



The Directors of Buru Energy Limited (Buru Energy) are pleased to provide the report for the quarter ended 31 December 2016.

Highlights

- Systematic progress continued on planning for the Ungani Oilfield production restart
- Asgard 1 flow back provides additional positive data for gas recoveries and flow rates from the Laurel Formation tight gas accumulation
- Land Access and Use Agreement signed with the Warlangurru People in relation to the land within Exploration Permit EP371 (Laurel tight gas area)
- Heritage surveys commenced over potential drilling locations on Ungani trend conventional oil prospects
- Rig tenders called for next drilling program
- Exploration permits EP 457/EP 458 renewed for a further 5 years
- 31 December 2016 cash balance of \$21.1 million

Production and Development

Ungani Oilfield

The Ungani Oilfield remained shut-in during the quarter. Systematic progress is being made on preparing for the restart of oil production with analysis, planning and negotiations in regard to the preferred export solution continuing to progress. The necessary upgrades to the field facilities have been scoped and costed. These include the installation of an artificial lift system with associated upgrades of the control systems and electrical generation capacity, a higher volume fluid handling system and storage tanks, and a high volume water disposal system.

Momentum Engineering have provided indicative costings and initial design work to verify the internal Buru engineering review and provide initial design and installation program scoping.

A fluid recycle test has also been undertaken on the lower water bearing zone in Ungani Far West 1 and this provided confidence in relation to the re-injection of produced water from the field into the same reservoir system.

Blina and Sundown Oilfields

The Blina and Sundown Oilfields remained shut-in during the quarter with maintenance and well inspections continuing.

Exploration and Appraisal

Tight Gas Exploration and Appraisal Program

During the quarter, as part of the recent suspension program for the Asgard 1 well, the opportunity was taken to directly measure flow rates from various zones using a technically advanced Schlumberger VX multi phase flow meter. This system enables gas flow rates and well stream composition to be measured without a separator system. It is a cost effective way to gather data and this was the system's first application onshore in Western Australia.

As the vertical wells are still recovering the injected fluid, flow rates are suppressed by the returning fluid columns. However, rates varied from over 3 mmcfcpd to continuous rates of up to 100,000 cfcpd in individual zones. Most importantly, the well was continually flowing gas and returning stimulation fluid, demonstrating the potential for long term deliverability.

The results from this test have been used to calibrate the flow rates measured through the conventional separators during the initial flow tests, and preliminary results indicate that the initial separator flow rates were materially underestimated due to the configuration of the equipment. The analysis of these results will be completed during the next quarter and the results incorporated into planning for the next stage of development.

As part of the program, a downhole pressure survey confirmed the overpressure gradient of the reservoir as more than 0.6 psi/ft. These values are associated with the "sweet spot" for unconventional gas developments and bode well for future well performance.

Analysis of the gas composition from surface samples from the various zones is ongoing but is expected to confirm the preliminary results obtained from the earlier flow periods of high quality, liquid rich gas.

As for the previous program, the Noonkanbah community provided logistic support, including field assistance and camp services.



Flow testing operations at Asgard 1



Buru Chairman and Noonkanbah site crew at Asgard camp site

The integration of the geology and production data results to date have also now identified a number of zones with higher potential in the overall gas column. The recent production testing and mapping has also confirmed the previously interpreted continuous nature of the accumulation across the area.

Production performance indicates that in common with other basins in Australia, and with North American experience, commingling numerous vertical well zones during flowback is not an effective production strategy for most unconventional accumulations. North American experience demonstrates that a number of stimulations along a horizontal wellbore in key geological formations is the optimal process for commercialisation of unconventional plays with thick hydrocarbon columns.

Results to date give high confidence that a horizontal well in these high graded zones would produce gas at commercial rates, and planning for a well with a horizontal section to test the flow potential of specific zones is currently in progress.

A Discovery Assessment Report (DAR) has now been submitted to Department of Mines and Petroleum (DMP) for the petroleum pool confirmed by the Valhalla North and Asgard well stimulations. Under the petroleum legislation in Western Australia it is necessary to provide the DMP with a DAR prior to making an application for a Location, and from that, any subsequent titles. DMP have informed the JV that the report meets the requirements of the applicable regulations.

Native Title Agreement

On 25 October 2016, the Joint Venture and the Warlangurru People executed a Land Access and Use Agreement (LAUA) in relation to the land within Exploration Permit EP371 that overlaps the Warlangurru People's application for native title in Federal Court WAD 509/2015, also known as the Warlangurru 1 claim. Under the LAUA, the Warlangurru People will support future grants of tenure required for the further development of the gas resources in the area and no further registration of the agreement needs to be undertaken.

The registration of the Yungngora Aboriginal Corporation RNTBC Indigenous Land Use Agreement in relation to the land within Exploration Permit EP371 in the area of the Noonkanbah Pastoral Station is progressing and is expected to be completed during the coming quarter.

Participation Discussions

Discussions with potential farmin partners to EP 371 continued during the quarter with additional data from the Asgard flow period being provided in the data room. The general political climate in Australia in relation to unconventional gas has proved a disincentive to some parties.

Special Prospecting Authority (SPA 0065)

On 8 July 2016 the Joint Venture lodged an Application for Special Prospecting Authority (STP-SPA-0065) over the area south of EP371 which is interpreted to cover an extension of the Laurel Formation tight gas trend. The proposed work program includes the acquisition of a specialist passive airborne survey to verify the interpreted geological trends.

In accordance with Section 29 of the Native Title Act (NTA), the DMP gave notice of the proposed SPA to the relevant native title parties, as well as placed advertisements in various newspapers on 16 November 2016. The notices are issued to advise the native title parties that the Government considers the proposed act to attract the expedited procedure under s237 of the Native Title Act (i.e. no major disturbance). If no objections are received by the end of the notice period in March, the Minister will be able to grant the SPA.

Ungani Conventional Oil Trend Exploration Prospectivity

The mapping of the 3D seismic surveys and new 2D seismic data on the Ungani trend has identified a suite of high prospectivity conventional oil prospects. These have now been high graded and the Joint Venture has requested heritage surveys be undertaken on the potential drilling locations for a number of these prospects by the appropriate Yawuru and Nyikina Mangala heritage survey teams.

The Yawuru field surveys have now been completed with no heritage issues identified, and it is expected the reports confirming the field observations will be received in due course.

The company has also called for expressions of interest for a drilling rig suitable for the drilling of these prospects.

In addition to the activity on its joint venture held permits, the Company is also undertaking a review of its 100% held Lennard Shelf acreage including the re-interpretation of the regional geology in light of the experience on the other side of the basin with the Ungani Dolomite. This is an oily area with the potential for additional prospects to be identified.

Corporate

2017 Work Program and Budgets

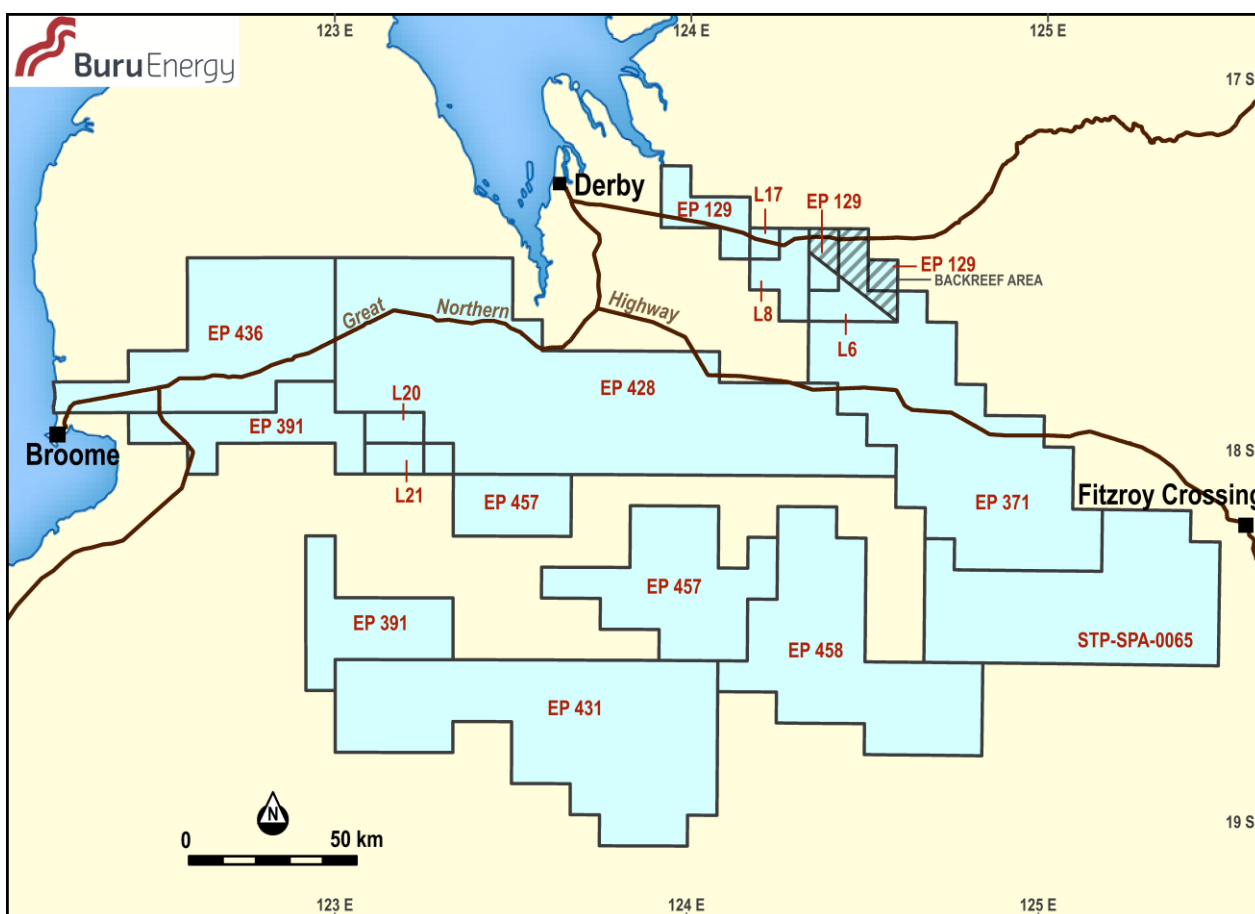
The company and its Joint Venture partners are currently reviewing the 2017 work programs and budgets for the various exploration permits with conclusion of the reviews expected in the upcoming quarter.

Acreage Rationalisation

Formal approval of the applications made to the WA Department of Mines and Petroleum for relinquishment of the Coastal and Acacia exploration permits (EP438, EP471, EP472, EP473, EP477 and EP478) was received in October 2016 and the Company no longer retains interests in any of these exploration permits. These relinquishment applications were initially submitted in December 2015.

EP457 and EP458 renewal

During the quarter the EP457 and EP458 Joint Venture partners applied to the WA Department of Mines for the grant of renewal of these permits, and on 6 January 2017, the DMP granted the renewals. Both permits have been renewed for a term of 5 years. As required by legislation, 50% of the area of each permit has been relinquished and the configurations of the renewed permits are shown on the map below. The relinquished areas were identified through consideration of a combination of geological prospectivity, access, environmental and cultural factors.



Buru Energy Exploration Permits and Production Licenses

Alcoa gas sales contract

During the quarter, \$12.5 million was repaid to Alcoa as per the agreed variation to the Alcoa gas sales contract. The remaining \$12.5 million liability to Alcoa is due to be repaid on 30 June 2018.

Mitsubishi Ungani development funding agreement

The 2015 Ungani Development Funding Agreement with Mitsubishi included a carry of Buru Energy's costs for the development of Ungani up to a total \$27.5 million, subject to a number of hurdles being achieved. Tranche 1 of \$9 million was available to 18 January 2017. Approximately \$2.5 million from tranche 1 remained unspent as of that date. The company has now reached agreement with Mitsubishi that a portion of those funds will remain available until 18 May 2017. The tranche 2 funding of \$7.5m plus any amount rolled over from tranche 1 is available subject to a production hurdle of 3,000 bopd. Tranche 3 remains at \$11 million and is subject to a production hurdle of 5,000 bopd.

Financial

During the quarter the Company recorded a net cash outflow of \$14.7 million which included the \$12.5 million Alcoa repayment set out above. Operating cash outflows were \$2.2 million. At the end of the quarter, the Company had cash reserves of \$21.1 million. The ASX Appendix 5B attached to this report contains the Company's cash flow statement for the quarter which is summarised as follows:

- Exploration expenditure of \$1.0 million for the quarter (September 2016: \$2.2 million), comprised primarily the ongoing Ungani oil trend evaluation, technical TGS evaluation and desktop geological and geophysical work.
- Ungani production operating expenditure of \$0.2 million for the quarter (September 2016: \$0.2 million) which comprised Ungani oilfield care and maintenance costs.
- Staff, administration and corporate costs of \$1.0 million for the quarter (September 2016: \$1.2 million) which continued to be in line with expectations.

The Company is forecasting a cash outflow of \$1.9 million in the March 2017 quarter:

- **Exploration:** Cash outflows are estimated at \$0.8 million and primarily include Ungani oil trend evaluation, the ongoing technical TGS evaluation and ongoing desktop geological and geophysical work, as well as expenditures relating to ongoing asset integrity and Traditional Owner engagement.
- **Production:** Cash outflows are estimated at \$0.1 million in relation to the Ungani oilfield care and maintenance costs.
- **Staff, administration and corporate:** Cash outflows are estimated at \$1.0 million, consistent with previous periods.

The Company's cash position continues to be carefully monitored to ensure the Company can meet its commitments as and when they fall due, and the Company continues to rationalise its operating and administrative overheads with further staff attrition from redundancies and resignations with a continued focus on reducing operating costs and general expenditure.

Visit www.buruenergy.com for information on Buru Energy's current and future activities.

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About Buru Energy

Buru Energy Limited (ASX: BRU) is a Western Australian oil and gas exploration and production company headquartered in Perth with an operational office in Broome. The Company's petroleum assets and tenements are located onshore in the Canning Basin in the southwest Kimberley region of Western Australia. Its flagship high quality conventional Ungani oilfield project is owned in 50/50 joint venture with Diamond Resources (Fitzroy) Pty Ltd. As well as Ungani, the Company's portfolio includes potentially world class tight gas resources.

The company's goal is to deliver material benefits to its shareholders, the State of Western Australia, the Traditional Owners of the areas in which it operates, and the Kimberley community, by successfully exploring for and developing the petroleum resources of the Canning Basin in an environmentally and culturally sensitive manner.

Schedule of interests in permits as at 31 December 2016

| Permit | Type | Ownership | Operator | Location |
|--------|--------------------|-----------|----------------------|-------------------|
| L6* | Production licence | 100.00% | Buru Energy Ltd | Canning Basin, WA |
| L8 | Production licence | 100.00% | Buru Energy Ltd | Canning Basin, WA |
| L17 | Production licence | 100.00% | Buru Energy Ltd | Canning Basin, WA |
| L20 | Production licence | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| L21 | Production licence | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP129* | Exploration permit | 100.00% | Buru Energy Ltd | Canning Basin, WA |
| EP371 | Exploration permit | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP391 | Exploration permit | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP428 | Exploration permit | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP431 | Exploration permit | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP436 | Exploration permit | 50.00% | Buru Energy Ltd | Canning Basin, WA |
| EP457 | Exploration permit | 37.50% | Buru Fitzroy Pty Ltd | Canning Basin, WA |
| EP458 | Exploration permit | 37.50% | Buru Fitzroy Pty Ltd | Canning Basin, WA |

* Excluding the Backreef Area

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96. Origin: Appendix 8. Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

BURU ENERGY LIMITED

ABN

71 130 651 437

Quarter ended ("current quarter")

31 December 2016

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | 834 |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (1,037) | (9,928) |
| (b) development | - | (227) |
| (c) production / care and maintenance | (224) | (2,048) |
| (d) staff costs | (492) | (2,425) |
| (e) administration and corporate costs | (636) | (2,408) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 202 | 853 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Research and development refund | - | 5,814 |
| 1.8 Other (pastoral lease activities) | - | (335) |
| 1.9 Net cash from / (used in) operating activities | (2,187) | (9,870) |

| | | |
|--|------|------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (47) | (95) |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|---|------------------------------------|---|
| 2.2 | Proceeds from the disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) tenements (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) other (pastoral lease) | - | 9,654 |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | (47) | 9,559 |

| | | | |
|-------------|---|-----------------|-----------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | - |
| 3.2 | Proceeds from issue of convertible notes | - | - |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | - | - |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of Alcoa liability | (12,500) | (12,500) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from / (used in) financing activities | (12,500) | (12,500) |

| | | | |
|------------|--|---------------|---------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 35,786 | 33,896 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (2,187) | (9,870) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (47) | 9,559 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (12,500) | (12,500) |
| 4.5 | Effect of movement in exchange rates on cash held | - | (33) |
| 4.6 | Cash and cash equivalents at end of period | 21,052 | 21,052 |

| 5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Bank balances | 3,011 | 2,556 |
| 5.2 Call deposits | 18,041 | 33,230 |
| 5.3 Bank overdrafts | - | - |
| 5.4 Other (provide details) | - | - |
| 5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 21,052 | 35,786 |

| 6. Payments to directors of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 232 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

N/A

| 7. Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

N/A

Mining exploration entity and oil and gas exploration entity quarterly report

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|---|--|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

Alcoa Liability

During the quarter, Buru repaid Alcoa the sum of \$12.5m as per the varied Alcoa gas sales contract. The remaining \$12.5 million liability to Alcoa is due to be repaid on 30 June 2018.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|----------------|
| 9.1 Exploration and evaluation | (800) |
| 9.2 Development | - |
| 9.3 Production (care and maintenance) | (100) |
| 9.4 Staff costs | (500) |
| 9.5 Administration and corporate costs | (500) |
| 9.7 Total estimated cash outflows | (1,900) |

| 10. Changes in tenements (items 2.1(b) and 2.2(b) above) | Tenement reference and location | Nature of interest | Interest at beginning of quarter | Interest at end of quarter |
|--|--|--|---|-----------------------------------|
| 10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | EP 438 EP 471 EP 472 EP 473 EP 477 EP 478 | Applications to surrender these permits with effect from 31 January 2016 were lodged with the DMP on 21 December 2015. Formal approval of the applications was received from the DMP in October 2016 with the effective date of surrender being 1 November 2016. | 50% | 0% |
| 10.2 Interests in mining tenements and petroleum tenements acquired or increased | | No change in interest | | |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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Company secretary

Date: 27 January 2017

Print name: Shane McDermott

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.