



CIPA

2009 Annual Meeting
Capital Markets Panel

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Macquarie Bank
Energy Capital

June 2009



CIPA 2009 – Capital Markets Discussion Mezzanine Capital



“If you put the federal government in charge of the Sahara Desert, in five years there'd be a shortage of sand”

~ Milton Friedman



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The Upstream Oil and Gas Mezzanine World

That Was Then, This Is Now...



CIPA 2009 – Capital Markets Discussion

Mezzanine Capital



Then

- a) Low Rates / Yield**
- b) Lots of Players**
 - Many unsophisticated
- c) Plenty of Cheap, Flexible Capital**
- d) Public Markets Oblivious to Risks**
 - Size, Reserve Type, Location, etc.
- e) Healthy Senior Banks**
- f) Hedge Funds Active**
- g) Energy is Popular**
 - Oil & Gas is the 'com' of the 2000's
- h) High Risk Tolerance**
- i) Take-out Comfort**
 - The "Big Net"
- j) International is good**
- k) Unpredictable Capital Costs**
- l) Hedging is a Dirty Word**
- m) Plethora of Private Equity**

Now

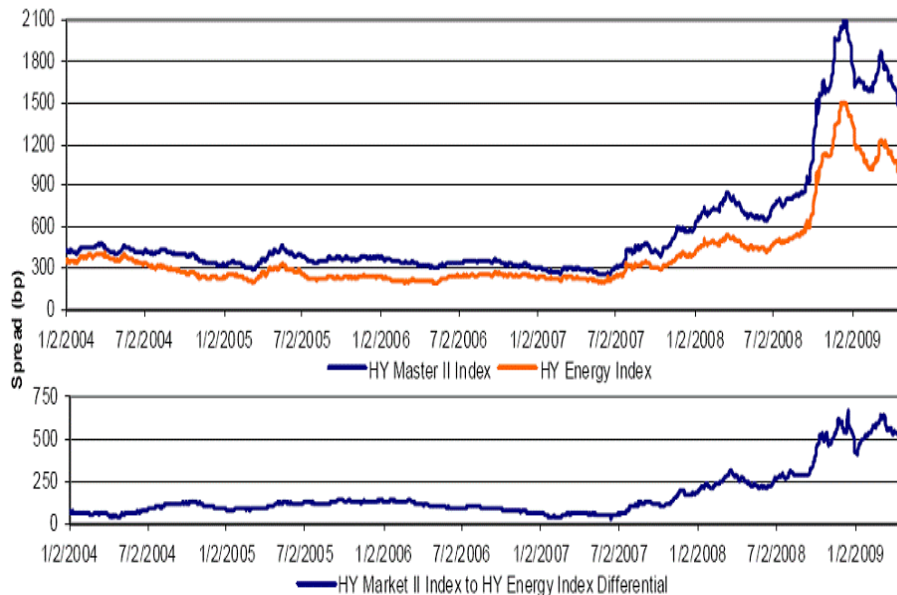
- a) Rates remain low, Yield Pressure is Up for Now...**
- b) Few Players Left – All Sophisticated**
- c) Very Little Capital**
- d) Public Markets all but Gone**
- e) Some Senior Banking are Struggling**
- f) Hedge Funds are Disappearing**
- g) Energy is Unpopular except in Investment Community**
 - Oil – Bullish; Natural Gas - Bearish
- h) Risk Tolerance Coming Back Down**
- i) No Net – Big or Small**
- j) International is a Stepchild**
- k) CAPEX Heading in Right Direction**
- l) Thank God We Hedged!**
- m) Still Lots of Private Equity but Much Activity?**



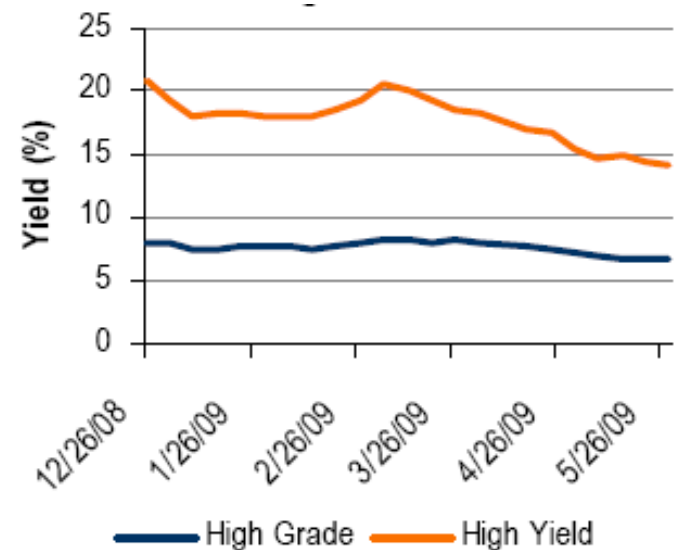
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Spreads have narrowed and risk appetite is returning –
for now...



Source: MLX Custom Index, Bloomberg and Banc of America Securities-Merrill Lynch estimates.



Source: BAS-ML bond indexes.

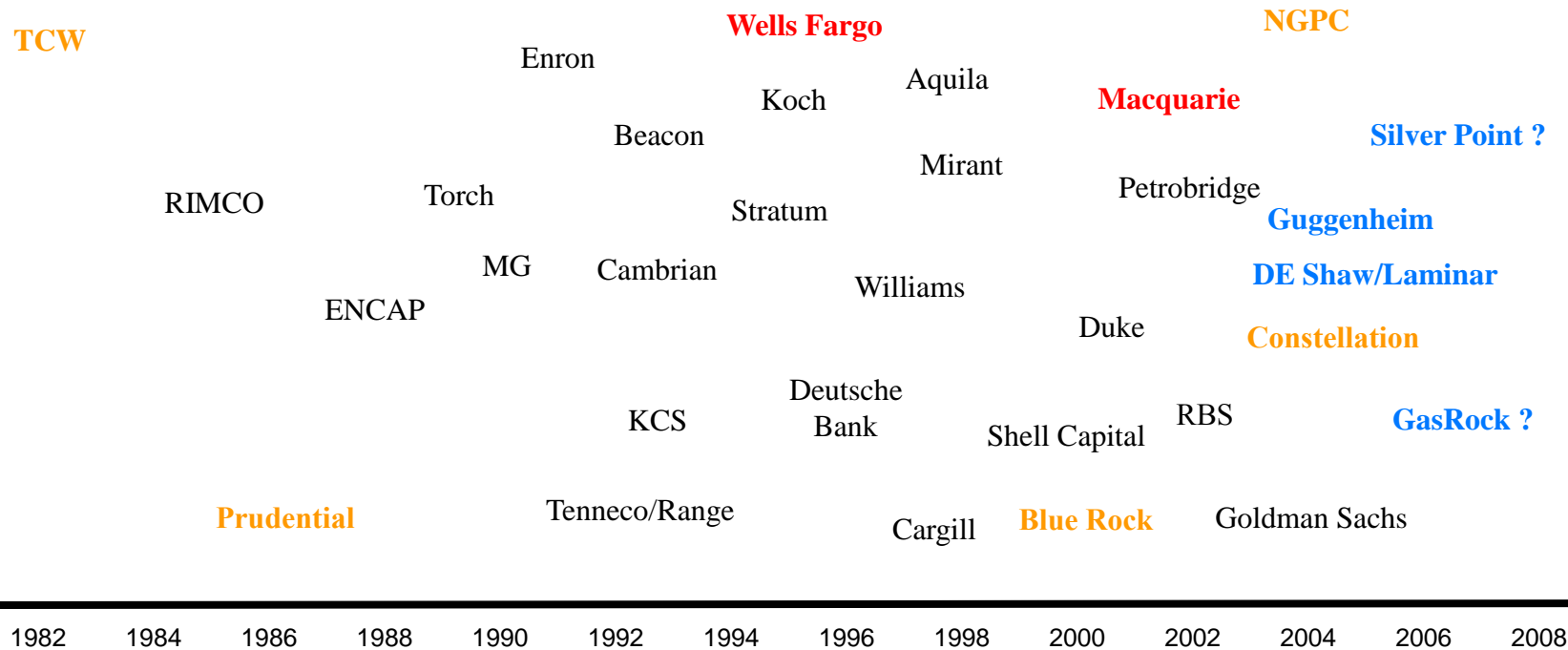


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Mezzanine Capital



32 (active) Players have entered the E&P Mezzanine market, only 11 remain



- Color Code:**
- No Longer Exist in Mezzanine
 - Active: Bank (or affiliate)
 - Active: Independent Finance
 - Active: Hedge Fund backed

Source: Wells Fargo



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Mezzanine Capital



- AIG Financial Products Corp. *
- ARC Financial
- BlueRock Energy Capital
- Cerberus/AbleCo.
- CIT **
- Constellation Commodities Group
- Denham Capital Management (former Sowood)
- GasRock Capital *
- GE Capital
- Goldman Sachs E&P Capital
- Guggenheim Partners *
- Laminar Direct Capital / D.E. Shaw
- Lehman Bros
- Macquarie Bank Limited
- NGP Capital Resources *
- Petrobridge Investment Management
- Prospect Energy
- Prudential Capital Corp
- Royal Bank of Scotland *
- Silver Point Capital *
- TCW
- Wells Fargo Energy Capital
- Small Cap Hi-Yield

Blue Highlight are Gone from Mezzanine

*** Have Slowed Down or Haven't Seen in the Market**



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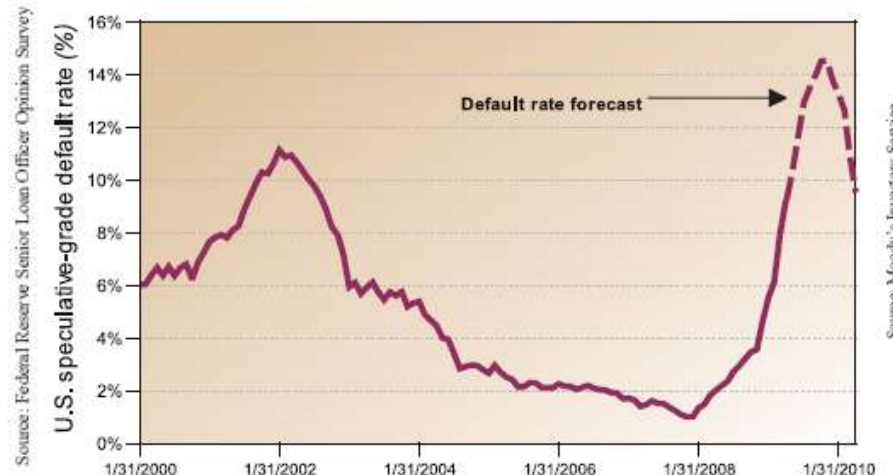
Mezzanine Capital



Banks continue to tighten lending standards (albeit at a decreasing rate) amidst rising default rates



Source: Gold Sheets.

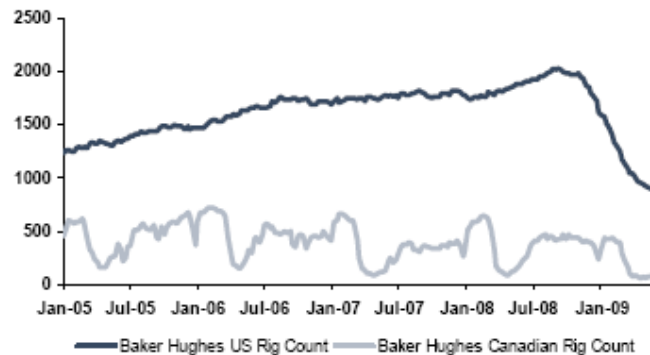


Source: Moody's Investors Service



Crude oil prices are up – Will Supply/Demand fundamentals catch up?

US and Canadian rig counts



Source: Baker Hughes

Gulf of Mexico rig count



Source: Baker Hughes



The Macquarie group is a diversified provider of specialist financial and investment banking services in select markets around the world

Key statistics of Macquarie Bank Limited:

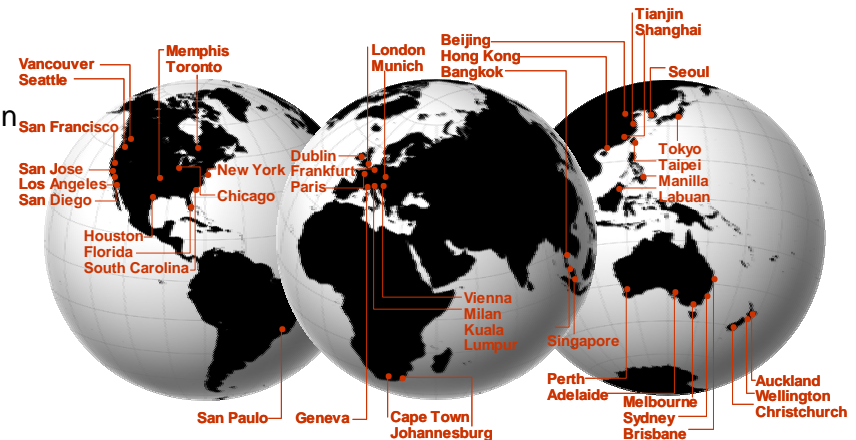
- Market capitalization US\$7.7bn
- Total assets under management US\$195.0bn
- Ratings
 - F1/A (Fitch)
 - P1/A2 (Moody's)
 - A2/A- (S & P)
- Employees (including subsidiaries) 12,700 in 26 countries

Highlights of Macquarie Group Limited:

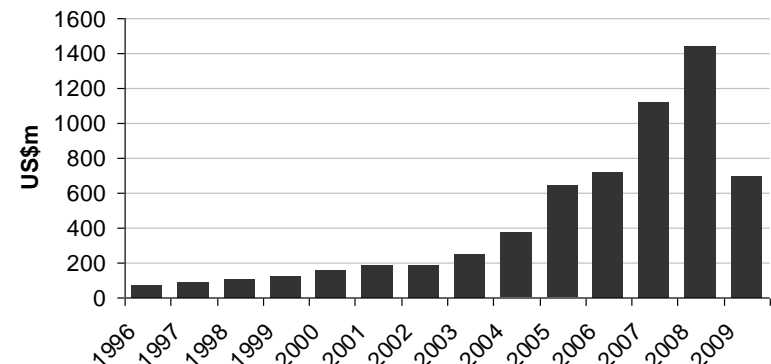
- Founded in 1969 as the Australian subsidiary of UK merchant bank Hill Samuel
- Banking licence obtained in 1985
- Publicly listed on the Australian Stock Exchange ("ASX") in 1996
- Capital of US\$8.2bn, US\$2.5bn in excess of minimum
- Cash and liquid assets of US\$24bn represent over 40% of funded balance sheet
- Dedicated to the Energy sector, evident through recent acquisitions of Tristone and Constellation's NG group

All figures in USD (1AUD = 0.8 USD) as at May 29, 2009

Offices:



Significant Profitability



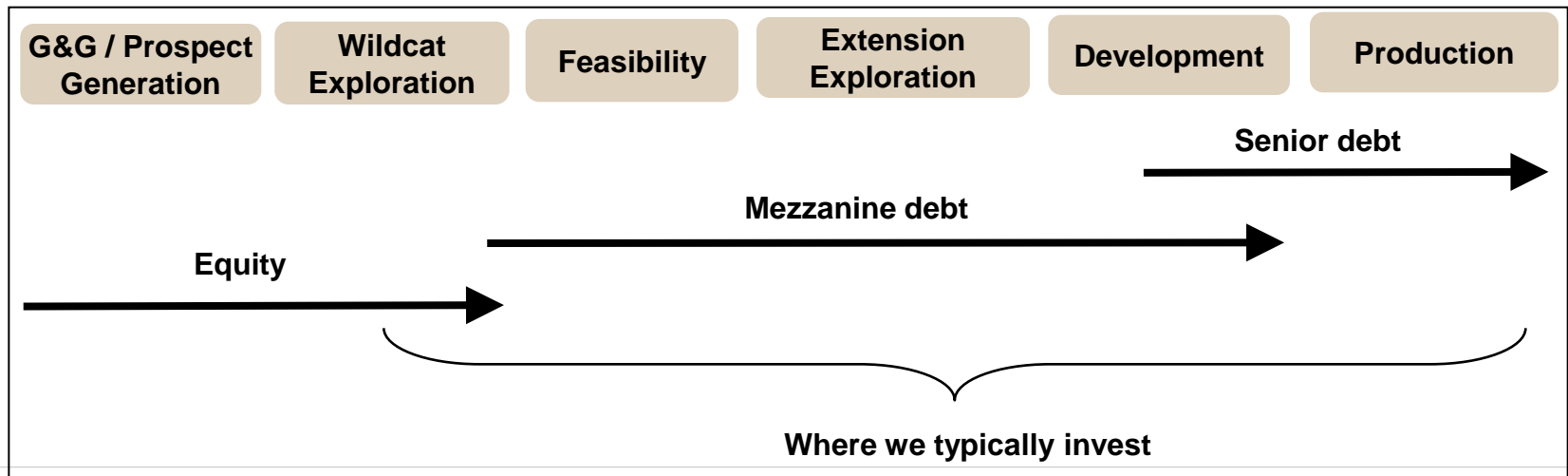


Macquarie Bank – Energy Capital Investment Strategy



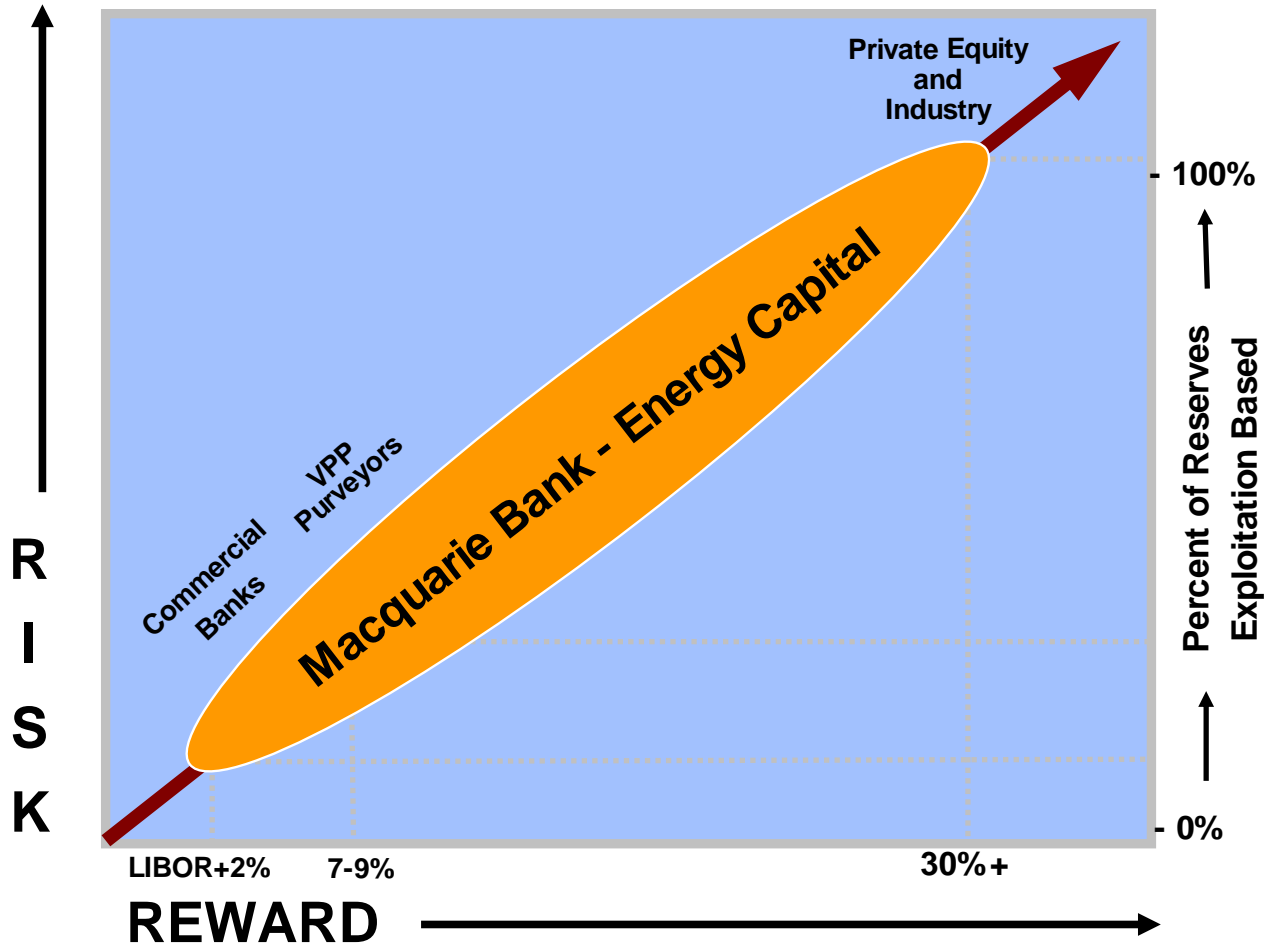
- We have provided capital to entities to promote the value of early stage assets or mature asset development/redevelopment opportunities and seek to obtain an early equity interest to benefit from that value creation.
- Investments will typically fall into four categories:
 - Acquisition capital;
 - Late stage exploration and development capital;
 - Enhanced oil recovery capital; and
 - Opportunistic investment in stressed companies.

The Investment Life Cycle





Energy Financing Capital Spectrum



Source: Macquarie Bank, July 2005



Macquarie Bank

Energy Capital



- Business Unit within the Metals & Energy Capital Division
 - World Leader in Natural Resource Investment
- Macquarie Bank - Energy Capital Provides a Wide Array of Debt and Equity Capital for the Upstream Oil and Gas Industry
 - Conforming Senior Debt
 - Senior “B” Loans
 - Volumetric Production Payments (“VPPs”)
 - Structured and Project Finance (“Mezzanine”)
 - Subordinated Debt
 - Convertible Debt
 - Equity – Preferred and Common
 - and Corporate Restructurings and Recapitalization
- Deal Size - \$20 million to \$100 million



Macquarie Bank

Energy Capital – Structured Debt and Equity



Senior Secured Project Debt

- Development Funding as Needed - Advance Line of Credit
- Cash Sweep for Debt Service
- Relatively Low Interest ~9% to 11%
- Residual (APO) Yield Enhancement (Equity Kicker)

Subordinated Debt

- Lower Cost of Capital by Blending Commercial Bank and Project Finance Monies
 - Integrate Bank and Project Finance Structure
- Structure to Enhance Interim Financial Flexibility
 - Plug Acquisition or Refinancing Gaps
 - Accelerate Exploration and/or Development Drilling Program
 - High-grade non-PDP to Increase Bank Borrowing Base
- Structure to Facilitate Exit Strategy - No Prepayment Penalties or Fees

Equity Financing

- Almost Always Combined with Debt Investment
- Partnership Interests
- Preferred and Convertible Preferred Stock
- Common Stock



Macquarie Bank

Energy Capital – Senior Bank Debt



Traditional Borrowing Base Loans

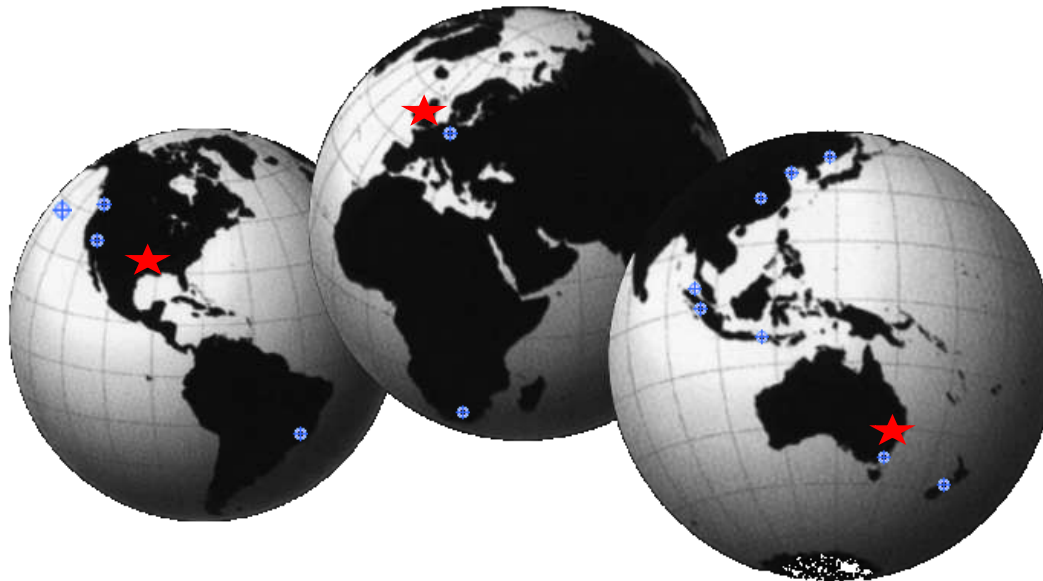
- Flexible Structures
 - Senior Secured Revolving Lines and Term Loans
 - Supporting General Working Capital Needs, as well as, Acquisitions, Exploration, and Development Activity
 - Semi-annual Borrowing Base Reviews with Standard Covenants Structures
 - Borrowing Base Availability Largely Based Upon PDP Reserves
- Lowest Cost Financing Vehicle for Reserve Based Credit Needs
 - Libor base pricing
- Material Holds (\$20-50,000,000)
 - Ability to Lead and Underwrite \$100,000,000 Plus Credit Facilities

Stretch Senior and B-Loan Transactions

- Greater Short Term Credit Availability than Traditional Borrowing Base Loans
- Utilizes Greater Reliance on Non-Producing Proved Reserve
- Reserve Conversion or Event Driven Repayment
- Competitive Interest Rate Only Pricing
- Allows B-Loans to seamlessly convert to Borrowing Base Loans Over Time



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