



Buru Energy Limited

Date of Lodgement: 8/11/12

Title: “Company Insight – Implications of Entering State Agreement”

Highlights of Interview

- Buru executes State Agreement covering the Joint Venture’s core permits.
 - Buru and Mitsubishi will not be required to relinquish core acreage until 2024.
 - State Agreement provides the Joint Venture with the time to fully appraise the Canning Superbasin.
 - Buru and Mitsubishi agree to make a proposal to the Government to develop a domestic gas project if sufficient reserves are proved up.
 - Buru and Mitsubishi may consider an LNG development once the Joint Venture satisfies their domestic gas obligations.
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Record of interview:

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Buru Energy Limited (ASX code BRU; market capitalisation approx. \$748 million) has just announced that it has entered into a State Agreement over a number of its permits. What exactly is a State Agreement?

Executive Director, Eric Streitberg

A State Agreement is just what it sounds like – it’s an agreement with the State Government. They are not all that common and have generally been used in the past to facilitate major mining projects, but have also been used to push forward some of the Western Australian LNG projects. What is important about State Agreements is that they are entered into by Government, ratified by Parliament and therefore have the force of law. For the Government to provide legislative backing for our work is a tremendous vote of confidence in what we are trying to achieve and very important recognition of the scale and significance of our development to Western Australia.

The fact that State Agreements also have the force of law means that the State can use them to modify the operation of existing legislation. In our case, the State has modified the operation of the legislation relating to the relinquishment of our permits and some other associated regulations as well as putting some conditions on how we explore and develop the permits covered by the State Agreement.

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How does the relinquishment obligation normally work, and how does the State Agreement modify it?

Executive Director, Eric Streitberg

All of our permits are granted by the Western Australian State Government, for an initial period of six years. At the end of the first six years you are required to give up 50% of the area that makes up the permit and can then keep the remaining area of the permit for a further period of 5 years. What the State Agreement has done is to remove the need for us to go through the relinquishment process for five of our key permits, being EP371, EP391, EP428, EP431 and EP436. Provided we meet our exploration, appraisal and development obligations under the State Agreement we will not be required to relinquish any of the acreage in these permits until 31 January 2024.

Under the State Agreement we will still have minimum work obligations agreed with the Government on each of these permits. However, the State Agreement allows us to use gas appraisal work done in one permit to offset the work obligations in any adjacent permit covered by the State Agreement. This is a change to the way the legislation currently works and will assist us to ensure that our on ground dollars are spent in a way that most quickly builds up gas reserves.

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The State Agreement only covers some of your permits, why is this?

Executive Director, Eric Streitberg

The WA Government is focused on ensuring energy security for Western Australia. They have recognized the very significant potential of our acreage to be a major supplier of gas to the domestic gas market and want to encourage us to develop this acreage. The State Agreement covers the core part of our acreage that holds the most prospective gas plays, including the Valhalla and Yulleroo accumulations.

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Is the State's domestic gas focus reflected in the State Agreement?

Executive Director, Eric Streitberg

Domestic gas is a core part of the Agreement. In return for relief from relinquishment, Buru and Mitsubishi are required to keep exploring for gas and to make a proposal to the State by mid 2016 for the development of a gas pipeline and project to deliver gas into the existing domestic gas pipeline network in the Pilbara, assuming we have the gas reserves to do so. The State Agreement is targeting the delivery of 1,500PJ of gas into the WA domestic gas market across the next 25 years. Very importantly for the State we need to have our project to deliver domestic gas approved by the State before we can seek approval for any gas export.

If by 31 March 2016 we haven't proven up sufficient reserves for a domestic gas project or we can't make a domestic gas project work technically or economically, the Joint Venture has the option of seeking an extension of time to submit a proposal or terminating the State Agreement.

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A target of 1,500PJ of gas sounds ambitious. Is this achievable from the permits covered by the State Agreement?

Executive Director, Eric Streitberg

The first thing to note is that the 1,500PJ is only a target. There is no obligation on us to actually deliver this much gas and the State Agreement cannot compel us to deliver gas uneconomically. Our only obligation around gas delivery is to develop a domestic gas pipeline and project before we seek approval to export gas via LNG. We may never prove up enough reserves to justify an LNG project, in which case all of our reserves, however big they are, will be available for the domestic market.

Having said that, our current independent assessment of the Valhalla accumulation on the basis of only a few wells, has a mean recoverable volume of gas of some 6.5 TCF on a fully risked basis, which is about 6,900 PJ, so we think the 1,500 PJ target is something we can legitimately aim for.

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If you did reach the scale that would support LNG export, is this something you would consider?

Executive Director, Eric Streitberg

Provided we could meet our domestic gas obligations and the economics stacked up, we would definitely look at an LNG scale development. We are working on integrating the results of the recent Asgard well into our assessment of the Valhalla accumulation, which we are hopeful will result in an increase in the recoverable gas from that accumulation. We are also revisiting our assessment of the Yulleroo field after the very successful Yulleroo 3 well. Taken together, these areas may eventually be proven to hold sufficient gas to form the basis of an LNG scale development.

However, we are still a fair few years away from that point. If we did go down that route, our plan is to transport the gas to the Pilbara through an expansion or twinning of our original domestic gas pipeline. If we do develop an LNG project the WA Government's 15% domestic gas reservation policy will apply to that project, further protecting the WA domestic gas supply.

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Does the State have an active role under the State Agreement?

Executive Director, Eric Streitberg

The State Agreement makes the Department of State Development the lead agency, working closely with the Department of Mines and Petroleum, for our ongoing activities in the permits covered by the State Agreement. All of the laws of the land will still apply, so we will still need to go through the regular environmental, heritage, native title and safety requirements. However, when it comes to pursuing our domestic gas development the Department of State Development takes on a co-ordinating and facilitating role to ensure that the development can be approved quickly and after proper consultation.

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Why is the State Agreement important to your exploration in the Canning Superbasin?

Executive Director, Eric Streitberg

Our original philosophy in exploring the Superbasin was that we needed to take a regional approach that gave us the greatest flexibility in exploration and development, as frontier basin exploration often throws up geology and accumulations that cross permit boundaries.

That has very much been the case here. The Joint Venture has undertaken a carefully structured and far ranging exploration program that has spent over \$100 million in the last two years with some spectacular success. The State Agreement gives us the time and flexibility to really understand what we have in the Superbasin and also conforms perfectly to our long standing business plan to deliver gas into the domestic market via the Pilbara.

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You've previously spoken about a high level of interest in your permits, and there have been a number of deals done in the unconventional gas space in Australia recently. Do you think the State Agreement will have any impact on the interest in your permits?

Executive Director, Eric Streitberg

I would like to think that any potential participant in our acreage would see this as a real positive, just like we do. The State Agreement provides long term tenure over our most prospective acreage and the backing of the State in gas developments. This is a material improvement on our position previously, so if you were interested before you would have to think you would be interested now. The State Agreement also runs with the permits, so any corporate level acquirer would get the benefit of the State Agreement. While there is nothing at the corporate level on our radar, this is an important consideration.

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Thank you, Eric.

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