

October 22, 2009

Ticker Symbol	EPL	Avg. Daily Vol.	152K
Price	\$8.85	Short Interest	N/A
Cash – mm (est)	\$20	Insider Holdings	N/A
Total Debt (est)	\$101	52 week L-H	\$6.81-\$11.73
FD Shares Out	41.2	Emergence Date	9/21/2009
Equity Mkt. Cap	\$365	Fiscal Year End	December
EV - mm	\$456	Net Debt/BOE	\$2.5

Plan Projections	2010	2011	2012	2013
Oil Price est.	60.86	65.80	68.08	69.59
NG Price est.	5.81	6.75	7.10	7.23
Production (MBOE)	4178	4872	6740	7490
Revenue (\$mm)	192	261	355	422
EBITDA	99	159	243	296
CF from Ops	112	178	212	247
Investing CF	(54)	(218)	(187)	(174)
CF net of Invest	59	(41)	25	73

MARQUIS RESEARCH, LLC

Energy Partners, Ltd.

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Summary: EPL, a recently emerged post-reorg equity, is a relative value play. On the positive side, it has (1) a significantly de-levered balance sheet (2) a new Board, composed entirely of investors and their nominees (3) favorable oil/gas reserve mix and (4) significant cost cutting opportunities.

Countering these positives is the fact that EPL's exploration program, over the past few years, has been very ineffective. As a result, its reserves have been shrinking since 2005. The Company does not have readily available sources to replenish its reserves without spending significant money on exploration or by making acquisitions. So that is the biggest uncertainty, in my opinion, and it remains to be seen if EPL's newly hired CEO will turn this around.

What is the best way to value such an enterprise? One way would be to compare its EV/BOE (Barrels Oil Equivalent) to the peer group. On the basis of this metric, EPL is the least expensive at \$12.7 per BOE versus peer group range of \$13.0-\$35.7 and the median \$18.6. Being a "show-me" stock, it is tough to argue for a group-median valuation for this stock. However, EPL has very little leverage on its balance sheet when compared to the peer group and hence a built-in cushion, if the sector runs into macro headwinds.

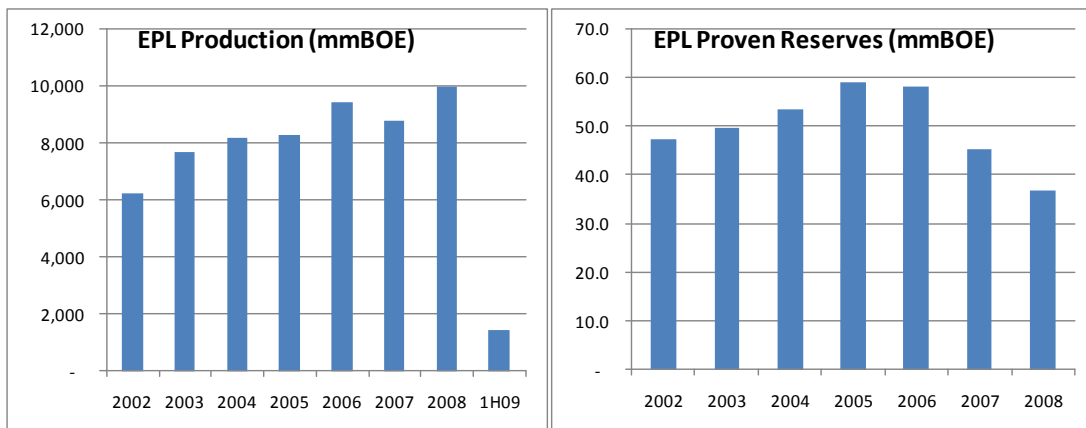
At group-median EV/MBOE of \$18.6, EPL stock would be valued at \$14.40 or 63% higher than its current trading price of \$8.85. On an EV/PV-10 basis, and taking into account EPL's oil/gas mix and relatively clean balance sheet, the stock could be valued at \$12-\$13 per share.

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Company Description: Energy Partners, Ltd. is an independent oil and natural gas exploration and production company. It operates in shallow to moderate-depth waters in the Gulf of Mexico at depths of less than 5,000 feet. As of 12/31/08, the Company had estimated proved reserves of ~ 90.8 Bcf of natural gas and ~21.6 mm barrels of oil, or ~36.8 MmBOE - - the mix being 59% oil and 41% natural gas. At year end 2008, standardized present value of its discounted future net cash flows (PV-10) equaled \$416.2 mm.

Chapter 11 Background: A confluence of factors snowballed and contributed to EPL's Chapter 11 filing on June 11, 2009.

1. Hurricanes in the fall of 2008 shut down a significant amount of production (see chart below). Production has resumed at Pre-hurricane levels and is expected to be 5 MmBOE in 2009.
2. Oil and gas prices declined sharply in Q408. Oil price has risen sharply since.
3. In Q308, the Minerals Management Service required the Company to post a bond for \$47 mm, which added pressure to its liquidity requirements. This requirement has now been satisfied.
4. The borrowing base on EPL's credit facility was reduced to \$45 mm from \$150 mm resulting in a \$38 mm deficiency. This facility has been paid off and replaced.
5. In April 2009, scheduled interest payments totaling \$17 mm came due.



However, going further back, there were other problems which contributed to the distress situation (also detailed in an investor letter in an SEC filing 13D/A dated 1/27/09):

1. EPL's exploration activity, over the past few years, had been extremely ineffective, as it hit three dry wells out of four. During the three years 2005-2007, the Company spent \$921 mm in Exploration and Development. In spite of this, its proven reserves, which peaked in 2006 at 59 mm BOE, have declined to less than 40 mm BOE at the end of 2008 (see chart above).
2. G&A expense had been disproportionate to Company size and when compared to the peer group. EPL's G&A expense was \$44 mm (excluding insurance and M&A/restructuring costs) in 2007 and according to an October 2, 2009 investor presentation, is expected to be cut down to \$14 mm in 2010.
3. A very high leverage on its balance sheet which has now been remedied via Chapter 11.

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Reorganization and new Capital Structure: After spending less than five months in Chapter 11, EPL emerged on September 21, 2009. This was a pre-negotiated, capital structure reorganization and equitized \$473 mm of prepetition debt and accrued interest. Also, under the original Plan, pre-petition shareholders were to receive (almost worthless) warrants. This was changed in the final Plan. As part of the reorganization

- EPL entered into a \$70 mm senior secured credit facility with GE Capital and two financial institutions. The facility consists of a \$25 mm term loan and a 3-year revolver with \$45 mm available at closing. Upon emergence, EPL drew \$25 mm on the revolver and will pay off the term loan by late 2010.
- Issued 20% Senior Sub Secured PIK Notes due 2014 with face value of \$61.112 mm received net proceeds of \$55 mm at closing. These notes do not have any pre-payment penalty.
- Issued 40 mm new shares, 95% to the prepetition creditors and 5% to shareholders.
- 1.237 mm shares were reserved to be issued to management.

The proceeds of \$105 mm from the new debt were used to pay off the old credit facility (\$84 mm), pre-petition trade payables (\$6 mm) and the remaining funds were used for hedging and other fees.

Obviously, a key task for management will be to get rid of the PIK Notes via a refinancing. However, it will take at least a few quarters of satisfactory performance and a cooperative credit environment to achieve that goal.

Valuation Table

Ticker	Co Name	Price	Equity		Oil	Gas/NGL	EV/Proved		EV/ Net Debt/	
		10/22/2009	Mkt Cap	TEV			Bcfe	MmBOE	PV-10	MmBOE
ATPG	ATP Oil & Gas Corp.	20.76	1,040	2,392	55%	45%	3.4	20.1	2.1	10.2
CPE	Callon Petroleum Co.	1.96	43	325	66%	34%	5.9	35.6	3.8	31.0
MCF	(a) Contango Oil & Gas Co.	52.50	831	790	8%	92%	2.2	13.4	1.2	(0.7)
EXXI	(a) Energy XXI (Bermuda) Limited	2.14	312	1,086	58%	42%	3.4	20.5	1.1	14.6
SFY	Swift Energy Co.	22.81	835	1,467	43%	57%	2.1	12.6	1.1	5.4
ME	Mariner Energy, Inc.	15.80	1,609	2,605	43%	57%	2.7	16.0	1.8	6.1
MMR	McMoRan Exploration Co.	9.22	793	1,188	30%	70%	3.4	20.7	1.7	2.6
SGY	Stone Energy Corp.	18.38	883	1,499	42%	58%	2.9	17.3	1.9	7.1
WTI	W&T Offshore Inc.	13.98	1,068	1,560	54%	46%	3.2	19.1	2.0	6.0
MEDIAN							3.2	19.1	1.8	6.1

EPL	Energy Partners Ltd.	8.85	365	456	59%	41%	2.1	12.4	1.1	2.5
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(a) MCF & EXXI reserve and PV-10 data is as of 6/30/09 whereas the rest of the comps and EPL data is as of 12/31/08.

For more detailed analysis, please contact me at 201-785-4477 or farukh@marquisllc.com.

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