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Buru Energy Limited
Level 1
418 Murray St
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Title: Open Briefing®. Buru Energy. MD Explains Acquisition Proposal

Record of interview:

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Buru Energy Limited (ASX code: BRU) has today announced that it has agreed to present to shareholders and listed optionholders a proposal from private company Arenite Pty Ltd to acquire all of Buru's shares and listed options. Can you explain the key terms of the offer?

Adrian Cook, Managing Director
The offer is really very simple. Arenite is offering Buru shareholders A$0.25 in cash for each of their Buru shares and Buru listed optionholders A$0.025 in cash for each of their Buru listed options. The offer is being made by two schemes of arrangement, one for Buru shares and one for Buru listed options. Buru shareholders will vote on the scheme to approve the offer for their shares and Buru listed optionholders will vote on the scheme to approve the offer for their listed options.

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The offer is unusual in that Arenite, the company making the offer, is associated with the Buru Chairman, Eric Streitberg. How has Buru managed any potential conflicts that could arise from this situation?

Adrian Cook, Managing Director
The fact that Buru's Chairman is associated with the bidder does create a conflict of interest for him. However, in the past few years there have been a number of transactions where senior staff members or directors have been associated with a bidder. As a result the Takeovers Panel has well developed guidelines on dealing with this type of situation which we were able to adopt bearing in mind the specific circumstances of the offer.

As soon as the offer was received from Arenite, Mr Streitberg undertook to stand aside from the Buru Board until the conflict of interest was resolved, either by the offer being recommended to shareholders or it being withdrawn. The independent members of the Buru Board, being myself and Graham Riley, then took sole responsibility, with appropriate external advice, for the assessment of the Offer, and made all decisions and recommendations in relation to the Offer. We also put in place strict protocols that placed restrictions on the information that Mr Streitberg had access to and the work that he could undertake for Buru during the assessment of the offer. This ensured that our ability to fairly evaluate the offer was not compromised.

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After reviewing the offer the Buru Board has decided to recommend it to shareholders. Can you explain why?

Adrian Cook, Managing Director
Basically since listing on the ASX, the market has told us that it thinks Buru is worth somewhere between 18 cents and 20 cents per share, with the three-month VWAP being around A$0.19. In that context we thought it important that shareholders have the chance to decide for themselves whether to accept an offer of 25 cents, a 32% premium to the three month VWAP. Similarly, the offer represents a premium of 79% to the three month VWAP of the listed options. It is also important to remember that many listed optionholders received their options for free, so the offer could be particularly attractive to them.

When considering the offer price we also looked at Buru's cash reserves and future commitments. Although the company has around A$79 million in cash, the company does have an obligation to repay Alcoa up to A$40 million for its gas prepayment if gas is not supplied under the gas sales agreement. We are also committed to spending approximately A$6.5 million on seismic acquisition this year, in addition to ongoing technical work and overheads. While this is a typical expenditure program for an exploration company, the independent directors are cognisant that, in the absence of an offer of this nature or making a commercial discovery, the Company's share price may decline over time as the cash reserves decline.

So while we continue to believe in the business model, we think the offer provides a timely opportunity to enable shareholders consider their position before Buru embarks on its exploration plans in earnest.

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Based on the cash numbers you have described above, it appears that if the schemes are approved and the cash payment is made to shareholders and listed optionholders Buru will not have sufficient money to meet the full A$40 million obligation to Alcoa. Have you discussed this possibility with Arenite?

Adrian Cook, Managing Director
To be clear, the Alcoa gas pre-payment amount of A$40 million is secured by a A$20 million escrow account which remains with Buru, and will be transferred to Arenite. The remainder of the repayment can be a mixture of cash and equity with the first repayment, if it is required, due in 2013.

We have enquired of Arenite what their intentions are in this regard and they have informed us that they intend, at an appropriate point, and if necessary, to recapitalise and restructure the company to ensure that it can meet such of its obligations as it is required to do at the particular time at which they fall due. This is no different to Buru's obligations to ensure that it is able to make the repayment, but if the offer is successful the risk of doing so will rest with Arenite, not with Buru shareholders.

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You mentioned a review process undertaken by the Buru Board before it made its recommendation. What did this process involve?

Adrian Cook, Managing Director
As we have previously advised the market, Buru undertook a strategic review of its activities in late 2008 and early 2009. This review was undertaken in the context of the continuing weakness in the Buru share price and the dramatic changes to global economic conditions and the collapse in the oil price that took place following Buru's listing. This review identified the difficulties with frontier exploration in the Canning Basin in the current lower oil price environment and where debt and equity capital markets remain largely closed for funding frontier exploration. As a result of this review, Buru deferred its planned 2009 drilling campaign and took measures to cut costs throughout the organisation. We also looked at a number of alternative strategies to realise value for Buru shareholders as part of the strategic review, including mergers and other corporate activities, divesting assets, and returning cash to shareholders.

Our assessment of the offer was based around revisiting the results of the strategic review. As I've mentioned, although we did consider returning cash to shareholders the amount that could be returned while leaving Buru with sufficient cash to carry out its planned programs and future obligations is significantly lower than the amount being offered. Based on the review, we formed the view that the offer is an opportunity that would not otherwise be available for Buru shareholders and optionholders to realise the value of their investment.

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Given you considered the alternative of returning cash to shareholders, can you explain why it is not a viable alternative for you to return the same amount of money to shareholders as Arenite is proposing?

Adrian Cook, Managing Director
It is important to understand the offer is not an option that Buru would itself be able to put to shareholders. By this, I mean that Buru could not return such a significant amount of cash to shareholders and continue to pursue its current strategy as a publicly listed company. If we followed a process of returning something in the order of the offer price to shareholders, it is likely the company would be forced into a prolonged period of inactivity due to a lack of funding and would be required to undertake a fundamental restructure of its portfolio to address the high level of exploration commitments which may then be unfunded. This could lead to significant uncertainty as to the future structure of the portfolio and severely limit future options.

Furthermore, there is no guarantee that Buru could adequately restructure its portfolio to meet its exploration commitments, meaning that additional equity capital may need to be raised in the future, diluting existing shareholders. This would occur in an environment where Buru was most likely to have significantly rationalised its exploration portfolio and have a reduced capacity to drill exploration wells which together would make the company less attractive to investors and therefore making any new funding more difficult to secure.

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Why didn't Buru choose to return a smaller amount of money to shareholders and continue to pursue its existing exploration strategy?

Adrian Cook, Managing Director
If we had returned some cash to shareholders, but committed to continue exploring, there is a very real risk that we could run out of money before we had commercial success. Exploration in the Canning Basin is expensive and risky and it is important to remember that ARC Energy, Buru's predecessor in the Canning Basin, spent in excess of A$50 million on exploration without commercial success.

If we returned cash, continued a limited exploration program without commercial success, and were then forced to raise additional equity from the capital markets, it most likely would be at a discount, putting further pressure on the Buru share price and diluting existing shareholders. Even if we did complete our exploration program without the need to raise further funds, there is no certainty that we would be successful, or if we were successful that we could fund a development without raising capital at a discount to the offer price. We therefore saw very significant risks associated with this alternative of a partial capital return and do not think it is in shareholder's best interests.

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You have painted a somewhat grim picture of the exploration program in the Canning Basin. What will the company do if shareholders and listed optionholders do not vote in favour of the offer?

Adrian Cook, Managing Director
I have been realistic in my assessment of the exploration program in the Canning Basin. Although there is a real chance that there are more hydrocarbons to be found somewhere in the Basin, finding them will take a lot of time and money. When the offer was made, the Buru Board reviewed its current strategy and has come to the view that the offer represents a sufficiently attractive alternative for shareholders to consider. If the offer is not successful then Buru will continue with its existing exploration strategy which the Buru Board considers, in the absence of a superior offer, is the best option available to Buru.

We may be lucky, and the exploration program may be successful in 2010 without the need to raise additional capital. However, there is also the possibility that we will be unlucky and shareholders will see a decline in the value of their investment. This is the nature of the exploration business.

In contrast, if shareholders accept the offer, they have the absolute certainty of cash in hand at a higher price than they could have sold their shares at any time since October 2008. The "one-off" window of opportunity presented by the offer is another reason that we considered it was appropriate for shareholders and optionholders to have the opportunity to vote on the offer at this time.

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You have stressed that accepting the offer is a choice that shareholders should make themselves. What is the company doing to keep shareholders fully informed ahead of their vote? What are the key timetable milestones?

Adrian Cook, Managing Director
Before we can have the vote there is a large amount of work that we need to do, and we are pushing ahead with that at present. Most importantly we are preparing a scheme booklet that will contain all the information that shareholders and listed optionholders need in order to make up their mind on how to vote on the schemes. The scheme booklet will also contain an independent expert's report by PricewaterhouseCoopers setting out whether the offer is in the best interests of shareholders and listed optionholders. We hope to be able to send the scheme booklet to shareholders in late May. This would allow us to have the scheme meetings in late June with consideration then being payable in mid-July.

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Arenite is an unlisted private company. Does it intend to list at any stage in the future?

Adrian Cook, Managing Director
Arenite have not indicated to us precisely how they intend to recapitalise the company only that they plan to do so at an appropriate point in the future. This will essentially be a question for Arenite to answer.

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Thank you Adrian.

For further information on Buru Energy Limited please visit www.buruenergy.com or contact Adrian Cook, Managing Director on Freecall: 1800 337 330 or 08 9215 1800 or adriancook@buruenergy.com

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