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ASX ANNOUNCEMENT (ASX: BRU) 20 September 2011

2011 Annual Report

Please find attached Buru Energy Limited's ("**Buru**" or "**Company**") Annual Report for the year ended 30 June 2011. A hard copy of the Annual Report will today be distributed to those shareholders that have requested to receive it by post.

Further information on the Company is available at: www.buruenergy.com

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Buru Energy Limited ABN 71 130 651 437

2011

Annual Report

For the year ended 30 June 2011

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Corporate Directory

Directors

Mr Graham Riley – Chairman
Mr Eric Streitberg – Executive Director
The Hon Peter Jones AM – Non-Executive Director

Auditors

KPMG
235 St George's Terrace
PERTH WA 6000

Company Secretary

Mr Tom Streitberg

Bankers

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Share Registry

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Website: www.linkmarketservices.com.au

ASX Code

BRU

The past twelve months have been tremendously exciting for Buru. During the year the Company has achieved a number of very significant milestones and has been transformed from a relatively small conventional oil and gas exploration company, to the most active onshore explorer in Western Australia, with an extensive portfolio of assets encompassing high impact conventional exploration targets, an independently assessed mean contingent resource of 36 mmboe at the Yulleroo wet gas field and a potentially very significant tight gas accumulation at Valhalla. More importantly, we believe the Company's potential is only just beginning to be realised, with the current exploration campaign laying the foundations for the next stage in Buru's transformation to an oil and gas producer at the forefront of the tight and shale oil and gas industry in Australia.

Buru's continued ability to deliver on its potential requires us to ensure the interests of the stakeholders in our operations are fully recognised. Buru takes these obligations very seriously. The impact of our activities on the environment is subject to approval by the Department of Mines and Petroleum and is continually monitored by them. We are also pro-active in ensuring we apply standards above and beyond what is required of us by the Department.

We are particularly conscious of the current public debate in relation to hydraulic stimulation of reservoirs (also called "fracking"), and Buru's senior management have been instrumental in preparing a code of practice for hydraulic stimulation of tight and shale gas reservoirs in Western Australia, in conjunction with the Australian Petroleum Production and Exploration Association. This voluntary code of practice is designed to ensure that well stimulation operations in Western Australia are carried out safely and without harm to the environment, based on established operating principles and state-of-the-art practices in other jurisdictions, adapted to Western Australian conditions. The Company is confident that any of these activities it undertakes will have no harmful short term or long term effects on the environment.

We have also continued to work closely with the Traditional Owners of the lands in which we operate. We have a strong working relationship with the Kimberley Land Council, which includes Buru providing direct funding of their activities, above and beyond our negotiated obligations, to ensure the cultural and heritage interests of the Traditional Owner groups the Kimberley Land Council represent are fully acknowledged, respected and protected. We have also worked closely with the Yawuru People, the Traditional Owners of the Broome area, on a number of initiatives, culminating in the Company's voluntary return of its exploration acreage covering Roebuck Bay, outside Broome, to the traditional custodianship of the Yawuru People.

We are also beginning preparations for the next phase of the Company's development. This will be focussed on the appraisal of the Yulleroo wet gas field and the Valhalla accumulation, together with appraisal of any further

discoveries made in the 2011 drilling program. Our aim during 2012 is to book sufficient independently assessed resources and reserves to allow us to commit to the development of the Great Northern Pipeline, allowing us to then supply material quantities of gas into the Western Australian domestic market. At the same time, we will be undertaking a significant exploration program in 2012 to identify further conventional resources and enhance our understanding of our unconventional resource potential, providing a conveyor belt of future appraisal and development opportunities.

This planned growth relies on the continuing development of our financial and organisational strength. In this regard, our relationship with Mitsubishi Corporation provides a cornerstone of our plans for the development of the Canning Superbasin and we look forward to their continued involvement and support in 2012 and beyond.

We have also undertaken a structured review of our internal organisational requirements across the whole Company, and substantially increased our operating and commercial capacity in 2011. We will continue to increase our organisational capacity in a structured way in 2012, to ensure that as the scale of our activities continues to increase, the Company is able to maintain the same level of technical and commercial excellence we have delivered in the past. This process includes the development and implementation of a formal diversity policy, which the Board sees as an important part of ensuring that Buru remains an effective high performance organisation.

Buru's dedicated, hard working, and talented management and staff have been the drivers of the Company's success during the year and their efforts are gratefully acknowledged.

Finally, I wish to also acknowledge the support of our shareholders during the year. The purpose of the Company is ultimately to create value for shareholders, which we believe we have achieved this year. We look forward to your ongoing support as we continue to move the Company into its next phase of growth.



Mr Graham Riley
Chairman

2010 / 2011 Operations Overview

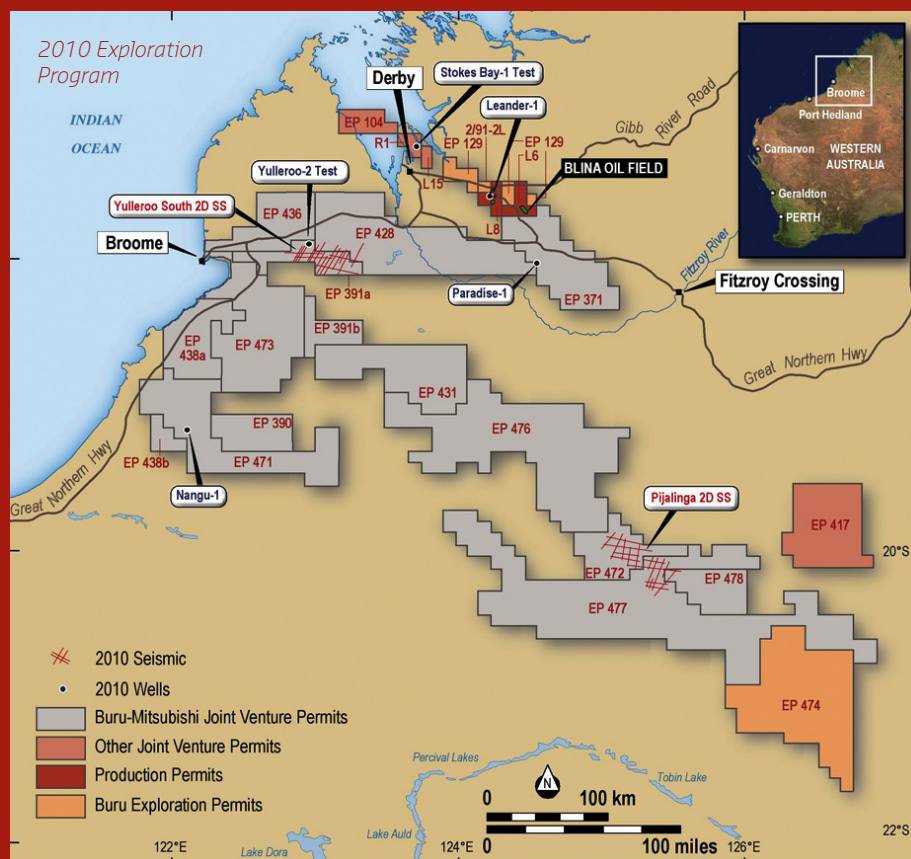
Exploration Results

Since the end of the 2010 financial year the Company has drilled five wells, with another five wells confirmed for drilling during the remainder of the 2011 field season. The Company also tested the Yulleroo-2 and Stokes Bay-1 wells and acquired 754.6 kilometres of new 2D seismic data. These extensive operations were conducted safely, with only one minor lost time injury being recorded, and without any material breach of the Company's environmental management plans.

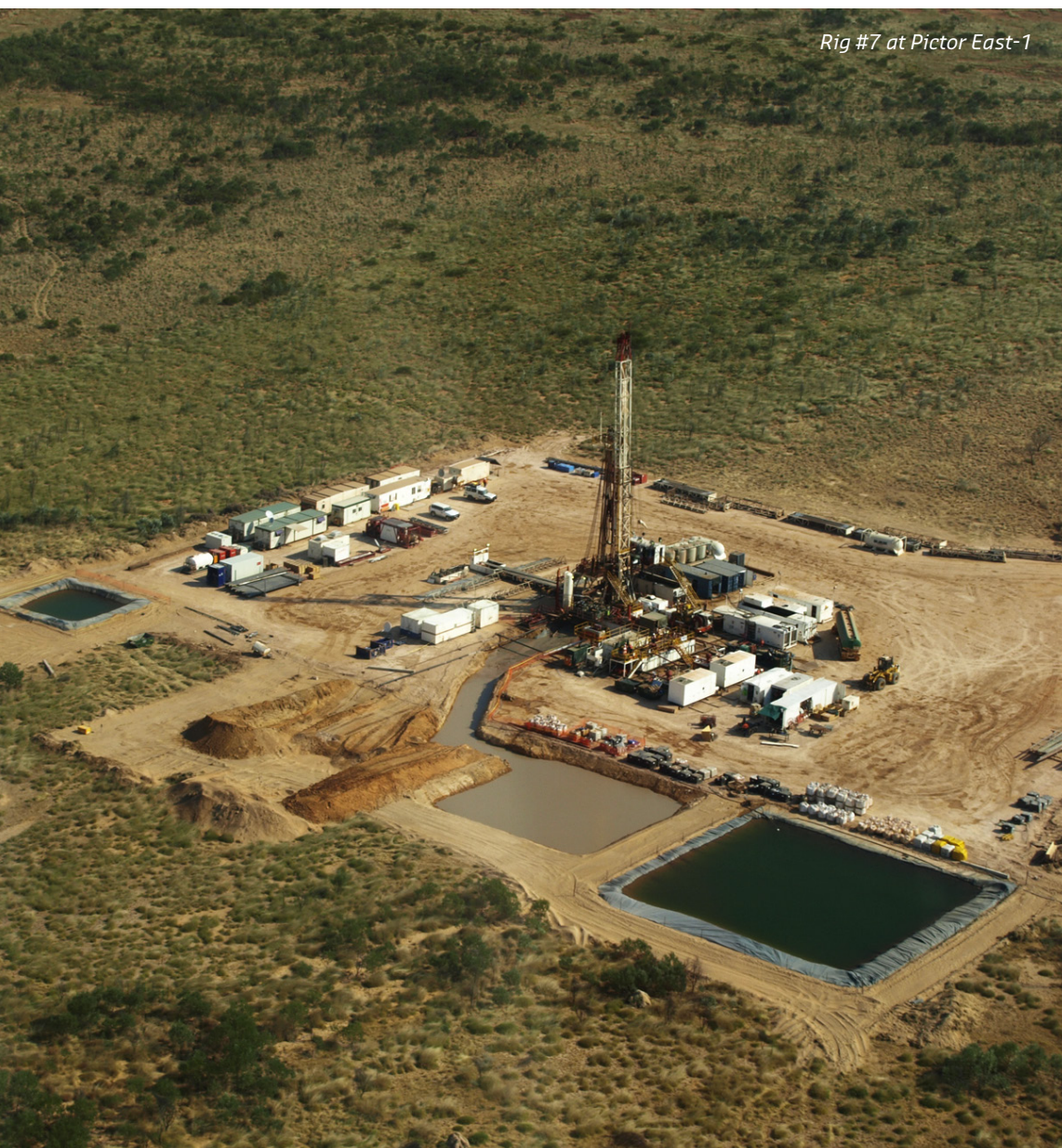
As with all exploration programs, the results have been a mixture of successes and failures. Importantly, the successes in the program have identified significant

resources and provided the basis for further appraisal and preparations for development in 2011 and 2012 while the failures, although disappointing, do not undermine the overall prospectivity of the Canning Superbasin, or the prospects of any of the wells currently planned for drilling.

Specifically, the results of the Leander-1 and Nangu-1 wells and the Stokes Bay-1 well test in 2010 were disappointing with no commercial hydrocarbons being identified. Further work is being undertaken to analyse these results and integrate them into the Company's geological understanding of the Canning Superbasin.



RISC have assessed that the Yulleroo wet gas field contains a mean resource of 36 mmmboe net to Buru



Rig #7 at Pictor East-1

Successes in the 2010 and 2011 programs have identified significant resources and provided the basis for further appraisal and preparations for development in 2011 and 2012



Yulleroo 3D seismic acquisition

2010 / 2011 Operations Overview

Yulleroo-2 Well Test

The Yulleroo-2 well, drilled by ARC Energy in 2008, was an appraisal of the Yulleroo-1 wet gas discovery made in 1967. The Yulleroo-2 well confirmed the existence of a large gas accumulation. However, Yulleroo-2 was not tested due to mechanical difficulties with the rig at the time of drilling. Buru subsequently undertook a detailed analysis of the results of the Yulleroo-2 well and designed a hydraulic stimulation program to test the geological and hydrocarbon properties of the interpreted tight sand reservoir and the shale sections in the accumulation.

The stimulation program was conducted in October 2010 over three sections in the well at a depth of around three kilometres below the surface. The program was successful and demonstrated that the reservoir has the geological characteristics that mean it is capable of being hydraulically stimulated, that it will flow gas and that the gas is of good quality and contains commercially significant quantities of LPGs and condensate.



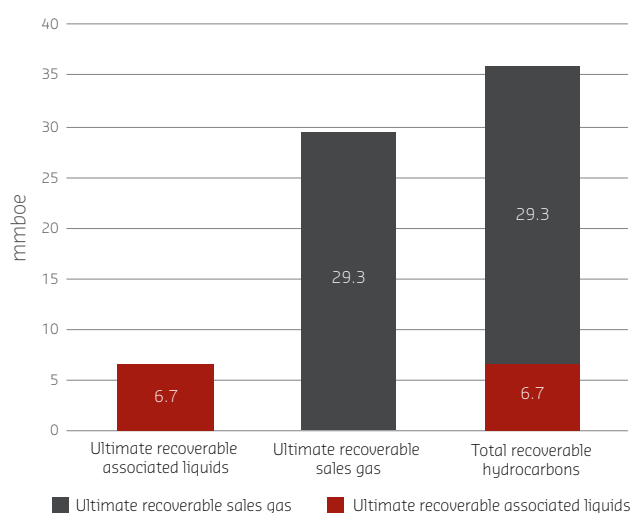
Flowback testing of the Yulleroo-2 well has continued since October 2010 and the data gathered from the test, together with further analysis of the field, has provided sufficient data for an independent resource assessment to be undertaken by RISC. RISC have assessed that the Yulleroo wet gas field contains a mean resource¹ of 36 mmbœ net to Buru.

Based on the RISC review and RISC's recommendations for a pathway to commercialisation, the Buru-Mitsubishi joint venture is undertaking an appraisal program which, if successful, will lead to the development of the Yulleroo field. This program will involve the acquisition and interpretation of 3D seismic over the field in 2011, the drilling of additional appraisal wells on the field in 2011 and 2012, and an optimised hydraulic stimulation

program. It is expected that this program will allow the Company to book reserves at the Yulleroo field in 2012. Once reserves are booked, a commitment can be made to the full development of the field and the construction of the Great Northern Pipeline.

The successful stimulation and flow test of Yulleroo-2, and the independent assessment of resources, is a significant milestone for the Company. It provides an important quantification of Buru's assets, and marks the transformation of Buru's focus from pure exploration to appraisal and development.

Mean Yulleroo Contingent Resources (net to Buru)



Valhalla-2

Valhalla-2 was a follow up to the Valhalla-1 well originally drilled by ARC Energy in 2007. Valhalla-2 completed drilling in July 2011 and preliminary analysis of the results of the well are extremely encouraging. During drilling, gas influxes were continuously encountered in the Laurel section from approximately 2,300m to a total depth of 3,390m, resulting in a number of drilling interruptions while the gas was flared.

The well confirmed that the Valhalla structure contains a number of tight, and possibly conventional, gas reservoirs across at least a 1,300m section of gas charged Laurel Formation.

A possible new conventional play type has also been identified in the Laurel Carbonates with a number of potentially productive conventional reservoir zones

¹ The mean is the average of the probabilistic resource distribution.

being interpreted. In addition, and of greater potential significance, extensive tight sand and shale zones have been identified in the Upper and Lower Laurel sections and these are interpreted to be gas charged based on gas shows and gas influxes while drilling. These sections have been comprehensively sampled with rotary side wall cores and specialised logging suites to allow further detailed, specialised analysis of the potential of the Laurel Formation for unconventional gas and liquids.

Based on a preliminary analysis of the data in the Valhalla-2 well and other wells in the area, there is the potential for a large tight gas and shale gas accumulation in the greater Valhalla area. Depending on its geographic extent, the accumulation could potentially contain recoverable hydrocarbons of several TCF of gas and potentially in excess of 50mmmbbls of condensate and natural gas liquids.

Paradise-1

The Paradise-1 well was drilled in November and December 2010. The shallow section encountered encouraging oil shows, and due to the early onset of the wet season, the well could not be drilled to its planned target depth to test the Laurel Formation. Based on sidewall cores and oil influxes during drilling, an oil column was interpreted over the interval from 902.5m to 910.9m in the Lower Anderson Formation. This zone was drillstem tested, but the results were inconclusive and are subject to ongoing analysis. This play remains highly prospective and options for a further test of the play, in a follow up well, are being evaluated.

As well as the Anderson oil play, the Laurel Formation unconventional play type identified in Valhalla-2 is interpreted to be present in the Paradise area, being approximately 22 kilometres away from the Valhalla-2 well. This concept will be tested in 2011 with the deepening of the Paradise-1 well to the Laurel Formation. A successful Laurel Formation test at Paradise will substantially increase the potential resource size in the Paradise/Valhalla area.

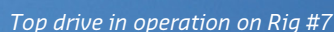


Rig #32 at Valhalla-2

The greater Paradise/
Valhalla area
has the potential
for a very large
unconventional wet
gas accumulation



2010 / 2011 Operations Overview



Pictor East-1

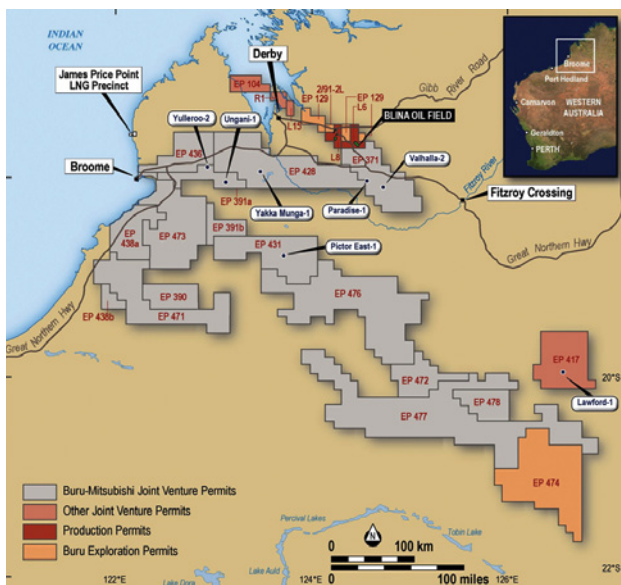
The Pictor East-1 well was drilled to follow up the oil and gas accumulations identified by the Pictor-1 and 2 wells in the Nita Formation and to also test the deeper Acacia Sandstone Formation.

A significant hydrocarbon column of over 65 metres has been interpreted to be present in the Nita Formation, with a net porous section of over 7 metres. Sidewall cores and pressurised hydrocarbon samples were obtained during drilling and these are currently being analysed to determine the hydrocarbon composition (gas, oil or a combination).

The results of this well are in line with pre-drill estimates, and are very encouraging. The well data will now be analysed over the coming months with the objective of drilling a horizontal well into the reservoir during 2012. The well also encountered hydrocarbon shows in the Acacia Formation but wireline logs and pressure tests showed the sands to be tight.

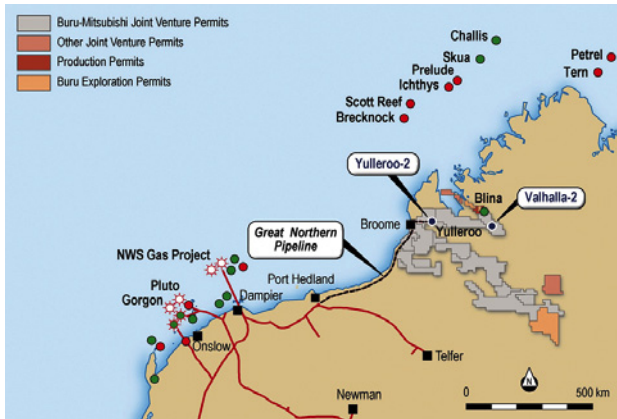
Next Steps - Forward Program

The 2011 drilling program is ongoing, with the Ungani-1 and Yakka Munga-1 exploration wells, and the Yulleroo-3 appraisal well confirmed for drilling, together with the deepening of the Lawford-1 and Paradise-1 wells. Each of these wells has the potential to identify significant quantities of both conventional and unconventional hydrocarbons which, given the Company's current market capitalisation, will be transformational.



2011 drilling program

The Company is also working with Mitsubishi to plan the joint venture's 2012 program. This program will have both an appraisal and exploration focus. Planning includes the systematic appraisal of the Yulleroo field and the Valhalla accumulation, together with any further discoveries made in 2011. The Company's aim during 2012 is to



GNP route and access into domestic market

book sufficient independently assessed resources and reserves to allow a commitment to the development of the Great Northern Pipeline, leading to the supply of material quantities of gas into the Western Australian domestic market.

Exploration in 2012 will be focussed on identifying new conventional and unconventional resources to form the basis of further appraisal in 2013 and deliver additional reserves for commercialisation in 2014 and beyond. The conventional program is likely to target significant conventional oil prospects in the Acacia area. The unconventional program will seek to test and develop at least one of the three additional major unconventional play types on Buru's permits, together with further delineating the extent of the Laurel Formation unconventional wet gas play. An extensive ongoing program of seismic acquisition and desktop technical analysis designed to continue to identify new play types, prospects and leads for drilling will complement these drilling programs.

Mitsubishi site visit to Valhalla-2



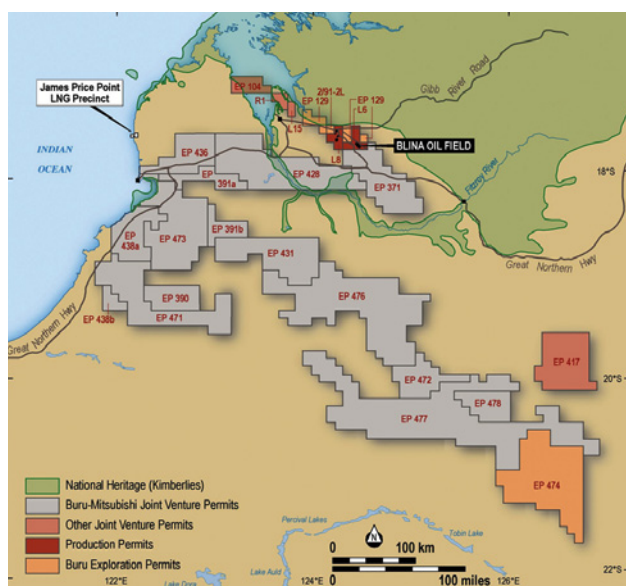
The Company is also working with Mitsubishi Corporation to plan the joint venture's 2012 program

2010 / 2011 Operations Overview

Buru in the Community

Buru recognises its broader social responsibility to those affected by its operations. The Company primarily operates in what is known as the Dampierland region of the broader Kimberley. The area is mostly remote pastoral leases supplying cattle to the export trade together with some isolated Aboriginal communities. This means the Company's activities have little impact on communities, and that it is remote from the more scenic and iconic parts of the Northern and Central Kimberley and the Kimberley Plateau. Buru works closely with pastoralists and Traditional Owners that might be affected by its operations, ensuring well sites are appropriately remediated, existing roads maintained and, where requested, water bores and dams constructed by Buru are made available for use by pastoralists and Traditional Owners. Where possible, landholders are also provided the opportunity to assist Buru in its operations.

At the end of August 2011 the Commonwealth Minister for the Environment declared that a large part of the west Kimberley will be listed as part of Australia's national heritage. A small part of Buru's exploration portfolio falls within the area covered by the national heritage listing. While the inclusion of some of Buru's acreage within the national heritage listing is expected to increase the administrative burden on exploration in the area, it is not expected to materially compromise Buru's ongoing exploration program. In particular, Buru already holds itself to a high standard of environmental and cultural protection and, to the extent that exploration is proposed in areas covered by the heritage listing, the Company is confident that its activities can be structured to ensure they do not compromise the national heritage values the listing is designed to protect.



Area covered by the Kimberley national heritage listing



Buru's environmental performance is monitored by the Department of Mines and Petroleum and, where appropriate, the Environmental Protection Authority. All of the Company's activities are subject to approval by the Department before they commence. Senior management of the Company work closely with the Department to ensure that Buru's activities meet and exceed all relevant regulatory requirements. This includes minimising the impact of activities as they occur, and ensuring appropriate remediation of any disturbed areas. The Company has also been pro-active in regulating its activities above and beyond the standards required by the Department to achieve industry best practice. This has been recognised by the Department, with Buru's seismic clearing and remediation technique being a finalist in the annual Golden Gecko Awards for Environment Excellence in 2010.

During 2011 senior management has worked closely with the Australian Petroleum Production and Exploration Association and other senior industry figures to develop a code of practice for hydraulic stimulation of tight and shale gas reservoirs in Western Australia. This voluntary code of practice is designed to ensure that well stimulation operations in Western Australia are carried out safely and without harm to the environment, based on established operating principles and state-of-the-art practices in other jurisdictions, adapted to Western Australian conditions.



The Company also works closely with the Traditional Owners of the lands on which it operates. The Company's primary aim is to ensure that the cultural and heritage interests of Traditional Owners are fully acknowledged, respected and protected. To this end, all of Buru's activities are subject to detailed cultural and heritage clearance by Traditional Owners before work commences. Where areas of sensitivity are identified, Buru modifies its work program to ensure these areas are respected.

Buru's engagement with Traditional Owners includes working with relevant representative bodies, the Kimberley Land Council, the Yawuru PBC and the Noonkanbah Community. The Company has developed strong relationships with each of these representative bodies and works with them to fully engage the Traditional Owners of the areas in which it operates. This has allowed the Company to implement specific initiatives with each of these groups in response to specific issues and concerns they may have.

Buru has provided funding to the Kimberley Land Council, above and beyond that required under its negotiated obligations, for the provision of additional resources to ensure that heritage clearance surveys are properly resourced and can be undertaken effectively. Later in 2011 the Company will drill a new water bore for the Noonkanbah community in response to concerns about the availability of fresh water on Noonkanbah land, unrelated to Buru's activities.

During the year the Company entered into arrangements to ensure that the Yawuru People are able to exercise their

traditional role as the custodians of Roebuck Bay without intrusion from oil and gas exploration. To help achieve this, Buru has voluntarily given up its current rights to explore for oil and gas in Roebuck Bay, thus ensuring Roebuck Bay and the surrounding Ramsar wetlands can be incorporated into the planned Roebuck Bay Conservation Estate without concerns over future oil and gas exploration activity.

Where possible the Company also offers employment opportunities to Traditional Owners, with members of the Noonkanbah Community working on the drilling of Valhalla-2 and members of the Yawuru People assisting with seismic line clearing on Yawuru land. As Buru's activities expand, the Company will seek to increase the employment opportunities for Traditional Owners in its activities.

The Company has developed strong relationships with the Traditional Owner representative bodies and works with them to fully engage the Traditional Owners of the areas in which it operates

2010 / 2011 Operations Overview

Shareholder Value

Creating and increasing shareholder value in a responsible and appropriate manner is a key focus of the Board. This has been effectively achieved during the past year, and is reflected in the strength of the Company's share price.

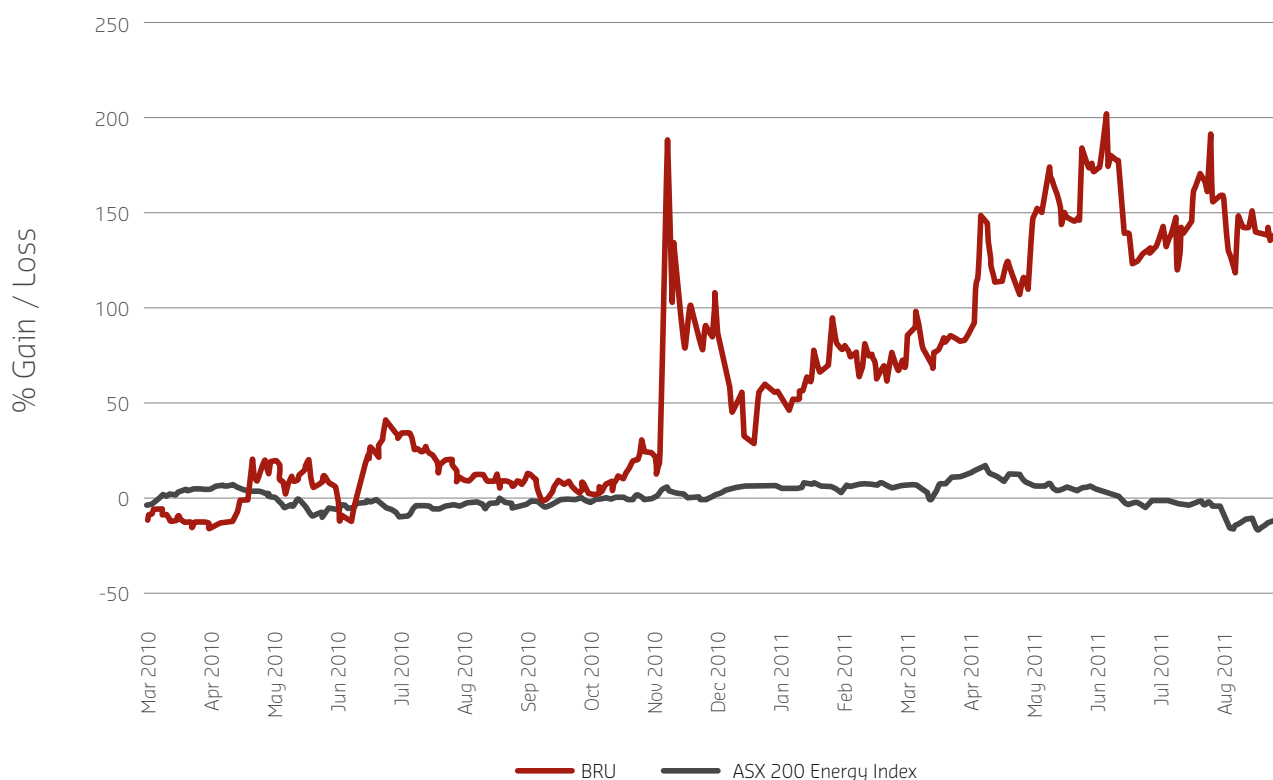
This share price strength reflects the value accretion in the Company's portfolio as it transitions from a pure exploration focus to a focus that includes appraisal and development. A key element of this transition has been the independent assessment of a mean contingent resource of 36 mmbbl net to Buru at the Yulleroo field and the development of a systematic process to transition these resources into reserves.

A further significant step has been the recognition of the potentially very significant value of the Company's tight and shale gas resources. The Company's long held view of this potential has been validated by the success at Valhalla-2 and the identification of a potentially multi TCF unconventional wet gas resource in the Valhalla area.

Further validation was received by the assessment undertaken by the Company, in conjunction with Netherland Sewell and Associates Inc. of Buru's unconventional resources. This assessment focussed on the Company's four main unconventional plays. These four plays have been assessed to have mid range gross prospective recoverable resources of 66 TCF of gas and 4 billion barrels of oil. The majority of these resources are currently considered to be in the Laurel Formation, for which the Valhalla-2 well provided significant encouragement.

With the result from Valhalla and the Yulleroo resource confirmation, Buru is now at the forefront of the tight and shale gas industry in Australia and will be aggressively developing this potential in 2011 and 2012. This, together with a material and ongoing exploration program for conventional hydrocarbons and the continuing appraisal of the Yulleroo field has the potential to drive significant further growth in shareholder value in the near term.

Buru's 18 month share price performance





Creating and increasing shareholder value in a responsible and appropriate manner is a key focus of the Board. This has been effectively achieved during the past year, and is reflected in the strength of the Company's share price.



Directors' Report

For the year ended 30 June 2011

The Directors present their report together with the financial statements of the Group comprising of Buru Energy Limited ("Buru" or "Group") and its subsidiaries for the financial year ending 30 June 2011, and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status

Mr Graham Riley, BJur LLB
Chairman
Independent Non-executive Director

Experience, special responsibilities and other directorships

Graham is a qualified legal practitioner having gained his Bachelor of Law and Bachelor of Jurisprudence Degrees. After 10 years of legal practice as a partner of a commercial firm in Perth, he resigned to pursue private interests in the resources and exploration sector. Graham has been responsible for the foundation and growth of a number of petroleum and mining companies. He is currently the Chairman of Gascoyne Resources Limited and Entek Energy Limited. Prior to their takeovers, he was the Chairman of Giralia Resources NL from 1998 until March 2011 and of Red Hill Iron Limited from 2005 to 2008. He is currently a Non-executive Director of Target Energy Limited and a Non-executive Chairman of Entek Energy Limited. He was a Non-executive Director of Adelphi Energy Limited from 2005 until its takeover in 2010 and a founding Non-executive Director of ARC Energy Limited from 1993 to 2005.

Director since May 2008. Appointed Chairman in March 2009.

Mr Eric Streitberg, BSc (App Geoph)
Executive Director

Eric has over 38 years' experience in petroleum geology and geophysics, oil and gas exploration and oil and gas company management. He held the position of Managing Director of ARC Energy Limited from 1997 until August 2008 during which time ARC Energy Limited was transformed from a junior oil and gas exploration company into a mid-size Australian oil and gas producer. He is a Fellow of the Australian Institute of Mining and Metallurgy and the Australian Institute of Company Directors, a member of the Society of Exploration Geophysicists, Petroleum Exploration Society of Australia and the American Association of Petroleum Geologists. He is currently Chairman of the Australian Petroleum Production and Exploration Association and the Marine Parks & Reserve Authority of Western Australia. He was also a Non-executive Director of Adelphi Energy Limited from 2005 until 2010.

Director since October 2008.

The Hon. Peter Jones AM
Independent Non-executive Director

Peter was a member of the Western Australian Parliament from 1974 to 1986 during which time he served as the Minister for Resources Development, Mines, Fuel and Energy. He was the founding Chairman of ARC Energy Limited and Chairman of AMMTEC Limited. He previously served as the Chairman of Defence Housing Australia and the Water Corporation of Western Australia.

Director since October 2009.

Company Secretary

Mr Tom Streitberg

Mr Tom Streitberg, BA, LLB, FFin, was appointed to the position of Company Secretary in December 2009. He has a legal and corporate finance background, having previously worked in the Sydney offices of both a major Australian law firm and an international investment bank providing advice on mergers and acquisitions and capital raisings. From 2004 he acted as a consultant to the Australian oil and gas sector, providing corporate and commercial advice to listed companies, including Buru. He is currently the Company's Chief Operating Officer.

Directors' Meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Graham Riley	12	12
Eric Streitberg	12	12
Peter Jones	12	9

Review of Operations

Production and Development

The Company produces oil from the Blina and Sundown oil field complex contained within production licenses L6 and L8 in the Canning Superbasin. Production from the fields is in natural decline, with average production of 46 barrels of oil per day ("bopd") during the period. Production during the period was also adversely affected by mechanical difficulties at certain key production wells. A workover program on the Sundown oil field to arrest the natural decline was completed during the period with the wells currently being on test to determine the optimum production levels achievable. Preliminary testing indicates that production has increased from the Sundown oil field as a result of these workovers with the extent of that increase to be established from further testing.

Drilling

During the period the Company drilled the Leander-1, Nangu-1 and Paradise-1 wells as part of its 2010 exploration program. The Company also commenced drilling operations at the Valhalla-2 well during the period, with the well being completed subsequent to the end of the period. The Company has a 100% interest in the Leander-1 well and a 50% interest in the remaining wells with Mitsubishi Corporation holding a 50% interest and paying 80% of the costs of drilling those wells.

The Leander-1 exploration well was drilled to a total depth of 2,280 metres in production licence L8. Although hydrocarbon shows were encountered, no commercially significant hydrocarbons were identified. The well is being considered for possible re-entry and sidetrack to test an interpreted hydrothermal dolomite anomaly some 500 metres to the west of the Leander-1 well location.

The Nangu-1 exploration well was drilled to a total depth of 1,049 metres in exploration permit EP 471. No hydrocarbon shows were encountered and the well was plugged and abandoned.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

The Paradise-1 exploration well, located on the boundary of exploration permits EP 371 and EP 428, commenced drilling operations during the reporting period. The well was drilled to a depth of 1,700 metres at which point it was cased and suspended before reaching the targeted total depth due to the onset of the wet season. Numerous oil shows were encountered during drilling and, based on sidewall cores, an oil column was interpreted over the interval from 902.5 – 910.9 metres in the Lower Anderson Formation. An inflatable straddle drill stem test of this interval was undertaken, with the results being inconclusive and requiring further analysis. The Paradise-1 well will be re-entered during the 2011 exploration program in order to test the deeper Laurel Formation conventional and unconventional gas targets. Further options for testing the interpreted oil column in the Lower Anderson Formation are also under consideration.

During the reporting period the Company commenced drilling operations at the Valhalla-2 appraisal well in exploration permit EP 371. Valhalla-2 is the first well to be drilled in the 2011 exploration program. Subsequent to the end of the reporting period the Company completed the drilling of the Valhalla-2 well reaching a total depth of 3,390 metres. Preliminary analysis of the results of Valhalla-2 indicate the presence of a wet gas charged section of tight and possible conventional gas reservoirs across a Laurel Formation interval of at least 1,300 metres. These results imply there is the potential for a substantial gas accumulation to be present. Further interpretation and appraisal drilling will be required to define this potential.

Exploration

During the period the Company acquired the Yulleroo South and Pijalinga 2D seismic surveys and commenced preparations for the Yulleroo 3D seismic survey. Mitsubishi Corporation is paying 80% of the costs of each of these surveys.

The Yulleroo South 2D seismic survey consists of 18 lines covering 346.18 line kilometres in exploration permits EP 391 and EP 428. The data acquired from this survey has been used to firm up prospects in the Jackeroo and Ungani trends surrounding the existing Yulleroo gas discovery for drilling in the 2011 exploration program. The Pijalinga 2D seismic survey consists of 19 lines covering 414.82 line kilometres in exploration permit EP 477, exploration permit EP 478 and exploration permit EP 472. The data acquired from this survey will be used to mature multiple leads in the Acacia fairway to drillable status and to provide additional regional coverage.

The Yulleroo 3D seismic survey consists of approximately 185 square kilometres of new 3D seismic over the Yulleroo wet gas field. The survey is designed to define the detailed structural configuration of the Yulleroo structure. This will assist in both optimally locating future appraisal and development wells and quantifying the total hydrocarbon volumes in the accumulation. Preparations for the acquisition of this survey commenced during the period, with the survey being acquired subsequent to the end of the period. The survey was conducted over exploration permits EP 391, EP 428 and EP 436.

The Company also conducted testing of the Yulleroo-2 and Stokes Bay-1 wells during the period. The Stokes Bay-1 well test was an attempt to lift the well with nitrogen using a coil tubing unit to obtain a definitive sample of reservoir fluid. The test did not recover hydrocarbons and the well was suspended for possible further evaluation.

A three stage reservoir stimulation of the Yulleroo-2 well was undertaken during the period. The reservoir stimulation and flowback was successful in demonstrating that the reservoir will flow gas, and that the gas is of good quality and contains commercially significant quantities of LPGs and condensate. Flowback testing of the Yulleroo-2 well continued throughout the period. A stabilised flow rate was not able to be established during the period and testing has continued subsequent to the end of the period. The data acquired from the testing of the Yulleroo-2 well is an important component of the appraisal of the Yulleroo wet gas field.

Corporate

During the period Mitsubishi Corporation exercised its option to participate in Buru's 2011 exploration program in the Canning Superbasin. By exercising this option Mitsubishi Corporation is committed to fund \$40 million of a \$50 million exploration program to be undertaken in 2011.

During the period RISC Pty Ltd ("RISC") undertook an independent assessment of the Yulleroo wet gas field. RISC has estimated a mean resource¹ in the Yulleroo field of 352 PJ of ultimately recoverable sales gas based on gross Contingent Resources in the Yulleroo field of 53 PJ, 205 PJ and 846 PJ on a 1C, 2C and 3C basis respectively. RISC has estimated a mean resource in the Yulleroo field of a further 13.4 mmboe² of associated liquids (condensate and LPG) based on gross Contingent Resources in the Yulleroo field of 1.9 mmboe, 7.8 mmboe and 32.3 mmboe on a 1C, 2C and 3C basis respectively. Buru's net share of the mean resources as estimated by RISC is 36 mmboe.³

During the period the Company, in conjunction with Netherland Sewell and Associates, Inc. undertook an assessment of the Company's unconventional resources. This assessment focussed on the Company's four main unconventional plays. These four plays have been assessed to have mid range gross prospective recoverable resources of 66 TCF of gas and 4 billion barrels of oil. The majority of these resources are located in the Laurel Formation, which was positively tested in the Valhalla-2 well and will be tested in a number of further wells in the 2011 exploration program. A similar assessment of the Company's conventional exploration potential was undertaken by ISIS Petroleum Consultants Pty Ltd during the period which concluded that the Company's permits contain unrisks potential for 2.4 TCF of gas and 1.46 billion barrels of oil.

Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year. The Company's corporate governance practices comply with the ASX Corporate Council recommendations, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary purpose is to govern the Company on behalf of all shareholders. The Board's specific job outputs are to maintain a link between the Company's shareholders and its operations and to create and maintain governance policies that address the broadest levels of all decisions and situations. The Board retains the responsibility for setting the Company's strategic direction and objectives and for setting limitations on the means by which management may achieve those objectives. Limitations on management are primarily imposed by approved corporate strategy and expenditure limits. The Board delegates to management the responsibility for developing the capability to achieve Buru's aims and objectives and employing that capability within the limitations set by the Board. The Board monitors and maintains this delegation by requiring regular reporting by management to the Board.

Accountability of the Board

The Board has accountability to exercise the owner representative role and to delegate a portion of its authority through management limitations, policies and holding the Chairman accountable. It also recognises in its policies, strategic direction and setting of objectives for management, its accountability to legal and ethical obligations and its broader responsibility to non-equity stakeholders and the community, including the Traditional Owners of the areas in which the Company operates.

¹ The mean is the average of the probabilistic resource distribution.

² Millions of barrels of oil equivalent. LPGs converted at 1.39 barrels to 1 barrel of oil. Condensate converted at 1 barrel to 1 barrel of oil.

³ Sales gas converted at 0.006TJ to 1 barrel of oil.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

Unity of Control

The mandate to lead Buru is placed by shareholders in the hands of the entire Board. The principles endorsed by the Board are as follows:

No person within Buru, whether a Board member or a member of management, can have any authority unless the Board grants that authority.

All Board members are accountable individually and as a whole for any lapses of performance or behaviour by Buru.

The Board possesses authority only as a group. The Chairman and individual Directors have no power unless specifically given it by the Board collectively.

Business Judgment Rule

A Director or other officer of Buru who makes a business judgment will have met the requirements as a Director of Buru and their equivalent duties at common law and in equity, if they:

- make the judgment in good faith for a proper purpose;
- do not have a material personal interest in the subject matter of the judgment;
- inform themselves about the subject matter of the judgment to the extent they reasonably believe to be appropriate; and
- rationally believe that the judgment is in the best interests of Buru.

The Director's or officer's belief that the judgment is in the best interests of Buru is a rational one unless the belief is one that no reasonable person in their position would hold.

Terms of Appointment

The Directors are appointed in accordance with the Company's constitution for a three year term. The Executive Director has the terms of his employment set out in an individual contract. Any particular condition attaching to the appointment of an individual Non-executive Director beyond those in the Company's constitution will be formalised in a separate agreement. There are currently no such agreements.

Composition of the Board

Details of the Directors of the Company in office at the date of this report, specifying which are independent, are set out earlier in the Directors' Report at page 14. The composition of the Board is determined using the following principles:

- a minimum of 3 Directors, with extensive knowledge relevant to the conduct of the Company's business;
- a majority of independent Non-executive Directors;
- a non-executive independent Director as Chairman; and
- subject to re-election every 3 years (except for the Executive Director).

The Board considers the mix of skills and the diversity of Board members when assessing the composition of the Board. The Board assesses existing and potential Directors' skills to ensure they have appropriate capabilities, experiences, skills and ability to add value to the Company's business on a whole. The composition of the Board is also assessed having regard to the Company's Diversity Policy, which is designed to promote and achieve diversity at all levels of Buru's business, including the Board.

The Board assesses the independence of each Director annually in light of the interests declared by them. An independent Director is a Director who is not a member of management (a Non-executive Director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;
- is not a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Board Meetings

The Board currently holds scheduled meetings of the full Board on a monthly basis, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise. The agenda for Meetings is prepared in conjunction with the Chairman, Executive Director and the Chief Operating Officer/Company Secretary and circulated in advance.

Director education

Each new Director will undergo a formal induction at the earliest opportunity to enable them to gain an understanding of the Company's financial, strategic, operational and risk management position and to participate fully and actively in Board decision-making. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each Director has the right to access all relevant Company information and to speak to and have access to management. Subject to prior consultation with and approval by the Chairman, each Director may seek independent professional advice in respect of the Company and the Board's affairs from a suitably qualified adviser at the Group's expense. A copy of the advice received by a Director in these circumstances will, subject to the Chairman's discretion, be made available to all other members of the Board.

Nomination Committee

The Board does not have a separate nomination committee. Acting in its ordinary capacity, the Board carries out the process of determining the need for, and if necessary screening and appointing, new Directors in accordance with a formal policy and process for this function. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process.

Remuneration Committee

The Board does not have a separate remuneration committee. The Board as a whole reviews remuneration levels on an individual basis in conjunction with senior management. The size of the Company makes individual assessment more appropriate than formal remuneration policies. In the case of senior executives, the non-executive directors act as the remuneration committee. The Board may retain professional advisors as it requires and undertake market comparisons where necessary to assist in the assessment of remuneration. The Board is also responsible, in conjunction with senior management, for setting all non-cash remuneration which may include, from time to time, equity incentive schemes, salary sacrifice arrangements, car parking and professional membership fees as well as salary continuance and other insurance policies.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

Remuneration Report - Audited

Principles of compensation - Audited

Remuneration is also referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Directors and certain senior executives of the Group in accordance with s300A of the Corporations Act 2001.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and executives. The compensation structures explained below are designed to reward the achievement of the Company's strategic objectives and achieve the broader outcome of the creation of value for shareholders. The Company's compensation structures take into account:

- the capability and experience of key management personnel; and
- the Group's corporate, operational and financial performance.

Compensation packages include a mix of fixed and variable compensation, and short and long term performance based incentives.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds. Fixed compensation levels are reviewed annually by the Board and senior management through a process that considers individual performance and the overall performance of the Group.

Performance linked compensation

Performance linked compensation includes both short and long term incentives, and is designed to reward key management personnel for performance which exceeds expectations and key objectives agreed with the Board. Short term incentives ("STI") consist of discretionary cash bonuses that may be paid at the Board's election, while long term incentives ("LTI") consist of options over ordinary shares of the Company that may be awarded at the Board's election.

Short-term incentive bonuses

The Board retains the discretion to award cash bonuses to key management personnel in recognition of performance that exceeds the expectations and key objectives agreed with the Board. No key management personnel have an entitlement to the payment of an STI. The payment of STIs is assessed on a case by case basis. The Board may consider the payment of an STI as part of the Group's formal twice yearly personnel performance review process. The Board may also consider the payment of an STI in recognition of the achievement of a specific outcome. The quantum of any STI will be determined by the Board having regard to all the factors contributing to its award, including level of responsibility, achievement of personal objectives, materiality of outcome for the Group and creation of shareholder value.

Long-term incentive bonuses

The Board considers that an LTI scheme structured around equity based compensation is necessary to attract and retain the highest calibre of professionals to the Group, whilst maintaining the Group's cash reserves. The purpose of these schemes is to align the interests of key management personnel with shareholders and to reward, over the medium term, key management personnel for delivering value to shareholders through share price appreciation.

Consequences of performance on shareholder wealth

The Board considers that the most effective way to increase shareholder wealth is through the successful exploration and development of the Group's oil and gas exploration permits. The Board considers that the Group's LTI schemes incentivise key management personnel to successfully explore the Group's oil and gas permits by providing rewards, over the short and long terms, that are directly correlated to delivering value to shareholders through share price appreciation. The Group has two LTI schemes in place, an Employee Share Option Plan and an Employee Share Acquisition Scheme.

Service contracts

It is the Group's policy that service contracts with key management personnel, excluding the Executive Director and the Chief Operating Officer, are unlimited in term but capable of termination on one month's notice (or by payment in lieu thereof). Key management personnel are also entitled to receive their contractual and statutory entitlements including accrued annual and long service leave, together with any superannuation benefits, on termination of employment. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by key management personnel and any changes required to meet the principles of the Group's compensation policy.

The Executive Director's (Eric Streitberg) employment agreement with the Group, effective 19 October 2009, provides that he is responsible to the Buru Board. He is required to carry out his duties to the Group, while ensuring that any other activities he undertakes do not conflict with them. The agreement provides that his employment will continue until 31 December 2011. At 31 December 2011 the term of employment will automatically be extended for a period of one year to 31 December 2012 unless either party gives 60 days notice that it does not want to extend the term. Either party may terminate the employment with four months notice. The Board determined the amount of compensation payable under this agreement.

The Chief Operating Officer and Company Secretary (Tom Streitberg) has an employment agreement, effective 18 November 2009 with the Group on substantially the same terms as the Executive Director with the exception of compensation. The Board determined the amount of compensation payable under this agreement.

Non-executive Directors

Total fixed compensation for all Non-executive Directors, last voted upon by shareholders at the 2010 Annual General Meeting, is not to exceed \$300,000 per annum. It is set by reference to other Non-executive Director fees paid by comparable companies. The Non-executive Directors' base fee is presently \$66,000 plus statutory superannuation per annum and the Chairman's base fee is \$86,000 plus statutory superannuation per annum. Directors' fees cover all main Board activities.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

Key Management Personnel Compensation

Details of the nature and amount of each major element of compensation of each Director of the Company and Group executive in AUD are as follows:

Directors	Short-term			Post-employment	Share based payments				s300A(1)(e)(i) proportion of remuneration performance related %	s300A(1)(e)(ii) value of options as proportion of remuneration %		
	Salary & Fees \$	STI cash bonus (A) \$	Non-monetary benefits		Total	Superannuation benefits \$	Other long term \$	Termination benefits \$			Purchase of shares and options (D) \$	Options (B) and Employee Share Acquisition Scheme (C) \$
Non-executive Directors												
Mr G Riley (Chairman)	2011	86,000	-	-	86,000	7,740	-	-	-	-	93,740	-
	2010	82,000	-	-	82,000	7,380	-	-	-	85,829	175,209	49.0%
The Hon P Jones (Appointed October 2009)	2011	66,000	-	-	66,000	-	-	-	-	-	66,000	-
	2010	46,272	-	-	46,272	-	-	-	-	-	46,272	-
Total Non-executive Directors Remuneration	2011	152,000	-	-	152,000	7,740	-	-	-	-	159,740	-
	2010	128,272	-	-	128,272	7,380	-	-	-	85,829	221,481	38.8%
Executive Directors												
Mr E Streitberg	2011	330,000	-	-	330,000	29,700	-	-	-	168,476	528,176	31.9%
	2010	210,982	-	-	210,982	18,988	-	-	1,211,167	170,332	1,611,469	85.7%
Mr A Cook (Resigned October 2009)	2011	-	-	-	-	-	-	-	-	-	-	-
	2010	103,672	-	-	103,672	18,412	-	115,756	-	-	237,840	-
Total Directors Remuneration	2011	482,000	-	-	482,000	37,440	-	-	-	168,476	687,916	-
	2010	442,926	-	-	442,926	44,780	-	115,756	1,211,167	256,161	2,070,790	-

Directors' Report

For the year ended 30 June 2011 (Cont'd)

		Short-term			Post-employment		Share based payments				s300A(1)(e)(i) proportion of remuneration related %	s300A(1)(e) (vi) value of options as proportion of remuneration %	
		Salary & Fees \$	STI cash bonus (A) \$	Non-monetary benefits	Total	Superannuation benefits \$	Other long term \$	Termination benefits \$	Purchase of shares and options (D) \$	Options (B) and Employee Share Acquisition Scheme (C) \$			Total \$
Executives													
Mr T Streitberg, Chief Operating Officer & Company Secretary	2011	281,500	150,000	-	431,500	38,835	-	-	-	209,293	679,628	52.9%	30.8%
	2010	249,100	-	-	249,100	22,419	-	-	-	168,624	440,143	38.3%	38.3%
Mr M Royle, Operations Manager (Commenced November 2009)	2011	195,068	-	-	195,068	17,556	-	-	-	56,159	268,783	20.9%	20.9%
	2010	121,837	-	-	121,837	10,965	-	-	-	-	138,802	-	-
Mr P Edwards, Exploration Manager	2011	217,274	-	-	217,274	19,554	-	-	-	61,990	298,818	20.7%	20.7%
	2010	190,382	-	-	190,382	17,134	-	-	-	35,337	242,853	14.6%	14.6%
Mr T Rudge, Geophysicist	2011	227,584	-	-	227,584	20,483	-	-	-	60,824	308,891	19.7%	19.7%
	2010	206,194	-	-	206,194	18,557	-	-	-	19,086	243,837	7.8%	7.8%
Total Directors and Executive Officer remuneration	2011	1,403,426	150,000	-	1,553,426	133,868	-	-	-	556,742	2,244,036		
	2010	1,210,439	-	-	1,210,439	113,855	-	115,756	1,211,167	479,208	3,130,425		

Directors' Report

For the year ended 30 June 2011 (Cont'd)

A. Short Term Incentive Bonus

A single STI bonus was paid during the reporting period. The bonus was paid to Tom Streitberg for performance during the respective financial year having regard to the criteria set out on page 20. The bonus was authorised by the Board following the execution of the farm-in agreement with Mitsubishi Corporation on 15 June 2010. This farm-in agreement secured up to \$152.4 million in funding for the exploration and development of the Group's oil and gas exploration permits. The transaction underpins the funding of the Company's very significant 2010, 2011 and potentially 2012 exploration programs which are required to materially progress the evaluation of the Group's oil and gas exploration permits. Tom Streitberg was central in effecting the transaction with Mitsubishi Corporation. No fees were paid by the Group to financial, corporate or other advisors (other than legal fees) in connection with this transaction.

B. Employee Share Option Plan

All options refer to options over ordinary shares of Buru Energy Limited which are exercisable on a one for one basis. At the 2010 Annual General Meeting, shareholders approved the implementation of an ESOP. Options are issued under the ESOP in accordance with the thresholds set in the plan approved by shareholders. The number of options available to be issued under the ESOP is limited to 5% of the total number of ordinary shares in the Company. The options are issued for no consideration and vest immediately. The Company has a policy that prohibits key management personnel from entering into transactions in associated products that operate to limit the economic risk of their security holdings in the Company.

The fair values of the currently issued options are calculated at the date of grant using the Black & Scholes valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

Details of the options issued under the ESOP to each key management person during the reporting period and details on options that vested during the reporting period are shown in the table below.

	Number of options granted during 2011	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2011
Directors						
Eric Streitberg	1,080,000	5 Nov 10	0.156	0.480	31 Dec 12	1,080,000
Executives						
Tom Streitberg	1,050,000	5 Nov 10	0.156	0.480	31 Dec 12	1,050,000
Peter Edwards	360,000	5 Nov 10	0.156	0.480	31 Dec 12	360,000
Tony Rudge	360,000	5 Nov 10	0.156	0.480	31 Dec 12	360,000
Mark Royle	360,000	5 Nov 10	0.156	0.480	31 Dec 12	360,000

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

C. Employee Share Acquisition Scheme

At the 2009 Annual General Meeting, shareholders approved the implementation of an Employee Share Acquisition Scheme ("**Scheme**") designed to encourage employees to acquire shares in the Company on market. For every one dollar that a Participant contributed to the Scheme, the Company approved a loan to the Participant of four dollars. The total amount of the loans made available was capped at \$500,000. The Participant's contribution together with the loan from the Company is held on trust by a Trustee appointed for the purposes of the Scheme. The Trustee used these funds to acquire shares in the Company on market, which it now holds in trust on behalf of the Participants. Participants are able to direct the Trustee to sell the Shares acquired on their behalf under the Scheme at any time during the loan period at a price greater than the average price at which those Shares were acquired. The loan period runs until 31 December 2011 and, except where a Participant ceases to be an employee of the Company, the Company generally cannot call for repayment of the loan prior to the end of the loan period. No interest is payable on loans made under the Scheme.

All Shares sold prior to the conclusion of the loan period must be used to repay the Participant's loan. Once the loan has been repaid in full the proceeds of sales will be made available to the Participant. There is no redraw available for loans made under the Scheme.

If the loan has not been repaid on the conclusion of the loan period, Participants may elect to either:

- repay the outstanding loan amount to the Company; or
- surrender sufficient Shares to the Trustee (at a price deemed to be the volume weighted average price of Shares for the 30 day period preceding the surrender) to satisfy the outstanding loan amount. If the Participant holds insufficient Shares to satisfy the outstanding loan amount the surrender of all of the Participant's Shares to the Trustee will constitute full and final satisfaction of the outstanding loan amount.

During the 2010 financial year, the Company provided the maximum of \$500,000 of loans in total under the Scheme with Participants contributing a further \$125,000. In addition to the above contributions, an additional \$8,140 was contributed to the Scheme by Participants. The Company did not provide any loans or other financial assistance for this additional contribution. The Scheme was not open to Directors.

Under AASB 2, the Scheme is considered in-substance options and accordingly must be accounted for as a share based payment expense. The value disclosed in the 2010 financial year is the fair value of the in-substance options recognised in the reporting period.

There were no transactions involving this Scheme during the financial year.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

- D. At the 2009 Annual General Meeting, shareholders approved the issue of 2,650,000 new fully paid ordinary shares and 15,000,000 unlisted options to Eric Streitberg in exchange for a total cash payment of \$609,500. The terms of these options are the same as the Director and Employee Options, other than the exercise price. Details of these options are set out below. In accordance with AASB 2 the difference between the cash paid in consideration for the securities and the accounting fair value of the securities (shares and options) being \$1,211,167 (determined in accordance with AASB 2) was recognised as a share based payment in the 2010 financial year. The ordinary shares were valued using the share price of 22 cents as at the grant date of 16 October 2009. The options were valued using the Black & Scholes valuation model with the following inputs: a share price of 22 cents at grant date, an expiry of 31 December 2011, an expected volatility of 76.4%, a risk free interest rate of 4.8% and no expected dividends. The options included in this transaction are detailed below. These options fully vested during the period.

Number of options granted	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested
5,000,000	16 Oct 09	0.0932	0.250	31 Dec 11	5,000,000
5,000,000	16 Oct 09	0.0818	0.300	31 Dec 11	5,000,000
5,000,000	16 Oct 09	0.0725	0.350	31 Dec 11	5,000,000

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period.

Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation to key management personnel.

Movements in options during the year

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed below.

	Granted in year \$(A)	Value of options exercised in year \$(B)	Lapsed during the financial year \$(C)
Directors			
Eric Streitberg	168,476	-	-
Executives			
Tom Streitberg	163,796	-	-
Peter Edwards	56,159	-	-
Tony Rudge	56,159	-	-
Mark Royle	56,159	-	-

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black & Scholes valuation model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the Black & Scholes valuation model assuming any performance criteria had been achieved.

End of Remuneration Report - Audited

Audit committee

The Board does not have a separate audit committee. The Board believes that, with only three Directors on the Board, the Board itself is the appropriate forum to deal with this function.

The responsibilities of the Board when dealing with this function include:

- reviewing the annual and half-year financial reports and other financial information distributed externally;
- monitoring compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements;
- addressing any matters outstanding with the Company's external auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, ASX and financial institutions;
- establishing procedures for selecting, appointing, and if necessary, removing the external auditor;
- assessing whether non-audit services provided by the Company's external auditor are consistent with maintaining the external auditor's independence. Each reporting period the Company's external auditor provides an independence declaration in relation to the audit or review; and
- considering whether the provision of non-audit services by the Company's external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.

The Executive Director and the Chief Operating Officer/Company Secretary declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2011 comply with the relevant accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required to be made annually.

The Board reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- review the draft annual and half-year financial reports, and recommend Board approval of the financial reports; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

Risk Management

The Board as a whole works to establish and maintain a sound system of corporate and commercial risk oversight and management and internal control by identifying, assessing, monitoring and managing Buru's risk exposure. It also informs investors of any material changes to Buru's risk profile should they occur. Buru maintains a risk management system commensurate with the nature, level and size of its activities. Given the size and scale of Buru, it does not have a risk sub-committee or an internal audit function. There is also no formal risk management and internal control system to manage the Company's material business risks. The Board directly monitors the potential exposures facing the Company through ongoing reporting by the Executive Director and Chief Operating Officer/Company Secretary. As the Company grows, it intends to develop a more formal risk management system.

The risks involved with oil and gas exploration generally and the specific risks associated with Buru's activities in particular are regularly monitored and all exploration and investment proposals reviewed by the Board include a conscious consideration of the issues and risks of each proposal. Senior employees of the Company with extensive experience in the industry manage and monitor potential exposures facing Buru.

It is the responsibility of the Board to assess the adequacy of Buru's internal control systems and that its financial affairs comply with applicable laws and regulations and professional practices.

The Executive Director and the Chief Operating Officer/Company Secretary have advised the Board that the Company's material risks are being managed effectively and that the Company's financial reports are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

Ethical standards

Code of conduct

Given the size and scale of Buru, it does not have a formal code of conduct. All Directors, and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. A code of conduct will be formalised in due course as the Company grows.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned will not receive the relevant Board papers and will not be present at the meeting whilst the item is considered.

Trading in Company securities by Directors and employees

The key elements of the Company's share trading policy for Directors and employees are:

- Trading restrictions – Directors and all employees may acquire shares in the Company, but are prohibited from dealing in Company shares or options or exercising options during certain periods which include:
 - during the drilling of any well in any permit in which Buru has an interest from the spud date until the rig has been released from the location;
 - one week prior to the release of Buru's quarterly reports;
 - two weeks prior to the release of Buru's half year and annual reports;
 - two weeks prior to any general meeting of shareholders held by the Company;
 - at no time after such meeting until the results of the meeting have been released to the ASX;
 - two business days following the release to the ASX of any announcement deemed by the ASX to be price sensitive; and
 - whilst in possession of price sensitive information not yet released to the market.
- In any event, details are to be provided by Directors and employees of intended trading in the Company's shares and options to the Executive Director. Permission is required from the Executive Director before any trade involving the Company's securities can be made.
- Details are to be provided by Directors and employees of the subsequent confirmation of all trades in the Company's shares and options.

The policy also references the insider trading provisions of the Corporations Act 2001 and is reproduced in full on the Company's website and in the Group's announcements provided to the ASX.

Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure and Market Communications Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. More details of the policy are available on the Company's website.

In summary, the Continuous Disclosure and Market Communications Policy operates as follows:

- the Executive Director and Chief Operating Officer/Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Executive Director and Chief Operating Officer/Company Secretary are responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered;
- the full annual report is made available to all shareholders via the Company's website. A physical copy will be sent to any shareholder that specifically requests it. The full annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- the half-yearly report is made available to all shareholders via the Company's website. A physical copy will be sent to any shareholder that requests it. The half-yearly report contains summarised financial information and a review of the operations of the Group during the period;

- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the ASX, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website; and
- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

All of the above information, dating back to the listing of the Company, is made available on the Company's website within one day of public release, and is e-mailed to all shareholders who lodge their e-mail contact details with the Company. Information on lodging e-mail addresses with the Company is available on the Company's website.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Diversity

Diversity Policy

The Board is committed to having an appropriate blend of diversity on the Board and in all areas of the Group's business. The Board has established a policy regarding gender, age, ethnic and cultural diversity. Details of the policy are available on the Company's website.

The key elements of the diversity policy are as follows:

- Disclose the Group's commitment to attracting and retaining a diverse range of talented people to work in all levels of its business, from entry positions to Board members.
- Annual assessment of gender diversity on the Board and in all areas of the Group's business and reporting against the gender diversity objectives approved by the Board.

Diversity Objectives

The Group's gender diversity as at the end of the reporting period is as follows:

Gender representation	30 June 2011				30 June 2010			
	No	Female %	No	Male (%)	No	Female %	No	Male (%)
Board representation	-	-	3	100%	-	-	3	100%
Group representation	9	38%	15	62%	7	37%	12	63%

The following senior positions within the Group are currently held by female employees:

- Legal and Business Development Manager;
- Finance Manager; and
- Office Manager.

Directors' Report

For the year ended 30 June 2011 (Cont'd)

The Company's diversity objectives for the 2012 financial year are as follows:

- Appointment of the Company Secretary as Buru's diversity officer to:
 - assess and proactively monitor gender diversity at all levels of Buru's business and report to the Board; and
 - assess and monitor the implementation and effectiveness of the Company's diversity initiatives and programs.
- Update recruitment policies and procedures to reflect Buru's position on diversity.
- Implement a formal policy regarding flexible working arrangements for all non-operational staff.
- Implement a formal maternity and paternity leave policy.
- Ensure equal participation by all employees in six-monthly career development discussions to ensure all employees are provided with the opportunity to identify areas for the development of skills and experiences in preparation for more senior roles with the Company.
- Undertake an annual review of all flexible working arrangements to ensure roles are appropriate to maintain career development.
- Establish a university scholarship to support and encourage females to undertake studies in geology or a related discipline.
- Ensure that, wherever practical, Traditional Owners from the areas in which Buru operates are offered employment opportunities with Buru in the field.

Principal Activities

The principal activity of the Consolidated Group during the period was oil and gas exploration in the Canning Superbasin, in the Kimberley region of Western Australia. There were no significant changes in the nature of the Group's principal activities during the period.

Operating Results

The consolidated loss of the Group after providing for income tax was \$10,335,000 (30 June 2010: loss of \$4,393,000).

Financial Position

The net assets of the Group totalled \$32,703,000 as at 30 June 2011 (30 June 2010: \$42,420,000).

Dividends

The Directors do not propose to recommend the payment of a dividend for the period. No dividends have been paid or declared by the Company during the current period.

Significant Changes in the State of Affairs

No significant change in the state of affairs of the Group occurred during the period other than already referred to elsewhere in this report.

After Balance Date Events

No significant events have occurred subsequent to balance date other than those already disclosed in the review of operations.

Likely Developments

The Group intends to continue its current oil and gas exploration in the Canning Superbasin in the Kimberley region of Western Australia. Likely developments will depend upon the results of the current exploration program. At this stage, the expected likely developments have not been disclosed as the Directors believe, on reasonable grounds, that the inclusion of such information would result in unreasonable prejudice to the Group.

Environmental Issues

The Consolidated Group is subject to environmental regulation under relevant Australian legislation in relation to its oil and gas exploration and production activities, particularly with the Western Australian Department of Mines and Petroleum ("DMP") and the Western Australian Department of Environment and Conservation ("DEC"). The Directors actively monitor compliance with these regulations. As at the date of this report, the Directors are not aware of any material breaches in respect of the regulations. The Company is in the process of rectifying outstanding environmental issues identified from DMP and DEC audits of the Company's producing fields. These issues are not considered to be material.

Options

At the date of this report, the unissued shares of Buru Energy Limited under option are as follows:

Date of Expiry	Exercise Price	Number of shares under Option
31 December 2011	\$0.30	5,241,000
31 December 2011	\$0.25	5,000,000
31 December 2011	\$0.30	5,000,000
31 December 2011	\$0.35	5,000,000
31 December 2012	\$0.48	3,720,000
31 December 2012	\$0.75	290,000
		24,251,000

All unissued shares are ordinary shares in the Company.

All options expire on the earlier of their expiry date or within 30 days from termination of the employee's employment. Further details of the options are included in the Remuneration Report on pages 20-26.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Directors' Interests

The relevant interest of each Director in the shares or options issued by the Company, as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are as follows:

Director	Ordinary shares	Unlisted options over ordinary shares
Mr Graham Riley	2,000,000	1,000,000
Mr Eric Streitberg	6,501,066	17,980,000
The Hon Peter Jones AM	248,277	-
	8,749,343	18,980,000

Directors' Report

For the year ended 30 June 2011 (Cont'd)

Indemnifying Officers or Auditor

The Company has agreed to indemnify all current Directors and the Company Secretary of the Company and its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the financial year the Company has paid insurance premiums of \$36,630 in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current and former Directors and officers, including senior executives of the Company and Directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Proceedings on Behalf of Company

No person has applied for leave from any Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

Non-audit Services

During the period, the Company's auditor did not perform any other services in addition to their statutory and other audit and review duties. During the year, the amount paid or payable to the Group's auditor (KPMG Australia) for statutory and other audit and review services totalled to \$51,000 (2010: \$41,000).

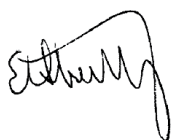
Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 33 and forms part of the Director's report for the financial year ended 30 June 2011.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of Directors.



Mr Eric Streitberg
Executive Director
Perth
30 August 2011



Mr Graham Riley
Chairman
Perth
30 August 2011



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Buru Energy Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brent Steedman

Brent Steedman
Partner

Perth

30 August 2011

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Consolidated Statement of Financial Position

As at 30 June 2011

<i>in thousands of AUD</i>	Note	30 June 2011	30 June 2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	19a	26,775	40,704
Trade and other receivables	17	3,223	2,083
Inventories	18	4,493	1,295
Total Current Assets		34,491	44,082
NON-CURRENT ASSETS			
Property, plant and equipment	12	3,337	3,086
Exploration and evaluation expenditure	13	18,221	18,434
Development expenditure	14	327	13
Other investments	15	26,029	24,622
Total Non-Current Assets		47,914	46,155
TOTAL ASSETS		82,405	90,237
CURRENT LIABILITIES			
Trade and other payables	22	4,406	2,614
Provisions	23	185	103
Total Current Liabilities		4,591	2,717
NON-CURRENT LIABILITIES			
Trade and other payables	22	40,000	40,000
Provisions	23	5,111	5,100
Total Non-Current Liabilities		45,111	45,100
TOTAL LIABILITIES		49,702	47,817
NET ASSETS		32,703	42,420
EQUITY			
Contributed equity		75,488	75,440
Reserves		4,271	3,701
Accumulated losses		(47,056)	(36,721)
TOTAL EQUITY		32,703	42,420

The notes on pages 38 to 69 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

<i>in thousands of AUD</i>	Note	2011 \$	2010 \$
Revenue	7	1,543	2,554
Operating costs		(1,749)	(2,288)
Gross profit		(206)	266
Other income	8	1,039	75
Exploration and evaluation expenditure		(890)	-
Impairment of exploration expenditure	13	(10,971)	(3,010)
Administrative expenditure	9	(5,078)	(2,728)
Share based payment expenses	24	(729)	(1,695)
Joint venture partner's share of technical and administrative expenditure	27	4,100	-
Results from operating activities		(12,735)	(7,092)
Financial income	10	2,858	2,749
Financial expenses	10	(458)	(50)
Net finance income		2,400	2,699
Loss for the period before tax		(10,335)	(4,393)
Income tax benefit	11	-	-
Loss for the period		(10,335)	(4,393)
Other comprehensive income			
Change in fair value of available-for-sale financial assets net of tax		(150)	2,338
Other comprehensive income for the period, net of income tax		(150)	2,338
Total comprehensive loss for the period		(10,485)	(2,055)
Loss per share (cents)	21	(5.65)	(2.46)
Diluted Loss per share (cents)	21	(5.65)	(2.46)

The notes on pages 38 to 69 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

in thousands of AUD

Balance as at 1 July 2009

Comprehensive income for the period

Loss for the period

Total comprehensive income for the period

Transactions with owners recorded directly in equity

Issue of ordinary shares

Share based payment transactions

Adjustment for forfeited options

Total transaction with owners recorded directly in equity

Balance as at 30 June 2010

Balance as at 1 July 2010

Comprehensive income for the period

Loss for the period

Net change in fair value of available-for-sale financial assets

Total comprehensive income for the period

Transactions with owners recorded directly in equity

Issue of ordinary shares

Share based payment transactions

Adjustment for exercised options

Total transaction with owners recorded directly in equity

Balance as at 30 June 2011

The notes on pages 38 to 69 are an integral part of these consolidated financial statements

	Share capital	Treasury share reserve	Option premium reserve	Share based payment reserve	Financial asset revaluation reserve	Retained losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2009	71,573	-	-	238	-	(32,398)	39,413
Comprehensive income for the period	-	-	-	-	-	(4,393)	(4,393)
Loss for the period	-	-	-	-	2,338	-	2,338
Total comprehensive income for the period	-	-	-	-	2,338	(4,393)	(2,055)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	3,867	-	-	-	-	-	3,867
Share based payment transactions	-	(633)	133	1,695	-	-	1,195
Adjustment for forfeited options	-	-	-	(70)	-	70	-
Total transaction with owners recorded directly in equity	3,867	(633)	133	1,625	-	70	5,062
Balance as at 30 June 2010	75,440	(633)	133	1,863	2,338	(36,721)	42,420
Balance as at 1 July 2010	75,440	(633)	133	1,863	2,338	(36,721)	42,420
Comprehensive income for the period	-	-	-	-	-	(10,335)	(10,335)
Loss for the period	-	-	-	-	(150)	-	(150)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(150)	-	(150)
Total comprehensive income for the period	-	-	-	-	(150)	(10,335)	(10,485)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	39	-	-	-	-	-	39
Share based payment transactions	-	-	-	729	-	-	729
Adjustment for exercised options	9	-	-	(9)	-	-	-
Total transaction with owners recorded directly in equity	48	-	-	720	-	-	768
Balance as at 30 June 2011	75,488	(633)	133	2,583	2,188	(47,056)	32,703

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

in thousands of AUD

		2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		2,469	3,177
Joint venture partner's share of technical and administrative expenditure	27	5,700	-
Payments to suppliers and employees		(6,597)	(7,201)
Cash used in operations		1,572	(4,024)
Interest paid		(3)	(2)
Net cash inflow / (outflow) from operating activities	19b	1,569	(4,026)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,072	1,942
Payments for purchase of plant and equipment		(561)	(1,864)
Payments for exploration and evaluation expenditure		(15,535)	(13,290)
Payments for development expenditure		(444)	-
Transfer to long-term cash held in escrow (*)		(932)	(909)
Payments for available-for-sale financial assets		(625)	-
Net cash outflow from investing activities		(15,025)	(14,121)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of share capital		39	610
Net cash inflow from financing activities		39	610
Net decrease in cash and cash equivalents		(13,417)	(17,537)
Cash and cash equivalents at the beginning of the period		40,704	58,274
Effect of exchange rate changes on cash and cash equivalents		(512)	(33)
Cash and cash equivalents at 30 June	19a	26,775	40,704

* Funds held in escrow on behalf of Alcoa of Australia Limited (Note 15(ii))

The notes on pages 38 to 69 are an integral part of these consolidated financial statements

Notes to the Financial Statements

For the year ended 30 June 2011

1. Reporting Entity

Buru Energy Limited ("Buru" or the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 97 William Street, Perth, Western Australia. The consolidated financial statements of the Company as at and for the period ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in oil and gas exploration in the Canning Superbasin in the Kimberley region of Western Australia.

2. Basis of Preparation

(a) Statement of Compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). The financial statements were approved by the Board of Directors on 30 August 2011.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Available-for-sale-financial assets are measured at fair value; and
- Share based payments are measured at fair value.

The methods used to measure fair value are discussed further in note 4.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is each of the Group entities' functional currency.

(d) Use of Estimates and Judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 13 – Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation or sale of the respective area of interest is likely. Critical to this assessment is estimates and assumptions as to the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. If, after having capitalised the expenditure a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement.

Note 24 – Measurement of share-based payments

The fair value of share-based payment expenses are measured using the Black & Scholes valuation model that requires the use of estimates and assumptions for measurement inputs, including: expected volatility of the instrument and weighted average expected life of the instrument.

(e) Changes in Accounting Policies

From 1 July 2010 the Group has applied the amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in the notes to the financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by Group entities during the reporting period. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of Consolidation

(i) Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) *Jointly controlled assets*

The Group has certain contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of each venture but do not create a jointly controlled entity as the venturers directly derive the benefits of operation of their jointly owned assets, rather than deriving returns from an interest in a separate entity.

The financial statements of the Group include its share of the assets in such joint ventures, together with the liabilities, revenues and expenses arising jointly or otherwise from those operations. All such amounts are measured in accordance with the terms of each arrangement.

(iv) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) **Foreign Currency**

Transactions in foreign currencies are translated to Australian Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(c) **Property, Plant and Equipment**

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss.

(ii) *Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- plant & equipment 10 – 30 years
- office equipment 3 – 20 years
- fixtures and fittings 6 – 20 years

The useful life and the depreciation method applied to an asset are reassessed at least annually.

(d) Exploration and Evaluation Expenditure

Exploration for and evaluation of hydrocarbon resources is the search for hydrocarbon resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the hydrocarbon resources. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Company in connection with the exploration for and evaluation of hydrocarbon resources before the technical feasibility and commercial viability of extracting a hydrocarbon resource is demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a hydrocarbon resource or has been proved to contain such a resource.

Expenditure incurred on activities that precede exploration and evaluation of hydrocarbon resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

- (a) The rights to tenure of the area of interest are current; and
- (b) At least one of the following conditions is also met:
 - i. The expenditure is expected to be recouped through the successful development and commercial exploitation of an area of interest, or alternatively by its sale; and
 - ii. Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, logging and coring; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the hydrocarbon resource.

General and administrative costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(e) Development Expenditure

Development expenditure is accumulated in respect of each separate area of interest. Development expenditure relates to costs incurred to access a mineral resource after the technical feasibility and commercial viability of extracting the mineral resource from the area of interest has been demonstrated. Development expenditure related to an area of interest is carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the extent that they will not be recoverable in the future. Impairment of assets is discussed at note 3(i).

Capitalisation of development expenditure ceases once the production commences, at which point it is transferred into Property, Plant and Equipment, and amortised on a units of production basis over the life of economically recoverable reserves.

(f) Financial Instruments

(i) *Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i)), and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(ii) *Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables.

Trade and Other Payables

Trade payables are non-interest bearing and are normally settled on 30 day terms.

Unearned income includes payments received relating to revenue in subsequent years. Revenue will only be recognised when Buru delivers the goods or services to the customer.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

In the Group's financial statements the transactions of the Group's sponsored employee share plan trust are treated as being executed directly by the Group (as the trust acts as the Group's agent).

(g) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(h) *Leased Assets*

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are not recognised on the Group's balance sheet.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(i) Impairment

(i) *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or users in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into a cash-generating unit ("CGU"). A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee Benefits

(i) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(k) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and that the obligation can be measured reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(i) Site restoration

Provisions are made for the estimated cost of an oil and gas field's site rehabilitation, decommissioning and restoration. Provisions include reclamation, plant closure, waste site closure and monitoring activities. The amount recognised as a liability represents the estimated future costs discounted to present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Uncertainty exists as to the amount of restoration obligations which will be incurred due to the following factors:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in legislation.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in estimates are dealt with on a prospective basis from the date of the changes and are added to, or deducted from, the related asset where it is probable that future economic benefits will flow to the entity.

(l) Revenue

Revenue from the sale of oil, gas and condensate is recognised in the income statement at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and recovery of the consideration is probable.

(m) Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Finance Income and Expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Buru Energy Limited.

(p) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(q) Segment Reporting

An operating segment is a component of Buru that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Buru's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Director and the Chief Operating Officer to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Buru's revenue during the year was significantly attributable to one customer.

Segment results that are reported to the Executive Director and the Chief Operating Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(r) Earnings Per Share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for shares held by the Group's sponsored employee share plan trust. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for shares held by the Group's sponsored employee share plan trust, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(s) New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group has not yet determined the potential effect of the standard.

4. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Share-based Payment Transactions

The fair value of share based payment expenses are measured using the Black & Scholes valuation model. Measurement inputs include share price on a measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information) weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(b) Investments in Equity Instruments

The fair value of available-for-sale investments is determined by reference to their quoted closing bid price at the reporting date.

5. Segment Information

The Group has only one reportable business segment being the exploration, evaluation and development of oil and gas resources.

6. Financial Risk Management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's revenue from sales of crude oil is attributable to sales transactions with a single customer. The Board are confident that this particular customer is an organisation of sufficient size and has sufficient cash flows to limit the credit risk to acceptable levels.

The Group does not require collateral in respect of trade and other receivables.

The Group does not have an allowance for impairment on trade and other receivables. To date the Group have always received full consideration for trade and other receivables in a timely manner and as such there is no reason to believe that this will not continue going forward.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This is monitored through rolling cash flow forecasts. The Group maintains sufficient cash to safeguard liquidity risk.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales that are denominated in a currency other than the respective functional currencies of the Group (AUD). All sales of crude oil are denominated in US dollars. The Group does not consider it necessary to hedge its foreign currency exposure due to the relatively low amounts of USD income/expenditure and USD cash held.

(ii) Interest rate risk

At balance date the Group's exposure to market risk for changes in interest rates relate primarily to the Group's short term cash deposits. The interest rate risk is only applicable to interest revenue as the Group does not have any short or long term borrowings.

The Group constantly analyses its exposure to interest rates, with consideration given to potential renewal of the terms of existing deposits.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities held in other listed exploration companies. The Group monitors its available for sale equity instruments on a regular basis including daily monitoring of ASX listed prices and ASX releases. The Group does not enter into commodity derivative contracts.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management under the supervision of the Board. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

(f) Capital management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so as to maintain future exploration and development of its projects. Capital consists of share capital of the Group. In order to maintain or adjust its capital structure, Buru may in the future return capital to shareholders, issue new shares, borrow funds from financiers or sell assets. Buru's focus has been to maintain sufficient funds to fund exploration and evaluation activities. There are no external borrowings as at balance date.

There were no changes in the Group's approach to capital management during the period.

None of the Group's entities are subject to externally imposed capital requirements.

7. Revenue

in thousands of AUD

Sales of crude oil

2011	2010
1,543	2,554
1,543	2,554

8. Other Income

in thousands of AUD

Equipment rental

Fuel tax credits

Research and Development Tax Concession

Other revenue

2011	2010
638	-
189	69
212	-
-	6
1,039	75

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

9. Administrative Expenditure

in thousands of AUD

	2011	2010
Wages and salaries	2,038	998
Non-executive Directors' fees	160	153
Superannuation	238	167
Contract employment services	170	160
Other associated personnel expenses	270	141
Office and other administration expenses	2,202	1,109
	<u>5,078</u>	<u>2,728</u>

The above expense excludes share based payments disclosed at note 24.

10. Finance Income and Expenses

in thousands of AUD

	2011	2010
Interest income on bank deposits	2,858	2,749
Finance income	<u>2,858</u>	<u>2,749</u>
Interest expenses	(3)	(2)
Net foreign exchange loss	(455)	(48)
Finance expense	<u>(458)</u>	<u>(50)</u>
Net finance income recognised in profit or loss	<u>2,400</u>	<u>2,699</u>

11. Income Tax Expenses

<i>in thousands of AUD</i>	2011	2010
Current income tax		
Current income tax charge	-	-
Adjustments in respect of previous current income tax	264	-
	264	-
Deferred income tax		
Benefit relating to origination and reversal of temporary differences	(264)	-
	(264)	-
Total income tax benefit reported in the income statement	-	-
Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting loss before tax	(10,335)	(4,393)
	(10,335)	(4,393)
Income tax benefit using the domestic corporation tax rate of 30%	3,101	1,318
Increase in income tax due to:		
- Non deductible expenses	(222)	(525)
- Temporary differences and tax losses not brought to account as a DTA	(2,879)	(812)
- Investment allowance tax deduction	-	19
Income tax benefit / (expense) on pre tax loss	-	-

Tax consolidation

The company and its 100% owned entities have formed a tax consolidated group. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

Tax affect accounting by members of the Consolidated Group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement are recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head entity, Buru. In this regard, Buru has assumed the benefit of tax losses from the member entities. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

12. Property, Plant and Equipment

<i>in thousands of AUD</i>	Plant and equipment	Office equipment	Fixtures and fittings	Total
Cost or deemed cost				
Carrying amount at 1 July 2009	1,184	379	26	1,589
Additions	1,823	32	-	1,855
Balance at 30 June 2010	3,007	411	26	3,444
Carrying amount at 1 July 2010	3,007	411	26	3,444
Additions	218	117	224	559
Balance at 30 June 2011	3,225	528	250	4,003
Depreciation				
Carrying amount 1 July 2009	(88)	(58)	(2)	(148)
Depreciation for the period	(125)	(83)	(2)	(210)
Balance at 30 June 2010	(213)	(141)	(4)	(358)
Carrying amount 1 July 2010	(213)	(141)	(4)	(358)
Depreciation for the period	(207)	(93)	(8)	(308)
Balance at 30 June 2011	(420)	(234)	(12)	(666)
Carrying amounts				
At 1 July 2009	1,096	321	24	1,441
At 30 June 2010	2,794	270	22	3,086
At 1 July 2010	2,794	270	22	3,086
At 30 June 2011	2,805	294	238	3,337

13. Exploration and Evaluation Expenditure

<i>in thousands of AUD</i>	2011	2010
Carrying amount at beginning of the period	18,434	3,600
Acquired from business combination	-	6,458
Expenditure incurred during the period	10,758	11,386
Impairment of exploration expenditure during the period	(10,971)	(3,010)
Carrying amount at the end of the period	18,221	18,434

Based on a review of exploration and evaluation expenditure capitalised to each area of interest, a material component of exploration and evaluation expenditure has been written off in the current reporting period. The expenditure written off relates to those areas where the capitalised expenditure is not supportable to be carried forward.

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

14. Development Expenditure

in thousands of AUD

	2011	2010
Carrying amount at beginning of the period	13	-
Expenditure incurred during the period	314	13
Carrying amount at the end of the period	327	13

15. Other Investments

in thousands of AUD

	2011	2010
Available-for-sale financial assets	3,431	2,957
Long-term cash held in escrow (i)	22,569	21,636
Other available-for-sale-financial assets	29	29
	26,029	24,622

Sensitivity analysis – equity price risk

The Group's equity investments are listed on the Australian Securities Exchange. For such investments classified as available for sale, a 10 percent increase in the value of the shares at the reporting date would have decreased the Group's loss after tax for the period of \$343,000, an equal change in the opposite direction would have increased the Group's loss after tax for the period by \$343,000.

(i) Buru and Alcoa of Australia Limited have agreed to escrow \$20 million in cash and interest thereon in partial satisfaction of Buru's potential obligations to repay \$40 million to Alcoa of Australia Limited if Buru does not deliver gas (Note 22).

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 28.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

16. Tax Assets and Liabilities

Unrecognised net deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

<i>in thousands of AUD</i>	2011	2010	Net Movement
Deferred tax assets			
Business related costs	190	220	(30)
Unrealised foreign exchange loss	153	10	143
Depreciable capital expenditure	1	1	-
Accrued expenditure	24	37	(13)
Provision for employee entitlements	60	32	28
Other provisions	1,529	1,529	-
Tax losses	9,006	6,649	2,357
	<u>10,963</u>	<u>8,478</u>	<u>2,485</u>
Deferred tax liabilities			
Exploration expenditure	(5,466)	(5,530)	64
Prepayments	-	(1)	1
Investments in listed entities	(579)	(437)	(142)
Interest receivable	(278)	(342)	64
	<u>(6,323)</u>	<u>(6,310)</u>	<u>(13)</u>
Net deferred tax assets not brought to account	<u>4,640</u>	<u>2,168</u>	<u>2,472</u>
Movement recognised in profit and loss			2,615
Movement not recognised in equity statement			(143)
			<u>2,472</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

17. Trade and Other Receivables

<i>in thousands of AUD</i>	2011	2010
Trade receivables	290	234
Interest receivable	1,138	1,141
Joint venture receivables	1,085	-
Prepayments	364	286
Other receivables	346	422
	<u>3,223</u>	<u>2,083</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

18. Inventories

in thousands of AUD

	2011	2010
Materials and consumables – at cost	4,493	1,295

19a. Cash and Cash Equivalents

in thousands of AUD

	2011	2010
Bank balances	11,775	8,704
Call deposits	15,000	32,000
Cash and cash equivalents in the statement of cash flows	26,775	40,704

The Group's exposure to interest rate risk and sensitivity analysis for financial assets are disclosed in note 28.

19b. Reconciliation of Cash Flows from Operating Activities

in thousands of AUD

	Note	2011	2010
Cash flows from operating activities			
Loss for the period		(10,335)	(4,393)
Adjustments for:			
Depreciation of PPE used in operating activities		114	96
Impairment losses on exploration expenditure	13	10,971	3,010
Exploration and evaluation expenditure		890	-
Equity-settled share-based payment transactions	24	729	1,695
Net finance income	10	(2,403)	(2,699)
Operating loss before changes in working capital and provisions		(34)	(2,291)
Changes in working capital, net of acquisitions			
Change in trade and other receivables		79	(20)
Change in trade and other payables		1,434	(1,204)
Loan pursuant to employee share acquisition scheme		-	(500)
Change in provisions		93	(9)
Cash received from / (used in) operating activities		1,606	(1,733)
Interest paid		(3)	(2)
Net cash inflow / (outflow) from operating activities		1,569	(4,026)

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

20. Capital and Reserves

Share capital

	Ordinary Shares 2011 No.	Ordinary Shares 2010 No.
On issue at the beginning of the period	182,769,813	162,119,728
Issued on acquisition of subsidiary	-	18,000,000
Issued to Eric Streitberg	-	2,650,000
Listed options exercised during the period	10,736	85
Unlisted options exercised during the period	60,000	-
On issue at the end of the period – fully paid	182,840,549	182,769,813

55,166,154 listed options expired on 10 October 2010.

The Company has also issued share options (see note 24).

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Treasury Share Reserve

The reserve for the Treasury Shares comprise the cost of the Company's shares held by the trustee of an equity compensation plan that the Group is required to include in the consolidated financial statements.

Option Premium Reserve

The Option Premium reserve represents the contributions from employees towards the Treasury Shares purchased and held by the trustee of an equity based compensation plan.

Share-based Payments Reserve

The share-based payments reserve represents the fair value of equity based compensation to the Group's Directors and employees outstanding as of 30 June 2011.

Financial Asset Revaluation Reserve

The Financial Asset Revaluation Reserve relates to the revaluation of the Group's available for sale financial assets.

21. Loss Per Share**Basic loss per share***in thousands of AUD*

	2011	2010
Loss attributable to ordinary shareholders	10,335	4,393

Weighted average number of ordinary shares

	2011 No.	2010 No.
Issued ordinary shares at beginning of the period	182,769,813	162,119,728
Effect of shares issued	17,189	16,116,147
Weighted average number of ordinary shares at the end of the period	<u>182,787,002</u>	<u>178,235,875</u>

Diluted earnings per share

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

22. Trade and Other Payables

in thousands of AUD

	2011	2010
Trade payables	1,166	1,718
Non-trade payables and accrued expenses	1,640	896
Unearned joint venture partner's share of technical and administrative expenditure	1,600	-
Unearned income (i)	40,000	40,000
	<u>44,406</u>	<u>42,614</u>

in thousands of AUD

	2011	2010
Current	4,406	2,614
Non-current	40,000	40,000
	<u>44,406</u>	<u>42,614</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

- (i) Non-current trade and other payables consist of Buru's potential obligation to repay a \$40 million gas prepayment made by Alcoa of Australia Limited to ARC Energy Limited prior to the demerger of Buru. ARC Energy Limited entered into a gas supply agreement ("GSA") with Alcoa of Australia Limited in September 2007. The GSA was novated from ARC Energy Limited to Buru as part of the demerger of Buru from ARC Energy Limited. The GSA provides for the delivery to Alcoa of Australia Limited of up to 500 PJ of gas from gas discoveries made by Buru on Buru's Canning Superbasin permits prior to 1 January 2012. Pursuant to the GSA, Alcoa of Australia Limited made a prepayment to ARC Energy Limited of \$40 million for gas to be delivered under the GSA. Buru will be obliged to repay this \$40 million in three equal annual instalments commencing on 31 December 2012 if, prior to 1 January 2012, Buru has not made a final investment decision to proceed with a gas development that would allow the supply of sufficient gas to meet its delivery obligations under the GSA. Alcoa of Australia Limited has the option until 1 December 2011 to extend the date by which a final investment decision must be made to 1 January 2013, in which case the repayment obligation will commence on 31 December 2013. The third instalment may, at Buru's option, be settled by Buru issuing shares in satisfaction of the instalment obligation.

Buru has entered into an escrow agreement with Alcoa of Australia Limited pursuant to which Buru has agreed to hold \$20 million plus accrued interest for the benefit of Alcoa of Australia Limited as security against the potential obligation to repay the \$40 million (Note 15).

Revenue will only be recognised when Buru delivers gas under the GSA. At balance date, no gas has been delivered to Alcoa of Australia Limited and therefore the balance is presented as a non-current payable in the balance sheet.

23. Provisions

<i>in thousands of AUD</i>	2011	2010
Current		
Provision for annual leave	177	96
Provision for long-service leave	8	7
	<u>185</u>	<u>103</u>
Non-Current		
Provision for long-service leave	16	5
Provision for site restoration (i)	5,095	5,095
	<u>5,111</u>	<u>5,100</u>

(i) Site restoration provision

<i>in thousands of AUD</i>	2011	2010
Opening balance	5,095	5,150
Provision used during the period	-	(55)
Balance at the end of the period	<u>5,095</u>	<u>5,095</u>

The site restoration provision is in respect of the Group's obligation to rectify environmental liabilities relating to exploration and production in the Canning Superbasin in accordance with the requirements of the Department of Environment and Conservation and the Department of Mines and Petroleum.

Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. The rehabilitation is expected to occur progressively over the next four years.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

24. Share-based Payments

Description of share-based arrangements

At 30 June 2011 the Group had the following share-based payment arrangements:

<i>Fair value expensed in thousands of AUD</i>	2011	2010
Director & Employee Options	-	447
Net value of Shares & Options acquired by Eric Streitberg	-	1,211
Employee Share Acquisition Scheme	58	37
Employee Share Option Plan	671	-
	<u>729</u>	<u>1,695</u>

At the 2010 Annual General Meeting, shareholders approved the Buru Employee Share Option Plan ("ESOP"). During the financial year, the Company granted 4,070,000 options under the ESOP to employees. The fair value of the options granted to employees was calculated at grant date using the Black & Scholes valuation model. Volatility has been estimated with reference to Buru's historical share price over comparable time frames. The options vested immediately.

3,780,000 options were valued using the Black & Scholes valuation model with the following inputs: a share price on grant date of 32 cents, an expected volatility of 103%, a risk free interest rate of 5.0% and no expected dividends. The value disclosed an exercise price of 48 cents, is the fair value of the options recognised in the reporting period. 290,000 options were valued using the Black & Scholes valuation model with the following inputs: a share price on grant date of 53 cents, an exercise price of 75 cents, an expected volatility of 122%, a risk free interest rate of 4.8% and no expected dividends. The value disclosed is the fair value of the options recognised in the reporting period. No options have been granted since the end of the 2011 financial year. 60,000 shares have been issued on the exercise of ESOP options during the financial year at an exercise price of 48 cents.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options
Outstanding unlisted options as at 30 June 2010	\$0.30	20,241,000
Granted 4 Nov 2010	\$0.48	3,780,000
Granted 20 Mar 2011	\$0.75	290,000
Exercised 4 May 2011	\$0.48	(60,000)
Outstanding as at 30 June 2011	<u>\$0.33</u>	<u>24,251,000</u>
Exercisable as at 30 June 2011	<u>\$0.33</u>	<u>24,251,000</u>

The unlisted share options outstanding as at 30 June 2011 have an exercise price in the range of \$0.30 to \$0.75 (2010: all outstanding unlisted share options had an exercise price of \$0.30), and a weighted average contractual life of 0.7 years (2010: 1.5 years).

The share price at the date of exercise for the unlisted share options exercised above in 2011 was \$0.69 (2010: no unlisted share options exercised).

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

25. Group Entities

Parent entity	Country of incorporation	Ownership interest	Ownership interest
Buru Energy Limited (i)	Australia		
Subsidiaries		2011	2010
Terratek Drilling Tools Pty Limited	Australia	100%	100%
Royalty Holding Company Pty Limited	Australia	100%	100%
Buru Energy (Acacia) Pty Limited	Australia	100%	100%

- (i) Buru Energy Limited is the head entity of the tax consolidated group. All subsidiaries are members of the tax consolidated group.

26. Parent Entity Disclosures

As at, and throughout the financial year ending 30 June 2011 the parent company of the Group was Buru Energy Limited

<i>in thousands of AUD</i>	Company 2011	Company 2010
Result of the parent entity		
Loss for the period	(10,361)	(4,427)
Other comprehensive income / (expense)	(150)	2,338
Total comprehensive loss for the period	(10,511)	(2,089)
Financial position of the parent entity at year end		
Current assets	34,491	44,082
Total assets	82,336	90,200
Current liabilities	4,591	45,100
Total liabilities	49,702	47,827
Total equity of the parent entity at year end		
Share capital	75,488	75,440
Reserves	4,275	3,701
Retained earnings	(47,129)	(36,768)
Total equity	32,634	42,373

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

27. Jointly Controlled Assets

The consolidated entity has an interest in the following joint ventures as at 30 June 2011 whose principal activities were oil and gas exploration.

Permit	2011 Beneficial Interest	2010 Beneficial Interest	Operator	Country
EP104	38.95%	38.95%	Buru Energy Ltd	Australia
R1	38.95%	38.95%	Buru Energy Ltd	Australia
L15	15.50%	15.50%	Buru Energy Ltd	Australia
EP371	50.00%	60.00%	Buru Energy Ltd	Australia
EP390	50.00%	60.00%	Buru Energy Ltd	Australia
EP391	50.00%	60.00%	Buru Energy Ltd	Australia
EP417	35.00%	35.00%	New Standard Energy Ltd	Australia
EP428	50.00%	60.00%	Buru Energy Ltd	Australia
EP431	50.00%	60.00%	Buru Energy Ltd	Australia
EP436	50.00%	60.00%	Buru Energy Ltd	Australia
EP438	5.00%	5.00%	Buru Energy Ltd	Australia
EP442 *	-	100.00%	Buru Energy Ltd	Australia
EP442A *	-	100.00%	Buru Energy Ltd	Australia
EP471	50.00%	-	Buru Energy Ltd	Australia
EP472	50.00%	-	Buru Energy Ltd	Australia
EP473	50.00%	-	Buru Energy Ltd	Australia
EP474	100.00%	-	Buru Energy Ltd	Australia
EP476	50.00%	-	Buru Energy Ltd	Australia
EP477 *	50.00%	-	Buru Energy Ltd	Australia
EP478 *	100.00%	-	Buru Energy Ltd	Australia

* EP 442A was a sub-block subject to carve out of EP 442. On 28 April 2011 the DMP advised of the extinguishment of exploration permit EP 442, replacing the permit with two new permits EP 477 and EP 478 covering the same area as the former EP 442 and EP 442A.

On 30 November 2010 the Company announced that Mitsubishi Corporation ("MC") had exercised its option to participate in Buru's 2011 exploration program in the Canning Superbasin. By exercising this option MC is now committed to fund \$40 million of a \$50 million exploration program in 2011 and up to \$50 million of Buru's development costs for major oil and gas production infrastructure in the Canning Superbasin. This is in addition to the \$22.4 million of exploration that MC had committed to fund for the 2010 Joint Exploration Program, with any unspent portion of this \$22.4 million being available to be spent on future exploration. By committing to fund the 2011 exploration program MC will earn an equal interest to Buru in the majority of Buru's permits.

In addition to the expenditure commitment and interest in Buru's permits earned to date:

- MC has the right to earn an interest in the unconventional resources in Buru's exploration permits by carrying a further \$40 million of Buru's unconventional exploration costs in 2012 (if MC does not fund this exploration then all rights to unconventional resources in Buru's permits in the Canning Superbasin will revert back to Buru); and
- MC has the right to acquire a 50% interest in Buru's production permits in exchange for an additional cash payment at a price determined by an independent expert based on 2P reserves.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

Buru will continue as the operator of all of its permits. However, MC will lead any LNG commercialisation efforts in the joint venture permits in the Canning Superbasin.

Buru received \$5.7 million from MC during the year for MC's share of technical and administrative expenditure as part of its committed funding for the 2010 and 2011 joint exploration programs. \$4.1 million has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2011 with the remaining \$1.6 million recognised in the consolidated statement of financial position (Note 22).

The Group's interests in assets/liabilities and income/expenditure employed in the above joint venture operations are detailed below. The amounts are included in the financial statements under their respective asset categories.

in thousands of AUD

	2011	2010
Current assets		
Cash and cash equivalents	953	18
Trade and other receivables	1,085	-
Total current assets	2,038	18
Non-current assets		
Exploration expenditure	5,331	40
Total non-current assets	5,331	40
Current Liabilities		
Trade and other payables	1,801	-
Total current Liabilities	1,801	-
Share of total assets of joint venture operations	5,568	58

28. Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the Group's maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount 2011	Carrying amount 2010
<i>in thousands of AUD</i>			
Trade and other receivables	17	3,223	2,083
Cash and cash equivalents	19a	26,775	40,704
Available-for-sale financial assets	15	3,460	2,956
Long-term cash held in escrow	15	22,569	21,637
		56,027	67,380

The Group's most significant customer, an international refiner of crude oil, accounts for \$290,000 of the trade and other receivables carrying amount at 30 June 2011 (30 June 2010: \$234,000). Trade and other receivables also included accrued interest receivable from Australian accredited banks of \$1,138,000 (30 June 2010: \$1,141,000).

Impairment losses

None of the Group's receivables are past due or impaired. None of the Group's other financial instruments were impaired at year end.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

Liquidity risk

The following are contractual maturities of trade and other payables:

<i>in thousands of AUD</i>	Carrying amount	
	2011	2010
0 – 6 months	4,406	2,614
6 – 12 months	-	-
1 – 5 years (i)	40,000	40,000
	<u>44,406</u>	<u>42,614</u>

(i) This profile assumes that gas is not delivered to Alcoa of Australia Limited under the GSA (Note 22(i)).

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

<i>in thousands</i>	30 June 2011		30 June 2010	
	AUD	USD	AUD	USD
Cash and cash equivalents	538	577	2,854	2,433
Trade receivables	290	311	233	197
Gross balance sheet exposure	<u>828</u>	<u>888</u>	<u>3,087</u>	<u>2,630</u>

The average exchange rate from AUD to USD during the period was AUD 0.9881 / USD 1.0000 (2010: AUD 0.8820 / USD 1.0000). The reporting date spot rate was AUD 1.0739 / USD 1.000 (2010: AUD 0.8523 / USD 1.0000).

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the USD over the period would have increased the loss after tax for the financial period by \$154,000 (2010: \$255,000). A 10 percent weakening of the Australian dollar against the USD over the period would have decreased the loss after tax for the financial period by \$154,000 (2010: \$255,000). This analysis assumes that all other variables remain constant.

Interest rate risk

Profile

At the reporting date the Company's and the Group's interest-bearing financial instruments were as follows:

<i>in thousands of AUD</i>	Carrying amount	Carrying amount
	2011	2010
<i>Fixed rate instruments</i>		
Cash and cash equivalents	26,775	40,704
Long-term cash held in escrow	22,569	21,637
Total fixed interest bearing financial assets	<u>49,344</u>	<u>62,341</u>

At reporting date, there were no financial instruments with variable interest rates.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Fair values versus carrying amounts

The carrying amount of financial assets and financial liabilities recorded in the Group's financial statements represent their respective fair values, determined in accordance with the accounting policies described in Note 3 to the financial statements.

29. Acquisition of Subsidiary – Business Combination

In the prior reporting period on 11 August 2009, Buru announced that it had entered into an agreement with New Standard Energy Ltd (“NSE”) which resulted in Buru effectively acquiring a 100% interest in Canning Superbasin permits EP 442, EP 442A (now EP 477 and EP 478 respectively), acreage release L08-3 (now EP 472) and application area 30/07-8 (now EP 474) through the purchase of 100% of Buru Energy (Acacia) Pty Ltd (formerly known as New Standard Exploration Pty Ltd).

The total fair value of the consideration provided was \$6,458,000 being cash of \$3,200,000 and 18,000,000 shares issued at a fair value of 18.1c per share (being the average share price on the five days prior to the announcement of the transaction). Buru also transferred its 10% interest in EP 443, EP 450, EP 451 and EP 456 to NSE. The fair value of the consideration of Buru's interest in these permits was nil. There were no contingent consideration arrangements or indemnification assets recognised on acquisition. The transaction was completed on 4 September 2009. The acquisition of this subsidiary had the following effect on the Group's assets and liabilities in the prior reporting period:

	Pre acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
<i>in thousands of AUD</i>			
Exploration and evaluation expenditure	407	6,051	6,458
Net identifiable assets and liabilities	407	6,051	6,458
Total consideration			6,458
Consideration paid in cash			3,200
Cash acquired			-
Net cash outflow			3,200

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before acquisition. The assets acquired and liabilities and contingent liabilities assumed have been valued at their estimated fair values at the acquisition date.

Notes to the Financial Statements

For the year ended 30 June 2011 (Cont'd)

30. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>in thousands of AUD</i>	2011	2010
Less than one year	439	177
Between one and five years	469	326
More than five years	-	-
	<u>908</u>	<u>503</u>

The Group leases corporate offices in Perth and Broome. The leases expire in October 2013 and September 2013 respectively. Both offices have options to renew the lease after the expiry dates. Lease payments on the head office in Perth are increased every year by 2%.

The Group also maintains operating leases for production vehicles and accommodation for employees required to travel for work purposes.

The total operating lease amount recognised as an expense in the financial year was \$435,000 (2010: \$221,000).

31. Capital and Other Commitments

<i>in thousands of AUD</i>	2011	2010
Exploration expenditure commitments		
<i>Contracted but not yet provided for and payable:</i>		
Within one year	9,701	12,400
One year later and no later than five years	32,453	31,800
Later than five years	8,125	-
	<u>50,279</u>	<u>44,200</u>

The commitments are required in order to maintain the petroleum exploration permits in which the Group has interests in good standing with the DMP. These obligations may be varied from time to time, subject to approval by the DMP. The commitments also include amounts that the Group have agreed to spend in order to meet its farm-in obligations with joint venture entities which may be varied from time to time subject to the approval of other contracting parties.

32. Contingencies

There were no other material contingent liabilities or contingent assets for the Group as at 30 June 2011 or as at the date of the report.

33. Related Parties

Key management personnel compensation

The key management personnel compensation comprised:

<i>in AUD</i>	2011	2010
Short-term employee benefits	1,553,424	1,210,439
Post-employment benefits	133,868	113,855
Termination benefits	-	115,756
Share-based payments	556,742	1,690,375
	<u>2,244,036</u>	<u>3,130,425</u>

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executive's compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report on pages 20 to 26.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties

Unsecured loans to key management personnel as at 30 June 2011 amounted to \$480,000 (2010: \$480,000). These loans have been issued pursuant to the Employee Share Acquisition Scheme and no interest is payable.

Other related party transactions

No other related party transaction has occurred during the reporting period. In the 2010 financial year, Streitex Pty Ltd, of which Eric Streitberg is a Director, was paid \$86,000 for exploration consulting services. Rates charged were at normal professional rates and have not been included in the remuneration of Directors disclosures as the fees were not in relation to his role as a Director.

34. Subsequent Events

No significant events have occurred subsequent to balance date.

35. Auditors' Remuneration

<i>in thousands of AUD</i>	2011	2010
Audit services		
KPMG Australia: Audit and review of financial reports	51	41

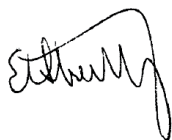
All amounts payable to the Auditors of the Company were paid or payable by the parent entity.

Directors' Declaration

- 1 In the opinion of the Directors of Buru Energy Limited ('the Company'):
 - (a) the consolidated financial statements and notes that are contained on pages 34 to 69 and the Remuneration report in the Directors' report, set out on pages 20 to 26, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Executive Director and Chief Operating Officer, for the financial year ended 30 June 2011.
- 3 The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Perth, 30 August 2011.



Mr Eric Streitberg
Executive Director



Mr Graham Riley
Chairman



Independent auditor's report to the members of Buru Energy Limited

Report on the financial report

We have audited the accompanying financial report of Buru Energy Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Independent Audit Report



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 26 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Buru Energy Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that appears to read 'Brent Steedman'.

Brent Steedman
Partner

Perth

30 August 2011

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 31 August 2011)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Substantial Shareholder	Number
Birkdale Enterprises Pty Ltd	19,663,560
New Standard Energy Limited	15,000,000

Voting rights

Ordinary shares

Refer to note 20 in the financial statements

Distribution of equity security holders

Category	Number of equity security holders Ordinary shares
1 - 1,000	502
1,001 - 5,000	1,985
5,001 - 10,000	910
10,000 - 100,000	1,227
100,000 and over	194
	4,818

The number of shareholders holding less than a marketable parcel of ordinary shares is 379.

Securities Exchange

The Company is listed on the Australian Securities Exchange. ASX Code: BRU.

Other information

Buru Energy Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Additional ASX Information

Twenty largest shareholders as at 31 August 2011 of fully paid ordinary shares

Rank	Name	Number	%
1	BIRKDALE ENTERPRISES PTY LTD	19,663,560	10.75%
2	NEW STANDARD ENERGY LIMITED	15,000,000	8.20%
3	CITICORP NOMINEES PTY LIMITED	9,510,474	5.20%
4	FLEXIPLAN MANAGEMENT PTY LTD	5,916,722	3.24%
5	JP MORGAN NOMINEES AUSTRALIA LIMITED	4,527,934	2.48%
6	MAXIGOLD HOLDINGS PTY LTD	4,444,308	2.43%
7	MR ERIC CHARLES STREITBERG	3,935,135	2.15%
8	PACIFIC CUSTODIANS PTY LIMITED	2,679,978	1.47%
9	AEGIS EXPLORATION PTY LTD	2,204,334	1.21%
9	MR GRAHAM DOUGLAS RILEY & MRS ANNE MARIE RILEY	2,000,000	1.09%
11	WHITTINGHAM SECURITIES PTY LIMITED	2,000,000	1.09%
12	CHARRINGTON PTY LTD	1,800,000	0.98%
13	PIAT CORP PTY LTD	1,700,000	0.93%
14	WILLIAM TAYLOR NOMINEES PTY LTD	1,366,100	0.75%
15	AMK INVESTMENTS (WA) PTY LTD	1,237,340	0.68%
16	JH NOMINEES AUSTRALIA PTY LTD	1,224,500	0.67%
17	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	1,156,313	0.63%
18	REDBACK CAPITAL PTY LTD	1,154,495	0.63%
19	CHARRINGTON PTY LTD	1,100,000	0.60%
20	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	1,078,779	0.59%
Total twenty largest shareholders		83,699,972	45.78%
Balance of register		99,140,577	54.22%
Total register		182,840,549	100.00%

Schedule of interests as at 30 June 2011

Permit	Type	Ownership	Operator
EP104	Exploration permit	38.95%	Buru Energy Ltd
EP129	Exploration permit	100.00%	Buru Energy Ltd
EP371	Exploration permit	50.00%	Buru Energy Ltd
EP390	Exploration permit	50.00%	Buru Energy Ltd
EP391	Exploration permit	50.00%	Buru Energy Ltd
EP417	Exploration permit	35.00%	New Standard Energy Ltd
EP428	Exploration permit	50.00%	Buru Energy Ltd
EP431	Exploration permit	50.00%	Buru Energy Ltd
EP436	Exploration permit	50.00%	Buru Energy Ltd
EP438	Exploration permit	5.00%	Buru Energy Ltd
EP471	Exploration permit	50.00%	Buru Energy Ltd
EP472	Exploration permit	50.00%	Buru Energy Ltd
EP473	Exploration permit	50.00%	Buru Energy Ltd
EP474	Exploration permit	100.00%	Buru Energy Ltd
EP476	Exploration permit	50.00%	Buru Energy Ltd
EP477	Exploration permit	50.00%	Buru Energy Ltd
EP478	Exploration permit	100.00%	Buru Energy Ltd
L6	Production license	100.00%	Buru Energy Ltd
L8	Production license	100.00%	Buru Energy Ltd
L15	Production license	15.50%	Buru Energy Ltd
R1	Retention lease	38.95%	Buru Energy Ltd
PL7	Onshore pipeline license	100.00%	Buru Energy Ltd



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