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## **ASX ANNOUNCEMENT (ASX: BRU)      25 October 2010**

### **Quarterly Activities Report & Quarterly Cash Flow Report**

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Please find attached Buru Energy Limited's quarterly activities report and the quarterly cash flow report (Appendix 5B) for the three months ended 30 September 2010.

Further information on the company is available on the Buru website at:  
[www.buruenergy.com](http://www.buruenergy.com)

**For inquiries please contact:**

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Yours faithfully

A handwritten signature in black ink, appearing to read "Eric Streitberg".

**ERIC STREITBERG**  
**Executive Director**

# Quarterly Report

Quarter Ended:  
30 September 2010



## Introduction

The directors of Buru are pleased to present this report for the quarter ended 30 September 2010. This quarter saw the Company's exploration activities continue, with the drilling of the Leander-1 well and the completion of the Yulleroo South 2D seismic survey. In addition, preparation for the Paradise-1 and Nangu-1 wells, the Yulleroo-2 and Stokes Bay-1 well tests and the Pijalinga 2D seismic surveys were well advanced.

## Overview

The key operational activities for the quarter were:

- the drilling of the Leander-1 well using the Fairway Rig. This well unfortunately failed to find commercial hydrocarbons and was plugged and suspended;
- the ongoing preparation of well sites and the seeking of joint venture approvals for the Paradise-1 and Nangu-1 wells, the final two wells to be drilled during the 2010 field season;
- the ongoing planning and seeking of joint venture approval for the tests of the Yulleroo-2 and Stokes Bay-1 wells;
- the completion of the Yulleroo South 2D seismic survey; and
- the completion of preparations for the acquisition of the Pijalinga 2D seismic survey.

Subsequent to the end of the quarter the Company commenced drilling operations at the Paradise-1 well and commenced preparations for well testing operations at the Yulleroo-2 and Stokes Bay-1 wells. Acquisition of the Pijalinga 2D seismic survey also commenced subsequent to the end of the quarter.

## Financial

The ASX Appendix 5B attached to this report contains the Company's cash flow statement for the quarter. The material elements of the cash flow in the period were:

- exploration expenditure of \$5,569,222 for the quarter, the majority of which are the costs associated with drilling the Leander-1 well and the acquisition of the Yulleroo South 2D seismic survey, but also includes the ongoing assessment of prospects as candidates for drilling during the balance of the 2010 field season and the ongoing assessment of the shale and tight gas potential of the Company's permits;
- the first cash payments were received from Mitsubishi Corporation ("MC") during the quarter pursuant to the terms of the farm-in agreement with Buru, amounting to \$1,039,998, being for the most part payments towards 80% of the costs of the acquisition of the Yulleroo South 2D seismic survey together with the costs of preparation for the Paradise-1 well, the Yulleroo-2 well test and the Pijalinga 2D seismic survey;
- interest income of \$1,338,103 was received in the quarter on the maturation of a number of the Company's long term cash deposits;
- the Company participated in a capital raising undertaken by New Standard during the quarter in order to maintain the Company's strategic ~10% shareholding in New Standard. This was at a cost of \$624,650, with the shares acquired being valued at \$796,967 at the end of the quarter;

- cash flows from the Blina and Sundown oil fields were significantly lower in the quarter as a result of mechanical problems with key wells, together with ongoing natural production declines, resulting in an operating loss of \$2,746 for the quarter, in comparison to an operating surplus of \$203,340 in the previous quarter; and
- administration and other operating costs of \$1,181,013 were incurred, a significant increase from the previous quarter (June 2010: \$502,142), reflecting a number of one off costs as well as the Company's increased activity levels following the farm-in with MC.

The Company recorded a net cash outflow of \$6.3 million (before exchange rate adjustments) for the quarter, a significant increase on the previous quarter (June 2010: \$2.7 million) as a result of the ongoing drilling activity (Leander-1, 100% funded by Buru) and the commencement of seismic acquisition (Yulleroo South 2D seismic survey).

At the end of the quarter the Company had net cash reserves of \$33.8 million available for exploration and development of the Canning Superbasin (June 2010: \$40.7 million). This, in conjunction with MC's contribution to the Company's exploration activities on an ongoing basis, provides the Company with ample financial resources to fund its ongoing exploration activities.

The Company is forecasting the following cashflows in the December 2010 quarter:

- **Exploration** - \$2.9 million of costs are expected to be payable in the December 2010 quarter, a significant reduction on the current quarter, despite the Company's ongoing high levels of activity, reflecting MC's contribution to the Company's exploration program.
- **Development** - \$0.5 million in development costs are planned for a maintenance and workover program at the Blina and Sundowns oil fields (as discussed below). In addition, in the event of a commercial discovery at Paradise-1, or commercial flow rates at either Yulleroo-2 or Stokes Bay-1, it is expected that preliminary development work would commence immediately.
- **Production** – a \$0.5 million cash outflow is expected in the December 2010 quarter. This is consistent with the September 2010 quarter due to further local council fees becoming payable during the December 2010 quarter. Cash inflows in the December 2010 quarter are expected to be \$0.5 million, with the fields expected to be breakeven in the period. Over the 2010/11 financial year the Company expects its production activities to be net cash flow positive, in particular if the proposed workover program at the Sundown oil field is successfully completed.
- **Administration** - \$1.2 million in administration costs are expected to be payable in the December 2010 quarter as costs associated with the Company's planned move to larger premises become payable.

## Production and Development

Sales from the Company's Blina and Sundown oil fields, in the L6 and L8 production licences, averaged approximately 60 bopd for the quarter. Sales during the quarter were below the previous quarter (June 2010: approximately 75 bopd) as a result of a fall in production levels attributable to mechanical issues at the Blina-1 and Blina-4 wells and the natural decline evident at the Blina and Sundown oil fields.

The Company has developed a plan to address the mechanical issues at the Blina-1 and Blina-4 wells which, if successfully implemented, will allow production to recommence from these wells. Completion of these repairs depends on access to equipment currently being used in the Company's exploration activities. These repairs will be carried out in the next quarter, subject to the equipment being available and weather conditions permitting.

Planning and approvals for a workover program at the Sundown oil field have also been completed. This program is expected to result in a material increase in production. It was originally planned to undertake the workover program using the Fairway Rig following the drilling of the Leander-1 well and prior to the commencement of the Paradise-1 well. However, the Fairway Rig undertook the preparation of the Yulleroo-2 well for the planned stimulation and flow test of that well (as discussed below) and was not available to undertake the workovers as planned. The Company is currently investigating the availability of suitable equipment to conduct the workover program during the December 2010 quarter.

Oil production from the fields generated cash receipts during the quarter of \$554,531 (March 2010: \$555,959; June 2010: \$700,617). The reduction in cash generated by the Blina and Sundown oil fields is mainly attributable to the decrease in production from the previous quarter, however the fall in the oil price and a rise in the Australian dollar against the US dollar during the quarter also had an adverse impact. The fields produced a net cash outflow of \$2,746 for the quarter (March 2010: net cash inflow of \$44,396; June 2010: net cash inflow of \$203,340).

## Drilling

During the quarter the Company completed the drilling of the Leander-1 well. Subsequent to the end of the quarter the Company commenced drilling operations at the Paradise-1 well.

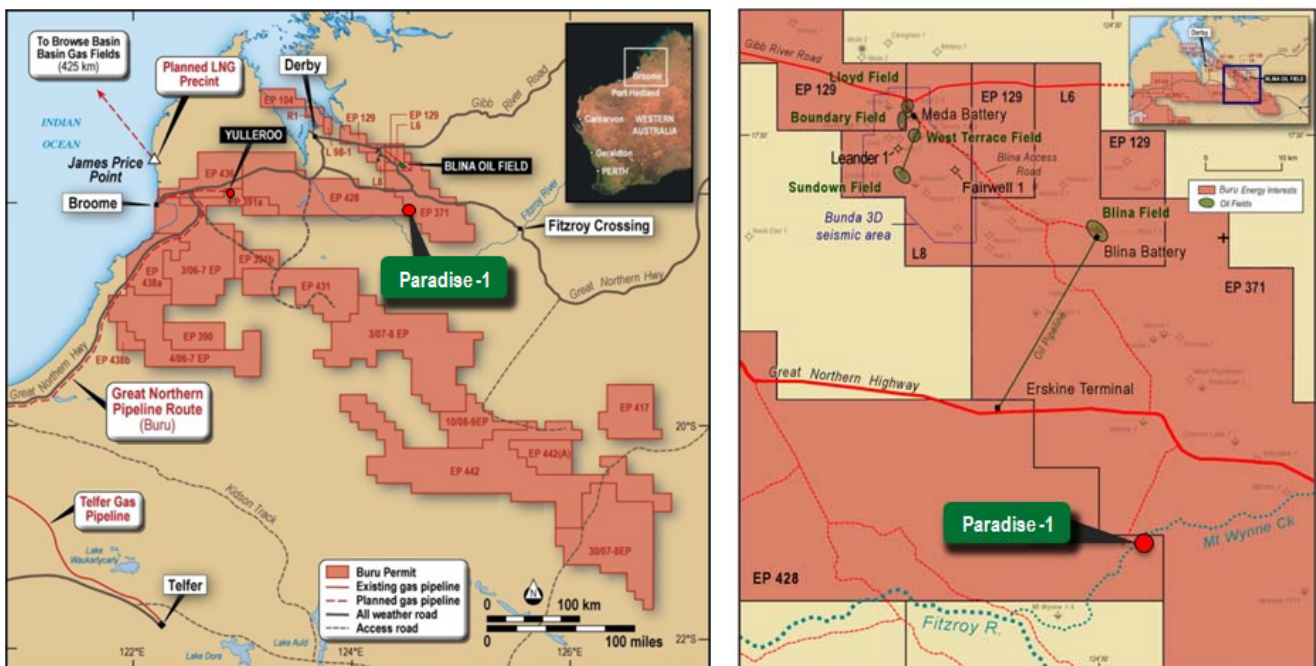
### Leander-1

Leander-1 was the second well to be drilled in the 2010 drilling season. The well was located in Buru's 100% owned Production Licence L8. Drilling operations commenced on 8 July. Due to mechanical and operational difficulties the well was sidetracked from 1,473 metres and took a total of 61 days to reach a final depth of 2,280 metres. Although hydrocarbon shows were encountered, no commercially significant hydrocarbons were identified. The well was suspended on 7 September. The Leander-1 well is being considered for possible re-entry and sidetrack during the 2011 drilling program to test an interpreted hydrothermal dolomite anomaly some 500m to the west of the current well location.

### Paradise-1

Paradise-1 is the third well to be drilled in the 2010 drilling season. It is the first well to be drilled in the Company's Joint Exploration Program with MC. Under the terms of the farm-in agreement between Buru and MC, MC is required to fund 80% of the costs of this well.

Paradise-1 is located in exploration permit EP 371, on the border with EP 428, approximately 200km east of Derby as shown in the maps below.



The primary objectives of Paradise-1 are oil in the sands of the Anderson and Grant Formations with P50 potential resources of approximately 16 million barrels of oil if hydrocarbons are present, and gas in the sands of the Laurel Formation with P50 potential resources of approximately 200 BCF of gas if hydrocarbons are present. The primary objective sands in Paradise-1 contained numerous oil and gas zones in the Valhalla-1 well drilled by ARC Energy in 2007 on a similar structure to Paradise-1, but these zones were not tested due to drilling and rig problems. The Anderson Formation in Valhalla-1 in particular contained an untested interpreted 11 metre oil column.

Secondary objectives in the Paradise-1 well include sands of the Grant Group which also included oil shows in the Valhalla-1 well. It is also planned to cut a total of up to four cores in the Paradise-1 well in the Anderson and Laurel Formations as part of Buru's ongoing evaluation of the identified potential for shale gas and tight gas plays.

Drilling operations commenced at Paradise-1 on 18 October 2010. The well is expected to take approximately 38 days to drill on a dry hole basis.<sup>1</sup>

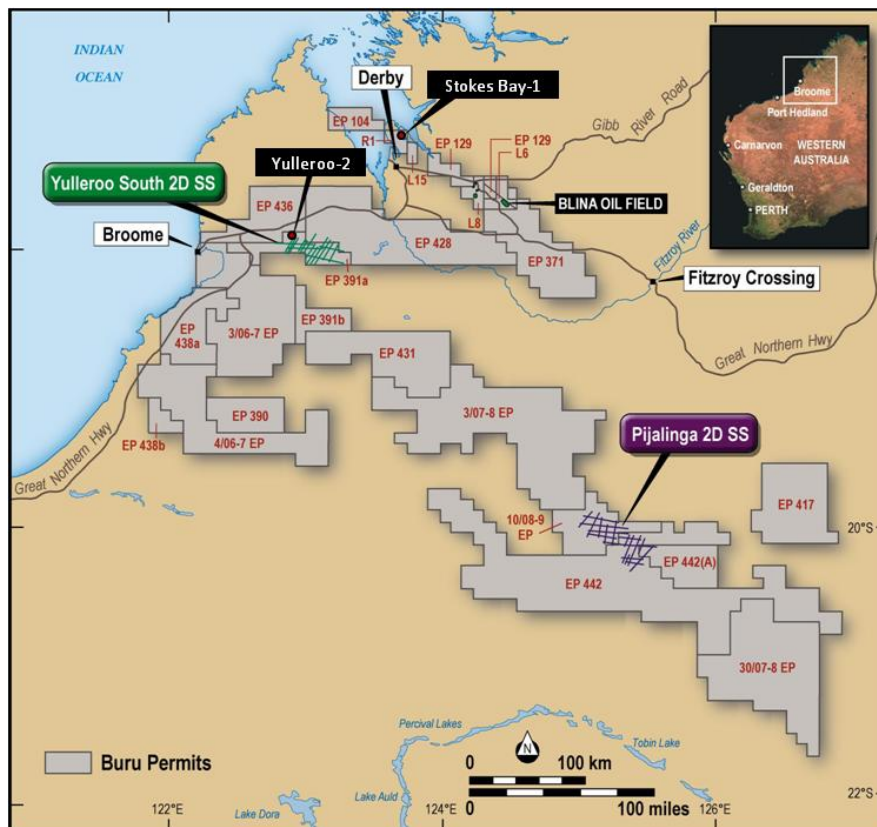
## Exploration

The Company's non-drilling exploration activities during the quarter focused on:

- the acquisition of the Yulleroo South 2D seismic survey;
- the finalisation of the planning and preparation for the acquisition of the Pijalinga 2D seismic survey;
- preparation for the testing of the Yulleroo-2 well; and
- preparation for the testing of the Stokes Bay-1 well.

In addition, the Company continued its evaluation of the shale gas potential of its permits.

The map below shows the location of the Yulleroo South and Pijalinga 2D seismic surveys, together with the Yulleroo-2 and Stoke Bay-1 well tests.



### Acquisition of the Yulleroo South 2D seismic survey

Acquisition of the Yulleroo South 2D seismic survey commenced on 28 August and was completed on 28 September. A total of 346.18km of seismic was acquired. The survey was completed on time and with no lost time injuries.

<sup>1</sup> Drilling dates are indicative only and are subject to weather and operational requirements.

The purpose of the Yulleroo South seismic survey is to firm up existing prospects, and identify new leads and prospects, in the Jackaroo and Ungani trends surrounding the existing Yulleroo gas discovery for potential drilling in the 2011 field season.

Initial reviews of the brute stacks indicate that data quality is good to excellent. Processing is underway and the new data will be incorporated into the planning for the 2011 field season as it becomes available.

Under the terms of the farm-in agreement between Buru and MC, MC is required to fund 80% of the costs of this seismic survey.

### **Commencement of the Pijalinga 2D seismic survey**

During the quarter planning and preparation for the Pijalinga 2D seismic survey was completed. Acquisition of the survey commenced on 2 October, subsequent to the end of the quarter.

The Pijalinga 2D seismic survey consists of 20 lines covering 408kms in EP442 and Application Area 10/08-9. The location of the survey is set out in the map above. It is designed to mature multiple leads in the Acacia Fairway to drillable status for potential drilling in the 2011 field season and to provide additional regional coverage.

Under the terms of the farm-in agreement between Buru and MC, MC is required to fund 80% of the costs of this seismic survey.

### **Stimulation and Testing of Yulleroo-2**

The Yulleroo-2 well, drilled by ARC Energy in 2008, followed up the Yulleroo-1 wet gas discovery and confirmed the existence of a large gas accumulation with an interpreted gross gas column of over 800 metres with the potential to hold estimated recoverable resources, on a P50 basis, of in excess of 400 BCF of gas together with in excess of 20 mmbbls of liquids. In addition, the shales in the gas column have an estimated recoverable resource, on a P50 basis, of another 1 TCF of gas. The well was not tested by ARC Energy due to mechanical difficulties with the rig at the time of drilling.

During the quarter all planning for the well test was completed and all necessary approvals received. The stimulation program is being conducted using a high volume "slick water" (an inert proppant containing 99.5% pure water) technique, similar to that used successfully in the Eagle Ford shale play in Texas and other shale plays in the United States. The well test is expected to commence on 2 November 2010, subsequent to the end of the quarter.

A successful test will justify further appraisal drilling to commercialise the discovery as the cornerstone of a new gas province underpinning the construction of the Great Northern Pipeline.

Under the terms of the farm-in agreement between Buru and MC, MC is required to fund 80% of the costs of this well test.

### **Testing of Stokes Bay-1**

The Stokes Bay-1 well was originally drilled by ARC Energy in 2007. An inconclusive test of the reservoir was carried out in late 2008. During the quarter all planning for a further test of the well was completed. Subsequent to the end of the quarter the joint venture and the DMP approved the conduct of the well test.

The testing program will utilise the coil tubing unit being used for the Yulleroo-2 well test. The nitrogen lift test is designed to produce drilling fluids from the well, identify if hydrocarbons are present in the formation fluids and determine if the well is capable of flowing at commercially viable rates, if hydrocarbons are proven to be present.

The well test is expected to commence in mid-November 2010, subsequent to the end of the quarter.

## Shale and Tight Gas Potential

During the quarter the Company continued its ongoing review of the shale and tight gas potential of various areas of the Canning Superbasin. There are several thick, widespread, mature, organic rich shales present on Buru's permits including the Noonkanbah, Lower Anderson, Laurel, Gogo and Goldwyer Formations and there is extensive tight gas potential in the sands of the Laurel Formation.

The analysis of the cores acquired from the Noonkanbah Formation shales during the drilling of Fairwell-1 is ongoing. Up to four cores will also be taken from the Anderson and Laurel Formation during the drilling of the Paradise-1 well to test the shale gas potential in that area. The acquisition and analysis of fresh core material is an essential component of evaluating shale gas plays. These cores are the first cores in the Canning Superbasin acquired specifically for shale gas evaluation.

Under the terms of the farm-in agreement between Buru and MC, MC is required to fund 80% of the costs of the acquisition and analysis of these cores.

## Executive Director's Comments

*"The September quarter was one of consolidation and planning ahead of the tremendously busy December quarter. We completed the drilling of the Leander-1 well which, while disappointing, has been suspended as we develop our understanding of the nearby hydrothermal dolomite play. We also completed the acquisition of the Yulleroo South 2D seismic survey, which will play an important part in firming up the two wells to be drilled in the Yulleroo Province during the 2011 field season.*

*The next quarter will be the busiest in Buru's short history. We will acquire the Pijalinga 2D seismic survey as well as drilling the Paradise-1 and Nangu-1 wells and testing the Yulleroo-2 and Stokes Bay-1 wells. We have done all the preparation we can to make these activities a success. The identification of commercial hydrocarbons in any of these wells would have a profound effect on the Company and on the prospectivity of the Canning Superbasin. Altogether it promises to be a very exciting few months. We will be keeping shareholders and the market updated on a regular basis as we progress these activities over the coming weeks."*

**Eric Streitberg**  
Executive Director

## Glossary

2D	Two dimensional seismic survey
ARC Energy	ARC Energy Limited
BCF	Billion cubic feet (of gas)
Bopd	Barrels of oil per day
Buru or the Company	Buru Energy Limited (ASX code: BRU)
DMP	Western Australian Department of Mines and Petroleum
New Standard	New Standard Energy Limited (ASX Code: NSE)
MC	Mitsubishi Corporation
Mmbbls	Millions of barrels (of liquids)
TCF	Trillion cubic feet (of gas)

### **Buru Energy Limited**

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

**BURU ENERGY LIMITED**

ABN

71 130 651 437

Quarter ended ("current quarter")

30 September 2010

### Consolidated statement of cash flows

	Current quarter \$A	Year to date (3 months) \$A
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	554,531	554,531
1.2 Payments for (a) exploration & evaluation	(5,569,222)	(5,569,222)
(b) development	(53,323)	(53,323)
(c) production	(557,277)	(557,277)
(d) administration	(1,181,013)	(1,181,013)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,338,103	1,338,103
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Payments for restoration to existing producing assets	-	-
<b>Net operating cash flows</b>	<b>(5,468,201)</b>	<b>(5,468,201)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) fixed assets	(179,746)	(179,746)
1.9 Proceeds from sale of:		
(a) fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (Investments)	(624,650)	(624,650)
<b>Net investing cash flows</b>	<b>(804,396)</b>	<b>(804,396)</b>
1.13 Total operating and investing cash flows (carried forward)	(6,272,597)	(6,272,597)

Appendix 5B  
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(6,272,597)	(6,272,597)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	82	82
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Loan pursuant to the employee share acquisition scheme	-	-
<b>Net financing cash flows</b>		<b>82</b>	<b>82</b>
<b>Net increase (decrease) in cash held</b>		<b>(6,272,515)</b>	<b>(6,272,515)</b>
1.20	Cash at beginning of quarter/year to date	62,340,717	62,340,717
1.21	Exchange rate adjustments to item 1.20	(343,425)	(343,425)
<b>Cash at end of quarter including cash held in escrow</b>		<b>55,724,777</b>	<b>55,724,777</b>
Less cash held in escrow		(21,940,488)	(21,940,488)
1.22	<b>Cash at end of quarter</b>	<b>33,784,289</b>	<b>33,784,289</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A
1.23	Aggregate amount of payments to the parties included in item 1.2	120,500
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
N/A		

**Non-cash financing and investing activities**

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
<p>Buru Energy Ltd (“Buru”) and Alcoa of Australia Ltd (“Alcoa”) have agreed to escrow \$20,000,000 and interest thereon in partial satisfaction of Buru’s obligations to repay a \$40,000,000 gas prepayment made by Alcoa to ARC Energy Limited prior to the demerger of Buru. These financial obligations crystallise if Buru does not deliver gas under the gas sales agreement between Alcoa and Buru from gas supplied from the Canning Basin or elsewhere, with repayment obligations being in three equal annual installments commencing in 2013. This cash balance in escrow has received interest totalling \$1,940,488 taking the total escrowed cash balance to \$21,940,488.</p>	

2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
<p>Buru has entered into a binding Farm-in Agreement (“Farm-in”) with Mitsubishi Corporation (“MC”).</p> <p>Under the Farm-in, MC has the right to earn an equal interest to Buru in the majority of Buru’s exploration permits by spending up to a total of A\$152.4 million on exploration and development. During the quarter, MC outlaid A\$1.04 million of a total of A\$22.4 million MC is obliged to outlay in 2010 in consideration for earning MC’s initial 40% interest in the majority of Buru’s exploration permits.</p> <p>Further information on the Farm-in is available in the ASX announcement made by Buru on 15 June 2010.</p>	

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A	Amount used \$A
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	2,880,000
4.2 Development	465,000
4.3 Production	490,000
4.4 Administration	1,170,000
<b>Total</b>	<b>5,005,000</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	3,784,289	8,703,915
5.2 Deposits at call	30,000,000	32,000,000
5.3 Bank overdraft	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>33,784,289</b>	<b>40,703,915</b>
Cash held in escrow	21,940,488	21,636,802
<b>Total: cash at end of quarter including cash held in escrow</b>	<b>55,724,777</b>	<b>62,340,717</b>

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements acquired or increased	N/A		

### Issued and quoted securities at end of current quarter

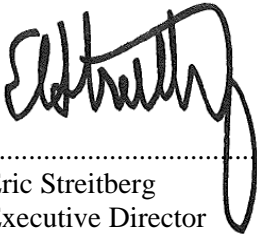
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	N/A	N/A	N/A	N/A
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	182,769,900	182,769,900	N/A	N/A
7.4 Changes during quarter				
(a) Increases through issues				
Options exercised	87	87	\$0.94	\$0.94
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	N/A	N/A	N/A	N/A
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 <b>Options</b> <i>(description and conversion factor)</i>	55,176,803*	55,176,803*	<i>Exercise price</i> \$0.94	<i>Expiry date</i> 10 Oct 2010
	5,000,000	-	\$0.25	31 Dec 2011
	10,241,000	-	\$0.30	31 Dec 2011
	<u>5,000,000</u>	<u>-</u>	\$0.35	31 Dec 2011
	75,417,803	55,176,803		
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> <i>(totals only)</i>	N/A	N/A		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	N/A	N/A		

\* Subsequent to the end of the quarter, a further 10,649 listed options were exercised at \$0.94 and converted to ordinary securities. The remaining 55,166,154 listed options expired on 10 October 2010 in accordance with their terms.

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

..... Date: 25 October 2010  
Eric Streitberg  
Executive Director