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ASX ANNOUNCEMENT (ASX: BRU) 23 September 2010

Full Year Statutory Accounts

Please find attached Buru Energy Limited's ("**Buru**" or "**Company**") Audited Full Year Statutory Accounts for the year ended 30 June 2010.

Further information on the company is available on the Buru website at: www.buruenergy.com

For inquiries please contact:

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Yours faithfully

ERIC STREITBERG
Executive Director

Buru Energy Limited
ABN 71 130 651 437

Directors' Report and Financial Statements
For the year ended 30 June 2010

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The past year has been one of tremendous activity for Buru. The Company has appointed a new Executive Director, completed a number of transactions to rationalise and high grade its exploration portfolio, entered into a farm-in agreement with Mitsubishi Corporation worth up to $152.4m, refurbished its drilling rig and commenced an exciting drilling program which will see up to six wells drilled or tested in 2010. This is a remarkable level of activity for a company of Buru's size and, although the results of the first two wells have been disappointing, the Company is well positioned to add significant value for shareholders in the next twelve months.

During the year the Company's original Managing Director, Mr Adrian Cook, resigned. Mr Eric Streitberg, the Company's founding Chairman, took up the position of Executive Director with overall supervisory responsibility for the Company on 16 October 2009. The Board was strengthened by the addition during the financial year of the Hon. Peter Jones AM, who brings considerable oil and gas experience to the Board, being the founding Chairman of ARC Energy Limited and previously the Western Australian Minister for Resources Development, Mines Fuel and Energy.

The Board and the Company set out to achieve three things during the year. First, to rationalise the Company's permit holdings to ensure the Company's exploration effort was concentrated in only the most prospective areas of the Canning Superbasin. Second, to identify an experienced and substantial partner to fund an aggressive, large scale exploration program in the Company's Canning Superbasin permits. Third, to conduct an aggressive exploration campaign to test a number of different play types in the most prospective areas of the Canning Superbasin using the Company's own drilling rig. I am pleased to report that the Company has been successful in achieving all three of these goals.

The Company entered into a number of transactions during the year to reduce its overall permit holdings and the associated work commitments to the Department of Mines and Petroleum. The Company's acreage position was approximately halved during the year as a result of this process, with the Company's permit holdings now covering approximately 75,000 square kilometres of permits. The Company remains the dominant permit holder in the Canning Superbasin, but now has a portfolio focussed on the most prospective areas of the Superbasin with farm-in and permit work commitments at a level the Company is able to comfortably accommodate.

The Company recognised during the year that to undertake the sustained exploration program required to effectively explore the Canning Superbasin would require a partner with a shared vision of the potential of the Superbasin and the financial strength to implement that vision. An extensive farm-out process was undertaken leading to the announcement on 15 June 2010 that Mitsubishi Corporation had agreed to acquire up to a 50% interest in the majority of Buru's permits in the Canning Superbasin in exchange for funding up to $152.4m of exploration and development in Buru's permits. Attracting a partner of this stature is a tremendous validation of the Company's belief in the Canning Superbasin. Importantly, it provides the means to conduct the Superbasin wide exploration program needed to realise the potential of the Company's acreage.

Ultimately, the Company's future will be secured by successful exploration. In preparation for the 2010 drilling campaign the Company undertook the Bunda 3D seismic survey, the first 3D seismic survey to be conducted in the Superbasin, and the Paradise 2D seismic survey. The Company also refurbished its Fairway Rig to enable it to drill all of the wells proposed for the 2010 drilling campaign.

The Company has now commenced the 2010 drilling campaign. The first two wells, Fairwell-1 and Leander-1, failed to find commercial hydrocarbons. The Company is currently in the process of preparing the Yulleroo-2 well for a fracture stimulation which, if successful, would open the Yulleroo area up as a new gas province. The Company will then drill the Paradise-1 and Nangu-1 exploration wells in addition to testing the Stokes Bay-1 well. While results to date have been disappointing, the 2010 exploration program still contains plenty of potential. The 2011 exploration program is currently being developed and promises to be tremendously exciting, with the potential for very significant value creation for shareholders as we continue to unlock the potential of the Canning Superbasin.

On behalf of the Board I wish to thank all of our shareholders, employees, contractors, stakeholders and the Traditional Owners of the Company's permits for their ongoing support.

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Mr Graham Riley
Chairman

Perth
23 September 2010

The Directors present their report together with the financial report of Buru Energy Limited ("Buru" or the "Company") and of the Group, being the Company and its subsidiaries, for the financial year ending 30 June 2010, and the auditor's report thereon.

Directors

The names and details of the Directors of the Company in office at any time during or since the end of the period are as follows.

Mr Graham Riley – Independent Non-executive Chairman

Mr Graham Riley, B.Juris L.L.B, is a qualified legal practitioner having gained his Bachelor of Law and Bachelor of Jurisprudence Degrees. After 10 years 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 and is currently Chairman of Giralia Resources NL. He was a Non-executive Director of Adelphi Energy Limited from 2005 until 16 July 2010, a Non-executive Director of ARC Energy Limited from 1993 to 2005 and was Chairman of Red Hill Iron Limited from 2005 to 2008.

Mr Graham Riley was appointed as a Non-executive Director on 22 May 2008 and Chairman on 31 March 2009.

Mr Eric Streitberg – Executive Director

Mr Eric Streitberg, BSc (App Geoph), has 35 years experience in petroleum geology and geophysics, oil and gas exploration and oil and gas company management. He held the position of Managing Director of ARC Energy Limited from 1997 until August 2008 during which time ARC Energy Limited was transformed from a junior oil and gas exploration company into a mid size Australian oil and gas producer. He is a Fellow of the Australian Institute of Mining and Metallurgy and the Australian Institute of Company Directors, a member of the Society of Exploration Geophysicists, Petroleum Exploration Society of Australia and the American Association of Petroleum Geologists. He is currently Chairman of the Australian Petroleum Production and Exploration Association and the Marine Parks & Reserve Authority of Western Australia. He was also a Non-executive Director of Adelphi Energy Limited from 2005 until 16 July 2010.

Mr Eric Streitberg was appointed Executive Director on 19 October 2009. He was the Company's Chairman from 16 October 2008 to 31 March 2009 and a Non-executive Director from 31 March 2009 to 19 October 2009.

The Hon. Peter Jones – Independent Non-executive Director (Appointed 19 October 2009)

The Hon. Peter Jones AM, 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 the Australian Defence Housing Association and the Water Corporation of Western Australia.

The Hon. Peter Jones was appointed as a Non-executive Director of the Company on 19 October 2009.

Mr Tom Streitberg – Alternative Director

Mr Tom Streitberg was appointed as Alternative Director for Mr Eric Streitberg during Mr Eric Streitberg's absence from Australia. Mr Tom Streitberg's appointment commenced on 5 August 2009 and ceased 26 September 2009. He is currently the Company Secretary. His qualifications and experience are provided within the Company Secretary section below.

Mr Adrian Cook – Managing Director (Resigned 19 October 2009)

Mr Adrian Cook resigned as Managing Director on 19 October 2009.

Company Secretary

Mr Tom Streitberg

Mr Tom Streitberg, BA, LLB, FFin, 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 was appointed as Chief Commercial and Financial Officer of the Company on 18 November 2009 and is currently the Company's Chief Operating Officer.

Mr Tom Streitberg was appointed to the position of Company Secretary on 21 December 2009.

Mr Adrian Di Carlo

Mr Adrian Di Carlo resigned from the position of Company Secretary on 21 December 2009.

Review of Operations

Production and Development

The Company produces oil from the Blina and Sundown oil field complex contained within production licenses L6 and L8 in the Canning Superbasin. Production from the fields is in natural decline, with average production of 83 barrels of oil per day ("bopd") during the period. Production from the Blina and Sundown oilfield complex resulted in a gross profit of $266,000 for the period. The Company is well advanced in planning a program of workovers of the Sundown oil field which, if successful, is expected to arrest the natural decline, and result in a material increase in production. Subject to availability of suitable workover equipment it is expected that the workover program will be conducted before to the end of the 2010 calendar year.

Drilling

During the period the Company completed the refurbishment of its Fairway Rig. The Fairway Rig was used for all of the Company's drilling activities during the period and will be used for the balance of the Company's 2010 drilling program. The nominal maximum depth capacity of the Fairway Rig subsequent to the refurbishment is 2,500 metres, sufficient to drill each of the proposed wells in the Company's 2010 drilling program.

During the period the Company completed the drilling of the Fairwell-1 oil exploration well. The well was located in production licence L8 and commenced drilling operations on 21 May 2010. The well took 33 days to reach a final depth of 1,871 metres. Although hydrocarbons shows were encountered, no commercially significant hydrocarbons were identified. The well was plugged and abandoned on 21 June 2010.

Subsequent to the end of the period the Company completed the drilling of the Leander-1 oil exploration well. The well was located in production licence L8 and commenced drilling operations on 8 July 2010. Due to operational difficulties the well was sidetracked from 1,473 metres and took a total of 61 days to reach a final depth of 2,280 metres. Although hydrocarbons shows were encounted, no commercially significant hydrocarbons were identified. The well was suspended on 7 September 2010. The Leander-1 well is being considered for possible re-entry and sidetrack to test an interpreted hydrothermal dolomite anomaly some 500m to the west of the current well location during the 2011 drilling program.

As at the date of this report the Company is preparing the Yulleroo-2 well for a fracture stimulation test program. After completing this, the Fairway Rig is expected to drill Paradise-1 and Nangu-1.

Review of Operations (Cont'd)

Exploration

During the period the Company completed the Bunda 3D seismic survey and the Paradise 2D seismic survey.

The Bunda 3D seismic survey acquired approximately 223 square kilometres of 3D seismic data over the existing oil fields in the L6 and L8 production licenses and the EP 129 exploration permit. The data acquired in this survey was used to identify the Fairwell-1 and Leander-1 prospects for drilling and identify additional prospects for future exploration drilling. In addition, the data has been used to enhance the Company's understanding of the existing oil fields and plan the workover of the Sundown field.

The Paradise 2D seismic survey comprised 9 seismic lines over approximately 103 kilometres in the EP 371 and EP 428 exploration permits. The data acquired in this survey complemented 495 kilometres of 2D seismic data acquired by ARC Energy Limited in 2007 and was used to further delineate the Paradise structure ahead of the drilling of the Paradise-1 well.

During the period the Company commenced a detailed evaluation of the shale gas potential of its permits. There are several widespread, mature, organic rich shales present on Buru's permits including the Noonkanbah, Lower Anderson, Laurel, Gogo and Goldwyer Formations. This evaluation includes additional analysis of existing samples and cores and the acquisition of new cores from the Fairwell-1 well (from the Noonkanbah Formation) and Paradise-1 well (from the Anderson and Laurel Formations) wells.

Subsequent to the end of the period the Company commenced its 2010 seismic program consisting of the Yulleroo South and Pijalinga 2D seismic surveys. The Yulleroo South 2D seismic survey consists of 16 lines covering 346.6 kilometres in exploration permits EP 391 and EP 428. It is designed to firm up prospects in the Jackeroo and Ungani trends surrounding the existing Yulleroo gas discovery for potential drilling in the 2011 field season. The Pijalinga 2D seismic survey consists of 20 lines covering 408 kilometres in exploration permit EP 442 and Application Area 10/08-9. It is designed to mature multiple leads in the Acacia fairway to drillable status for potential drilling in the 2011 field season and to provide additional regional coverage.

Corporate

During the period the Company has undertaken an ongoing process of rationalising its permit holdings in the Canning Superbasin to ensure that the Company's acreage covers only the most highly prospective parts of the Canning Superbasin, and that the Company's future work commitments are appropriate and are able to be met from the Company's existing and expected financial reserves. The success of this rationalisation process has assisted the Company in attracting a significant international joint venture partner to fund the ongoing exploration of the Canning Superbasin.

As part of this rationalisation program, on 11 August 2009 the Company announced that it had entered into an agreement to acquire New Standard Limited's ("New Standard") interests in exploration permit EP 442, acreage release L08-3 and application area 30/07-8, each located in the southern part of the Canning Superbasin. As a result of this acquisition the Company acquired a 100% interest in these areas, subject to certain farm-out rights held by Trident Energy Limited over a portion of EP442. This acquisition provides the Company with operatorship and control over the majority of the Acacia Province in the Canning Superbasin, encompassing the highly prospective Acacia fairway play. In consideration, the Company paid New Standard $3.2 million in cash, issued New Standard 18 million new shares in the Company and transferred the Company's 10% interest in exploration permits EP 443, EP 450, EP 451 and EP 456 to New Standard. The transaction was completed on 4 September 2009.

On 15 January 2010 the Company announced a series of transactions with Empire Oil Limited, Indigo Oil Pty Ltd and United Orogen Limited which collectively resulted in the Company relinquishing its 5% interest in exploration permit EP 448 and being relieved from an associated $3,000,000 farm-in commitment on that permit and gaining the right to earn an additional 70% in exploration permit EP 438 which will bring the Company's interest in that permit to 75%.

Review of Operations (Cont'd)

Corporate (Cont'd)

On 15 June 2010 the Company announced it had executed a farm-in agreement with Mitsubishi Corporation ("MC"). Under the farm-in:

- MC has the right to earn interests in the Company's exploration permits by carrying up to $102.4 million of the Company's exploration costs, split between up to $62.4 million of exploration for conventional oil and gas and $40 million of exploration for unconventional resources such as shale gas and tight gas.
- MC may also carry up to $50 million of the Company's development costs for major oil and gas production infrastructure.
- In exchange for providing this funding MC has the right to earn up to a 50% interest in the majority of the exploration permits held by the Company.
- MC also 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.

Under the terms of the farm-in the Company will remain as the operator of all of its permits. However, MC will lead any LNG commercialisation efforts in the joint venture permits in the Canning Superbasin.

Management Changes

Buru's Managing Director, Mr Adrian Cook, resigned with effect from 19 October 2009. Following his re-election at the Company's 2009 Annual General Meeting, Mr Eric Streitberg was appointed as Executive Director on 19 October 2009 with overall supervisory responsibility for the Company.

Corporate governance statement

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

Board of Directors

Role of the Board

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

Accountability of the Board

The Board has accountability to exercise the owner representative role and to delegate a portion of its authority through management limitations, policies and holding the Chairman accountable. It also recognises in its policies, strategic direction and setting of objectives for management, its accountability to legal and ethical obligations and its broader responsibility to non-equity stakeholders and the community, including Traditional Owners. The Board currently assesses the performance of the Board, its Directors and senior executives against the Company's strategic direction on an ongoing basis. The Board will implement a formal process of annual reviews of its performance in due course.

Corporate governance statement (Cont'd)

Board of Directors (Cont'd)

Unity of Control

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

- No person within Buru, whether a Board member or a member of management, can have any authority unless the Board grants that authority.
- All Board members are accountable individually and as a whole for any lapses of performance or behaviour by Buru.
- The Board possesses authority only as a group. The Chairman and individual Directors have no power unless specifically given it by the Board collectively.

Business Judgment Rule

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

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

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

Terms of Appointment

The Directors are appointed in accordance with the Company's constitution for a three year term. The Executive Director has the terms of his employment set out in an individual contract. Any particular condition attaching to the appointment of an individual Non-executive Director beyond those in the Company's constitution would be formalised in a separate agreement.

Composition of the Board

Details of the current Directors and their relevant skills, expertise, experience and term of office, are set out earlier in the Directors' Report at page 5. The composition of the Board is determined using the following principles:

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

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

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;

Corporate governance statement (Cont'd)

Board of Directors (Cont'd)

- is not a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The status of each Director as at the date of this report is as follows:

	Non-Executive	Independent
Graham Riley (Chairman)	Yes	Yes
Eric Streitberg	No	No
Peter Jones	Yes	Yes

Board Meetings

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

There were 12 Board Meetings held during the year. The number of Board Meetings attended by each of the Company's Directors during the financial year was:

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Graham Riley	12	12
Eric Streitberg	12	10
Peter Jones	9	9
Tom Streitberg	2*	2*
Adrian Cook	3	3

* *Tom Streitberg attended 2 Board Meetings in his capacity of Alternative Director for Eric Streitberg. He attended all of the 6 Board Meetings that took place while he was in the position of Company Secretary*

Director education

Given the size and scale of Buru, new Directors are inducted on an informal basis. They are given the opportunity to visit the Group's external operations and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities as requested to update and enhance their skills and knowledge.

Independent professional advice and access to company information

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

Nomination Committee

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

Corporate governance statement (Cont'd)

Remuneration Committee

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

Remuneration Report - Audited

Principles of compensation - Audited
Remuneration is also referred to as compensation throughout this report.

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

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

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

Compensation packages include a mix of cash and non-cash (chiefly equity based) compensation components.

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

Short-term incentive performance linked compensation
Certain key management personnel are entitled under the terms of their contract to be paid a cash bonus in the event of a commercial hydrocarbon discovery during 2010. In addition, short term cash incentive bonuses may be paid to key management personnel on a discretionary basis by the Board depending on the financial and non-financial performance of the Group and the individual performance of key management personnel.

Other non-cash benefits
Key management personnel may receive additional non-cash benefits as part of the terms and conditions of their appointment. Non-cash benefits typically include the provision of car parking and professional membership fees. The Company pays fringe benefits tax on these benefits where required.

Corporate governance statement (Cont'd)

Remuneration Report – Audited (Cont'd)

Principles of equity based compensation

The Group also uses equity based compensation to provide incentives to key management personnel. The Board considers that an equity based compensation structure is necessary to attract and retain the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves. The Company has in place two equity based compensation schemes which are described in detail on pages 13 to 16. The purpose of these schemes is to align the interests of key management personnel with shareholders and to reward, over the medium term, key management personnel for delivering value to shareholders through share price appreciation.

Consequences of performance on shareholder wealth

The Board believes that the most effective way to increase shareholder wealth is through the successful exploration and development of the Company's oil and gas exploration permits. The Board considers that the structure of key management compensation incentivises key management to successfully explore the Company's oil and gas permits by providing rewards, over the medium term, for delivering value to shareholders through share price appreciation.

Service contracts

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

Mr Eric Streitberg's employment agreement with the Company, effective 19 October 2009, provides that he is responsible to the Buru Board. He is required to carry out his duties to the Company, while ensuring that any other activities he undertakes do not conflict with them. The agreement provides that employment will continue until 31 December 2010 and will be automatically extended for a period of one year to 31 December 2011 unless either party gives 60 days notice that it does not want to extend the term. At 31 December 2011 the term of employment will again automatically be extended for a period of one year to 31 December 2012 unless either party gives 60 days notice that it does not want to extend the term. Either party may terminate the employment with four months notice. The Board determined the amount of compensation payable under this agreement. Prior to 19 October 2009, whilst he was in a non-executive capacity, Mr Eric Streitberg also charged fees to the Company in relation to his provision of geological and geophysical consulting services under a separate consulting contract.

The Chief Operating Officer and Company Secretary, Mr Tom Streitberg has an employment agreement, effective 18 November 2009 with the Company on substantially the same terms as the Executive Director with the exception of compensation. The Board determined the amount of compensation payable under this agreement. Prior to 17 November 2009, Mr Tom Streitberg was engaged as a consultant providing corporate and commercial advice when requested by the Company under a separate consulting contract.

Non-executive Directors

Total fixed compensation for all Non-executive Directors is not to exceed $200,000 per annum. It is set by reference to other Non-executive Director fees paid by comparable companies. The Non-executive Directors' base fee is presently $66,000 per annum and the Chairman's base fee is $86,000 per annum. Directors' fees cover all main Board activities.

Corporate governance statement (Cont'd)

Remuneration Report – Audited (Cont'd)

Key Management Personnel Compensation

Cash compensation

Details of the nature and amount of each major element of cash based compensation of each key management person in AUD are as follows:

Key Management Person	Year	Salary & Fees	Termination benefits	Super-annuation	Total cash based compensation
Non-executive Directors					
Graham Riley – Chairman	2010	82,000	-	7,380	**89,380**
	2009	73,750	-	4,200	**77,950**
Peter Jones	2010	46,272	-	-	**46,272**
	2009	-	-	-	**-**
Executive Directors					
Eric Streitberg – Executive Director	2010	210,982	-	18,988	**229,970**
	2009	53,333	-	4,800	**58,133**
Adrian Cook – Managing Director (resigned	2010	103,672	115,756	18,412	**237,840**
16 Oct 2009)	2009	276,770	-	24,825	**301,595**
Executives					
Tom Streitberg – Company Secretary & Chief Operating Officer	2010	249,100	-	22,419	**271,519**
	2009	102,960	-	9,266	**112,226**
Neil Thompson (resigned 12 Jan 2009)	2010	-	-	-	**-**
	2009	102,053	181,701	8,240	**291,994**
Mark Royle (commenced 12 Nov 2009)	2010	121,837	-	10,965	**132,802**
	2009	-	-	-	**-**
Peter Edwards	2010	190,382	-	17,134	**207,516**
	2009	152,917	-	13,762	**166,679**
Tony Rudge (commenced 7 Jan 09)	2010	206,194	-	18,557	**224,751**
	2009	97,179	-	8,746	**105,925**

Equity based compensation

There are two ongoing equity based compensation schemes made available to the Directors and key management personnel:

- Director and Employee Options; and
- Employee Share Acquisition Scheme.

In addition to these two schemes Mr Eric Streitberg also purchased new shares and options in the Company for a total cash payment of $609,500 during the period. The difference between the $609,500 paid and the accounting fair value of this purchase is accounted for as compensation in accordance with AASB 2. Further details of each equity based compensation scheme are set out below.

Corporate governance statement (Cont'd)

Remuneration Report – Audited (Cont'd)

Director and Employee Options

During the 2009 financial year, the Company granted Director and Employee Options to key management personnel. The fair value of the Director and Employee Options granted to key management personnel was calculated at grant date using the Black & Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. At the 2009 Annual General Meeting shareholders approved the amendment of the terms of all 7,220,000 Director and Employee Options from an exercise price of $0.94 and expiry date of 27 August 2010 to an exercise price of $0.30 and an expiry date of 31 December 2011. As required by AASB 2, the Options were revalued on the date that the terms changed (16 October 2009), with the increase in value being recognised as a share based payment expense during the 2010 financial year. The Director and Employee Options fully vested during the period.

The amended Director and Employee Options were valued using the Black & Scholes model with the following inputs: a share price on grant date of 22 cents, an expected volatility of 76.4%, a risk free interest rate of 4.8% and no expected dividends. The value disclosed is the fair value of the Director and Employee Options recognised in the reporting period. No Director and Employee Options have been granted during or since the 2010 financial year. No shares have been issued on the exercise of these options. The fair value of the share based payment expense realised for Director and Employee Options is set out below.

Key Management Person	Year	Fair value of share based payment of D&E options
Non-executive Directors		
Graham Riley – Chairman	2010	85,829
	2009	25,680
Executive Directors		
Eric Streitberg – Executive Director	2010	170,332
	2009	77,050
Adrian Cook – Managing Director (resigned 16 Oct 2009)	2010	-
	2009	77,050
Executives		
Tom Streitberg – Company Secretary & Chief Operating Officer	2010	139,955
	2009	51,360
Peter Edwards	2010	31,663
	2009	6,418
Tony Rudge (commenced 7 Jan 09)	2010	16,147
	2009	-

Employee Share Acquisition Scheme

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

Corporate governance statement (Cont'd)

Remuneration Report – Audited (Cont'd)

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

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

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

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

Under AASB 2, the Scheme is considered in-substance options and accordingly must be accounted for as a share based payment expense. The expense has been calculated using the Black & Scholes model with the following inputs: a share price on grant date of 19 cents and an exercise price of 79.0% of the share price (being the value of the loan as a percentage of the total value of shares purchased), an expected volatility of 72.7%, a risk free interest rate of 4.8% and no expected dividends. The value disclosed is the fair value of the in-substance options recognised in the reporting period. The fair value of the share based payment expense realised for the Scheme is set out below.

Key Management Person	**Year**	**Fair value of share based payment of Employee Share Acquisition Scheme**
Executives		
Tom Streitberg – Company Secretary & Chief Operating Officer	2010	28,669
	2009	-
Peter Edwards	2010	3,674
	2009	-
Tony Rudge (commenced 7 Jan 09)	2010	2,939
	2009	

<u>Purchase of shares and options by Eric Streitberg</u>

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

Corporate governance statement (Cont'd)

Remuneration Report – Audited (Cont'd)

Key Management Person	Number Vested	Number Granted	Terms & Conditions for Each Grant				
			Grant Date	Value per Option $	Exercise Price $	First Exercise Date	Last Exercise Date
Executive Director							
Eric Streitberg	5,000,000	5,000,000	16 Oct 09	0.0932	0.25	16 Oct 09	31 Dec 11
	5,000,000	5,000,000	16 Oct 09	0.0818	0.30	16 Oct 09	31 Dec 11
	5,000,000	5,000,000	16 Oct 09	0.0725	0.35	16 Oct 09	31 Dec 11
Total	**15,000,000**	**15,000,000**					

Total key management personnel compensation

Details of the total amount of compensation of each key management person in AUD are:

Key Management Person	Year	Cash compensation	Equity based compensation	Total compensation	Equity based compensation as a % of total compensation
Non-executive Directors					
Graham Riley – Chairman	2010	89,380	85,829	**175,209**	49%
	2009	77,950	25,680	**103,630**	25%
Peter Jones	2010	46,272	-	**46,272**	-
	2009	-	-	**-**	-
Executive Directors					
Eric Streitberg – Executive Director	2010	229,970	1,381,499	**1,611,469**	86%
	2009	58,133	77,050	**135,183**	57%
Adrian Cook – Managing Director	2010	237,840	-	**237,840**	-
(resigned 16 Oct 2009)	2009	301,595	77,050	**378,645**	20%
Executives					
Tom Streitberg – Company Secretary &	2010	271,519	168,624	**440,143**	38%
Chief Operating Officer	2009	112,226	51,360	**163,586**	31%
Neil Thompson (resigned 12 Jan 2009)	2010	-	-	**-**	-
	2009	291,994	-	**291,994**	-
Mark Royle (commenced 12 Nov 2009)	2010	132,802	-	**132,802**	-
	2009	-	-	**-**	-
Peter Edwards	2010	207,516	35,337	**242,853**	15%
	2009	166,679	6,418	**173,097**	4%
Tony Rudge (commenced 7 Jan 09)	2010	224,751	19,086	**243,837**	8%
	2009	105,925	-	**105,925**	-

The proportion shown as equity based compensation is also the proportion of compensation that is performance related.

End of Remuneration Report

Corporate governance statement (Cont'd)

Audit committee

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

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

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

The Executive Director and the Chief Operating Officer/Company Secretary declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2010 comply with the relevant accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required to be made annually.

Risk Management

The Board as a whole works to establish and maintain a sound system of corporate and commercial risk oversight and management and internal control by identifying, assessing, monitoring and managing Buru's risk exposure. It also informs investors of any material changes to Buru's risk profile should they occur. Buru maintains a risk management system commensurate with the nature, level and size of its activities.

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

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

Given the size and scale of Buru, it does not have a risk sub-committee or an internal audit function. There is also no formal risk management and internal control system to manage the Company's material business risks. The Board directly monitors the potential exposures facing the Company through ongoing reporting by the Executive Director. The Executive Director has advised the Board that the Company's risk management is being managed effectively. As the Company grows, it intends to develop a more formal risk management system.

Ethical standards

Conflict of interest

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

Corporate governance statement (Cont'd)

Ethical standards (Cont'd)

Code of conduct

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

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:
  - two weeks prior to the release of Buru's half year and annual reports;
  - one week prior to the release of Buru's quarterly reports;
  - during the drilling of any well in any permit in which Buru has an interest;
  - whilst in possession of price sensitive information not yet released to the market; and
  - in any event, Directors and employees may only buy or sell Company shares or options or exercise options if they first request and receive permission from the Executive Director;
- to require details to be provided by Directors and employees of intended trading in the Company's shares and options; and
- to require details to be provided by Directors and employees of the subsequent confirmation of all trades in the Company's shares and options.

Communication with shareholders

The Board provides shareholders with information in accordance with the continuous disclosure requirements incorporated in the ASX listing rules. This 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.

In summary, the Company's compliance with Continuous Disclosure requirements operates as follows:

- the Executive Director and the Chief Operating Officer/Company Secretary are responsible for interpreting the continuous disclosure requirements and where necessary informing the Board. The Executive Director is responsible for all communications with the ASX. Such matters are advised to the ASX in accordance with the Company's continuous disclosure obligations. generally on the day they are discovered;
- the full year annual report is made available via the Company's website to all shareholders with physical copies only being distributed to shareholders who have specifically requested that they receive a physical copy;
- the half-yearly report is made available via the Company's website to all shareholders;
- all announcements made to the market, 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 Company and the independence of the auditor in relation to the conduct of the audit.

All of the above information is made available on the Company's website within one day of public release. The Board encourages full participation by 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 shareholders as single resolutions. 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 Company's Constitution. Copies of the Company's Constitution are available to any shareholder who requests it.

Principal Activities

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

Operating Results

The consolidated loss of the Consolidated Group after providing for income tax amounted to $4,393,000 (30 June 2009: loss of $32,398,000).

Financial Position

The net assets of the Consolidated Group totalled $42,420,000 as at 30 June 2010 (30 June 2009: $39,413,000).

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

Environmental Issues

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

Options

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

Grant Date	Date of Expiry	Exercise Price	Number under Option
10 October 2008	10 October 2010	$0.94	55,176,890 (*)
27 August 2008	31 December 2011	$0.30	4,879,000
21 January 2009	31 December 2011	$0.30	204,000
21 May 2009	31 December 2011	$0.30	158,000
16 October 2009	31 December 2011	$0.25	5,000,000
16 October 2009	31 December 2011	$0.30	5,000,000
16 October 2009	31 December 2011	$0.35	5,000,000
			75,417,890

(*) Options listed on ASX

Directors' Interests

The relevant interest of each Director in the shares or options issued by the companies within the Group, 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	Listed options over ordinary shares	Unlisted options over ordinary shares
Mr Graham Riley	2,000,000	351,749	1,000,000
Mr Eric Streitberg	6,501,066	1,210,966	16,900,000
The Hon Peter Jones	161,642	53,881	-
	8,662,708	**1,616,596**	**17,900,000**

Indemnifying Officers or Auditor

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

During the financial year the Company has paid insurance premiums of $25,530 in respect of Directors' and Officers' liability and legal expenses' insurance contracts, for current and former Directors and officers, including senior executives of the Company and Directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

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

Proceedings on Behalf of Company

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

Non-audit Services

During the period, the Company's auditor did not perform any other services in addition to their statutory duties.

Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 22 and forms part of the Director's report for the financial year ended 30 June 2010.

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	Mr Graham Riley
Executive Director	Chairman
Perth	Perth
23 September 2010	23 September 2010

__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 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brent Steedman
Partner

Perth

23 September 2010

in thousands of AUD	**Note**	**Consolidated 30 June 2010 $**	**Consolidated 30 June 2009 $**
CURRENT ASSETS			
Cash and cash equivalents	20a	40,704	58,274
Trade and other receivables	18	2,083	1,572
Inventories	19	1,295	407
Total Current Assets		44,082	60,253
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,086	1,441
Exploration and evaluation expenditure	14	18,434	3,600
Development expenditure	15	13	-
Other investments	16	24,622	21,376
Total Non-Current Assets		46,155	26,417
TOTAL ASSETS		90,237	86,670
CURRENT LIABILITIES			
Trade and other payables	23	2,614	2,046
Provisions	24	103	60
Total Current Liabilities		2,717	2,106
NON-CURRENT LIABILITIES			
Trade and other payables	23	40,000	40,000
Provisions	24	5,100	5,151
Total Non-Current Liabilities		45,100	45,151
TOTAL LIABILITIES		47,817	47,257
NET ASSETS		42,420	39,413
EQUITY			
Contributed equity		75,440	71,573
Reserves		3,701	238
Accumulated losses		(36,721)	(32,398)
TOTAL EQUITY		42,420	39,413

The notes on pages 27 to 58 are an integral part of these consolidated financial statements

in thousands of AUD	**Note**	**Consolidated 2010 $**	**Consolidated 2009 $**
Revenue	8	2,554	3,208
Cost of sales		(2,288)	(2,252)
Gross profit		266	956
Other income	9	75	76
Impairment of exploration expenditure	14	(3,010)	(41,269)
Impairment of development expenditure	15	-	(631)
Impairment of financial assets		-	(881)
Impairment of other non-current assets		-	(207)
Establishment and transaction expenses		(80)	(848)
Administrative personnel expenses	10	(1,619)	(1,244)
Share based payment expenses	25	(1,695)	(238)
Office and other administration expenses		(1,029)	(887)
Increase in provision for site restoration	24	-	(700)
Results from operating activities		(7,092)	(45,873)
Financial income	11	2,749	3,110
Financial expenses	11	(50)	(74)
Net finance income		2,699	3,036
Loss for the period		(4,393)	(42,837)
Income tax benefit	12	-	10,439
Loss for the period		(4,393)	(32,398)
Other comprehensive income			
Change in fair value of available-for-sale financial assets net of tax		2,338	-
Other comprehensive income for the period, net of income tax		**2,338**	**-**
Total comprehensive loss for the period		**(2,055)**	**(32,398)**
Loss per share (cents)	22	(2.46)	(28.46)
Diluted loss per share (cents)	22	(2.46)	(28.46)

The notes on pages 27 to 58 are an integral part of these consolidated financial statements

BURU ENERGY LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

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 16 April 2008	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Comprehensive income for the period							
Loss for the period	-	-	-	-	-	(32,398)	**(32,398)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(32,398)**	**(32,398)**
Transactions with owners recorded directly in equity							
Issue of ordinary shares	71,573	-	-	-	-	-	**71,573**
Share based payment transactions	-	-	-	238	-	-	**238**
Total transaction with owners recorded directly in equity	**71,573**	**-**	**-**	**238**	**-**	**-**	**71,811**
Balance as at 30 June 2009	**71,573**	**-**	**-**	**238**	**-**	**(32,398)**	**39,413**

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

The notes on pages 27 to 58 are an integral part of these consolidated financial statements

in thousands of AUD		**Consolidated 2010 $**	**Consolidated 2009 $**
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		3,177	3,198
Payments to suppliers and employees		(5,994)	(4,732)
Cash used in operations		(2,817)	(1,534)
Interest paid		(2)	(2)
Net cash outflow from operating activities	20b	(2,819)	(1,536)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,942	2,775
Payments for purchase of plant and equipment		(2,010)	(578)
Payments for exploration and evaluation expenditure		(14,351)	(5,898)
Payments for development expenditure		-	(677)
Transfer to long-term cash held in escrow (*)		(909)	(20,728)
Payments for available-for-sale financial assets		-	(29)
Net cash outflow from investing activities		(15,328)	(25,135)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from demerger with ARC Energy Limited		-	84,986
Proceeds from the issue of share capital		610	-
Net cash inflow from financing activities		610	84,986
Net increase / (decrease) in cash and cash equivalents		(17,537)	58,315
Cash and cash equivalents at the beginning of the period		58,274	-
Effect of exchange rate changes on cash and cash equivalents		(33)	(41)
Cash and cash equivalents at 30 June	20a	40,704	58,274

* Funds held in escrow on behalf of Alcoa of Australia Limited (Note 16(i))

The notes on pages 27 to 58 are an integral part of these consolidated financial statements

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 1, 418 Murray Street, Perth, Western Australia. The consolidated financial statements of the Company as at and for the period ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in oil and gas exploration in the Canning Superbasin in the Kimberley region of Western Australia. The Company was incorporated on 16 April 2008 and the comparative period for this financial report is for the period 16 April 2008 to 30 June 2009.

2. Basis of Preparation

(a) Statement of Compliance

The financial report is a general purpose financial report which has 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 report of the Group and the financial report of the Company 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 23 September 2010.

(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 the Group's functional currency.

(d) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, 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. In particular, information about significant areas of estimation uncertainty and critical judgements 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 14 – Exploration and evaluation expenditure
- Note 15 – Development expenditure
- Note 24 – Site restoration provision.
- Note 25 – Measurement of share-based payments

(e) Changes in Accounting Policies

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations
- Borrowing costs
- Presentation of financial statements

3. Significant Accounting Policies

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

(a) Basis of Consolidation

(i) Business Combinations

Change in accounting policy
The Group has adopted revised AASB 3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

The Group has applied the acquisition method for the business combination disclosed in note 7.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill
The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Share-based payment awards
When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities
A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Group's controlled entities are shown at note 26.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

(iv) Jointly controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the share of assets it controls, the share of liabilities that it incurs, the share of expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

(v) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see below). Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Change in accounting policy
In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of AASB 123 Borrowing Costs (2007) in accordance with the transitional provisions of that standard, comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits enbodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

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

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

(d) Exploration Expenditure

Exploration and evaluation costs, including the costs of acquiring permits and licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before Buru has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either: the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or activities in the area of interest have not at the 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.

Exploration and evaluation assets are assessed for impairment if: sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Once the technical feasibility and commercial viability of the extraction of oil or gas in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to development expenditure.

(e) Development Expenditure

Development expenditure is accumulated in respect of each separate area of interest. Development expenditure related to an area of interest is carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

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

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration and development costs are amortised on a units of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy at note 3(k)). For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

(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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(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

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities 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 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.

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

(iii) Share capital

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

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

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

(g) Trade and Other Receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

(h) Inventories

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

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(j) Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases. The leased assets are not recognised on the Group's balance sheet.

(k) Impairment

(i) Financial assets (including receivables)

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, 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 for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

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

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

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

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

(ii) Non-financial assets

The carrying amounts of Buru's non-financial assets, other than inventories and deferred tax assets, 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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

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

(l) Employee Benefits

(i) Long-term employee benefits

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

(ii) Termination benefits

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

(iii) Short-term benefits

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

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

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not 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.

(m) Provisions

A provision is recognised in the balance sheet when Buru 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) <u>Site restoration</u>

Provisions are made for the estimated cost of an oil and gas field's site rehabilitation. Provisions include reclamation, plant closure, waste site closure and monitoring activities. These costs have been determined on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

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.

(n) Trade and Other Payables

Current trade and other payables are stated at their amortised cost. 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.

(o) Loans & Borrowings

Loans and borrowings are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

(p) Revenue

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

(q) Lease Payments

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

Determining whether an arrangement contains a lease

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

(r) Finance Income and Expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. 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.

(s) Income Tax

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

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will probably 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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Buru Energy Limited. Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, intends to enter into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. These tax funding arrangements will require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) will be payable at call.

Contributions to fund the current tax liabilities will be payable as per the tax funding arrangement and will be designed to reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities. The head entity, in conjunction with other members of the tax-consolidated group, also intends to enter into a tax sharing agreement. The tax sharing agreement will provide for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as it is not yet been entered into.

(t) 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.

(u) Segment Reporting

A segment is a distinguishable component of Buru that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) 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 convertible notes and share options granted to employees.

(w) Presentation of financial statements

The Group applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(x) New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement - AASB 14 make amendments to Interpretation 14 AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

4. Determination of Fair Values

Buru'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 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. Buru operates entirely in the geographical location of Western Australia.

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 this financial report.

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

(b) Credit risk

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

(i) <u>Trade and other receivables</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Over 95 percent of the Group's revenue 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.

(c) Liquidity risk

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

(d) Market risk

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

(i) Currency risk

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

(ii) Interest rate risk

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

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

(iii) Other market price risk

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

(e) Operational risk

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

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

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. In order to maintain or adjust its capital structure, Buru may in the future return capital to shareholders, issue new shares, borrow funds from financiers or sell assets. Buru's focus has been to maintain sufficient funds to fund exploration and evaluation activities. There are no external borrowings as at balance date.

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

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

7. Acquisition of Subsidiary – Business Combination

On 11 August 2009, Buru announced that it had entered into an agreement with New Standard Energy Ltd ("NSE") which resulted in Buru effectively acquiring a 100% interest in Canning Superbasin permits EP 442, EP 442A, acreage release L08-3 and application area 30/07-8 through the purchase of 100% of Buru Energy (Acacia) Pty Ltd (formerly known as New Standard Exploration Pty Ltd).

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

in thousands of AUD	**Pre acquisition carrying amounts**	**Fair value adjustments**	**Recognised values on acquisition**
Exploration and evaluation expenditure	407	6,051	6,458
Net identifiable assets and liabilities	407	6,051	6,458

Total consideration	6,458
Consideration paid in cash	3,200
Cash acquired	-
Net cash outflow	3,200

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

8. Revenue

in thousands of AUD	**2010**	**2009**
Sales of crude oil	2,554	3,094
Equipment hire	-	114
	2,554	3,208

9. Other Income

in thousands of AUD	**2010**	**2009**
Management fees	-	9
Fuel tax credits	69	63
Other revenue	6	4
	75	76

10. Administrative Personnel Expenses

in thousands of AUD	**2010**	**2009**
Wages and salaries	998	617
Non-executive Directors' fees	153	127
Superannuation	167	94
Contract employment services	160	356
Other associated personnel expenses	141	50
	1,619	1,244

The above expense excludes share based payments disclosed at note 25.

11. Finance Income and Expenses

in thousands of AUD	**2010**	**2009**
Interest income on bank deposits	2,749	3,110
Finance income	2,749	3,110
Interest expenses	(2)	(3)
Net foreign exchange loss	(48)	(71)
Finance expense	(50)	(74)
Net finance income recognised in profit or loss	2,699	3,036

12. Income Tax Expenses

in thousands of AUD	**2010**	**2009**
Current income tax		
Current income tax charge	-	-
	-	-
Deferred income tax		
Benefit relating to origination and reversal of temporary differences	-	10,439
	-	10,439
Total income tax benefit reported in the income statement	-	10,439

Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting loss before tax	(4,393)	(42,837)
Income tax benefit using the domestic corporation tax rate of 30%	1,318	12,851
Increase in income tax due to:		
- Non deductible expenses	(525)	(285)
- Temporary differences and tax losses not brought to account as a DTA	(812)	(2,130)
- Investment allowance tax deduction	19	3
Income tax benefit / (expense) on pre tax loss	-	10,439

Tax consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the tax consolidated group intend to enter into a tax sharing arrangement which will allow for the allocation of income tax expense to the wholly owned controlled entities on a pro-rata basis. The arrangement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Buru.

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.

13. Property, Plant and Equipment

in thousands of AUD	**Plant and equipment**	**Office equipment**	**Fixtures and fittings**	**Total**
Cost or deemed cost				
Balance at 16 April 2008	-	-	-	-
Acquired on demerger of the Company from ARC Energy Limited	1,050	-	-	1,050
Additions	134	379	26	539
Balance at 30 June 2009	1,184	379	26	1,589
Carrying amount at 1 July 2009	1,184	379	26	1,589
Additions	1,823	32	-	1,855
Balance at 30 June 2010	3,007	411	26	3,444
Depreciation and impairment losses				
Balance at 16 April 2008	-	-	-	-
Depreciation for the period	(88)	(58)	(2)	(148)
Balance at 30 June 2009	(88)	(58)	(2)	(148)
Carrying amount 1 July 2009	(88)	(58)	(2)	(148)
Depreciation for the period	(125)	(83)	(2)	(210)
Balance at 30 June 2010	(213)	(141)	(4)	(358)
Carrying amounts				
At 16 April 2008	-	-	-	-
At 30 June 2009	1,096	321	24	1,441
At 1 July 2009	1,096	321	24	1,441
At 30 June 2010	2,794	270	22	3,086

14. Exploration and Evaluation Expenditure

in thousands of AUD	**2010**	**2009**
Carrying amount at beginning of the period		-
Acquired from demerger of Buru from ARC Energy Limited	3,600	39,390
Acquired from business combination	6,458	-
Expenditure incurred during the period	11,386	5,479
Impairment of exploration expenditure during the period	(3,010)	(41,269)
Carrying amount at the end of the period	18,434	3,600

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.

A material component of the impairment expense of $3,010,000 is in relation to the drilling of the Fairwell-1 exploration well which was the first well to be drilled in the 2010 drilling season. Although hydrocarbon shows were encountered, no commercially significant hydrocarbons were identified. The well was plugged and abandoned on 21 June 2010.

15. Development Expenditure

in thousands of AUD	**2010**	**2009**
Carrying amount at beginning of the interim period	-	-
Expenditure incurred during the period	13	631
Impairment of development expenditure during the period	-	(631)
Carrying amount at the end of the period	13	-

16. Other Investments

in thousands of AUD	**2010**	**2009**
Other Investments		
Available-for-sale financial assets	2,957	619
Long-term cash held in escrow (i)	21,636	20,728
Other available-for-sale-financial assets	29	29
	24,622	21,376

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 $296,000, an equal change in the opposite direction would have increased the Group's loss after tax for the period by $296,000.

(i) Buru and Alcoa of Australia Limited have agreed to escrow $20 million in cash and interest thereon in partial satisfaction of Buru's potential obligations to repay $40 million to Alcoa of Australia Limited if Buru does not deliver gas (Note 23).

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 29.

17. Tax Assets and Liabilities

Unrecognised net deferred tax assets

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

in thousands of AUD	**2010**	**2009**	**Net Movement**
Deferred tax assets			
Business related costs	220	132	88
Unrealised foreign exchange loss	10	12	(2)
Depreciable capital expenditure	1	2	(1)
Accrued expenditure	37	11	26
Provision for employee entitlements	32	18	14
Development expenditure	-	189	(189)
Sundry payables	-	1	(1)
Other provisions	1,529	1,809	(280)
Tax losses	6,649	1,094	5,555
	8,478	3,268	5,210
Deferred tax liabilities			
Exploration expenditure	5,530	1,080	4,450
Prepayments	1	1	-
Investments in listed entities	437	-	437
Interest receivable	342	100	242
	6,310	1,181	5,129
Net deferred tax assets not brought to account	2,168	2,087	81
Movement recognised in profit and loss			812
Movement not recognised in equity statement			(731)
			81

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.

18. Trade and Other Receivables

in thousands of AUD	**2010**	**2009**
Trade receivables	234	527
Interest receivable	1,141	335
Prepayments	286	311
Other receivables	422	399
	2,083	1,572

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

19. Inventories

in thousands of AUD	**2010**	**2009**
Materials and consumables – at cost	1,295	407

20a. Cash and Cash Equivalents

in thousands of AUD	**2010**	**2009**
Bank balances	8,704	28,173
Call deposits	32,000	30,101
Cash and cash equivalents in the statement of cash flows	40,704	58,274

20b. Reconciliation of Cash Flows from Operating Activities

in thousands of AUD	**Note**	**2010**	**2009**
Cash flows from operating activities			
Loss for the period		(4,393)	(32,398)
Adjustments for:			
Depreciation of PPE used in operating activities		96	148
Impairment losses on exploration expenditure	14	3,010	41,269
Impairment losses on development expenditure	15	-	631
Impairment losses on other non-current assets		-	207
Impairment losses on assets classified as available-for-sale		-	881
Equity-settled share-based payment transactions	25	1,695	238
Net finance income	11	(2,699)	(2,307)
Income tax benefit	12	-	(10,439)
Operating loss before changes in working capital and provisions		(2,291)	(1,770)
Changes in working capital, net of acquisitions			
Change in trade and other receivables		196	(1,882)
Change in trade and other payables		(213)	1,356
Loan pursuant to employee share acquisition scheme	25	(500)	-
Change in provisions		(9)	762
Cash used in operating activities		(2,817)	(1,534)
Interest paid		(2)	(2)
Net cash outflow from operating activities		(2,819)	(1,536)

21. Capital and Reserves

Share capital

	Ordinary Shares 2010 No.	**Ordinary Shares 2009 No.**
On issue at the beginning of the period	162,119,728	1
Issued on demerger from ARC Energy Limited	-	162,119,727
Issued on acquisition of subsidiary (Note 7) – 4 Sep 09	18,000,000	-
Issued to Mr Eric Streitberg (Note 24) – 23 Oct 09	2,650,000	-
Issued on exercise of share options – 25 Jan 10	85	-
On issue at the end of the period – fully paid	182,769,813	162,119,728

The Company has also issued share options (see note 25).

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

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

Treasury Share Reserve

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

Option Premium Reserve

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

Share-based Payments Reserve

The share-based payments reserve represents the fair value of equity based compensation to the Group's Directors and employees expensed to 30 June 2010.

Financial Asset Revaluation Reserve

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

22. Loss Per Share

Basic loss per share

in thousands of AUD	**2010**	**2009**
Loss attributable to ordinary shareholders	4,393	32,398

Weighted average number of ordinary shares

	2010 No.	**2009 No.**
Issued ordinary shares at beginning of the period	162,119,728	1
Effect of shares issued	16,116,147	113,852,264
Weighted average number of ordinary shares at the end of the period	178,235,875	113,852,265

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.

23. Trade and Other Payables

in thousands of AUD	2010	2009
Trade payables	1,718	1,261
Non-trade payables and accrued expenses	896	785
Unearned income (i)	40,000	40,000
	42,614	42,046

in thousands of AUD	2010	2009
Current	2,614	2,046
Non-current	40,000	40,000
	42,614	42,046

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

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

Buru has entered into an escrow agreement with Alcoa of Australia Limited pursuant to which Buru has agreed to hold $20 million plus accrued interest for the benefit of Alcoa of Australia Limited as security against the potential obligation to repay the $40 million (Note 16).

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.

24. Provisions

in thousands of AUD	**2010**	**2009**
Current		
Provision for annual leave	96	54
Provision for long-service leave	7	6
	103	60
Non-Current		
Provision for long-service leave	5	1
Provision for site restoration (i)	5,095	5,150
	5,100	5,151

(i) Site restoration provision

in thousands of AUD	**2010**	**2009**
Opening balance	5,150	-
Acquired in demerger of Buru from ARC Energy Ltd	-	4,450
Provisions made during the period	-	700
Provision used during the period	(55)	-
Balance at the end of the period	5,095	5,150

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

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

25. Share-based Payments

Description of share-based arrangements

At 30 June 2010 the Group had the following share-based payment arrangements:

Fair value expensed in thousands of AUD	**2010**	**2009**
Director & Employee Options	447	238
Net value of Shares & Options acquired by Eric Streitberg	1,211	-
Employee Share Acquisition Scheme	37	-
	1,695	238

Director and Employee Options (equity settled)

During the 2009 financial year, the Company granted Director and Employee Options to key management personnel. The fair value of the options granted to key management personnel was calculated at grant date using the Black & Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. At the 2009 Annual General Meeting shareholders approved the amendment of the terms of all 7,220,000 Director and Employee Options from an exercise price of $0.94 and expiry date of 27 August 2010 to an exercise price of $0.30 and an expiry date of 31 December 2011. As required by AASB 2, the options were revalued on the date that the terms changed, with the increase in value being recognised as a share based payment expense.

The amended options were valued using the Black & Scholes model with the following inputs: a share price on grant date of 22 cents, an expected volatility of 76.4%, a risk free interest rate of 4.8% and no expected dividends. The value disclosed is the fair value of the options recognised in the reporting period. No options have been granted during or since the 2010 financial year other than those acquired by Eric Streitberg. No shares have been issued on the exercise of compensation options. The fair value of the share based payment expense realised for Director and Employee Options is set out below.

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

	Weighted average exercise price	Number of options
Outstanding options at 16 Apr 08	-	-
Granted 27 Aug 2008	$0.94	33,900,000
Granted 21 Jan 2009	$0.94	400,000
Granted 21 May 2009	$0.94	300,000
Forfeited during the period ended 30 June 2009	$0.94	(6,000,000)
Exercised during the period ended 30 June 2009	-	-
Outstanding at 30 Jun 2009	$0.94	28,600,000
Outstanding options at 1 July 2009	$0.94	28,600,000
Cancelled 31 Aug 2009	$0.94	(21,380,000)
Outstanding at commencement of 16 Oct 2009 Annual General Meeting [(i)]	$0.30	7,220,000
Outstanding at conclusion of 16 Oct 2009 Annual General Meeting [(i)]	$0.30	7,220,000
Forfeited during the year ended 30 June 2010	$0.30	(1,979,000)
Outstanding as at 30 June 2010	$0.30	5,241,000
Exercisable as at 30 June 2010	$0.30	5,241,000

Purchase of shares and options by Eric Streitberg (equity settled)

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

			Terms & Conditions for Each Grant				
Key Management Person	**Number Vested**	**Number Granted**	**Grant Date**	**Value per Option $**	**Exercise Price $**	**First Exercise Date**	**Last Exercise Date**
Executive Director							
Eric Streitberg	5,000,000	5,000,000	16 Oct 09	0.0932	0.25	16 Oct 09	31 Dec 11
	5,000,000	5,000,000	16 Oct 09	0.0818	0.30	16 Oct 09	31 Dec 11
	5,000,000	5,000,000	16 Oct 09	0.0725	0.35	16 Oct 09	31 Dec 11
Total	**15,000,000**	**15,000,000**					

Employee Share Acquisition Scheme (equity settled)

At the 2009 Annual General Meeting, shareholders approved the implementation of an Employee Share Acquisition Scheme ("Scheme") designed to encourage employees to acquire shares in the Company on market. For every one dollar that a Participant contributed to the scheme, the Company approved a loan to the Participant of four dollars. The total amount of the loan was capped at $500,000. The Participant's contribution together with the loan from the Company is held on trust by a trustee appointed for the purposes of the Scheme. Participants are able to direct the Trustee to sell the Shares acquired on their behalf under the Scheme at any time during the loan period at a price greater than the average price at which those Shares were acquired. The loan period runs until 31 December 2011 and, except where a Participant ceases to be an employee of the Company, the Company generally cannot call for repayment of the loan prior to the end of the loan period. All Shares sold prior to the conclusion of the loan period must be used to repay the Participant's loan. Once the loan has been repaid in full the proceeds of sales will be made available to the Participant. There is no redraw available for loans made under the Scheme.

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

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

The Scheme was not open to Directors. The Company provided the maximum of $500,000 of loans in total under the Scheme with employees contributing a further $125,000. No interest is payable on loans made under the Scheme.

Under AASB 2, the Scheme is considered in-substance options and accordingly must be accounted for as a share based payment expense and has been calculated using the Black & Scholes model with the following inputs: a share price on grant date of 19 cents and an exercise price of 79.0% of the share price being the value of the loan as a percentage of total value of shares purchased, an expected volatility of 72.7%, a risk free interest rate of 4.8% and no expected dividends. The value disclosed is the fair value of the in-substance options recognised in the reporting period. The fair value of the share based payment expense realised for the Employee Share Acquisition Scheme is $37,000.

Total options on issue

Total options over ordinary shares on issue	**Company 2010 No.**	**Company 2009 No.**
Number of unlisted options granted as share based payments	5,241,000	28,600,000
Number of unlisted options purchased by Eric Streitberg	15,000,000	-
Number of listed options issued on 10 October 2008	55,176,890	55,176,975
	75,417,890	83,776,975

26. Group Entities

Parent entity	Country of incorporation	Ownership interest	Ownership interest
Buru Energy Limited (i)	Australia		
Subsidiaries		**2010**	**2009**
Terratek Drilling Tools Pty Limited	Australia	100%	100%
Royalty Holding Company Pty Limited	Australia	100%	100%
Buru Energy (Acacia) 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.

27. Parent Entity Disclosures

As at, and throughout the financial year ending 30 June 2010 the parent company of the Group was Buru Energy Limited

in thousands of AUD	**Company 2010**	**Company 2009**
Result of the parent entity		
Profit for the period	(4,427)	(32,411)
Other comprehensive income	2,338	-
Total comprehensive loss for the period	(2,089)	(32,411)
Financial position of the parent entity at year end		
Current assets	44,082	60,269
Total assets	90,200	86,658
Current liabilities	45,100	45,151
Total liabilities	47,827	47,258
Total equity of the parent entity at year end		
Share capital	75,440	71,573
Reserves	3,701	238
Retained earnings	(36,768)	(32,411)
Total equity	42,373	39,400

28. Interests in Joint Venture Operations

The consolidated entity has an interest in the following joint ventures as at 30 June 2010 whose principal activities were oil and gas exploration.

Permit	2010 Beneficial Interest	2009 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%	-	Buru Energy Ltd	Australia
EP371	60.00%	100.00%	Buru Energy Ltd	Australia
EP390	60.00%	100.00%	Buru Energy Ltd	Australia
EP391	60.00%	100.00%	Buru Energy Ltd	Australia
EP417	35.00%	35.00%	New Standard Energy Ltd	Australia
EP428	60.00%	100.00%	Buru Energy Ltd	Australia
EP431	60.00%	100.00%	Buru Energy Ltd	Australia
EP436	60.00%	100.00%	Buru Energy Ltd	Australia
EP438	5%	5%	Buru Energy Ltd	Australia
EP442	100.00%	10.00%	Buru Energy Ltd	Australia
EP442A	100.00%	-	Buru Energy Ltd	Australia
EP443	-	10.00%	Buru Energy Ltd	Australia
EP448	-	5%	Buru Energy Ltd	Australia
EP450	-	10.00%	Buru Energy Ltd	Australia
EP451	-	10.00%	Buru Energy Ltd	Australia
EP456	-	10.00%	Buru Energy Ltd	Australia

On 15 June 2010 the Company announced it had executed a farm-in agreement with Mitsubishi Corporation ("MC"). Under the farm-in:

- MC has the right to earn interests in the Company's exploration permits by carrying up to $102.4 million of the Company's exploration costs, split between up to $62.4 million of exploration for conventional oil and gas and $40 million of exploration for unconventional resources such as shale gas and tight gas.
- MC may also carry up to $50 million of the Company's development costs for major oil and gas production infrastructure.
- In exchange for providing this funding MC has the right to earn up to a 50% interest in the majority of the exploration permits held by the Company. MC will earn an initial 40% interest in permits EP371, EP390, EP391, EP428, EP431, EP436 by funding the 2010 exploration program and may earn an additional 10% interest in these permits by funding the 2011 exploration program. Buru will earn 70% in EP438 from the existing joint venture, taking Buru's interest to 75% in that permit, by spending $3 million on an exploration well in EP438. MC will then earn half of Buru's interest in this permit. EP442A is a sub-block subject to carve out of EP442. An existing farm-inee has the right to earn 17.5% in EP442A by spending the first 25% of costs of a well. MC will then earn half of Buru's interest in both EP442 and EP442A.
- MC also 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.

Under the terms of the farm-in the Company will remain as the operator of all of its permits. However, MC will lead any LNG commercialisation efforts in the joint venture permits in the Canning Superbasin.

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

in thousands of AUD	**2010**	**2009**
Current assets		
Cash and cash equivalents	18	-
Trade and other receivables	-	-
Total current assets	**18**	**-**
Non-current assets		
Exploration expenditure	40	633
Total non-current assets	**40**	**633**
Share of total assets of joint venture operations	**58**	**633**

29. Financial Instruments

Credit risk

Exposure to credit risk

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

	Note	**Carrying amount 2010**	**Carrying amount 2009**
in thousands of AUD			
Trade and other receivables	18	2,083	1,572
Cash and cash equivalents	20a	40,704	58,274
Available-for-sale financial assets	16	2,956	619
Long-term cash held in escrow	16	21,637	20,757
		67,380	81,222

The Group's most significant customer, an international refiner of crude oil, accounts for $234,000 of the trade and other receivables carrying amount at year end $1,141,000 (30 June 2009: $524,000). Trade and other receivables also included accrued interest receivable from Australian accredited banks of $1,141,000 (30 June 2009: $334,000).

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.

Liquidity risk

The following are contractual maturities of trade and other payables:

	Carrying amount	
in thousands of AUD	**2010**	**2009**
0 – 6 months	2,614	2,046
6 – 12 months	-	-
1 – 5 years (i)	40,000	40,000
	42,614	42,046

(i) This profile assumes that gas is not delivered to Alcoa of Australia Limited under the GSA (Note 23(i)).

Currency risk

Exposure to currency risk

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

in thousands	**30 June 2010**		**30 June 2009**	
	AUD	**USD**	**AUD**	**USD**
Cash and cash equivalents	2,854	2,433	968	785
Trade receivables	233	197	525	426
Gross balance sheet exposure	3,087	2,630	1,493	1,211

The average exchange rate from AUD to USD during the period was AUD 0.8820 / USD 1.0000 (2009: AUD 0.7350 / USD 1.0000). The reporting date spot rate was AUD 0.8523 / USD 1.000 (2009: AUD 0.8114 / USD 1.0000).

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the USD over the period would have increased the loss after tax for the financial period by $255,000 (2009: $309,000). 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 $255,000 (2009: $309,000). This analysis assumes that all other variables remain constant.

Interest rate risk

Profile

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

	Carrying amount	**Carrying amount**
in thousands of AUD	**2010**	**2009**
Fixed rate instruments		
Cash and cash equivalents	40,704	58,274
Long-term cash held in escrow	21,637	20,728
Total fixed interest bearing financial assets	62,341	79,002

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

Fair value sensitivity analysis for fixed rate instruments

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

Fair values

Fair values versus carrying amounts

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

30. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

in thousands of AUD	**2010**	**2009**
Less than one year	177	194
Between one and five years	326	486
More than five years	-	-
	503	680

The Group leases a corporate head office in Perth and another premises in Broome under operating leases. The leases expire in August 2013 and February 2011 respectively. Both leases have an option to renew the lease after the expiry dates. Lease payments on the head office in Perth are adjusted every second year to reflect market rentals and every alternate year by an additional 1%.

The Group also leases two production vehicles under operating leases. These leases expire in March 2011 and Jul 2012.

The total operating lease amount recognised as an expense in the financial year was $221,000 (2009: $229,000).

31. Capital and Other Commitments

in thousands of AUD	**2010**	**2009**
Exploration expenditure commitments		
Contracted but not yet provided for and payable:		
Within one year	12,400	31,380
One year later and no later than five years	31,800	45,270
Later than five years	-	7,050
	44,200	83,700

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

32. Contingencies

The Directors are of the opinion that a provision is not required in respect of the following matter, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. The Group is defending an action brought by an Australian company. Based on legal advice, the Directors do not expect the outcome of the action to have a material effect on the Group's financial position. In the Director's opinion, disclosure of any further information would be prejudicial to the interests of the Group.

There were no other material contingent liabilities or contingent assets for the Group as at 30 June 2010 or as at the date of the report, other than those disclosed in note 31.

33. Related Parties

Key management personnel compensation

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executive's compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report on pages 11 to 16.

Other related party transactions

Streitex Pty Ltd, of which Mr Eric Streitberg is a Director, was paid $86,000 for exploration consulting services during the financial year (2009: $60,000). Rates charged were at normal professional rates and have not been included in the remuneration of Directors disclosures as the fees were not in relation to his role as a Director.

34. Subsequent Events

No significant events have occurred subsequent to balance date.

35. Auditors' Remuneration

in thousands of AUD	**2010**	**2009**
Audit services		
KPMG Australia: Audit and review of financial reports	41	30

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

1 In the opinion of the Directors of Buru Energy Limited ('the Company'):

(a) the financial statements and notes that are contained on pages 27 to 58 and the Remuneration report in the Directors' report, set out on pages 11 to 16, 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 2010 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 2010.

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, 23 September 2010.

Mr Eric Streitberg	Mr Graham Riley
Executive Director	*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 the Group comprising Buru Energy Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, 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, a description of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a 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.

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 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 the directors' report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Brent Steedman
Partner

Perth

23 September 2010