure to the Marcellus (PA and W. VA) and Haynesville Shales (East Texas Minden & County Line projects) should provide a steady stream of production results over the next several quarters. In the N. Louisiana portion of the Haynesville, results from HK’s first two horizontal wells, as well as data points from offsetting operators like CHK should be eagerly anticipated. In addition to operational catalysts, we believe there could be upside to 2008 production guidance for XTO, EOG, COG, WLL, HK, CLR, and XEC. For a breakdown of upcoming catalysts for our entire group, see page 4.

Table 1: ML North American E&P Universe

Company	Ticker	Opinion	'08 EPS	'09 EPS
Anadarko Petroleum Corp.	APC	B-1-7	6.53	4.48
Devon Energy Corp.	DVN	B-1-7	13.28	9.90
EOG Resources, Inc.	EOG	B-2-7	9.30	7.41
XTO Energy, Inc.	XTO	B-1-7	3.97	3.85
Berry Petroleum Company	BRY	C-1-7	4.03	3.85
Bill Barrett Corporation	BBG	C-1-9	2.81	2.68
Cabot Oil & Gas Corp.	COG	C-1-7	3.10	2.59
Cimarex Energy Co.	XEC	C-3-7	8.48	5.63
Concho Resources, Inc.	CXO	C-1-9	1.82	1.85
Continental Resources, Inc.	CLR	C-2-9	2.64	2.60
Delta Petroleum Corp.	DPTR	C-3-9	0.06	0.09
Denbury Resources Inc.	DNR	C-1-9	1.77	1.86
Petrohawk Energy Corp.	HK	C-1-9	1.09	0.76
Quicksilver Resources Inc.	KWK	C-1-9	1.59	1.58
Range Resources Corp.	RRC	C-2-7	2.34	2.12
St. Mary Land & Exploration Co.	SM	C-3-7	4.92	3.97
Whiting Petroleum Corp.	WLL	C-1-9	6.88	6.11

Source: Merrill Lynch estimates

Table 2: ML Commodity Price Deck

New ML Commodity Price Deck	2008E	2009E	2010E
WTI Spot ($/Bbl)	101.47	90.00	85.00
Natural Gas HH ($/MMBtu)	10.96	8.50	8.50
Old ML Commodity Price Deck	**2008E**	**2009E**	**2010E**
WTI Spot ($/Bbl)	101.47	90.00	85.00
Natural Gas HH ($/MMBtu)	9.25	8.50	8.50
% Change	**2008E**	**2009E**	**2010E**
WTI Spot ($/Bbl)	0%	0%	0%
Natural Gas HH ($/MMBtu)	19%	0%	0%
Consensus Commodity Price Deck	**2008E**	**2009E**	**2010E**
WTI Spot ($/Bbl)	100.00	96.90	92.00
Natural Gas HH ($/MMBtu)	9.14	9.00	9.00
% Difference	**2008E**	**2009E**	**2010E**
WTI Spot ($/Bbl)	1%	-7%	-8%
Natural Gas HH ($/MMBtu)	20%	-6%	-6%

Source: Merrill Lynch estimates. Bloomberg

Adjusting estimates for higher nat gas commodity prices

Based on the new ML commodity price forecasts, our 2008 and 2009 EPS estimates are 14.0% above and 12.5% below the street, respectively. Our 2008 and 2009 CFPS estimates are 8.7%% above and 8.5% below the street, respectively. In the following tables we detail our EPS and CFPS estimates versus the street. Our EPS estimates for COG, BBG, DVN have the largest upside variance to consensus at 26%, 23%, and 21% respectively.

Table 3: EPS estimates versus Previous/Street estimates

		EPS Old		EPS New		EPS Consensus					
Company	Ticker	2008	2009	2008	2009	2008	2009	2008E % Change	2009E % Change	2008E vs. Consensus	2009E vs. Consensus
Anadarko Petroleum Corp.	APC	$5.53	$4.48	$6.53	$4.48	$5.50	$5.28	18%	0%	19%	-15%
Devon Energy Corp.	DVN	11.44	9.90	13.28	9.90	10.93	11.35	16%	0%	21%	-13%
EOG Resources, Inc.	EOG	8.00	7.41	9.30	7.41	8.22	9.03	16%	0%	13%	-18%
XTO Energy, Inc.	XTO	3.72	3.85	3.97	3.85	3.82	4.64	7%	0%	4%	-17%
Berry Petroleum Company	BRY	3.76	3.86	4.03	3.85	3.90	4.02	7%	0%	3%	-4%
Bill Barrett Corporation	BBG	2.52	2.84	2.81	2.68	2.28	3.05	11%	-6%	23%	-12%
Cabot Oil & Gas Corp.	COG	2.57	2.49	3.10	2.59	2.46	2.80	20%	4%	26%	-8%
Cimarex Energy Co.	XEC	7.20	5.62	8.48	5.63	7.06	6.55	18%	0%	20%	-14%
Concho Resources, Inc.	CXO	1.69	1.85	1.82	1.85	1.60	1.88	8%	0%	14%	-1%
Continental Resources, Inc.	CLR	2.55	2.62	2.64	2.60	2.47	3.19	3%	-1%	7%	-18%
Delta Petroleum Corp.	DPTR	0.01	0.14	0.06	0.09	0.00	0.30	619%	-37%		-70%
Denbury Resources Inc.	DNR	1.70	1.81	1.77	1.86	1.80	2.09	4%	2%	-2%	-11%
Petrohawk Energy Corp.	HK	0.83	0.76	1.09	0.76	0.90	1.10	31%	0%	21%	-31%
Quicksilver Resources Inc.	KWK	1.40	1.56	1.59	1.58	1.34	1.84	14%	1%	19%	-14%
Range Resources Corp.	RRC	2.21	2.25	2.34	2.12	2.22	2.43	6%	-6%	6%	-13%
St. Mary Land & Exploration Co.	SM	4.22	4.19	4.92	3.97	4.24	3.92	16%	-5%	16%	1%
Whiting Petroleum Corp.	WLL	6.09	5.85	6.88	6.11	6.02	6.95	13%	5%	14%	-12%
Average								13.08%	-0.32%	14.03%	-12.53%
Average Large Cap								14.26%	0.00%	14.30%	-15.68%
Average Small Cap								12.69%	-0.43%	13.93%	-11.48%

Source: Merrill Lynch estimates, First Call

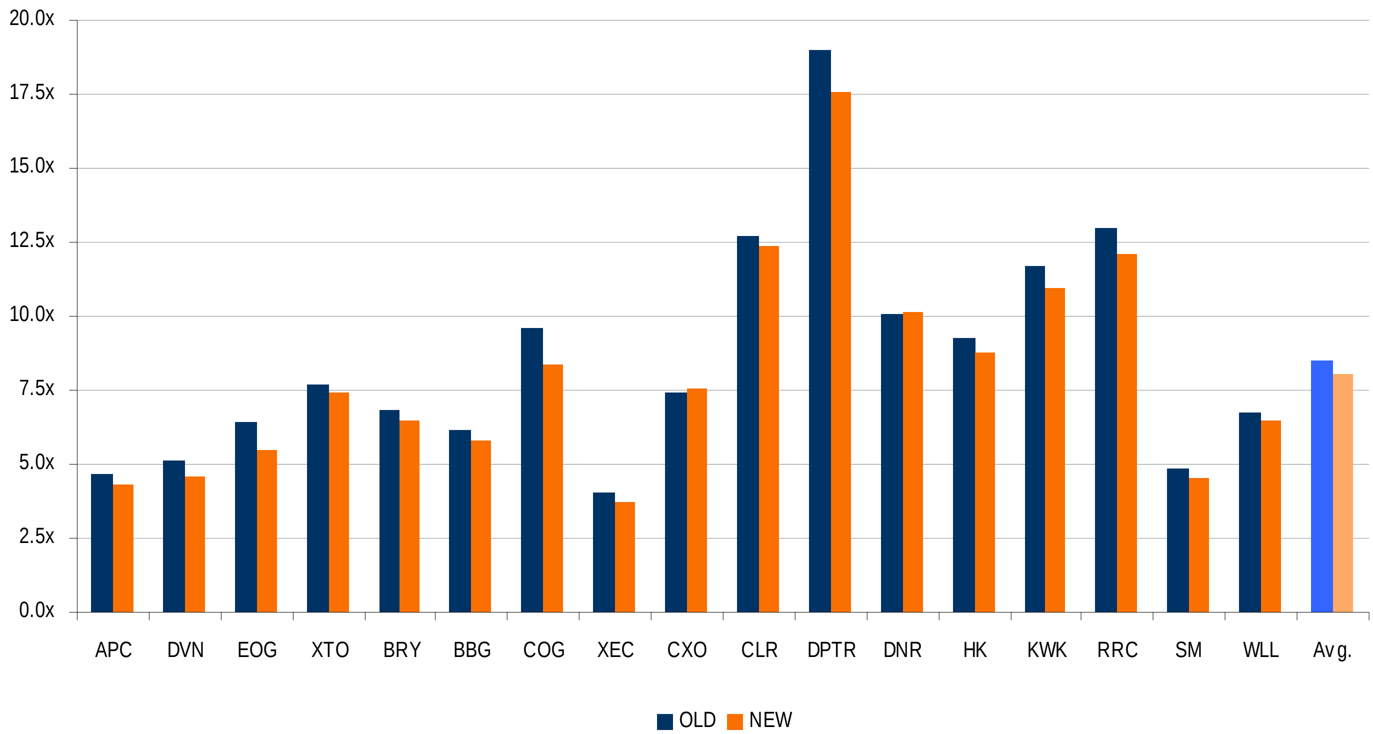
Table 4: CFPS Estimates versus Previous /Street Estimates

		CFPS Old		CFPS New		CFPS Consensus					
Company	Ticker	2008	2009	2008	2009	2008	2009	2008E % Change	2009E % Change	2008E vs. Consensus	2009E vs. Consensus
Anadarko Petroleum Corp.	APC	$15.57	$14.45	$16.92	$14.45	$14.63	$14.74	9%	0%	16%	-2%
Devon Energy Corp.	DVN	20.62	18.59	21.09	18.59	20.20	21.60	2%	0%	4%	-14%
EOG Resources, Inc.	EOG	17.83	18.24	19.56	18.24	17.78	20.10	10%	0%	10%	-9%
XTO Energy, Inc.	XTO	8.20	8.86	8.57	8.86	8.55	10.06	4%	0%	0%	-12%
Berry Petroleum Company	BRY	8.60	8.58	9.21	8.79	7.99	8.33	7%	2%	15%	5%
Bill Barrett Corporation	BBG	9.23	10.33	9.98	10.34	9.15	11.07	8%	0%	9%	-7%
Cabot Oil & Gas Corp.	COG	6.33	6.68	7.32	6.86	5.89	6.35	16%	3%	24%	8%
Cimarex Energy Co.	XEC	16.03	14.28	17.75	14.33	16.31	16.04	11%	0%	9%	-11%
Concho Resources, Inc.	CXO	4.40	4.86	4.43	4.76	4.16	4.79	1%	-2%	6%	-1%
Continental Resources, Inc.	CLR	4.80	5.23	4.93	5.19	4.69	6.00	3%	-1%	5%	-13%
Delta Petroleum Corp.	DPTR	1.35	1.23	1.42	1.11	1.37	2.12	5%	-10%	3%	-48%
Denbury Resources Inc.	DNR	3.12	3.59	3.21	3.65	3.30	3.83	3%	2%	-3%	-5%
Petrohawk Energy Corp.	HK	3.28	3.43	3.68	3.43	3.34	3.99	12%	0%	10%	-14%
Quicksilver Resources Inc.	KWK	3.13	3.49	3.43	3.53	3.10	4.12	10%	1%	11%	-14%
Range Resources Corp.	RRC	5.95	6.26	6.07	5.90	5.72	6.39	2%	-6%	6%	-8%
St. Mary Land & Exploration Co.	SM	11.69	11.96	12.75	11.79	11.27	11.27	9%	-1%	13%	5%
Whiting Petroleum Corp.	WLL	15.19	15.32	16.41	16.27	15.29	17.39	8%	6%	7%	-6%
Average								7.0%	0%	8.7%	-8.5%
Average Large Cap								6.3%	0%	8%	-9%
Average Small Cap								7.2%	0%	9%	-8%

Source: Merrill Lynch estimates, First Call

After updating for higher commodity prices, the average 2008E EV/EBITAX and multiple for our group decreased from 8.5x to 8.0x. The greatest impact on a percentage basis was EOG, COG, and DVN.

Chart 1: Lower 2008e EV / EBITDA multiples on new estimates



Source: Merrill Lynch estimates

New shale plays setting up robust H2:08 catalyst pipeline

NA E&Ps are up 45% YTD (versus 37% oil and 50% nat gas) driven by a strong pricing environment and unprecedented news flow relating to next generation unconventional projects. Moving into the second half of the year, preliminary data points from these early stage projects should be highly anticipated as they hold the potential to dramatically expand drilling inventories for the entire sector. In the following section, we have included a list of upcoming catalysts/important projects for our E&P group.

Table 5: North American E&P 2008 Catalyst Summary

Ticker	Rating	Play Description	Catalyst Description	Timing	Unrisked Project 3P (Bcfe)
APC	Buy	Deepwater GOM	6-8 wells planned (key wells include Sturgis North, 25% WI; Lyell, 40% WI; Heidelberg, 38% WI; Turtle Lake, NA)	2008	1400+
APC	Buy	Deepwater GOM	Start-up Blind Faith project (25% WI)	mid 2008	NA
APC	Buy	Deepwater Brazil	Serpa Prospect drilling, restart with new rig; 30% WI	2H:2008	300+
APC	Buy	Offshore Ghana	5-7 well program to delineate Jubillee complex	2008	3600+
APC	Buy	Offshore Ghana	Drill stem test of Ghana appraisal wells	2Q:2008	3600+
APC	Buy	Uinta Basin: Natural Buttes	10 acre spacing; three pilots drilled and producing; further pilots and extended production could validate across play	2008	1900+
BRY	Buy	Ashley Forest: Brundage Canyon Extension	7-10 wells planned for 2008; results from initial seven wells have been comparable to 40 acre Brundage wells	2008	NA
BRY	Buy	Ashley Forest: Brundage Canyon Extension	Positive EIS ruling would allow BRY to significantly increase probable locations	2009	NA
BRY	Buy	Acquisition opportunities	Currently focusing on California oil bolt on opportunities, Natural gas resource play focus longer-term	-	NA
BRY	Buy	Ashley Forest: Brundage Canyon Extension	One or two wells planned for eastern portion of the acreage position which has not been tested	2008	NA
BRY	Buy	Piceance Basin	10 acre downspacing and drilling days Information flow, 32 wells drilled:	2008	744
BRY	Buy	Lake Canyon: Brundage Canyon extension	Results from ongoing appraisal drilling	2008	NA
BRY	Buy	Brundage Canyon	Assess potential for sub 40 acre downspacing	2008	NA
BRY	Buy	Capex Budget increase	Looking at additional discretionary projects to move into '08 capex budget; likely accelerate Diatomite, Piceance, or Uinta	2H:2008	NA
BBG	Buy	West Tavaputs	Assessing potential for 20 acre downspacing	2008	796
BBG	Buy	Yellow Jacket: Gothic Shale: Paradox Basin	Ongoing well results	2008	800
BBG	Buy	Yellow Jacket: Gothic Shale: Paradox Basin	1st Horizontal test planned for 1H 2008	H2:2008	800
BBG	Buy	Circus: Cody Shale	Continued assessment of the shallower Cody shale (2-3 wells) - potentially opens up a new resource play, partner with DVN	2008	NA
BBG	Buy	Blacktail Ridge: Extension of Lake Canyon (Uinta)	Continuous one rig delineation program planned for 2008- focused on increased density studies and southwest extension	2008	1500
BBG	Buy	West Tavaputs	Record of Decision expected 2H08 will allow for accelerated development activity	2H:2008	796
BBG	Buy	West Tavaputs: Mancos Shale	Completing unsuccessful Navajo test to the Mancos (first test). Mancos has exhibited large gas shows	1H:2008	NA
BBG	Buy	West Tavaputs: Ultra Deep test	Currently drilling the 7-1D well (first ultra deep test)- TD expected early Q2	1H:2008	NA
BBG	Buy	Powder River Basin Infrastructure	PRB has been capacity constrained, major infrastructure additions are expected in March and 2H:08	2008	NA
BBG	Buy	Green Jacket: Paradox Basin	New play west of Yellow Jacket: Preliminary tests planned for 2008	2008	NA
BBG	Buy	West Tavaputs	Preliminary tests on western structure planned for Q3	Q3:2008	796
COG	Buy	James Lime	40 well East TX program: Well performance included in guidance risked by 50%	2008	513
COG	Buy	Rockies	Looking at other early stage shale plays in the Rockies	2008	NA
COG	Buy	Marcellus Shale: Pennsylvania & W. VA	Ongoing well results, 1st Horizontal to be spud in march, 77 verticals planned for W. VA, 18 vertical 12 Hz wells planned in PA	Q2:2008	5000
COG	Buy	Moxa Arch	40 acre downspacing program targeting the frontier, exploring possibility for horizontal frontier well	2008	200
COG	Buy	Paradox Basin	One rig utilized to drill wildcat prospects starting in Q2	2008	NA
COG	Buy	Minden: Haynesville	Horizontal Haynesville test planned	Q3:2008	NA
COG	Buy	County Line: Haynesville	1st Vertical Haynesville test planned	Q3:2008	NA
COG	Buy	Trawick: James Lime	Drilling horizontal James test in October- expecting results similar to County Line	Q4:2008	NA
XEC	Underperform	Gulf of Mexico	Ongoing efforts to divest non operated GOM assets	2008	NA
XEC	Underperform	Anadarko Woodford Shale	Results from 5 wells targeting deep (13k ft) Woodford , evaluating impact of longer laterals (4k ft) and more fracs	1H:08	NA
XEC	Underperform	Acquisition opportunities	Low debt and significant cash flow could allow XEC to be opportunistic in terms of acquisitions	2008	NA
XEC	Underperform	Guidance	Management comments indicate Q2 results could come in at or above guidance	Q2:2008	NA
CXO	Buy	Bakken: Montrail & McKenzie Counties	Non operated participation in four net wells during 2008	2008	NA
CXO	Buy	Horizontal Wolfcamp	After evaluating past technical challenges the company has elected to drill three add'l test wells	1H:08	NA
CXO	Buy	Central Basin oil Shale	First well has reached TD, results will determine activity levels going forward	1H:08	NA
CXO	Buy	Permian Basin	Possibly looking to expand acreage position through acquisitions	2008	NA
CLR	Neutral	Unnamed Mid-continent Plays	Incremental information surrounding acreage acquisition and well results in unnamed Mid-Continent plays (30k net acres)	2008	NA
CLR	Neutral	Texas Panhandle- Atoka play	Drilling 1st Atoka test in Q2, EOG completions tested at 7.0 Mmcfe/d (29k net acres in the play)	Q2:2008	NA
CLR	Neutral	Anadarko Woodford Shale	Drilling 1st test by mid year (35k net acres)	H2:2008	NA
CLR	Neutral	Appalachian Huron Shale	Planning to drill four tests this year on recently acquired acreage (36k net acres)	H2:2008	NA
CLR	Neutral	Ongoing leasing in emerging plays	$78 million budgeted for leasing in plays such as Huron, Marcellus, and Haynesville	H2:2008	NA
CLR	Neutral	ND Bakken: Sanish formation	Production results from Three Forks-Sanish test well on ND acreage, could be significantly additive to potential	Q2:2008	NA
CLR	Neutral	Woodford Shale: Ashland Prospect	Ongoing simulfrac results; initial results increased seven day average IP rates by 40%	1H:2008	2647
CLR	Neutral	Woodford Shale: Salt Creek & E. McAlester	Salt Creek area seismic program (18 miles, 1H:08); McAlester area seismic program (53 miles; 2H:08)	2008	2647
CLR	Neutral	Michigan: Trenton / Black River	Ongoing results from 5 upcoming test wells, ongoing 3D acquisition and interpretation	2008	33
CLR	Neutral	Guidance	Bias towards upward revisions to 2008 production guidance	2H:2008	NA
CLR	Neutral	ND Bakken	New frac design could validate EUR's of 400-700MBOE versus previous assumption of 335 MBOE	2008	NA
CLR	Neutral	Woodford Shale: Ashland Prospect	Ongoing well results and possible increase in EURs, waiting on production history to increase estimates (3 Bcfe)	2008	2647
DPTR	Underperform	Paradox Basin: Green Town	Horizontal production tests of secondary targets in the lower Cane Creek intervals and O- zones	Q2:2008	1960
DPTR	Underperform	Howard Ranch	Results from ongoing efforts to manage water disposal issues, waiting on surface discharge agreements before drilling	2008	988

Table 5: North American E&P 2008 Catalyst Summary

Ticker	Rating	Play Description	Catalyst Description	Timing	Unrisked Project 3P (Bcfe)
DPTR	Underperform	Utah Hingeline	Permitting in process, permit expected to be approved during Q3 (Beaver Prospect)	Q3:2008	60/well
DPTR	Underperform	Piceance Infrastructure	Expected capacity additions 2008 and 2009 will be the primary driver of planned production growth	2008	1600
DPTR	Underperform	Colombia River Basin	Drilling multi Tcf Bronco prospect, with or w/o partner, expected TD will take 120-150 days	1H:08	15/well
DNR	Buy	Phase 1: Lockhart Crossing	First production expected second half of 2008	Q3:2008	120
DNR	Buy	Phase 1: Mallalieu & Smithdale	Q4 & Q1 prod. impacted by weather and workover activity, ongoing results will be scrutinized for signs of longer term issues	Q2:2008	120
DNR	Buy	Phase 2: Heidelberg	First injection is expected to commence in Q4:08; First production expected in 2009	Q4:2008	462
DNR	Buy	Phase 3: Tinsley	First production rates to be announced at Q2, Reserve bookings expected by year end	Q2:2008	246
DNR	Buy	Phase 4: Cranfield	First production expected late 2008, early 2009- previously expected by mid 2008- delayed due to pipeline repairs	2008/2009	186
DVN	Buy	Deepwater GOM: Lower Tertiary	Development wells at Cascade (50% WI); 2 appraisal wells St. Malo; Appraisal well Jack (25% WI)	2008	NA
DVN	Buy	Deepwater GOM: Miocene	Exploratory wells at Sturgis North (50% WI), Bass	2008	900+
DVN	Buy	Barnett Shale Downspacing & Refracs	20 acre pilots outside core; vertical & horizontal refracs; GTPM optimization; well performance revision	2008	8300
DVN	Buy	Deepwater Brazil	BM-C-30 exploration well in Campos Basin (25% WI)	2008	NA
DVN	Buy	Offshore China	BY6-1-1 (100% WI); 11-34 (100% WI) planned	2008	NA
DVN	Buy	East Texas Horizontal	Carthage and Groesbeck Fields; 23 horizontals in Carthage	2008	1560
DVN	Buy	Jackfish II SAGD oil sands	Potential sanction by year-end; look a like to Jackfish 1; 35MBOE/d Peak, 300 MMBOE	mid 2008	1800
DVN	Buy	Stealth Plays	Identification of stealth plays (5 stealth plays, 950 net acres, 12.8 Tcfe), likely includes Haynesville Shale	2008	12840
EOG	Neutral	North Dakota Bakken Oil Shale	Multiple step-out wells to extend field; 320 acre spacing well spud, definitive results fall 2008	2008	480
EOG	Neutral	Barnett Oil Shale	3 rig program; production of 3300 BOE/d	2008	2100
EOG	Neutral	Muskwa Shale NE British Columbia	Currently drilling 4th horizontal well; first production to sales 2Q:2008	2008	7400
EOG	Neutral	North Park Colorado Oil Shale	Second well planned 2Q:2008	2008	270
HK	Buy	Haynesville Shale	First horizontal targeting Haynesville drilled by offsetting operator (ECA) and production results are expected soon	Q1:2008	10000
HK	Buy	Haynesville Shale	First horizontal Haynesville test scheduled for Q2:08, second to spud shortly, ongoing 10 well '08 program	Q2:2008	10000
HK	Buy	Haynesville Shale	Ongoing leasing efforts (targeting 400k net acres vs. 150k currently)	2008	NA
HK	Buy	Terryville	3D seismic data on Terryville extension area expected in late 2008	2H:08	2072
HK	Buy	Terryville extension	Two wells spuding on the western extension of the Terryville field (recently acquired) area includes few penetrations	Q2:2008	2072
HK	Buy	Fayetteville Shale	Ongoing delineation results in the Fayetteville Shale. Results from the northern acreage should be most impactful	2008	3224
HK	Buy	Elm Grove: Taylor & Davis Sands	20 well 2008 horizontal drilling program; first Taylor well placed on production at 16.5 Mmcfe/d	2008	1040
HK	Buy	Guidance	Upward Bias to 2008 production guidance which does not include Haynesville volumes	H2:2008	NA
HK	Buy	Terryville: Bossier and Gray Sands	8 Bossier and 2 Gray Sands wells planned for the first half of 2008	1H:08	2072
KWK	Buy	Stealth Plays	Incremental information on 10 Tcfe in reserve potential from "stealth shale plays" will be eagerly anticipated	2008-2009	10000
KWK	Buy	Delaware Basin: Barnett Shale	Production results from initial five wells expected late 2008 along with possible announcement of commerciality	Q4:2008	5000
KWK	Buy	Canadian Opportunities	Company described numerous stranded resource opportunities driven by capital constrained Canadian Juniors	2008	NA
KWK	Buy	Lake Arlington project	Continued production and EUR data and ongoing results from 250 foot spaced wells	2008	490
KWK	Buy	Delaware Basin: Barnett Shale	Drilling 1st Woodford horizontal test	mid 2008	5000
KWK	Buy	Non core - Barnett Shale	Incremental well results from Bosque and Erath County extension areas	2008	NA
KWK	Buy	Barnett Shale	Preliminary results from 250 foot downspaced wells	2008	3810
RRC	Neutral	Marcellus Shale	Horizontal drilling: production results, EUR estimates, development plans, and infrastructure - 60 wells planned in 2008 (40hz)	2008	12500
RRC	Neutral	Nora: W. VA Appalachian Basin	Incremental results from CBM, tight gas downspacing, and the Huron Shale	2008	1800
RRC	Neutral	Virginia: Devonian (Huron)	Results from 10 horizontal delineation wells- Q2 spud first Hz Huron well	2008	1150
RRC	Neutral	Permian Basin- Barnett Shale Play	Recently spud first well, test results expected in Q2	Q2:2008	400
RRC	Neutral	Woodford Shale- Ardmore Basin	Results from first two horizontals	Q2:2008	300
RRC	Neutral	Barnett- Ellis County extension	Results from second well expected near term	Q2:2008	1400
RRC	Neutral	Non-core assets	Ongoing efforts to shed non core assets-	2008	NA
SM	Underperform	East Texas: Elm Grove	Production results from currently drilling non operated well in Elm Grove- offsetting well IP at 16.5 Mmcfe/d (Taylor Sands)	Q1:2008	113
SM	Underperform	Horizontal Woodford Shale	Ongoing well results , possibly adding a fourth rig later in 2008, looking to expand acreage position	2008	554
SM	Underperform	East Texas: James Lime	Results from ongoing acreage acquisition efforts, filling in contiguous pieces would allow for meaningful acceleration	2008	51.5
SM	Underperform	East Texas: Carthage Field	Possible acceleration in activity levels with successful results from horizontal drilling	1H:2008	NA
SM	Underperform	Non core asset divestitures	Ongoing efforts to shed non core assets- marketing Green River Basin and Gulf Coast	2008	NA
SM	Underperform	CFO search	Expected to name new CFO near term	Q2:2008	NA
SM	Underperform	Haynesville Shale	50k acres prospective (10k in N. LA), awaiting specific plans in terms of upcoming well tests	2008	NA
SM	Underperform	Bakken	Recently increased activity levels in Mountrail & Burke no specific plans, to test three forks Sanish/, but could be an opportunity	2008	NA
SM	Underperform	Maverick Basin- Pearsall Shale	JV with TXCO, four well 2008 commitment, first well currently drilling, could open up larger acreage position 75k net acres	2008	NA
WLL	Buy	Bakken: Sanish Field	Drilling and completing 36 wells during 2008	2008	370.8
WLL	Buy	North Ward Estes	First response from CO2 project mid 2008	Q2:2008	531
WLL	Buy	Bakken: Sanish and Parshall	Potential 640 acre downspacing tests in Bakken, EOG 640 test completing (50-60 wells in Parshall, 36 wells in Sanish)	Q2:2008	409.2

Table 5: North American E&P 2008 Catalyst Summary

Ticker	Rating	Play Description	Catalyst Description	Timing	Unrisked Project 3P (Bcfe)
WLL	Buy	Piceance- Boise Ranch and Jimmy Gulch	Ongoing well results, 3 wells producing at Q4; continued positive results in Jimmy Gulch could lead to additional rigs	2008	187.4
WLL	Buy	Uinta Basin: Flat Rock	Ongoing well results post acquisition closing in May (2 in 2008, 8 in 2009-Targeting 10-17 Bcfe/well)	2H:2008	NA
WLL	Buy	Guidance	FY 2008 guidance conservative: upside from continued success and accelerated development in Bakken and Piceance	2008	NA
XTO	Buy	Fayetteville Shale	2 rigs; further delineate acreage position	2008	2200
XTO	Buy	Woodford Shale	12-16 well program to delineate acreage	2008	1400
XTO	Buy	Uinta Basin	Test 20 acre downspacing; test deep gas potential in Mancos Shale	2008	1500
XTO	Buy	Piceance Basin Deep Gas	Development on 20 acre spacing	2008	3000
XTO	Buy	Appalachia	Further expansion activities in the Marcellus Shale and ongoing well tests	2008	NA

Source: Merrill Lynch estimates, Company data

Price objective basis & risk

Anadarko Petro (APC)

Our $88 price objective equates to 5.7x 2008E CFPS, in line with its historical range of 4-9x and a discount to the large cap peers. It is supported by our $88/share NAV estimate (DCF 10% discount rate). We give the company risked credit for 50% of reserve potential (4 BBOE) on its low risk development inventory (74% US onshore) and 10% credit for its 3 BBOE of exploration upside. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) A significant portion of APC's production (11%) and its growth this year are from Independence Hub in the Gulf of Mexico, which could be impacted by weather related or mechanical downtime. (2) Disappointing results in APC's exploratory program in the Gulf of Mexico, Brazil, China, or West Africa could invalidate our NAV assumptions and the longer term growth outlook. (3) A weak commodity price environment could undermine the assumptions in our valuation.

Berry Petrol-A (BRY)

Our $63 price objective is based on our NAV estimate (DCF at 10% discount rate) and equates to 7.8x 2008E EBITDA multiple, a discount to its mid cap peers. Our NAV estimate gives the company credit for 75% of its reserve potential in the Piceance Basin (531 Bcfe) and 36% of the reserve potential (18MMBOE) associated with its Diatomite oil project. Furthermore, we believe Berry's core heavy oil assets are undervalued by the market considering their free cash flow generating potential and low risk profile. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Tertiary oil recovery has a lumpy production growth profile. Slower than expected response times from the Diatomite play could reduce growth expectations. (2) Delays or a negative decision related to the company's pending Environmental Impact Statement at Brundage Canyon could limit the company's ability to recognize upside to current reserves in the project. (3) Inability to negotiate a favorable contract to replace the current California heavy oil production contract could reduce cash flow.

Bill Barrett Cor (BBG)

Our $65 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 7.3x 2008E EBITDAX multiple, a discount to the mid cap peers. Our NAV assigns risked credit for 75% of reserve potential associated with the company's core development projects in the Powder River Basin (117 Bcfe), the Piceance (389 Bcfe), and the Uinta Basin (West Tavaputs 522 Bcfe). Additionally, we give the company credit for approximately 10% of potential reserves associated with early stage projects focused primarily in the Uinta and Paradox Basins. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Delays or a negative decision related to the company's pending Environmental Impact Statement at West Tavaputs could limit the company's ability to efficiently develop the project. (2) Disappointing results from exploration and delineation drilling in the company's exploration projects in the Paradox and Uinta Basin could undermine our estimates of risked reserve potential. (3) Bill Barrett is one of the most gas weighted E&Ps in our universe and is heavily focused in the Rocky Mountain region. A weak regional pricing environment could undermine the pricing assumptions in our valuation.

Cabot Oil & Gas (COG)

Our $73 price objective is based on our NAV estimate (10% discount rate) and equates to a 11.6x 2008 EBITDAX multiple, a premium to its mid cap peers. Our NAV estimate gives the company credit for 75% of its reserve potential in the County Line and Trawick Fields (773 Bcfe) and 15% of the upside from Appalachia (767 Bcfe). Given Cabot's low full cycle cost structure, growth potential, and large captured inventory (7-12 Tcfe in unrisked reserve potential) we believe it should trade at a premium to the group and in line with other growth oriented E&Ps with deep exploration and development inventories. Risks to our price objective are: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Cabot is one of the most gas weighted E&Ps in our universe. A pullback in gas prices could result in lower than expected cash flow and reductions in our 2008 and 2009 growth capital spending expectations. (2) Disappointing results from the company's East Texas and Appalachian horizontal drilling programs could lead to reduction in street NAV estimates.

Cimarex Energy (XEC)

Our $68 per share price objective is based on our NAV estimate (DCF 10% discount rate) and equates to a 4.1x 2008E EBITDAX multiple. Our price objective represents a substantial discount to the small to mid cap peer group. In our opinion, the discount is justified by a below average growth profile, above average organic finding costs, and below average inventory visibility. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Shares could exceed our p.o. if improved disclosure in terms of project inventory has a positive impact on street net asset value estimates and future growth assumptions. (2) Shares could decline in excess of our p.o. if XEC's organic finding costs do not improve and its inventory of projects does not sustain a level of growth in a 5-8% range.

Concho Resources (CXO)

Our $36 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 8.3x 2008E EBITDAX, a slight discount to the peer group average. Our NAV estimate gives the company risked credit for 54% of its probable and possible reserve potential in South East New Mexico (385 Bcfe). Our valuation assigns no credit for potential reserves associated with non-core plays outside New Mexico. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Concho has a limited drilling inventory relative to its peers and requires success from new initiatives to drive growth beyond 2010. (2) Concho's concentrated asset base in the Permian Basin increases the potential impact from regional basis blowouts and midstream constraints.

Continental Resources Inc (CLR)

Our $65 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 12.8x 2008e EBITDA, a premium to the peer group average. In our opinion, the company's unique combination of growth (among small/mid caps) and free cash flow, along with its exposure to two emerging development plays (Woodford Shale and ND Bakken) justify this premium. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) The company's core development program in the Montana Bakken is expected to peak in 2009, therefore, its future growth prospects are heavily dependent on success from its North Dakota Bakken and Woodford Shale projects. (2) Continental utilizes minimal hedging which increases its exposure to volatile commodity prices. Dramatic movements in commodity prices could result in substantial variations to our cash flow and capital spending expectations. (3) Due to a heavily concentrated Rocky Mountain project inventory, the company is vulnerable to regional fluctuations in commodity prices and service costs.

Delta Petroleum (DPTR)

Our $22 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 18.9x 2008e EBITDA, a premium to the mid cap peers. We give the company risked credit for 75% of the reserve potential in the Piceance Basin (1.3 Tcfe) and 15% of reserve potential in the Wind River Basin (51 Bcfe). Additionally, we give the company risked credit for 10% of potential reserves from projects in the Paradox Basin (196 Bcfe). Our valuation assigns no credit for high risk, high potential exploration projects such in Utah and the Colombia River Basin. Without success from higher risk projects the company's premium to the peer group average could narrow substantially, in our opinion. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Shares could appreciate beyond our p.o. if success on one or more of its high potential exploration plays undermines the assumptions in our NAV. (2) Shares could decline in excess of our p.o. if it misses its production guidance target due to poor execution in its Piceance Basin program.

Denbury Resource (DNR)

Our $44 per share price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 12.9x 2008E EBITDAX, a premium to the peer group average. Our estimate gives the company risked credit for 90% of its reserve potential associated with project phases 1-6 in Louisiana and Mississippi (208 MMBOE) and 75% of the potential associated with projects 7 & 8 in South Texas (79 MMBOE). Additionally, we give the company risked credit for 50% of the upside provided by 3.0 Tcfe in probable CO_2 reserves (120 MMBOE) and 25% of potential reserves associated with a 50% CO_2 recycle assumption (58 MMBOE). Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) A significant portion of our net asset value estimate is dependent on the company’s ability to either convert probable CO_2 reserves or recycle its current inventory of CO_2. Disappointing results from either initiative could undermine the assumptions in our estimate. (2) Denbury Reserves is one of the most oil leveraged E&Ps in our universe and could suffer disproportionately in the event of a pull back in crude prices. (3) Production profiles and response times from tertiary oil projects can be lumpy and unpredictable. Production results below expectations could undermine our valuation assumptions.

Devon Energy (DVN)

Our $135 price objective equates to 6.6x 08E CFPS, in line with its historical average of 3.5-7x and with the large cap peer average. It is supported by our $140/share NAV (DCF 10% discount rate), which gives credit for 80% of its Barnett shale potential, 50% of its 2P reserves outside the Barnett, 10% of its exploration reserve potential and $10/share for its midstream business. E&P companies in general are subject to commodity price volatility, operating risk, regulatory and country risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) The potential for project delays associated with its offshore production could invalidate our intermediate term growth assumptions. (2) Alberta's plan to increase royalty rates could have an impact on our revenue growth assumptions as a meaningful amount of DVN's Canadian production is located in Alberta. (3) A weak commodity price environment could undermine the assumptions in our valuation.

EOG Resources (EOG)

Our $141 price objective equates to 7.2x 2008e CFPS at the high end of its historical range of 3.3-8.2x and a premium to the large cap peers. We believe this is justified by a history of exploration success, a strong three year organic production outlook (13-15% CAGR), and several emerging high potential projects. Additional upside, however, is contingent upon execution in emerging plays, in our view. Based on our $127/sharve NAV (DCF 10% discount rate) EOG receives significant credit for emerging plays. Our NAV gives credit for 74% of its Barnett Shale gas probable reserves, 90% of its for Bakken and 30% for its Barnett oil potential, and 20% credit for its emerging BC Muskwa shale. E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Disappointing results from emerging shale plays could undermine the longer term outlook as reflected in its current valuation. (2) As a natural gas leveraged E&P (82% production, 77% reserves), a weak natural gas pricing environment could undermine the assumptions in our valuation.

Petrohawk Energy (HK)

Our $35 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 10.9x EV/EBITDAX multiple, in line with the peer group average. Our NAV estimate gives the company credit for 75% of its reserve potential in the well-delineated Elm Grove Field (780 Bcfe) and 45% of its reserve potential in the Terryville Field (932 Bcfe). Additionally, we give the company credit for 40% of its unbooked potential in the Fayetteville (1.3 Tcfe) and 15% of potential from the Haynesville Shale (1.5 Tcfe). In our opinion, these assumptions could prove conservative with demonstrated success the Northern Fayetteville and the Haynesville Shale. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) A significant portion of Petrohawk's acreage position in the Fayetteville and Terryville Field are undeveloped and underdeveloped. Disappointing results from the company's delineation program could undermine our estimates of unbooked reserve potential. (2) Petrohawk is one of the most gas weighted E&Ps in our universe. A weak natural gas pricing environment could undermine the pricing assumptions in our valuation.

Quicksilver Res (KWK)

Our $49 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to a 15.7x 2008E EV/EBITDAX multiple, a premium to the mid cap peers, in our view justified by its superior growth profile, low reserve add cost structure, and visible inventory. We give the company risked credit for 75% of reserve potential on its core fairway acreage in the Barnett Shale (3.4 Tcfe) and 75% of its potential at Lake Arlington (370 Tcfe). Additionally, we give the company credit for 4% of its reserve potential from its West Texas Barnett Shale play (3-6 Tcfe), potential reserves from the Mannville CBM play (1 Tcfe), and 10 Tcfe in potential reserves associated with the company's "stealth" shale plays. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) A reduction in EUR estimates in the company's core Barnett Shale project could undermine our assumptions of reserve potential. (2) Quicksilver is one of the most gas weighted E&Ps in our universe. A weak natural gas pricing environment could undermine the pricing assumptions in our valuation. (3) Our valuation includes approximately $3 per share in risked credit for Quicksilver's early stage West Texas Barnett play. Disappointing results could increase our asset risking and reduce our project commerciality assumptions.

Range Res (RRC)

Our $71 price objective is based on our NAV estimate and equates to 13.9x 2008E EBITDAX, a premium to the mid cap peer group average. In our opinion, the premium is justified by a deep, low risk development inventory which includes a leadership position in the Marcellus Shale play. Our NAV gives the company risked credit for 90% of its low risk probable reserves (1.4 Tcfe) focused primarily in Appalachia and the Barnett Shale. Additionally, we give the company credit for 29% of its potential reserves from the Marcellus and Huron Shales (4.0 Tcfe) and 20% the upside from extension drilling in the Barnett (280 Bcfe). Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Range has significant 3P exposure to the emerging Marcellus Shale: therefore, delineation results above or below our expectations could undermine our valuation assumptions. (2) The Marcellus Shale will likely require substantial investment in infrastructure in order to accommodate significant horizontal development. Given the early stage nature of the play, the timing and cost of midstream projects could impact growth expectations and stress the balance sheet.

St Mary Land&Ex (SM)

Our $50 price objective is based on our NAV estimate (DCF 10% discount rate) and equates to 4.8x 2008E EBITDAX, a discount to the peer group average. In our opinion, the discount is justified by a below average growth profile, above average organic finding costs, and below average growth visibility. Our NAV gives the company risked credit for 82% of potential reserves from development projects in Elm Grove, the James Lime, South Texas, and the Permian Basin (275 Bcfe). Additionally, we give the company credit for 50% of potential reserves in the Atoka Granite Wash and Horizontal Arkoma projects. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) Shares could appreciate beyond our p.o. if success from the company's efforts to extend the James Lime play eastward exceeds our valuation assumptions and improve growth visibility. (2) Shares could decline more than our p.o. on poor drilling results from its Woodford Shale program that undermine the long term growth outlook.

Whiting Petrole (WLL)

Our $110 per share price objective is based on NAV estimate (DCF 10% discount rate) and equates to 7.7x 2008E EV/EBITDAX, a discount to its mid cap peers. Whiting currently trades at the lowest multiple of proved reserves in our group. This implies the market has heavily discounted the future growth potential of the company's core CO2 projects and the North Dakota Bakken. Our net asset value estimate gives the company risked credit for 25% of its probable reserves from CO2 projects (24 MMBOE), 40% of potential reserves from the Bakken (34 MMBOE), and 50% of its probable reserves in the Piceance Basin (94 Bcfe). With continued execution in these core projects, we believe there is upside to current growth expectations and the current discount to the group should narrow. Risks to our price objective: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) A sustained drop in oil prices without a commensurate drop in oil field service costs. (2) Delayed or lower than expected production response from CO2 injections at North Ward Estes. (3) Unsuccessful exploration results from the company's North Dakota Bakken project.

XTO Energy (XTO)

Our $75 price objective equates to a 9.3x 2008e CFPS multiple, a premium to the large cap peers but within its historical range of 4-10.5x. We believe XTO deserves a premium valuation given its superior growth outlook, high cash margins, and its exposure to emerging shale plays. Our p.o. is supported by our $78/share NAV estimate (DCF 10% discount rate), which assigns 80% risked credit to XTO's 11 Tcfe of low risk development upsides in its core projects in the Freestone trend, Barnett, San Juan Basin, Arkoma and Rocky Mountains and 33% credit for its 14.5 Tcfe of low risk probable reserves. E&P companies in general are subject to commodity price volatility, operating risk, regulatory risk, and uncertainty of reserve estimates. Company specific risks to achieving our price objective are: (1) XTO's ability to make future, cost effective acquisitions could significantly impact its intermediate term growth outlook since acquisitions have historically been 50% of reserve additions. (2) A weak natural gas pricing environment could undermine the assumptions in our valuation.

Analyst Certification

I, Eric Hagen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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US-Mid and Small Cap Oil & Gas Exploration and Production Coverage Cluster

Investment rating	Company name	ML ticker	Bloomberg symbol	Analyst name
BUY				
	Anadarko Petro	APC	APC US	Eric Hagen
	Berry Petrol-A	BRY	BRY US	Eric Hagen
	Bill Barrett Cor	BBG	BBG US	Eric Hagen
	Cabot Oil & Gas	COG	COG US	Eric Hagen
	Concho Resources	CXO	CXO US	Eric Hagen
	Denbury Resource	DNR	DNR US	Eric Hagen
	Devon Energy	DVN	DVN US	Eric Hagen
	EV Energy	EVEP	EVEP US	Eric Hagen
	Linn Energy LLC	LINE	LINE US	Eric Hagen
	Petrohawk Energy	HK	HK US	Eric Hagen
	Quicksilver Res	KWK	KWK US	Eric Hagen
	Whiting Petrole	WLL	WLL US	Eric Hagen
	XTO Energy	XTO	XTO US	Eric Hagen
NEUTRAL				
	Continental Resources Inc	CLR	CLR US	Eric Hagen
	EOG Resources	EOG	EOG US	Eric Hagen
	Range Res	RRC	RRC US	Eric Hagen
UNDERPERFORM				
	Atlas Energy	ATN	ATN US	Eric Hagen
	Cimarex Energy	XEC	XEC US	Eric Hagen
	Delta Petroleum	DPTR	DPTR US	Eric Hagen
	Legacy Reserves	LGCY	LGCY US	Eric Hagen
	St Mary Land&Ex	SM	SM US	Eric Hagen

Important Disclosures

Investment Rating Distribution: Energy Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	132	54.77%	Buy	38	33.04%
Neutral	94	39.00%	Neutral	24	31.17%
Sell	15	6.22%	Sell	1	7.14%

Investment Rating Distribution: Global Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	46.36%	Buy	420	27.80%
Neutral	1600	43.74%	Neutral	417	28.92%
Sell	362	9.90%	Sell	79	23.80%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
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