

EPL OIL & GAS, INC.
Form 10-KT
September 24, 2014

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from January 1, 2014 to June
30, 2014**

Commission file number: 001-16179

EPL Oil & Gas, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

72-1409562
(I.R.S. Employer
Identification No.)

919 Milam Street, Suite 1600, Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

(713) 228-0711

Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the
Act:
None**

**Securities registered pursuant to Section 12(g) of the
Act:
None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

There is no market for the common stock of EPL Oil & Gas, Inc.

OMISSION OF CERTAIN INFORMATION:

EPL Oil & Gas, Inc. meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

DOCUMENTS INCORPORATED BY REFERENCE:

None

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Transition Report on Form 10-K (this Transition Report) may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words believe, expect, anticipate, plan, intend, foresee, should, would, could or other similar expressions identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments as well as other factors the Company believes are appropriate under the circumstances and their potential effect on us. While management believes that these forward-looking statements are reasonable, such statements are not guarantees of future performance and the actual results or developments anticipated may not be realized or, even if substantially realized, may not have the expected consequences to or effects on the Company's business or results. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause actual results to differ materially from those in the forward-looking statements include those described in (1) Part I, Item 1A. Risk Factors and elsewhere in this Transition Report, (2) our reports and registration statements filed from time to time with the Securities and Exchange Commission and (3) other public announcements we make from time to time.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date upon which they are made, whether as a result of new information, future events or otherwise.

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PART I

Item 1.

Business

Overview

EPL Oil & Gas, Inc. (referred to herein as we, our, us, EPL or the Company) was incorporated as a Delaware corporation in January 1998 and is a wholly-owned subsidiary of Energy XXI Gulf Coast, Inc. (EGC), a Delaware corporation and indirect wholly-owned subsidiary of Energy XXI (Bermuda) Limited, an exempted company under the laws of Bermuda (Energy XXI). We operate as an independent oil and natural gas exploration and production company based in Houston, Texas and New Orleans, Louisiana. Effective September 1, 2012, we changed our legal corporate name from Energy Partners, Ltd. to EPL Oil & Gas, Inc. through a short-form merger pursuant to Section 253 of the General Corporation Law of the State of Delaware.

On June 3, 2014, Energy XXI, EGC, Clyde Merger Sub, Inc., a wholly owned subsidiary of EGC (Merger Sub), and EPL, completed the transactions contemplated by the Agreement and Plan of Merger, dated as of March 12, 2014 (as amended, the Merger Agreement), by and among Energy XXI, EGC, Merger Sub, and EPL, pursuant to which Merger Sub was merged with and into EPL with EPL continuing as the surviving corporation (the Merger). Pursuant to the Merger Agreement, at the effective time of the Merger (the Effective Time), the issued and outstanding shares of EPL common stock, par value \$0.001 per share (EPL Common Stock), were converted, in the aggregate, into the right to receive merger consideration (the Merger Consideration) consisting of approximately 65% in cash and 35% in shares of common stock of Energy XXI, par value \$0.005 per share (Energy XXI Common Stock). The Merger and related matters are addressed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our current operations are concentrated in the U.S. Gulf of Mexico shelf (the GoM shelf) focusing on state and federal waters offshore Louisiana, which we consider our core area. We have focused on acquiring and developing assets in this region, because the region is characterized by established exploitation, development and exploration opportunities in both productive horizons and deeper geologic formations. As part of Energy XXI's overall strategy and capital plan, we intend to pursue capital-efficient development and exploration activities in our core area, as well as identify acquisition opportunities that leverage our technical and operational strengths. As of June 30, 2014, we had estimated proved reserves of 89.5 Mmboe, of which 68% were oil and 69% were proved developed. Of these proved developed reserves, 73% were oil reserves.

We produce both oil and natural gas. Throughout this Transition Report, when we refer to total production, total reserves, percentage of production, percentage of reserves, or any similar term, we have converted our natural gas reserves or production into barrel equivalents. For this purpose, six thousand cubic feet of natural gas is equal to one barrel of oil, which is based on the relative energy content of natural gas and oil. Natural gas liquids are aggregated with oil in this Transition Report.

For definitions of oil and natural gas terms used frequently in this Transition Report, please refer to the Glossary of Oil and Natural Gas Terms following the index of Exhibits in Item 15 of Part IV of this Transition Report.

The following summarizes our acquisitions (purchase prices are before economic effective date adjustments):

Acquisitions

On June 3, 2014, we acquired an asset package consisting of certain shallow water GoM shelf oil and natural gas interests in our South Pass 49 field for \$230 million (the SP49 Interests);

On March 21, 2014, we were the high bidder on 21 leases at the Central Gulf of Mexico Lease Sale 231. The 21 high bid lease blocks cover a total of 92,030 acres on a gross and net basis and are all located in the shallow Gulf of Mexico within our core area of operations. Our share of the high bids totaled approximately \$8.2 million;

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On January 15, 2014, we acquired 100% working interest of certain shallow-water central GoM shelf oil and natural gas assets which comprise five leases in the Eugene Island 258/259 field (the EI Interests) for \$70.4 million (the Nexen Acquisition);

On September 26, 2013, we acquired an asset package consisting of certain GoM shelf oil and natural gas interests in the West Delta 29 field (the WD29 Interests) for \$21.8 million;

On October 31, 2012, we acquired 100% of the membership interests of Hilcorp Energy GOM, LLC (Hilcorp Acquisition), which owned certain shallow water GoM shelf oil and natural gas interests (the Hilcorp Properties) for \$550 million. The Hilcorp Properties included three core producing complexes in the Ship Shoal 208, South Pass 78 and South Marsh Island 239 areas;

On May 15, 2012, we acquired an asset package consisting of certain shallow-water GoM shelf oil and natural gas interests in our South Timbalier 41 field for \$32.4 million (the ST41 Interests);

On November 17, 2011, we acquired interests in the Main Pass 296/311 complex along with other unit interests in the Main Pass complex and an interest in a Main Pass 295 primary term lease for \$38.6 million (the Main Pass Interests); and

On February 14, 2011, we acquired from Anglo-Suisse Offshore Partners, LLC (ASOP) an asset package consisting of certain GoM shelf oil and natural gas interests surrounding the Mississippi River delta and a related gathering system (the ASOP Properties) for \$200.7 million. The ASOP Properties included two core producing complexes in the West Delta and Main Pass areas and an interest in the South Pass 49 field.

Dispositions

On April 2, 2013, we sold certain shallow water GoM shelf oil and natural gas interests located within the non-operated Bay Marchand field for total consideration of \$62.8 million.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for more information regarding these transactions.

Available Information

We file or furnish annual, quarterly and current reports and other documents with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934 (as amended, the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any document we file with the SEC at www.sec.gov.

Energy XXI maintains a website at www.exxi.com that contains information about us, which information is available free of charge, including links to our Annual and Transition Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all related amendments as soon as reasonably practicable after electronically filing such reports with, or furnishing them to the SEC. The Energy XXI website and the information contained in it and connected to it shall not be deemed incorporated by reference into this Transition Report or any other filing that we make with the SEC.

Properties

As of June 30, 2014, we had working interests in 29 producing fields located in the GoM shelf region. The proved reserves and production from these fields are primarily associated with the following core producing areas: Ship Shoal 208, South Pass 49, East Bay, West Delta, South Timbalier, South Pass 78, Eugene Island 258/259, Main Pass and

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As of and for the six months ended June 30, 2014, our proved reserves and production from our core producing areas as percentages of our total proved reserves and total production were as follows:

	Proved Reserves	Production
Ship Shoal 208	21 %	16 %
South Pass 49	20	8
East Bay	11	10
West Delta	13	24
South Timbalier	10	7
South Pass 78	5	7
Eugene Island 258/259	5	6
Main Pass	3	5
South Marsh Island 239	3	4

Our Ship Shoal 208 complex is located 110 miles southwest of New Orleans. It contains 27 producing wells in average water depths of approximately 100 feet in three lease blocks. We operate the Ship Shoal 208 complex and own a working interest of 100% of the acreage position in this area.

Our South Pass 49 field is located near the mouth of the Mississippi River. It contains 15 producing wells in water depths of approximately 400 feet. Energy XXI operates and we have a 100% working interest in the acreage position in this area.

Our East Bay area includes the South Pass 24 and 27 fields and is located 89 miles southeast of New Orleans, near the mouth of the Mississippi River. It contains 197 producing wells located along the coastline and in water depths up to approximately 70 feet. We operate this field and own an average 96% working interest in our acreage position in this area.

Our West Delta complex, a legacy producing area, is located 62 miles south southeast of New Orleans. It contains 47 producing wells in water depths ranging from 29 to 87 feet and includes five lease blocks. We operate the West Delta complex and own an average 93% working interest in our acreage position in this area.

Our South Timbalier area includes the South Timbalier 26 and 41 fields located approximately 60 to 72 miles south of New Orleans. It contains 18 producing wells in water depths of approximately 73 feet or less. We operate the South Timbalier 26 and 41 blocks, and we own a 100% working interest in this area.

Our South Pass 78 complex is located 86 miles southeast of New Orleans. It contains 23 producing wells in water depths ranging from approximately 140 to 190 feet in four lease blocks. We operate the South Pass 78 complex and own a working interest of 67% of the acreage position in this area.

Our Eugene Island 258/259 field was acquired in the Nexen Acquisition. This field is comprised of five central GoM shelf leases and contains 21 producing wells. We operate and have a 100% working interest in our acreage position in this area.

Our Main Pass complex is located 98 miles southeast of New Orleans. It contains 33 producing wells in average water depths of approximately 250 feet and includes the Main Pass 296 and 311 fields. We own a non-operated 50% working interest in our acreage position in this area.

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Our South Marsh Island 239 complex is located 117 miles southwest of New Orleans. It contains 7 producing wells in water depths of approximately 20 feet in four lease blocks. We operate the complex and own a working interest of 92% in the acreage position in this area.

Our properties include other producing fields offshore Louisiana located in water depths ranging from approximately 18 to 300 feet with working interests ranging from 7% to 100%.

As of June 30, 2014, we also owned interests in 6 undeveloped leases in the deepwater Gulf of Mexico and we have a non-operated interest in one developed lease. Our working interests in our leases in this area ranged from 15% to 33%.

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See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for information regarding our oil and gas production, average prices and average costs.

Oil and Natural Gas Reserves

The following table presents our estimated net proved oil and natural gas reserves and the estimated future net revenues and cash flows related to our reserves at June 30, 2014. Our estimates of proved reserves are based on a reserve report prepared as of June 30, 2014 by Netherland, Sewell & Associates, Inc. (NSAI), an independent petroleum engineering firm. Neither PV-10 nor the standardized measure of discounted future net cash flows shown in the table is intended to represent the current market value of the estimated oil and natural gas reserves that we own. Note 18 Supplementary Oil and Natural Gas Disclosures (Unaudited) of the consolidated financial statements in Part II, Item 8 of this Transition Report provides important additional information about our proved oil and natural gas reserves.

We follow the oil and gas reserves estimation and disclosure requirements of the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 932, Extractive Activities Oil and Gas (ASC 932), which requires, among other things, that prices used to estimate reserves for SEC disclosure purposes reflect an unweighted, arithmetic average price based upon the closing price on the first day of each of the twelve months during the fiscal year, rather than the year-end price. See Note 18 Supplementary Oil and Natural Gas Disclosures (Unaudited) of the consolidated financial statements in Part II, Item 8 of this Transition Report for additional information regarding reporting related to oil and natural gas reserves under ASC 932.

	As of June 30, 2014 (dollars in thousands)
Total net proved reserves:	
Oil (Mbbbls)	60,832
Natural gas (Mmcf)	172,081
Total (Mboe)	89,512
Net proved developed reserves ⁽¹⁾ :	
Oil (Mbbbls)	45,232
Natural gas (Mmcf)	101,361
Total (Mboe)	62,126
Net proved undeveloped reserves:	
Oil (Mbbbls)	15,600
Natural gas (Mmcf)	70,720
Total (Mboe)	27,386
Estimated future net revenues before income taxes ⁽²⁾	\$3,417,460
Present value of estimated future net revenues before income taxes (PV-10) ⁽²⁾⁽³⁾⁽⁵⁾	\$2,482,261
Standardized measure of discounted future net cash flows ⁽⁴⁾⁽⁵⁾	\$1,964,593

(1) Net proved developed non-producing reserves as of June 30, 2014 (13,151 Mbbbls and 62,719 Mmcf) were 23,604 Mboe, or 26% of our total proved reserves.

(2) Calculated using oil price of \$98.58 per barrel and natural gas price of \$4.12 per Mcf held constant for the life of the reserves, computed in accordance with ASC 932, based on the unweighted, arithmetic average of the closing

price on the first day of each of the twelve months during the fiscal year (for purposes of this Transition Report, the period from July 2013 through June 2014), applying historical adjustments, including transportation, quality differentials, and purchaser bonuses, on an individual property basis, to the year-end quantities of estimated proved reserves. The historical adjustments applied to the computed prices are determined by comparing our historical realized price experience with the comparable historical market, or posted, price.

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- (3) The present value of estimated future net revenues attributable to our reserves was prepared using constant prices, determined in the manner described in footnote (2), discounted at a rate of 10% per year on a pre-tax basis.
- (4) The standardized measure of discounted future net cash flows represents the present value of future cash flows after income taxes discounted at 10% per year, as calculated in accordance with SEC guidelines and pricing. PV-10 is considered a non-GAAP financial measure as defined by the SEC. We believe that the presentation of PV-10 is relevant and useful to our investors as supplemental disclosure to the standardized measure, or after-tax amount, because it presents the discounted future net cash flows attributable to our proved reserves before taking
- (5) into account future corporate income taxes and our current tax structure. Because the standardized measure is dependent on the unique tax situation of each company, our calculation may not be comparable to those of our competitors. Because of this, PV-10 can be used within the industry and by creditors and securities analysts to evaluate estimated net cash flows from proved reserves on a more comparable basis.

As of June 30, 2014, our PUDs comprised 40 drilling locations in 14 fields. The Ship Shoal 208 field accounts for approximately 38% of our total PUDs, with 10,396 Mboe, consisting of 6,019 Mbbls of oil and 26,258 Mmcf of natural gas. The South Pass 49 field accounts for approximately 23% of our total PUDs, with 6,240 Mboe, consisting of 3,916 Mbbls of oil and 13,942 Mmcf of natural gas. The remaining 12 fields account for approximately 1% to 7% of our total PUDs each, with PUDs ranging from 141 Mboe to 2,025 Mboe.

For the six-months ended June 30, 2014, the increase in our PUDs was primarily attributable to five new PUD locations associated with the acquisition of the SP49 Interests with total net PUDs of 4,941 Mboe of proved reserves consisting of 3,179 Mbbls of oil and 10,571 Mmcf of natural gas. An additional six new PUD locations resulted from extensions and discoveries during the six months ended June 30, 2014 comprising 3,067 Mboe, consisting of 2,189 Mbbls of oil and 5,266 Mmcf of natural gas, in the Eugene Island 258/259, South Pass 49, Ship Shoal 208, South Timbalier 26 and West Delta 29 fields, with PUD extensions and discoveries ranging from 338 Mboe to 910 Mboe. During the six months ended June 30, 2014, we drilled nine PUD locations, primarily in the West Delta area and the Ship Shoal 208 field. The nine drilled PUD locations converted to proved developed reserves approximately 3,652 Mboe, consisting of 2,413 Mbbls of oil and 7,432 Mmcf of natural gas, or approximately 16%, of our PUDs at December 31, 2013. We spent approximately \$111 million drilling these nine locations.

We expect our PUDs as of June 30, 2014 of 27.4 Mmboe to begin converting from proved undeveloped to proved developed as the planned development projects begin in fiscal year 2015. We project future development costs relating to the development of the PUDs remaining at June 30, 2014 to be approximately \$173 million in fiscal 2015, \$110 million in fiscal 2016, \$93 million in fiscal 2017 and \$28 million thereafter.

Qualifications of Primary Internal Engineer and Third Party Engineers

Our former Vice President, Reserves, was the technical person primarily responsible for overseeing the preparation by NSAI of our reserve estimates included in this Transition Report and for compliance with our policies. He is a registered petroleum engineer with extensive experience in reservoir analysis. Subsequent to the Merger, our former Vice President, Reserves, worked with and reported to the Director, Corporate Reserves of Energy XXI, who is now the technical person primarily responsible for overseeing the preparation of our reserve estimates. The Director, Corporate Reserves of Energy XXI, has 16 years of industry experience with positions of increasing responsibility and reports directly to the Chief Financial Officer of Energy XXI.

At the end of each year, our reserve estimates are prepared by outside petroleum engineering firms. As of June 30, 2014, our estimates of proved reserves are based on a reserve report prepared by the independent petroleum engineering firm NSAI, a nationally recognized engineering firm. At June 30, 2014, 100% of our total estimated net proved reserves were prepared by NSAI. The NSAI report is filed as an exhibit to this Transition Report.

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NSAI provides a complete range of geological, geophysical, petrophysical and engineering services and has the technical experience and ability to perform these services in any of the onshore and offshore oil and gas producing areas of the world. NSAI has a technical staff of over 70 professionals who are knowledgeable with regard to recognized industry reserves and resource definitions, specifically those set forth by the SEC. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. Within NSAI, the technical persons primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein are Mr. Joseph J. Spellman and Mr. Philip R. Hodgson.

Mr. Spellman has been practicing consulting petroleum engineering at NSAI since 1989. Mr. Spellman is a Licensed Professional Engineer in the State of Texas (No. 73709) and has over 30 years of practical experience in petroleum engineering. He graduated from the University of Wisconsin-Platteville in 1980 with a Bachelor of Science Degree in Civil Engineering. Mr. Hodgson has been practicing consulting petroleum geology at NSAI since 1998. Mr. Hodgson is a Licensed Professional Geoscientist in the State of Texas, Geology (No. 1314) and has over 29 years of practical experience in petroleum geosciences. He graduated from Purdue University in 1982 with a Bachelor of Science Degree in Geology and in 1984 with a Master of Science Degree in Geophysics.

Both technical principals meet or exceed the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; both are proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines.

We have internal controls in place to provide assurance of compliance with SEC rules in the determination of our reserve estimates. These controls include:

Corporate policies which require reserve estimates to be in compliance with SEC guidelines;
Data on new discoveries is reviewed by the Director, Corporate Reserves of Energy XXI or his designees, and our outside engineering firm for evaluation and incorporation into our reserve estimates;
Material reserve variances are discussed among the internal reservoir