

Quarterly Report

Quarter Ended:
31 December 2008



Welcome

The directors of Buru are pleased to present the report of the Company for the quarter ended 31 December 2008.

Buru is an Australian company focused on exploring and developing petroleum resources in its current acreage in the Canning Basin in the Kimberley region of northwest Western Australia. Through its demerger from 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 petroleum and energy resources to deliver material benefits to its shareholders, the community and the traditional owners in the areas in which it operates. The Company's overall Corporate Strategy is to:

- Apply appropriate and innovative techniques and strategies to exploration and development of its petroleum resources.
- 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 has strong net cash reserves of over \$59 million available for exploration, development and investment, and a capital structure that provides significant upside potential for shareholders from even a modest oil or gas discovery.

Issued Capital <i>(as at date of this report)</i>		Financial Resources <i>(as at the end of the quarter)</i>	
Ordinary Shares:	162,119,728	Total Cash	\$79,578,099 (*)
Options (listed):	55,176,975	Free Cash	\$59,578,099
Options (unlisted):	28,300,000	Debt	Nil

(*) \$20 million of the Company's total cash is held in an account on behalf of Alcoa until Buru delivers gas under a Gas Sales Agreement.

Production and Development

The Company produces oil from the Blina and Sundown oil field complex contained within the L6 and L8 licences in the Canning Basin in the northwest of Western Australia, and in August and September of 2008 completed a successful well workover program, resulting in production increasing from approximately 30 barrels of oil per day ("bopd") to approximately 200 bopd. Technical studies are being undertaken to assess further activities to increase production from these fields with a view to undertaking this work during 2009 if economic conditions support allocating funds to these activities. The economic producing levels of individual producing wells are also being re-assessed in the light of recent low oil prices and this may lead to the shutting in of some wells until oil prices improve.

Drilling

The Company undertook an exploration drilling program during the period immediately subsequent to the demerger from ARC. This program was in joint venture with New Standard Energy ("NSE") and was conducted pursuant to an agreement with NSE executed on 26 August 2008. Under the agreement 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.

The Lanagan 1 well was subsequently drilled in September 2008 to a total depth of 1,530 metres and was plugged and abandoned when no significant hydrocarbons were encountered.

On 4 October 2008 NSE, as operator, spudded the Lawford 1 well which was subsequently suspended at a depth of 1,325 metres due to the risk of weather impacting drilling operations and continued mechanical difficulties with the well. The operator is assessing rig alternatives with the expectation that the well will be completed during the 2009 or 2010 drilling season to its proposed total depth target of 1,800 metres.

In October and November 2008 Buru, as operator of the EP 104 / R1 Permits, conducted additional testing of the Stokes Bay 1 well located near the town of Derby.

The program involved an initial circulation of fresh water and swabbing of the wellbore before using nitrogen in an attempt to lift the heavy drilling fluids above the Nullara Formation carbonate reservoir and reduce the pressure on the formation. The test program was designed to induce flow of formation fluids from the cavernous Nullara Formation reservoir.

The swabbing and nitrogen lifting operations recovered an additional 190 barrels ("bbls") of drilling fluid bringing the total drilling fluids recovered to 3,834 bbls and represents some 38% of the estimated 10,000 bbls of drilling fluid lost to the formation during drilling operations. The swabbing and nitrogen operations were expected to lift sufficient drilling mud from the wellbore to allow an influx of formation fluids into the wellbore. However, these operations rely on there being either sufficient gas already available within the system or sufficient reservoir energy to continue to lift fluids from the well. The additional 190 bbls of drilling fluids recovered in this operation were not enough to assist this influx and other methods will now be evaluated by the joint venture to determine whether hydrocarbons are present and the extent of the reservoir.

Exploration

Buru has continued with its detailed technical review of the previous exploration programs conducted by ARC and has also advanced a detailed regional and prospect level technical review of its portfolio that it commenced last quarter.

As outlined by the Company on 12 January 2009, economic conditions and 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.

The Company expects to continue its technical review and prospect identification and refinement process in 2009 in preparation for drilling activities in the 2010 dry season. An integral part of this review and prospect identification is the potential to acquire over 200 km² of 3D seismic data over the existing oil fields in production licence L8 and over 100 km of 2D seismic data over the Paradise 1 structure in exploration permit EP 428 with the intention of drilling this prospect in the 2010 drilling season. Discussions with contractors, Government and traditional owners in this regard are currently underway.

Corporate

Buru is well positioned to grow shareholder value and take advantage of opportunities presented by the current market conditions. Unlike many of its peers, the Company has a strong net cash position of some \$59 million, profitable low cost oil production from existing fields in the Canning Basin, and an extensive exploration portfolio with the flexibility to tailor future exploration activities and commitments to the prevailing market conditions.

On 12 January 2009, the Company announced that going forward it intends to preserve and strengthen its already strong position by undertaking a reduced and more tightly focused exploration and development program in the Canning Basin and has already commenced a targeted cost reduction program across all aspects of its activities.

In addition, the current economic environment has seen an increasing number of oil and gas investment opportunities becoming available. The Company has put in place a review mechanism to identify those investment opportunities that can offer Buru shareholders the potential for greater rewards, potentially with lower risk, than its existing Canning Basin exploration portfolio, including opportunities outside the Canning Basin.

Other

Buru had a beneficial interest in a legal action covering part of production licence L6 and part of exploration permit EP 129, known as the Backreef Area. Buru's interest in the legal dispute related to the transfer from ARC to Buru of its interest in the Backreef Area and the associated terms and conditions attaching to the associated work program. The legal action was resolved on 31 October 2008 with ARC's farminees being responsible for drilling a well in the Backreef Area before 31 October 2010 to earn an interest of 100%. Buru has the option to earn back 30% in the Backreef Area following the drilling of the well by paying the farminees 90% of the cost of the well. Department of Mines and Petroleum permit dealings have also been approved to the farminees as announced on 31 October 2008.

Glossary

Buru 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

Since the Company's last Quarterly Report we have seen further deterioration in economic conditions with its severity now extending into the Australian resource and particularly oil and gas sector. On 12 January 2009 we provided shareholders with an update on Buru's forward plans following an internal strategic review. The outcome of that review involves Buru making sure the existing business' affairs are in order and operating efficiently, extracting value from the existing business as economic factors justify, and seeking value outside our existing business as opportunities arise.

We have undertaken a program to reduce the business' cost structure and will continue to do this going forward. We are also continuing with our technical review programs and drilling programs so that we are in the best shape possible to commence drilling once economic conditions improve.

In the meantime we will prudently manage the Company's net cash reserves, which remain strong at over \$59 million, and will be vigilant but not rushed in our search for opportunities to enhance value for shareholders.

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

*Adrian Cook
Managing Director*

Buru Energy Limited

ABN 71 130 651 437

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Appendix 5B

Mining exploration entity quarterly report

Name of entity

BURU ENERGY LIMITED

ABN

71 130 651 437

Quarter ended

31 December 2008

Consolidated statement of cash flows

	Current quarter \$A	Year to date (6 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	1,410,434	1,590,528
1.2 Payments for:		
(a) exploration and evaluation	(2,607,716)	(4,297,745)
(b) development	(486,225)	(667,927)
(c) production	(803,095)	(976,507)
(d) administration	(1,070,411)	(1,352,779)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	879,386	963,507
1.5 Interest and other costs of finance paid	(728)	(728)
1.6 Income taxes paid	-	-
1.7 Other – security deposits and prepaid business interruption insurance	(65,882)	(338,932)
Net operating cash flows	(2,744,237)	(5,080,583)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(356,797)	(386,741)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loan repaid by other entities	-	-
1.11 Other	-	-
Net investing cash flows	(356,797)	(386,741)
1.12 Total operating and investing cash flows (carried forward)	(3,101,034)	(5,467,324)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,101,034)	(5,467,324)
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
	Net financing cash flows	-	84,986,454
	Net increase (decrease) in cash held	(3,101,034)	79,519,130
1.20	Cash at beginning of quarter/year to date	82,620,165	1
1.21	Exchange rate adjustments to item 1.20	58,968	58,968
1.22	Cash at end of quarter	79,578,099	79,578,099

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	231,256
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

Buru Energy and Alcoa have 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	250,000
4.2 Development	100,000
Total	350,000

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	29,478,099	62,620,165
5.2 Deposits at call	50,100,000	20,000,000
5.3 Bank overdraft	-	-
5.4 Bill	-	-
Total: cash at end of quarter (item 1.22)	79,578,099	82,620,165

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	N/A	N/A

6.2 Interests in mining tenements acquired or increased	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
	L6 / L8 / PL7	Transferred from ARC*	Nil	100%
	EP 104 / R1	Transferred from ARC*	Nil	38.95% ⁽¹⁾
	EP 129	Transferred from ARC*	Nil	100%
	EP 371	Transferred from ARC*	Nil	100%
	EP 390	Transferred from ARC*	Nil	100%
	EP 391	Transferred from ARC*	Nil	100%
	EP 417	Acquired from NSE	Nil	35%
	EP 428	Transferred from ARC*	Nil	100%
	EP 431	Transferred from ARC*	Nil	100%
	EP 436	Transferred from ARC*	Nil	100%
	EP 438	Transferred from ARC*	Nil	5% ⁽²⁾
	EP 442	Transferred from ARC*	Nil	10% ⁽³⁾
	EP 443	Transferred from ARC*	Nil	10% ⁽³⁾
	EP 448	Transferred from ARC*	Nil	5% ⁽²⁾
	EP 450	Transferred from ARC*	Nil	10% ⁽³⁾
	EP 451	Transferred from ARC*	Nil	10% ⁽³⁾
	EP 456	Transferred from ARC*	Nil	10% ⁽³⁾

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

(1) Per the Petroleum and Geothermal Register (“**PGR**”), which can be accessed at www.dmp.wa.gov.au, Buru has legal title to only 12.6% of this Exploration Permit. The interests shown for EP104 and R1 are based on information contained within clause 4.4 of the most recent Deed of Assignment and Assumption that has been submitted to the Department of Mines and Petroleum (“**DMP**”) in relation to this Exploration Permit. Buru has recently paid the registration fees relating to these dealings and expects transfer of title to be effected and shown on the PGR in the coming weeks.

(2) Staged farm-in earning program under which Buru has earned a 5% interest in each of these Exploration Permits. Deed of Assignment and Assumption and Transfer of Title documents have been circulated to the interested parties for execution. Once all parties have signed the documents they will be issued to the DMP for dealing a registration.

(3) Buru has earned its 10% interest in these permits in accordance with the New Standard Offer Agreement dated 14 September 2007 and related dealing and transfer documents have been lodged with the DMP. Buru has recently paid the registration fees relating to these dealings and expects transfer of title to be effected and shown on the PGR in the coming weeks.

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	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 +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	N/A	N/A	N/A	N/A
7.5 +Convertible debt securities	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 Options	55,176,975 <u>33,900,000^(a)</u> 89,076,975	55,176,975 <u>-</u> 55,176,975	Exercise price \$0.94 \$0.94	Expiry date 10 Oct 2010 27Aug 2010
7.8 Issued during quarter	55,176,975	55,176,975	\$0.94	10 Oct 2010
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 Debentures (totals only)	N/A	N/A		
7.12 Unsecured notes (totals only)	N/A	N/A		

(a) *Unlisted options – issued under the Buru Energy D&E Options employee share scheme*

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

Date: 30 January 2009

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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