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ASX ANNOUNCEMENT (ASX: BRU)

29 October 2012

2012 Annual Report

Please find attached Buru Energy Limited's ("**Buru**" or "**Company**") Annual Report for the year ended 30 June 2012. A hard copy of the Annual Report has today been 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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2012

Annual Report

Buru Energy Limited ABN 71 130 651 437



Explore

Discover

Develop

Produce



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Corporate Directory

ASX Code

BRU

Shares on issue (4 Oct 12): 265,577,599

Unlisted options (4 Oct 12): 13,705,000

Cash (30 Jun 2012): 62.36m

Debt: Nil

Directors

Mr Graham Riley – Chairman

Mr Eric Streitberg – Executive Director

The Hon Peter Jones – Non-Executive Director

Company Secretaries

Mr Tom Streitberg

Mr Shane McDermott

Auditors

KPMG

235 St George's Terrace

PERTH WA 6000

Bankers

Commonwealth Bank of Australia

1230 Hay Street

WEST PERTH WA 6005

Registered and Principal Office

Level 2

97 William Street

PERTH WA 6000

Telephone: +61 (08) 9215 1800

Facsimile: +61 (08) 9215 1899

Share Registry

Link Market Services Limited

Locked Bag A14

SYDNEY SOUTH NSW 1235

Telephone: 1800 810 859 (Within Australia)

+61 (02) 8280 7211 (Outside Australia)

Facsimile: +61 (02) 9287 0303

Email: registrars@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

Stock Exchange Listing

Australian Stock Exchange

Exchange Plaza

2 The Esplanade

PERTH WA 6000

Chairman's Review



Dear Shareholders,

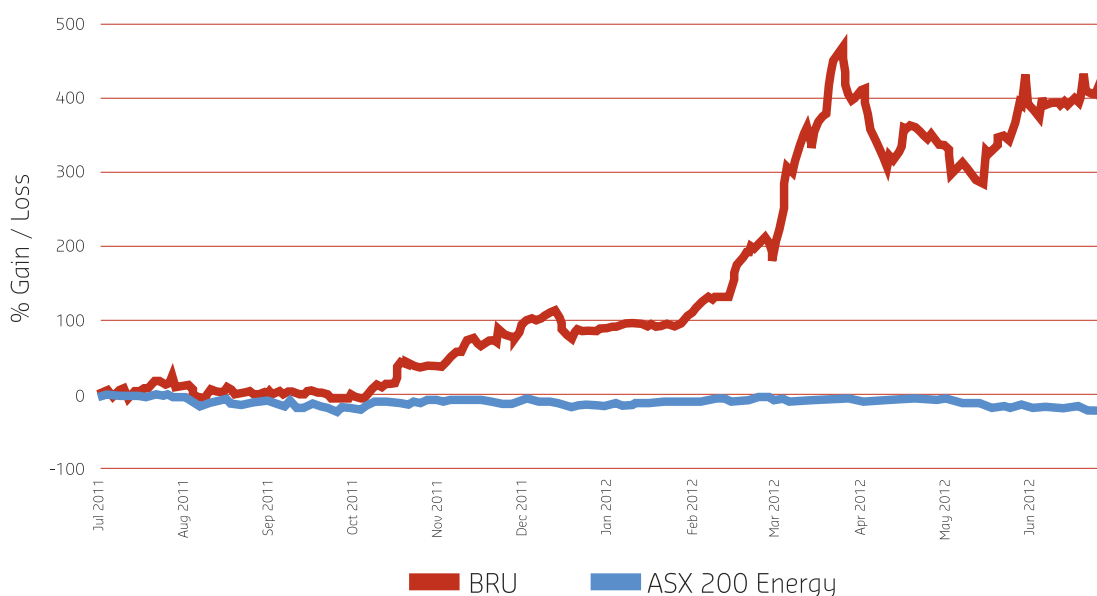
I am pleased to present the Annual Report, for what has been the most important year in Buru's short history. Buru started the financial year as a small exploration company and finished the year as a substantial exploration and production company. In the course of the year the Company's share price more than tripled, it was included in the S&P/ASX200 index and made its first commercial oil sales, with this tremendous increase in shareholder value attributable to the success of our exploration efforts during the year.

The Ungani oil field represents the most significant onshore discovery in Western Australia for 10 years, and the first in the Canning Basin since the 1980s. While we are yet to book final reserves, our estimate of recoverable volumes of oil from the field is now between 8 and 20 million barrels, with ongoing appraisal work providing further encouragement. Less than a year after discovery, Ungani is now providing Buru with its first significant revenue stream while still on production test. The booking of reserves in 2013 and the commitment

to the development of the field will be tremendous milestones and add significant further value to the Company next year.

Our gas business provides a substantial avenue for the Company's future growth. This year saw us delineate two potentially world class wet gas resources in the Valhalla and Yulleroo regions. These results have transformed our business and provide the basis for the long term growth of the Company.

Irrespective of our success, it is critical for Buru to ensure that it operates safely, with minimal impact on the environment and local communities. Buru is proud of its record in this regard and is constantly looking to improve its performance. Where we identify areas that fail to meet our standards, we act swiftly to address them.





Following our admission into the S&P/ASX 300 in March, and then into the S&P/ASX 200 in June, the Board has focused on its corporate governance structures and policies with the establishment of the Audit and Risk Committee and the Remuneration and Nomination Committee. As announced earlier this year, a process was commenced to identify and appoint additional Non-Executive Directors. We continue to make significant progress in the search for high calibre candidates and appointments can be expected shortly.

The Board has also responded to the Company's growth by significantly expanding and enhancing the Company's senior management team. During the year we have welcomed highly qualified and experienced professionals to the new roles of Chief Financial Officer, Chief Commercial Officer and Chief Scientist. We have also made two important internal promotions to the role of Chief Operating Officer and General Counsel and have assembled an expanded highly experienced drilling team.

Together these new appointments complement and enhance our existing team and provide a strong basis for the Company to take advantage of the many opportunities available to it.

The next phase of the Company's growth strategy will be focused on the development of the Ungani oil field and further appraisal of the Valhalla and Yulleroo gas accumulations in conjunction with a continuing active exploration program. The Company is continuing to work hard towards booking sufficient independently assessed resources and reserves to allow us to commit to the development of the Great Northern Pipeline which will allow us to then supply material quantities of gas into the Western Australian domestic market.

We continue to work closely with Mitsubishi Corporation and our other joint venture partners, who share our vision for the development of the Canning Superbasin and who continue to provide additional financial and organisational strength to make our vision a reality.

I would like to thank Buru's Executive Director, Eric Streitberg, the Head of Strategy, Tom Streitberg, and the dedicated management team and staff for an exceptional year, as well as all of our stakeholders and shareholders for their continued support, all of whom can be assured that the Board will strive to deliver further shareholder value as we move into the next phase of exploration, development and production.

Yours sincerely,



Graham Riley
Chairman

A Year of Success

“The top performer in the S&P/ASX 200 Index this financial year”

Australian Financial Review

“Independent verification of prospective resources, of more than 15 TCF of recoverable gas and 430 million barrels of recoverable liquids in the Valhalla area *”

Market
Capitalisation
(FY2012)



Share
Price
(FY2012)



* Mean unrisked gross recoverable volume



“ Ungani oil field – first commercial oil discovery in 30 years in the Canning Superbasin ”

“ Ungani oil trend identified with exploration potential of 300 million barrels of recoverable oil ^ ”

“ Buru’s global partners, Mitsubishi and Alcoa, reconfirmed their commitment and support for the Company and the Canning Superbasin ”

^ Internal Buru estimate on a risked basis with average risk weighting of 10%

Executive Director's Report



The past year was an extraordinary one for Buru and one of the most exciting of my career.

During the last year we made the first significant onshore oil discovery in Western Australia in 10 years at Ungani and have started to realise the huge gas resources of the Canning Superbasin, with the potential for a multi-TCF wet gas accumulation at Valhalla, and confirmation of a substantial gas accumulation at Yulleroo. The success we have had has transformed Buru from an exploration company with a market capitalisation of \$130 million 12 months ago, to an oil producer with a \$750 million market capitalisation that was the top performing stock in the S&P/ASX 200 index for the 2011/2012 financial year.

The discovery of oil at Ungani has been a "game changer" for Buru and for the Canning Superbasin. The data from the field to date has given us confidence that we can expect to recover at least 8 million barrels of oil and potentially up to

20 million barrels from the field. We are also very proud of the fact that we moved from discovery to first oil sales from the field in nine months. This highlights our strength as an efficient and low cost operator. We are now progressing towards full scale development of the field, and we are working closely with the Department of Mines and Petroleum and Traditional Owners to put in place all the necessary approvals. We are looking forward to booking reserves early next year with the grant of the Production Licence to come later in the year. This will be a significant milestone in confirming our transition from explorer to producer.

The identification of what is increasingly looking like a world class wet gas resource at Valhalla has had a profound impact on Buru. The report by McDaniel & Associates confirmed that the Valhalla accumulation, within Buru's

permits in the Valhalla area, contains a mean unrisks prospective resource of a gross recoverable volume of 15 TCF of gas and 432 million barrels of liquids (condensate and LPG). Importantly, the McDaniel high case prospective resource is 33 TCF, over an assessed area that is less than half of what we see as the potential extent of the accumulation. We have spent the year working on understanding the accumulation and building our team to effectively develop this resource. While there are still significant challenges, the scale of this resource provides transformative upside for Buru.

The drilling of Yulleroo 3 during the year had significant implications for the potential scale of the Yulleroo gas resource. It now appears that Yulleroo could be part of a broader basin centred accumulation, with the upside potential to hold a multi-TCF resource similar to Valhalla.

First sale of Ungani oil less than 9 months after discovery





While we have had significant success during the past year, we have a continuing robust exploration and appraisal program. The appraisal program will primarily focus on proving up the resources of the Yulleroo and Valhalla accumulations and developing reserves at Ungani. Our active exploration program will continue on a number of conventional and unconventional prospects and plays that we have identified, with a significant focus on the oil potential in the Ungani trend.

We also added a significant amount of new acreage to our portfolio during the year with the award of four new exploration permits, subject to completion of the native title process. These new permits substantially increase our exposure to the Ungani oil trend and the southern extension of the Valhalla accumulation. We also acquired a 90% interest in EP457 and EP458, providing us with full coverage of the Fitzroy Trough plays, including the gas plays and the Ungani oil trend, together with a number of new and untested exploration plays. We continue to see a strong interest in our acreage from very substantial companies and continue to evaluate ways in which we can translate this interest into value for shareholders.

We also recognise that long-term, collaborative, transparent and trusting relationships with the Traditional Owners and local communities where we operate, are fundamental to our future.

With the increasing scale of our activities comes an increasing responsibility to ensure that we minimise our impact on the environment and on the community. We take this responsibility very seriously, and we have put in place a number of mechanisms to ensure we continuously improve the way in which we undertake our activities. This includes a progressive move towards a “zero discharge” model for our exploration and development activities. As part of this we have also been instrumental in developing the Western Australian Onshore Gas Code of Practice for Hydraulic Fracturing. The code, developed by Buru in conjunction with other members of APPEA, provides a

best-practice framework for the safe, environmentally responsible production of shale gas and tight gas.

We also recognize that long-term, collaborative, transparent and trusting relationships with the Traditional Owners and local communities where we operate, are fundamental to our future. Buru is now an active member of the Kimberley community, building relationships with local businesses and Shires. We are a member of the Broome Chamber of Commerce and are proud sponsors of the North West Expo, Shinju Matsuri Festival and Kimberley Economic Forum. In addition we are also continuing our association with the Kimberley Art Prize and the Kimberley Photographic Prize.

Whilst we have had a great year, we have no intention of slowing down, with an equally ambitious program being developed for the upcoming year.

Eric Streitberg
Executive Director

Our Directors

Eric Streitberg



Hon. Peter Jones

Graham Riley

Non-Executive Chairman

Graham Riley *B Jur, LLB*

Graham started his career as a lawyer, joining the commercial law firm of Downing & Downing in 1976 and was admitted as a partner the following year. After 10 years of legal practice he resigned to pursue his growing interests in the resources sector. Graham has been responsible for the foundation and growth of a number of petroleum and mining companies, including as

a founding Non-Executive Director of ARC Energy and Adelphi Energy Ltd. Graham was Chairman of Giralia Resources, a diversified mining and exploration company which has been responsible for the spin-off of five independently listed commodity-specific explorers from the extensive project book it built over recent years, until its acquisition by Atlas Iron in early 2011. He is currently the

Chairman of Gascoyne Resources Limited, Non-Executive Director of Target Energy Limited, Non-Executive Chairman of Entek Energy Limited and was previously Chairman of Red Hill Iron. Graham holds private petroleum interests in the US and has had a prior association with petroleum exploration in the Canning Superbasin.

Executive Director

Eric Streitberg *BSc (App Geoph), FAusIMM, FAICD*

Eric has over 40 years' experience in petroleum geology and geophysics and the management of petroleum exploration and production companies. He was Managing Director of ARC Energy for 10 years and CEO and Managing Director of Discovery Petroleum NL for 7 years (both ASX listed companies he founded and developed into significant oil and gas production companies prior to their acquisition by AWE Limited and Premier Oil respectively). He was also a founding Non-Executive

Director of Adelphi Energy Ltd, an early participant in the Eagle Ford unconventional gas and oil play in Texas. He has previously worked in South America, Canada, Libya, the UK, the US and Australia with BP and Occidental Petroleum in a variety of technical and managerial roles. Eric is currently a member and former Chair of the APPEA Board, Australia's peak oil and gas representative body and holds the Reg Sprigg medal from APPEA. He is a Fellow of the Australian Institute

of Mining and Metallurgy and the Australian Institute of Company Directors. He is a member of the Society of Exploration Geophysicists and the Petroleum Exploration Society of Australia. He is also a member and Certified Petroleum Geologist of the American Association of Petroleum Geologists, Chair of the APPEA Environment Committee, and immediate past Chair of the Western Australian Marine Parks and Reserves Authority.

Non-Executive Director

Hon. Peter Jones *A.M.*

Peter has over 30 years' involvement in the Western Australian resources sector across both business and government. During his time as a member of the Western Australian Parliament, from 1974 to 1986, Peter held several senior ministerial portfolios including serving as

Minister for Resources Development, Mines, Fuel and Energy. Since leaving Parliament, Peter has been actively involved in business serving as a Non-Executive Director and Chairman of a number of listed companies, including as founding Chairman of ARC Energy. Peter has also been

involved in various government bodies, including holding the role of Chairman of both the Australian Defence Housing Authority and the Water Corporation of Western Australia.

Our Projects

Ungani Field

The Ungani Field was discovered in October 2011 with first oil sales occurring less than 9 months later. The size of the Ungani Field is still being evaluated, but based on current data the reservoir size is in the range of 8 to 20 million barrels of recoverable oil.

An extended production test (EPT) is currently being undertaken on the Ungani Field. Data obtained from the EPT will be a key determinant in appraisal and production well placement and configuration, as well as providing valuable production operations information that will assist in optimising the design of the full field development.

To date, the Field has been performing at or above expectations during the EPT, with no evidence of pressure depletion and combined test flow rates of in excess of 3,000 bopd from the two wells. The produced oil, which is of very high quality, is currently being trucked and sold to the BP refinery at Kwinana where it is refined for domestic consumption in Western Australia.

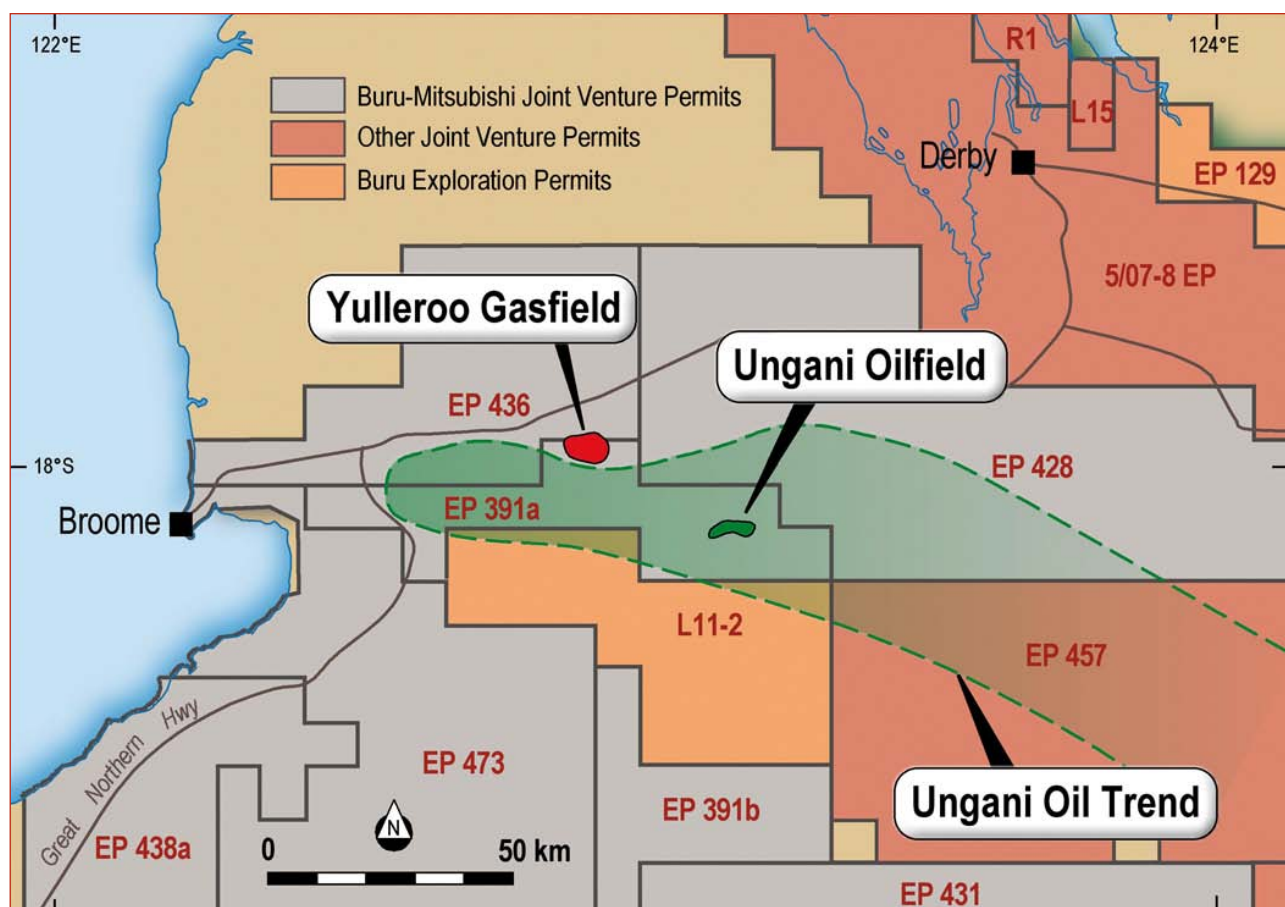
A 3D seismic survey together with further appraisal/development drilling is being undertaken to further delineate the Field and assist

in defining reserves. The current scenario for the full field development includes up to six production wells inclusive of the current Ungani 1ST1 and Ungani 2 wells. The planned production wells are likely to be drilled horizontally to maximise drainage from the reservoir. Water re-injection wells to facilitate pressure support are also planned. The 3D seismic data, together with the results of the EPT, will allow a more definitive estimate of reserves to be made in early 2013.

Full production from the Field requires the issue by the DMP of a Production Licence. The Production Licence requires the development by Buru, with the approval by the DMP, of a Full Field Development Plan, and the execution of a Production Agreement between Buru and the Traditional Owners of the Ungani area. The Full Field Development Plan is based on a staged development of the Field, with an initial period of constrained

production at around 1,000 bopd commencing immediately following issue of the Production Licence. Produced oil will continue to be trucked to Perth during this initial period while a suitable export facility is constructed at a northwest port. Once the export facility is completed, production will be increased to the maximum sustainable rate, currently estimated to be 5,000 bopd on the basis of Buru's current estimates of the recoverable volumes of oil from the Field.

The Ungani exploration trend includes major upside from identified leads and prospects. The immediate area of prospectivity is at least 120 kms by 40 kms (+ one million acres). A regional prospect review completed by Buru identified mean risked potential resources for the greater Ungani exploration area of in excess of 300 million barrels of oil on a risked basis (average risk weighting of 10%) across 20 leads and prospects.



Ungani Oilfield location with regional prospectivity

Regional Gas Accumulations

One of Buru's initial exploration targets in the Canning Superbasin was the gas resources that had been identified in the Laurel Formation by the previous drilling in the basin. The Laurel Formation is a thick, regionally extensive package of sands, shales and limestones with gas saturations over intervals of up to 2,000 metres in the wells that have encountered it. Where gas has been recovered from these wells it is "sweet" with low CO₂ content, no H₂S, and interpreted high liquids content.

As the gas resources in the Laurel Formation were poorly defined by previous explorers, the Company has undertaken a major program to quantify them, and to increase understanding of the geological parameters controlling the accumulations. This drilling program has been focused on both the previously identified Yulleroo accumulation, and also on the Valhalla area in the east of the basin.

The evaluation program in the Valhalla area has identified a regionally significant, potentially multi-TCF, wet gas accumulation in the Laurel Formation. This accumulation also has the characteristics of a Basin Centred Gas Accumulation or "BCGA". This type of accumulation is a different, and potentially more productive, and commercially attractive, style of accumulation than traditional "shale" plays. BCGA's therefore have the potential to contain very large quantities of gas and similar accumulations in North America have been significant contributors to the recent dramatic increases in gas production in the US.

Valhalla Accumulation

During the year the Company drilled the Valhalla 2 and Valhalla North 1 wells, and deepened the Paradise 1 well, to help define the extent of the Valhalla accumulation. Subsequent to year end, the Asgard 1 well was drilled some 35 kilometres from the core Valhalla area, and this well confirmed the accumulation was also present in this area. These wells have therefore demonstrated that the Valhalla BCGA is present over a northwest – southeast axis of at least 55 kilometres, with the Company's geological interpretation being that it also extends over a substantially greater distance.

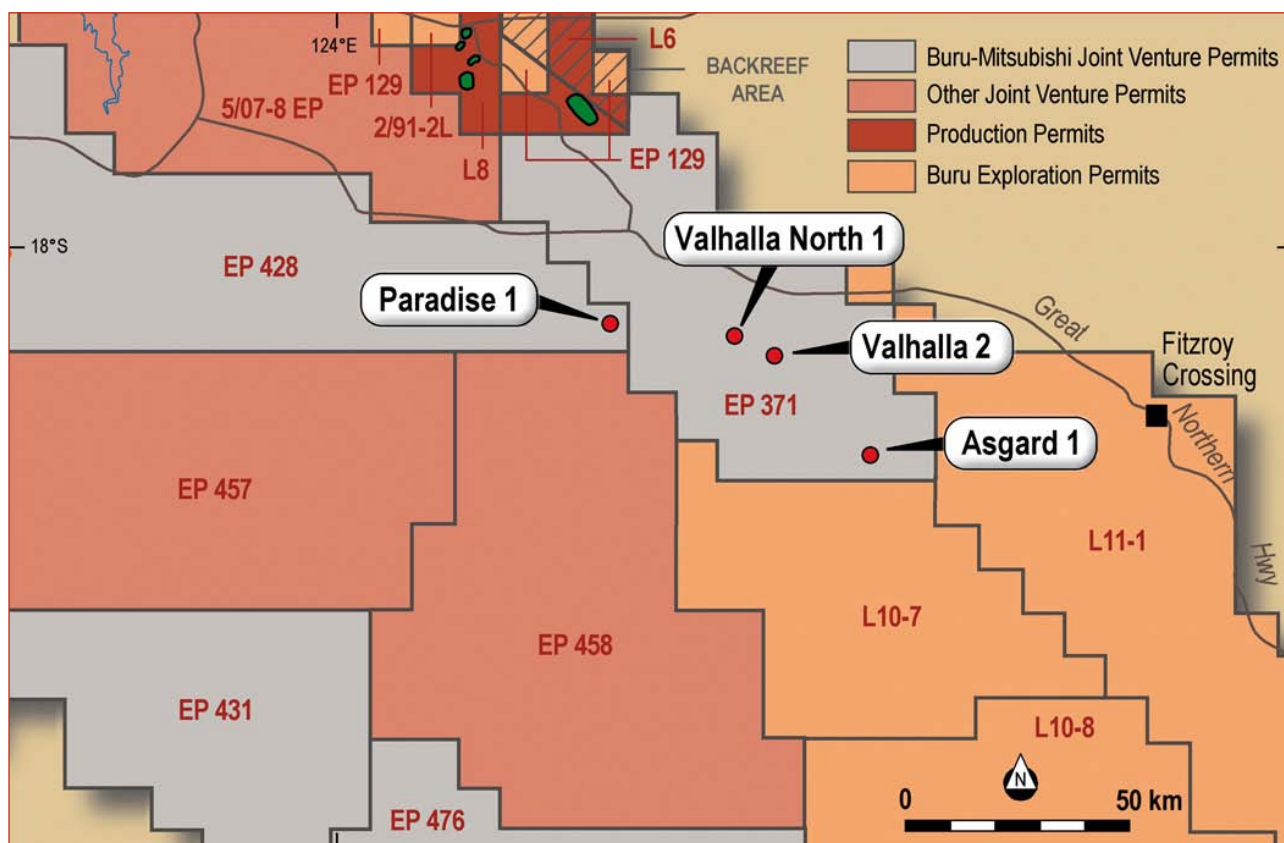
In order to validate its interpretation of the prospectivity of the area and the presence of the BCGA, the Company engaged McDaniel & Associates, a specialist North American tight gas and unconventional resource assessment consulting group, to undertake an

independent assessment of the prospective resources of the Laurel Formation in the Valhalla area on Buru's permits.

McDaniel are of the opinion that the Valhalla accumulation has the characteristics of a BCGA, and that within Buru's permits in the Valhalla area, contains a mean¹ unrisks prospective resource of a gross recoverable volume of 15 TCF of gas and 432 million barrels of liquids (condensate and LPG). On a risks basis the mean gross prospective resource recoverable volumes are 6.5 TCF of gas and 187 million barrels of hydrocarbon liquids, within the assessment area of the Buru permits.

McDaniel's also confirmed the substantial potential of the area with its unrisks high estimates, for the gross recoverable volumes of prospective resources for the accumulation on Buru's permits in

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



Valhalla Accumulation Laurel Formation wells drilled by Buru

the Valhalla area, being in excess of 33 TCF of gas, and one billion barrels of hydrocarbon liquids.

The Company's recent acquisition of a 90% interest in EP457 and EP458 provides additional exposure to the Valhalla BCGA and substantially completes the Company's acreage acquisition program in the area of the BCGA.

The scale of the potential resource at Valhalla has also led to a change in the Company's gas commercialisation strategy.

The scale of the potential resource at Valhalla has also led to a change in the Company's gas commercialisation strategy. While the Great Northern Pipeline is underpinned by the potential reserves of the Yulleroo Field, the feasibility of extending the Great Northern Pipeline to the Valhalla area to fast track the commercialisation of this resource is also being evaluated.

Our Projects *continued...*



Yulleroo Field

The appraisal of the Yulleroo Field was significantly progressed during the year, with the results indicating Yulleroo is potentially part of a significant regionally extensive BCGA similar to the Valhalla area accumulation. The appraisal program was based in part on recommendations by RISC, who in 2011 assessed that the Yulleroo wet gas field contains a mean contingent resource of 36 mmbœ net to Buru.

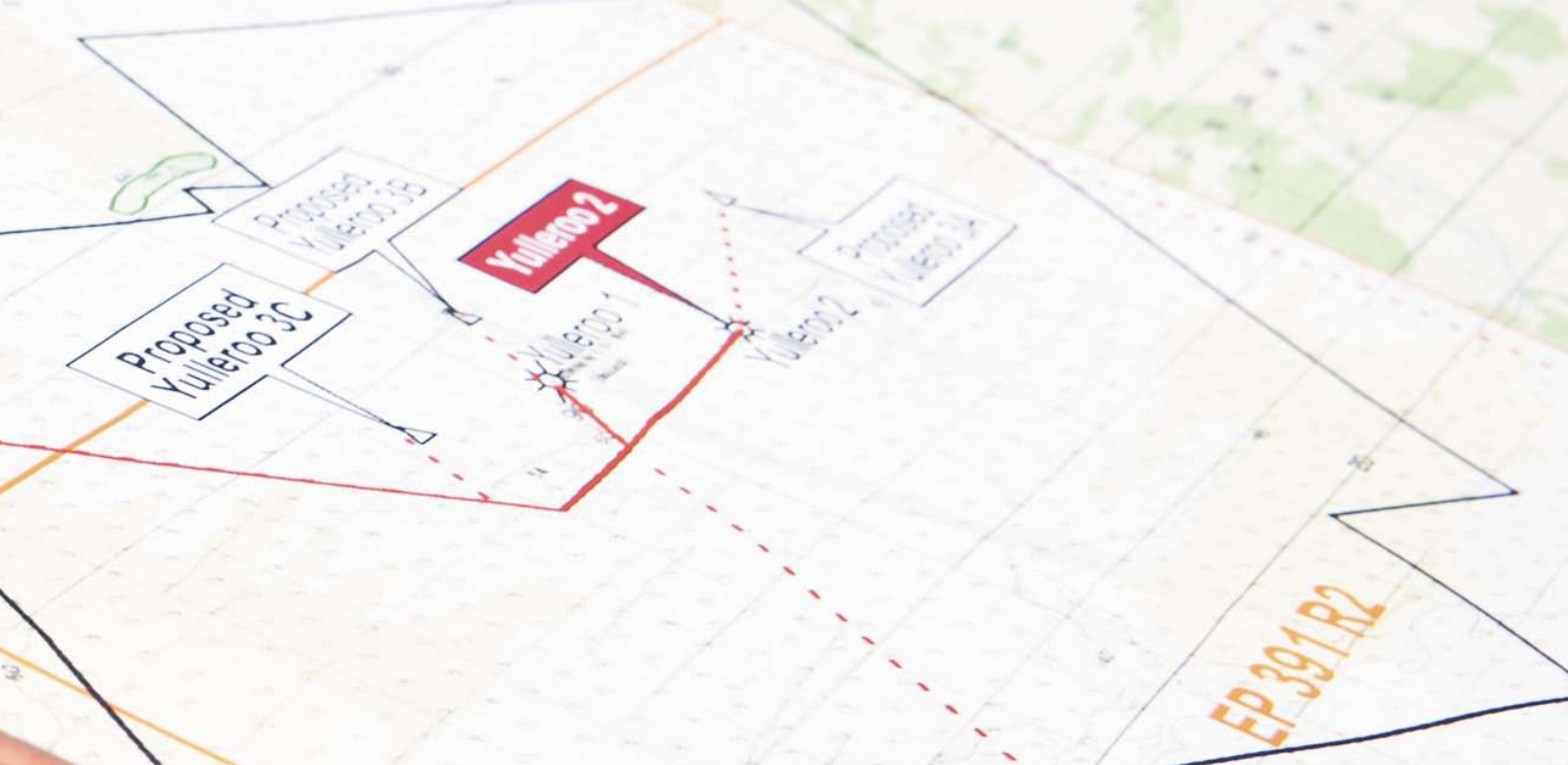
Buru conducted a 3D seismic survey over the field in 2011 to assist with siting future appraisal wells and to further quantify the resource base of the Field. Based on the results of the 3D survey, the Yulleroo 3 well was drilled in 2012 to test the lateral extent, reservoir development and hydrocarbon column of the Field.

The drilling of Yulleroo 3 confirmed the significant upside potential of the

Yulleroo Field, with strong gas shows from approximately 2,130 metres measured depth to the final total depth of 3,712 metres, including over a thousand metres of gas charged section above the previously interpreted top of the gas sands in Yulleroo 1. A package of sands with conventional reservoir properties was also identified at approximately 3,200 metres measured depth. If this sand is developed over a larger

Rig #32 drilling Yulleroo 3





area with similar reservoir properties it could add significantly to the commercial potential of the Field. There was also a good stratigraphic correlation with the Laurel section in Yulleroo 1, about two kilometres away which provides confidence in the continuity of the reservoir section across the greater Yulleroo structure, and hence the volumes of gas in the structure. The gas wetness ratios and inferred pressure data in the well are also indicative of the Yulleroo

The drilling of Yulleroo 3 confirmed the significant upside potential of the Yulleroo Field, with strong gas shows from approximately 2,130 metres measured depth to the final total depth of 3,712 metres

accumulation being part of a broader basin centred gas accumulation similar to the Valhalla accumulation, which would significantly add to the resource upside of the Field.

Buru will be drilling an additional appraisal well, Yulleroo 4, either later in 2012 or early 2013 to further define the extent of the accumulation and to confirm whether the Yulleroo accumulation is part of a BCGA.

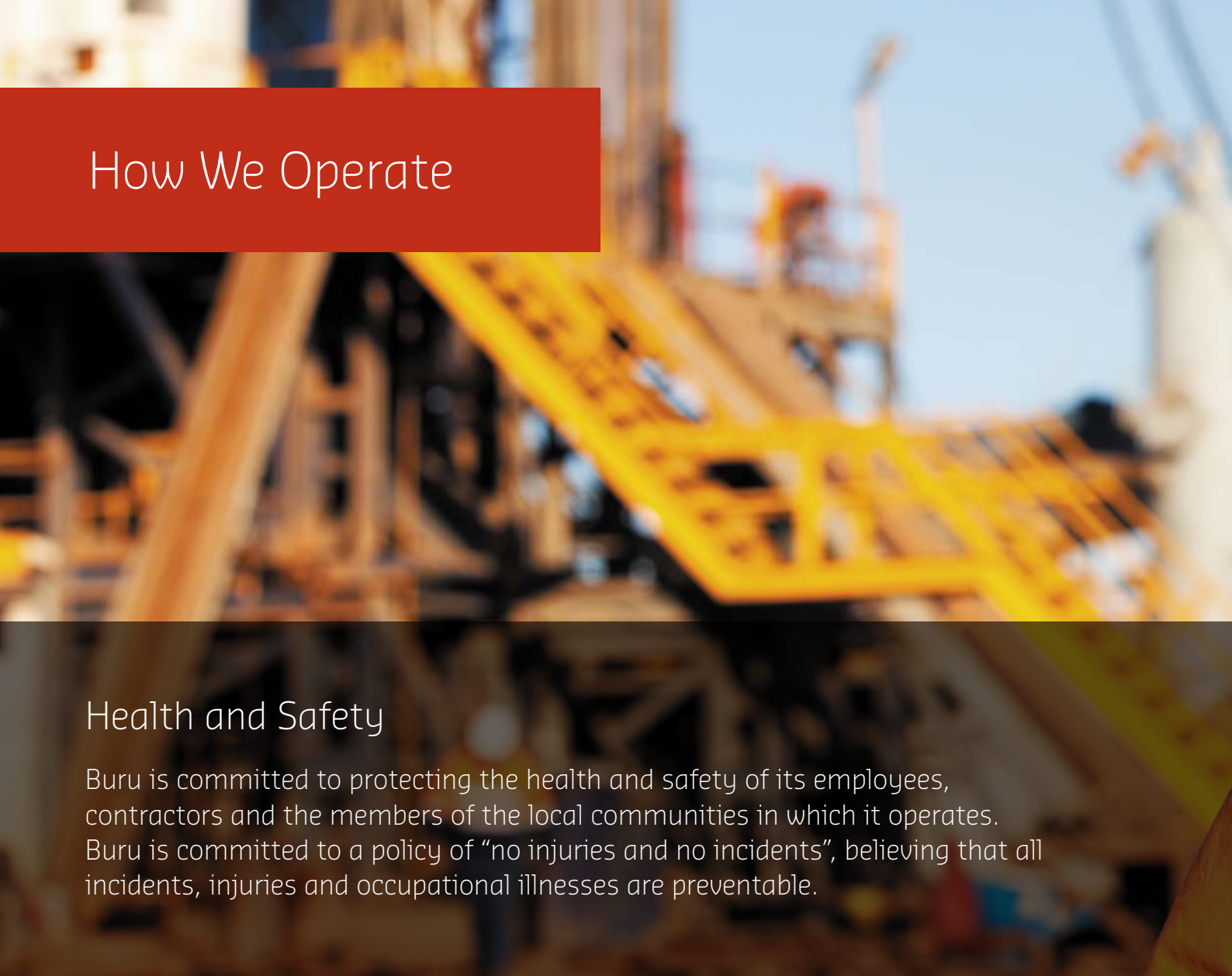
Other Exploration

Buru had an extremely active exploration program during the year with significant exploration success, drilling 8 wells, acquiring 467 kms of new 2D seismic and 185 kms of new 3D seismic.

In addition to the Ungani, Valhalla/ Paradise and Yulleroo wells, the Pictor East 1 well encountered a significant hydrocarbon column of over 65 metres in the Nita Formation, with a net porous section of over 7

metres. Buru is currently assessing the options for the appraisal of this accumulation. Buru also participated in the deepening of New Standard Energy Limited's Lawford 1 well to test the regional Laurel Formation unconventional potential at that more remote location. No distinct geological or geophysical markers were encountered, and as no indications of hydrocarbons were observed, the well was plugged and abandoned.

While Buru's exploration program primarily focused on the Laurel Formation unconventional wet gas play during the year, the Company has a number of additional plays in which it will be focusing on in the coming year. This will include testing the Goldwyer Shale by drilling Cyrene 1, the testing of the potential of the Gogo Shale and the drilling of exploration prospects on the Ungani exploration trend.



How We Operate

Health and Safety

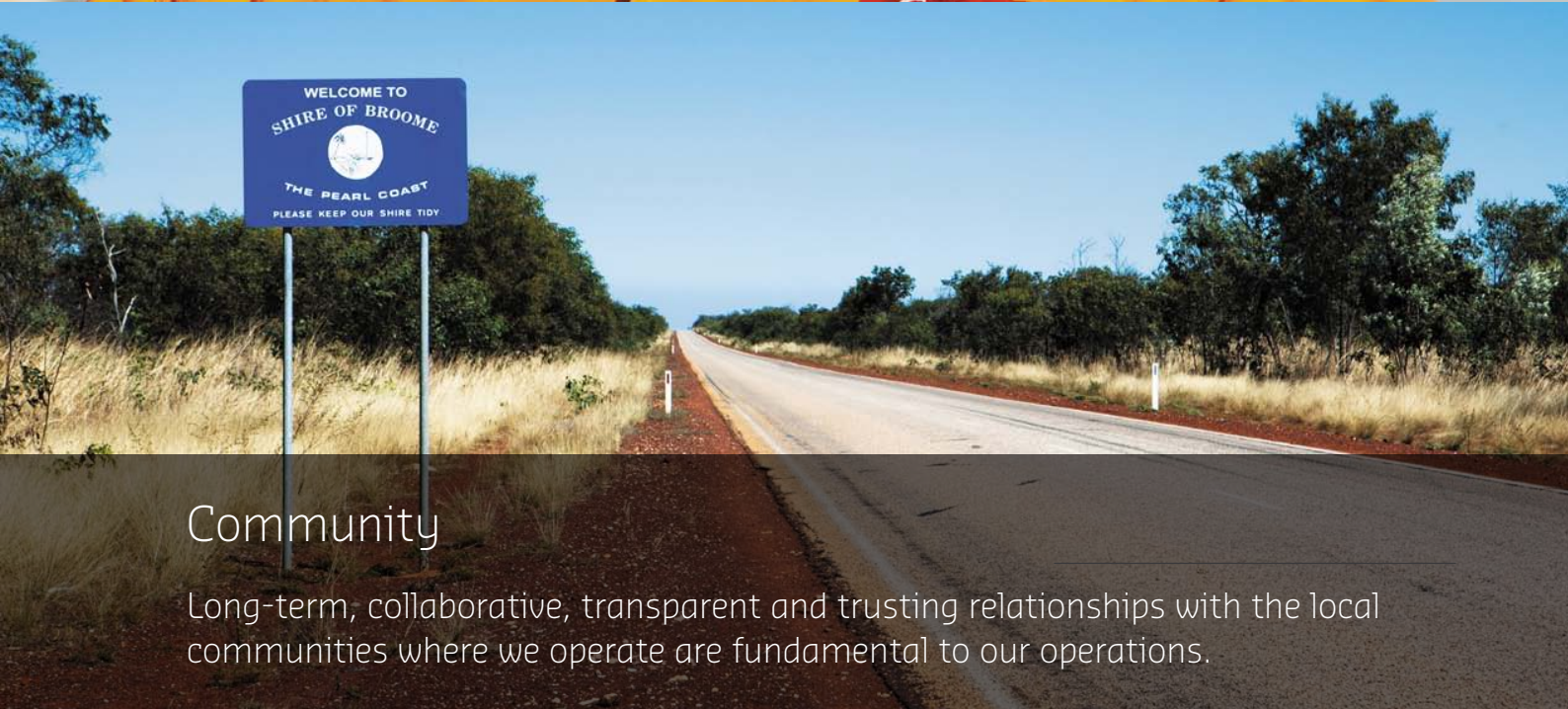
Buru is committed to protecting the health and safety of its employees, contractors and the members of the local communities in which it operates. Buru is committed to a policy of “no injuries and no incidents”, believing that all incidents, injuries and occupational illnesses are preventable.

To ensure its commitments to health and safety are met, Buru maintains a Corporate Health and Safety Management System to identify, assess and manage operational risk on a continuous basis. This system is structured to ensure, at a minimum, compliance with the Company's legal, regulatory and broader community obligations and to reduce, or if possible eliminate, all operational risks through operational policies, standards and procedures designed to keep risks to levels which are as low as reasonably practicable. This system has been effective with no lost time injuries occurring during the 2012 financial year.

Buru is pleased to report that it has maintained its perfect record for health and safety with no lost time injuries occurring during the year despite the significant increase in the size of its operations.

Following an incident at MB Century Rig #7 during the drilling of the Ungani North 1 well, in which a mechanical failure on the rig resulted in damage to the top drive and parts of the rig, Buru released Rig #7. No injuries occurred as a

result of the incident, but Buru's decision to release the rig and the drilling contractor is evidence of its commitment to safety and its precedence over all other corporate objectives.



Community

Long-term, collaborative, transparent and trusting relationships with the local communities where we operate are fundamental to our operations.

Buru seeks to understand the social, environmental and economic consequences of our activities so we can maximise benefits and minimise negative impacts. We are working with all stakeholders to ensure the oil and gas potential of the Canning Superbasin is realised and the benefits are shared throughout the Kimberley, without significant social or environmental impact.

Buru is a proud sponsor of the annual Kimberley Art Prize and Kimberley Photographic Awards. The art prize was first held in 1970 and has grown to be a highly respected art award and is said to be the most remote art competition in Australia. Buru is a sponsor and participant in the annual North West Expo, Kimberley Economic Forum and Shinju Matsuri Festival. The Company is also a proud sponsor of local touch football team, the Broome

**Buru ensures that it
openly engages with the
local community**

Bullets, who won the grand final this year. We also maintain an active and ongoing process of engagement with Traditional Owners.

Environment



Buru is committed to conducting its activities in a manner that minimises the impact of its activities on the environment and is proud of the fact that there were no reportable environmental incidents during the financial year.

Buru plans all of its activities to ensure that they are undertaken as far as practicable in an environmentally sustainable manner, to limit impacts on the natural environment. Buru's activities are regulated and monitored by a number of Government agencies including the Department of Mines and Petroleum, Department of Water, and the Department of Environment and Conservation and where appropriate, the Environmental

Protection Authority. However, Buru considers that its legal and regulatory obligations are a minimum standard of performance, and looks for opportunities to improve its operating practices on a continuous basis.

This process of continuous improvement in its activities includes progressively moving to a "zero discharge" model for its exploration and development activities. This

is an incremental process that requires considerable investment in equipment and expertise.

As part of its process of continuous improvement and ensuring it exceeds regulatory requirements, Buru has been instrumental in the development and adoption of the Western Australian Onshore Gas Code of Practice for Hydraulic Fracturing which sets operational

and environmental standards for Western Australian onshore gas explorers. The code, developed by Buru in conjunction with members of the Australian Petroleum Production and Exploration Association, provides a best-practice framework for the safe, environmentally responsible production of shale gas and tight gas for the State's domestic market.

Buru has also established a monitoring program to identify and quantify the effect of its activities on local bilby populations. This program is being

Buru has a philosophy of continuous improvement in its activities and as part of this process is progressively moving to a “zero discharge” model for its exploration and development activities.

conducted in collaboration with the Yawuru Traditional Owners and combines evidence based science with local knowledge.

To continue to enhance Buru's commitment to the environment, the Company recently appointed Dr Damian Ogburn as the Company's Chief Scientist. Dr Ogburn is a highly experienced environmental scientist whose role is to continue to develop the Company's internal environmental management processes and to deliver both regulatory compliance and the “social licence to operate”.



Who We Are

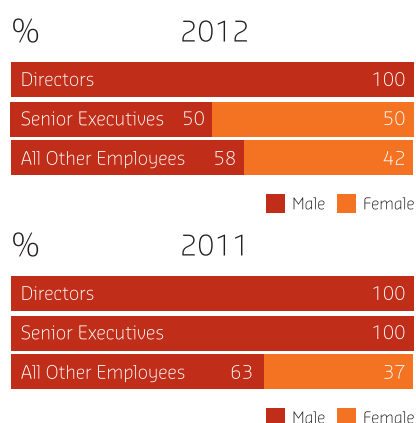
Diversity

Buru is committed to attracting and retaining a diverse range of talented people to work in all levels of its business and has put in place mechanisms to achieve this. An integral part of Buru's diversity strategy is the promotion and achievement of gender diversity, with a number of senior positions currently filled by women.

Marie Malaxos is Buru's Chief Operating Officer and is responsible for the development of the Ungani Oilfield and all of the Company's on ground operations, other than drilling. Marie is exceptionally qualified for this role having being instrumental in the development of ARC Energy's Hovea and Eremia Oilfields in the Perth Basin.

In addition to Marie, other women with senior roles at Buru include Lauren West - General Counsel, Karen Webster - Senior Geologist, Jen Hwong - Finance Manager, Claudia Gomez - Projects/Operations Engineer and Bree Sidman - Special Projects Manager.

Buru's gender profile for 2012 and 2011 was as follows:



To put these figures in context, Hays (a global human resources firm) recently reported that for 2012, the global average of employees by gender in the Oil & Gas industry was 92% male and 8% female and that at the current rate of growth of women in the workforce, it is estimated that 30 years is required before parity is achieved¹. Accordingly, Buru's performance in achieving gender diversity is significantly ahead of the industry as a whole.

During the year, Buru announced that in conjunction with The University of Western Australia, it had established a new scholarship to encourage and support women undertaking postgraduate studies in the field of petroleum geoscience. The Buru Energy Limited Scholarship for Women in Petroleum Geoscience is for \$10,000 per annum and will support a female student undertaking an Honours and/or Masters level qualification with a significant research component in petroleum geoscience.

An integral part of Buru's diversity strategy is the promotion and achievement of gender diversity.

¹ The Oil and Gas Global Salary Guide 2012 - Hays



Working with Traditional Owners

Buru has a strong working relationship with the Traditional Owners of the land on which we operate which is founded on a respect for their country, traditions and culture. Buru has strong working relationships with the peak indigenous representative bodies in the Kimberley, including the Kimberley Land Council and Nyamba Yawuru Buru. Buru employs Traditional Owners in our activities where possible, including direct employment of indigenous staff and the use of local indigenous contractors. All of the Company's activities are heritage cleared prior to commencing on ground operations and our activities are monitored by indigenous monitors.





Production and Development

Ungani Field

Production at the Ungani Field commenced during the period with the start of an extended production test (“EPT”). The EPT is being carried out over an initial period of between three and six months and will produce oil from the existing Ungani-1/ST1 and Ungani-2 wells to help determine the reservoir parameters, performance characteristics and potential reserves of the field. Data obtained from the EPT will be a key determinant in appraisal and production well placement and configuration. The EPT will also provide valuable production operations information that will assist in optimizing the design of the full field development.

Both wells have been performing at or above expectations during the EPT, with no evidence of pressure depletion. Data recovered from the EPT to date is extremely encouraging with combined flow rates of in excess of 3,000 barrels of oil per day (“bopd”) being recorded from the Field. The operating system is working effectively, with very few operational issues or production interruptions.

The EPT facility has been designed with the capacity for a maximum sustained production rate of 1,000 bopd. The technical requirements of the data gathering and testing program (including a number of shut-in periods for pressure buildups), and initial limitations on the transport system, means that production will initially be constrained to an overall average of some 400 bopd. At the end of the period both the Ungani-1/ST1 and Ungani-2 wells were being produced and shut-in alternately to gather pressure data and assist with well clean-up.

The produced oil, which is of very high quality, is being trucked to the BP refinery at Kwinana where it will be refined for domestic consumption in Western Australia. The first delivery of oil from the Field arrived at the BP refinery on 7 June 2012.

Blina and Sundown

The Company also produces oil from the Blina and Sundown oil field complex contained within production licences L6 and L8 in the Canning Superbasin. Production from the fields is in natural decline, with average production of 44 bopd during the period. The Company is assessing options to improve production levels from the fields.

Drilling

During the year the Company drilled the Valhalla-2, Pictor East-1, Ungani-1, Ungani-2 and Valhalla North-1 wells and deepened the Paradise-1 well. The Company also participated in the deepening of the Lawford-1 well during the year. The Company commenced drilling operations at the Yulleroo-3 well during the year, with the well being completed subsequent to the end of the financial year.

Valhalla-2

Valhalla-2 was the first well to be drilled in the 2011 Exploration Program and was drilled by Ensign Rig #32. The well is located in exploration permit EP 371. Buru and Mitsubishi Corporation (“MC”) each have a 50% interest in EP 371. Valhalla-2 completed drilling in July 2011. During drilling, gas influxes were continuously encountered in the Laurel Formation 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 being interpreted. In addition, extensive gas charged tight sand zones were identified in the Upper and Lower Laurel. These sections were 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. Analysis of the data in the Valhalla-2 well, other historic wells in the area and the results of the Valhalla North-1 and Paradise-1 wells, confirm the existence of a large basin centred tight gas accumulation in the greater Valhalla area. The existence of this basin centred gas accumulation has now been independently verified (see below) and its extent will be further tested in the 2013 financial year with the drilling of the Asgard-1 well.

Review of Operations

For the year ended 30 June 2012 (Cont'd)

Pictor East-1

Pictor East-1 was the second well to be drilled in the 2011 Exploration Program and was drilled by Century Rig #7. The well is located in exploration permit EP 431. Buru and MC each have a 50% interest in EP 431. The Pictor East-1 well was drilled to follow up the oil and gas accumulations identified by the Pictor-1 and Pictor-2 wells in the Nita Formation and to also test the deeper Acacia Sandstone Formation. Pictor East-1 completed drilling on 2 September 2011 and 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 considered to be very encouraging.

Ungani-1

Ungani-1/ Ungani-1ST1 was the third well in the 2011 Exploration Program and was drilled by Ensign Rig #32. The Ungani-1 well was sidetracked (Ungani-1ST1) after drilling problems were encountered. Ungani-1ST1 allowed a full evaluation of the hydrocarbon indications observed in the Ungani-1 well. The wells are located in exploration permit EP 391. Buru and Mitsubishi each have a 50% interest in EP 391. The Ungani-1ST1 well was drilled to a measured depth of 2,324m. A cleanup flow was then undertaken to determine the flow potential of the reservoir and the composition of the reservoir fluids. The well was swabbed initially with natural flow being quickly established. The well was then flowed at varying choke sizes with a peak rate of 1,647 barrels of fluid per day on a ½ inch choke with a flowing well head pressure of 18 psi. Prior to shutting in, the well was continuing to clean up, with up to 15% filtrate, formation fluid and lost circulation material noted in the well stream and no significant gas observed. The well had a shut-in well head pressure of some 430 psi. Further analysis of the oil recovered from the Ungani-1ST1 well test was conducted during the period which confirmed that the Ungani crude is a light sweet crude with an API gravity of 37 degrees. This well is currently being tested as part of the EPT.

Ungani-2

Ungani-2 was the fourth well in the 2011 Exploration Program and was drilled by Ensign Rig #32. The well was drilled as a deviated well from the Ungani-1ST1 well pad to a target bottom hole location some 500 metres from the Ungani-1ST1 bottom hole location. Buru and MC each have a 50% interest in EP 391. The Ungani-2 well was drilled as an appraisal of the Ungani discovery and intersected the top of the reservoir some 425 metres to the northeast of the Ungani-1ST1 reservoir intersection and some 32 metres high to prognosis. An extensive evaluation program was undertaken including a comprehensive wireline logging and pressure testing program. This established a definitive oil/free water contact which gives an oil column in the Ungani-1ST1 well of 56 metres and in the Ungani-2 well of 53 metres, both in an extremely well developed vugular dolomite reservoir. In both wells the dolomite reservoir with oil shows is considerably thicker than the oil column, with some 137 metres of dolomite reservoir developed in Ungani-2. This thickness of high quality reservoir is very encouraging for the potential for increasing the amount of oil that may be present at higher elevations on the structure. An initial cleanup flow of the Ungani-2 well was undertaken prior to the rig being released, with flowrates of up to 1,026 barrels of fluid per day with up to 55% oil cut, on a 48/64 inch choke being achieved. The shut-in surface pressure at the end of the test was approximately 190 psi. This well is currently being tested as part of the EPT.

Lawford-1 Deepening

Lawford-1 was the second well to be drilled by Century Rig #7 in 2011. The Lawford-1 well is located in exploration permit EP 417. Buru has a 35% non-operating interest in EP 417. New Standard Onshore Pty Ltd (a wholly owned subsidiary of New Standard Energy Ltd) is operator of EP 417. Buru acted as operator for the deepening of the well for the EP 417 joint venture under a delegation agreement with New Standard. Lawford-1 was originally drilled by New Standard in 2008 but the well was suspended at 1,323m, above the Laurel Formation objective, due to weather issues. In 2011 the well was deepened to a depth of 2,690m to test the regional Laurel Formation unconventional potential, however no distinct geological or geophysical markers were encountered and the depth to the top of the Laurel Formation could not be estimated with any certainty. The well was logged and, as no indications of hydrocarbons were observed, it was plugged and abandoned.

Valhalla North-1

Valhalla North-1 was the first well in the 2012 Appraisal and Exploration Program. The well is located in exploration permit EP 371 and was drilled by Ensign Rig #32. Buru and MC each have a 50% interest in the well and in EP 371. Valhalla North-1 was drilled "off structure" from the Valhalla-2 well and confirmed that the gas observed during the drilling of Valhalla-2 forms part of a basin centred wet gas accumulation with the potential to hold multiple trillion cubic feet ("TCF") of gas and tens of millions of barrels of associated liquids. The potential of this accumulation is highlighted in the recent McDaniel independent assessment (discussed below).

Paradise-1 Deepening

The deepening of the Paradise-1 well was the second drilling operation in the 2012 Appraisal and Exploration Program. The Paradise-1 well is located in exploration permit EP 428 on the boundary with EP 371. Buru and Mitsubishi each have a 50% interest in this well and in EP 428. The existing Paradise-1 well was drilled by the Buru and MC joint venture in late 2010 to a depth of 1,700m. The well was completed with 7" casing to that depth and then suspended due to operational issues and the onset of the wet season.

During the deepening operations gas shows were encountered throughout the drilling of the target Laurel Formation. These gas shows are consistent with the intersections in the Valhalla wells which, together with the depth to the overpressured section and the gas wetness ratios, indicate that the Paradise well has intersected the same basin centred gas accumulation that was identified by the Valhalla wells. The potential of this accumulation is highlighted in the recent McDaniel independent assessment (discussed below).

During the original drilling of the Paradise-1 well, an interpreted 9 metre oil zone was encountered in the sands of the Anderson Formation at approximately 900 metres measured depth, but testing of this zone in 2010 was inconclusive. The Paradise-1 deepening operation was designed to plug and abandon the well following the successful results from the Laurel Formation, as it was interpreted that the configuration of the well was such that a definitive test of the oil zone would not be able to be obtained. However, during preparations for abandonment, live oil was recovered to surface, and a subsequent remedial cement job on the 7" casing over the oil zone was successfully carried out. The well was therefore suspended in a way that will allow further testing and evaluation of this oil zone. An evaluation of the potential for the zone and a suitable test program is now under consideration.

Yulleroo-3

Yulleroo-3 completed drilling subsequent to the end of the financial year. Yulleroo-3 is the third well in the 2012 Appraisal and Exploration program. The well is located in exploration permit EP 391. Buru and MC each have a 50% interest in the well and in EP 391. Yulleroo-3 was designed to test the lateral extent, reservoir development, and hydrocarbon column of the accumulation.

Significant gas shows were noted in the well from approximately 2,130m to the well's final total depth of 3,712m. Wireline logs, together with the mud log gas shows and gas wetness/balance ratios, confirm the presence of an extensive gas charged section from approximately 2,130m measured depth to the final total depth of 3,712m. This adds some 1,110m of gas charged section above the previously interpreted top of the gas sands in Yulleroo-1. In addition, two further sand packages are present which add significantly to the interpreted gas charged reservoir section in the well. Logs and rotary sidewall cores have identified a sand package at approximately 3,200m measured depth with porosities and permeabilities in the "conventional" rather than "tight" range, with the potential to materially improve flow rates from the well without reservoir stimulation. If this sand is developed over a larger area with similar reservoir properties it could add significantly to the commercial potential of the Yulleroo accumulation. There was also good stratigraphic correlation with the gas charged section in Yulleroo-1 which is some 2km away. The good stratigraphic correlation gives confidence in the continuity of the reservoir section across the greater Yulleroo structure and hence the volumes of gas in the structure. Gas wetness ratios and inferred pressure data indicate that there is a strong possibility that the Yulleroo accumulation is part of a broader basin centred gas accumulation in the Yulleroo area.

Review of Operations

For the year ended 30 June 2012 (Cont'd)

Other Exploration

During the period Buru completed the Yulleroo 3D seismic survey and the Athos and Commodore 2D seismic surveys. In total 185 square kilometres of 3D seismic and 467 line kilometres of 2D seismic was acquired in the period.

Yulleroo 3D Seismic Survey

The Yulleroo 3D seismic survey consisted of the acquisition of 185 square kilometres of new 3D seismic over the Yulleroo wet gas accumulation. It was designed to define the detailed structural configuration of the Yulleroo structure. The results of this survey were used to site the Yulleroo-3 well and will assist in both siting future appraisal wells and quantifying the total rock volumes in the accumulation.

Athos and Commodore 2D Seismic Surveys

Acquisition of the Athos 2D seismic survey commenced on 25 August 2011 and was completed on 15 September 2011. A total of 15 lines for a total of 299 km of 2D seismic was acquired. The Athos 2D seismic survey was designed to mature multiple leads in the Broome Platform area and to provide additional regional coverage. Acquisition of the Commodore 2D seismic survey was also commenced during the period on 18 September 2011 and was completed on 28 September 2011. A total of 8 lines for a total of 168 km of 2D seismic was acquired. The purpose of the survey was to mature multiple leads in the Admiral Bay area and to provide additional regional coverage.

Airborne Gravity and Magnetic Aerial Survey

The Company acquired a large airborne gravity and magnetic survey over the Ungani Field and surrounding areas in December 2011 to assist in the determination of the size of the Ungani structure and to help define other prospects in the area. Interpretation of this survey has been used to assist in placement of both the planned 3D seismic survey over the Ungani structure, and also in locating 2D seismic surveys over the adjacent prospects.

Corporate

2011 Capital Raising

In September 2011 the Company successfully raised a total of \$20.2 million (before fees) through the placement of new shares to institutional investors ("**2011 Placement**") and a share purchase plan ("**SPP**") for existing shareholders. Under the 2011 Placement, 27.4 million new shares were issued to two new substantial institutional investors, representing 15% of the Company's issued capital. The 2011 Placement was fully underwritten by J.P. Morgan Australia Limited who was also the Sole Lead Manager. The Company also provided its existing shareholders with an opportunity to gain further exposure to Buru through the SPP, allowing shareholders to purchase shares at the same price as the 2011 Placement. This placement was ratified by shareholders at the 2011 Annual General Meeting.

2012 Capital Raising

In June 2012 the Company successfully raised a total of \$50 million (before fees) through the placement of new shares to institutional investors ("**2012 Placement**"). Under the 2012 Placement, 16.7 million new shares were issued to existing and new substantial institutional investors, representing 7.1% of the Company's issued capital. The 2012 Placement was fully underwritten by J.P. Morgan Australia Limited who was also the Sole Lead Manager.

New Exploration Permits

During the period the Company was notified by the Western Australian Department of Mines and Petroleum (“DMP”) that it was the preferred applicant for four additional petroleum exploration permits in the Canning Superbasin, L10-7, L10-8, L11-1 and L11-2. L10-7 and L10-8 provide additional exposure to the exploration trends identified in the Paradise-Valhalla area. This includes both the shallow oil plays seen in the Paradise and Valhalla wells, and the Valhalla regional wet gas accumulation, together with a number of other exploration plays that have been developed by Buru. Although little systematic exploration has previously been carried out in the area of these new permits, Buru’s review of the existing data has identified a number of focus areas which will be the subject of early exploration once the permits are formally granted.

L11-1 and L11-2 cover areas with very significant prospectivity and extend the Company’s acreage position over the proven Ungani oil play and the Valhalla wet gas play as well as over the Goldwyer Shale where it is interpreted to lie in the oil window. L11-2 lies immediately adjacent to the south and west of Buru’s recent Ungani oil discovery, and provides additional exposure to this new oil play, as well as containing a significant additional area of prospectivity for the Goldwyer Shale. L11-1 contains a potentially important extension of the Valhalla regional wet gas accumulation which has been recently confirmed and enhanced by the Valhalla North-1 and Paradise-1 wells, together with a number of other exploration plays that have been developed by Buru.

These four new permits provide a very important addition to Buru’s portfolio, bringing its net equity acreage position in the Canning Superbasin to a total of some 57,830 sq km or over 14 million acres.

The offer of the four new permits by the DMP to Buru as a preferred applicant was the outcome of strongly competitive bid processes. Final award of each of these permits is subject to completion of negotiations with the affected Native Title parties under the Native Title Act 1993 (Cth).

McDaniel Report

McDaniel & Associates Consultants Ltd (“**McDaniel**”), a specialist North American tight gas and unconventional resource assessment consulting group, completed an independent assessment of the prospective resources of the Laurel Formation in the Valhalla area of the Canning Superbasin during the period. This independent assessment has confirmed Buru’s view that the Valhalla area contains a regionally significant multi TCF wet gas accumulation.

McDaniel are of the opinion that the Valhalla accumulation, within Buru’s permits in the Valhalla area, contains a mean unrisked gross recoverable volume of 15 TCF of gas and 432 million barrels of liquids (condensate and LPG). On a risked basis the mean gross recoverable volumes are 6.5 TCF of gas and 187 million barrels of hydrocarbon liquids, within the assessment area of the Buru permits. McDaniel have also confirmed that the Laurel Formation in the Valhalla area has the characteristics of a basin centred gas accumulation. This type of accumulation is a different, and potentially more productive and commercially attractive style of accumulation than traditional “shale” plays.

Review of Operations

For the year ended 30 June 2012 (Cont'd)

Declaration of Location

During the period the Western Australian Minister for Mines and Petroleum confirmed the potential production status of the Ungani Field through the issue of a “Declaration of Location” over the Field. The Declaration of Location is a critical first step in the regulatory approval process leading to the full development of the Ungani Field. The issue of the Declaration involved a technical and geological examination of the Field by the DMP, to verify Buru’s interpreted extent of the Field and the proposed process for the commercial development of the Field. Based on this review, and as requested by Buru, each of the four graticular blocks around the Field has been included in the Declaration of Location made by the Minister.

The next step in the regulatory process leading to full development of the Field is the grant of a Production Licence. Buru has now lodged its application for a Production Licence over the Field. This application contains details of the proposed full scale development process for review and assessment by the DMP. The application for the Production Licence also formally commences the Native Title negotiation process with affected Native Title parties in the Ungani area. Reaching an agreement with these Native Title parties is a necessary pre-condition to the grant of the Production Licence by the DMP.

Extension of Alcoa Gas Supply Agreement

During the period Alcoa extended the Gas Supply Agreement (“GSA”) between Buru and Alcoa by one year. The GSA provides for Buru to deliver up to 500 PJ of gas to Alcoa from discoveries made in the Canning Superbasin. Pursuant to the GSA, Alcoa made a \$40 million prepayment to Buru’s predecessor, ARC Energy Ltd, for gas to be delivered under the GSA (“**Alcoa Prepayment**”). As a result of the extension, Buru now has until 1 January 2013 to identify sufficient gas to commence delivery under the GSA. If, prior to 1 January 2013, Buru has not made a final investment decision to proceed with a gas development that would supply sufficient gas to meet its delivery obligations under the GSA, Buru will then be obliged to repay the Alcoa Prepayment in three equal annual instalments commencing on 31 December 2013. The third instalment may be satisfied with cash or Buru shares, at Buru’s election. At the end of the period Buru held \$23.87 million in escrow in partial satisfaction of Buru’s potential obligation to repay the Alcoa Prepayment. Importantly, this extension will ensure Buru is able to continue to appraise both the Yulleroo Field and the Valhalla wet gas accumulation during the contract term, and will also allow consideration of any other gas resources discovered during Buru’s continuing drilling program as additional sources of supply for the GSA.

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 2012, and the auditor's report thereon. The remuneration report for the year ended 30 June 2012 on pages 42-48 forms part of the Directors' report.

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

Mr Riley 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. He was a Non-executive Director of Adelphi Energy Limited from 2005 until 2010 and a Non-executive Director of ARC Energy Limited from 1993 to 2005.

Mr Riley is a Member of the Audit and Risk Committee and the Remuneration and Nomination Committee. He has been a Director since May 2008 and was appointed Chairman in March 2009.

Mr Eric Streitberg, BSc (App
Geoph)
Executive Director

Mr Streitberg has approximately 40 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 a Director of the Australian Petroleum Production and Exploration Association and the immediate past chair of the Marine Parks & Reserve Authority of Western Australia. He was also a Non-executive Director of Adelphi Energy Limited from 2005 until 2010.

Mr Streitberg has been a Director since October 2008.

The Hon. Peter Jones AM
Independent Non-executive
Director

The Hon Mr Jones 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.

The Hon Mr Jones is the Chairman of the Audit and Risk Committee and the Remuneration and Nomination Committee and has been a Director since October 2009.

Director's Report

For the year ended 30 June 2012 (Cont'd)

Company Secretaries

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.

Mr Shane McDermott

Mr Shane McDermott, CA, ACIS, BComm (Accounting and Finance) was appointed as Joint Company Secretary on 1 December 2011. He has an accounting and auditing background having worked at a large international accounting practice for five years at its Perth office before joining Buru in 2009. He is a member of the Institute of Chartered Accountants Australia and an Associate of the Institute of Chartered Secretaries Australia. He acted as Buru's Assistant Company Secretary for two years prior to his appointment as Company Secretary and is currently the Company's General Manager – Commercial and Financial.

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	10	10
Eric Streitberg	10	10
Peter Jones	10	10

Principal Activities

The principal activity of the Group during the period was oil and gas exploration and production 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.

Review of Operations

The review of operations during the financial year ended 30 June 2012 is set out on pages 23 to 28 and forms part of this Directors' Report.

Operating Results

The consolidated loss of the Group after providing for income tax was \$5,506,000 (30 June 2011: loss of \$10,335,000).

Financial Position

The net assets of the Group totalled \$109,538,000 as at 30 June 2012 (30 June 2011: \$32,703,000).

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 and production in the Canning Superbasin in the Kimberley region of Western Australia with a focus on the development of the Ungani Field, further appraisal of the Laurel Formation at both the Valhalla and Yulleroo wet gas accumulations, as well as further exploration on other conventional and unconventional plays. Further information regarding likely developments will depend upon the results of the current exploration and appraisal 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 Group is subject to environmental regulation under relevant Australian and Western Australian legislation in relation to its oil and gas exploration and production activities, particularly with the 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.

Share Options

At the date of this report, the unissued shares of the Company under option are as follows:

Date of Expiry	Exercise Price	Number of shares under Option
31 December 2012	\$0.48	3,720,000
31 December 2012	\$0.75	290,000
30 April 2013	\$1.03	2,500,000
31 October 2013	\$1.12	2,500,000
31 December 2013	\$1.24	1,825,000
31 December 2013	\$1.58	50,000
31 December 2013	\$1.86	320,000
30 April 2014	\$1.20	2,500,000
Total		13,705,000

All unissued options are over 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 42-48.

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
Mr Eric Streitberg	23,401,066	8,580,000
Mr Graham Riley	3,000,000	-
The Hon Peter Jones AM	248,277	-
Total	26,649,343	8,580,000

Director's Report

For the year ended 30 June 2012 (Cont'd)

Indemnification and Insurance of Officers

The Company has agreed to indemnify all current Directors and officers 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 and officers 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 \$41,009 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 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 audit, half year review and joint venture audits. During the year, the amount paid or payable to the Group's auditor (KPMG Australia) for statutory and other audit and review services totalled \$70,400 (2011: \$51,000).

Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 49 and forms part of the Directors' Report for the financial year ended 30 June 2012.

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
14 August 2012



Mr Graham Riley
Chairman
Perth
14 August 2012

Corporate Governance Statement

This statement outlines the main corporate governance practices in place during the financial year. The Company's corporate governance practices comply with the ASX Corporate Governance Principles and Recommendations ("ASX Recommendations"), unless otherwise stated.

Board of Directors

The respective roles and responsibilities of both the Board and management are set out in the Board charter which can be viewed in the corporate governance section of the Company's website www.buruenergy.com.

Roles and Responsibilities of the Board and Senior Executives (ASX's Recommendation 1.1, 1.2 & 1.3)

The Board is collectively responsible for the governance of the Company and for promoting its success. 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.

The Board delegates 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.

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.

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.

The Board has developed a division of authority between the Chairman of the Board and the Executive Director which delineate the roles and responsibilities of each position. Senior executives are responsible for supporting the Executive Director and assisting him with the management of the Company in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Executive Director or, if the matter concerns the Executive Director, then directly to the Chairman.

Corporate Governance Statement

Board Processes (ASX's Recommendation 2.4, 4.1 & 8.1)

Full Board meetings are conducted in accordance with the Company's constitution at least nine times a year at venues, dates and times agreed, where practical, in advance. In accordance with the constitution, a Chairman has been appointed and the quorum for a meeting is two Directors. To assist in the execution of its responsibilities, the Board has established an Audit and Risk Committee and a Remuneration and Nomination Committee. Further details on both Committees are included later in this Corporate Governance Statement.

The agenda for each Board meeting is developed by the Joint Company Secretaries in consultation with the Executive Director and is approved by the Chairman. Board papers are distributed to Directors at least three business days before the meeting, unless the meeting has been called urgently. Board papers contain the information required for the Directors to make informed decisions in the efficient discharge of their responsibilities. The minutes of Board meetings are circulated, approved and signed by the Chairman within fourteen days of the date of the meeting.

Urgent matters that cannot wait until the next scheduled Board meeting and for which an impromptu Board meeting cannot be arranged are dealt with by a circular resolution in accordance with Buru's Constitution (Article 11.22). Circular resolutions are normally preceded by telephone or email correspondence if practical, and are approved by the Executive Director before being circulated. The resolution is passed when it is signed by the last of the Directors comprising a majority. Signed circular resolutions are entered into the minute book.

Director Education

The terms and conditions of the appointment and retirement of Non-executive Directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board Meetings, minimum hourly commitment, appointments to other Boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice. 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 Company 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.

Composition of the Board & Director Independence (ASX's Recommendation 2.1, 2.2, 2.3 & 2.6)

The names of the Directors of the Company in office at the date of this report, specifying which are independent, are set out in the Directors' Report on page 29.

The composition of the Board is determined using the following principles:

- a minimum of three and no more than eight 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
- all Directors are subject to re-election every three years (except for the Executive Director).

The Board should, collectively, have the appropriate level of personal qualities, skills, experience and time commitment to properly fulfil its responsibilities or have ready access to such skills where they are not available.

Corporate Governance Statement

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 as 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. Directors will be considered independent if they meet the definition of an 'Independent Director' in accordance with the ASX Corporate Governance Council Corporate Governance Principles and Recommendations.

Board Committees

Remuneration and Nomination Committee (ASX's Recommendation 2.4, 2.5, 2.6, 8.1, 8.2, 8.3 & 8.4)

The Remuneration and Nomination Committee oversees the appointment and induction process for Directors and Committee Members, and the selection, appointment and succession planning processes for the Company's Executive Director, executives and senior management. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from external consultants. The Board then appoints the most suitable candidate. Board candidates appointed through this process must stand for election at the next general meeting of shareholders following their appointment.

Approximately every three years, or more frequently if appropriate, the Remuneration and Nomination Committee (previously the Board) uses an external facilitator to undertake an evaluation of the performance of the Board, its Committees, individual Directors, and senior executives. The other Directors have an opportunity to contribute to the review process. The reviews generate recommendations to the Board, which votes on them. The Committee's nomination of existing Directors for reappointment is not automatic and depends on, amongst other things, the outcome of the review process.

The Remuneration and Nomination Committee also conducts an annual review of the performance of the Executive Director and the senior executives reporting directly to him and the results are discussed at a Board Meeting. The Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and Directors of the Company and of other Group executives for the Group. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The Remuneration and Nomination Committee should have a minimum of three members and be comprised of only independent Non-executive Directors. Currently there are only two Non-executive Directors and therefore only two Remuneration and Nomination Committee members until such time as a third Non-Executive Director is appointed to the Board. The members of the Remuneration and Nomination Committee during the year were:

- The Hon. Peter Jones AM (Chairman) – Independent Non-Executive
- Graham Riley – Independent Non-Executive

The Executive Director and Chief Operating Officer are invited to Committee meetings, as required, to discuss senior executive and senior management performance and remuneration packages but they do not attend meetings involving matters pertaining to themselves.

Corporate Governance Statement

The Remuneration and Nomination Committee will meet at least two times a year and as often as required as determined by the Chairman of the Committee. The Committee did not meet during the financial year ended 30 June 2012 as it was only established in June 2012. It met for the first time in July 2012. Any Committee member may convene a meeting of the Committee and two members constitute a quorum. The Committee has the right to access management and may engage independent professional advisers as the Committee requires to assist it to discharge its purpose and responsibilities. The Company Secretaries are the Secretaries of the Remuneration and Nomination Committee. The minutes of Meetings are circulated, approved and signed by the Chairman within twenty one days of the date of the meeting.

Further details on the Remuneration and Nomination Committee, including its charter, the Board Renewal and Performance Evaluation Policy and the Diversity Policy can be viewed in the corporate governance section of the Company's website www.buruenergy.com.

Audit and Risk Committee (ASX's Recommendation 4,1, 4.2, 4.3, 4.4, 7.1, 7.2, 7.3, & 7.4)

The Audit and Risk Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The Audit and Risk Committee is responsible for oversight and review of:

- the annual and half yearly statutory financial statements;
- procedures and issues that could have a significant impact on financial results (for example impairment testing);
- Buru's internal controls including accounting controls;
- external auditor's independence and monitoring the audit process in accordance with the international auditing standards and any other applicable regulations;
- the appropriateness of the external auditor's provision of non-audit services;
- the need for and, if required, the scope and conduct of internal audit;
- the establishment and implementation of a risk management process to identify, assess, monitor and control risk;
- management's periodic risk assessments and recommendations;
- the adequacy of Buru's insurances;
- compliance with appropriate regulations (including environmental and safety); and
- reporting on reserves in accordance with the appropriate regulations and guidelines.

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and will meet with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and full year financial reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement; 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.

The Audit and Risk Committee 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. Investors are advised 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 an internal audit function. There is also no formal risk management and internal control system to manage the Company's material business risks. The Committee directly monitors the potential exposures facing the Company through ongoing reporting by the Executive Director and Chief Operating Officer. As the Company grows, it intends to develop a more formal risk management system.

Corporate Governance Statement

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 Committee include a conscious consideration of the issues and risks of each proposal. The Company's executive and senior management have extensive experience in the industry and manage and monitor potential exposures facing Buru.

It is the responsibility of the Audit and Risk Committee to assess the adequacy of Buru's internal control systems and to ensure that its financial affairs comply with applicable laws and regulations and professional practices. The Executive Director and the Chief Operating Officer have advised the full 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.

The Group's operations are subject to significant environmental regulation under both Commonwealth and State legislation in relation to its oil and gas exploration and production activities. The Group is committed to achieving a high standard of environmental performance. It has established a Group-wide Environmental Policy together with operation and activity specific environmental management plans to manage this area of the Company's activities.

The Audit and Risk Committee should have a minimum of three members and be comprised of only independent Non-executive Directors. Currently there are only two Non-executive Directors and therefore only two Audit and Risk Committee members until such time as a third Non-Executive Director is appointed to the Board. The members of the Audit and Risk Committee during the year were:

- The Hon. Peter Jones AM (Chairman) – Independent Non-Executive
- Graham Riley – Independent Non-Executive

The external auditors, the Executive Director and the Chief Operating Officer, are invited to Audit and Risk Committee meetings at the discretion of the Committee. The Executive Director and the Chief Operating Officer declared in writing to the Board:

- that the financial records of the Company for the financial year have been properly maintained; and
- the Group's financial reports for the financial year ended 30 June 2012 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results.

This statement is required annually.

The Audit and Risk Committee will meet at least three times a year and as often as required as determined by the Chairman of the Committee. The Committee did not meet during the financial year ended 30 June 2012 as it was only established in June 2012. It met for the first time in July 2012. Any Committee member may convene a meeting of the Committee and two members shall constitute a quorum. The Committee has the right to access management and may engage independent professional advisers as the Committee requires to assist it to discharge its purpose and responsibilities. The Company Secretaries are the Secretaries of the Audit and Risk Committee. The minutes of meetings are circulated, approved and signed by the Chairman within twenty one days of the date of the meeting. The external auditor met with the full Board once during the year and met with the Audit and Risk Committee once subsequent to the end of the financial year.

Further details on the Audit and Risk Committee including its charter can be viewed in the corporate governance section of the Company's website www.buruenergy.com.

Corporate Governance Statement

Ethical standards

Code of conduct (ASX's Recommendations 3.1 & 3.5)

Buru established a Code of Conduct subsequent to the end of the financial year. The Code of Conduct applies to all Directors, senior executives and employees. It sets out the practices necessary to maintain confidence in the Company's honesty and integrity and the practices necessary to take into account the legal obligations and the expectations of the Company's stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Conduct sets out the procedure to be followed if there is, or may be, a conflict between the personal or other interests of a Director and the business of the Company including the notification of an interest to the Board and a withdrawal from a meeting in which the material matter is discussed.

There have been no reports of a departure from the Code of Conduct.

Diversity (ASX's Recommendations 3.2, 3.3 and 3.4)

The Board is committed to having an appropriate level 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 Group's 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.

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

Period Gender Level	30 June 2012				30 June 2011			
	Males		Females		Males		Females	
	Number	%	Number	%	Number	%	Number	%
Directors	3	100	0	0	3	100	0	0
Senior Executives	1	50	1	50	1	100	0	0
All Other Employees	19	58	14	42	15	63	9	37

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

- General Manager – Production and Development;
- General Manager - Legal and Regulatory;
- Special Projects Manager;
- Finance Manager; and
- Office Manager.

Corporate Governance Statement

During the financial year ended 30 June 2012, the Company's achieved all of its diversity objectives as follows:

- Appointed 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.
- Updated recruitment policies and procedures to reflect Buru's position on diversity.
- Implemented a formal policy regarding flexible working arrangements for all non-operational staff.
- Implemented a formal maternity and paternity leave policy.
- Ensured 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.
- Undertook a review of all flexible working arrangements to ensure roles are appropriate to maintain career development.
- Established a university scholarship (the Buru Energy Scholarship for Women in Petroleum Geoscience) in conjunction with the University of Western Australia to support and encourage females to undertake studies in geology or a related discipline.
- Ensured that, wherever practical, Traditional Owners from the areas in which Buru operates are offered employment opportunities with Buru.

The Board has set the following new diversity objectives for the 2013 financial year:

- Conduct periodic cultural awareness education and training for employees and contractors.
- To increase the total number of Traditional Owners employed by Buru on a FTE basis.
- Implementation of the Buru Energy Scholarship for Women in Petroleum Geoscience.
- At least 50% of the candidate pool for the next Board appointment to be female (note this does not apply to the process commenced in the 2012 financial year to identify and appoint a fourth Director to the Board)

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 as an announcement provided to the ASX.

Corporate Governance Statement

Communication with shareholders

Timely and Balanced Disclosure (ASX's Recommendations 5.1, 5.2, 6.1 and 6.2)

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 are responsible for interpreting the Group's policy and where necessary informing and seeking approval from the Board. The Executive Director and Chief Operating Officer are primarily responsible for all external communications including releases made on the ASX;
- 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 and all other matters requiring shareholder approval. A copy of the Constitution is available to any shareholder who requests it.

Letter from the Chairman of the Remuneration and Nomination Committee

Dear Shareholders,

The Directors are pleased to present the 2012 Remuneration Report.

During the year Buru grew significantly following material exploration success and was admitted firstly into the S&P/ASX300 index, followed with admission into the S&P/ASX200 index. Given the increase in size and complexity of the Company's affairs, and in accordance with the ASX Listing Rules, the Board established the Remuneration and Nomination Committee in June. Details regarding the roles and responsibilities of this Committee are detailed within the Corporate Governance Statement at page 35. Over the course of the next financial year, the Remuneration and Nomination Committee will continue to examine ways to improve Buru's remuneration practices in order to ensure the Company has a best practice remuneration system.

At this stage of Buru's development, the Board continues to consider that equity based compensation (in particular the issue of options) is the most appropriate way to supplement fixed cash based remuneration in order to attract and retain the highest calibre of senior executives whilst maintaining the Group's cash reserves. In addition, given this type of remuneration is 'at-risk' to both the short and long term performance of the Company, it increases alignment of the interests of Buru's senior executives with the interests of its shareholders.

Buru's ongoing success requires increased staffing levels to manage the increased scale of its activities, particularly the development of the Ungani Field. Buru operates in an industry and geographic location with extremely competitive market places for senior executives. It is therefore important that Buru's remuneration be consistent with its peers and the broader industry. In particular, Buru wishes to employ the best possible senior executives to manage the Company's growth. Appropriate remuneration policies and practices will be required to support this process.

Following a review of the Board's composition, the Board appointed a specialised Director search firm, Gerard Daniels, during the year to work with it on a structured process to identify and assess, and in due course, appoint, an additional Non-executive Director. The ideal candidate will bring experience in the oil and gas industry, with a particular focus on experience in the commercialisation of large gas resources, and the development of associated infrastructure. It is expected that this appointment process will be completed in the near term.

The Remuneration and Nomination Committee will continue to work with the Board to develop Buru's remuneration policies and practices with aim of increasing shareholder value.



Yours Sincerely
The Hon Peter Jones AM
Chairman of Remuneration & Nomination Committee

Remuneration Report

For the year ended 30 June 2012

Principles of compensation

The Directors present their Remuneration Report for Buru for the year ended 30 June 2012. This remuneration report outlines the remuneration arrangements of the Company's Directors and other key management personnel ("KMP") in accordance with the requirements of the *Corporations Act 2001* and its Regulations. In accordance with section 308(3C) of the *Corporations Act 2001*, the remuneration report has been audited and forms part of the Directors' Report. Remuneration is also referred to as compensation throughout this report.

KMP have authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Directors, executives and senior management in accordance with s300A of the *Corporations Act 2001*. The executives disclosed in this report comprise the five highest remunerated executives.

Compensation levels for KMP 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 shareholder value. The Company's compensation structures take into account:

- the capability and experience of KMPs; 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. Compensation levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the Directors', executive and senior management compensation is competitive in the market place. Compensation is also reviewed on promotion.

Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward KMP for meeting or exceeding the Company's expectations and agreed objectives. The short-term incentive ("STI") is an 'at risk' bonus provided in the form of cash, while the long-term incentive ("LTI") is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan approved by shareholders in 2010.

Short-term incentive bonuses

During this reporting period the Board established a number of STI bonus schemes for some KMPs and other executives and senior management. The payment of bonuses under these schemes is linked to the fulfilment of key performance indicators ("KPIs"). The KPIs are designed to promote shareholder value creation and include financial and non-financial measures. The individual's reward under the STI bonus scheme is directly aligned to the creation of shareholder value through the achievement of the Company's strategic and performance goals.

The financial measures are based on the increase in the market capitalisation of the Company between certain dates, after accounting for net debt. The non-financial measures vary with position and responsibility and include measures such as achieving operational outcomes and ensuring high levels of safety and environmental performance. The specific measures were chosen as they provide an objective criteria against which the bonus will be paid. The Board did not exercise any discretion on the payment of bonuses as the bonus schemes provide for no such discretion. Going forward, the Remuneration and Nomination Committee will recommend short term incentive schemes for approval by the Board.

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 KMP with shareholders and to reward, over the medium term, KMP for delivering value to shareholders through share price appreciation.

At the 2010 Annual General Meeting, shareholders approved the implementation of an Employee Share Option Plan ("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. All options refer to options over ordinary shares of Buru Energy Limited which are exercisable on a one for one basis.

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 KMP 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 Board is of the opinion that this has been a successful method to increase shareholder wealth as shown in the table below.

Reporting Period	31 Dec 08	30 Jun 09	31 Dec 09	30 Jun 10	31 Dec 10	30 Jun 11	31 Dec 11	30 Jun 12
Buru Share Price	\$0.16	\$0.17	\$0.23	\$0.37	\$0.44	\$0.65	\$1.23	\$3.14

Service contracts

It is the Group's policy that service contracts with KMP, with the exception of the Executive Director, the Chief Operating Officer and the General Manager – Production and Development, are unlimited in term but capable of termination on one month's notice (or by payment in lieu thereof).

The employment contracts with the Executive Director, the Chief Operating Officer and the General Manager – Production and Development state that either party may terminate the employment contract with four months' notice. If the Company terminates the employment contract, it is required to make a termination payment being equal to twelve months' pay to the Executive Director, six months' pay to the Chief Operating Officer and three months' pay to the General Manager – Production & Development.

The Board determined the amount of compensation payable to KMP under each agreement. KMP 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 KMP and any changes required to meet the principles of the Group's compensation policy.

Services from remuneration consultants

During the financial year, the Board engaged Godfrey Remuneration Consultants ("Godfrey") to review the amount and elements of the Non-executive Directors' remuneration. Godfrey did not provide any other services during the period. Godfrey was paid \$9,450 for the Non-executive Directors remuneration recommendations. The engagement of Godfrey was authorised by the Chairman and was based on a documented set of protocols developed by Godfrey that would be followed by both Buru and Godfrey to ensure that Godfrey was completely independent during its review. The protocols included that only the Chairman and the Company Secretary were able to liaise with Godfrey, and Godfrey declaring to the full Board confirming their independence. The Board is satisfied that the remuneration recommendations were made by Godfrey free from undue influence by members of the KMP about whom the recommendations may relate.

Remuneration Report

For the year ended 30 June 2012

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 based on advice received from Godfrey as described above with reference to fees paid to other Non-executive Directors by comparable companies. Effective 1 January 2012, the Non-executive Directors' base fee is presently \$86,500 plus statutory superannuation per annum and expenses and the Chairman's base fee is \$125,000 plus statutory superannuation per annum and expenses. Directors' fees cover all main Board and Committee activities.

Remuneration Report

For the year ended 30 June 2012

Key Management Personnel Compensation

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

		Short-term			Post-employment			Share-based			s300A(1)(e)(i) proportion of remuneration performance related	s300A(1)(e) (vi) value of options as proportion of remuneration	
		Salary & Fees \$	STI cash bonus (B) \$	Non- monetary benefits \$	Superannuation benefits \$	Other long term \$	Termination benefits \$	Share Option Plan (C) \$	Total \$				
Non-executive Directors													
Mr G Riley (Chairman)	2012	108,500	-	-	108,500	9,765	-	-	-	118,265	-	-	
	2011	86,000	-	-	86,000	7,740	-	-	-	93,740	-	-	
	2012	79,250	-	-	79,250	-	-	-	-	79,250	-	-	
The Hon P Jones AM	2011	66,000	-	-	66,000	-	-	-	-	66,000	-	-	
	2012	187,750	-	-	187,750	9,765	-	-	-	197,515	-	-	
Directors Remuneration	2011	152,000	-	-	152,000	7,740	-	-	-	159,740	-	-	
Executive Directors													
Mr E Streitberg	2012	555,000	-	-	555,000	49,950	-	-	2,495,740	3,100,690	80.5%	80.5%	
	2011	330,000	-	-	330,000	29,700	-	-	168,476	528,176	31.9%	31.9%	
Total Directors	2012	742,750	-	-	742,750	59,715	-	-	2,495,740	3,298,205			
Remuneration	2011	482,000	-	-	482,000	37,440	-	-	168,476	687,916			

Remuneration Report

For the year ended 30 June 2012

	Short-term			Post-employment			Share-based payments		s300A(1)(e)(i)		s300A(1)(e)	
	Salary & Fees	STI cash bonus (B)	Non-monetary benefits	Total	Superannuation benefits	Other long term	Termination benefits	Employee Share Option Plan (C)	Total	proportion of remuneration related %	proportion of options as remuneration %	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
Executives												
Mr T Streitberg, Chief Operating Officer & Company Secretary	2012 396,000	-	-	396,000	35,640	-	-	122,926	554,566	22.2%	22.2%	22.2%
	2011 281,500	150,000	-	431,500	38,835	-	-	209,293	679,628	52.9%	30.8%	30.8%
Ms M Malaxos, General Manager – Operations and Development (A) (Commenced February 2012)	2012 177,083	-	-	177,083	15,937	-	-	127,401	320,421	39.8%	39.8%	39.8%
2011	-	-	-	-	-	-	-	-	-	-	-	-
Mr P Edwards, Exploration Advisor	2012 238,933	114,679	-	353,612	31,825	-	-	60,532	445,969	39.3%	13.6%	13.6%
	2011 217,274	-	-	217,274	19,554	-	-	61,990	298,818	20.7%	20.7%	20.7%
Mr T Rudge, Geophysicist	2012 238,933	77,982	-	316,915	28,522	-	-	60,532	405,969	34.1%	14.9%	14.9%
	2011 227,584	-	-	227,584	20,483	-	-	60,824	308,891	19.7%	19.7%	19.7%
Mr M Royle, Operations Manager	2012 204,931	111,973	-	316,904	28,893	-	-	51,219	397,016	41.1%	12.9%	12.9%
	2011 195,068	-	-	195,068	17,556	-	-	56,159	268,783	20.9%	20.9%	20.9%
Total Directors and Executive Officer remuneration	2012 1,998,630	304,634	-	2,303,264	200,532	-	-	2,918,350	5,422,146			
	2011 1,403,426	150,000	-	1,553,426	133,868	-	-	556,742	2,244,036			

Notes in relation to the table of KMP remuneration

A. Consulting fees

Prior to Ms Malaxos' employment with Buru she provided consulting work to the Company on an ad hoc basis. During the year, her consulting company was paid consulting fees of \$73,500 which is not included in the above table.

B. Short Term Incentive Bonus

The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 42. The amount was finally determined after performance reviews were completed and following the end of the 2011 calendar year, in accordance with the criteria approved by the Board at the 24 February 2011 Board Meeting.

C. Employee Share Option Plan

The fair value of the options is calculated at the date of grant using the Black Scholes option-pricing model and expensed at grant date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

Remuneration Report

For the year ended 30 June 2012

Analysis of share based payments

Details of the options issued under the ESOP to each KMP during the reporting period and details on options that vested during the reporting period are as follows:

		Number of options granted	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested
Directors							
Mr E Streitberg		2,500,000	21 Oct 11	0.32	1.03	30 Apr 13	2,500,000
	2012	2,500,000	21 Oct 11	0.33	1.12	31 Oct 13	2,500,000
		2,500,000	21 Oct 11	0.34	1.20	30 Apr 14	2,500,000
	2011	1,080,000	5 Nov 10	0.16	0.48	31 Dec 12	1,080,000
Executives							
Mr T Streitberg	2012	396,000	21 Oct 11	0.31	1.24	31 Dec 13	396,000
	2011	1,050,000	5 Nov 10	0.16	0.48	31 Dec 12	1,050,000
Ms M Malaxos	2012	320,000	1 Feb 12	0.40	1.86	31 Dec 13	320,000
	2011	-	-	-	-	-	-
Mr P Edwards	2012	195,000	21 Oct 11	0.31	1.24	31 Dec 13	195,000
	2011	360,000	5 Nov 10	0.16	0.48	31 Dec 12	360,000
Mr T Rudge	2012	195,000	21 Oct 11	0.31	1.24	31 Dec 13	195,000
	2011	360,000	5 Nov 10	0.16	0.48	31 Dec 12	360,000
Mr M Royle	2012	165,000	21 Oct 11	0.31	1.24	31 Dec 13	165,000
	2011	360,000	5 Nov 10	0.16	0.48	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. All options expire on the earlier of their expiry date or 30 days after the termination of the individual's employment. The options are exercisable immediately from grant date. No terms of equity-settled share-based payment transactions (including options granted as compensation to a KMP) have been altered or modified by the issuing entity during the reporting period or the prior period. During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

		Number of options exercised	Amount paid (\$/share)
Directors			
Mr G Riley	2012	1,000,000	0.30
	2011	-	-
Mr E Streitberg		5,000,000	0.25
	2012	6,900,000	0.30
		5,000,000	0.35
	2011	-	-
Executives			
Mr T Streitberg	2012	1,600,000	0.30
	2011	-	-
Mr P Edwards	2012	379,000	0.30
	2011	-	-
Mr T Rudge	2012	204,000	0.30
	2011	-	-

Remuneration Report

For the year ended 30 June 2012

All bonuses fully vested during the period and no bonuses were forfeited during the year.

There are no amounts unpaid on the shares issued as a result of the exercise of options in the 2012 financial year. The movement during the reporting period, by value, of options over ordinary shares in the Company held by each KMP is detailed below:

		Granted in year \$(A)	Value of options exercised in year \$(B)	Lapsed during the financial year \$(C)
Directors				
Mr G Riley	2012	-	870,000	-
	2011	-	-	-
Mr E Streitberg	2012	2,495,740	15,548,000	-
	2011	168,476	-	-
Executives				
Mr T Streitberg	2012	122,926	1,392,000	-
	2011	163,796	-	-
Ms M Malaxos	2012	127,401	-	-
	2011	-	-	-
Mr P Edwards	2012	60,532	329,730	-
	2011	56,159	-	-
Mr T Rudge	2012	60,532	177,480	-
	2011	56,159	-	-
Mr M Royle	2012	51,219	-	-
	2011	56,159	-	-

Notes in relation to the table of movements in the value of options:

- (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.



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 2012 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

A handwritten signature in black ink, appearing to read 'Brent Steedman'.

Brent Steedman
Partner

Perth

14 August 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Financial Position

As at 30 June 2012

in thousands of AUD

	Note	30 June 2012	30 June 2011
CURRENT ASSETS			
Cash and cash equivalents	19a	62,360	26,775
Trade and other receivables	17	5,159	3,223
Inventories	18	4,646	4,493
Total Current Assets		72,165	34,491
NON-CURRENT ASSETS			
Property, plant and equipment	12	6,310	3,337
Exploration and evaluation expenditure	13	45,967	18,221
Development expenditure	14	1,983	327
Other investments	15	33,655	26,029
Total Non-Current Assets		87,915	47,914
TOTAL ASSETS		160,080	82,405
CURRENT LIABILITIES			
Trade and other payables	22	5,108	4,406
Provisions	23	293	185
Total Current Liabilities		5,401	4,591
NON-CURRENT LIABILITIES			
Trade and other payables	22	40,000	40,000
Provisions	23	5,141	5,111
Total Non-Current Liabilities		45,141	45,111
TOTAL LIABILITIES		50,542	49,702
NET ASSETS		109,538	32,703
EQUITY			
Contributed equity		150,015	75,488
Reserves		10,188	4,271
Accumulated losses		(50,665)	(47,056)
TOTAL EQUITY		109,538	32,703

The notes on pages 54 to 84 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

<i>in thousands of AUD</i>	Note	2012	2011
Revenue	7	2,020	1,543
Operating costs		(2,308)	(1,749)
Gross profit		(288)	(206)
Other income	8	1,698	1,039
Exploration and evaluation expenditure		(553)	(890)
Impairment of exploration and development expenditure	13,14	(3,184)	(10,971)
Administrative expenditure	9	(7,941)	(5,078)
Share based payment expenses	24	(3,292)	(729)
Joint venture partner's share of technical and administrative expenditure	27	3,470	4,100
Results from operating activities		(10,090)	(12,735)
Financial income	10	2,688	2,858
Financial expenses	10	-	(458)
Net finance income		2,688	2,400
Loss for the period before tax		(7,402)	(10,335)
Income tax benefit	11	1,896	-
Loss for the period		(5,506)	(10,335)
Other comprehensive income			
Change in fair value of available-for-sale financial assets net of tax		4,424	(150)
Other comprehensive income for the period, net of income tax		4,424	(150)
Total comprehensive loss for the period		(1,082)	(10,485)
Loss per share (cents)	21	(2.51)	(5.65)
Diluted Loss per share (cents)	21	(2.51)	(5.65)

The notes on pages 54 to 84 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

in thousands of AUD

	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 2010	75,440	(633)	133	1,863	2,338	(36,721)	42,420
Comprehensive income for the period							
Loss for the period	-	-	-	-	-	(10,335)	(10,335)
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
Share options exercised	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
Balance as at 1 July 2011	75,488	(633)	133	2,583	2,188	(47,056)	32,703
Comprehensive income for the period							
Loss for the period	-	-	-	-	-	(5,506)	(5,506)
Net change in fair value of available-for-sale financial assets	-	-	-	-	4,424	-	4,424
Total comprehensive income for the period	-	-	-	-	4,424	(5,506)	(1,082)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	68,286	-	-	-	-	-	68,286
Share based payment transactions	-	124	(26)	3,292	-	-	3,390
Share options exercised	6,241	-	-	(1,897)	-	1,897	6,241
Total transaction with owners recorded directly in equity	74,527	124	(26)	1,395	-	1,897	77,917
Balance as at 30 June 2012	150,015	(509)	107	3,978	6,612	(50,665)	109,538

The notes on pages 54 to 84 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

in thousands of AUD

		2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		3,278	2,469
Joint venture partner's share of technical and administrative expenditure	27	-	5,700
Payments to suppliers and employees		(9,958)	(6,597)
Cash used in operations		(6,680)	1,572
Interest paid		-	(3)
Net cash inflow / (outflow) from operating activities	19b	(6,680)	1,569
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,027	3,072
Payments for purchase of plant and equipment		(2,773)	(561)
Payments for exploration and evaluation expenditure		(29,723)	(15,535)
Payments for development expenditure		(1,594)	(444)
Transfer to long-term cash held in escrow (*)		(1,306)	(932)
Payments for available-for-sale financial assets		-	(625)
Net cash outflow from investing activities		(32,369)	(15,025)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of share capital		74,527	39
Receipts of employee loans		98	-
Net cash inflow from financing activities		74,625	39
Net increase / (decrease) in cash and cash equivalents		35,576	(13,417)
Cash and cash equivalents at the beginning of the period		26,775	40,704
Effect of exchange rate changes on cash and cash equivalents		9	(512)
Cash and cash equivalents at 30 June	19a	62,360	26,775

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

The notes on pages 54 to 84 are an integral part of these consolidated financial statements

Notes to the Financial Statements

For the year ended 30 June 2012

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 6000. The consolidated financial statements of the Company as at and for the period ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The Group is primarily involved in oil and gas exploration and production in the Canning Superbasin in the Kimberley region of Western Australia.

2. Basis of Preparation

(a) Statement of Compliance

The consolidated 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 14 August 2012.

(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. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1988 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(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 judgements 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 are 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 23 – Provisions

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 DEC and the DMP. Significant estimates and assumptions are made in determining the provision for site rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, regulatory changes and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by adjusting the rehabilitation asset and liability.

Note 24 – Measurement of share-based payments

The fair value of share-based payment expenses is 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.

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) *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.

(ii) *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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(iii) *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 in profit or loss.

(ii) *Subsequent costs*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably. 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 component 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 period are as follows:

- plant & equipment 10 – 30 years
- office equipment 3 – 20 years
- fixtures and fittings 6 – 20 years
- heritage and cultural assets not depreciated

The useful life, residual value and the depreciation method applied to an asset are reassessed at least annually. Heritage and cultural assets with the potential to be maintained for an indefinite period through conservation, restoration and preservation activities are considered to have an indefinite life and not depreciated.

(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.

(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 it is 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 costs written off to the extent that they will not be recoverable in the future. Impairment of assets is discussed in 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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(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 and are used by the Group in the management of its short-term commitments.

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 other categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any attributable transaction costs. 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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

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 presented in 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 measured 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 in the Group's statement of financial position.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(i) Impairment

(i) *Non-derivative 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.

The Group considers evidence of impairment at both a specific asset and collective level. 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 reclassified 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 CGU 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 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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(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.

(k) *Provisions*

A provision is recognised 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 in the course of ordinary activities 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, recovery of the consideration is probable and the amount of revenue can be estimated reliably.

(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 and the arrangement conveys the right to use the 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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(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 or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is 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.

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.

(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 2011, 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 11 Joint Arrangements, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the accounting of the Group's joint ventures. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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 in the Canning Superbasin in Western Australia. The internal report to the Chief Operating Decision Maker is prepared on the same basis as the consolidated financial report.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

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. The Board has established the Audit and Risk Committee which is responsible for developing and monitoring the Group risk management policies. The Committee reports regularly to the Board in its activities. 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.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(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 2012 (Cont'd)

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:

in thousands of AUD	Note	Carrying amount 2012	Carrying amount 2011
Trade and other receivables	17	4,565	2,859
Cash and cash equivalents	19a	62,360	26,775
Available-for-sale financial assets	15	9,780	3,460
Long-term cash held in escrow	15	23,875	22,569
		<u>100,580</u>	<u>55,663</u>

The Group's most significant customer, an international refiner of crude oil, accounts for \$505,000 of the trade and other receivables carrying amount at 30 June 2012 (30 June 2010: \$290,000). Trade and other receivables also included accrued interest receivable from Australian accredited banks of \$541,000 (30 June 2011: \$1,138,000).

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.

(ii) Cash and cash equivalents

The Group held cash and cash equivalents of \$62,360,000 at 30 June 2012 (2011: \$26,775,000) and long-term cash held in escrow of \$23,875,000 (2011: \$22,569,000) which represent its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA-, based on rating agency Fitch Ratings.

(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.

The following are contractual maturities of trade and other payables:

in thousands of AUD	Carrying amount 2012	Carrying amount 2011
0 – 6 months	5,108	4,406
6 – 12 months	-	-
1 – 5 years (i)	40,000	40,000
	<u>45,108</u>	<u>44,406</u>

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

(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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

(i) *Currency risk*

The Group is exposed to currency risk on sales that are denominated in a currency other than the functional currency 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.

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 2012		30 June 2011	
	AUD	USD	AUD	USD
Cash and cash equivalents	460	469	538	577
Trade receivables	505	518	290	311
Gross balance sheet exposure	965	987	828	888

The average exchange rate from AUD to USD during the period was AUD 1.0319 / USD 1.0000 (2011: AUD 0.9881 / USD 1.0000). The reporting date spot rate was AUD 1.0191 / USD 1.000 (2011: AUD 1.0739 / USD 1.000).

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 \$202,000 (2011: \$154,000). 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 \$202,000 (2011: \$154,000). This analysis assumes that all other variables remain constant.

(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.

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 2012	Carrying amount 2011
Fixed rate instruments		
Cash and cash equivalents	62,360	26,775
Long-term cash held in escrow	23,875	22,569
Total fixed interest bearing financial assets	86,235	49,344

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.

(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.

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 \$975,000, an equal change in the opposite direction would have increased the Group's loss after tax for the period by \$975,000.

(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.

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 30 June 2012. 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

	2012	2011
Sales of crude oil	2,020	1,543
	<u>2,020</u>	<u>1,543</u>

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

8. Other Income

<i>in thousands of AUD</i>	2012	2011
Equipment rental	232	638
Operator administration fee	258	-
Fuel tax credits	645	189
Research and Development Tax Concession	631	212
Loss on the sale of assets	(84)	-
Other revenue	16	-
	<u>1,698</u>	<u>1,039</u>

9. Administrative Expenditure

<i>in thousands of AUD</i>	2012	2011
Wages and salaries	3,647	2,038
Non-executive Directors' fees	198	160
Superannuation	401	238
Contract employment services	157	170
Other associated personnel expenses	516	270
Office and other administration expenses	3,022	2,202
	<u>7,941</u>	<u>5,078</u>

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

10. Finance Income and Expenses

<i>in thousands of AUD</i>	2012	2011
Interest income on bank deposits	2,642	2,858
Net foreign exchange gain	46	-
Finance income	<u>2,688</u>	<u>2,858</u>
Interest expenses	-	(3)
Net foreign exchange loss	-	(455)
Finance expense	<u>-</u>	<u>(458)</u>
Net finance income recognised in profit or loss	<u>2,688</u>	<u>2,400</u>

11. Income Tax Expenses

<i>in thousands of AUD</i>	2012	2011
Current income tax		
Current income tax charge	-	-
Adjustments in respect of previous current income tax	505	264
	<u>505</u>	<u>264</u>
Deferred income tax		
DTA recognised on movement in financial asset revaluation reserve	(1,896)	-
Benefit relating to origination and reversal of temporary differences	(505)	(264)
	<u>(1,896)</u>	<u>(264)</u>
 Total income tax benefit reported in the income statement	 <u>(1,896)</u>	 <u>-</u>
 Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting loss before tax	(7,402)	(10,335)
 Income tax benefit using the domestic corporation tax rate of 30%	 2,220	 3,101
Increase in income tax due to:		
- Non-deductible expenses	(992)	(222)
- Non-assessable income	191	-
- DTA recognised on movement in financial asset revaluation reserve	1,896	-
- Temporary differences and tax losses not brought to account as a DTA	(1,419)	(2,879)
Income tax benefit / (expense) on pre tax loss	<u>1,896</u>	<u>-</u>

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 2012 (Cont'd)

12. Property, Plant and Equipment

<i>in thousands of AUD</i>	Plant and equipment	Office equipment	Fixtures and fittings	Heritage and cultural assets	Total
Cost or deemed cost					
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
Carrying amount at 1 July 2011	3,225	528	250	-	4,003
Additions	1,780	234	30	868	2,912
Disposals	(19)	(57)	(26)	-	(102)
Transfers	(17)	17	-	-	-
Balance at 30 June 2012	4,969	722	254	868	6,813
Depreciation					
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 amount 1 July 2011	(420)	(234)	(12)	-	(666)
Depreciation for the period	(236)	(126)	(23)	-	(385)
Disposals	533	9	6	-	548
Transfers	5	(5)	-	-	-
Balance at 30 June 2012	(118)	(356)	(29)	-	(503)
Carrying amounts					
At 1 July 2010	2,794	270	22	-	3,086
At 30 June 2011	2,805	294	238	-	3,337
At 30 June 2012	4,851	366	225	868	6,310

13. Exploration and Evaluation Expenditure

<i>in thousands of AUD</i>	2012	2011
Carrying amount at beginning of the period	18,221	18,434
Expenditure incurred during the period	30,574	10,758
Impairment of exploration expenditure during the period	(2,828)	(10,971)
Carrying amount at the end of the period	45,967	18,221

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 primarily to the deepening of the Lawford-1 well. No distinctive geological or geophysical markers or significant hydrocarbons were encountered during the drilling of the well. The well provided valuable information about the regional geology, however, it is located considerably outside Buru's core areas of interest and prospectivity. No further exploration for and evaluation of hydrocarbon resources in this area are budgeted for or planned at this time. All other material exploration expenditure has been 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

<i>in thousands of AUD</i>	2012	2011
Carrying amount at beginning of the period	327	13
Expenditure incurred during the period	2,012	314
Impairment of development expenditure during the period	(356)	-
Carrying amount at the end of the period	1,983	327

15. Other Investments

<i>in thousands of AUD</i>	2012	2011
Available-for-sale financial assets	9,751	3,431
Long-term cash held in escrow (i)	23,875	22,569
Other available-for-sale-financial assets	29	29
	33,655	26,029

- (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 6.

Notes to the Financial Statements

For the year ended 30 June 2012 (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>	2012	2011	Net Movement
Deferred tax assets			
Business related costs	336	190	146
Unrealised foreign exchange loss	(3)	153	(156)
Depreciable capital expenditure	-	1	(1)
Accrued expenditure	46	24	22
Provision for employee entitlements	102	60	42
Other provisions	1,529	1,529	-
Tax losses	19,476	9,006	10,470
PRRT	18,764	-	18,764
	<u>40,250</u>	<u>10,963</u>	<u>29,287</u>
Deferred tax liabilities			
Exploration expenditure	(14,823)	(5,466)	(9,357)
Prepayments	(3)	-	(3)
Investments in listed entities	(2,475)	(579)	(1,896)
Interest receivable	(163)	(278)	115
	<u>(17,464)</u>	<u>(6,323)</u>	<u>(11,141)</u>
Net deferred tax assets not brought to account	<u>22,786</u>	<u>4,640</u>	<u>18,146</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>	2012	2011
Trade receivables	505	290
Interest receivable	541	1,138
Joint venture receivables	1,870	1,085
Prepayments	594	364
GST receivable	936	278
Other receivables	713	68
	<u>5,159</u>	<u>3,223</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 6.

18. Inventories

in thousands of AUD

Materials and consumables – at cost

2012

4,646

2011

4,493

19a. Cash and Cash Equivalents

in thousands of AUD

Bank balances

2012

62,152

2011

11,775

Call deposits

208

15,000

Cash and cash equivalents in the statement of cash flows

62,360

26,775

The Group's exposure to interest rate risk and sensitivity analysis for financial assets are disclosed in note 6.

19b. Reconciliation of Cash Flows from Operating Activities

in thousands of AUD

Note

2012

2011

Cash flows from operating activities

Loss for the period

(5,506)

(10,335)

Adjustments for:

Income tax benefit

(1,896)

-

Depreciation

251

114

Profit/(Loss) on the sale of assets

8

84

-

Impairment on exploration and development expenditure

13,14

3,184

10,971

Exploration and evaluation expenditure

545

890

Equity-settled share-based payment transactions

24

3,292

729

Joint venture partner's share of technical and administrative expenditure

(3,470)

-

Net finance income

(2,661)

(2,403)

Operating loss before changes in working capital and provisions

(6,177)

(2,291)

Changes in working capital, net of acquisitions

Change in trade and other receivables

(951)

79

Change in trade and other payables

310

1,434

Change in provisions

138

93

Cash received from / (used in) operating activities

(503)

1,606

Interest paid

-

(3)

Net cash inflow / (outflow) from operating activities

(6,680)

1,569

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

20. Capital and Reserves

Share capital

	Ordinary Shares 2012 No.	Ordinary Shares 2011 No.
On issue at the beginning of the period	182,840,549	182,769,813
Issued under Institutional Placement in September 2011	27,400,000	-
Issued under Institutional Placement in June 2012	16,666,667	-
Issued under Share Purchase Plan in September 2011	3,722,928	-
Listed options exercised during the period	-	10,736
Unlisted options exercised during the period	20,377,000	60,000
On issue at the end of the period – fully paid	251,007,144	182,840,549

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.

In September 2011 the Company successfully raised a total of \$20.2 million (before fees) through the placement of new shares to institutional investors ("2011 Placement") and a share purchase plan ("SPP") for existing shareholders. Under the 2011 Placement, 27.4 million new shares were issued to two new substantial institutional investors, representing 15% of the Company's issued capital. The Company also provided its existing shareholders with an opportunity to gain further exposure to Buru through the SPP, allowing shareholders to purchase shares at the same price as the 2011 Placement.

In June 2012 the Company successfully raised a total of \$50 million (before fees) through the placement of new shares to institutional investors ("2012 Placement"). Under the 2012 Placement, 16.7 million new shares were issued to existing and new substantial institutional investors, representing 7.1% of the Company's issued capital.

Treasury Share Reserve

The reserve for the Treasury Shares comprises the cost of the Company's shares held by the trustee of an equity compensation plan.

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.

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

<i>in thousands of AUD</i>	2012	2011
Loss attributable to ordinary shareholders	5,506	10,335

Weighted average number of ordinary shares

	2012 No.	2011 No.
Issued ordinary shares at beginning of the period	182,840,549	182,769,813
Effect of shares issued	36,549,896	17,189
Weighted average number of ordinary shares at the end of the period	219,390,445	182,787,002

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.

22. Trade and Other Payables

<i>in thousands of AUD</i>	2012	2011
Trade payables	1,846	1,166
Non-trade payables and accrued expenses	3,262	1,640
Unearned joint venture partner's share of technical and administrative expenditure	-	1,600
Unearned income (i)	40,000	40,000
	45,108	44,406

<i>in thousands of AUD</i>	2012	2011
Current	5,108	4,406
Non-current	40,000	40,000
	45,108	44,406

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.

- (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. During the year Alcoa extended the Gas Supply Agreement ("GSA") between Buru and Alcoa by one year. The GSA provides for Buru to deliver up to 500 PJ of gas to Alcoa from discoveries made in the Canning Superbasin. As a result of the extension, Buru now has until 1 January 2013 to identify sufficient gas to commence delivery under the GSA. If, prior to 1 January 2013, Buru has not made a final investment decision to proceed with a gas development that would supply sufficient gas to meet its delivery obligations under the GSA, Buru will then be obliged to repay this \$40 million in three equal annual instalments commencing on 31 December 2013. The third instalment may be satisfied with cash or Buru shares, at Buru's election.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

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

in thousands of AUD

Current

	2012	2011
Provision for annual leave	283	177
Provision for long-service leave	10	8
	<u>293</u>	<u>185</u>

Non-Current

Provision for long-service leave	46	16
Provision for site restoration	5,095	5,095
	<u>5,141</u>	<u>5,111</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 DEC and the DMP.

Due to 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.

24. Share-based Payments

Description of share-based arrangements

The fair value of all share options granted during the year was measured using the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the equity settled share based payment plans were as follows: a share price at grant date ranging from 94.5 cents to 135.5 cents (2011: 32 cents to 53 cents), an expiry period ranging from 30 April 2013 to 30 April 2014 (2011: 31 December 2012), an expected volatility ranging from 67% to 74% (2011: 103% to 122%), a risk free interest rate ranging from 3.6% to 3.7% (2011: 4.8% to 5.0%) and no expected dividends. All options vested fully on grant date.

Employees Expenses:

Fair value expensed in thousands of AUD

	2012	2011
Employee Share Acquisition Scheme	29	58
Employee Share Option Plan	3,263	671
	<u>3,292</u>	<u>729</u>

Details on the Employee Share Option Plan payments are included in the Remuneration Report on pages 42-48.

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

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

	Weighted average exercise price	Number of options
Outstanding unlisted options as at 1 July 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	\$0.33	24,251,000
Outstanding unlisted options as at 1 July 2011	\$0.33	24,251,000
Granted 21 Oct 2011	\$1.14	9,486,000
Exercised 25 Nov 2011	\$0.30	(662,000)
Granted 5 Dec 2011	\$1.58	50,000
Exercised 22 Dec 2011	\$0.30	(19,579,000)
Granted 1 Feb 2012	\$1.86	320,000
Exercised 8 Mar 2012	\$1.24	(15,000)
Exercised 4 May 2012	\$1.24	(100,000)
Exercised 15 May 2012	\$1.24	(21,000)
Outstanding as at 30 June 2012	\$0.97	13,730,000
Exercisable as at 30 June 2011	\$0.33	24,251,000
Exercisable as at 30 June 2012	\$0.97	13,730,000

The unlisted share options outstanding as at 30 June 2012 have an exercise price in the range of \$0.48 to \$1.86 (2011: \$0.30 to \$0.75), and a weighted average contractual life of 1.2 years (2011: 0.7 years).

The share price at the date of exercise for the unlisted share options exercised above

	2012	2011
Exercised 04/05/2011	-	\$0.69
Exercised 25/11/2011	\$1.17	-
Exercised 22/12/2011	\$1.22	-
Exercised 08/03/2012	\$2.59	-
Exercised 04/05/2012	\$2.58	-
Exercised 15/05/2012	\$2.39	-

25. Group Entities

Parent entity	Country of incorporation	Ownership interest	Ownership interest
Buru Energy Limited (i)	Australia		
Subsidiaries		2012	2011
Terratek Drilling Tools Pty Limited	Australia	100%	100%
Royalty Holding Company Pty Limited	Australia	100%	100%
Buru Energy (Acacia) Pty Limited	Australia	100%	100%
Buru Operations Pty Limited	Australia	100%	-
Yakka Munga Pastoral Company Pty Limited	Australia	100%	-

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

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

26. Parent Entity Disclosures

As at, and throughout the financial year ended 30 June 2012 the parent company of the Group was Buru Energy Limited.

<i>in thousands of AUD</i>	Company 2012	Company 2011
Result of the parent entity		
Profit/(Loss) for the period	(7,467)	(10,361)
Other comprehensive income / (expense)	4,424	(150)
Total comprehensive loss for the period	(3,043)	(10,511)
Financial position of the parent entity at year end		
Current assets	76,464	34,491
Total assets	159,926	82,336
Current liabilities	5,379	4,591
Total liabilities	50,521	49,702
Total equity of the parent entity at year end		
Share capital	150,015	75,488
Reserves	10,188	4,275
Retained earnings	(50,799)	(47,129)
Total equity	109,404	32,634

27. Jointly Controlled Assets

The consolidated entity has an interest in the following joint ventures as at 30 June 2012 whose principal activities were oil and gas exploration.

Permit/Joint Venture	2012 Beneficial Interest	2011 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%	50.00%	Buru Energy Ltd	Australia
EP390	50.00%	50.00%	Buru Energy Ltd	Australia
EP391	50.00%	50.00%	Buru Energy Ltd	Australia
EP417	35.00%	35.00%	New Standard Energy Ltd	Australia
EP428	50.00%	50.00%	Buru Energy Ltd	Australia
EP431	50.00%	50.00%	Buru Energy Ltd	Australia
EP436	50.00%	50.00%	Buru Energy Ltd	Australia
EP438	5.00%	5.00%	Buru Energy Ltd	Australia
EP471	50.00%	50.00%	Buru Energy Ltd	Australia
EP474	100.00%	100.00%	Buru Energy Ltd	Australia
EP472	50.00%	50.00%	Buru Energy Ltd	Australia
EP476	50.00%	50.00%	Buru Energy Ltd	Australia
EP477	50.00%	100.00%	Buru Energy Ltd	Australia
EP478*	100.00%	100.00%	Buru Energy Ltd	Australia
Inventory and Services Joint Venture	50.00%	-	Buru Energy Ltd	Australia

* Subject to Trident Energy farm-in right to earn a 17.5% or 7.5% interest. Upon satisfaction or expiration of this right, Buru must transfer half of its remaining interest to Mitsubishi.

On 1 December 2011 Mitsubishi Corporation ("MC") exercised its option to participate in Buru's 2012 Unconventional Exploration Program in the Canning Superbasin. By exercising this option MC has confirmed its commitment to fund \$40 million of the first \$50 million spent on unconventional exploration by the joint venture in 2012. In return, MC will earn a 50% interest in the unconventional resources in Buru's exploration permits. This is in addition to the 50% interest in the conventional resources that it earned by funding \$62.4 million of exploration for the 2010 and 2011 Joint Exploration Programs. 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. Buru continues to be the operator of all of its permits. MC will lead any LNG commercialisation efforts in the joint venture permits in the Canning Superbasin.

MC has agreed to pay \$3.74 million during the year for MC's share of technical and administrative expenditure for the 2012 calendar year exploration programs (2011 calendar year \$3.2m). The full amount was paid in July 2012. \$3.47 million has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2012 being 50% of the each of the total 2011 and 2012 calendar year payments.

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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

<i>in thousands of AUD</i>	2012	2011
Income	101	-
Expenditure	(374)	-
	(273)	-
Current assets		
Cash and cash equivalents	4,388	953
Trade and other receivables	321	1,085
Inventory	48	-
Total current assets	4,757	2,038
Non-current assets		
Exploration expenditure	34,879	5,331
Development expenditure	1,949	-
Total non-current assets	36,828	5,331
Current Liabilities		
Trade and other payables	4,556	1,801
Total current Liabilities	4,556	1,801
Share of total assets of joint venture operations	37,029	5,568

28. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>in thousands of AUD</i>	2012	2011
Less than one year	559	439
Between one and five years	170	469
More than five years	-	-
	729	908

The Group leases corporate offices in Perth and Broome and a warehouse facility in Broome. The leases expire in October 2013, September 2013 and November 2013 respectively. All have options to renew the lease after the expiry dates.

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 \$510,000 (2011: \$435,000).

29. Capital and Other Commitments

<i>in thousands of AUD</i>	2012	2011
Exploration expenditure commitments		
Contracted but not yet provided for and payable:		
Within one year	20,851	9,701
One year later and no later than five years	24,882	32,453
Later than five years	-	8,125
	<u>45,733</u>	<u>50,279</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.

30. Contingencies

There were no other material contingent liabilities or contingent assets for the Group as at 30 June 2012 or as at the date of this report.

31. Related Parties

Key management personnel compensation

The key management personnel compensation comprised:

<i>in AUD</i>	2012	2011
Short-term employee benefits	2,303,264	1,553,426
Post-employment benefits	200,532	133,868
Share-based payments	2,918,350	556,742
	<u>5,422,146</u>	<u>2,246,036</u>

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives 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 42 to 48.

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.

Notes to the Financial Statements

For the year ended 30 June 2012 (Cont'd)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Buru held by each KMP is as follows:

KMP	Held at 1 July 2011	Received on exercise of options	Purchases	Sales	Held at 30 June 2012
Graham Riley	2,000,000	1,000,000	-	-	3,000,000
Peter Jones	248,277	-	-	-	248,277
Eric Streitberg	6,501,066	16,900,000	-	-	23,401,066
Tom Streitberg	2,160,364	1,600,000	23,076	-	3,783,440
Peter Edwards	267,998	379,000	-	152,800	494,198
Tony Rudge	214,398	204,000	-	214,398	204,000
Total	11,392,103	20,083,000	23,076	367,198	31,130,981

Loans to key management personnel and their related parties

Unsecured loans to key management personnel as at 30 June 2012 amounted to \$402,000 (2011: \$480,000). These loans have been issued pursuant to the Employee Share Acquisition Scheme and no interest is payable. The following table shows the movement within each KMP's loan balance during the period.

KMP	Opening Balance	Repaid During the Period	Borrowed During the Period	Closing Balance
Tom Streitberg	390,000	-	12,000	402,000
Peter Edwards	50,000	50,000	-	-
Tony Rudge	40,000	40,000	-	-
Total	480,000	90,000	12,000	402,000

Other related party transactions

No other related party transaction has occurred during the reporting period.

32. Subsequent Events

No significant events have occurred subsequent to balance date.

33. Auditors' Remuneration

in thousands of AUD

	2012	2011
Audit services		
KPMG Australia: Audit and review of financial reports	70	51

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 50 to 84 and the Remuneration report in the Directors' report, set out on pages 42 to 48, 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 2012 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 2012.
- 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, 14 August 2012.



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 2012, 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 33 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 Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



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 2012 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 42 to 48 of the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Brent Steedman'.

Brent Steedman
Partner

Perth

14 August 2012

Additional ASX Information

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

Shareholdings (as at 4 October 2012)

Substantial shareholders

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

Shareholder	Number
Eric Charles Streitberg	23,401,066
Birkdale Enterprises Pty Ltd	22,320,657

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		1,157
1,001 - 5,000		2,622
5,001 - 10,000		1,083
10,000 - 100,000		1,441
100,000 and over		251
		6,554

The number of shareholders holding less than a marketable parcel of ordinary shares is 147.

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 4 October 2012 of fully paid ordinary shares

Rank	Name	Number	%
1	BIRKDALE ENTERPRISES PTY LTD	22,320,657	8.40%
2	NATIONAL NOMINEES LIMITED	18,140,336	6.83%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,770,063	4.43%
4	MR ERIC CHARLES STREITBERG	10,548,133	3.97%
5	NEW STANDARD ENERGY LIMITED	10,000,000	3.77%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	8,317,182	3.13%
7	CITICORP NOMINEES PTY LIMITED	8,205,727	3.09%
8	FLEXIPLAN MANAGEMENT PTY LTD	8,140,752	3.07%
9	BOND STREET CUSTODIANS LIMITED	5,230,891	1.97%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,354,645	1.64%
11	MAXIGOLD HOLDINGS PTY LTD	4,073,666	1.53%
12	MR ERIC CHARLES STREITBERG	3,935,135	1.48%
13	JP MORGAN NOMINEES AUSTRALIA LIMITED	3,632,444	1.37%
14	PACIFIC CUSTODIANS PTY LIMITED	2,268,024	0.85%
15	AEGIS EXPLORATION PTY LTD	2,204,334	0.83%
16	MR GRAHAM DOUGLAS RILEY & MRS ANNE MARIE RILEY	2,000,000	0.75%
17	WHITTINGHAM SECURITIES PTY LIMITED	2,000,000	0.75%
18	CHARRINGTON PTY LTD	1,873,071	0.71%
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	1,837,728	0.69%
20	CITICORP NOMINEES PTY LIMITED	1,657,004	0.62%
Total twenty largest shareholders		134,115,785	50.50%
Balance of register		131,461,814	49.50%
Total register		265,577,599	100.00%

Additional ASX Information

Schedule of interests as at 4 October 2012

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	2.50%	Buru Energy Ltd
EP457	Exploration permit	90.00%	Buru Energy Ltd
EP458	Exploration permit	90.00%	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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