



MACQUARIE

Macquarie Bank Limited Producer Derivative Finance

IPAA Private Capital Conference February 2010

ENERGY MARKETS DIVISION



Macquarie Group

A DIVERSIFIED, GLOBAL FINANCIAL SERVICES ORGANIZATION



MACQUARIE GROUP AT A GLANCE

- Global provider of banking, financial advisory, investment and funds management services in all major financial markets
- Macquarie Group Limited, Australian Securities Exchange-listed (ASX: MQG)
- Total assets under management ~ US\$307 billion¹
- More than 13,200 employees in over 28 countries globally
- Macquarie Group comprises Macquarie Bank Limited and its affiliates and subsidiaries

GLOBAL PRESENCE

THE AMERICAS
29 LOCATIONS



ASIA-PACIFIC
18 LOCATIONS

EUROPE, AFRICA
AND MIDDLE EAST
17 LOCATIONS

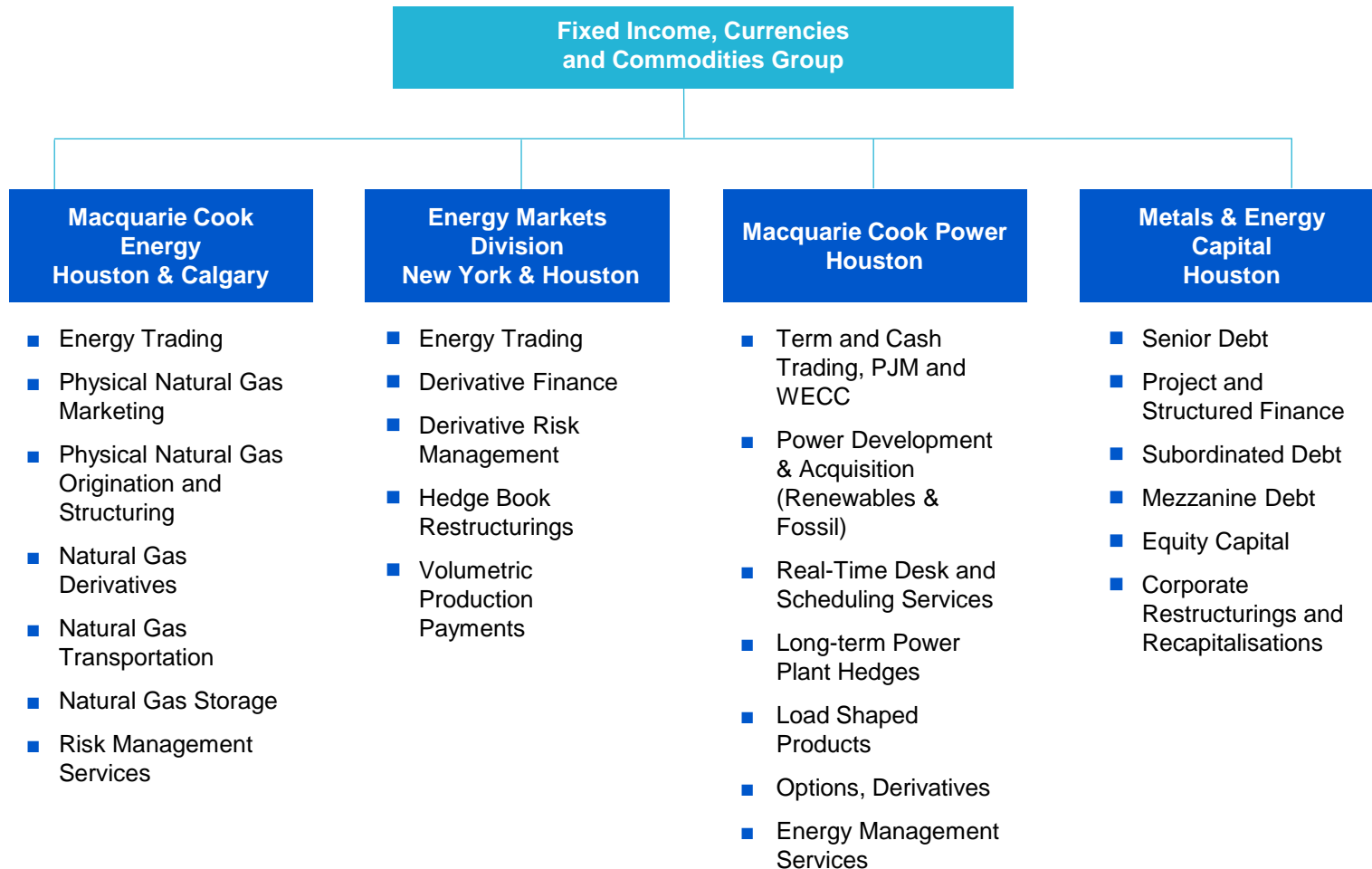
AUSTRALIA
9 LOCATIONS

¹ as of December 31, 2009, including proforma AUM for Delaware Investments
All figures are as of December 31, 2009, unless otherwise noted.



Fixed Income, Currencies and Commodities Group

ENERGY NORTH AMERICA





Derivative Finance Options

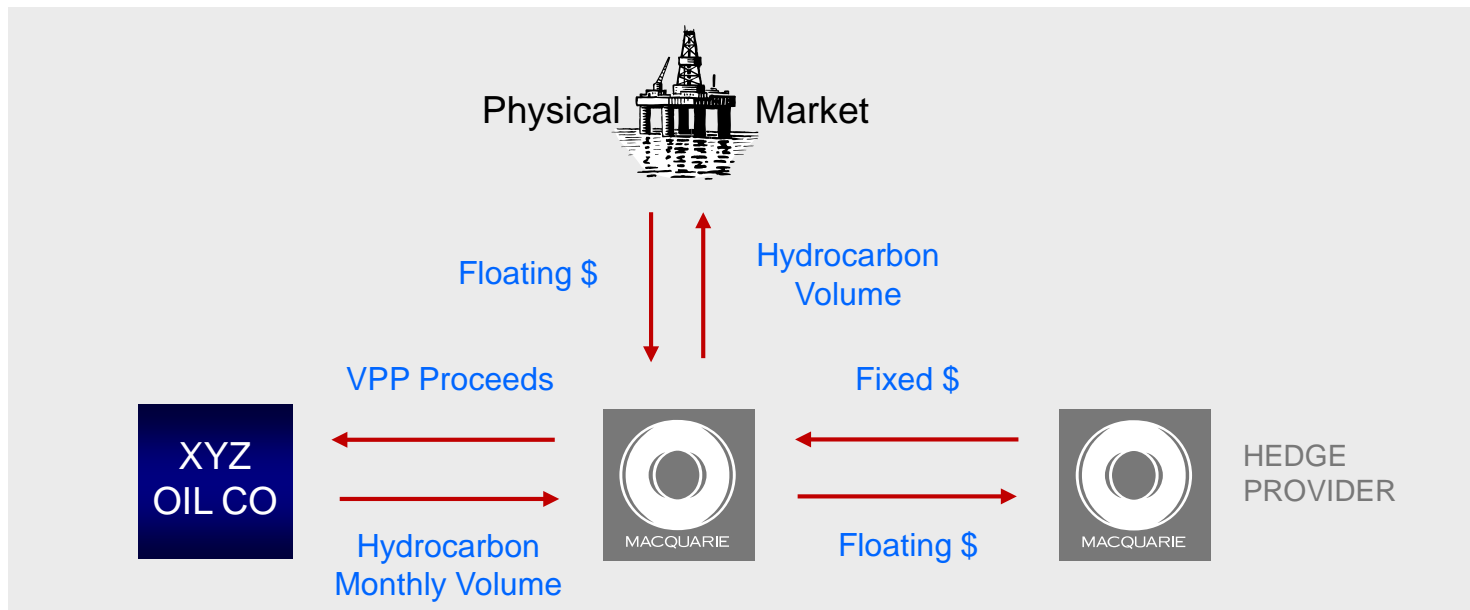


- **VOLUMETRIC PRODUCTION PAYMENT (VPP)**
- **MODIFIED VPP STRUCTURES**
- **PREPAYMENT (PREPAY) STRUCTURE**





- A Volumetric Production Payment (“VPP”) is a financing tool whereby a specified hydrocarbon volume is delivered to the buyer over a period of time
- A VPP is a sale of future hydrocarbon production and is conveyed through the sale of a limited volumetric overriding royalty interest
- In exchange for the VPP interest, the buyer advances funds for future production upfront
- When the total specified volume is delivered to the buyer the VPP terminates and the conveyed interest reverts to the seller
- From \$30 million to \$200 million



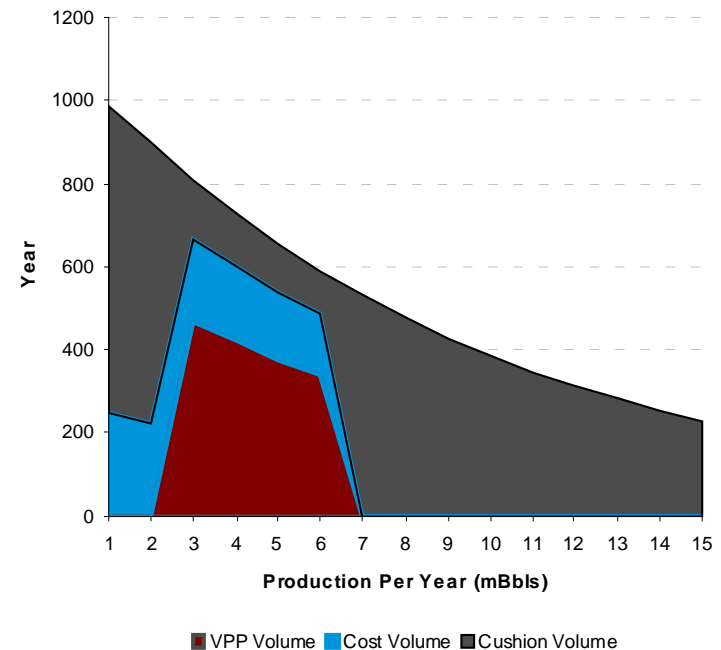


Modified VPP Structure – Delayed Start VPP



- Delayed Start VPP would allow company to receive cash proceeds on day 1 but begin delivery under the VPP at a later date
- Delayed delivery is attractive for fields with existing production and additional development opportunities
 - The modified structure would generate capital for the development upfront, but allow the deliveries to coincide with production under the new development project
 - Company would thus retain a share of the field's production at all times, assuming development stayed on schedule

Delayed Start VPP Reserves Profile





Modified VPP Structures

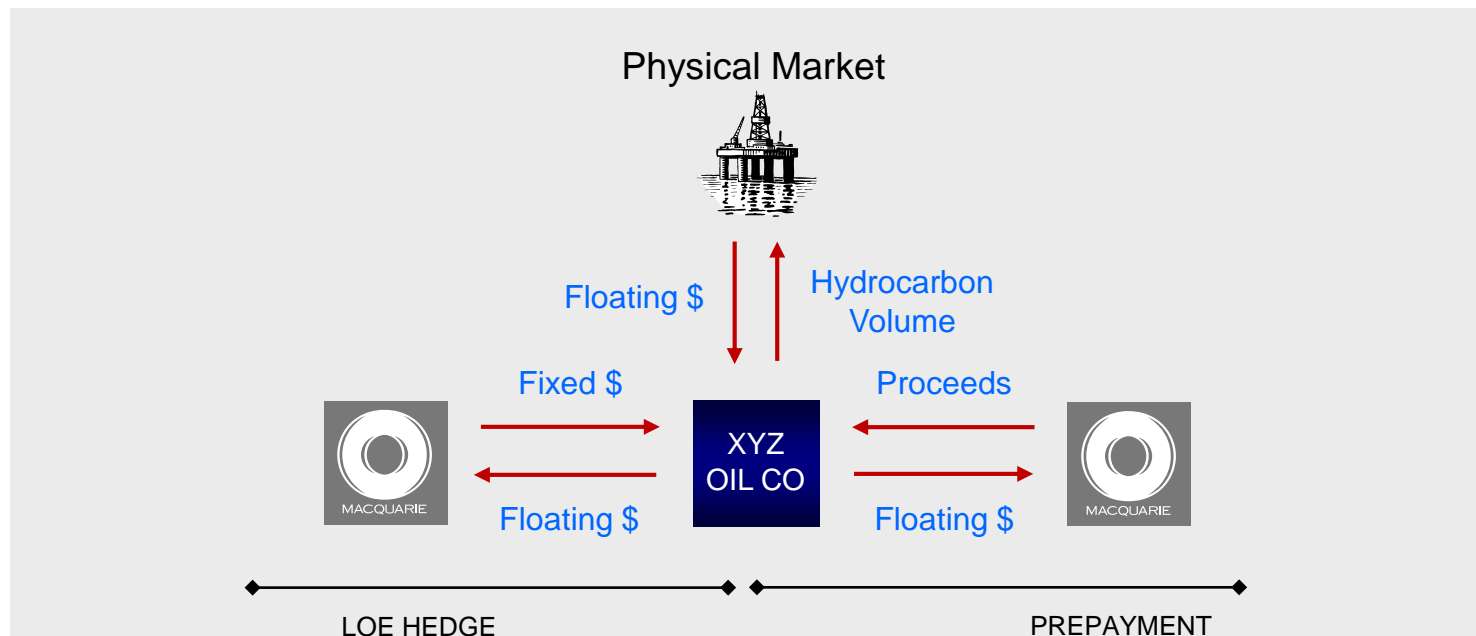


- MBL offers a number of other modified VPP structures to both enhance the advance and also mitigate operational risks. These include:
 - Volume Limited ORRI
 - IRR/ROI Limited ORRI
 - PDNP/PUD financing through 2nd Lien Facility in conjunction with VPP
 - NPI Structures where VPP buyer is responsible for Opex related to VPP volumes

Prepay Swap Transaction Overview



- A Prepayment ('Prepay') is a financing tool whereby a producer hedges a specified volume for a fixed tenor with a financial swap which is then discounted and advanced to the producer
- Preferred Derivative Finance Tool for Smaller Transactions
- Transaction Size: \$5-40mm
- Closed Three Transactions During Last Six Months

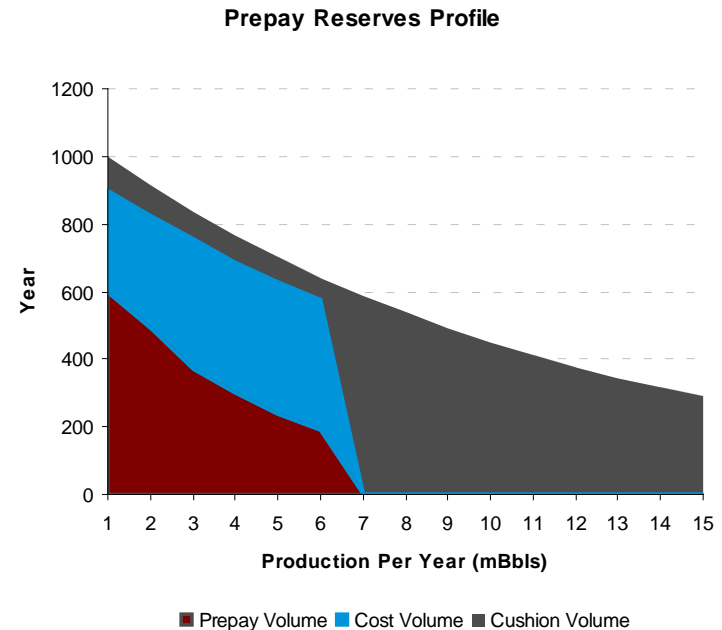




- Producer hedges volumes to cover LOE in case prices drop
- Producer retains upside on unhedged volumes. Producer pays MBL the floating price each month on the prepay volumes
- Producer retains reserve upside
- Producer retains COPAS overhead on operated properties

- Producer pays MBL the floating price each month on the prepay volumes
- LOE hedges are also settled monthly
- MBL holds first lien on the assets
- Producer is responsible for all Lease Operating Expenses and Taxes

Prepay Reserves Profile





Advantages over Senior Conforming Debt



ADVANTAGES OF VPP OVER SENIOR CONFORMING DEBT

- Higher Advance rate
- Term Financing
- Accelerate ordinary income to capital gains treatment (VPP only)
- Able to monetize and hedge a longer tenor
- Takes advantage of the present contango in both the Crude Oil and Natural Gas forward markets

ADDITIONAL ADVANTAGES OF PREPAY OVER SENIOR CONFORMING DEBT

- Document Light process, with average structure execution time of approximately 3-6 weeks
- Higher Advance rate
- Term Financing
- Transacted under an ISDA agreement
- Able to execute on smaller transaction sizes
- Easy structure to unwind or pay off
- No Facility Fees
- Limited Financial Covenants



Advantages over Asset Divestiture

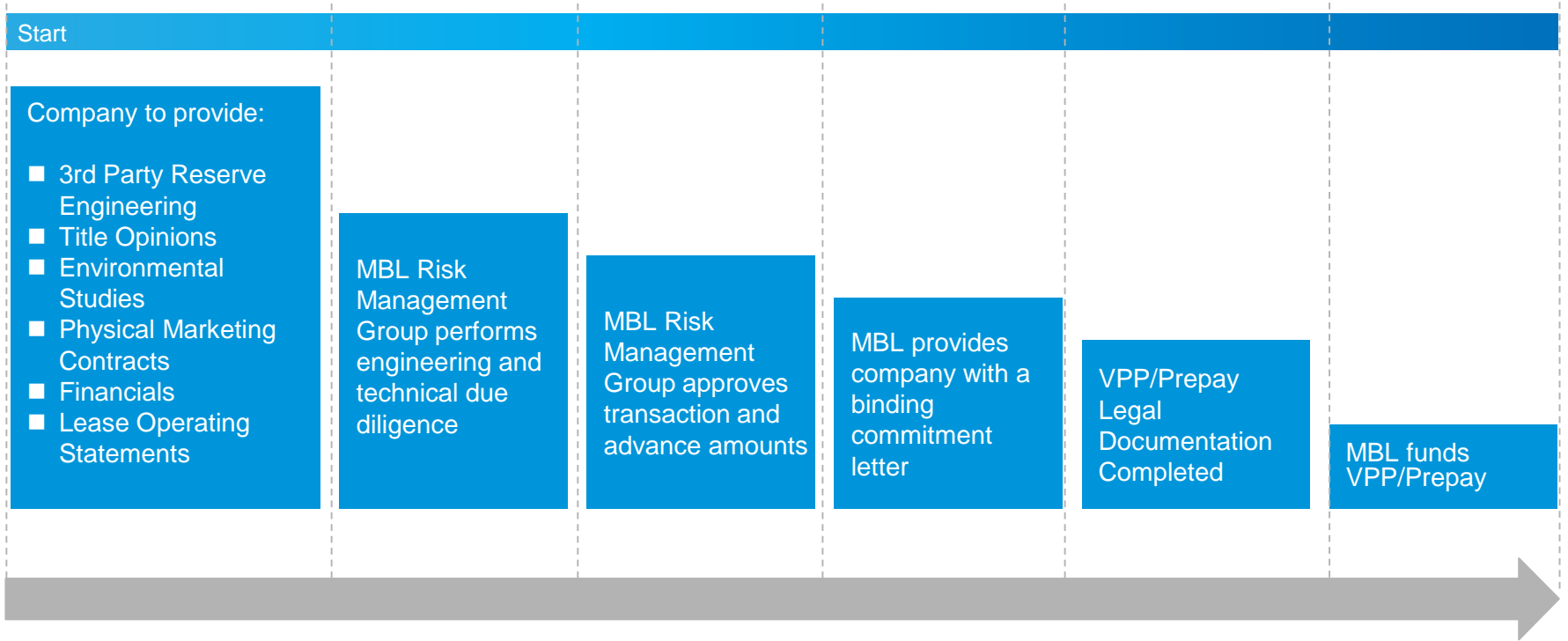


ADVANTAGES OF VPP AND PREPAY OVER SALE ASSETS

- Company retains full ownership and therefore all reserve upside
- Buyer retains operational and management control
- Potential Tax Benefits
- Buyer closing risk is removed from the process
- Average divestiture incurs Broker Fees of 2.5% - 3% plus expenses
- Average closing time of ~3 – 4 month
- The divestiture market is currently a buyers market
 - On Smaller Divestitures little development premium
- Auction's have large staff resources requirements



VPP and Prepayment Approval Process





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