

29 February 2024

## Price discounts hidden asset

### NEED TO KNOW

- Buru’s Rafael gas project is in a partnering and appraisal phase. Success would transform the company due to the large resource size and commercial opportunity.
- Buru’s hydrogen and helium acreage is a sleeper. Peer activity indicates strong investor appetite. There is nil value for this asset in the Buru share price.
- Entering 2024 in a strong financial position.

**The Rafael gas discovery in the Canning Basin of W.A. is transformational** and this project is Buru’s strategic priority. Late in 2023, Buru received final seismic data over the discovery and high-level interpretation is ongoing to pave the way for partnering, with a plan to drill appraisal wells in 2H CY2024.

**Buru’s prospective hydrogen and helium acreage in S.A and W.A is a sleeper asset.** Drilling success by Gold Hydrogen (ASX:GHY) in S.A and its equity market value evidences strong investor interest. This creates monetisation options for Buru.

**Following a capital raise in late 2023, BRU enters 2024 with ~\$18M of cash.** This report updates the financial position. A farm-out process at Rafael is underway and if concluded, could bring significant funds for the next phase of Rafael development.

### Investment Thesis

**The Rafael gas discovery is potentially very large.** The resource has been independently assessed at 260 Bcf of gas (2C) and up to 1Tcf of gas and 20 million barrels of condensate at the 3C level. Engineering is ongoing for early monetisation in the Kimberly region for power, LNG, ammonia or methanol production. Partnering and drilling in 2024 will de-risk and fund the next phase.

**Buru has seed investments in carbon capture and storage (CCS) and hydrogen and helium exploration,** through respective subsidiaries GeoVault and 2H Resources. The latter has acreage applications in SA and WA with formal award subject to land access agreements. These assets are not being assigned any value by equity investors at this juncture, in contrast to pure-play listed peers.

### Valuation: A\$0.38 (A\$0.39 previously)

MST’s valuation combines a risked cash flow for a Rafael gas project with market values for ASX-listed companies active in hydrogen exploration. De-risking events as Rafael progresses results in an un-risked upside value of \$1.46. Changes since the last report are due to expanded share capital and re-assessment of the 2H Resource value.

### Risks

Buru will require additional capital to advance its projects, and this may not be available. Rafael appraisal may result in lower resources, and development options are reliant on gas markets, which are competitive and where prices are volatile. As a fossil fuel producer Buru faces societal pressure. Plans to exploit Hydrogen and CCS may not be feasible.

### Equities Research Australia

#### Energy

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Buru Energy is an oil producer and explores for oil and gas in WA’s Canning Basin and is participating in the new energy economy through initiatives in natural Hydrogen, and carbon, capture and storage.

<https://www.buruenergy.com.au>

Valuation	<b>A\$0.38</b> (Prev \$0.39)
Current price	<b>A\$0.110</b>
Market cap	<b>A\$74M</b>
Cash on hand	<b>A18.4M</b>

### Upcoming Catalysts and News flow

Period	
2Q CY24	Rafael farm-out & funding
2H CY24	Rafael Appraisal drilling
2H CY24	Development concept selection
CY2024	Formal award of SA hydrogen acreage

### Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial summary. All figures in A\$ unless otherwise stated.

Market Data	Y/E Dec 31	A\$	Lo	Hi
Share price	A\$/sh	0.110		
52 week range	A\$/sh		0.08	0.21
Shares on issue	M	671		
Perf shrs + Options	M	0.00		
Market Cap	A\$M	74		
Net Cash	A\$M	18.4		
Enterprise Value	A\$M	55		
Valuation	cps	0.38		

Valuation multiples	2021A	2022A	2023	2024	2024
EPS (us cents)	NM	NM	NM	NM	NM
PE	-	-	-	-	-
DPS (US cents)	-	-	-	-	-
Yield-%	-	-	-	-	-
EBITDAX/sh (US cents)	-	-	-	-	-
P/FCF	-	-	-	-	-
EV/EBITDAX	-	-	-	-	-
EV/(2P+2C)- A\$/ GJ	-	-	-	-	-
Revenue/MM boe	-	-	-	-	-
EBITDAX/Sales-%	-	-	-	-	-
Net cash (US\$M)	23.7	17.9	18.4	13.0	7.4
ND/(ND+E)	-	-	-	-	-

Realised prices	2021A	2022A	2023	2024	2025
Gas- A\$/ GJ	0.00	0.00	0.00	0.00	0.00
Oil-US\$/bbl	67.95	0.00	0.00	0.00	0.00
A\$/US\$ rate metrics	0.73	0.7	0.7	0.7	0.7

Production (Net)	2021A	2022A	2023	2024	2025
Gas- Bcf	0.00	0.00	0.00	0.00	0.00
Liquids (MMbbl)	0.13	0.10	0.04	0.00	0.00
MMboe	0.1	0.1	0.0	0.0	0.0
% liquids	-	-	-	-	-

Reserves (MM boe)	2P	1C	2C	3C
Gas- PJ	0	380	974	2291
Liquids	0.2	11	30	68
Total Mmboe	0	74	193	450
% oil		14%	16%	15%

SoP Valuation	Unrisked	Risk	Risked	cps	
Ungani 2P		0	100%	0	0.00
Rafael -2C gas & Cond.		911	20%	182	0.27
Yulleroo & tight gas		0		0	0.00
GeoVault CCS		8		8	0.01
2H Resources		45		45	0.07
Other					
<b>Core E&amp;P Assets</b>		<b>964</b>		<b>235</b>	<b>0.35</b>
Cash		18		18	0.03
Debt		0		0	0.00
Other		0		0	0
<b>Total equity value</b>		<b>983</b>		<b>254</b>	<b>0.38</b>
Shares FD		671			671
<b>Value Per share</b>		<b>1.46</b>			<b>0.38</b>

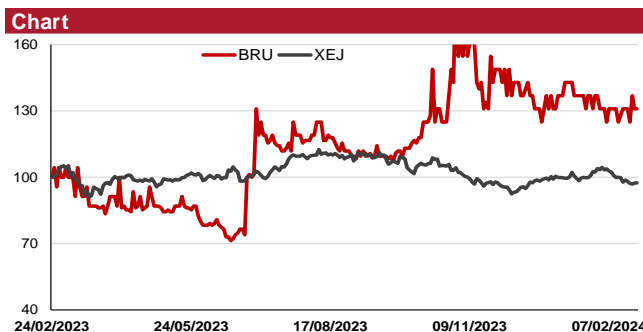
Income statement	2021A	2022A	2023	2024	2025
Gas Revenue	0.0	0.0	0.0	0.0	0.0
Oil Revenue	9.6	13.9	4.7	0.0	0.0
<b>Total Revenue</b>	<b>9.8</b>	<b>14.1</b>	<b>5.2</b>	<b>0.0</b>	<b>0.0</b>
Production costs	6.5	7.3	4.8	0.0	0.0
Corporate costs	3.3	3.9	3.1	3.4	3.4
Other	-1.5	0.7	0.0	0.0	0.0
<b>EBITDAX</b>	<b>1.4</b>	<b>2.2</b>	<b>-2.6</b>	<b>-3.4</b>	<b>-3.4</b>
Exploration exp.	9.2	7.0	2.8	2.0	2.0
Depreciation	2.9	2.7	0.7	0.0	0.0
EBIT u/l	-10.8	-7.5	-6.1	-5.4	-5.4
Finance charges	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
<b>NPAT-underlying</b>	<b>-10.8</b>	<b>-7.5</b>	<b>-6.1</b>	<b>-5.4</b>	<b>-5.4</b>
Impairments	0.0	-25.2	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>-10.8</b>	<b>-32.8</b>	<b>-6.1</b>	<b>-5.4</b>	<b>-5.4</b>
Share cout at EOP (M)	538	596	671	671	671

Cash flow	2021A	2022A	2023	2024	2025
Receipts	9.6	13.9	4.7	0.0	0.0
Payments	-8.7	-10.2	-7.9	-3.4	-3.4
Payments for E&A	-7.0	-8.5	0.0	0.0	0.0
Interest & other	0.2	-1.1	-2.7	-2.5	-2.5
<b>Net cash from ops.</b>	<b>-5.9</b>	<b>-5.9</b>	<b>-5.9</b>	<b>-5.9</b>	<b>-5.9</b>
Exp & Dev capex	-5.8	-9.0	-10.3	-12.0	-2.2
Acquisitions / other	0.0	0.0	5.0	10.0	0.0
Net investing	-5.8	-9.0	-5.3	-2.0	-2.2
Equity issuance	15.0	9.1	8.5	0.0	0.0
Debt Issue /(repay)	0.0	0.0	0.0	0.0	0.0
Lease Pmnts	-1.2	-1.3	0.0	0.0	0.0
Net cash Finaning	13.8	7.8	8.5	0.0	0.0
Increase in cash	2.3	-5.8	0.5	-5.4	-5.6
Cash at EOP	23.7	17.9	18.4	13.0	7.4

Balance sheet	2021A	2022A	2023	2024	2025
Cash	23.7	17.9	18.4	13.0	7.4
Rcvbils / Inventory	3.0	2.2	2.5	2.5	2.5
Exploration /Eval	9.5	10.2	16.8	26.8	27.0
Oil/gas properties	22.0	0.0	0.0	0.0	0.0
other	3.3	3.8	2.6	2.6	2.6
<b>Total Assets</b>	<b>61.6</b>	<b>34.1</b>	<b>40.3</b>	<b>44.9</b>	<b>39.5</b>
Payables	9.0	2.0	4.0	3.8	3.6
Debt	0.0	0.0	0.0	0.0	0.0
Other	9.1	12.3	13.0	12.8	12.6
<b>Total liabilities</b>	<b>18.1</b>	<b>14.4</b>	<b>17.0</b>	<b>16.6</b>	<b>16.2</b>
<b>Total equity</b>	<b>43.5</b>	<b>19.8</b>	<b>23.3</b>	<b>28.3</b>	<b>23.3</b>



Source: MST Access

## Investment case: Value in Canning gas, hydrogen a “sleeper”.

Buru’s W.A. Canning basin historic oil and gas assets and multi-year exploration activities in that region over-shadow business initiatives in news areas. Legacy assets including the Ungani oilfield, and tight-gas discoveries made years ago are no longer relevant to the investment case.

The 2020 Rafael gas discovery is potentially transformational, and new initiatives in securing acreage, which is prospective for hydrogen and helium, re-shape Buru’s direction and introduce new value drivers, which we re-iterate in this report. Most obviously is the progress on the Rafael gas discovery. Less obviously is the assemblage of large acreage positions in SA and WA which is prospective for hydrogen and helium, and CCS. These latter assets need to be “worked up” but provide new opportunities for Buru. Several ASX-listed companies focused on hydrogen and helium production provide context.

## Progressing Rafael: still the main game

- Activity in 2024: (1) farm-out and (2) drilling in 2H CY2024

In the past quarter, Buru progressed the Rafael project on a number of fronts, with the intention of funding, appraising and narrowing in on development scenarios. In late 2023, the final seismic data package was delivered, and the result is a significant improvement over vintage data.

High level interpretation is ongoing and is expected to conclude in February 2024. This will strengthen Buru’s marketing to industry peers looking to partner with Buru. A formal farm-out process is underway.

Development studies have progressed. Our previous reports document a multi-option plan for a phased development, depending on the ultimate size of the resource, and is summarised here.

Buru’s strategy is to begin with a small gas-to-power project in the Kimberly region, which is supported by the current proven gas reserve. The rationale is that Rafael gas would be more cost effective than trucked-in diesel or trucked-in LNG. Buru has awarded a Design Study for a Phase-1 gas-to-power project to GHD Pty Ltd. Buru is targeting a Final Investment decision for Phase-1 in mid-2025, and production in mid-2027.

## Rafael background recap

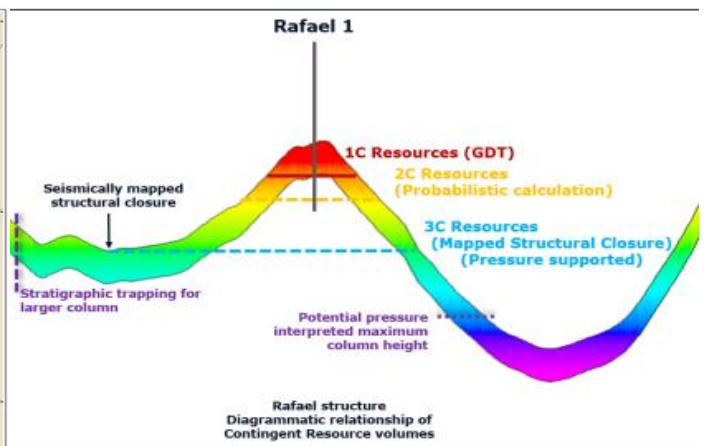
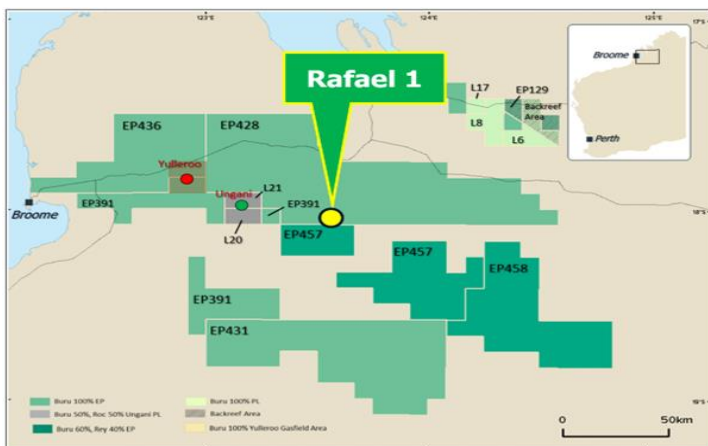
Rafael#1 was drilled in August 2021 and intersected 120m of gross reservoir pay which was identified as gas bearing. Figure 3 shows a cross section of the reservoir sequence and relation to resource definition. Production testing in 1Q CY2022 delivered gas flow rates of 7.6 MMcfd accompanied by condensate of approximately 40 bbls/MMcfd. The gas quality is good with CO<sub>2</sub> content in test gas at <2%.

These results point to a substantial resource and has been independently assessed by ERCE as follows:

- 1C: 59 Bcf and 1.2 MMbbls of oil and condensate base on the gas seen in the well.
- 2C: 260 Bcf and 5.3 MMbbls of oil & condensate, which is a probabilistic assessment.
- 3C: 1024 Bcf and 20.5 MMbbls of oil and condensate, based on inferred gas in the structural closure, and backed by pressure data.

Figure 2: Rafael permit location, Canning Basin, W.A.

Figure 3: Rafael structural schematic cross section



Source: Buru Energy

Source: Buru Energy

## Rafael Development concepts

Buru outlines four development scenarios, depending on the size of the resource, which Buru indicates have passed technical, commercial and economic feasibility hurdles. These are detailed in various Buru ASX reports, and are summarised as follows:

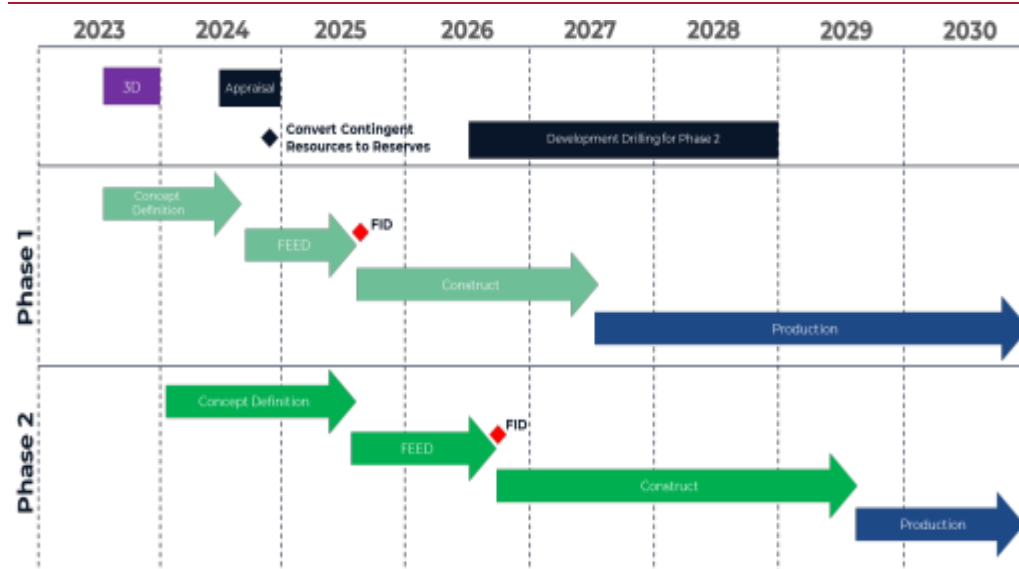
- Phase 1: If the field is <59 Bcf (which is the current 1C figure), the concept is for a mini- LNG plant, to produce LNG for trucking to regional power plants and gas customers in the Kimberly region.
- Phases 2 and 2a, are in addition to phase 1, and require resource thresholds of between 400Bcf and up to 800Bcf. These are larger than the current 2C resource, but lower than the 3C estimate. Phase 2 and 2a postulate methanol or ammonia production for the global market.
- Phase 2b is in addition to phase 1 and requires a resource threshold of > 1Tcf of gas. In this scenario, Buru would achieve the greatest value per unit of gas, by producing LNG for the export market. This concept proposes a floating LNG plant with a 1.6 MTPA capacity.

Phase 2 & 2a and 2b, are all value-added gas processing solutions to Rafael's remote location. Opening up export channels for liquids and gas derivatives frees Buru from the constraints imposed by local gas and power markets.

In all these scenarios, storage and export infrastructure would need to be installed at Broome, which is approximately 3 hours by road from the field. All scenarios produce significant volumes of condensate, which Buru proposes trucking, storing and exporting from Broome.

Figure 4 is an indicative timeline for future activity.

**Figure 4: Indicative Project timeline**



Source: Buru Energy ASX release October 24, 2023.

## 2H Resources: Hydrogen and Helium acreage are sleeper assets.

- Large exploration license applications for hydrogen and gas storage in S.A. and in W.A. for helium, in wholly owned Buru subsidiary, “2H Resources”.

In 2020 Buru made a strategic decision to enter into new ventures focused on carbon capture and storage (CCS), and hydrogen and helium exploration. The rationale is that Governmental climate policies will drive demand for “green” energy and fuel demand. Figures 5 & 6 show Buru licence application areas.

For an historic fossil fuel producer, the logical leap is the application of sub-surface exploration and production skills honed from oil and gas activities.

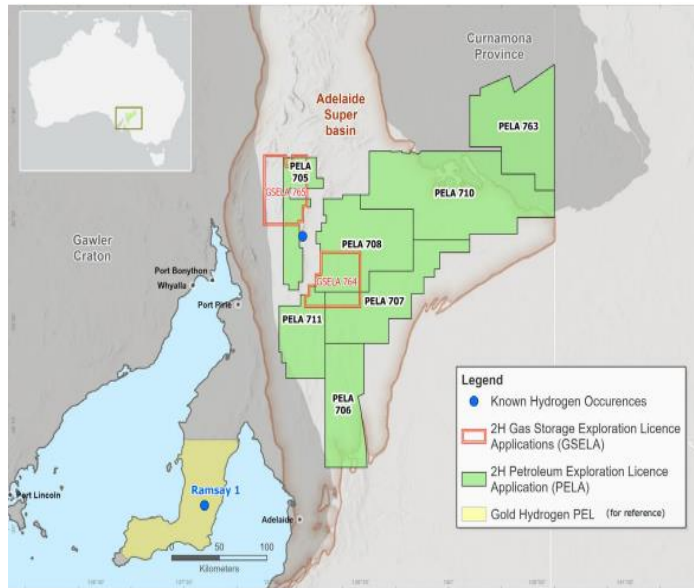
Presently, there is an investment boom in the pursuit of naturally occurring hydrogen and helium. Hydrogen has risen to the fore as a “green” fuel, because when combusted there are no primary CO<sub>2</sub> emissions.

Naturally occurring hydrogen can be produced more cheaply than alternative methods which either involve electrolysis or combustion and conversion of gas or coal, however the geological settings for hydrogen to be contained in commercial quantities are rare in the world.

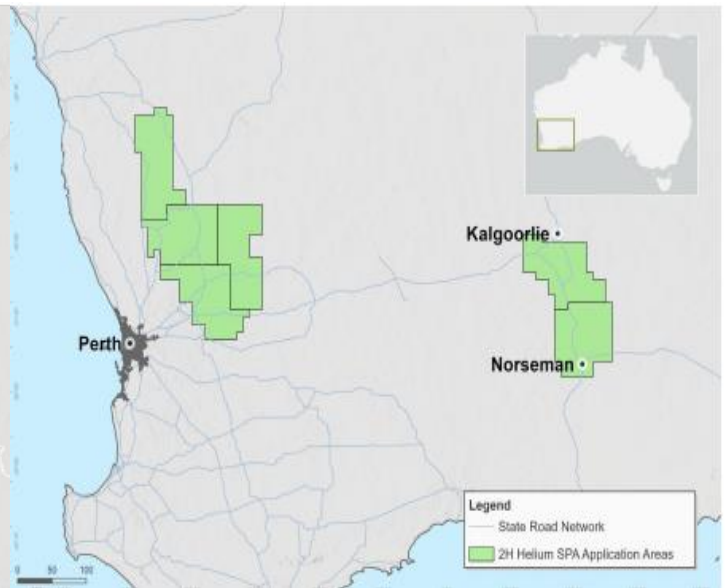
At this time, parts of inland Africa, and Australia seem to have the requisite geologies.

**Figure 5: 2H Resource S.A. acreage application areas.**

**Figure 6: 2H Resources W.A. acreage application areas.**



Source: Buru Energy



Source: Buru Energy

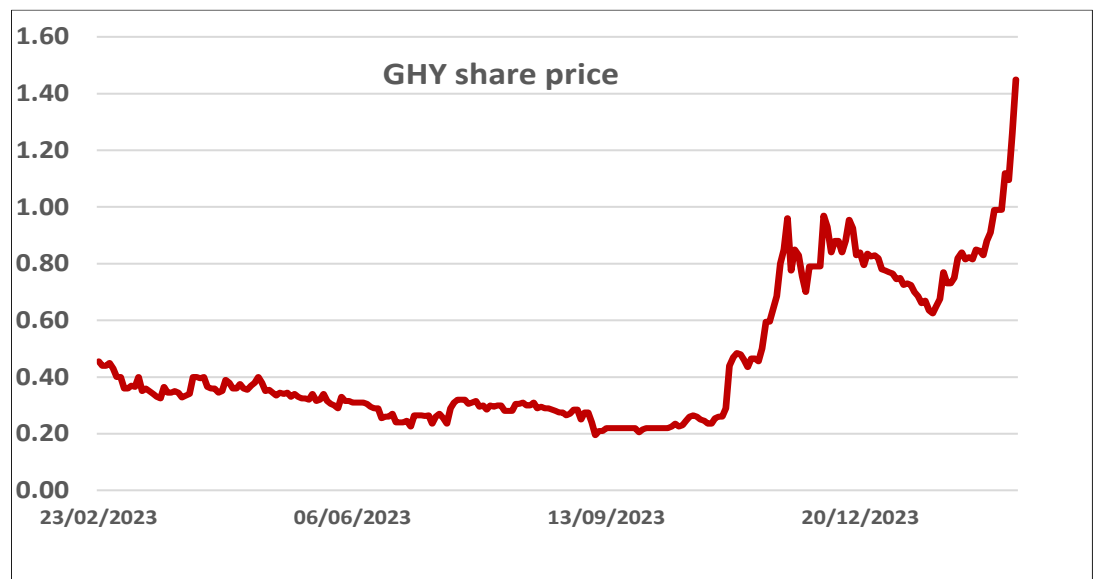
The basic geological concept has been proven by the activity of previous explorers in SA, dating back ~110 years and more particularly in the past year by ASX-listed Gold Hydrogen Ltd (ASX:GHY). GHY has re-drilled near bores which detected hydrogen between 1910 and 1931. GHY's drilling results appear to confirm the historic data, and de-risks understanding of sub-surface reservoirs.

GHY's share price response to drilling results evidence very strong investor interest and is indicative of the upside opportunity if Buru can advance its 2H Resource activities.

2H Resources is the preferred applicant for the granting of six hydrogen exploration licenses in South Australia, that are geologically on trend with legacy hydrogen discoveries, and two Gas Storage Licences.

The formal granting of the licences is subject to completion of land access agreements in accordance with the Commonwealth Native Title Act 1993.

**Figure 7: GHY price chart**



Source: MST Access.



## Valuation A\$0.38 (Previously 0.39)

MST's valuation is a sum-of-parts capturing (1) risked value for a Rafael gas project (2) value for new ventures based on market peers and (3) cash as of 31 December, 2023 of \$18.4M. Refer to Figure 8.

**Figure 8: Sum-of-part valuation**

Asset Value (A\$M)	Method	Unrisked	A\$M	CPS	Risk	A\$M	CPS
Core E&P assets		Unrisked NAV			Risk NAV		
Ungani 2P	DCF of oil to 2026	100%	0.0	0.00	100%	0.0	0.00
Rafael -2C gas & Cond.	DCF to 2040	100%	911	1.36	20%	182	0.27
Net Cash	31-Dec-23		18	0.03		18	0.03
<b>Core E&amp;P Value</b>			<b>930</b>	<b>1.39</b>		<b>201</b>	<b>0.30</b>
New Ventures & Other							
Yulleroo tight gas	Option value		0	0.00		0	0.00
GeoVault CCS	Market Value, PGY peer		8	0.01		8	0.01
2H Resources H/He	Market value, GHY peer		45	0.07		45	0.07
<b>Total new Ventures</b>			<b>53</b>	<b>0.08</b>		<b>53</b>	<b>0.08</b>
Total equity value			983	1.46		254	0.38
Shares on issue			671			671	
<b>Value Per share</b>				<b>1.46</b>			<b>0.38</b>

Source: MST Access.

- We assess un-risked full value for Rafael based on a conceptual small-scale FLNG project. Our risked valuation assumes a 20% risk factor to account for uncertainty. Over time as the project progresses and is de-risked, our inputs and risk factors are likely to change.
- We value the existing Ungani oil field at nil given the field is on care & maintenance. We do not assume a resumption of operations over the outlook period.
- Canning Basin tight gas (Yulleroo). This significant 2C contingent resource is potentially valuable if technologies, capital costs and gas markets align to enable an unlocking of value but until these elements are determined, we assign nil value.
- CCS and Hydrogen business units are assigned a positive value which is consistent with a small group of ASX-listed pure play companies. This is imprecise and subjective at this time.

### Risk Factors

- Access to funds is a risk. Buru will require additional capital for Rafael appraisal and future development. Buru will be reliant on external sources for funds, and / or industry partners until production cashflows are established.
- Our risked value for the Rafael gas resources assumes a farm-out on commercial terms to progress the project. There is risk that Buru may not be able to secure a partner on acceptable commercial terms.
- Appraisal drilling of Rafael may result in low size outcomes which would negatively impact development options and value.
- Commercial development of Rafael would require market opportunities to sell gas, and related products, and prices are volatile and to be determined.
- Buru is a predominantly a fossil fuel company, and in general faces increasing pressure from sections of society and Government. Social or Government opposition may delay or defer development.
- There is regulatory risk, evidenced in the Federal Government intervention in December 2022, and the newly introduced "industry code of conduct".
- Legislation governing future CO<sub>2</sub> capture and storage in WA is formative. Legislative delays or impositions may impact the timing and likelihood of Buru's carbon capture opportunity.
- Formal award of S.A hydrogen acreage requires Buru to negotiate land access with Native Title groups.

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