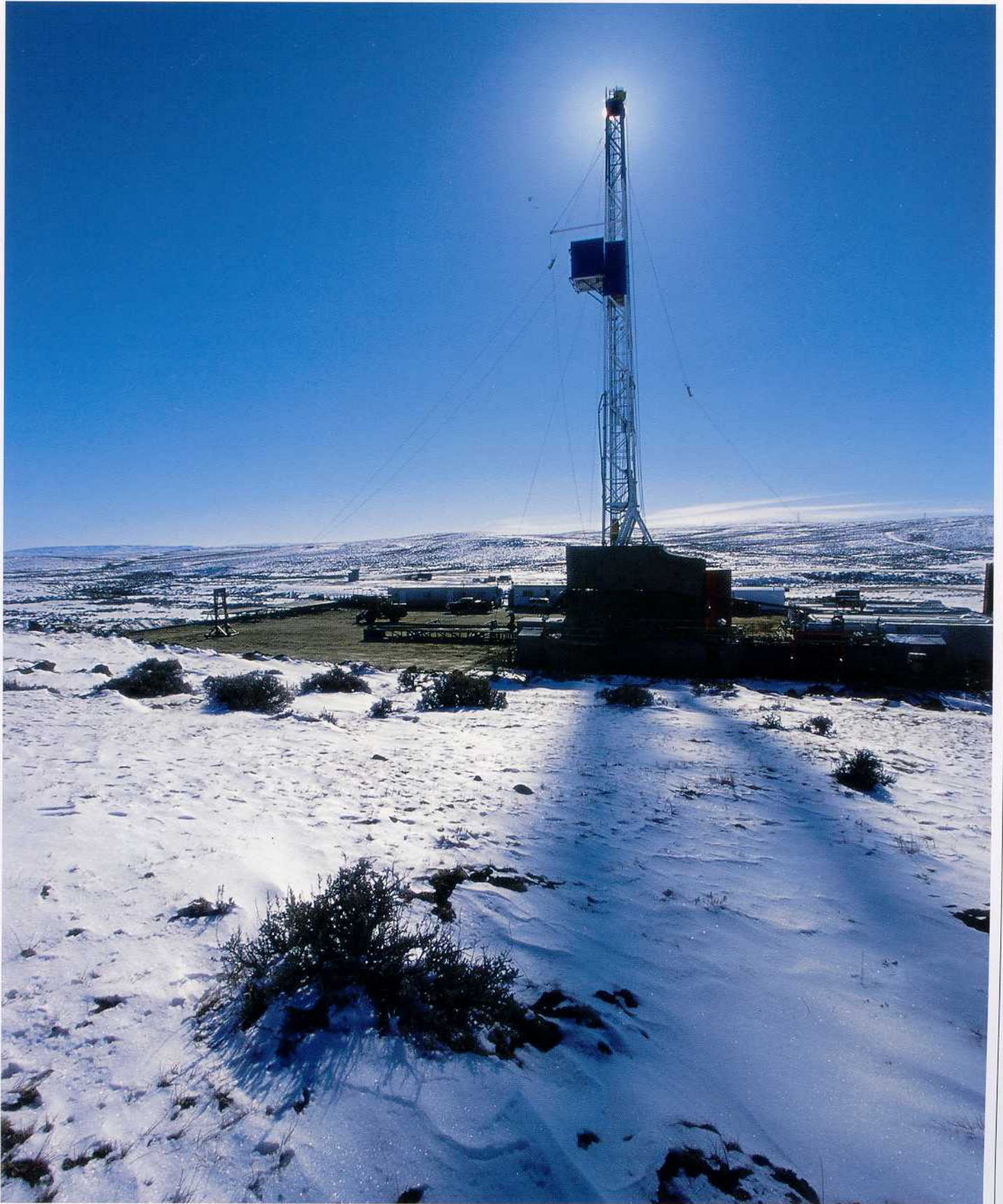


# Oil and Gas Investor

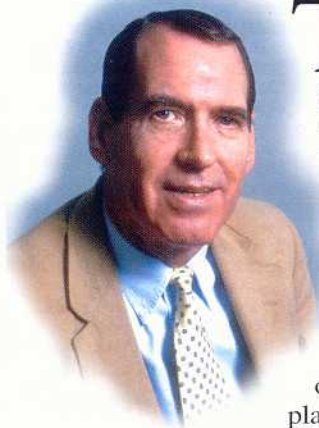
A CHEMICAL WEEK ASSOCIATES PUBLICATION/APRIL 2003



Operators are turning to private capital for drillbit growth.

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## NEW FINANCING FACES



BRIAN A. TOAL,  
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This past September, the ranks of Houston's private-capital providers increased with the debut of Macquarie Energy Capital, an arm of the Macquarie Bank Group, the largest investment-banking group in Australia.

"Our parent company had been interested for some time in extending the reach of its commodity-financing and trading activities into energy, and last year saw an opportunity to fill the gap created by the recent exodus from the market of several U.S. oil and gas mezzanine players," explains Brian Hughes, managing director of Macquarie Energy Capital. The firm is offering project financings, mezzanine debt, subordinated debt, help with restructurings and recapitalizations and limited private-equity investments.

Last December, it completed a \$15-million funding for a private Houston producer that allowed that operator to augment its lease position in East Texas and commence a multi-well drilling program. "The transaction was structured as a leveraged partnership. We provided debt financing and a minority amount of equity capital."

This February, it completed in conjunction with Petrobridge Investment Management LLC—another new Houston-based entrant into the oil and gas mezzanine/private-equity market—a mezzanine financing for Northstar Gulfsands LLC. The funding allowed that private Houston operator to complete a \$19.1-million acquisition from Unocal in the Gulf of Mexico. Macquarie has also provided \$5 million of a \$30-million-plus recapitalization financing for another private Houston producer to help it emerge from bankruptcy.

"We're now in discussions with Guaranty Bank and Bank One on two subordinated-debt financings, in the \$10- to \$40-million range, that would support the banks' senior-debt facilities with two private independents in Houston and Louisiana," says Hughes. "Since subordinated debt is more flexible than commercial bank debt, in that we can lend more aggressively against proven reserves, this type of capital allows the banks' clients to high-grade more of their nonproducing reserves into the proved-developed-producing category and ultimately increase

the size of their bank facility."

He adds that Macquarie is looking to back strong management teams with good exploitation projects; it doesn't finance exploration ventures.

A new entrant into the Denver private-capital arena is Emerging Markets Finance International LLC, an advisor and arranger of private capital for U.S., Canada- and London-based independents looking to fund energy projects abroad.

"Our focus on arranging capital for international energy projects stems from the challenging nature of it and my own prior experience," says John H. Works Jr., EMFI managing director.

Previously, Works was head of the international producer-finance division for Shell Capital in Houston; president and chief executive officer for Rompetrol, the largest privately held oil company in Romania; and deputy head of the project-finance advisory group for ABN Amro Bank, focusing on energy financing in Russia and central Asia.

"The type of private capital we try to access for Western energy companies covers the entire financing spectrum," he says. Recently, the firm was closing on a \$2-million private-equity advisory for a private Houston driller seeking to acquire a rig for onshore operations in West Africa, and a \$5-million convertible-debt advisory for a publicly traded Canadian producer with an exploration and development project in central and eastern Europe. Also, it was arranging a \$15-million project financing for another Canadian operator.

More recently, EMFI has been advising on respective \$20- and \$80-million private-equity infusions for a private Houston energy company that's developing a block in the Gulf of Mexico and acquiring power plants in South America.

"Although our initial preference has been to help North American independents access private capital for international projects, we're very interested in domestic E&P projects," insists Works. "We want to assist any sound operator with a proven track record and an experienced management team that has the know-how to perform workovers, recompletions, development- and exploratory drilling, and cut costs and substantially enhance revenues."