

This Week

Buru Energy (BRU)

A New Force in the Canning
 New Ways to Bring Oil &
 Gas to Market
 Funded For 3 years of
 Exploration
 Value Proposition

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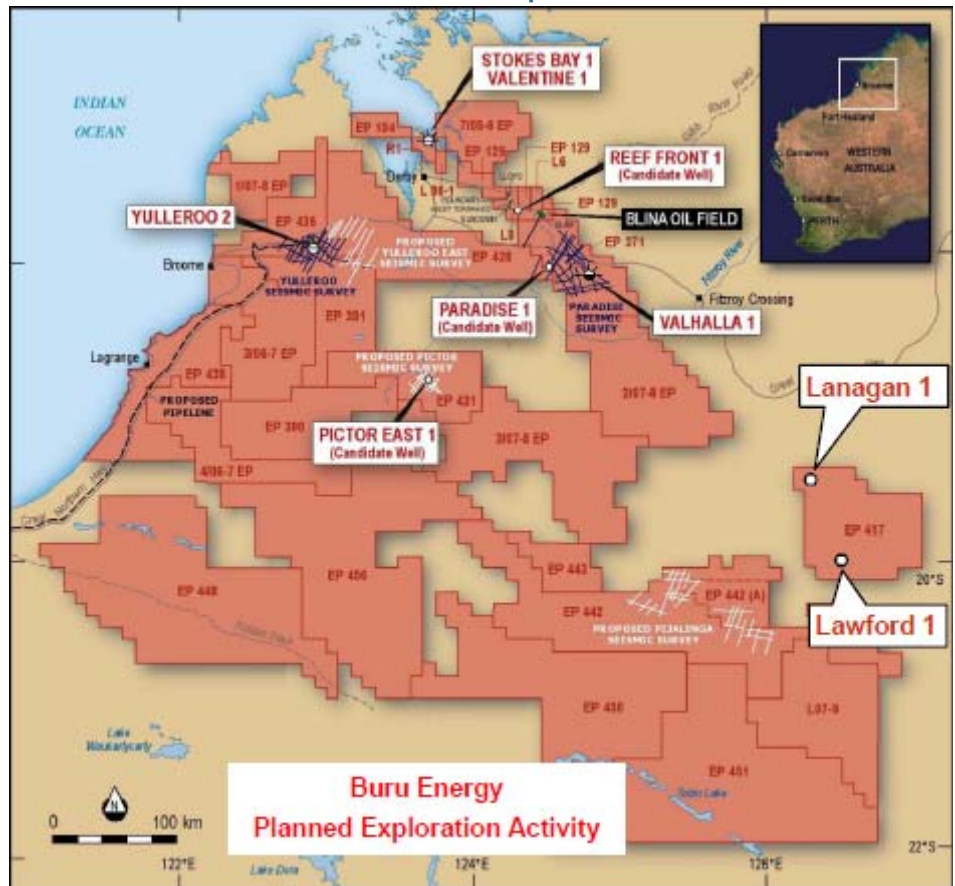
Buru Energy (BRU)

Buru - Capital Structure

Shares	162.1 m.
Options	54.0 m. @ 94 cts
	<u>216.2 m.</u>
Price	\$ 0.29
Market cap	\$ 48

Recommendation: *StockAnalysis* sees early trading opportunities in Buru Energy as its shares come under pressure from hedge fund selling and repositioning by other holders. Buru shares will owe many recent buyers of Arc Energy as little as 4 cents, so there may be some bargain buys ahead.

Buru Permit and Prospect Locations



Source: Buru

A New Force in the Canning

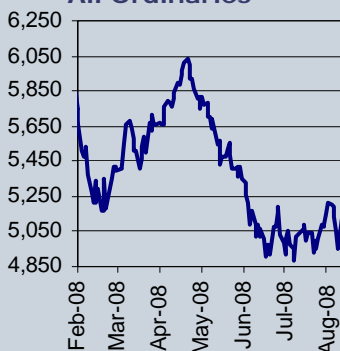
Arc Energy's Canning Basin spinoff, Buru Energy, hit the market on the 1st of September. While the company will have net cash of about \$65 million or 40 cps, after allowing for repayment of \$20 million of Alcoa's generous \$40 million pre-payment for gas, *StockAnalysis* estimates an underlying asset value for Buru of 25 cps plus a risk adjusted exploration value of 42 cps.

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Indices & Prices

All Ordinaries	5,126.30
Energy Index	17,907.80
Brent US\$/bbl	101.49
AUS\$/US\$	0.8151
As at Close September 8th	

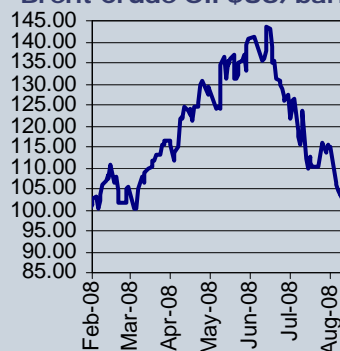
All Ordinaries



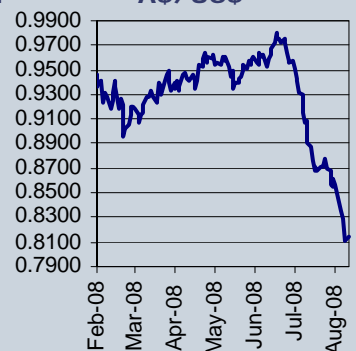
S&P ASX 200 Energy Index



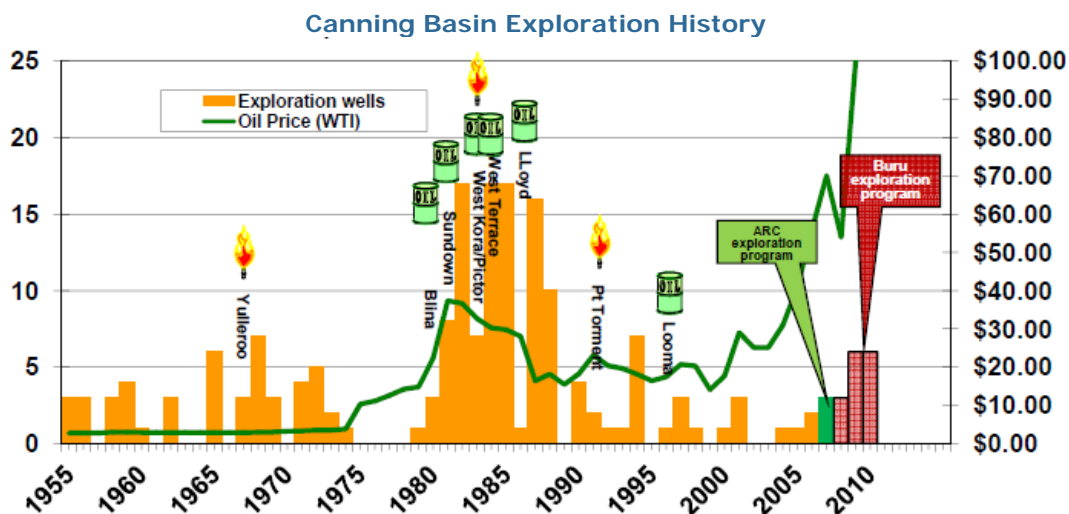
Brent Crude Oil US\$/barrel



A\$/US\$



Estimates of risked value count for little in the case of Buru, where selling pressure from individuals and hedge funds, that bought into Arc and do not wish to hold a pure exploration company such as Buru, are going to set the market scene for some time. Buru could easily trade down into the low teens before the bulk of its register is settled.



Source: Buru

Buru is in a unique position, controlling almost the entire Canning Basin. Oil price rises in the early 1970's and then again in the late 1970's, along with a booming stock market from 1985 to 1987, led to flurries of drilling activity which resulted in some discoveries, but there was little follow up, either because the oil price fell away and further drilling could not be funded, or because the region is very remote and there was no market for gas at the time. Arc Energy's exploration programme last year proved gas at Stokes Bay and made a discovery at Valhalla, both of which are yet to be tested. Despite this work, the Canning Basin remains very much an under-explored region.

New Ways to Bring Oil & Gas to Market

Buru has the benefit of design work carried out by Arc Energy, for an early oil production system, based on development of its Perth Basin oilfields. Even small oil discoveries in the Basin can now be developed, with product being trucked to Perth or shipped out from a local port. Many previous discoveries indicated the potential for gas associated with high levels of condensate. Buru is prepared to instigate a condensate stripping production system on any such discovery, which would reinject gas, prior to establishing transport to a market. The company is well down the planning path to establish a gas pipeline, linking its Canning permits to the Dampier to Bunbury line at Dampier, and it has a sales agreement with Alcoa, which has made a pre-payment of \$40 million and agreed to buy 400 Bcf at the Dampier pipe head. Additional market potential rests with the establishment of a mini-LNG facility and Buru has an MOU with Energy World Corporation, which is exploring opportunities on the Pilbara coast, should this potential arise.

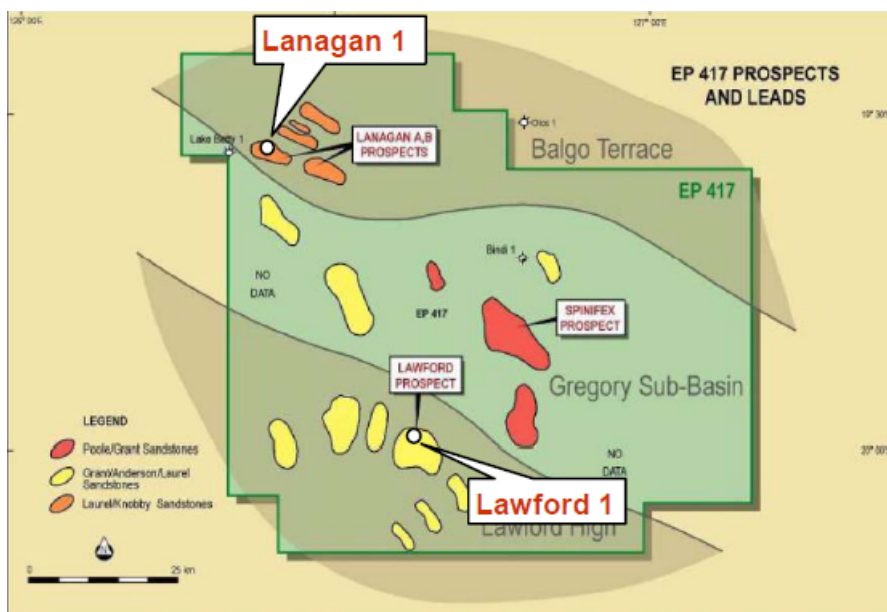
Funded For 3 years of Exploration

The company will hit the ground with plenty of cash and prospects that are ready to drill. First up, the company is farming in on a heads up basis to earn a 35% interest in two wells in EP-417, but it has an option to increase this position to 50% post drilling by paying 100% of the well cost, in the case of a commercial discovery.

StockAnalysis does not rate these prospects highly, but Buru has negotiated a very low cost entry, with optional upside. EP-417 could not be more remote. It is much closer to Darwin than it is to Perth, but hundreds of kilometres from any serious transport infrastructure. The Lanagan prospect, which spudded this week, is surrounded by 4 follow-up adjacent prospects, all less than 2,000 metres deep on the edge of a sub-basin, in a similar geological location to the Blina oilfield. Lanagan is a horst structure with 4 way dip closure. It has a mapped aerial closure of 25 km² and 110 metres of relief. Possible oil in place is calculated at 220 mmbbls which, depending on the quality of reservoir, should result in a recoverable target of at least 40 mmbbls, should hydrocarbons be present.

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The second prospect, Lawford, is a completely different play type, being a faulted anticline, with 150 metres of relief and a mapped closure of up to 69 km². If this structure contains gas, it could hold over 500 Bcf of recoverable product, setting a potential target for commercial production via a pipeline link, either north, east or west.



Source: Buru

Subject to getting a rig on site prior to the commencement of the wet season in November, Buru plans to drill both the Paradise gas prospect and the Pictor East oil prospect; however StockAnalysis is not confident that these wells will be drilled until mid 2009. In the meantime, Buru plans to return to Stokes Bay, where a recent survey of the well showed that since operations were suspended, the well filled up with gas. The origin of this fluid is unknown, but testing of the upper Anderson Formation is planned and an underbalanced side-track well into undamaged Nullara Limestone should clear up if this highly porous and permeable formation contains any hydrocarbons.

Buru – Risked Exploration Valuation

Prospect	Holding %	Target		NPV		Success Value \$/share	POS %	Cost \$m	Risked Value \$/share
		Gas Bcf	Oil mmbbl	Gas	Oil				
Yulleroo area	100%	300	10	0.45	22	1.64	5.0%	12.0	0.03
Utopia	100%	0	9	0.45	22	0.92	7.1%	4.0	0.05
Ungani	100%	260	13	0.45	22	1.86	7.1%	4.0	0.11
Valhalla	100%	100	10	0.45	22	1.23	7.1%	3.5	0.07
Paradise	100%	300	2	0.45	22	0.83	7.1%	4.4	0.04
Pictor East	100%	0	10	0.20	25	1.16	7.1%	4.4	0.06
Stokes Bay EP 104	39%	90	10	0.50	25	0.53	20%	0.4	0.10
Lanagan 1 EP-417 *	35%	0	20	0.20	18	0.58	5%	1.2	0.02
Lawford 1 EP-417 *	35%	500	2	0.35	18	0.34	5%	1.2	0.01

* Option to go to 50%

Source: Strachan Corp. Pty Ltd.

Value Proposition

Buru Valuation	\$m	Value per Share	
		FD	Undiluted
Oil Producing Field	6	\$ 0.03	\$ 0.04
Cash	84	\$ 0.39	\$ 0.52
NSE Shares	2	\$ 0.01	\$ 0.02
Alcoa funds	(40)	-\$ 0.19	-\$ 0.25
Corporate	(12)	-\$ 0.06	-\$ 0.07
	\$ 40	\$ 0.19	\$ 0.25
Risked Exploration	67	\$ 0.31	\$ 0.42
Un-issued Equity	51	\$ 0.24	
	158	\$ 0.73	\$ 0.66

Source: Strachan Corp. Pty Ltd.

Both Paradise and Pictor have the potential to add value of over 80 cps to Buru, while the much higher risk EP-417 wells could add 30-60 cps, depending on size and content. Buru is taking a methodical approach to the Basin, initially targeting shallower prospects which are cheaper to drill. The company believes that the Canning has potential to yield many trillions of cubic feet of gas and hundreds of barrels of oil, but the industry remains very sceptical, since past exploration has proved somewhat disappointing.

Buru has 54 million options which are well out of the money. Therefore, on an undiluted basis, the company can be seen to have a risked valuation of 66cps. StockAnalysis believes that market dynamics will determine the price, but sees plenty of upside for success and I would rather be drilling for oil and gas in this location than in Mali or Mauritania.

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