



16 June 2014

Dear Shareholder,

Shareholder update

As you are aware Buccaneer Energy Limited (**Buccaneer** or **Company**) has been seeking opportunities over the last twelve months to repay its excessive debt levels and to strengthen its balance sheet. Your Board of Directors has considered many options and strategies to address the Company's debt and funding problems and provide an opportunity for Buccaneer to progress its operational strategy.

Regrettably, despite the best endeavors of your Directors, suitable opportunities did not eventuate. As a result, on 31 May 2014 your Board made the difficult decision to file voluntary petitions for the reorganization of the Company and its US subsidiaries under Chapter 11 of the United States Bankruptcy Code (**Chapter 11**).

Chapter 11 is a formal bankruptcy process in the United States where all of the Company's subsidiaries and assets are based. Buccaneer will now aim to sell substantially all of its assets through a process overseen by the US Bankruptcy Court. This process will enable the Company to pay off its outstanding principal secured lender and other secured creditors, while potentially generating proceeds that may result in some recovery for the Company's unsecured creditors.

The purpose of this letter is to explain to you the events that have led to this disappointing but unavoidable decision, as well as explain what the Chapter 11 process involves and what the Company hopes to achieve through that process.

Background

The Board of the Company has undergone a number of changes over the last 12 months as a consequence of shareholders voting to remove two Directors in July 2013 and a further two Directors in November 2013. The Board was significantly restructured during the period September to December 2013 with the appointment of three new directors – Alan Stein, Patrick O'Connor and Gavin Wilson. It quickly became evident to your new Board that the Company was in deep financial distress with a more urgent need for fresh capital than had been apparent prior to their appointments. It also became apparent to the new Board that the Company had entered into new employment contracts with certain members of the executive management of the Company on terms that were, in the new Board's opinion, imprudent, and in some cases appeared to have been structured so as to avoid the need to seek shareholder approval. While this in itself is not the cause of the Company's current financial distress it is indicative of a culture that existed in the Company at the time of the existing Board's appointment that, in the Board's opinion, was not conducive to good governance.

At the core of Buccaneer's operational strategy in Alaska was the acquisition and refurbishment of an offshore drilling rig. Prior to the appointment of the new Board, the Company had awarded the contract for the refurbishment of the rig to a provider that, with hindsight, was not rigorously managed through the refurbishment process. This resulted in considerable delays and cost over-runs. As a consequence of these cost over-runs the Company had to incur excessive levels of expensive debt with restrictive covenants. At a more fundamental level the Company had committed to the long term charter of the offshore drilling rig without having sufficient depth of portfolio or funding to keep the rig operating. The legacy of litigation associated with the rig refurbishment contractor and inability of the Company to secure the required permits for the winter drilling added to the issues faced.

To solve the Company's funding problems at the time, and despite warnings from senior management, the previous Board placed an unreasonable degree of reliance on securing funding via a farm out transaction with EOS Petro Inc., a counter party that itself had no funding. As a consequence of the failure of that transaction the Company was forced to carry 100% of the cost of drilling two wells which were unfortunately both unsuccessful.

All of these factors contributed to the Company having a high level of ongoing expenditure without the necessary levels of revenue or access to equity capital markets required to offset that expenditure.

Over a six month period your new Board and current management embarked on a programme of asset sales, portfolio rationalisations financial restructurings and management changes with a view to simplifying Buccaneer's operations, reducing debt, and allowing the Company to focus on its higher quality assets at the core of its portfolio in Alaska. Various proposals to repay debt were proposed by your Board to the Company's secured lender. Unfortunately it has not been possible to secure the necessary agreements required to implement these proposals.

Ultimately, however, faced with an imminent repayment of the Company's secured loan facility of approximately US\$58 million by 30 June 2014 and with no ability to extend the term of the loan or to recapitalise the loan, together with a deadline whereby the Alaska Oil and Gas Conservation Commission (AOGCC) required Buccaneer to divert all production net revenue into an escrow account while Alaskan landowner issues were resolved, your Board had no alternative other than to seek Chapter 11 relief in the United States.

Chapter 11 process

In the Chapter 11 process, Buccaneer's management will continue to operate in the ordinary course of business as the Company negotiates and proposes a plan of reorganisation that must be approved by the majority of creditors and confirmed by the United States Bankruptcy Court. To be confirmed the plan must result in a return to the creditor body as a whole that is equal to or greater than they would receive if the Company was liquidated.

The Company's immediate objectives in commencing the Chapter 11 process are to minimise any loss in the value of its assets, preserve on-going business operations to maximise value, and to propose a plan of reorganisation to maximise the recovery to creditors and to ensure a successful conclusion to the Chapter 11 process. The Company has reached an agreement in principle with its secured lender on certain critical elements of a plan of reorganisation that will result in the potential sale of substantially all of the Company's assets.

Chapter 11 outcomes

As noted above, the Chapter 11 process will allow the Company to conduct an orderly series of asset sales in an attempt to repay its principal secured lender and other secured creditors, whilst generating proceeds that could result in some recovery for the Company's unsecured creditors. The Company's ability to make a return to shareholders will depend on the amount the asset sales realise, however there can be no guarantee that any return will be made to shareholders.

Future updates

Other than Curtis Burton who resigned as a director and was terminated as Chief Executive Officer, each of Alan, Patrick and Gavin have remained on the board of the Company in order to guide it through the Chapter 11 process with the assistance of the Company's Chief Restructuring Officer, John T. Young, Jr. of Conway Mackenzie.

The Company will provide further updates to shareholders and to the ASX when material matters arise during the Chapter 11 process.

While the filings for Chapter 11 proceedings are regrettable, the reality is that it was impossible for the Company to continue carrying on in its current status.

Yours faithfully,



Patrick O'Connor
Non-Executive Director
For and on behalf of the
Board of Directors
Buccaneer Energy Limited