

Quarterly Report

Quarter Ended:
30 September 2008



Welcome

The directors of Buru Energy Limited are pleased to present the first quarterly report of the Company and to take this opportunity to welcome you as shareholders.

Buru Energy is an Australian company focused on exploring and developing petroleum resources in the Canning Basin in the Kimberley region of northwest Western Australia. Through its demerger from ARC Energy ("ARC") on 25 August 2008, the Company has acquired, or has rights to earn interests in, permit holdings that provide access to all of the major petroleum systems in the Canning Basin.

Vision and Corporate Strategy

The Company's vision is to successfully explore for and develop the petroleum resources of the Canning Basin to deliver material benefits to its shareholders, the community and the traditional owners. The Company's overall Corporate Strategy is to:

- Apply appropriate and innovative techniques and strategies to exploration and development of the petroleum resources of the Canning Basin.
- Achieve technical, operational, commercial, safety and environmental excellence in its activities.
- Engage effectively, openly and fairly with the traditional owners in the areas in which it operates.

Corporate

The Company demerged from ARC on 25 August 2008 and listed on the Australian Stock Exchange on 1 September 2008.

Buru Energy holds or has the rights to an exploration portfolio consisting of interests in 16 exploration permits, 1 retention lease, 2 production licences, 1 onshore pipeline licence and 8 applications within the Canning Basin in Western Australia's Kimberley region, covering around 140,000 km² of exploration acreage.

Issued Capital (as at date of this report)		Financial Resources (as at the end of the quarter)	
Ordinary Shares:	162,119,728	Total Cash	\$82,620,165
Options (listed):	55,176,975	Free Cash	\$62,620,165 (*)
Options (unlisted):	33,900,000	Debt	Nil

(*) \$20 million is held in an account on behalf of Alcoa until Buru Energy delivers gas under a GSA.

Subsequent to the demerger from ARC, the Company has moved to separate offices as set out below. Shareholders are welcome to contact the Company on the freecall number or email as also set out below.

Buru Energy Limited
ABN 71 130 651 437

Address: Level 1, 418 Murray Street, Perth WA 6000
Postal Address: PO Box 7794, Perth Cloisters Square WA 6850

Communications: Free call: 1800 337 330 or Email: info@buruenergy.com

Production and Development

The Company produces oil from the Blina and Sundown oil field complex contained within the L6 and L8 permits, and in August and September 2008 completed a successful well workover program, resulting in production increasing from approximately 30 barrels of oil per day (“bopd”) to approximately 200 bopd. Internal studies are being undertaken to assess further activities to increase production from these fields.

Drilling

On 26 August 2008 the Company executed an agreement with New Standard Energy (“NSE”) whereby NSE assigned a 35% interest in the EP 417 permit to Buru in return for Buru committing to fund 35% of the costs of drilling the Lanagan 1 and Lawford 1 wells and Buru paying NSE \$75,000 toward previous expenditure incurred by NSE on the permit.

On 1 September 2008 NSE, as operator, spudded the Lanagan 1 well which was targeting a large potential oil bearing reservoir in the Laurel / Knobby sandstones. The well did not intersect hydrocarbons at its total depth of 1,530 metres and was plugged and abandoned.

The Lawford 1 well was subsequently spudded on 4 October 2008 and as at the date of this report drilling was suspended at a depth of around 1,320 meters due to the risk of weather impacting drilling operations. The expectation is that the well will be completed during the 2009 drilling season to its proposed total depth target of 1,650 metres.

Exploration

Subsequent to the demerger from ARC, the Company has embarked on a detailed technical review of the previous exploration programs conducted by ARC and has also commenced a detailed regional and prospect level technical review of its portfolio in preparation for next year’s drilling program.

Encouraging results from the workovers at the Blina and Sundown oil fields have renewed focus on these areas for low risk exploration in an area with established infrastructure.

Other

Buru Energy has a beneficial interest in a legal action brought by Oil Basins Limited against ARC (now wholly owned by AWE). The resolution of the action is not expected to have a material impact on the Company.

Subsequent Events

At the date of this report Buru Energy had:-

- Issued listed options in the Company (ASX code: BRUO) on 10 October 2008 to shareholders who were registered on the Company’s share register on 3 October 2008 on a one for three basis. These options provide shareholders with the ability to either acquire Buru Energy shares at \$0.94 per share or sell the options on ASX within two years of issue; and
- Commenced testing the Stokes Bay 1 well in the R1 permit where current activities were awaiting nitrogen based testing equipment’s arrival at the well site.

Glossary

Buru Energy or the Company	Buru Energy Limited (ASX code: BRU)
New Standard Energy or NSE	New Standard Energy Limited
Alcoa	Alcoa of Australia Limited
ARC	ARC Energy Limited
AWE	Australian Worldwide Exploration Limited
bopd	Barrels of oil per day
km ²	Square kilometres
GSA	Gas Sales Agreement
Options (unlisted)	Unlisted directors and employee options
Options (listed)	Options listed on the ASX under the code: BRUO

Managing Director's Comments

Buru Energy offers shareholders a fully funded oil and gas exploration investment opportunity in an area with potential for major oil and gas discoveries. Since the Company listed on 1 September 2008 the decline in the debt and share markets has made it difficult for companies to raise capital and places Buru Energy in a unique position, with over \$62 million in free cash. This will allow Buru Energy to continue with its exploration activities, in a prudent and economical manner, with the capacity for each well drilled to deliver material benefits for shareholders, the community and the traditional owners.

It is with this prudence that we ultimately decided to defer drilling the Paradise 1 well in the EP 428 permit and defer completing the Lawford 1 well in the EP 417 permit. The risk of being caught in the heavy seasonal rains that fall in the area was real and the costs would have been very substantial if this happened. The prospects remain in our portfolio and are both expected to be drilled in the 2009 dry season starting in May 2009.

Buru Energy's team are actively working on additional prospects for the 2009 drilling season which we expect to include the above wells, the Pictor East 1 well in the EP 431 permit and other wells which are matured from the current technical review.

Once again, welcome to the Company and I look forward to reporting on our progress in the future.

*Adrian Cook
Managing Director*

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Mining exploration entity quarterly report

Name of entity

BURU ENERGY LIMITED

ABN

71 130 651 437

Quarter ended

30 September 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A	Year to date (3 months) \$A
1.1 Receipts from product sales and related debtors	180,094	180,094
1.2 Payments for		
(a) exploration and evaluation	(1,690,029)	(1,690,029)
(b) development	(181,702)	(181,702)
(c) production	(173,412)	(173,412)
(d) administration	(282,368)	(282,368)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	84,121	84,121
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – security deposits and prepaid business interruption insurance	(273,050)	(273,050)
Net Operating Cash Flows	(2,336,346)	(2,336,346)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(29,944)	(29,944)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.11 Loan repaid by other entities		
1.12 Other		
Net investing cash flows	(29,944)	(29,944)
1.13 Total operating and investing cash flows (carried forward)	(2,366,290)	(2,366,290)

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Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,366,290)	(2,366,290)
	Cash flows related to financing activities		
1.14	Proceeds from issues of ordinary shares, options, etc		
1.15	Proceeds from issue of preference shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.19	Other: cash received from demerger with ARC Energy Limited	84,986,454	84,986,454
	Net financing cash flows	84,986,454	84,986,454
	Net increase (decrease) in cash held	82,620,164	82,620,164
1.20	Cash at beginning of quarter/year to date	1	1
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	82,620,165	82,620,165

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	51,760
1.24	Aggregate amount of loans to the parties included in item 1.11	-

1.25 Explanation necessary for an understanding of the transactions

Refer particulars outlined in the covering Quarterly Report

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

As provided in section 5 to this report, Buru Energy and Alcoa agreed to escrow \$20 million and interest thereon in substantial satisfaction of Buru Energy's obligations to repay a \$40 million gas prepayment made by Alcoa to ARC prior to the demerger of Buru Energy. These financial obligations crystallise if Buru Energy does not deliver gas under the GSA from gas supplied from the Canning Basin or elsewhere, with repayment obligations being in three equal annual instalments commencing in 2013.

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

N/A

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	2,000,000
4.2 Development	500,000
Total	2,500,000

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	62,620,165	1
5.2 Deposits at call	20,000,000	-
5.3 Bank overdraft	-	-
5.4 Bill	-	-
Total: cash at end of quarter (item 1.22)	82,620,165	1

Changes in interests in mining tenements

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed		N/A		

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Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased	L6/L8/PL7	Transferred from ARC*	Nil	100%
	EP104/R1	Transferred from ARC*	Nil	38.95% ⁽¹⁾
	EP129	Transferred from ARC*	Nil	100%
	EP371	Transferred from ARC*	Nil	100%
	EP390	Transferred from ARC*	Nil	100%
	EP391	Transferred from ARC*	Nil	100%
	EP 417	Acquired from NSE	Nil	35%
	EP428	Transferred from ARC*	Nil	100%
	EP431	Transferred from ARC*	Nil	100%
	EP436	Transferred from ARC*	Nil	5% ⁽²⁾
	EP438	Transferred from ARC*	Nil	10% ⁽³⁾
	EP442	Transferred from ARC*	Nil	10% ⁽³⁾
	EP443	Transferred from ARC*	Nil	5% ⁽²⁾
	EP448	Transferred from ARC*	Nil	10% ⁽³⁾
	EP450	Transferred from ARC*	Nil	10% ⁽³⁾
EP451	Transferred from ARC*	Nil	10% ⁽³⁾	
EP456	Transferred from ARC*	Nil	10% ⁽³⁾	

* On 25 August 2008 the demerger from ARC Energy Limited was completed and the beneficial rights to the permits listed in the Scheme Booklet were transferred to Buru. Buru has subsequently or is in the process of transferring legal title to these permits subject to various forms of legal and joint venture documentation.

(1) Per the Petroleum and Geothermal Registrar, which can be accessed at www.doir.gov.au, Buru has legal title to only 12.6% of the permit. The interests shown for EP104 and R1 are based on information contained in clause 4.4 of the most recent deed of assignment and assumption that has been approved and registered on this title. Previously ARC had subsequently lodged two dealing documents and a title transfer on the register but they have not been approved by the petroleum registry at 30 September 2008.

(2) Staged farm-in earning program under which Buru has earned a 5% interest in these permits, but has to wait until one of the existing joint venture parties lodges certain documents with the registry before it will be in a position to lodge and register its interest.

(3) Buru has earned its 10% interest in these permits, has lodged the appropriate dealing and transfer documents and is currently awaiting approval by the petroleum registry.

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	Amount paid up per security
7.1 Preference *securities <i>(description)</i>		N/A		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	162,119,728	162,119,728	N/A	N/A
7.4 Changes during quarter (a) Increases Issued shares Options exercised Options exercised (b) Decreases through returns of capital, buy-backs	162,119,728	162,119,728	-	-

Appendix 5B
Mining exploration entity quarterly report

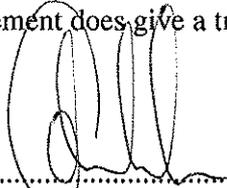
7.5	*Convertible debt securities		N/A		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options	33,900,000 ⁽¹⁾	Nil	Exercise price \$0.94	Expiry date 27Aug 2010
7.8	Issued during quarter	33,900,000	Nil	\$0.94	27Aug 2010
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>	N/A	N/A		
7.12	Unsecured notes <i>(totals only)</i>	N/A	N/A		

(1) Unlisted options

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 does give a true and fair view of the matters disclosed.

Sign here: 

Date: 30 October 2008

Print name: **ADRIAN COOK**
(Chief Executive Officer)

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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