

# Buccaneer Energy

## Battling Through the Financial Crisis

### **World Energy interviews Curtis D. Burton, Managing Director and Chief Executive Officer, Buccaneer Energy**

**World Energy:** There has been a significant amount of upheaval in the financial markets since we last talked. How has this impacted Buccaneer?

**Burton:** Like everyone, the instability in the financial world has impacted us. Both the Australian and New York stock exchanges are down substantially. As the exchanges have decayed, our stock price has suffered and access to development capital has tightened.

**World Energy:** Is your share price fall associated with poor performance of the markets or of the Buccaneer model?

**Burton:** Normally, that question might be difficult to answer, but we recently took a hard look at the Buccaneer model and the behavior of the markets. In every instance Buccaneer has delivered on its promise to do its development work rapidly, at market-competitive costs, and to find hydrocarbons.

In contrast, the markets have been dismal. If you look at Buccaneer's share price against the Australian Stock Exchange, Dow and commodity prices, it is very clear that major falls in the world markets and commodities have driven the drop in Buccaneer share price.

We remain confident, especially in a down price commodity environment, that the Buccaneer model is sound and will produce results given time and capital.

**World Energy:** What makes you so sure?

**Burton:** You may recall that Buccaneer is based on the model I used with Reading and Bates back in the 1990s to take advantage of market conditions to grow an oil and gas ownership position. These same conditions, including unstable commodity prices and fluctuating world markets, are in play once again. It is exactly in times like these, where demand for services such as drilling and completion is in flux, that Buccaneer's Preferred Supplier Agreement comes into its own.

**World Energy:** Tell us about that.

**Burton:** The Preferred Supplier Agreement is an agreement between Buccaneer and various suppliers that gives the supplier an opportunity to participate in our oil/gas equity position via supply of their service or hardware. This is done under terms that provide those items to us at a

discount during the initial drilling and development operations while providing for enhanced payments from successful oil/gas production operations in which the supplier participates with us.

By structuring development deals where dry hole costs are minimized by the use of preferred suppliers, Buccaneer can achieve finding and development costs that are significantly below industry norms – sometimes 60 percent of competitors's costs. This can be realized while still allowing the supplier to participate in the upside by providing bonus payments from successful production efforts.

**World Energy:** What are your views on oil/gas commodity price declines?

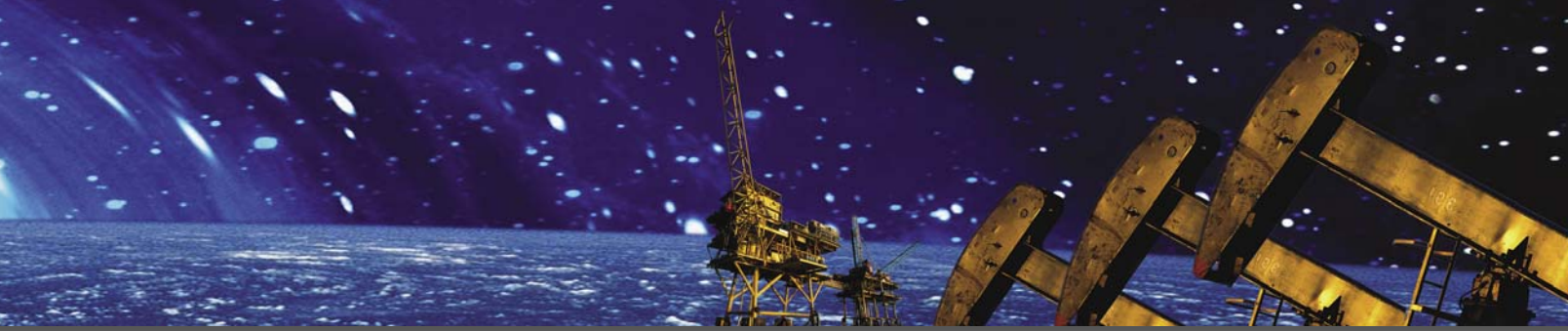
**Burton:** It is unfortunate that we have seen both the huge increases in price and the recent declines. In the long run, these excessive price swings are in the best interest of neither the producer nor the consumer. As a concerned citizen, my disappointment with the drop in commodity prices stems from the fact that such temporary price drops simply set up the worldwide consumer for another round of high prices. As a producer, the swings make planning the smooth operation of our business more difficult. More troubling, if you understand the true supply-and-demand picture, the wild swings set up the consumer for high prices again in the near future, coupled with the potential to not be able to obtain the needed energy at any price.

**World Energy:** How so?

**Burton:** It is quite simple: Unpleasant as high prices are to the consumer, they keep the focus of the buying public on the problem. This, in turn, serves to put pressure on governments to focus on energy supply issues. High prices also assure maximum development of all possible reserves and, significantly, alternative energy supplies.

Once the price drops back down to what the consumer sees as a "tolerable" level, the focus on doing something to address long-term energy supply/availability/cost evaporates. Drilling and exploration activities decline, and funding of alternative energy sources also typically is suspended.

Look at the recent election. Three months ago, energy supply was front and center as an issue. By the time of the election, after the price dropped, not even a minute was devoted to the subject. That type of on-again, off-again



focus on the problem is what has held America captive to foreign energy supply for the past 40 years.

**World Energy:** To the casual observer it would seem that the energy crisis solved itself. Do you have a different view?

**Burton:** Indeed I do. The fundamental drivers that caused high oil/gas prices remain in place. Demand may have temporarily backed off a slight amount, but the underlying problems that brought us \$5 gasoline remain.

For example, hydrocarbon supply continues to drop 3 to 5 percent more rapidly than new sources can be brought on line. Declines in exploration and development that occur during commodity price drops worsen the problem. In other words, lower prices and price instability mean lower production levels and a return to high prices at some definable point in the near term. You don't have to take my word for that – the International Energy Agency's most recent report said exactly the same thing.

Adding to this problem is the emergence of China and India as major energy consumers. The system currently in place is designed to ensure that producers cannot possibly produce enough energy to service the needs of the industrialized world and these emerging economies.

What America needs is an energy policy that is tied not to an administration or an individual but to a commitment to ensure that the country has access to a sustainable, affordable supply of energy.

One goal of such a policy should be some degree of price stability that ensures development of energy with a reasonable price for the consumer and profit for the producer. Everyone is better off without the wild price swings we have historically seen in the energy market place.

**World Energy:** How does the price instability impact Buccaneer?

**Burton:** Well, we're doing our part to find and produce hydrocarbons in a low-cost environment. Unlike some of our competition, most of our projects are viable even in down markets like the one we're in. Many of our gas prospects are commercial down to \$3 per thousand cubic feet. And many of our oil prospects are viable down to \$20 to \$40 per barrel.

Additionally, as I have already mentioned, our Preferred Supplier model works best in down markets. We've designed our model to work in low-cost scenarios.

**World Energy:** Australia's Macquarie Bank was involved in backing Buccaneer originally and recently signed a \$50 million credit facility with you. How has it been to work with Macquarie during this downturn?

**Burton:** We have been very favorably impressed with Macquarie as a banking partner. It understands the energy sector and small enterprises like Buccaneer. It stayed with us every step of the way, and we couldn't have asked for a better banking partner. Macquarie has been very innovative and very aggressive.

**World Energy:** Your thoughts on next steps for Buccaneer?

**Burton:** We continue to add to our portfolio of properties and experience success in our drilling operations. While the worldwide supply of capital to fund projects has been negatively impacted by the financial upheavals, as I have already said, Macquarie has stood by its commitment and is working with Buccaneer to continue development of our projects. With that in place and a good feedstock of properties, we see continued success for Buccaneer. It is a question of taking a strategic and longer-term view as opposed to simply looking at next week or next quarter.

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Buccaneer Resources, based in Houston, Texas, is an upstream oil and gas company. It specializes in the development and expansion of behind-pipe proved and probable reserves and low-risk exploration plays with growth potential.

Buccaneer Resources LLC was established in September 2006 and is a wholly owned subsidiary of Buccaneer Energy.



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