

**ENERGY PARTNERS LTD.**  
*Equity Support Analysis*  
*June 2009*

**Birch Run Capital, LLC**  
**1270 Broadway, Suite 1009**  
**New York, NY 10001**  
**212-433-1980**

Exhibit B

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*Note: all \$ and shares in thousands except per share and per unit, unless otherwise noted.*

*Definitions:*

*Adj. EBITDAX: revenue less lease operating expense, transportation costs, non-income taxes and G&A*

*Bbl: barrels*

*Boe: barrels of oil equivalents*

*Mcf: thousand cubic feet*

*Mmboe: millions of barrels of oil equivalents*

*Mmbtu: millions of British thermal units (we assume 1 Mmbtu = 1 Mcf for simplicity)*

*TEV: total enterprise value (equal to the value of all debt and debt equivalents plus the value of all equity)*

## INTRODUCTION

- The purpose of this memo is threefold:
  - **Part I:** To show that there is significant positive value in the existing common stock of Energy Partners, Ltd (“EPL” or the “Debtor”) due primarily to an increase in hydrocarbon pricing,
  - **Part II:** To show that the information provided in the Disclosure Statement for the Joint Plan of Reorganization (the “Disclosure Statement”) for EPL is both misleading and inadequate to analyze the validity of the Disclosure Statement, and
  - **Part III:** To show that the valuation work in the Disclosure Statement is fundamentally flawed.
- **The Joint Plan of Reorganization (the “Plan”) uses cyclically low pricing as the main determinant of value for EPL. If the banks calculated the borrowing base using current market prices, they would be unlikely to find a deficiency. In light of current commodity pricing there is significant equity value in EPL. We present valuation work below to support these claims.**
- **The information provided in the Disclosure Statement is misleading as the projections set forth in an exhibit to the Disclosure Statement (the “Projections”) materially understate the true earnings power of the business. Production is underestimated (particularly in comparison to very recent press releases by the Debtor indicating much higher levels) and that costs are overestimated. We present evidence below to support these claims. The information provided is inadequate, as material documents have not been made available (namely, the year-end reserve reports for the Debtors generated by Netherland, Sewell & Associates (“NSAI”) and Ryder Scott Company (“Ryder Scott”) dated December 31, 2008 (the “Reserve Reports”)), and details behind the valuation methodology used in the Disclosure Statement are scarce.**
- **Finally, the comparable company and transaction valuations in the Disclosure Statement are not calculated correctly as certain material liabilities are ignored. Inclusion of these liabilities has a positive impact on EPL’s equity value through the application of higher implied multiples. Furthermore, the value of the net operating loss carryforwards (“NOLs”) calculated in the Plan is inordinately low. We present valuation work below to support these claims.**

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## PART I: POSITIVE EXISTING EQUITY VALUE

- EPL’s capital structure, which is referenced in our valuation work, is as follows:<sup>1</sup>

### CAPITAL STRUCTURE

Secured revolving bank loan	83,000
Unsecured 9.75% senior notes	300,000
Unsecured floating rate senior notes	150,000
Unsecured 8.75% senior notes	4,500
MMS liability	36,070
Other AROs	62,816
Accrued interest	18,700
Assumed bankruptcy costs	15,000
Cash	(15,272)
<b>Net debt</b>	<b>654,814</b>
Market price for common stock	0.14
Shares outstanding (1)	32,197
<b>Equity market capitalization</b>	<b>4,508</b>

<b>Total enterprise value</b>	<b>659,322</b>
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(1) Ignores options.

- Three methods were employed to determine intrinsic value of EPL:
  - Public comparable companies: metrics using valuations of other publicly-traded oil and gas producers with core operations in the Gulf of Mexico (with emphasis on shallow water operators).
  - Discounted cash flow (“DCF”): projections of the Debtor’s future cash flows discounted back to the present.
  - Standardized measures: historical valuations calculated by the Debtor’s independent engineers, NSAI and Ryder Scott, over the last several years.<sup>2</sup>

<sup>1</sup> Source for debt figures: Case 09-32957, Document 134, pages 12-13. Source for Minerals Management Service of the U.S. Department of the Interior (“MMS”) liability: Case 09-32957, Document 14, page 4. Source for other asset retirement obligations (“AROs”): Case 09-32957, Document 144-1, page 4. Source for accrued interest balance: Case 09-32957, Document 134, page 66 (calculated by subtracting face value of Senior Notes from the \$473.2 million reported as total face plus accrued interest). Source for cash balance: Case 09-32957, Document 170, page 20. Source for market price: The Bloomberg (6/5/09 close). Source for share count: Case 09-32957, Document 52, page 3.

<sup>2</sup> From [www.billbarrettcorp.com/glossary.html](http://www.billbarrettcorp.com/glossary.html): The PV-10 is the present value of estimated future revenues to be generated from the production of proved reserves, before income taxes, of proved reserves calculated in accordance with Financial Accounting Standards Board guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving

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- Note that we assume the Debtor incurs \$15 million of bankruptcy related costs. We also include a \$19 million obligation to repay overdue interest. These items reduce equity value by \$34 million. This is partially offset by \$15 million of cash the Debtor held at the date of the filing.

### *Public Comparable Companies Analysis*

- The commodity nature of the business and similarity across companies makes the comparable company analysis in this case particularly useful.
- There are three pure-play shallow water Gulf of Mexico oil and gas producers that are very similar to EPL. These are Stone Energy, W&T Offshore, and McMoran Exploration. In addition to these three, we analyze five other E&P companies with operations primarily focused in the Gulf of Mexico that are listed in the Disclosure Statement as comparable companies.<sup>3</sup>

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effect to hedging activities, non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%. The Standardized Measure is the present value of estimated future cash inflows from proved natural gas and oil reserves, less future development and production costs and future income tax expenses, discounted at 10% per year to reflect timing of future cash flows and using the same pricing assumptions as were used to calculate PV-10. Standardized Measure differs from PV-10 because Standardized Measure includes the effect of future income taxes.

<sup>3</sup> Case 09-32957, Document 134, page 69.

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- The chart below shows descriptive operational metrics that illustrate how clean the comparison is between EPL and the comparable companies.<sup>4</sup> Notably, EPL has a higher proportion of oil reserves and a higher proportion of developed reserves than most of its competitors. As we will discuss later, these characteristics make the Debtor more valuable on a per Boe basis.

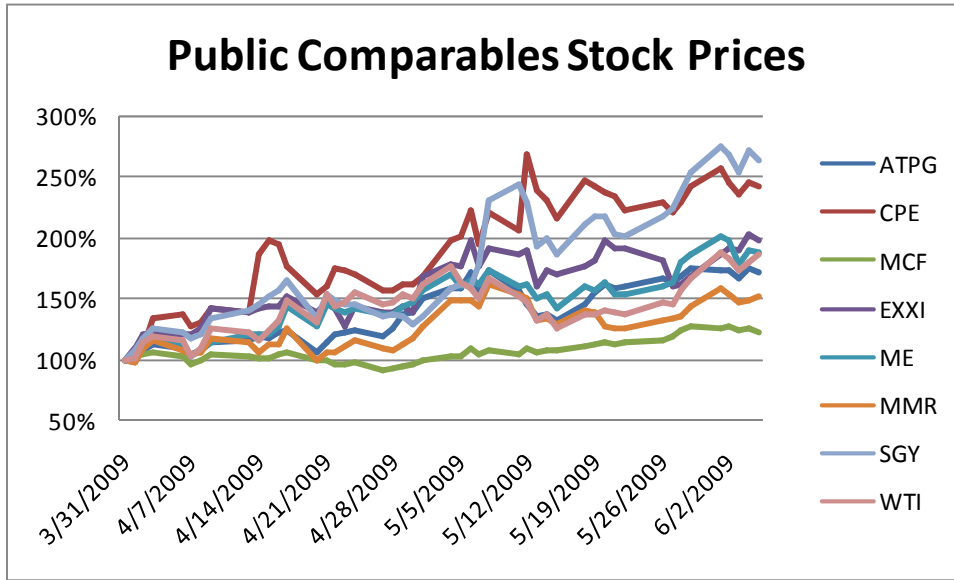
Operational Metrics				
Company	Proved dev / proved	Reserve life (1)	Oil/NGL % reserves	Gas % reserves
ATP OIL & GAS CORPORATION	16%	8.27	55%	45%
CALLON PETROLEUM CO	76%	3.57	66%	34%
CONTANGO OIL & GAS	100%	12.64	21%	79%
ENERGY XXI BERMUDA	64%	5.41	58%	42%
MARINER ENERGY INC	70%	7.76	43%	57%
MCMORAN EXPLORATION CO	84%	3.20	30%	70%
STONE ENERGY CORP	77%	7.71	42%	58%
W&T OFFSHORE INC	68%	3.97	54%	46%
<b>MEAN</b>	<b>69%</b>	<b>6.57</b>	<b>46%</b>	<b>54%</b>
<b>MEDIAN</b>	<b>73%</b>	<b>6.56</b>	<b>49%</b>	<b>52%</b>
<b>ENERGY PARTNERS LTD</b>	<b>84%</b>	<b>5.44</b>	<b>62%</b>	<b>38%</b>
EPL vs. comps	115%	83%	128%	74%

(1) Production based on annualized Q1 2008 results to adjust for hurricane-related curtailments that impacted recent performance.

<sup>4</sup> Source for data: see Appendix.

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- The effect of higher hydrocarbon prices on the publicly-traded stock prices of the comparable companies since the March 31, 2009 valuation date used in the Disclosure Statement is very clear. On average the stocks are up 90% from March 31, 2009 to June 5, 2009. Also notable, March 31 was within 8% of the absolute lows during this period (March 31 – June 5) for all the comparable companies, and marked *the* absolute lows during this period for five of the eight companies. It is not difficult to see the corollary to the appropriate valuation of EPL in the current market. The following chart illustrates this dramatic rise in the valuation of comparable companies (note that the stock prices have all been indexed to 100% as of March 31, 2009):



Source: The Bloomberg.

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- The chart below shows the results of the comparable company valuation analysis. Note that for purposes of calculating enterprise value, we include asset retirement obligations as “debt” because these obligations can be material for Gulf of Mexico producers. It is not necessary to make this adjustment in order to show a strongly positive equity value, but it is the correct way to value these companies (see Appendix for the same chart excluding AROs).

## COMPARABLE COMPANY ANALYSIS

Company	Valuation Metrics				
	\$/Boe proved	\$/Boe proved dev	\$/Boe adj. proved (1)	TEV/2008 Adj. EBITDAX	\$/"flowing barrel" (2)
ATP OIL & GAS CORPORATION	14.16	90.74	24.50	3.59	42,742
CALLON PETROLEUM CO	40.69	53.54	46.24	3.43	52,989
CONTANGO OIL & GAS	12.18	12.18	12.18	7.79	56,202
ENERGY XXI BERMUDA	21.10	33.13	25.78	2.38	41,634
MARINER ENERGY INC	18.34	26.35	21.62	3.00	51,911
MCMORAN EXPLORATION CO	22.98	27.43	25.01	1.67	26,877
STONE ENERGY CORP	14.78	19.26	16.73	2.28	41,603
W&T OFFSHORE INC	22.25	32.72	26.48	2.04	32,267
<b>MEAN</b>	<b>20.81</b>	<b>36.92</b>	<b>24.82</b>	<b>3.27</b>	<b>43,278</b>
<b>MEDIAN</b>	<b>19.72</b>	<b>30.07</b>	<b>24.75</b>	<b>2.69</b>	<b>42,188</b>

(1) Adjusted proved reserves equals proved developed reserves plus 50% of proved non-developed reserves.

(2) Production based on annualized Q1 2008 results to adjust for hurricane-related curtailments that impacted recent performance.

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- We can use these valuation metrics to arrive at an enterprise and equity value for EPL. For clarity, these calculations assume the netting of \$538 million of debt, \$99 million of AROs (including the MMS liability), \$19 million of accrued interest, \$15 million of bankruptcy costs and \$15 million of cash to bridge from enterprise value to equity value (this is the same as we showed in the capital structure chart earlier). (\$ in millions).<sup>5</sup>

## COMPARABLE COMPANY VALUATION FOR EPL

	TEV	Eq Value	Per Share
<i>Based on median values</i>			
per Boe proved basis	724.31	69.50	2.16
per Boe proved developed basis	925.45	270.63	8.41
per Boe adj. proved basis (1)	835.46	180.65	5.61
EBITDAX multiple basis	881.62	226.81	7.04
per "flowing barrel" basis (2)	780.48	125.67	3.90
<b>Average</b>	<b>829.46</b>	<b>174.65</b>	<b>5.42</b>
<i>Based on mean values</i>			
per Boe proved basis	764.39	109.58	3.40
per Boe proved developed basis	1,136.07	481.26	14.95
per Boe adj. proved basis (1)	837.67	182.86	5.68
EBITDAX multiple basis	1,073.67	418.86	13.01
per "flowing barrel" basis (2)	800.65	145.83	4.53
<b>Average</b>	<b>922.49</b>	<b>267.68</b>	<b>8.31</b>
<b>AVERAGE USING MEAN AND MEDIAN</b>	<b>875.98</b>	<b>221.16</b>	<b>6.87</b>

(1) Adjusted proved reserves equals proved developed reserves plus 50% of proved non-developed reserves.

(2) Based on normalized production Source: EPL press release dated February 20, 2009, which claims current production capacity of 18,500 Boe/d. This works out to 6.75 Mmboe per year.

- Although they are the best comparative metrics available, some of these standard industry metrics may understate the intrinsic value of the Debtor. EPL has two important characteristics that make its reserves inherently more valuable on a per Boe basis: (1) it has a high percentage of oil in its reserve base (28% higher than the comparable companies), and (2) it has a high percentage of proved producing reserves to total proved reserves (15% higher than the comparable companies).
- EPL's "oily" nature is important because a *barrel of oil* is worth more than a *barrel of oil equivalent*. This is because natural gas is conventionally converted into oil at a rate of 6:1 to reflect the equivalent heat content (in other words, the heat content from six Mmbtu of natural gas is the same as the heat content from one barrel of oil). Despite this heat content equivalency, a barrel of oil trades at a ratio of 3:1 to a barrel of oil

<sup>5</sup> Note that the Debtor's bankruptcy advisors performed a virtually identical analysis as discussed in the Disclosure Statement (Case 09-32957, Document 134, pages 69-70).

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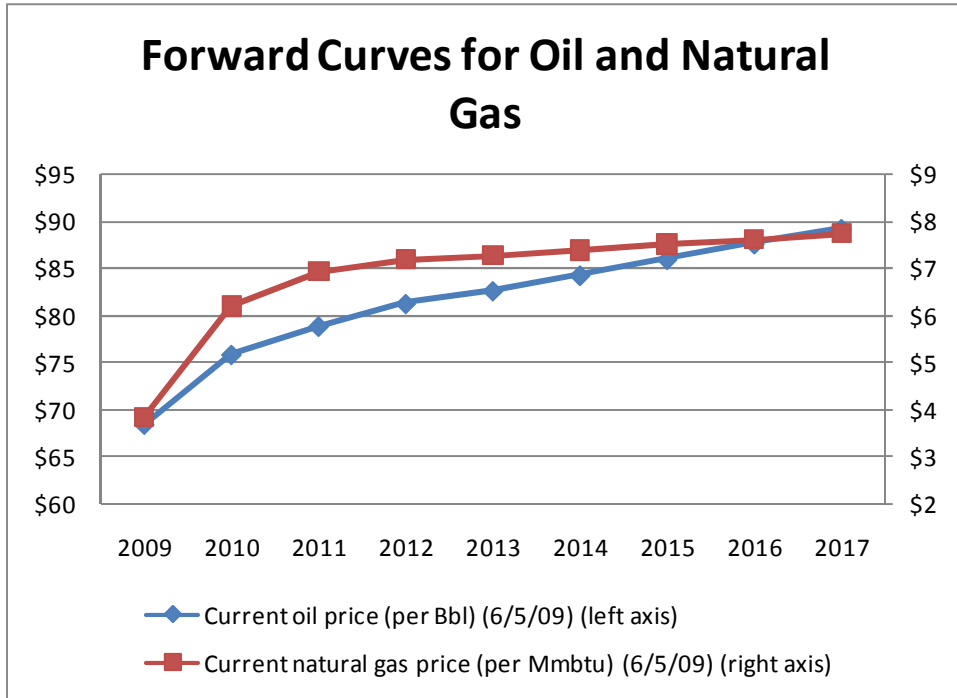
equivalent of natural gas in the spot markets and roughly 2:1 in the forward markets. In other words, the commodity markets value a barrel of oil three times more than an equivalent heat content “barrel” of natural gas. EPL has 62% of its reserves in oil, while the comparable companies show a median value of only 49%. Of the other companies in the comparables universe, only Callon has more oil than EPL as a percentage of reserves.

- EPL’s high proportion of proved producing reserves to total proved reserves is important because in order to turn non-producing reserves into producing ones, a company must spend capital to bring the production online (drill wells, build pipelines and processing facilities, etc.). With producing reserves, the capital is already sunk and the value of the barrel lies only in the marginal contribution of the production that comes out of those existing wells. Therefore, a Boe from a proved producing reserve is inherently more valuable than a Boe from a non-producing proved reserve. EPL has 84% of its reserves producing, while the comparable companies show a median value of only 73%. Only McMoran and Contango have an equally high or higher level of proved developed reserves in the comparables universe.
- **Even without accounting for the inherently more valuable attributes of EPL as compared to its public peers, the public comparable company analysis demonstrates significant equity value.**

### *Discounted Cash Flow Analysis*

- Our DCF analysis is used to value the existing reserves as described in the summary information provided on the 2008 reserves report.
- We have taken the Debtor’s proved producing reserves and assumed depletion of those reserves based on simplified decline rates to calculate production volumes.
- The chart below shows the forward curve using the mid-year contract month for oil and natural gas as quoted by Bloomberg.

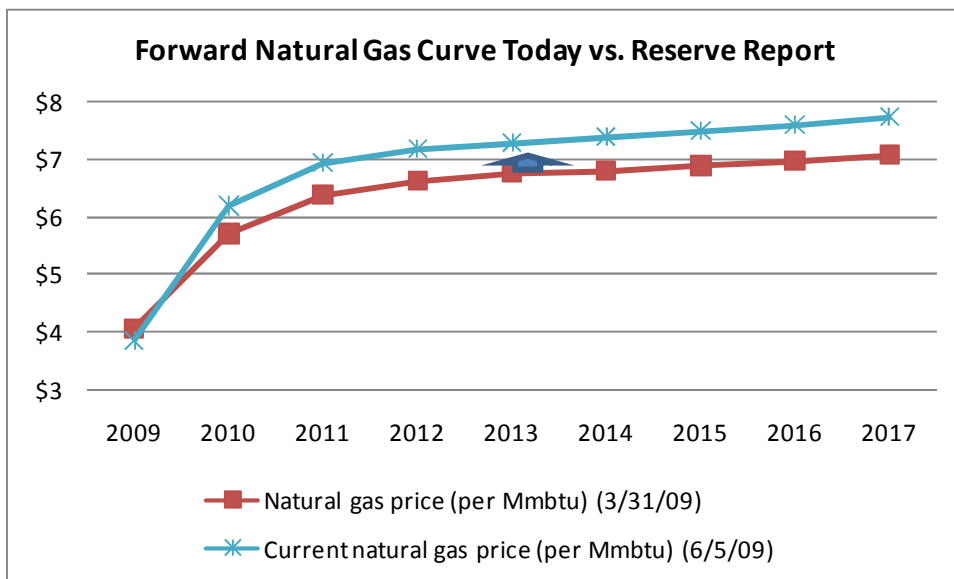
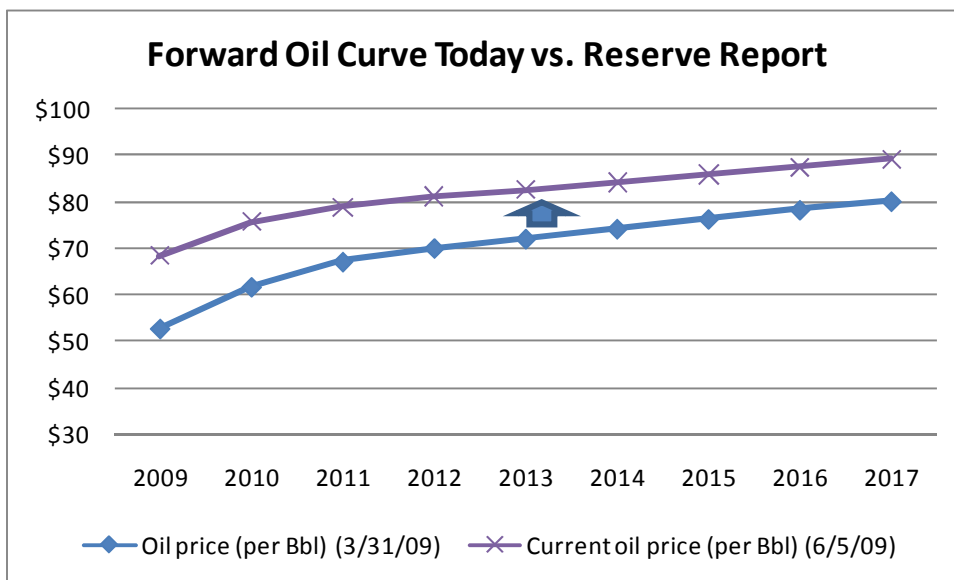
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Source: The Bloomberg. NYMEX WTI crude oil and NYMEX Henry Hub natural gas. Shows July contract for 2009 and June contracts for 2010-2017.

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It is important to note that hydrocarbon prices are considerably higher today as compared to when Parkman Whaling put together its DCF. Because detail was not provided on the DCF valuation in the Disclosure Statement, we can only guess at what levels of pricing were used at that time. Below we show the difference in pricing between the forward curve as of March 31, 2009, and the forward curve as of June 5, 2009:



Source: The Bloomberg. NYMEX WTI crude oil and NYMEX Henry Hub natural gas. Shows July contract for 2009 and June contracts for 2010-2017.

On average, forward oil prices are 17% higher than they were on March 31, 2009, while forward natural gas prices are 7% higher.

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- The hydrocarbon prices we use in our DCF adjust the forward curve prices above to account for the difference between market prices and the prices that EPL realizes for its production.<sup>6</sup>
- We assume a cash cost of \$14.50 to produce each Boe in 2009, which is higher than any of the per Boe cash costs reported by the Debtor in fiscal years 2005-2007.<sup>7</sup> We assume this per Boe cost increases annually at a 2% pace to reflect inflation.
- We apply a 10% discount rate to the resulting unleveraged cash flows, as is customary in the industry.
- We ignore non-producing proved reserves, as well as probable reserves. This is a material oversimplification and should clearly understate true value. EPL had estimated non-producing proved reserves of 6 Mmboe as of December 31, 2008.<sup>8</sup> The Debtor also reported 220k net acres of undeveloped area in its 2007 Form 10-K.<sup>9</sup> **We assume no value for undeveloped acreage or non-producing proved reserves. Note that ALL of the value associated with these reserves, which could be quite substantial, would accrue to equity.**
- We ignore reserves that were considered “economical” prior to the most recent reserve report, but as of December 31, 2008 were reclassified as “uneconomical” as a result of lower commodity prices. The Debtor expected 3-4 million Boe of price-related negative revisions to reserves as part of the year-end 2008 reserve estimation, or as much as 10% of total reserves.<sup>10</sup> **Spot market oil prices are up 53% since the time of the reserve report, so many of these reserves are now almost certainly economical and likely would have a *substantial* impact on equity value. Despite this, we have ignored them entirely in our valuation math. Note that ALL of the value associated with these reserves would accrue to equity.**
- We assume the Debtor pays cash taxes at a rate of 35%. For simplicity, we assume constant depletion, depreciation and amortization of \$77 million per year for tax purposes (consistent with the 2010 Projections).
- We capitalize the present value of the NOLs to capture their value. EPL reported federal NOLs of \$175 million.<sup>11</sup> We believe the NOLs are worth \$47 million when discounted at 10%.
- We assume that cash costs remain constant on a “per flowing barrel” basis. In reality, if the Debtor were to enter a true run-off there would almost certainly be a de-leveraging of fixed costs as revenues declined with production. However, a true run-off is not a reasonable scenario as there is going concern value to this business (not to mention

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<sup>6</sup> We use the most adverse spreads listed for *any* year in the Debtor’s projections filed as an exhibit to the Disclosure Statement (Case 09-32957, Document 144-1, page 5).

<sup>7</sup> An analysis of comparable public companies shows that competitors operate with similar levels of cash costs on a per Boe basis. Detailed analysis of the Debtor’s cash costs is shown in the Appendix.

<sup>8</sup> This was calculated by applying the proportion of non-producing proved reserves to total proved reserves for 2007 (as reported in EPL’s Form 10-K for the year ended December 31, 2007, page 27), to the total proved reserves for 2008 (as reported in Case 09-32957, Document 14, page 2).

<sup>9</sup> Source: EPL Form 10-K for the year ended December 31, 2007, page 5.

<sup>10</sup> Source: Debtor press release dated February 20, 2009.

<sup>11</sup> Source: Case 09-32957, Document 134, page 54.

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plenty of viable strategic buyers). Our analysis is meant to capture the value of the existing proved producing reserves, and implicitly assumes that the Debtor is able to offset production declines with new drilling that is completed at zero incremental net present value (but serves to maintain constant fixed cost absorption).

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- This is our DCF model:

## DISCOUNTED CASH FLOW ANALYSIS

	Projected								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total production (Boe/d)	14,500	18,548	15,378	12,815	10,252	5,126	2,563	2,563	2,563
Total production (MBoe)	5,293	6,770	5,613	4,678	3,742	1,871	936	936	936
Proved dev reserves (Mboe) - beg.	30,773	25,480	18,710	13,097	8,420	4,678	2,807	1,871	936
% decline rate	17%	22%	18%	15%	12%	6%	3%	3%	3%
Cumulative % decline	17%	39%	57%	73%	85%	91%	94%	97%	100%
% oil	59%	59%	59%	59%	59%	59%	59%	59%	59%
<b><i>Oil</i></b>									
Proved dev - beginning (Mbbls)	18,095	14,983	11,002	7,701	4,951	2,751	1,650	1,100	550
Production (Mbbls)	(3,112)	(3,981)	(3,301)	(2,751)	(2,200)	(1,100)	(550)	(550)	(550)
Proved dev (Mbbls) - ending	14,983	11,002	7,701	4,951	2,751	1,650	1,100	550	-
Oil price (per Bbl)	66.99	74.39	77.39	79.79	81.15	82.80	84.48	86.15	87.72
Oil revenue	208,480	296,141	255,435	219,464	178,564	91,097	46,473	47,391	48,255
<b><i>Natural Gas</i></b>									
Proved dev (MMcf) - beginning	76,066	62,984	46,249	32,375	20,812	11,562	6,937	4,625	2,312
Production (MMcf)	(13,082)	(16,735)	(13,875)	(11,562)	(9,250)	(4,625)	(2,312)	(2,312)	(2,312)
Proved dev (MMcf) - ending	62,984	46,249	32,375	20,812	11,562	6,937	4,625	2,312	(0)
Natural gas price (per Mcf)	3.78	6.11	6.85	7.09	7.19	7.29	7.41	7.52	7.64
Natural gas revenue	49,425	102,232	95,001	82,000	66,479	33,702	17,128	17,378	17,660
<b><i>Consolidated</i></b>									
Total revenue	257,905	398,373	350,436	301,464	245,043	124,799	63,601	64,770	65,915
Cash operating costs (per Boe)	14.50	14.79	15.09	15.39	15.70	16.01	16.33	16.66	16.99
Cash operating costs	76,741	100,129	84,678	71,976	58,733	29,954	15,276	15,582	15,894
Cash taxes	36,457	77,435	66,065	53,371	38,259	6,246	(10,036)	(9,734)	(9,442)
<b>Cash flow</b>	<b>144,707</b>	<b>220,809</b>	<b>199,693</b>	<b>176,117</b>	<b>148,052</b>	<b>88,600</b>	<b>58,361</b>	<b>58,922</b>	<b>59,464</b>
Discount rate	10.00%								
<b>PV of unlevered cash flow</b>	<b>808,956</b>								
PV of unlevered cash flow	808,956								
Present value of NOLs	46,781								
Current debt	(537,500)								
MMS obligation	(36,070)								
Other AROs	(62,816)								
Bankruptcy costs	(15,000)								
Accrued interest	(18,700)								
Cash (5/1/09)	15,272								
<b>Equity value</b>	<b>200,923</b>								
Shares outstanding	32,197								
<b>Per share</b>	<b>6.24</b>								

- We calculate an equity value of \$201 million, or a per share value of \$6.24. **The DCF analysis demonstrates considerable equity value.**

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- The following chart shows the sensitivity of our equity value calculations to changes in hydrocarbon prices across the forward curve, changes in cash costs and changes in the discount rate. **These sensitivities indicate that there is significant equity value under almost any reasonable scenario.**

## SENSITIVITY OF PER SHARE VALUE TO UNDERLYING ASSUMPTIONS

		% Increase (decrease) in crude oil price						
		-30%	-20%	-10%	0%	10%	20%	30%
% Increase (decrease) in natural gas price	-30%	-	0.12	2.14	4.17	6.20	8.23	10.26
	-20%	-	0.80	2.83	4.86	6.89	8.92	10.95
	-10%	-	1.49	3.52	5.55	7.58	9.61	11.64
	0%	0.15	2.18	4.21	6.24	8.27	10.30	12.33
	10%	0.84	2.87	4.90	6.93	8.96	10.99	13.02
	20%	1.53	3.56	5.59	7.62	9.65	11.68	13.70
	30%	2.22	4.25	6.28	8.31	10.34	12.37	14.39

		% Increase (decrease) in crude oil price						
		-30%	-20%	-10%	0%	10%	20%	30%
Cash costs (per Boe)	17.50	-	0.76	2.79	4.82	6.85	8.88	10.90
	16.50	-	1.24	3.26	5.29	7.32	9.35	11.38
	15.50	-	1.71	3.74	5.77	7.79	9.82	11.85
	14.50	0.15	2.18	4.21	6.24	8.27	10.30	12.33
	13.50	0.63	2.66	4.69	6.71	8.74	10.77	12.80
	12.50	1.10	3.13	5.16	7.19	9.22	11.25	13.27
	11.50	1.58	3.61	5.63	7.66	9.69	11.72	13.75

		% Increase (decrease) in crude oil price						
		-30%	-20%	-10%	0%	10%	20%	30%
Discount rate	13.00%	-	0.28	2.15	4.01	5.87	7.73	9.59
	12.00%	-	0.88	2.80	4.71	6.63	8.54	10.46
	11.00%	-	1.52	3.49	5.46	7.43	9.40	11.37
	10.00%	0.15	2.18	4.21	6.24	8.27	10.30	12.33
	9.00%	0.80	2.89	4.98	7.06	9.15	11.24	13.33
	8.00%	1.47	3.63	5.78	7.93	10.09	12.24	14.40
	7.00%	2.19	4.41	6.63	8.85	11.07	13.29	15.52

### Standardized Measures Analysis

- We analyze the previous standardized measures calculated by the Debtor's third party engineers in prior years, with particular emphasis on those based on hydrocarbon prices closest to current oil and natural gas market prices.
- The standardized measure is a comprehensive calculation of value for proved reserves, and includes the development costs associated with bringing online any non-producing proved reserves. The discount rate used in these calculations is the same 10% that we use in our DCF analysis.
- We adjust the reported standardized measure to account for onshore South Louisiana assets that EPL sold on June 12, 2007 and properties located in the Gulf of Mexico Western offshore area that the Debtor sold on March 26 and 27, 2008.
- The disposed South Louisiana properties had proved reserves of 2.1 Mmboe, for which the Debtor received \$72 million in cash (\$69 million after closing adjustments), or roughly \$34 per Boe.<sup>12, 13</sup> The Gulf of Mexico Shelf properties were sold for \$15 million.<sup>14</sup>

<sup>12</sup> Source: EPL Form 10-K for year ended December 31, 2007, page 25.

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- The chart below shows the historical standardized measures:

## HISTORICAL STANDARDIZED MEASURES

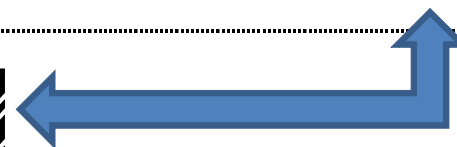
	2005	2006	2007	2008 (1)
Standardized measure, reported	1,261,246	893,474	1,092,935	433,600
Less: sale of assets	(87,000)	(87,000)	(15,000)	-
Pro forma standardized measure	1,174,246	806,474	1,077,935	433,600
Implied equity value (2)	582,248	214,476	485,937	-
<b>Implied value per share (3)</b>	<b>18.08</b>	<b>6.66</b>	<b>15.09</b>	-

Using commodity prices of:

Oil (per Bbl)	57.81	58.40	94.76	40.75
Natural gas (per Mcf)	10.31	5.54	6.98	5.72

Current commodity prices: (4)

Oil (per Bbl)	66.99
Natural gas (per Mcf)	3.78



(1) Prices estimated for 2008 based on disclosure in 8-K filed February 20, 2009.

(2) Using the current capital structure. Does not treat AROs as debt as the associated expense is included in the standardized measure.

(3) Using the current share count.

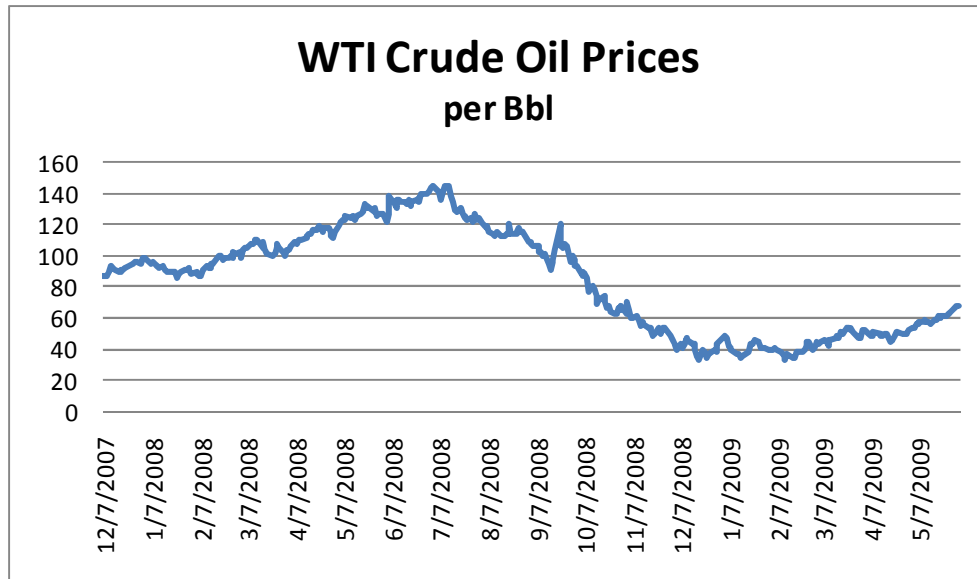
(4) Adjusted for EPL's realized prices vs. spot market prices.

<sup>13</sup> Note that applying a \$34/Boe value to existing proved reserves would indicate equity value of \$645 million, or \$20 per share.

<sup>14</sup> Source: EPL Form 10-Q for quarter ended September 30, 2008, page 17.

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- The 2008 standardized measure reflects the much lower hydrocarbon prices that prevailed in the spot market at year-end, during the severest part of the recent economic downturn. The following chart illustrates just how severe the downturn was in crude oil prices, as well as how swift was the recovery in prices from the year-end data points used in the reserve reports:



Source: The Bloomberg.

Spot oil prices (adjusted for EPL's wellhead discounts) have increased **64%** since the time of the pricing used in the 2008 reserve report, while natural gas prices have only declined 34%.

- The 2006 figures provide the most comparable result to the current environment. EPL's wellhead price for oil was then at \$58.40/Bbl, compared to around \$67.00/Bbl today, and gas was at \$5.54/Mcf, compared to around \$3.80/Mcf today. Note that approximately 62% of EPL's proved reserves are oil, while 38% is natural gas.<sup>15</sup> By simple extrapolation, the existence of 15% higher oil prices today as compared to the 2006 reserve report should come close to neutralizing the 32% lower natural gas prices today vs. the 2006 reserve report, *if one were to recreate the standardized measure exercise*. However, we are not interested in recreating the standardized measure; we are interested in determining intrinsic value. While spot prices for oil are higher and for natural gas are lower than the 2006 levels, as we indicated above, the current average *forward* oil price for 2009-2017 is around \$80/Bbl and the average *forward* natural gas price is around \$6.75/Mcf. **These prices are 37% and 22% higher, respectively, than the prices used in the 2006 standardized measure.** The 2006 standardized measure should therefore be conservative compared to today's environment.<sup>16</sup> The \$214 million

<sup>15</sup> Source: EPL Form 10-K for year ended December 31, 2007, page 3.

<sup>16</sup> Note that the standardized measure calculation does not include corporate G&A costs that were not pushed down to the operating level. Including these corporate costs is impossible as we do not have the figures. We are

## ENERGY PARTNERS

of equity value calculated in 2006, or \$6.66 per share, is consistent with the valuations we have shown in the comparable company and DCF analyses above. **The historical standardized measures analysis demonstrates considerable equity value.**

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willing to concede that the capitalized value of the corporate costs might reasonably offset the increase in commodity prices. This would make 2006 a very fair comparison to the current environment.

# ENERGY PARTNERS

## Summary

- All three valuation analyses consistently point to considerable equity value.

### **SUMMARY VALUATIONS**

	<u>Eq. Value</u>	<u>Per Share</u>
Comparable company analysis	221	6.87
Discounted cash flow analysis	201	6.24
Standardized measure analysis	214	6.66
<b>Average</b>	<b>212</b>	<b>6.59</b>

# ENERGY PARTNERS

## PART II: INADEQUATE AND MISLEADING INFORMATION

- The Projections leave many questions unanswered. For example:
  - Are the Projections meant to represent the fundamental views of management as to the likely future cash flows of the Debtor? If so, why does Parkman Whaling state that it uses the Reserve Reports to perform its DCF valuation analysis, rather than the Projections?<sup>17</sup>
  - Why are the production volumes in the Projections so much lower than recent public disclosures made by the Debtor?
  - Why are the cash operating costs in the Projections so much higher on a per Boe basis than recent historical costs?
- We do not know what agreements the Consenting Holders who put forth the Plan have put in place to compensate management going forward. We therefore do not know what management's incentives are. Parkman Whaling, EPL's bankruptcy advisors, "assumed that such Financial Projections were reasonable and prepared in good faith and on a basis reflecting the Debtor's most accurate currently available estimates and judgments as to the future operating and financial performance of the Reorganized Debtors....In addition, Parkman Whaling did not independently verify management's Financial Projections in connection with preparing estimates of Enterprise Value, and no independent valuations or appraisals of the Debtors were sought or obtained in connection herewith."<sup>18</sup> We do not understand how Parkman Whaling can conclude that the Projections were reasonable if they did not verify them.
- The information presented by management in the Debtor's press release dated February 20, 2009 (only a little over three months ago) and posted as guidance on the Debtor's website is materially different than the Projections. For instance, the February 20, 2009 press release stated:

*"The Company reported its current daily production is 16,500 barrels of oil equivalent ("Boe") per day, with an additional 2,000 Boe per day temporarily curtailed and set to resume production this weekend. EPL's current production capability of 18,500 Boe per day is above the level immediately prior to the hurricanes last summer of approximately 16,500 Boe per day, and above the average production reported in the first half of 2008 of 15,794 Boe per day. Both the Bluewater and Discovery third-party operated pipelines have been repaired and began accepting EPL's volumes late January, which led to the majority of the recent volume increment. The Company has approximately 1,750 Boe per day of primarily non-operated shut-in production that is partner dependent; the exact timing of restoration of these volumes is not yet certain. However, based on current*

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<sup>17</sup> "Parkman Whaling relied upon the Reserve Reports in performing its DCF analysis of the Debtors....The use of the production and expenditure profile set forth in the Reserve Reports implicitly assumes that the new management team of the Reorganized Debtors ("New Management") will adopt the Reserve Reports as representing its future plans for exploitation and development of the Reorganized Debtors' existing reserve base." Source: Case 09-32957, Document 134, page 72.

<sup>18</sup> Source: Case 09-32957, Document 134, pages 67-68.

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estimates by the operators of these fields, the majority of this production is expected to ramp up within the first half of 2009. Based on the latest information available, the Company said it expects first quarter 2009 production to average between 15,000 and 16,000 Boe per day.

*“Richard A. Bachmann, EPL’s Chairman and CEO commented, ‘The restoration of production volumes to levels that now exceed pre-storm amounts is a significant milestone for us. Our operations group did an excellent job of preparing our production facilities to be immediately ready when the third-party pipelines were repaired.’”*

- The disclosure in the February 20, 2009 press release indicating volumes of around 16,500 Boe/d compares to the Projections that indicate 2009 (Aug-Dec), 2010 and 2011 volumes of 11,647, 11,443 and 13,349 Boe/d respectively.
- **Unless an exogenous event occurs, a typical portfolio of oil and gas wells does not have a 25% decline over a few months. If the Debtor was attempting to operate “business as usual” this should not occur unless there is an attempt to lower production to affect the valuation.** Even if this low level of volume is meant to reflect the production shut-in on account of the MMS order, it still should have impacted total volume by no more than 5%.<sup>19</sup> Furthermore, as per the Disclosure Statement, these shut-in volumes would resume on the Effective Date of the Plan, which would be sometime in 2009.
- Although it does not appear that the Projections are used for the valuation exercises in the Disclosure Statement, such low projected volumes have drastic consequences for cash flow and hence for valuation for an investor who is relying on the Disclosure Statement. **The severe discrepancy between the production levels in the Projections and the recent public disclosures from the Debtor strikes us as extremely dubious and causes us to question the credibility of the Projections generally.**
- In addition to understating production, the Projections also overstate costs. This is internally inconsistent. If production is expected to be very low for an extended period time, as projected, management should cut costs to bring the cost structure into line.
- The following chart compares the cash operating costs (see Appendix for details on these costs) that the Debtor has reported historically with the cash operating costs that are included in the Projections:

## CASH OPERATING COSTS

	Actual				Projected				
	2005	2006	2007	LTM Sep-08	Aug-Dec 2009	2010	2011	2012	2013
Cash operating costs (1)	98,259	114,381	125,184	103,829	37,475	88,028	97,402	105,978	118,773
Production (Mboe)	8,294	9,458	8,808	5,895	1,782	4,178	4,872	6,740	7,490
Cash operating costs per Boe	11.85	12.09	14.21	17.61	21.03	21.07	19.99	15.72	15.86

(1) Includes lease operating expense, transportation expense, taxes other than income, insurance costs, and general and administrative expense. Excludes stock-based comp and merger and related costs.

<sup>19</sup> Source: Case 09-32957, Document 134, page 14.

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The best way to view costs is on a per Boe basis, which normalizes the cost structure to the levels of production. As the chart shows, the projected costs per Boe are considerably higher than the historical costs. It is important to note that the cash costs in the LTM period are noticeably higher than the prior historical costs. This is because hurricanes Gustav and Ike caused EPL to shut-in production during a portion of this period, causing volumes to decline, while costs stayed relatively as they were. At the same time, the Debtor incurred additional hurricane-specific costs. We would expect that to be a temporary phenomenon as once this production resumes, the fixed cost portion of the cost structure will again be better absorbed by higher volumes.

- **The understated production volumes and overstated costs are material and misleading to readers of the Disclosure Statement that are relying on the information contained therein.**
- Parkman Whaling does not provide a sufficient description of the methodology used to perform its various valuation analyses. Furthermore, only summary results are disclosed with no detail or data provided on either an individual company level or on a transaction level in the comparable company analysis, the comparable asset transaction analysis or the comparable merger transaction analysis. This makes it extremely difficult to judge the quality of the conclusions.
- Parkman Whaling claims that “in calculating a DCF value, Parkman Whaling *relied heavily* on the year-end reserve reports for the Debtors generated by Netherland, Sewell & Associates (“NSAI”) and Ryder Scott Company (“Ryder Scott”) dated December 31, 2008 (the “Reserve Reports”).”<sup>20</sup> These critical reports have not been provided to the public, and only very high-level data has been alluded to in public Debtor disclosures. Furthermore, these reports take a snapshot of value for the reserves at a point in time when hydrocarbon commodity prices were meaningfully lower than they are today. As a result, the standardized measure of only \$434 million would appear to reflect a much lower valuation that is fair as the projections used for the standardized assume a constant hydrocarbon price set at the level of year-end spot prices. For this reason, we estimate the wellhead prices used in the report were \$40.75 for oil and \$5.72 for gas. **The oil price used in the report is 50% below the average forward price over the next eight years, while the natural gas price used in the report is 16% lower than the average forward price over the next eight years. Therefore, the reserve report, while conducted according to industry standard requirements, materially understates the current value of the Debtors.**
- There is very little disclosure regarding financial and operational results since September 30, 2008. Furthermore, because of the accelerated timeframe under which this case is progressing, there have been no monthly operating reports or production information disclosed since the filing of the Disclosure Statement (which itself only references high level 2008 data). This makes it very difficult to assess the impact of the broader economic downturn on the business.

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<sup>20</sup> Source: Case 09-32957, Document 134, page 72. Emphasis added.

# ENERGY PARTNERS

## *Summary*

- **As we have shown, a general lack of disclosure makes it impossible to rely on the Disclosure Statement as a representation of fair value for EPL.**

# ENERGY PARTNERS

## PART III: FLAWED VALUATION WORK

- The Disclosure Statement **systematically** understates the value of the business, even putting to the side the increase in hydrocarbon pricing. There are two primary flaws in the valuation work presented in the Disclosure Statement: (1) the enterprise values calculated by Parkman Whaling are understated as they fail to incorporate material liabilities, and (2) the value of EPL's NOLs is overly discounted and therefore understated.

### *Failure to Incorporate Material Liabilities in Comparable Valuation*

- We believe that Parkman Whaling did not account for material liabilities in the calculation of enterprise value in conducting its comparable company analysis, comparable asset transaction analysis and comparable merger transaction analysis. In our view, in calculating enterprise value it is appropriate to consider and include the present value of AROs as "debt".
- AROs represent claims on a company's assets by the government. These liabilities are effectively loans from the government. As the government can and does demand payment they must be viewed as debt. The fact that EPL's problems relating to its ARO with the MMS played a significant role in the need for the Debtor to seek protection under the Bankruptcy Code is clear evidence of the seriousness of AROs.
- AROs are very real liabilities that companies must fund over time. Companies saddled with AROs must make current cash expenditures that can be very significant. The following chart gives some idea of the magnitude of ARO expenditures for offshore Gulf of Mexico producers (note that lease operating costs ("LOE") are the largest single cost item for E&P companies besides depreciation, so showing ARO expenditures next to LOE can give a sense of relative importance):

### IMPORTANCE OF ARO EXPENDITURES

	ARO Cash Expenditures		Lease Operating Costs		As % of LOE	
	2007	2008	2007	2008	2007	2008
ATP OIL & GAS CORPORATION	19,941	18,595	91,693	91,196	22%	20%
CALLON PETROLEUM CO	19,519	6,586	27,795	19,208	70%	34%
CONTANGO OIL & GAS	NM	NM	NM	NM	NM	NM
ENERGY XXI BERMUDA	4,614	21,500	68,985	142,859	7%	15%
MARINER ENERGY INC	57,825	73,164	152,627	231,645	38%	32%
MCMORAN EXPLORATION CO	6,720	43,782	93,000	156,200	7%	28%
STONE ENERGY CORP	86,795	60,642	149,702	171,107	58%	35%
W&T OFFSHORE	39,300	61,200	216,258	212,047	18%	29%

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- Including AROs in the valuation math for most oil and gas producers will not result in a material change, and they are therefore frequently ignored by analysts. For producers in the Gulf of Mexico, however, AROs can be very substantial. This is because wells in the Gulf of Mexico are notoriously expensive to decommission due to the environmental risk they present relative to onshore wells. The following chart of comparable companies makes it clear how important the ARO is for Gulf of Mexico producers (\$ in millions):

### COMPARABLE COMPANY ANALYSIS

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Company	TEV Excluding ARO	TEV Including ARO	% Difference
ATP OIL & GAS CORPORATION	1,550	1,684	9%
CALLON PETROLEUM CO	330	372	13%
CONTANGO OIL & GAS	721	723	0%
ENERGY XXI BERMUDA	920	1,087	18%
MARINER ENERGY INC	2,539	2,976	17%
MCMORAN EXPLORATION CO	872	1,320	51%
STONE ENERGY CORP	1,020	1,278	25%
W&T OFFSHORE INC	1,274	1,821	43%
<b>MEAN</b>			<b>22%</b>
<b>MEDIAN</b>			<b>18%</b>

# ENERGY PARTNERS

- AROs are meaningful for the comparable company universe, as the AROs represent a significant claim on each barrel of hydrocarbons. The following chart makes this clear:

## COMPARABLE COMPANY ANALYSIS

Company	ARO / proved Boe
ATP OIL & GAS CORPORATION	1.12
CALLON PETROLEUM CO	4.57
CONTANGO OIL & GAS	0.04
ENERGY XXI BERMUDA	3.23
MARINER ENERGY INC	2.69
MCMORAN EXPLORATION CO	7.80
STONE ENERGY CORP	2.99
W&T OFFSHORE INC	6.68
<b>MEAN</b>	<b>3.64</b>
<b>MEDIAN</b>	<b>3.11</b>
<b>ENERGY PARTNERS LTD</b>	<b>2.69</b>
EPL vs. comps	87%

The Debtor is favorably positioned relative to the comparable companies in terms of the claim of AROs on its hydrocarbon reserves. The median comparable has \$3.11 of AROs for every Boe of proven reserves, whereas the Debtor has only \$2.69 per Boe of proved reserves, or only 87% as much.

- Because Parkman Whaling did not disclose its specific methodology, we do not know whether they incorporated AROs in the calculation of enterprise values. Our analysis, however, shows that the only way to come close to Parkman Whaling's results is to exclude the ARO and we therefore conclude that they did indeed exclude these liabilities from the enterprise value calculation.

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- **This oversight by Parkman Whaling caused enterprise value to be significantly understated, which served to reduce the apparent trading and transaction multiples calculated in these exercises.** We re-calculated trading multiples using March 31, 2009 closing prices and arrived at the following multiples for the comparable company universe used by Parkman Whaling in their valuation exercises, assuming both the inclusion and exclusion of AROs in the calculation of enterprise value:

## IMPACT OF AROs ON VALUATION

	\$/Boe proved	\$/Boe proved dev	\$/Boe adj. proved (1)	TEV / 2008 Adj. EBITDAX	\$/"flowing barrel" (2)
Median - excluding AROs	11.78	16.35	13.36	1.92	33,448
Median - including AROs	15.94	24.34	20.89	2.32	39,452
<b>% difference</b>	<b>35%</b>	<b>49%</b>	<b>56%</b>	<b>21%</b>	<b>18%</b>

(1) Adjusted proved reserves equals proved developed reserves plus 50% of proved non-developed reserves.

(2) Production based on annualized Q1 2008 results to adjust for hurricane-related curtailments that impacted recent performance.

- **We can conclude from the chart above that the inclusion of AROs, which are very real liabilities that investors in the public markets (or a buyer in a transaction) will certainly account for in their estimations of value, would have increased Parkman Whaling's calculation of enterprise value for EPL by 18-56% even implicitly using the then-prevailing hydrocarbon commodity prices. The difference in value would ALL have accrued to equity.**

# ENERGY PARTNERS

## Valuation of NOLs Overly Discounted

- There is conflicting data surrounding the value of the Debtor's NOLs. In the Disclosure Statement, Parkman Whaling states that the NOLs are worth approximately \$20 million in terms of present value.<sup>21</sup> However, in another U.S. Bankruptcy Court for the Southern District of Texas, Houston Division (the "Court") document the gross value of the NOLs is stated to be \$63 million based on a federal corporate tax rate of 35%.<sup>22</sup> We find these figures to be entirely inconsistent. Using the estimates of taxable income provided in the Projections, we believe it would require a discount rate of 50% to turn a \$63 million gross value into a \$20 million net present value. The following chart illustrates our math:

### NOL DISCOUNT RATE

	8/1/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Taxable income	(8)	18	64	109	151
Utilized NOL	-	(18)	(64)	(93)	-
Tax rate	35%	35%	35%	35%	35%
Tax savings	-	6	22	33	-
NPV of tax savings	20				
<b>Implied discount rate</b>	<b>50%</b>				

- We calculate the value of the NOLs to be approximately \$47 million when a 10% discount rate is used (consistent with the discount rate used for the DCF analysis). The following chart illustrates our math:

### NOL VALUATION

	8/1/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Taxable income	(8)	18	64	109	151
Utilized NOL	-	(18)	(64)	(93)	-
Tax rate	35%	35%	35%	35%	35%
Tax savings	-	6	22	33	-
Assumed discount rate	10%				
<b>NPV of tax savings</b>	<b>47</b>				

The understatement of \$27 million in the value of the NOLs directly impacts the equity value calculated in Parkman Whaling's DCF analysis. This \$27 million error alone is worth about \$0.83 per share to the existing common equity (roughly 7x the current trading price).

<sup>21</sup> Source: Case 09-32957, Document 134, page 73.

<sup>22</sup> Source: Case 09-32957, Document 52, page 2.

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- The Debtor has argued that the NOLs are such a valuable asset that new ownership must be limited to no more than 4.5% of the common stock to avoid a Section 382 limitation under the Internal Revenue Code.<sup>23</sup> The Debtor's argument is wholly inconsistent with the valuation of the NOLs proposed by Parkman Whaling. *This implies that either the intention behind the motion for restricted ownership may have been to limit concentrated equity representation in this case, or that the low valuation of the NOLs proposed in the Disclosure Statement was incorrect. Both statements cannot simultaneously be true.*

### *Summary*

- **As we have shown, we think there are material flaws in the valuation work conducted by the Debtor's bankruptcy advisors as reported in the Disclosure Statement.**

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<sup>23</sup> Source: Case 09-32957, Document 52.

# ENERGY PARTNERS

## APPENDIX: COMPARABLE COMPANY ANALYSIS WITH NO ADJUSTMENT FOR AROS

### COMPARABLE COMPANY ANALYSIS

Company	Valuation Metrics				
	\$/Boe proved	\$/Boe proved dev	\$/Boe adj. proved (1)	TEV/2008 Adj. EBITDAX	\$/"flowing barrel" (2)
ATP OIL & GAS CORPORATION	13.04	83.53	22.55	3.30	39,346
CALLON PETROLEUM CO	36.13	47.53	41.05	3.05	47,042
CONTANGO OIL & GAS	12.13	12.13	12.13	7.76	56,000
ENERGY XXI BERMUDA	17.87	28.06	21.84	2.01	35,267
MARINER ENERGY INC	15.64	22.48	18.45	2.56	44,284
MCMORAN EXPLORATION CO	15.18	18.12	16.52	1.11	17,754
STONE ENERGY CORP	11.79	15.36	13.34	1.82	33,183
W&T OFFSHORE INC	15.56	22.89	18.53	1.43	22,573
<b>MEAN</b>	<b>17.17</b>	<b>31.26</b>	<b>20.55</b>	<b>2.88</b>	<b>36,931</b>
<b>MEDIAN</b>	<b>15.37</b>	<b>22.68</b>	<b>18.49</b>	<b>2.29</b>	<b>37,306</b>

(1) Adjusted proved reserves equals proved developed reserves plus 50% of proved non-developed reserves.

(2) Production based on annualized Q1 2008 results to adjust for hurricane-related curtailments that impacted recent performance.

### COMPARABLE COMPANY VALUATION FOR EPL

	TEV	Eq Value	Per Share
<i>Based on median values</i>			
per Boe proved basis	564.61	8.68	0.27
per Boe proved developed basis	698.02	142.09	4.41
per Boe adj. proved basis (1)	624.01	68.08	2.11
EBITDAX multiple basis	749.74	193.81	6.02
per "flowing barrel" basis (2)	690.17	134.24	4.17
<b>Average</b>	<b>665.31</b>	<b>109.38</b>	<b>3.40</b>
<i>Based on mean values</i>			
per Boe proved basis	630.63	74.70	2.32
per Boe proved developed basis	962.06	406.13	12.61
per Boe adj. proved basis (1)	693.67	137.74	4.28
EBITDAX multiple basis	944.70	388.77	12.07
per "flowing barrel" basis (2)	683.22	127.30	3.95
<b>Average</b>	<b>782.86</b>	<b>226.93</b>	<b>7.05</b>
<b>AVERAGE USING MEAN AND MEDIAN</b>	<b>724.08</b>	<b>168.16</b>	<b>5.22</b>

(1) Adjusted proved reserves equals proved developed reserves plus 50% of proved non-developed reserves.

(2) Based on normalized production Source: EPL press release dated February 20, 2009, which claims current production capacity of 18,500 Boe/d. This works out to 6.75 Mmboe per year.

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## APPENDIX: HISTORICAL RESULTS / BASIS FOR DCF ASSUMPTIONS

### *Production Data*

- Historical production data is shown below.<sup>24</sup> Note that these results do not include adjustments for the assets that were sold in 2007 and 2008 (they are included in the results up to the date on which they were sold).

### **PRODUCTION**

	2005	2006	2007	LTM Sep-08
Net production per day				
Oil (Bbls/d)	7,984	8,238	8,769	6,618
Natural gas (Mcf/d)	88,430	106,042	92,167	57,191
Total (Boe/d)	22,722	25,912	24,130	16,150
Net production				
Oil (MBbls)	2,914	3,007	3,201	2,416
Natural gas (MMcf)	32,277	38,705	33,641	20,875
Total (MBoe)	8,294	9,458	8,808	5,895
Realized price				
Oil (per Bbl)	46.45	59.78	66.78	100.51
Natural gas (per Mcf)	8.26	6.96	7.15	9.05
Total (per Boe)	48.47	47.49	51.59	73.24
Oil and natural gas revenues				
Oil	135,359	179,752	213,751	242,778
Natural gas	266,646	269,434	240,589	188,972
Total	402,005	449,186	454,340	431,750

### *Income Statement*

- The income statement shown below includes the adjustments that we believe should be made to arrive at a true EBITDAX for producing assets.<sup>25</sup> These adjustments include

<sup>24</sup> Source for annual data: EPL Form 10-K for year ended December 31, 2007. Source for LTM data: EPL Form 10-Q for quarter ended September 30, 2008.

Net production: page 27 in 10-K; page 19 in 10-Q.

Realized price: calculated using net production and oil and natural gas revenues.

Oil and natural gas revenues: page 27 in 10-K; page 19 in 10-Q.

<sup>25</sup> Source for annual data: EPL Form 10-K for year ended December 31, 2007. Source for LTM data: EPL Form 10-Q for quarter ended September 30, 2008.

Stock-based compensation: pages 29-30 in 10-K; page 21 in 10-Q.

Merger and related costs: page 29 in 10-K.

# ENERGY PARTNERS

stripping out costs related to exploration, accretion and impairments as well as one-time or unusual items, though it does not adjust for assets that were sold.

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All other data: page 45 in 10-K; page 4 in 10-Q.

# ENERGY PARTNERS

## INCOME STATEMENT

	2005	2006	2007	LTM Sep-08
<b>Revenues</b>				
Oil and natural gas	402,005	449,186	454,340	431,750
Other	942	364	309	188
<b>Total revenue</b>	<b>402,947</b>	<b>449,550</b>	<b>454,649</b>	<b>431,938</b>
<b>Costs and expenses</b>				
Lease operating	50,431	58,808	69,919	61,572
Transportation	1,051	2,028	2,441	1,616
Exploration and dry hole costs	64,937	51,745	98,209	60,248
Impairment of properties	17,907	84,680	114,913	102,201
DD&A	99,524	198,162	170,083	121,177
Accretion	4,125	4,572	4,458	4,382
G&A (1)	36,405	39,913	42,924	29,461
Taxes, other than on earnings	10,372	13,632	9,900	11,180
Stock-based comp (1)	6,800	10,700	9,400	9,000
Merger and related costs (1)	-	69,500	9,400	-
Gain on insurance recoveries	-	-	(8,084)	-
Loss (gain) on sale of assets	-	969	(6,605)	(7,382)
Other	-	3,053	2,788	1,554
Business interruption recovery	(20,632)	(32,869)	(9,084)	-
<b>Total expenses</b>	<b>270,920</b>	<b>504,893</b>	<b>510,662</b>	<b>395,009</b>
<b>EBIT</b>	<b>132,027</b>	<b>(55,343)</b>	<b>(56,013)</b>	<b>36,929</b>
<b>EBITDA</b>				
Exploration and dry hole costs	64,937	51,745	98,209	60,248
Impairment of properties	17,907	84,680	114,913	102,201
Accretion	4,125	4,572	4,458	4,382
Stock-based comp	6,800	10,700	9,400	9,000
Merger and related costs	-	69,500	9,400	-
Gain on insurance recoveries	-	-	(8,084)	-
Loss (gain) on sale of assets	-	969	(6,605)	(7,382)
Other	-	3,053	2,788	1,554
Business interruption recovery	(20,632)	(32,869)	(9,084)	-
<b>Adj. EBITDAX</b>	<b>304,688</b>	<b>335,169</b>	<b>329,465</b>	<b>328,109</b>

(1) Reported G&A adjusted to eliminate stock-based comp and merger and related costs, which are shown separately.

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## Cash Flows

- The chart below shows cash flows using adjusted EBITDAX as the basis for operating cash flow (ignoring changes in working capital).<sup>26</sup>

### CASH FLOWS

	2005	2006	2007	LTM Sep-08
Adj. EBITDAX	304,688	335,169	329,465	328,109
Acquisition of businesses	(863)	(420)	-	-
Property acquisitions	(193,115)	(15,897)	(7,346)	(25,782)
Exploration and dev expenditures	(254,900)	(341,936)	(323,846)	(217,827)
Other PP&E additions	(1,723)	(527)	(1,402)	(1,322)
Proceeds from sale of oil and gas assets	1,442	-	68,599	16,632
<b>Net investing cash flows</b>	<b>(449,159)</b>	<b>(358,780)</b>	<b>(263,995)</b>	<b>(228,299)</b>
<b>Net cash flows</b>	<b>(144,471)</b>	<b>(23,611)</b>	<b>65,470</b>	<b>99,810</b>

## Operating Cost Structure

- The Debtor's operating cost structure consists of cash costs related to existing production, costs related to new drilling, costs related to AROs (accretion) and costs related to depreciation and impairments of properties.
- For our DCF analysis, we care primarily about cash operating costs for existing production. This consists of lease operating, transportation, G&A and non-income taxes.
- These are the cash operating costs related to existing production:<sup>27</sup>

### CASH OPERATING COSTS FOR CURRENT PRODUCTION

	2005	2006	2007	LTM Sep-08
Average costs (per Boe)				
Lease operating expense	6.08	6.22	7.94	10.45
Transportation	0.13	0.21	0.28	0.27
Taxes, other than income	1.25	1.44	1.12	1.90
G&A	4.39	4.22	4.87	5.00
<b>Cash costs</b>	<b>11.85</b>	<b>12.09</b>	<b>14.21</b>	<b>17.61</b>

<sup>26</sup> Source for annual data: EPL Form 10-K for year ended December 31, 2007, page 47. Source for LTM data: EPL Form 10-Q for quarter ended September 30, 2008, page 5.

<sup>27</sup> Source: data previously sourced in the Production Data and Income Statement sections above.

## ENERGY PARTNERS

- Note that we have excluded costs from G&A related to stock-based comp as well as the merger and related costs associated with the Debtor's exploration of strategic alternatives in 2007 and 2008.
- LTM costs were impacted by hurricane-related operating expenses. Hurricanes in August and September 2008 damaged third-party production pipelines, forcing the Debtor to shut-in a significant amount of its production from September 2008 through January 2009. Some production is still shut-in awaiting hurricane related repairs.

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## APPENDIX: SOURCES OF COMPARABLE COMPANY DATA

### *ATP Oil and Gas Corp. (Ticker: ATPG)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 3/13/2009), page 21
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 3/13/2009), page 6
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 3/13/2009), page F-34
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 21
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 3/13/2009), page F-6

### *Callon Petroleum Co. (CPE)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 3/20/2009), page 6
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 3/20/2009), page 6
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 3/20/2009), page 5
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 22
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 3/20/2009), page 48

### *Contango Oil and Gas Co. (MCF)*

- Oil/NGL % Reserves: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 29
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 4

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- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 4
- 2008 MMBoe Proved: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 29
- 2008 MMBoe Proved Developed: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 29
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 23
- 2008 EBITDAX: Form 10-K for year ended June 30, 2008 (filed 8/29/2008), page F-4

### *Energy XXI (EXXI)*

- Oil/NGL % Reserves: Form 10-K for year ended June 30, 2008 (filed 9/11/2008), page 18
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/07/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/07/2009), page 3
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/07/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/07/2009), page 3
- 2008 MMBoe Proved: Form 10-K for year ended June 30, 2008 (filed 9/11/2008), page 18
- 2008 MMBoe Proved Developed: Form 10-K for year ended June 30, 2008 (filed 9/11/2008), page 18
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/07/2009), page 20
- 2008 EBITDAX: Form 10-K for year ended June 30, 2008 (filed 9/11/2008), page 44

### *Mariner Energy, Inc. (Ticker: ME)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 3
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 3
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 11
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 28
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 67

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## *McMoRan Exploration (Ticker: MMR)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page 2
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), Cover Page and page 7
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 3
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page 2
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page 2
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/11/2009), page 26
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), pages 30, 31, and 49

## *Stone Energy Corporation (Ticker: SGY)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page 16
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/08/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/08/2009), page 1
- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/08/2009), page 1
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/08/2009), page 1
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page 16
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page F-28
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/08/2009), page 20
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 2/27/2009), page F-4

## *W&T Offshore Inc. (Ticker: WTI)*

- Oil/NGL % Reserves: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 28
- Shares: Form 10-Q for quarter ended March 31, 2009 (filed 5/06/2009), Cover Page
- Debt: Form 10-Q for quarter ended March 31, 2009 (filed 5/06/2009), page 1

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- Cash: Form 10-Q for quarter ended March 31, 2009 (filed 5/06/2009), page 1
- ARO: Form 10-Q for quarter ended March 31, 2009 (filed 5/06/2009), page 1
- 2008 MMBoe Proved: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 28
- 2008 MMBoe Proved Developed: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), page 28
- PQ Daily Production: Form 10-Q for quarter ended March 31, 2009 (filed 5/06/2009), page 14
- 2008 EBITDAX: Form 10-K for year ended December 31, 2008 (filed 3/02/2009), pages 42 and 62

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