Independent Auditor's Report

To the shareholders of Buru Energy Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Buru Energy Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020;
- Consolidated statement of comprehensive income or loss, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of oil and gas assets ($19.3 million)	
Refer to Note 6 Oil and gas assets (Ungani Oilfield)	
The key audit matter	**How the matter was addressed in our audit**

The valuation of the Ungani oilfield was a key audit matter due to the significance of the asset balance (37% of the total assets post impairment) and the significant judgement required by us in evaluating the Group's impairment indicator assessment and the resultant impairment testing. A total impairment expense of $20 million was recorded for the financial year (with $16.3 million of the expense recorded at 30 June 2020 and the remaining $3.7 million at 31 December 2020).
 	
The presence of impairment indicators at both 30 June and 31 December required a detailed analysis by the Group of the value of the Ungani oilfield asset. These impairment indicators arose as a result of the global decline in oil prices as a result of the COVID-19 world pandemic as at 30 June 2020 as well as from a decline in production as at 31 December 2020. The Group prepared a fair value less cost of disposal model (the model) to estimate the recoverable amount of the oilfield at both dates. The model was developed in-house using forward-looking assumptions which tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional audit effort and scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.
 	
We focused on the significant forward-looking assumptions the Group applied in their model, including:
• Forecast oil price and foreign exchange rate;
• Forecast operating cash flows, production and sales volumes, and capital expenditure, which are based on historical performance adjusted for expected changes based on normalised historical performance; and
• Discount rate.
 	
We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.
	Our procedures included:
	• Tested the design and implementation of the Group's control being board approval of the Group's assessment of impairment indicators;
	• Evaluated the appropriateness of the Group's assessment of cash generating unit (CGU) and impairment indicators against accounting standard requirements;
	• Considered the appropriateness of the fair value less cost of disposal method applied by the Group, for impairment testing purposes;
	• Compared the forecast operating cash flows, production and sales volumes and capital expenditure contained in the model to Board approved budgets;
	• Working with our valuation specialists, we assessed the macroeconomic assumptions, model methodology and analysed the Group's discount rate against publicly available data of a group of comparable entities;
	• Considered the sensitivity of the model by varying key assumptions, such as forecast oil prices, foreign exchange rate and the discount rate, within a reasonably possible range;
	• We used our knowledge of the Group and our industry experience to challenge the consistency of forecast operating cash flows, production and sales volumes and capital expenditure based on the Group's past performance. We also compared the following key inputs in the Group's model to publicly available data for comparable entities:
	  - Forecast oil prices
	  - Foreign exchange rate.
	• Obtained a copy of the Group's external contingent resources report to compare the forecast production quantities within the model;
	• Recomputed the market capitalisation of the Group and compared this with the net asset value;
	• Recalculated the impairment charge and assessed the allocation against the individual assets comprising the CGU; and
	• We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Buru Energy Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- Preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- Implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- Assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- To obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- To issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Buru Energy Limited for the year ended 31 December 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 19 to 22 of the Directors' report for the year ended 31 December 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Jane Bailey

Jane Bailey

Partner

Perth

17 March 2021