

Wednesday, April 9, 2008

NGAS Resources (Outperform)

(NGAS-NASDAQ)

Meaningful Positive Datapoint

Flash:

NGAS's first horizontal Devonian shale (Huron) well in Kentucky in the Leatherwood field was brought online on April 2 and is currently producing 400 mcfpd, roughly 8x the rate of a typical vertical well. A second should be fracture stimulated this Monday with a third well to be placed online in the next month. The cost of the well, a seven-mile stepout from an Equitable Resources (EQT – **MARKET PERFORM**) well, was roughly \$1.2 million, while the cost of the second well is expected to be \$1.0 million. NGAS used a 9-stage nitrogen frac and is drilling 3,500 foot laterals.

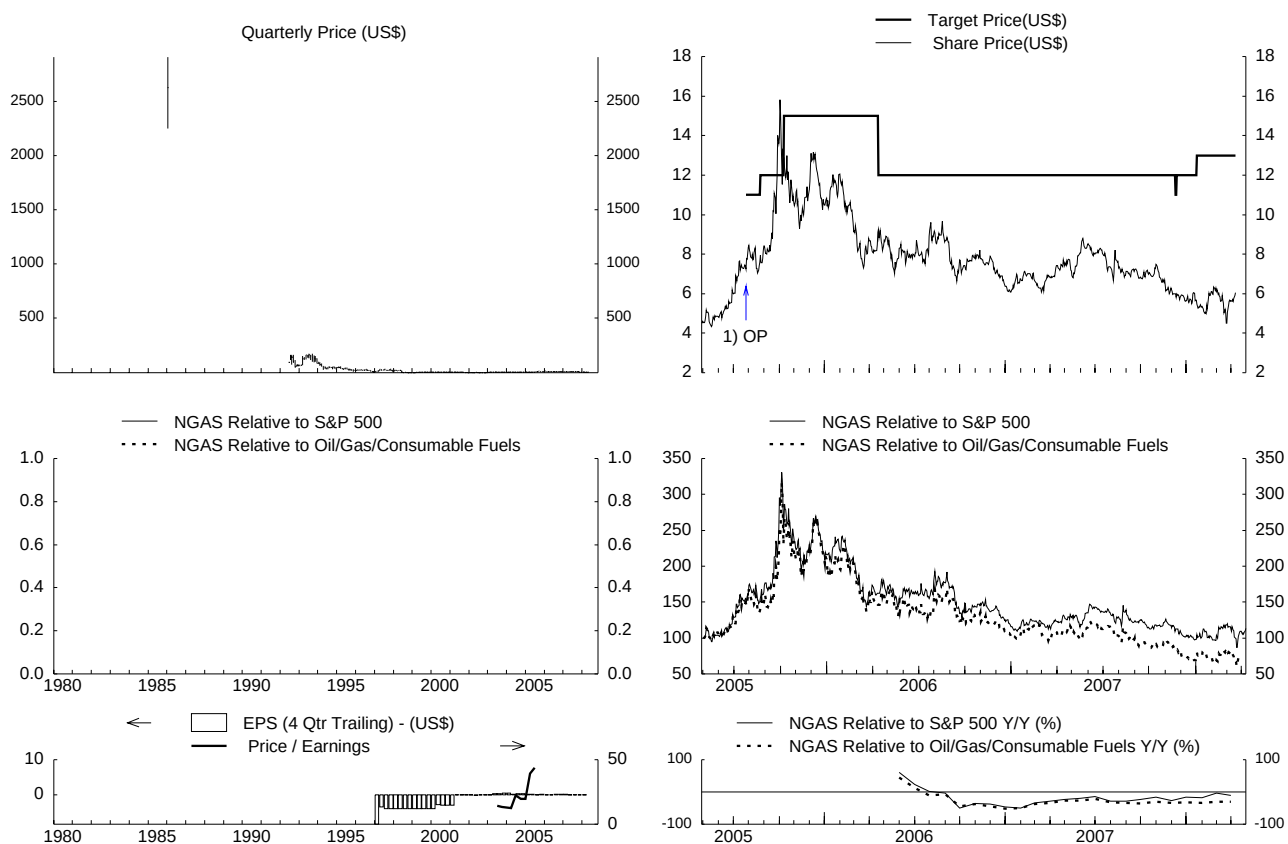
Our View:

- * This is a game changer for NGAS, in our view, given the importance of horizontals to organic growth, reduced lease operating costs, potential efficiency gains, and the reduced reserve life using horizontals (horizontal well reserve life is estimated by Equitable at 13 years versus 32 years for a vertical.). We believe the value proposition for NGAS is straightforward: the value of the proven developed producing reserves exceeds the current enterprise value. NGAS hopes to permit 15-20 horizontal wells by this summer. A production growth rate of more than 20% in 2008 is still seen as attainable despite delays in horizontal permits and tie-ins of New Albany shale wells drilled to date. As a result of fewer horizontals, NGAS sees capex at roughly \$40 million this year versus \$50 million guidance.

Company:	NGAS Resources (NGAS)
Price/Rating/Target:	\$6.04/Outperform/\$13.00
Sector Name:	Energy: Exploration & Production
Analyst:	Raymond J. Deacon, CFA 303-436-1113
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Please refer to pages 2 to 6 for Disclosure Statements, including the Analyst's Certification.

NGAS RES INC (NGAS)

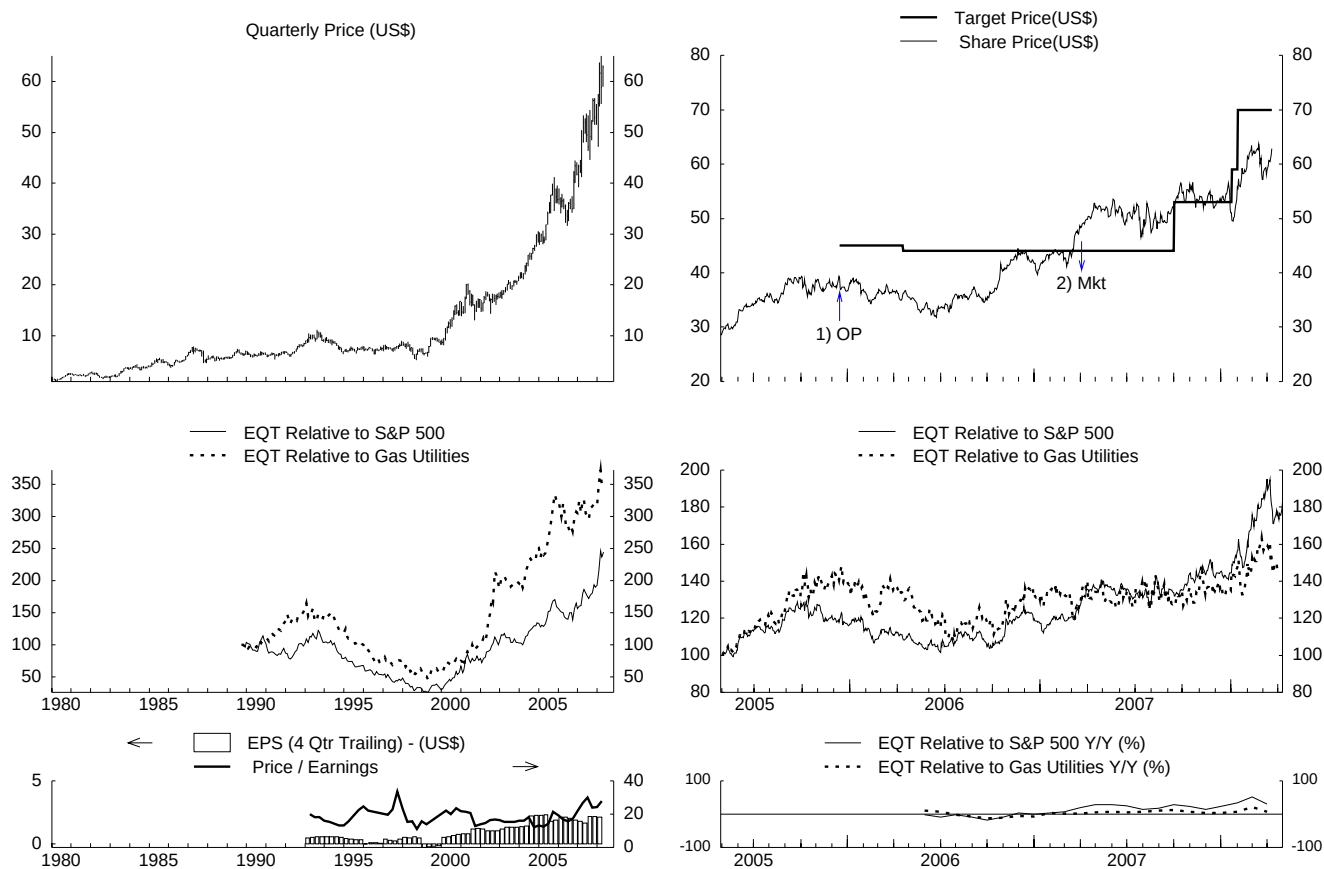


NGAS - Rating as of 28-Apr-05 = NR

Date	Rating Change	Share Price
1 26-Jul-05	NR to OP	\$7.38

Last Daily Data Point: April 8, 2008

EQUITABLE RES INC (EQT)



EQT - Rating as of 28-Apr-05 = NR

	Date	Rating Change	Share Price
1	15-Dec-05	NR to OP	\$39.30
2	3-Apr-07	OP to Mkt	\$48.47

Last Daily Data Point: April 8, 2008

Important Disclosures**Analyst's Certification**

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Methodology and Risks to Our Price Target

Methodology: Price target is based on our NAV, which assumes mid-cycle commodity prices of \$7.50/MMBtu and \$65.00/Bbl.

Risks: Commodity prices, drilling and completing cost increases that cannot be passed through to limited partners.

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Methodology and Risks to Our Price Target

Methodology: Price target is based on our NAV, which assumes mid-cycle commodity prices of \$7.50/MMBtu and \$65.00/Bbl.

Risks: Commodity prices and utility acquisitions.

Breakdown of Rating Distribution and Banking Clients

(As of December 31, 2007)

	Buy	Hold	Sell	Unrated
% of total BMO Capital Markets Corp. coverage within rating category	35.3%	58.6%	6.1%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	13.0%	4.8%	4.2%	0.0%

BMO Capital Markets Corp. Rating System

OP = Outperform: We believe the stock's total return, including dividends, will exceed the S&P 500's return by more than 15%.

Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.

Und = Underperform: We believe the stock's total return will fall short of the S&P 500's return by more than 15%.

NR = Not rated.

(R) = Restricted: Dissemination of research is currently restricted.

In addition, apart from our stock ratings, we apply the Speculative investment (S) postscript to those companies that have de minimis revenue and whose enterprise value appears to be contingent upon unprovable assumptions (e.g., the future approval of a drug or the successful completion of an oil well).

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OUTPERFORM - We believe the sector will outperform the S&P 500 Index.

MARKET PERFORM - We believe the sector's return will generally match that of the S&P 500.

UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

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Our rating system prior to June 19, 2006, compared a stock's expected performance with that of an index of comparable companies over a 9-15 month horizon. Our sector ratings were based on the expected performance of the sector compared with that of a broader market index over the same time period. Additionally, before June 19, 2006, we did not use the (S)-Speculative postscript.

PRIOR STOCK RATINGS

OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.

NEUTRAL - We believe the stock's total return will generally match the group average.

UNDERPERFORM - We believe the stock's total return will fall short of the group average by more than 15%.

PRIOR SECTOR RATINGS

POSITIVE - We believe the sector will outperform the S&P 500 Index.

NEGATIVE - We believe the sector will underperform the S&P 500 Index.

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