



Buru Energy Limited
ABN 71 130 651 437

Interim Financial Report
For the six months ended 30 June 2014

BURU ENERGY LIMITED
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BURU ENERGY LIMITED
REVIEW OF OPERATIONS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

Production and Development

Ungani Production Test Program

The Ungani 2 well continues to produce strongly with water cut of <2.5% in accordance with current modelling predictions. The production from the Ungani extended production test to date is as follows:

Production Test Phase 1 - 31 May 2012 to 30 March 2013: 101,278 bbls

Production Test Phase 2 - 9 December 2013 to 30 June 2014: 172,535 bbls

During the interim period, four shipments totaling 143,317 bbls were made from the Port of Wyndham and the fifth shipment of 34,170 bbls has been sold and was lifted on 22 July 2014. The oil has all been sold into Asian refineries under the marketing agreement between Buru Energy and Mitsubishi.

A number of production rate tests have been carried out, and interference tests to investigate the communication between the Ungani 2 and Ungani 3 wells have also been completed, with this data currently being analysed. Preliminary data from this test program suggests good communication between the Ungani 2 and 3 wells, which has positive implications for reservoir distribution. The planned workover and production testing of Ungani 1 and an injection test on the Ungani 3 well will provide further production and reservoir data to calibrate the reservoir prediction models and provide more certainty about long term reservoir performance and oil recoveries.

The upgrade of Ungani facilities for permanent production is being reviewed to ensure the new facilities are "fit for purpose" and completed at lowest possible cost. The actual facility design is dependent on the predictions of reservoir performance that are being calibrated with the results of the EPT. Negotiations to access the Port of Broome for export of oil are continuing. Negotiations with Nyikina Mangala and Yawuru in relation to the production licence agreement for Ungani have continued.

Ungani Drilling

The Crusader 405 rig was mobilised to the Ungani 3 site and the well was spudded on 14 January 2014. The Ungani 3 well is located in production application STP-PRA-0004 in exploration permit EP 391 some 100 kilometres to the east of Broome, and fifty kilometres from the Great Northern Highway along the Ungani access road. Whilst the Ungani 3 well penetrated the top Ungani Dolomite 20m higher than Ungani 1 and intersected an oil saturated Ungani Dolomite section, the highly permeable dolomite present in the Central Field area was not penetrated at the Ungani 3 location. Subsequent swab testing of the well provided encouraging oil recoveries and these results are currently being assessed.

Blina and Sundown Oil Fields

The Blina and Sundown oil fields remained shut-in during the period with a review of forward operations at the fields being undertaken.

Exploration

TGS (Laurel Formation Tight Gas Pilot Exploration Program)

On 16 June 2014 the Western Australian Environment Minister upheld the Environmental Protection Authority's conclusion that Buru Energy's "small scale, limited duration 'proof of concept' exploration proposal is unlikely to have a significant effect on the environment", and that the DMP was the appropriate regulatory agency to assess and monitor the program.

BURU ENERGY LIMITED
REVIEW OF OPERATIONS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

The Laurel Formation Tight Gas Pilot Exploration Program was then formally approved by the Department of Mines and Petroleum (DMP) on 23 June 2014. DMP approval of the program completed the regulatory approval process required for the program to proceed. The DMP's determination included approval of the Environment Plan, as well as Operational and Safety Plans for the program.

In addition, the Yungngora Community at Noonkanbah Station announced their support for Buru Energy's Laurel Formation Tight Gas Pilot Exploration Program on 25 June 2014. The Company has also been informed that the Yawuru community at a meeting on 18 July stated that "Yawuru does not agree to the 2014/2015 fracking at Yulleroo, but if Buru Energy goes ahead with the fracking, Buru Energy must agree to meet environmental, cultural, social and economic conditions set by Yawuru". The Company remains fully engaged with Yawuru to ensure the agreed conditions in relation to the undertaking of its scheduled program are fully informed by the independent advisory process that Yawuru is undertaking, and is confident of maintaining a positive and mutually beneficial relationship with Yawuru.

The extensive and iterative nature of the approvals process has meant that the operational timeframes for undertaking the program have been compressed, as it was not possible to commence initial site and preparatory work until the approvals were received. In light of the fact the approvals have only recently been received, it has been necessary to undertake a full review of the planned execution and timing of the program.

This review has included operational considerations such as the availability of specialised technical equipment, the ability to complete the program prior to the wet season (including completing the flow back and testing program), and the costs of the program (which are affected by timing of the program and the ability to complete it in a way that maximises efficient equipment utilisation).

The results of this review have led the joint venture to adopt a three phased program. This phasing will ensure the program is undertaken in the most cost effective way and will also ensure the program meets all regulatory requirements and environmental standards.

Buru Energy's shareholders, the Kimberley community and the wider WA community can be assured that this phased approach ensures the best environmental outcome from the program with the highest probability of delivering definitive results.

Completion of Apache Farm In to Coastal Permits

Buru assigned a portion of its interests in the exploration permits EP390, EP438, EP471 and EP473 to Apache Onshore Holdings Pty Ltd in May 2014 on completion of the Coastal Farm In originally announced to the ASX in November 2013. Following the completion of the Farm In, Buru's equity interest in each of those permits is 25%.

Work program for second half of 2014

A work program for the second half of 2014 has been prepared and proposed to the various joint ventures. The work program is aimed at high impact low cost activity. The proposed work program has a substantial component aimed at oil appraisal and exploration given the high economic value of oil production and the high value add of the identification of further reserves. The proposed program is subject to further approvals from joint venture parties, Traditional Owners and regulatory authorities.

**BURU ENERGY LIMITED
DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

The Directors present their report together with the condensed consolidated interim financial statements of the Group comprising Buru Energy Limited ("Buru Energy" or the "Company") and its subsidiaries for the six month period ended 30 June 2014 and the auditor's independent review 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:

Executive

Mr Eric Streitberg - Executive Chairman (Transitioned from Non-Executive to Executive on 23 May 2014)
Dr Keiran Wulff - Managing Director (Resigned 2 July 2014)

Non-Executive

The Hon Peter Jones AM
Ms Eve Howell (Appointed 2 July 2014)
Mr Robert Willes (Appointed 2 July 2014)
Mr Graham Riley (Resigned 23 May 2014)
Mr Austin Miller (Resigned 5 February 2014)

Company Secretary

Mr Shane McDermott (Appointed 11 July 2014)
Mr Chris Bath (Resigned 11 July 2014)

Principal Activities

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

Review of Operations

The review of operations during the six month period ended 30 June 2014 is set out on pages 3 to 4 and forms part of this Directors' Report.

After Balance Date Events

No significant events have occurred subsequent to balance date.

Dividends

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the period is set out on page 7 and forms part of this Directors' Report.

**BURU ENERGY LIMITED
DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)**

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 condensed consolidated interim financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Mr Eric Streitberg
Executive Chairman
Perth
9 September 2014



The Hon Peter Jones AM
Non-Executive Director
Perth
9 September 2014



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 review for the half-year ended 30 June 2014 there have been:

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

KPMG

KPMG

G-T H

Graham Hogg
Partner

Perth

9 September 2014

BURU ENERGY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

<i>in thousands of AUD</i>	Note	30 Jun 2014	31 Dec 2013
Current Assets			
Cash and cash equivalents		37,623	60,252
Trade and other receivables	7	10,417	7,394
Inventories		7,268	5,724
Investments	11	20,000	-
Total Current Assets		<u>75,308</u>	<u>73,370</u>
Non-Current Assets			
Property, plant and equipment	8	8,260	7,974
Exploration and evaluation expenditure	9	73,134	64,618
Oil and gas assets	10	14,366	11,922
Investments	11	7,989	30,028
Total Non-Current Assets		<u>103,749</u>	<u>114,542</u>
Total Assets		<u>179,057</u>	<u>187,912</u>
Current Liabilities			
Trade and other payables		9,406	8,681
Provisions		1,342	1,274
Total Current Liabilities		<u>10,748</u>	<u>9,955</u>
Non-Current Liabilities			
Trade and other payables	12	40,000	40,000
Provisions		6,576	6,565
Total Non-Current Liabilities		<u>46,576</u>	<u>46,565</u>
Total Liabilities		<u>57,324</u>	<u>56,520</u>
Net Assets		<u>121,733</u>	<u>131,392</u>
Equity			
Contributed equity		228,149	228,149
Reserves		3,963	3,761
Accumulated losses		(110,379)	(100,518)
Total equity		<u>121,733</u>	<u>131,392</u>

The notes on pages 12 to 20 are an integral part of these condensed consolidated financial statements.

BURU ENERGY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

<i>in thousands of AUD</i>	Note	30 Jun 2014	31 Dec 2013 (six months)
Revenue		7,270	-
Cost of sales		(5,650)	-
Gross profit		<u>1,620</u>	-
Other income	13	1,000	119
Exploration and evaluation expenditure		(4,673)	(8,964)
Impairment of oil and gas assets		-	-
Impairment of property, plant and equipment		-	-
Impairment of loan provided to suppliers	11	(2,000)	-
Corporate and administrative expenditure	14	(7,018)	(7,034)
Profit on sale of financial assets		162	-
Share based payments expenses	16	(343)	(729)
Results from operating activities		<u>(11,252)</u>	<u>(16,608)</u>
Financial income		1,065	1,627
Net finance income		<u>1,065</u>	<u>1,627</u>
Loss before income tax		<u>(10,187)</u>	<u>(14,981)</u>
Income tax expense		-	-
Loss for the period		<u>(10,187)</u>	<u>(14,981)</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Change in fair value of available-for-sale financial assets net of tax		185	-
Other comprehensive income for the period, net of income tax		<u>185</u>	-
Total comprehensive loss for the period		<u>(10,002)</u>	<u>(14,981)</u>
Basic loss per share (cents)		(3.41)	(5.09)
Diluted loss per share (cents)		(3.41)	(5.09)

The notes on pages 12 to 20 are an integral part of these condensed consolidated financial statements.

BURU ENERGY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

in thousands of AUD

	Share capital	Share based payment reserve	Financial asset revaluation reserve	Retained losses	Total equity
	\$	\$	\$	\$	\$
Balance as at 1 July 2013	189,311	2,168	1,303	(85,976)	106,806
Comprehensive loss for the period					
Loss for the period	-	-	-	(14,981)	(14,981)
Net change in fair value of available-for-sale financial assets	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(14,981)	(14,981)
Transactions with owners recorded directly in equity					
Issue of ordinary shares, net of transaction costs	38,838	-	-	-	38,838
Share based payment transactions	-	729	-	-	729
Share options exercised/forfeited	-	(439)	-	439	-
Total transaction with owners recorded directly in equity	38,838	290	-	439	39,567
Balance as at 31 December 2013	228,149	2,458	1,303	(100,518)	131,392
	Share capital	Share based payment reserve	Financial asset revaluation reserve	Retained losses	Total equity
	\$	\$	\$	\$	\$
Balance as at 1 January 2014	228,149	2,458	1,303	(100,518)	131,392
Comprehensive loss for the period					
Loss for the period	-	-	-	(10,187)	(10,187)
Net change in fair value of available-for-sale financial assets	-	-	185	-	185
Total comprehensive loss for the period	-	-	185	(10,187)	(10,002)
Transactions with owners recorded directly in equity					
Share based payment transactions	-	343	-	-	343
Share options exercised/forfeited	-	(326)	-	326	-
Total transaction with owners recorded directly in equity	-	17	-	326	343
Balance as at 30 June 2014	228,149	2,475	1,488	(110,379)	121,733

The notes on pages 12 to 20 are an integral part of these condensed consolidated financial statements.

BURU ENERGY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

<i>In thousands of AUD</i>	30 Jun 2014	31 Dec 2013 (six months)
Cash flows from operating activities		
Cash receipts from product sales and related debtors	6,476	253
Payments to suppliers and employees	(11,555)	(7,330)
Payments for exploration and evaluation expenditure	(9,922)	(5,563)
Net cash outflow from operating activities	<u>(15,001)</u>	<u>(12,640)</u>
Cash flows from investing activities		
Interest received	1,086	1,632
Payments for purchase of plant and equipment	(929)	(498)
Payments for exploration and evaluation expenditure	(6,857)	(3,831)
Payments for oil and gas development assets expenditure	(1,269)	(6,049)
Transfer to long-term cash held in escrow*	(366)	(632)
Loan provided to suppliers	-	(2,000)
Proceeds from sale of financial assets	750	-
Net cash outflow from investing activities	<u>(7,585)</u>	<u>(11,378)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital	-	38,838
Net cash from financing activities	<u>-</u>	<u>38,838</u>
Net increase / (decrease) in cash and cash equivalents	(22,586)	14,820
Cash and cash equivalents at beginning of the period	60,252	45,437
Effect of exchange rate changes on cash and cash equivalents	(43)	(5)
Cash and cash equivalents at the end of the period	<u>37,623</u>	<u>60,252</u>

* Funds held in escrow on behalf of Alcoa of Australia Limited

The notes on pages 12 to 20 are an integral part of these condensed consolidated financial statements.

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

1 Reporting Entity

Buru Energy Limited (“Buru Energy” or the “Company”) is a for profit company domiciled in Australia. The address of the Company’s registered office is Level 2, 88 William Street, Perth, Western Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities. The Group is primarily involved in oil and gas exploration and production in the Canning Superbasin in the Kimberley region of northwest Western Australia.

2 Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements are general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the six months ended 31 December 2013. The consolidated financial statements of the Group as at and for the six months ended 31 December 2013 are available upon request from the Company’s registered office or at www.buruenergy.com. The condensed consolidated interim financial statements comply with IAS 34 *Interim Financial Reporting*.

During the six month period ended 31 December 2013, the financial year end date of the Group was changed from 30 June to 31 December. Accordingly the comparatives for these interim financial statements cover the six month period from 1 July 2013 to 31 December 2013.

These condensed consolidated interim financial statements were approved by the Board of Directors on 8 September 2014.

3 Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the six months ended 31 December 2013.

4 Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the six months ended 31 December 2013.

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

5 Segment Information

The Group continues to have only one reportable geographical segment being the Canning Superbasin in North West Western Australia and three reportable operating segments being the Group's three strategic business units: oil, gas and exploration. For each of the strategic business units, the Group's Executive Chairman, COO and Head of Finance review internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable operating segments:

- Oil: Primarily includes the development and production of the Ungani conventional oilfield which is currently in an Extended Production Test. The currently shut in Blina and Sundown oilfields are also included in this segment.
- Gas: Exploration and appraisal of gas is currently concentrated in the Valhalla and Yulleroo areas where gas has been intersected in the Laurel Formation.
- Exploration: The exploration program is focused on prospects in the Ungani oil trend and evaluation of the other areas in the Group's portfolio, including the Acacia area and the Goldwyer Shale in the southern part of the basin.

Information regarding the results of each reportable segment is included below. Performance is measured in regard to the Group and its segments principally with reference to earnings before interest and tax, and capital expenditure on exploration and evaluation assets, oil and gas assets, and property, plant and equipment. Corporate represents a reconciliation of reportable segments revenues, profit or loss and assets to the consolidated figures.

Profit and loss	Oil		Gas		Exploration		Corporate*		Total	
	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13
<i>in thousands of AUD</i>										
External revenues	7,270	-	-	-	-	-	-	-	7,270	-
Operating costs	(5,650)	-	-	-	-	-	-	-	(5,650)	-
Gross Profit	1,620	-	-	-	-	-	-	-	1,620	-
Other income	-	-	-	-	-	-	1,000	119	1,000	119
Exploration and evaluation expenditure	-	-	(840)	(726)	(3,833)	(8,238)	-	-	(4,673)	(8,964)
Impairment of loan	-	-	-	-	-	-	(2,000)	-	(2,000)	-
Corporate and administrative expenditure, including depreciation	-	-	-	-	-	-	(7,018)	(7,034)	(7,018)	(7,034)
Profit on sale of financial assets	-	-	-	-	-	-	162	-	162	-
Share based payment expenses	-	-	-	-	-	-	(343)	(729)	(343)	(729)
EBIT	1,620	-	(840)	(726)	(3,833)	(8,238)	(8,199)	(7,644)	(11,252)	(16,608)
Financial income	-	-	-	-	-	-	1,065	1,627	1,065	1,627
Reportable segment profit / (loss) before tax	1,620	-	(840)	(726)	(3,833)	(8,238)	(7,134)	(6,017)	(10,187)	(14,981)

* Corporate represents reconciliation of reportable segments to IFRS measures

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

Total Assets	Oil		Gas		Exploration		Corporate		Total		
	<i>in thousands of AUD</i>	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13	Jun 14	Dec 13
Current assets		1,876	-	-	-	-	-	73,432	73,370	75,308	73,370
Property, plant and equipment		-	-	-	-	-	-	8,260	7,974	8,260	7,974
Exploration and evaluation assets		-	-	18,247	17,435	54,887	47,183	-	-	73,134	64,618
Oil and gas assets – development		14,366	11,922	-	-	-	-	-	-	14,366	11,922
Investments		-	-	-	-	-	-	7,989	30,028	7,989	30,028
Total Assets		16,242	11,922	18,247	17,435	54,887	47,183	89,681	111,372	179,057	187,912

* Corporate represents reconciliation of reportable segments to IFRS measures

6 Financial Risk Management

Fair value vs carrying amounts

The carrying value of financial assets and liabilities in the statement of financial position are materially equal to their fair values.

Credit risk of trade and other receivables

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.

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

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.

Financial instruments carried at fair value

Fair value measurements for financial instruments are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability

The Group's available for sale financial assets are classed as Level 1. The Group has no other financial instruments.

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

7 Trade and Other Receivables

in thousands of AUD

	30 June 2014	31 December 2013
	\$	\$
Trade receivables	1,876	3
Interest receivables	209	187
Joint venture receivables	6,632	2,094
Prepayments	631	473
GST receivable	279	1,060
Research and development tax concession receivable	666	3,555
Other receivables	124	22
	10,417	7,394

8 Property, Plant and Equipment

During the six months ended 30 June 2014 the Group acquired assets with a cost of \$767,000 (six months ended 31 December 2013: \$502,000).

9 Exploration and Evaluation Expenditure

in thousands of AUD

	30 June 2014	31 December 2013
	\$	\$
Carrying amount at beginning of the interim period	64,618	63,828
Exploration expenditure capitalised	9,182	4,345
Research and development tax concession	(666)	(3,555)
Carrying amount at the end of the interim period	73,134	64,618

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditure to be expensed in the period it is incurred, except the costs of successful wells and the costs of acquiring interests in new exploration assets, which are capitalised as intangible exploration and evaluation. The costs of wells are initially capitalised pending the results of the well.

10 Oil and gas assets

in thousands of AUD

	30 June 2014	31 December 2013
	\$	\$
Assets in Development		
Carrying amount at beginning of the interim period	11,922	5,009
Expenditure capitalised	3,118	6,913
Amortisation expensed	(674)	-
Carrying amount at the end of the interim period	14,366	11,922

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

11 Investments

in thousands of AUD

	30 June 2014	31 December 2013
Current	\$	\$
Long-term cash held in escrow ⁽ⁱ⁾	20,000	-
	20,000	-
Non-Current	\$	\$
Available-for-sale financial assets	1,763	2,167
Long-term cash held in escrow ⁽ⁱ⁾	6,226	25,861
Loan provided to suppliers ⁽ⁱⁱ⁾	-	2,000
	7,989	30,028

- (i) Buru Energy and Alcoa entered into an agreement for up to \$20 million of the escrowed funds to be applied to fund the next phase of the appraisal program for the Laurel Wet Gas accumulation and these funds will therefore be released from escrow when required for the appraisal program, subject to the terms of agreement. The remaining funds will be retained in the escrow account.
- (ii) During the period, the Group recorded an impairment expense of \$2 million against the loan provided to suppliers after it became apparent that the particular supplier would be unlikely to be able to repay the loan.

12 Non-current Trade and Other Payables

in thousands of AUD

	30 June 2014	31 December 2013
	\$	\$
Unearned income	40,000	40,000
	40,000	40,000

Unearned income consists of Buru Energy's potential obligation to repay a \$40 million Gas Supply Agreement ("GSA"). The GSA provides for the delivery to Alcoa of up to 500 PJ of gas from gas discoveries made by Buru Energy on Buru Energy's Canning Superbasin permits. Alcoa now has the right to extend the gas sales contract final investment decision date on an annual basis until 1 January 2018. Buru Energy will be obliged to repay the \$40 million prepayment in three equal annual instalments commencing on 30 June 2018 if, prior to 1 July 2015, Buru Energy 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 (unless the FID Date is extended in accordance with the abovementioned right in which case repayments will commence on 31 December 2018, 31 December 2019 or 31 December 2020 respectively). If Buru Energy is required to repay the \$40 million, there is no interest obligation.

Buru Energy and Alcoa subsequently entered into an agreement for up to \$20 million of the escrowed funds to be applied to fund the next phase of the appraisal program for the Laurel Wet Gas accumulation. The remaining funds will be retained in the escrow account.

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

13 Other Income

in thousands of AUD

	6 months ended 30 June 2014	6 months ended 31 December 2013
	\$	\$
Equipment rental	596	31
Fuel tax credits	345	45
Other revenue	59	43
	1,000	119

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

14 Administrative Expenditure

in thousands of AUD

	6 months ended	6 months ended
	30 June 2014	31 December 2013
	\$	\$
Wages and salaries (including superannuation)	3,974	4,353
Contract employment services	143	524
Other associated personnel expenses	766	434
Office and other administration expenses	2,135	1,723
	7,018	7,034

15 Capital and Reserves

	Ordinary Shares	
	1 Jan – 30 Jun 2014	1 Jul – 31 Dec 2013
	No.	No.
On issue at the beginning of the interim period	298,505,530	274,036,429
Issued under Institutional Placement	-	21,300,000
Issued under Share Purchase Plan	-	3,029,278
Unlisted options exercised during the period	-	139,823
On issue at the end of the interim period – fully paid	298,505,530	298,505,530

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.

Share-based Payments Reserve

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

Financial Asset Revaluation Reserve

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

16 Share-based Payments

Description of share-based arrangements

During the period ended 30 June 2014 the following share-based payments were made:

<i>Fair value expensed in thousands of AUD</i>	1 Jan – 30 Jun 2014	1 Jul – 31 Dec 2013
Share Appreciation Rights expensed	654	729
Share Appreciation Rights forfeited prior to vesting	(311)	-
	343	729

The fair value of share based payment arrangements 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.

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

Share Appreciation Rights (SARs)

During the interim period the Group issued SARs to certain employees. Each SAR represents a right to an award equivalent to the positive difference between the notional share price set at the date of grant and the share price at the date of exercise, subject to satisfaction of any vesting conditions and exercise conditions. At the Board's discretion, the award may be settled in ordinary shares of an equivalent value or as a cash payment. It is the Board's intention to preserve cash and settle the award in ordinary shares. The SARs lapse at the earlier of the expiry date and the date of cessation of employment.

The fair value of all share appreciation rights granted during the period was measured using the Black & Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the equity settled share based payment plans were as follows:

Six months ended 30 June 2014

Grant Date	Number SARS granted	Share Price at Grant Date	Exercise Price	Volatility	Expected Dividends	Risk free interest rate	Vesting Date	Expiry Date	Fair Value
Share Appreciation Rights issued to KMPs:									
3 Jan 14	228,020	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.61
3 Jan 14	228,020	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.59
3 Jan 14	228,020	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.68
3 Jan 14	228,020	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.66
3 Jan 14	456,040	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.71
3 Jan 14	456,040	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.71
7 Feb 14	137,500	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.77
7 Feb 14	137,500	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.74
7 Feb 14	137,500	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.81
7 Feb 14	137,499	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.79
7 Feb 14	274,999	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.84
7 Feb 14	274,999	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.84
	2,924,157								
Share Appreciation Rights issued to employees:									
3 Jan 14	355,873	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.61
3 Jan 14	355,873	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.59
3 Jan 14	355,873	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.68
3 Jan 14	355,873	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.66
3 Jan 14	711,746	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.71
3 Jan 14	711,746	\$1.77	\$1.63	55%	Nil	3.0%	31 Oct 16	1 Nov 16	\$0.71
7 Feb 14	31,250	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.77
7 Feb 14	31,250	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.74
7 Feb 14	31,250	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.81
7 Feb 14	31,249	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.79
7 Feb 14	62,499	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.84
7 Feb 14	62,499	\$1.95	\$1.63	55%	Nil	2.9%	31 Oct 16	1 Nov 16	\$0.84
	3,096,981								

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

The total number of SARs issued during the period was 6,021,138. The movement during the reporting period in the number of share appreciation rights is as follows:

	Number of SARs
SARs on issue as at 1 January 2014	5,000,000
Granted during the period ended 30 June 2014	6,021,138
Forfeited during the period ended 30 June 2014*	(5,516,218)
Outstanding as at 30 June 2014	5,504,920

* 2,016,218 SARs forfeited during the period prior to vesting with the expense being reversed in the statement or loss.

The vesting profile of the SARs outstanding as at 30 June 2014 are as follows:

	Number of SARs
Vested and exercisable as at 30 June 2014	400,000
Vesting 31 December 2014	500,000
Vesting 31 December 2015	600,000
Vesting 31 October 2016	4,004,920
Outstanding as at 30 June 2014	5,504,920

Employee Share Option Plan (ESOP)

No options were issued during the current reporting period.

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

	Weighted average exercise price	Number of options
Outstanding unlisted options as at 1 January 2014	\$4.04	1,339,800
Forfeited during the period ended 30 June 2014	\$4.04	(207,000)
Outstanding and exercisable as at 30 June 2014	\$4.04	1,132,800

The unlisted share options outstanding as at 30 June 2014 have an exercise price of \$4.04 (December 2013: \$4.04), and a weighted average contractual life of 0.5 years (December 2013: 1 year). All options outstanding fully vested in previous reporting periods.

No options or SARs were exercised during the period.

17 Capital and Other Commitments

in thousands of AUD

	30 June 2014	31 December 2013
Exploration expenditure commitments	\$	\$
<i>Contracted but not yet provided for and payable:</i>		
Within one year	23,867	26,150
One year later and no later than five years	40,281	24,075
	64,148	50,225

The commitments are required in order to maintain the petroleum exploration permits in which the Group has interests in good standing with the Department of Mines & Petroleum ("DMP"). These obligations may be varied from time to time, subject to approval by the DMP. Included in the above are the commitments during the term of the State Agreement, under which Buru Energy and Mitsubishi have committed to the continued exploration, appraisal and, if technically viable, development of the gas resources of the permits with the objective of delivering gas into the Western Australian domestic gas market. The above commitments also include the expenditure to purchase a 50% interest in the permit to be issued in respect of application area 5/07-8 (Derby Block), from Backreef Oil Limited, for a total cash consideration of \$3.5 million.

BURU ENERGY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONT'D)

18 Related Parties

Key management personnel compensation

The key management personnel compensation comprised:

<i>in AUD</i>	6 months ended 30 June 2014	6 months ended 31 Dec 2013
Short-term employee benefits	2,100,489	1,835,703
Post-employment benefits	142,623	138,678
Termination benefits	-	330,000
Share-based payments	312,616	328,746
	<hr/> 2,555,728	<hr/> 2,633,127

There were no transactions between the Group involving related parties, other than those with key management personnel as described above.

BURU ENERGY LIMITED
DIRECTORS' DECLARATION

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

- (a) the financial statements and notes set out on pages 8 to 20, 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 2014 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Mr Eric Streitberg
Executive Chairman
Perth
9 September 2014



The Hon Peter Jones AM
Non-Executive Director
Perth
9 September 2014



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

Report on the financial report

We have reviewed the accompanying interim financial report of Buru Energy Limited (the company), which comprises the condensed consolidated statement of financial position as at 30 June 2014, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Buru Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Buru Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

G-T H

Graham Hogg
Partner

Perth

9 September 2014

**BURU ENERGY LIMITED
CORPORATE DIRECTORY**

Directors

Mr Eric Streitberg – Executive Chairman
The Hon Peter Jones AM – Non-Executive Director
Ms Eve Howell – Non-Executive Director
Mr Robert Willes – Non-Executive Director

Company Secretary

Mr Shane McDermott

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1230 Hay Street
WEST PERTH WA 6005

Stock Exchange

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
PERTH WA 6000

ASX Code

BRU: Listed ordinary shares