

Rating: Buy
S&P 500: 1234

Energy Partners Ltd. **Denali 2006**

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	552
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	62
<i>Price (US\$/sh)</i>	25.59	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/15/05	<i>Adjusted Reserves/Production NTM</i>	4.8
<i>Shares (mm)</i>	41	<i>EV/Ebitda</i>	2.5
<i>Market Capitalization (US\$mm)</i>	1,040	<i>PV/Ebitda</i>	3.4
<i>Debt (US\$mm)</i>	320	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	1,350	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	8.00
<i>Present Value (PV) (US\$mm)</i>	1,860	<i>Present Value Proven Reserves(US\$/boe)</i>	30.40
<i>Net Present Value (US\$/share)</i>	38	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.07
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.45
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	6
<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.

Summary and Recommendation

Small cap natural gas producer **Energy Partners (EPL)** offers the highest risk, highest potential reward exploration exposure among our buy recommendations. In the current quarter, management expects to start drilling its Denali well and to reach total depth in early 2006. The well targets a volume of natural gas off the mouth of the Mississippi River that would be multiples of the company's currently proven reserves. Meanwhile, revenues are expected to rise more than costs in the current quarter after the reverse happened unexpectedly in the second quarter reported on August 8. Volume gains are expected to accelerate in the coming weeks setting up a 27% gain for the year 2005 over 2004. The stock has 48% appreciation potential to net present value of \$38 a share. Our sense is the likelihood the stock would appreciate during the drilling of Denali is greater than the likelihood Denali would be successful in the end.

High Stakes Exploration

The Denali prospect in the East Bay area lies at about 22,000 feet deep and covers about 11,000 acres. It has perhaps 5 fault blocks and possibly dozens of pay sands. Reserves would be upward of a trillion cubic feet, more than about 5% of annual consumption for the whole U.S. The exploratory well would cost more than \$17 million. To share the risk, the company expects to name a partner. A deep, expensive, wholly owned well drilled recently within about ten miles of the Denali prospect and to the same Big Hum formation was dry.

Please see disclosures on the final page.

Energy Partners, Ltd.
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	343	3.8	3.1	1,050	56%
Oil	209	6.6	3.9	810	44%
	552	4.8	3.4	1,860	100%
Debt (US\$mm)					320
Net Present Value (US\$mm)					1,540
Shares (mm)					41
Net Present Value (US\$/sh)					38

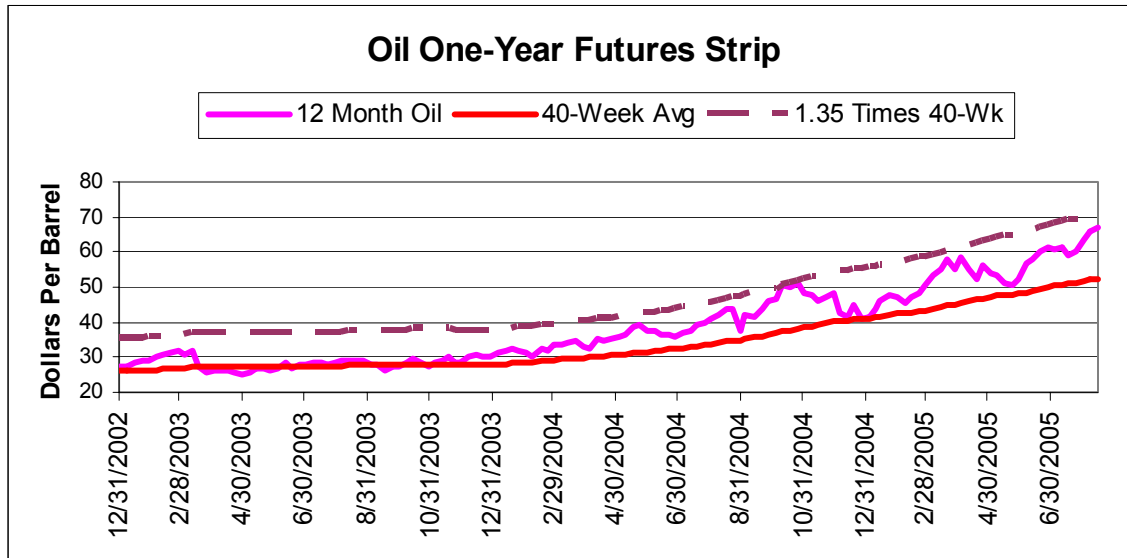
Energy Partners, Ltd.
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
Volume										
Natural Gas (mmcf/d)	78	82	96	100	107	129	108	129	129	123
Oil (mbd)	9.3	8.7	10.0	10.5	9.6	11.6	10.4	11.6	11.6	11.1
Total (mb)	2,058	8,135	2,341	2,468	2,530	3,036	10,375	2,970	3,003	11,539
Total (mbd)	22.4	22.3	26.0	27.1	27.5	33.0	28.4	33.0	33.0	31.6
Price										
Natural Gas										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.06	9.93	7.75	10.47	8.63	9.27
Differential (\$/mmbtu)	0.35	(0.01)	(0.25)	(0.12)	(0.15)	(0.18)	(0.35)	(0.19)	(0.16)	(0.22)
EPL (\$/mcf)	6.75	6.15	6.52	6.88	8.20	10.11	8.10	10.66	8.79	9.49
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	63.14	67.18	58.26	67.78	67.32	66.36
Differential	1.78	1.35	1.83	1.73	2.06	2.19	1.66	2.21	2.19	2.04
EPL	46.53	40.09	47.82	51.32	61.08	64.99	56.59	65.57	65.12	64.32
Total (\$/bbl)	40.11	36.28	41.64	43.01	53.37	62.19	50.84	64.53	57.07	59.53
Revenue (\$mm)										
Natural Gas	49	184	56	63	81	120	320	123	103	427
Oil	40	126	43	49	54	69	215	68	68	260
Other	(6)	(15)	(2)	(5)			(7)			-
Total	83	295	97	106	135	189	527	192	171	687
Expense (\$mm)										
Lease operating	10	41	13	14	14	17	58	16	17	63
Production taxes	3	9	3	3	5	8	18	8	7	27
General and administrative	8	31	10	8	10	10	38	12	12	44
Total	21	81	25	25	29	34	115	36	35	135
Ebitda (\$mm)	61	214	72	81	106	154	413	156	136	552
Exploration	9	36	11	19	19	19	67	19	19	75
Deprec., Deplet. & Amort.	28	94	26	28	33	39	125	39	39	150
Other non cash	(2)	(3)	(0)	2	3	11	16	4	4	23
Ebit (\$mm)	26	87	36	33	50	85	204	94	74	303
Interest	4	14	4	4	4	4	17	4	4	17
Ebt (\$mm)	23	73	32	28	46	81	188	90	70	286
Income tax	8	27	12	10	17	30	69	33	26	106
Net income (\$mm)	15	46	21	18	29	51	119	57	44	180
Per share	0.37	1.20	0.51	0.45	0.72	1.26	2.93	1.39	1.08	4.45
Shares (millions)	39.4	38.7	40.3	40.5	40.5	40.5	40.5	40.5	40.5	40.5
Lease operating (\$/bbl)	5.05	4.99	5.38	5.86	5.50	5.50	5.56	5.50	5.50	5.50
Production taxes (%)	3.2	3.0	2.8	2.4	4.0	4.0	3.4	4.0	4.0	4.0
G & A (\$/bbl)	3.89	3.81	4.23	3.36	4.00	3.33	3.70	4.00	4.00	3.82
D., D. & A (\$/bbl)	13.65	11.59	10.89	11.20	13.00	13.00	12.10	13.00	13.00	13.00
Tax rate	36%	36%	36%	36%	37%	37%	37%	37%	37%	37%

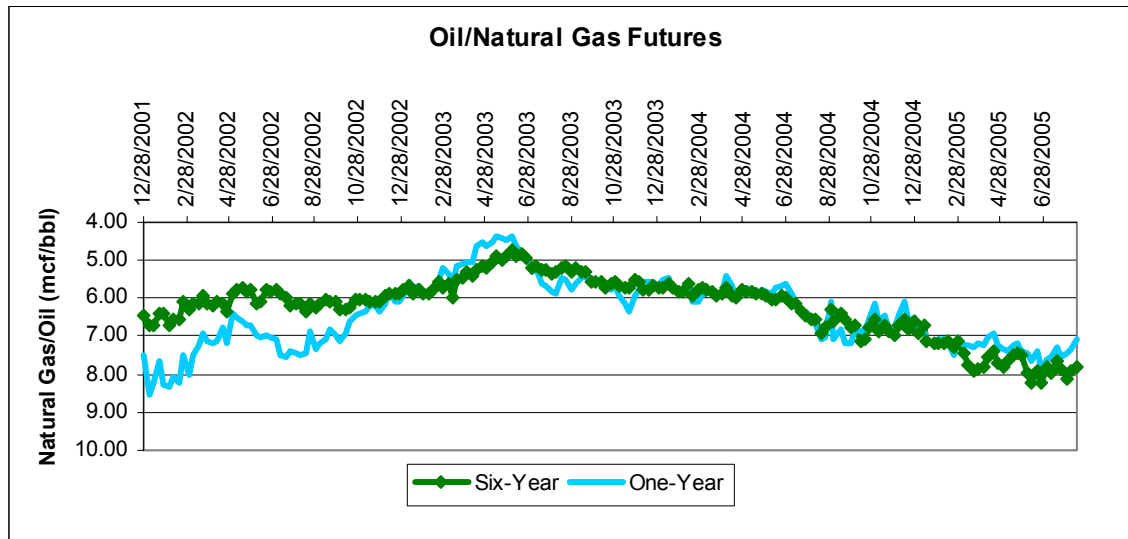
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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 15-Aug 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	60.95	22	1,370	65.00	0.10	0.94
Energy Partners Ltd.	EPL B	25.59	41	1,040	38.00	0.17	0.73
Encore Acquisition Company	EAC B	31.99	49	1,580	50.00	0.17	0.70
Cimarex Energy Company	XEC B	41.67	85	3,540	64.00	0.12	0.69
	<i>Total or Median</i>			7,500		0.14	0.72



The chart of Oil One-Year Futures Strip tells us we may be approaching a short-term rest if price were to remain in the channel between the 40-Week Average at \$52 and 1.35 times the 40-Week Average at \$71. Though hot summer weather may be peaking, hurricanes may yet be active and the winter lies ahead. The long-cycle commodity price move appears to have more upside.



The chart of Oil/Natural Gas Futures tells us that a cold winter such as we experienced in early 2003 could take natural gas price up 60%, to 5:1 from 8:1 compared to oil. Normal market conditions should take natural gas price to 5:1 for the next several years and higher ultimately.

Kurt H. Wulff, CFA

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