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With the Interest in Shale Gas Increasing in Europe and Many in The United States Viewing it as The Answer for Energy Independence, BNK Petroleum Inc. is in The Right Market at The Right Time Developing their Tishomingo Shale Gas Field in Oklahoma, while Picking Up Large Shale Gas Blocks in Europe

**Energy
Oil and Gas Exploration
(BKX-TSX)**

**BNK Petroleum Inc.
760 Paseo Camarillo, Suite 350
Camarillo, CA 93010
Phone: 805-484-3613**



**Wolf E. Regener
President and CEO**

BIO:

Mr. Regener brings over 24 years of conventional and unconventional E&P experience to BNK Petroleum. In his role as Executive Vice President of Bankers Petroleum, and President of it's wholly-owned subsidiary Bankers Petroleum (US), Mr. Regener was instrumental in the formation of BNK Petroleum, and it's subsequent spin-off. His career also includes key senior executive positions with Tartan Energy, Alanmar Energy, and R&R Resources. With an extensive opera-

tions and finance background, Mr. Regener has been at the forefront of BNK Petroleum's acquisition of unconventional gas projects on an international scale.

He holds a Business of Economics degree from the University of California, Santa Barbara, and has served on the Board of Directors of the California Independent Petroleum Association for over fifteen years.

Company Profile:

BNK Petroleum Inc., an international energy company, is focused on the acquisition, exploration, and production of large hydrocarbon reserves, predominately unconventional. The strategic objective is to maximize the value of it's U.S. shale gas assets while it's European shale gas exploration strategy offers high-impact, large growth potential to BNK.

BNK is currently applying the knowledge it's experienced technical team has gained in U.S. shale gas projects to Europe after it decided 3 years ago that shale gas must exist outside of North America. It was at that time BNK began researching shale gas in Europe. BNK's reward for being one of the first companies to pursue and acquire shale gas prospects in Europe has been 15 concessions totaling 5.0 million gross acres (4.4 million net) in five basins in Poland, Germany and Spain with more applications pending. The company has researched shale gas in more than 10 countries in Europe to date. The awards of concessions can take over a year after application has been made.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Regener, what is the focus of BNK Petroleum today, and how has that changed under your leadership?

Mr. Regener: Our focus is still the same as when we were spun out of Bankers Petroleum in July of 2008. That was to develop our assets that we have in the US, which is our Tishomingo Field in Oklahoma, which is a shale gas field that produces both oil and natural gas liquids. We use that as a cash source to keep developing the field on a low risk basis and then utilize the expertise that we have developed in doing shale gas in the US since 2005, in looking for other projects. We have focused on Europe where we have picked up large acreage blocks in Europe, diversify into multiple projects, because they do not all work. To that extent, we have acquired about 4.4 million acres across Europe for shale gas projects.

CEOCFO: Is there much interest in shale in Europe?

Mr. Regener: We were one of the early ones to get in, but there is quite a lot of activity going on. There is more and more coming up all the time where people are looking for areas in which shale gas might work. Natural gas prices are significantly higher than where they are here in the US. Right now, we are looking at \$3.30 to \$3.50 for natural gas per 1000 cubic feet or MCF and in Europe the prices are between \$9 and \$10 for that same 1000 cubic feet of gas.

CEOCFO: What about the production costs?

Mr. Regener: The drilling costs are a little bit higher right now, but once we get into a situation where we are in a development mode, we believe with new modern equipment, more and more will come over and the cost will come down. It might still be a tiny bit higher than what it is in the US, but in the end, it will be pretty comparable to what is going on in the United States.

CEOCFO: Why does BNK Petroleum like shale?

Mr. Regener: Our focus was getting into what we refer to as resource plays, so shale for us was something people were not looking at in Europe. It is the new frontier so to speak, and what oil and gas development has been going to over the last five to eight years. When you prove that a play works or concept works in one project, then it is repeatable. It is repeatable over larger areas and that is what makes it nice. You have some exploration risk in the beginning and as I mentioned before, not all these projects work, but once you find that it works in one area, then it is likely to work over a larger area. Then you can repeat the process and really have a lot of reserves that you have found once you get it to work in one area.

CEOCFO: What is happening on the ground today with your various projects?

Mr. Regener: We are in Poland, Germany, and Spain. In Poland we are in the Baltic basin, this was the project that we are furthest ahead on, meaning that this came to light early on for us. It was one of the first projects we pursued, so we are about a year ahead in that basin, compared to our other basins. In that basin we have drilled three wells as manager of a company called Saponis, where we took in some partners two years ago. The partners are a company called RAG out of Austria, Sorgenia out of Italy, and then there is another com-

pany LNG Energy out of Canada that has a 20% interest as well. We had farmed out to RAG and Sorgenia some of our interest, meaning that they pay for the majority of the exploration costs to test the concept, and there we have drilled three wells, found some good results on some shales that we were looking for there, which in particular is the Ordovician and the Cambrian shales. We have fracture stimulated one of those wells or tried to in October, but unfortunately we did not get a good fracture stimulation off, so we are going to go about the process in a slightly differ-

We have a solid asset in the US that in our opinion is worth more than where our market cap is currently. We have a lot of different projects across Europe, and we have five different basins that we are in order to have a large potential increase in the asset value of what we have. For instance, our assets in Oklahoma is about 13,500 acres that on our reserve report last year was worth over \$300 million on a net present value of 10% discounted rate. In Europe we have picked up acreage blocks looking to get other companies to pay for the exploratory portion of it and yet keeping anywhere from ten to forty times that size acreage block [compared to our Oklahoma project]. So you can see 13,500 acres is worth over \$300 million. If we have one of these projects that work, then that is a huge asset creation potential for the company and overall the Company is stable, because we have good cash flow coming out of the United States.

- Wolf E. Regener

ent fashion here in hopefully late 1st Quarter to test that concept. In Germany we have a number of concessions in multiple different areas that we are looking to pursue and we are currently in the process of permitting some 2 dimensional seismic in order to find exactly where we are going to drill our first wells. Then in Spain, we were just awarded that acreage, but we already have a lot more data there so we will be going through the permitting process in order to start drilling wells in the fourth quarter of 2012 there.

CEOCFO: In comparison to the U.S., what is the attitude in Europe of the

various governments, environmental group and the public?

Mr. Regener: The governments have been fairly supportive and Poland is most definitely the strongest. Everyone wants to make sure that things are done in an environmentally safe fashion, but all these countries have strict environmental laws in place where they regulate how you drill wells and what goes on them. Everything we do has to get approved much like it does here in the US, but it is a little longer process to get permitted. They all have stringent laws that we have to comply with, which is perfectly fine. One of our things that we want to do is do things in best of industry type fashion to make sure that we have no issues on the environmental front. We run three different strings of casing, steel pipe in the ground, that isolate fresh water intervals and from our point of view we do not see any risk in the fracture fluid breaking through those steel pipes and contaminating any kind of fresh water.

CEOCFO: What are some of the newer technologies that your team could be using?

Mr. Regener: In the first well went in with a very minimal slick water type system. In essence, we are putting in water or sand or harder sand called proppant. It is a fairly large grain size

of sand mixture, but we did not get enough of that proppant placed, so we are currently redesigning our fracture stimulation program to put in some other additives that help carry the proppant into the formation better, so that it does not drop out. For instance, if you just put sand in a beaker of water it would just drop down to the bottom of it and if you drop sand in front of a garden hose you get it to travel out a certain distance. However, if you put in an extreme case say, sand inside of jello, you could get the jello to carry sand a very long distance. So we are going to be putting some additional additives into our slick water in order to carry the proppant a little bit

further out into the formation, but it is a process. You have to do all the science, you have to go through it and see what it takes to create these fractures and keep them open. Then we go in with the basic system and try to modify that a little bit in order to get a better fracture stimulation and that is what we are doing now.

CEOCFO: What about people and equipment; is it available or does BNK have to bring it in from a distance?

Mr. Regener: There is equipment there, as there are a number of companies that have opened up service areas in Poland. Europe has always had some service centers in Germany for instance. Equipment sometimes has to move a little bit further, likewise there is more and more drilling rigs that are coming into Poland. For instance, right now a number of companies that I have talked to want to bring in even more equipment. They are all waiting for when these science wells actually work in one area and then they can say yes. When we are going to have a development program that is coming on all these service companies have indicated that when we find it they will be there with the services.

CEOCFO: BNK has a lot of acreage and have looked at more; how did you decide what you wanted and what particular areas does BNK Petroleum want to work on first?

Mr. Regener: One, we looked very carefully at the governments, the political environment, as well as the rules and regulations that were in place. We stayed out of certain areas. For instance, you have an exploration license and then it gets converted to a production license later. In some countries you would have an exploration license, but there is no guarantee that you are going to be the one ending up with the production license. So, in some countries, you could be subject to being able to spend a whole lot of money and not be able to get the rewards of spending that risk money in order to convert that into a production license. It is very important to have the right to do so, why else would you spend that risk money. Therefore, we have stayed out of ar-

reas that have not had favorable rules and regulations in place in order to accomplish that. Really, it has entirely been geologically driven where we go, aside from those items where we have not gone into some countries. So our team of geoscientists have gone in, looked at whatever they could find in the country, whether it is data from old wells drilled or where this shale or these zones come up to surface. They have taken samples there or used old reports, old research done from people in the country's Universities, and PhDs, looking for what they call the source rock in their country. So oftentimes, we can get clues of what we are looking for from those kinds of papers in research. Whenever we went in there we looked for how the shales compare to projects that actually work in North America. If we found shales too high in clay content for instance, or other matters that made them less likely to be productive, then we just passed.

CEOCFO: What do people misunderstand about shale that they should understand when they are looking at BNK?

Mr. Regener: There is a couple things. One, there is an amazing amount of people that do not realize that shale gas is the exact same gas that has been coming through their taps into their homes for a long time. It is the same gas that comes out of the North Sea or out of Russia or out of conventional basins out of the Gulf of Mexico or onshore United States. What we are doing now is we are going after the source rock where those hydrocarbons were generated. Instead of having this generated in one area and then naturally, over millions of years migrating into different reservoirs. We are now going after the actual place where that [natural gas] was generated. People are scared of the new technology of shale gas and most people do not understand that it is a combination of hydraulic fracturing, which has been around for a very long time. It has been being used for fifty years plus and it has been done over a million times in North America. It has been done hundreds of times across Europe for a long period of time- for thirty or forty years. In addition, it is horizontal drilling, which is

just a normal drilling process, but when we get down to near the reservoir or the shale, it gets diverted off from drilling vertically to drilling horizontally. All we are trying to do is have the well bore itself have a larger contact with more of the reservoir in order to make wells produce at higher rates. It also has a side benefit in that you take up less surface when you do that. So you are going to have a smaller impact on the surface, smaller disruption on the community. These drilling rigs are going to be there for thirty to thirty-five days per well that you drill. You can drill, in development mode, anywhere from six to ten wells per one small location and you are draining [gas] from a very large area, so you are having a minimal impact. Those items in itself are the main ones that a lot of people really do not understand and that there is no more risk in drilling shale gas wells than there are in just drilling oil and gas wells. Every form of energy has some sort of risk associated with it, but it is very minimal.

CEOCFO: What is the financial picture like for BNK Petroleum today?

Mr. Regener: We are in good financial shape. We have over \$40 million in working capital and even though our stock prices dropped quite a bit, I am very comfortable where our company is. We have a lot of good assets and we are in very good financial shape.

CEOCFO: Do you do much investor outreach?

Mr. Regener: We do. We are quite heavily owned by financial institutions, so probably 65% or more of our market cap, is made up by institutionally held clients. Three or four times a year we go around and see the various institutions or present at conferences and things like that.

CEOCFO: What do you see ahead for the next year or so?

Mr. Regener: We are looking forward to re-fracture stimulating what we call our Leborg well in Poland. I am looking forward to bringing some of these other projects that we have forward and testing those concepts. We are also looking at potentially taking in some partners to pay for some of

those early wells, the risk dollars I will call it, in some of our other projects. 2012 is going to be an exciting year for us with a lot of possibilities.

CEO CFO: Final thoughts, why should potential investors be interested, and why does BNK stand out?

Mr. Regener: We have a solid asset in the US that in our opinion is worth more than where our market cap is currently. We have a lot of different

projects across Europe, and we have five different basins that we are in order to have a large potential increase in the asset value of what we have. For instance, our assets in Oklahoma is about 13,500 acres that on our reserve report last year was worth over \$300 million on a net present value of 10% discounted rate. In Europe we have picked up acreage blocks looking to get other companies to pay for the exploratory portion of it

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