

Buy/Sell Rating: 1 - Strong Buy

Energy Partners, Ltd.
Small Cap Oil and Gas Finder

Symbol	Price	Shares	Market Cap	Net	Debt/	McDep	EV/	EV/	P/E	Div'd	PV/
	(\$/sh)			Present			Present	Sales			
26-Apr	2001	(mm)	(\$mm)	Value	Value	Ratio	2001E	NTM	NTM	(%)	NTM
EPL	10.50	27	280	18.70	0.04	0.57	1.6	2.3	7.1	-	4.1

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt: \$mm 300

Ebitda = Earnings before interest, tax, depreciation and amortization: \$mm 129

NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings

PV = Present Value of oil and gas: \$mm 528

Summary and Recommendation

We recommend current purchase of the common stock of Energy Partners, Ltd. because well-managed small growth companies seem to us likely to be disproportionately rewarded in an improving energy investment climate. EPL is performing a vital outsourcing function for Chevron and others proving new reserves in some of the great oil and gas jewels offshore Louisiana. Meanwhile production will likely continue to grow rapidly near term as EPL has engaged two more drilling rigs to bring its total to eight. We estimate present value around \$19 a share. A low McDep Ratio under 0.60 implies strong appreciation potential. A low ratio of enterprise value to earnings before interest, taxes and amortization (EBITDA) for the next twelve months of just 2.3 times is another compelling sign that EPL stock could become one of best performing in the energy sector. Financial risk is low, as the company has virtually no debt. People risk also appears low, as management is capable of running a much larger company.

Valuation Gap for Small Cap Energy Stocks

With energy parallels to the 1970s becoming clearer every day, we are reminded that small cap energy stocks were the best performers in a previous epic repricing of an undervalued commodity that provides a basic need. Instead of the oil producing countries being the imagined villain, we have the electricity suppliers. Instead of Richard Nixon responding with wage and price controls, we have Governor Davis and his electricity price freeze in California. Price controls only exaggerate and prolong the economic impact of a necessary adjustment.

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Now our sign of larger potential price increases than almost anyone anticipates is the electricity price in California that persists at a level ten times two years ago. Natural gas in California is up perhaps four fold while natural gas is only about double at the wellhead and oil has barely moved. Presumably the high electricity price in California must come down. In the process we might be surprised how much the general price structure of energy moves up from here.

Here is the valuation opportunity. Non-energy stocks appear to be valued at a median EV/Ebitda multiple of perhaps 10 times. Mega Cap energy stocks appear to be at a median 7 times. Small cap energy stocks in our coverage, skewed by high-quality royalty trusts, are at a median 6 times. A larger group of 50 independent producers have a median multiple closer to 4 times and range as low as 2 times where EPL is at the bottom of the range. There seems to be ample room for energy stocks to appreciate and for EPL stock to appreciate even more.

Concentrated Operations With Upside Potential

For the time being EPL is concentrated on two giant fields in the Mississippi delta area. The company owns East Bay, which has produced almost a billion barrels equivalent mostly for previous owners. EPL has a drill-to-earn agreement that covers all of Bay Marchand, which has produced more than a billion barrels equivalent for Chevron and others. A wise saying that often applies is “The best place to find oil and gas is where it has already been found”. Neither of the fields has had much attention in recent years while technology has advanced. Little drilling has been done below 14,000 feet.

At a conference in New York recently, the company disclosed for the first time a list of exploratory targets to be drilled later this year. Unadjusted for the probability of success the reserve potential equals the current size of the company. The presentation is available on the company’s website.

Track Record May Set Up More Deals

Having seen gross production in Bay Marchand expand about 50% since EPL has been active, Chevron should be pleased with its partners’ results. That is important because when Chevron completes its acquisition of Texaco later this year it will have perhaps the largest collection of classic properties as anyone in the state and near offshore.

Meanwhile the majors have greatly curtailed their employment in the New Orleans area. Some of the same experts who are familiar with the best properties, now work for EPL.

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Thus it should be quite compelling for Chevron to do another Bay Marchand type deal with EPL. The irony or coincidence becomes compounded when we remember that Louisiana Land and Exploration held the underlying royalty interests in some of Texaco's best properties. The LL&E folks from time to time lamented that Texaco might have been more aggressive in pursuing opportunities on those properties. Rick Bachmann, the founder of EPL, was president of LL&E until Burlington Resources acquired it at a nice premium.

Growth in Outsourcing Measured by Discounted Cash Flow

Here come the boring details you can skip if you trust our analysis. Nonetheless the quantitative stuff contributes to our confidence in judging the company's progress and prospects. Investors can see pretty pictures on EPL's website, but there is no other source we know where investors can see a discounted cash flow model. In fact, we update the model weekly to measure the impact of continuously changing inputs on fundamental value. The results are posted on our website, www.mcdep.com. We can touch on important parameters in the company's outlook while reviewing the highlights of the model by column from left to right (see Table EPL-1).

In our table, the Volume - Basic column plays out the production from reserves proven in projects already completed. Wells typically produce at capacity and volume declines continuously. The Volume - Enhanced column reflects the results of spending on new projects (Capex). We input to the model a Volume Enhancement factor that we believe can be achieved by a specific degree of regular reinvestment (Capex/Cash Flow). A successful company might keep its production flat while reinvesting half of cash flow. We see EPL reinvesting practically all of its cash flow and thereby achieving nice growth.

Thanks to the development of a futures market we can continuously view a consensus price forecast. To recognize an early exception, EPL's oil price is dampened through May 2001 by hedges required by its bank lender. After 2006 we escalate crude price with the inflation rate implied by comparing the price of a ten-year U.S. Treasury note with that of a ten-year U.S. Treasury Inflation Protected Security (TIPS). As a result we have a price projection tied to market that we use to update EPL value regularly. Of course, we don't necessarily agree with the futures market or the ability or willingness of the government to measure inflation correctly.

Costs are either fixed or variable for purposes of the DCF model. We just divide the current total and keep part of it constant and vary the rest with revenue. The current level ties to the quarterly model to be discussed below.

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Finally, we tie the discount rate to that of a ten-year treasury note plus 1.4 percentage points, or 140 basis points as the fixed income investors say. That might seem like a low rate for a risky business. Yet in our mind a large oil or gas field is a low risk investment comparable to a high quality bond. In fact the field is better than a typical bond in terms of its long-term protection against inflation.

The largest source of risk specific to EPL is the relationship between spending and new production. Rather than using the blunt tool of a high discount rate, we deal with that by doing sensitivity analyses, a good topic for further exploration as the company's history unfolds.

Cash Flow Projection Useful for Gauging Progress

Of course Wall Street and some investors exaggerate the impact of quarterly earnings. We will further dismiss a focus on earnings for oil and gas producers as too fraught with artificial accounting factors like historic cost. What does count in oil and gas is cash flow. Quarterly cash flow projections are a particularly sensitive mechanism for understanding how a company is progressing.

Here then is the cash flow model that translates recent history into projections (see Table EPL-2). We focus on the next twelve months, an approach we adopted for the royalty trusts that make monthly distributions. A new buyer will benefit only from what happens in the future. The past is important only for what it points to in the future. First quarter 2001 results were particularly strong for natural gas producers. While we think gas prices can be higher again, we take the impartial approach of using futures market prices that are a lot lower than experienced in January 2001.

The most important EPL-specific input is our estimate of 19,200 barrels daily oil equivalent production for the next twelve months. Management has estimated calendar 2001 volume in the range of 18,000 to 20,000 barrels daily oil equivalent. Recently contracted drilling rigs should make achieving or exceeding that target more likely.

Surprisingly high lease-operating costs in the fourth quarter of 2000 may have contributed to underperformance of EPL stock. We expect that those costs will be reported at a more normal level in 2001.

Just as we use the oil futures settlement prices for the latest week in projecting cash flow for future years, we also use those prices in projecting cash flow for future quarters. We expect prices over time to exceed those in the futures market today and we can hopefully mark up our projections accordingly.

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EPL Stands Out in McDep Tables

By our regular ranking EPL appears to offer the most appreciation potential among 25 or more energy stocks. While we cannot know the future, we can observe that EPL's stock has under performed most if not all the others on the list for the past six months. Since we know of no fundamental reason to account for that we feel reinforced in our judgment that EPL is a special opportunity.

The Rank by McDep Ratio table and the Rank by EV/Ebitda table are updated and posted weekly. Our experience is that low McDep Ratio stocks tend to outperform high McDep Ratio stocks. Of course there are exceptions and there is some subjectivity in the calculation. Moreover all energy stocks are subject to political, economic, financial, business and management risk.

Kurt H. Wulff, CFA

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Table EPL-1
Energy Partners, Ltd.
Present Value

Volume Decline (%/yr):	15	Price Escalation post 2006 (%/yr):	1.9
Volume Enhancement (%/yr):	34	Discount rate (%/yr):	6.7
Capex/Cash Flow (%):	100	U.S. TIPS Inflation (%/yr):	1.9
Variable Cost (%):	16	U.S. 10 Year Yield (%/yr):	5.3
PV/Volume (\$/bbl):	3.70	PV/EBITDA 2001:	4.4
PV/Share (\$):	18.70		

Year	Basic (mb)	Volume Enhanced (mb)	Total (mb)	Price (\$/bbl)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Pre- Tax (\$mm)	Income Tax (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
Total 2001 through 2020													
	42100	101200	143300	23.52	3370	607	539	1073	1151	164	987	0.46	528
2001	6570	0	6570	27.29	179	30	29	120	0	0	0	0.97	0
2002	5584	2234	7818	26.68	209	30	33	145	0	0	0	0.91	0
2003	4747	4557	9303	24.22	225	30	36	159	0	0	0	0.85	0
2004	4035	7036	11071	23.00	255	30	41	184	0	0	0	0.80	0
2005	3429	9745	13174	22.13	292	30	47	215	0	0	0	0.75	0
2006	2915	12763	15678	21.35	335	30	54	251	0	0	0	0.70	0
2007	2478	10848	13326	21.76	290	30	46		213	30	183	0.66	120
2008	2106	9221	11327	22.17	251	30	40		181	26	155	0.62	95
2009	1790	7838	9628	22.59	217	30	35		152	22	131	0.58	75
2010	1522	6662	8184	23.02	188	30	30		128	18	110	0.54	59
2011	1293	5663	6956	23.46	163	30	26		107	15	91	0.51	46
2012	1099	4813	5913	23.90	141	30	23		88	13	76	0.48	36
2013	934	4091	5026	24.36	122	30	20		72	10	62	0.45	28
2014	794	3478	4272	24.82	106	30	17		59	8	50	0.42	21
2015	675	2956	3631	25.29	92	30	15		47	7	40	0.39	16
2016	574	2513	3087	25.77	80	30	13		36	5	31	0.37	12
2017	488	2136	2624	26.26	69	30	11		28	4	24	0.35	8
2018	415	1815	2230	26.76	60	30	10		20	3	17	0.32	5
2019	352	1543	1896	27.27	52	30	8		13	2	11	0.30	3
2020	300	1312	1611	27.79	45	30	7		7	1	6	0.28	2

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Table EPL-2
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Cash Flow

	<i>H1</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/00</i>	<i>9/30/00</i>	<i>12/31/00</i>	<i>2000</i>	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>	<i>12/31/01</i>	<i>2001E</i>	<i>3/31/02</i>	<i>Twelve</i>
											<i>Months</i>
											<i>3/31/02</i>
Highlights											
Revenue (\$mm)	30.4	30.7	42.0	103.1	43.7	40.8	44.5	50.3	179.3	51.6	187.2
EBITDAX (\$mm)	18.0	19.5	24.1	61.6	29.4	26.6	30.6	35.3	121.8	36.1	128.6
Cash Flow (\$mm)	15.4	17.2	23.1	55.7	29.0	26.2	30.2	34.9	120.2	35.7	127.0
Per share (\$)		0.95	1.21		1.07	0.97	1.11	1.29	4.44	1.32	4.68
Net Income (\$mm)	2.3	5.2	(32.9)	(25.4)	9.1	7.3	9.6	11.6	37.5	11.8	40.2
Per share		0.29	(1.73)		0.34	0.27	0.35	0.43	1.39	0.43	1.48
Shares (millions)		18.1	19.0		27.1	27.1	27.1	27.1	27.1	27.1	27.1
Volume											
Natural Gas (bcf)	1.48	1.49	2.81	5.78	3.60	3.71	3.77	4.25	15.34	4.45	16.18
Natural Gas (mmcf)	8.1	16.1	30.6	15.8	40.0	40.8	41.0	46.2	42.0	49.4	44.3
Days	182	92	92	366	90	91	92	92	365	90	365
Oil (mb)	965	899	925	2,790	900	956	1,012	1,146	4,014	1,200	4,314
Oil (mbd)	5.30	9.78	10.05	7.62	10.00	10.50	11.00	12.46	11.00	13.33	11.82
Total (mb)	1,212	1,147	1,394	3,752	1,500	1,574	1,641	1,855	6,570	1,941	7,011
Total (mbd)	6.7	12.5	15.1	10.3	16.7	17.3	17.8	20.2	18.0	21.6	19.2
Price											
Natural Gas											
Henry Hub (\$/mmbtu)	3.13	4.48	6.52	4.31	6.31	5.17	5.29	5.47	5.56	5.47	5.56
Differential (\$/mmbtu)	(0.40)	(0.29)	0.67	(0.66)	0.63	0.52	0.53	0.55	0.56	0.55	0.74
EPL (\$/mcf)	3.52	4.77	5.85	4.98	5.68	4.65	4.76	4.92	4.99	4.92	4.82
Oil (\$/bbl)											
WTI Cushing	28.81	31.61	32.00	30.31	28.81	27.44	27.84	27.22	27.83	26.37	27.83
Differential	3.12	5.43	6.46	4.51	4.08	2.85	1.60	1.60	2.50	1.60	2.53
EPL	25.69	26.18	25.54	25.80	24.73	24.59	26.24	25.62	25.33	24.77	25.30
Total (\$/bbl)	25.05	26.79	30.13	27.47	29.13	25.90	27.13	27.11	27.29	26.59	26.70
Revenue (\$mm)											
Natural Gas	5.2	7.1	16.4	28.7	20.4	17.3	18.0	20.9	76.6	21.9	78.0
Oil	24.8	23.5	23.6	72.0	22.3	23.5	26.6	29.4	101.7	29.7	109.1
Other	0.3	0.1	1.9	2.4	1.0				1.0		-
Total	30.4	30.7	42.0	103.1	43.7	40.8	44.5	50.3	179.3	51.6	187.2
Cost (\$mm)											
Lease operating	6.1	6.4	11.5	24.1	8.6	8.7	8.2	9.0	34.5	9.4	35.3
Production taxes	1.9	1.7	2.7	6.3	2.2	2.0	2.2	2.5	9.0	2.6	9.4
General and administrative	4.3	3.0	3.7	11.1	3.5	3.5	3.5	3.5	14.0	3.5	14.0
Total	12.3	11.2	17.9	41.5	14.3	14.2	13.9	15.0	57.4	15.5	58.6
EBITDAX (\$mm)	18.0	19.5	24.1	61.6	29.4	26.6	30.6	35.3	121.8	36.1	128.6
Net cash interest and tax	2.6	2.4	1.0	5.9	0.4	0.4	0.4	0.4	1.6	0.4	1.6
Cash Flow (\$mm)	15.4	17.2	23.1	55.7	29.0	26.2	30.2	34.9	120.2	35.7	127.0
Exploration	0.8	0.3	0.6	1.7	3.0	3.0	3.0	3.0	12.0	3.0	12.0
Deprec., Deplet., & Amort.	8.3	7.5	9.8	25.6	10.5	11.0	11.5	13.0	46.0	13.6	49.1
Amort. Financing Cost	0.3	0.3	0.5	1.1	0.3	0.3	0.3	0.3	1.2	0.3	1.2
Other non cash	(0.7)	0.7	41.7	41.7	0.8	0.3	0.3	0.3	1.7	0.3	1.2
Income before income tax	6.8	8.4	(29.6)	(14.5)	14.4	11.6	15.1	18.3	59.3	18.5	63.5
Deferred income tax	4.5	3.2	3.3	10.9	5.3	4.3	5.5	6.7	21.8	6.8	23.3
Net income (\$mm)	2.3	5.2	(32.9)	(25.4)	9.1	7.3	9.6	11.6	37.5	11.8	40.2
Costs (\$/bbl)											
Lease operating	5.03	5.61	8.28	6.41	5.75	5.50	5.00	4.85	5.25	4.85	5.03
Production taxes	1.57	1.52	1.94	1.69	1.46	1.29	1.36	1.36	1.36	1.33	1.33
General and administrative	3.57	2.65	2.65	2.95	2.33	2.22	2.13	1.89	2.13	1.80	2.00
Deprec., Deplet., & Amort.	6.84	6.54	7.04	6.82	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Tax rate		38%			37%	37%	37%	37%	37%	37%	37%

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Mega Cap							
Exxon Mobil Corporation	XOM	88.85	3,520	313,000	72.10	0.16	1.20
BP Amoco p.l.c.	BP	54.86	3,720	204,000	48.90	0.17	1.10
TOTAL Fina Elf S.A.	TOT	75.00	1,400	105,000	72.00	0.16	1.03
Royal Dutch/Shell	RD	59.90	3,580	214,000	60.80	0.09	0.99
<i>Total or Median</i>				<i>836,000</i>		<i>0.16</i>	<i>1.07</i>
Large Cap							
Enron Corp.	ENE	63.66	795	50,600	38.80	0.47	1.34
Chevron (incl. Texaco)	CHV	97.86	1,060	103,700	103.40	0.15	0.95
Burlington Resources, Inc	BR	49.04	216	10,600	60.50	0.17	0.84
ENI S.p.A.	E	69.63	800	55,700	91.90	0.10	0.78
Anadarko Petroleum Corp.	APC	66.60	249	16,600	90.90	0.17	0.78
Conoco Inc.	COC.B	29.85	623	18,600	48.00	0.21	0.70
Phillips (incl. Tosco)	P	59.98	379	22,700	102.10	0.27	0.70
<i>Total or Median</i>				<i>279,000</i>		<i>0.17</i>	<i>0.78</i>
Mid Cap							
Barrett Resources Corporation	BRR	63.75	34	2,200	53.80	0.21	1.15
PanCanadian Pete Ltd. (15%)	PCP.TO	47.50	38	1,800	49.10	0.07	0.97
Occidental Petroleum	OXY	29.81	370	11,000	35.60	0.46	0.91
Unocal Corporation	UCL	37.44	256	9,600	51.90	0.27	0.80
Valero Energy Corp.	VLO	47.49	64	3,000	65.00	0.25	0.80
PetroChina Company Ltd (10%)	PTR	20.40	176	3,600	28.40	0.24	0.79
USX-Marathon Group	MRO 1	31.73	360	11,400	47.00	0.30	0.77
Petro-Canada	PCZ	27.25	272	7,400	38.70	0.08	0.73
Devon Energy Corporation	DVN	59.30	135	8,000	89.70	0.15	0.71
Norsk Hydro ASA	NHY	43.00	262	11,300	65.90	0.15	0.70
<i>Total or Median</i>				<i>65,300</i>		<i>0.22</i>	<i>0.79</i>
Small Cap							
Cross Timbers Royalty Tr*	CRT	21.65	6.0	130	18.90	-	1.15
Dorchester Hugoton, Ltd.*	DHULZ	13.94	10.7	150	13.50	-	1.03
San Juan Basin Royalty Tr*	SJT	17.90	46.6	830	17.70	-	1.01
Hugoton RoyaltyTrust*	HGT	16.38	40.0	660	18.80	-	0.87
Encore Acquisition Corporation	EAC	14.05	30.0	420	16.70	0.12	0.86
Energy Partners Ltd.*	EPL 1	10.50	27.1	290	18.70	0.04	0.58
<i>Total or Median</i>				<i>2,480</i>		<i>-</i>	<i>0.94</i>

Buy/Sell rating after symbol: 1 - Strong Buy (only MRO rated as of 4/20/01)

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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Rank by EV/Ebitda	Symbol	Price	EV/	EV/	Dividend or		PV/
		(\$/sh)	Sales	Ebitda	Distribution	NTM	Ebitda
		26-Apr	2001E	NTM	P/E	NTM	NTM
		2001			NTM	(%)	NTM
Mega Cap							
Exxon Mobil Corporation	XOM	88.85	1.5	8.4	18	2.0	7.0
BP Amoco p.l.c.	BP	54.86	1.3	7.7	12	2.6	7.0
TOTAL Fina Elf S.A.	TOT	75.00	1.1	7.2	17	1.5	7.0
Royal Dutch/Shell	RD	59.90	1.5	6.9	15	2.3	7.0
	<i>Median</i>		<i>1.4</i>	<i>7.5</i>	<i>16</i>	<i>2.2</i>	<i>7.0</i>
Large Cap							
Enron Corp.	ENE	63.66	0.5	20.1	36	0.8	15.0
Chevron (incl. Texaco)	CHV	97.86	1.1	5.7	11	2.7	6.0
Burlington Resources, Inc	BR	49.04	3.5	5.1	9	1.1	6.0
Anadarko Petroleum Corp.	APC	66.60	2.2	4.7	10	0.3	6.0
Conoco Inc.	COC.B	29.85	0.6	4.2	8	2.5	6.0
Phillips (incl. Tosco)	P	59.98	0.7	4.2	7	2.3	6.0
ENI S.p.A.	E	69.63	1.2	3.9	7	2.3	5.0
	<i>Median</i>		<i>1.1</i>	<i>4.7</i>	<i>9</i>	<i>2.3</i>	<i>6.0</i>
Mid Cap							
Barrett Resources Corporation	BRR	63.75	5.0	6.9	14	-	6.0
PanCanadian Pete Ltd. (15%)	PCP.TO	47.50	2.0	5.8	14	0.5	6.0
Occidental Petroleum	OXY	29.81	1.3	5.5	8	3.4	6.0
Unocal Corporation	UCL	37.44	1.7	4.8	13	2.1	6.0
Valero Energy Corp.	VLO	47.49	0.3	4.8	7	0.7	6.0
PetroChina Company Ltd (10%)	PTR	20.40	1.9	4.7	6	7.0	6.0
USX-Marathon Group	MRO	31.73	0.4	4.6	6	2.9	6.0
Petro-Canada	PCZ	27.25	1.1	4.4	10	1.0	6.0
Devon Energy Corporation	DVN	59.30	3.0	3.9	8	0.3	5.5
Norsk Hydro ASA	NHY	43.00	0.8	2.8	7	2.4	4.0
	<i>Median</i>		<i>1.5</i>	<i>4.8</i>	<i>8</i>	<i>1.6</i>	<i>6.0</i>
Small Cap							
Cross Timbers Royalty Tr*	CRT	21.65	5.8	8.9	9	10.8	7.7
San Juan Basin Royalty Tr*	SJT	17.90	5.7	7.0	9	10.7	6.9
Hugoton RoyaltyTrust*	HGT	16.38	4.5	6.0	8	12.5	6.9
Dorchester Hugoton, Ltd.*	DHULZ	13.94	4.8	5.9	6	7.7	5.7
Encore Acquisition Corporation	EAC	14.05	3.8	5.2		-	6.0
Energy Partners Ltd.*	EPL	10.50	1.6	2.4	7	-	4.1
	<i>Median</i>		<i>4.7</i>	<i>6.0</i>	<i>8</i>	<i>9.2</i>	<i>6.4</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

* For small cap stocks marked with asterisk after the name, estimated sales, ebitda, earnings, distributions and present value are recalculated weekly to take account of latest commodity futures prices, inflation, interest rates and operational disclosures.

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