

Rating: Buy
 S&P 500: 1264

Energy Partners Limited New Orleans Explorer

| | | | |
|---------------------------------------|--------|---|-------|
| <i>Symbol</i> | EPL | <i>Ebitda Next Twelve Months ending 12/31/06 (US\$mm)</i> | 423 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 62 |
| <i>Price (US\$/sh)</i> | 26.90 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 2/3/06 | <i>Adjusted Reserves/Production NTM</i> | 5.7 |
| <i>Shares (mm)</i> | 41 | <i>EV/Ebitda</i> | 3.5 |
| <i>Market Capitalization (US\$mm)</i> | 1,100 | <i>PV/Ebitda</i> | 4.5 |
| <i>Debt (US\$mm)</i> | 370 | <i>Undeveloped Reserves (%)</i> | 20 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 1,470 | <i>Natural Gas and Oil Ebitda (US\$/mcfe)</i> | 7.20 |
| <i>Present Value (PV) (US\$mm)</i> | 1,920 | <i>Present Value Proven Reserves(US\$/boe)</i> | 31.40 |
| <i>Net Present Value (US\$/share)</i> | 38 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 5.23 |
| <i>Debt/Present Value</i> | 0.19 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 2.42 |
| <i>McDep Ratio - EV/PV</i> | 0.76 | <i>Price/Earnings Next Twelve Months</i> | 11 |
| <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.

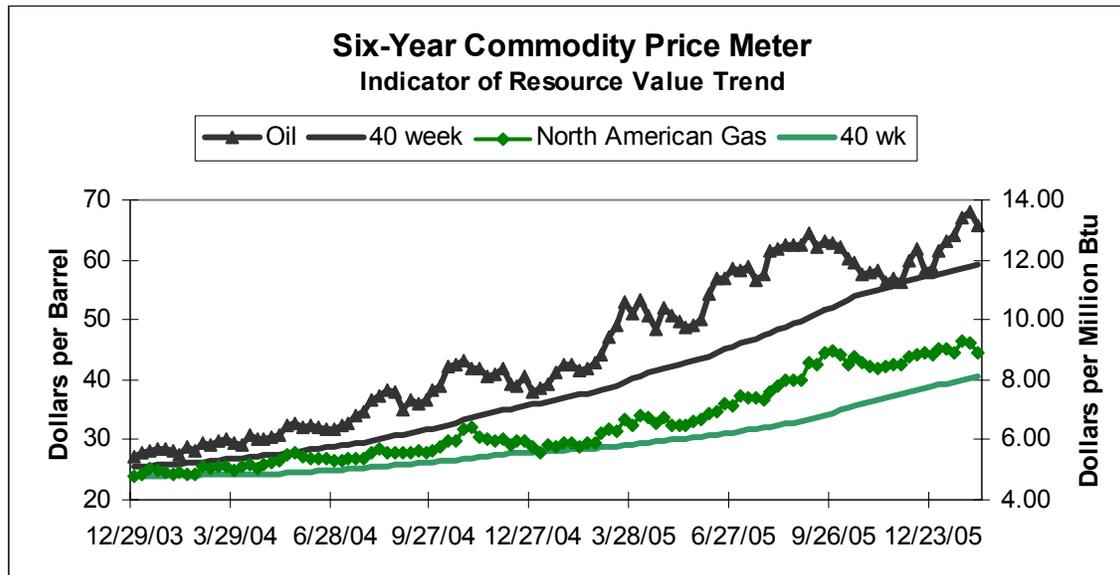
Summary and Recommendation

Ahead of fourth quarter results to be reported in the next few weeks, buy-recommended **Energy Partners (EPL)** currently offers 41% appreciation potential to estimated net present value of \$38 a share that presumes a long-term oil price of \$50 a barrel. Futures investors price Light, Sweet Crude Oil at \$67 a barrel for the next six years. Among independent producer peers, EPL's near lowest McDep Ratio suggests that investors may be waiting to see how well the company performs after the 2005 hurricanes. Though adjusted reserve life at 5.7 years is the shortest, unlevered cash flow multiple is the lowest at 3.5 times. Meanwhile a well is drilling to test part of the high-potential Denali prospect in the Gulf of Mexico near the mouth of the Mississippi River.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio below 1.0 tells us that EPL's market cap and debt, or enterprise value, is less than the estimated present value of its energy resources. The estimate has been increasing with six-year oil futures. Futures price momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations. Meanwhile the McDep Ratio for EPL appears low among peers (see table [Rank by McDep Ratio](#)).

Please see disclosures on the final page.



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

| | Symbol/ Rating | Price (\$/sh) 3-Feb 2006 | Shares (mm) | Market Cap (\$mm) | Net Present Value (\$/sh) | Debt/ Present Value | McDep Ratio |
|--|-------------------|-----------------------------------|----------------|-------------------------|------------------------------------|---------------------------|----------------|
| Independent Natural Gas and Oil - Large Cap and Mid Cap | | | | | | | |
| CNOOC Limited (29%) | CEO B | 82.68 | 119 | 9,860 | 84.00 | 0.00 | 0.98 |
| XTO Energy Inc. | XTO B | 46.63 | 370 | 17,250 | 48.00 | 0.20 | 0.98 |
| Encana Corporation | ECA B | 46.75 | 876 | 41,000 | 51.00 | 0.20 | 0.93 |
| Occidental Petroleum Corp. | OXY B | 91.34 | 432 | 39,500 | 120.00 | 0.12 | 0.79 |
| Burlington Resources | BR B | 90.58 | 378 | 34,300 | 115.00 | - | 0.79 |
| Anadarko Petroleum Corp. | APC B | 104.02 | 238 | 24,800 | 140.00 | 0.12 | 0.77 |
| Devon Energy Corporation | DVN B | 64.40 | 451 | 29,000 | 94.00 | 0.12 | 0.72 |
| <i>Total or Median</i> | | | | 196,000 | | 0.12 | 0.79 |
| Independent Natural Gas and Oil - Small Cap | | | | | | | |
| Berry Petroleum Company | BRY B | 75.25 | 23 | 1,690 | 65.00 | 0.11 | 1.14 |
| Energy Partners Ltd. | EPL B | 26.79 | 41 | 1,100 | 38.00 | 0.19 | 0.76 |
| Encore Acquisition Company | EAC B | 34.60 | 50 | 1,720 | 50.00 | 0.21 | 0.76 |
| Cimarex Energy Company | XEC B | 44.69 | 85 | 3,800 | 64.00 | 0.10 | 0.73 |
| <i>Total or Median</i> | | | | 8,300 | | 0.15 | 0.76 |

Low Cash Flow Multiple

Unlevered cash flow multiples in single digits attest to low valuation (see table Rank by EV/Ebitda). Cash flow estimated for the next twelve months, Ebitda NTM, reflects latest futures prices. Reserve life is measured as adjusted reserves divided by next twelve months production. EPL's adjusted reserve life index of 5.7 years and unlevered multiple, EV/Ebitda, of 3.5 times is lowest.

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

| | Symbol/ Rating | | Price (\$/sh) 3-Feb 2006 | Adjstd Resrvs/ Prod NTM | PV/ Ebitda NTM | EV/ Ebitda NTM | P/E NTM | Divd or Distrib NTM (%) |
|--|-------------------|---|-----------------------------------|----------------------------------|----------------------|----------------------|------------|----------------------------------|
| Independent Natural Gas and Oil - Large Cap and Mid Cap | | | | | | | | |
| XTO Energy Inc. | XTO | B | 46.63 | 10.8 | 6.9 | 6.7 | 12 | 0.4 |
| Encana Corporation | ECA | B | 46.75 | 7.1 | 5.9 | 5.6 | 11 | 0.6 |
| Anadarko Petroleum Corp. | APC | B | 104.02 | 12.5 | 6.6 | 5.1 | 10 | 0.7 |
| CNOOC Limited (29%) | CEO | B | 82.68 | 9.2 | 5.1 | 5.0 | 9 | 2.8 |
| Occidental Petroleum Corp. | OXY | B | 91.34 | 11.3 | 5.9 | 4.7 | 8 | 1.6 |
| Devon Energy Corporation | DVN | B | 64.40 | 8.6 | 5.5 | 4.0 | 7 | 0.5 |
| Burlington Resources | BR | B | 90.58 | - | - | - | - | - |
| | <i>Median</i> | | | 9.2 | 5.9 | 5.0 | 9 | 0.6 |
| Independent Natural Gas and Oil - Small Cap | | | | | | | | |
| Berry Petroleum Company | BRY | B | 75.25 | 10.1 | 5.4 | 6.1 | 12 | 0.8 |
| Encore Acquisition Company | EAC | B | 34.60 | 14.3 | 6.7 | 5.1 | 11 | - |
| Cimarex Energy Company | XEC | B | 44.69 | 7.5 | 5.2 | 3.8 | 8 | 0.4 |
| Energy Partners Ltd. | EPL | B | 26.79 | 5.7 | 4.6 | 3.5 | 11 | - |
| | <i>Median</i> | | | 8.8 | 5.3 | 4.5 | 11 | 0.2 |

Concentrated Balanced

Each oil and gas stock has its own unique mix of energy resources (see table Business Segments). EPL is concentrated slightly more on natural gas than on oil. If successful, Denali would be natural gas.

Home Country and Business Segments

| | Symbol/ Rating | | North Amer. Natural Gas (%) | Rest of World Natural Gas (%) | Oil Prod'n (%) | Down- stream (%) | Total Present Value (US\$mm) | |
|--|-------------------|---|---|---|----------------------|------------------------|---------------------------------------|---------|
| Independent Natural Gas and Oil - Large Cap and Mid Cap | | | | | | | | |
| Occidental Petroleum Corp. | OXY | B | 14 | 1 | 75 | 11 | 59,000 | |
| Encana Corporation | ECA | B | Canada | 83 | - | 17 | - | 55,600 |
| Devon Energy Corporation | DVN | B | | 64 | - | 36 | - | 48,100 |
| Anadarko Petroleum Corp. | APC | B | | 60 | - | 40 | - | 37,700 |
| CNOOC Limited | CEO | B | China | - | 12 | 88 | - | 34,600 |
| XTO Energy Inc. | XTO | B | | 83 | - | 17 | - | 22,100 |
| Burlington Resources | BR | B | | | | | | |
| | <i>Median</i> | | | 62 | - | 38 | - | 257,000 |
| Independent Natural Gas and Oil - Small Cap | | | | | | | | |
| Cimarex Energy Company | XEC | B | | 72 | - | 28 | - | 5,980 |
| Encore Acquisition Company | EAC | B | | 25 | - | 75 | - | 3,150 |
| Berry Petroleum Company | BRY | B | | 15 | - | 85 | - | 1,950 |
| Energy Partners Ltd. | EPL | B | | 54 | - | 46 | - | 1,930 |
| | <i>Median</i> | | | 40 | - | 60 | - | 13,010 |

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Correlation Verifies Present Value in Real Time

Our underlying quantitative method for estimating present value projects cash flows years into the future and brings them to the present by applying a real discount rate, currently 7% a year. Around that traditional discounted cash flow analysis (DCF) we deal with uncertainty on a qualitative basis. “Option value” to us, for example, is “upside potential”. After awhile DCF analyses fall into a pattern where differences among companies depend mostly on first year cash flow and reserve life. Meanwhile input information is continually changing as companies make new disclosures, each on a different day or at a different hour and commodity prices fluctuate. We aggregate latest information into a correlation analysis that determines a real-time present value approximation. When that approximation deviates too much from our steady, official estimate of present value and we cannot justify the difference with company-specific explanation, we change the official estimate. Net present value indicated by the current correlation matches our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

| 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 | 261 | 4.7 | 4.0 | 1,050 | 54% |
| Oil | 162 | 7.3 | 5.4 | 880 | 46% |
| | 423 | 5.7 | 4.6 | 1,930 | 100% |
| Debt (US\$mm) | | | | | 370 |
| Net Present Value (US\$mm) | | | | | 1,560 |
| Shares (mm) | | | | | 41 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 38 |
| Net Present Value - Approximation by Correlation (US\$/sh) | | | | | 38 |

Futures Prices and Company Disclosures Propel Estimated Cash Flow by Quarter

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year in our model.

Kurt H. Wulff, CFA

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

| | <i>Q4</i> | <i>Q3</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Next Twelve Months</i> |
|----------------------------|-----------------|----------------|-----------------|--------------|----------------|----------------|----------------|-----------------|-----------------------------------|
| | <i>12/31/04</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>9/30/06</i> | <i>12/31/06</i> | <i>12/31/06</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 78 | 76 | 72 | 86 | 100 | 100 | 100 | 100 | 100 |
| Oil (mbd) | 9.3 | 6.6 | 6.3 | 8.3 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Total (mb) | 2,058 | 1,775 | 1,686 | 8,270 | 2,400 | 2,427 | 2,453 | 2,453 | 9,733 |
| Total (mbd) | 22.4 | 19.3 | 18.3 | 22.7 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 |
| Price | | | | | | | | | |
| Natural Gas | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.10 | 8.56 | 13.00 | 8.65 | 9.38 | 8.60 | 8.88 | 9.85 | 9.18 |
| Differential (\$/mmbtu) | 0.35 | (0.29) | (0.44) | 0.04 | (0.31) | (0.29) | (0.30) | (0.33) | (0.31) |
| EPL (\$/mcf) | 6.75 | 8.85 | 13.44 | 8.61 | 9.69 | 8.88 | 9.17 | 10.18 | 9.48 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 48.31 | 62.52 | 60.02 | 56.31 | 64.95 | 66.12 | 67.39 | 67.94 | 66.60 |
| Differential | 1.78 | 7.21 | 6.92 | 6.35 | 7.49 | 7.63 | 7.77 | 7.83 | 7.67 |
| EPL | 46.53 | 55.31 | 53.10 | 49.96 | 57.46 | 58.49 | 59.62 | 60.10 | 58.93 |
| Total (\$/bbl) | 40.11 | 51.86 | 71.15 | 50.26 | 57.89 | 55.25 | 56.76 | 60.70 | 57.66 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 49 | 62 | 89 | 270 | 87 | 81 | 84 | 94 | 346 |
| Oil | 40 | 34 | 31 | 152 | 52 | 53 | 55 | 55 | 215 |
| Other | (6) | (4) | | (6) | | | | | - |
| Total | 83 | 92 | 120 | 416 | 139 | 134 | 139 | 149 | 561 |
| Expense (\$mm) | | | | | | | | | |
| Lease operating | 10 | 14 | 14 | 56 | 17 | 17 | 17 | 17 | 68 |
| Production taxes | 3 | 3 | 5 | 13 | 6 | 5 | 6 | 6 | 22 |
| General and administrative | 8 | 10 | 12 | 40 | 12 | 12 | 12 | 12 | 48 |
| Total | 21 | 28 | 31 | 109 | 34 | 34 | 35 | 35 | 139 |
| Ebitda (\$mm) | 61 | 65 | 89 | 306 | 105 | 100 | 105 | 114 | 423 |
| Exploration | 9 | 23 | 18 | 71 | 18 | 18 | 18 | 18 | 72 |
| Deprec., Deplet. & Amort. | 28 | 26 | 29 | 108 | 31 | 32 | 32 | 42 | 136 |
| Other non cash | (2) | (0) | 11 | 12 | 10 | 9 | 9 | 10 | 38 |
| Ebit (\$mm) | 26 | 15 | 31 | 115 | 46 | 41 | 45 | 44 | 176 |
| Interest | 4 | 5 | 5 | 18 | 5 | 5 | 5 | 5 | 19 |
| Ebt (\$mm) | 23 | 10 | 26 | 97 | 41 | 37 | 41 | 39 | 157 |
| Income tax | 8 | 4 | 10 | 35 | 15 | 14 | 15 | 14 | 58 |
| Net income (\$mm) | 15 | 7 | 16 | 62 | 26 | 23 | 26 | 25 | 99 |
| Per share | 0.37 | 0.16 | 0.40 | 1.52 | 0.63 | 0.57 | 0.63 | 0.60 | 2.42 |
| Shares (millions) | | | | | | | | | |
| Lease operating (\$/bbl) | 5.05 | 8.14 | 8.57 | 6.77 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| Production taxes (%) | 3.2 | 3.0 | 4.0 | 3.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| G & A (\$/bbl) | 3.89 | 5.76 | 7.12 | 4.89 | 5.00 | 4.95 | 4.89 | 4.89 | 4.93 |
| D., D. & A (\$/bbl) | 13.65 | 14.81 | 17.00 | 13.07 | 13.00 | 13.00 | 13.00 | 17.00 | 14.01 |
| Tax rate | 36% | 36% | 37% | 36% | 37% | 37% | 37% | 37% | 37% |

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