




3D Global Solutions, INC

Refined Petroleum Products

(Purchase & Sale discussion)



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3D Global Solutions, INC

Introduction

- The market for refined petroleum products today is characterized by numerous inefficiencies which have created significant price anomalies between the refinery and the end user – in this case, the Defense Energy Support Center (DESC).
- These inefficiencies are driven by refineries who believe a decentralized and fragmented market place allows greater price control and wider margins.
- The absence of a central electronic trading exchange has resulted in two separate markets each defined by the parties, prices and procedures involved:
 - i. “Majors” market
 - ii. “Resellers” market
- A structure to bridge these separate markets through the simultaneous purchase and resale of the same product allows a party to capture the spread while employing stringent risk mitigation controls
- The DESC buys billions of gallons of fuel annually via government contract vehicles, the forecasts for which are public record.
- A significant percentage of these purchases are “Set-Aside” for different types of businesses. Typical set-asides range from 5 to 40%.
- 3DGS qualifies as an SDVOSB (Service Disabled Veteran Owned Small Business).
- 3DGS has assembled a team with the financial, legal, and trading expertise to evaluate, structure and execute these transactions.



Transaction Overview

- Strategy: Realize arbitrage opportunity in the market for refined petroleum products by facilitating trade between end buyer (DESC) and end seller.
- Market opportunity results from the difference in price for the same commodity trading under separate sets of procedures (“Majors” vs. “Resellers”)
- A conduit that demonstrates the financial capacity to satisfy the Proof of Funds (“POF”) requirement under Reseller procedures can procure supply at a substantial discount to the end buyer’s (DESC) price
- The essence of the transaction is threefold:
 - Secure Proof of Product (“POP”) by teaming with a Seller.
 - Securing Proof of Funds (“POF”) by teaming with a Financial Partner
 - Preparing a winning contract bid proposal with the DESC (3DGS’s area of expertise)
- Parties involved in trade
 - Seller (refinery/reseller)
 - Buyer (DESC)
 - Conduit (3DGS)
 - Financial Partner



Transaction Highlights

- Structured as either a spot (one-time) or a contract (usually twelve monthly shipments) with symmetry between buyer and seller contracts.
- Commodity – Primarily DESC consumables: JetA, JP8 and F76 with other product opportunistically pursued.
- Price – Quoted fixed price or as a discount to PLATT’S Index (by location).
- Buyer – DESC
- Sellers – Large and small refineries (e.g., LUKOIL, Gazprom) and resellers looking to increase business with the government by selling through “set-aside” companies or those looking to enter into the complex government contracting space.
- Spreads – Varied, but will target at least 5% on each transaction



Finance Partner Participation

- Partner can support the transaction through either one of two roles:
 - As Joint Venture trading partner (Eliminates need for Proof of Funds)
 - Providing Proof of Funds (“POF”)
 - Standby letter of credit or;
 - Revolving commercial letter of credit
- Additional revenue opportunities which may be required:
 - Escrow Agent
 - Derivative hedging
 - Cash management
 - Investment management

Risk Mitigation

- The various elements of risk are addressed at inception through procedures and documentation designed to mitigate risk for the conduit and the Financial Partner
 - Price Risk – Fully hedged on all transactions, offsetting purchase and sale agreements at significant price differences to cover all related costs.
 - Credit Risk – Eliminate through procedures, financial instruments only become operative after performance by seller and contract win.
 - Non-Performance – Eliminate risk through sequential procedures and language incorporated in letter of credit
 - Funds Flow – All money flows directly through escrow, waterfall of funds flow to ensure priority of payments to Financial Partner. Often times, the buyer has paid for the commodity (net 15) before the funds are due the seller (net 30).
 - Reputational – Sellers have been thoroughly vetted, buyer is the US Government; payment guaranteed by law.

Keys to Success

- Simple structure utilized to monetize significant market inefficiency
- Experienced team with the government contracting, legal, financial and commodity expertise
- Vast global network of buyer and seller relationships to cherry pick deal flow
- Past due diligence to establish the credible counterparties, title holders
- Rigorous risk mitigation practices employed over lifecycle of transaction
- Financial Partner with strong credit profile and escrow, L/C capabilities
- Imbalance of DESC demand over set-aside sellers underscores market opportunity





Market Attributes Create Opportunity...

- Decentralized, Fragmented
- Demand outstrips Supply
- Lack of Uniform Procedures
- Credibility of Sellers
- Wide Spreads
- True Arbitrage
- LARGE Dollar Transactions
- Repeat Business

Strategy is to leverage our global footprint and vast network of trading relationships to find credible supply for our buyers

POP vs. POF

Proof of Product

- ✓ SGS report
- ✓ Tank receipts
- ✓ Dip test
- ✓ Refinery Commitment

Proof of Funds

- ✓ Bank Comfort Letter (MT 999)
- ✓ Blocked Funds (MT 799)
- ✓ Standby Letter of Credit (Mt 760)
- ✓ Commercial L/C Credit (MT 700)

- The catalyst for closing in the Reseller market is the exchange of POP for POF
- Each side delivers its proof via SWIFT messages per the FCO

Transaction Example



1. a) 3DGS executes full corporate offer with seller.
b) 3DGS executes matching corporate offer with DESC.
2. Financial Partner swifts non-operative letter of credit.
3. Seller swifts POP to Financial Partner/3DGS.
4. 3DGS/Financial Partner swift POP to DESC.
5. Dip authorization performed.
6. DESC pays Financial Partner for liftable amount; Financial Partner pays seller.
7. Step 5 & 6 are repeated until contract is finished.

Conclusion

- 3D Global Solutions is looking to team with a financial partner on multiple transactions.
- 3DGS has assembled the right mix of expertise & experience to ensure proper execution across all facets of the transaction.
- Pending DESC Contracts and sellers in place to quickly capitalize once the Proof of Funds capabilities have been implemented.
- Economically compelling opportunity;
 - Attractive spreads
 - Prudent risk management
 - Market size in billions and growing
 - Long term model with repeat business
 - Little complexity to implement
 - Scalable platform