

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Basis of Preparation

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, 16 Ord Street, West Perth, Western Australia. The consolidated financial statements of the Company as at, and for the year ended 31 December 2021 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 Basin in the Kimberley region of northwest Western Australia.

This section sets out the basis upon which the Group's financial statements are prepared as a whole. Significant accounting policies and key judgements and estimates of the Group that summarise the measurement basis used and assist in understanding the financial statements are described in the relevant note to the financial statements or are otherwise provided in this section. The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). The financial statements were approved by the Board of Directors on 18 March 2022. The accounting policies have been applied consistently by Group entities to all periods presented in these consolidated financial statements. The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Financial assets are measured at fair value; and
- Share-based payments are measured at fair value.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the Consolidated Financial Statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Functional and Presentation Currency

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

Use of Estimates and Judgements

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

- Note 5 – Recognition of tax losses
- Note 6 – Oil and gas assets
- Note 7 – Exploration and evaluation expenditure
- Note 8 – Right-of-use assets
- Note 16 – Provisions
- Note 17 – Measurement of share-based payments

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Results for the Year

This section explains the results and performance of the Group including additional information about those individual line items in the financial statements most relevant in the context of the operations of the Group, including accounting policies that are relevant for understanding the items recognised in the financial statements and an analysis of the Group's result for the year by reference to key areas, including operating segments, revenue, expenses, employee costs, taxation and earnings per share.

1. Segment Information

An operating segment is a component of Buru Energy that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Buru Energy's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Chairman, Chief Financial Officer and other executives to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Executive Chairman and Chief Financial Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office expenses. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has only one reportable geographical segment being the northwest Western Australia. The reportable operating segments are based on the Group's strategic business units: oil production, exploration and energy transition. The following summary describes the operations in each of the Group's reportable operating segments:

- ◆ Oil Production: Development and production of the Ungani Oilfield.
- ◆ Exploration: The exploration program is focused on the following:
 - the Rafael area where the Rafael 1 exploration well was drilled in 2021 with a subsequent successful flow test of gas to surface;
 - the Yulleroo area where gas resources have been identified in the Laurel Formation;
 - several other prospects along the Ungani oil trend;
 - the Lennard Shelf area including the shut-in Blina and Sundown Oilfields;
 - the Carnarvon basin where during the year, Buru accepted an offer for a 50% interest in block L20-1; and
 - evaluation of the other areas in the Group's portfolio.
- ◆ Energy Transition: The Company is progressing a number of initiatives to ensure it is part of the energy transition through three subsidiaries, 2H Resources (natural hydrogen), Geovault (Carbon Capture and Storage) and Battmin (Battery Minerals).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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. The unallocated segment represents a reconciliation of reportable segments revenues, profit or loss and assets to the consolidated figures.

Profit or loss <i>in thousands of AUD</i>	Oil Production		Exploration		Energy Transition		Unallocated		Total	
	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20
External revenues	9,608	11,304	-	-	-	-	-	-	9,608	11,304
Cost of sales	(6,541)	(6,853)	-	-	-	-	-	-	(6,541)	(6,853)
Movement in crude inventories	1,521	(944)	-	-	-	-	-	-	1,521	(944)
Amortisation of oil and gas assets	(2,949)	(5,746)	-	-	-	-	-	-	(2,949)	(5,746)
Gross Profit / (Loss)	1,639	(2,239)	-	-	-	-	-	-	1,639	(2,239)
Exploration and evaluation expenditure	-	-	(8,187)	(3,453)	(1,054)	-	-	-	(9,241)	(3,453)
Impairment of exploration expenditure	-	-	-	(720)	-	-	-	-	-	(720)
Impairment of oil and gas expenditure	-	(20,000)	-	-	-	-	-	-	-	(20,000)
Increase in provisions against inventories	-	-	(32)	(907)	-	-	-	-	(32)	(907)
Depreciation expense	-	-	-	-	-	-	(1,386)	(1,288)	(1,386)	(1,288)
Corporate and administrative expenditure	-	-	-	-	-	-	(1,357)	(388)	(1,357)	(388)
Share based payment expenses	-	-	-	-	-	-	(565)	-	(565)	-
Movement in fair value of financial assets	-	-	-	-	-	-	-	(53)	-	(53)
EBIT	1,639	(22,239)	(8,219)	(5,080)	(1,054)	-	(3,308)	(1,729)	(10,942)	(29,048)
Net finance income / (expense)	-	-	-	-	-	-	191	225	191	225
Reportable segment profit / (loss) before tax	1,639	(22,239)	(8,219)	(5,080)	(1,054)	-	(3,117)	(1,504)	(10,751)	(28,823)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Total Assets <i>in thousands of AUD</i>	Oil Production		Exploration		Energy Transition		Unallocated		Total	
	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20	Dec 21	Dec 20
Current assets	1,776	337	259	1,488	-	-	24,642	27,272	26,677	29,097
Oil and gas assets	22,028	19,328	-	-	-	-	-	-	22,028	19,328
Exploration and evaluation assets	-	-	9,501	-	-	-	-	-	9,501	-
Property, plant and equipment	-	-	-	-	-	-	3,349	3,532	3,349	3,532
Financial assets	-	-	-	-	-	-	-	-	-	-
Total Assets	23,804	19,665	9,760	1,488	-	-	27,991	30,804	61,555	51,957
Capital Expenditure	5,649	3,108	9,501	-	-	-	8	-	15,158	3,108
Total Liabilities					-	-				
Current liabilities	4,331	4,067	5,220	1,691	-	-	2,427	2,042	11,978	7,800
Lease liabilities (Non-current)	553	615	158	176	-	-	79	87	790	878
Loans and borrowings (Non-current)	-	-	-	-	-	-	-	-	-	-
Provisions (Non-current)	1,641	1,503	3,328	2,876	-	-	365	295	5,334	4,674
Total Liabilities	6,525	6,185	8,706	4,743	-	-	2,871	2,424	18,102	13,352

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Revenue

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Sales of crude oil	9,575	11,716
Timing effect of revenue	33	(412)
	9,608	11,304

Accounting Policy

Revenue is recognised when a customer obtains control of the goods or services. Under the existing contract, the sale of oil is recognised on Free on Board (FOB) terms, whereby the customer obtains control of the oil as it is loaded onto the vessel. Revenue from the sale of crude oil in the course of ordinary activities is recognised in the income statement at the consideration in the contract received or receivable. The price received FOB Wyndham represents the realised Brent linked oil price less the buyer's marine transport discount. Contract terms for crude sales allow for a final price adjustment after the date of sale, based on average Brent Platts in the month the crude is sold and final volume. The adjustment between the provisional and final price is separately disclosed as timing effect of revenue. Payment terms for invoices are thirty days from the Bill of Lading date.

3. Corporate and Administrative Expenditure

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Corporate and other administration expenses	2,743	1,676

The above expense excludes share-based payments disclosed at note 17.

Corporate and administrative expenditure was significantly reduced during the previous year (2020) as the Company took temporary decisive cost cutting measures to preserve the Company's balance sheet. Corporate and office staff including the Executive Chairman and the Board had their remuneration reduced between 20% to 75% for up to 6 months, and other non-personnel overheads were also reduced to the full extent practicable. JobKeeper payments are government grants and are accounted for under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. The Company has determined that it is eligible to receive the JobKeeper payments, which totalled \$119,000 in the year ended 31 December 2021 (31 December 2020: \$1,060,000) which have been offset against corporate and administrative expenditure. Total personnel expenses for the 2021 year amounted to \$5,478,000, (2020: \$6,580,000) prior to amounts received under the JobKeeper payment scheme and Joint Venture reimbursements. Net personnel expenses are included in Cost of Sales, Exploration and Evaluation Expenditure and Corporate and Administrative Expenditure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4. Net Finance Income / (Expense)

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Finance Income		
Interest income on bank deposits and receivables	55	275
	55	275
Finance Expense		
Interest expense on borrowings (note 15)	-	(86)
Interest income / (expense) on lease liabilities	9	45
Net foreign exchange gain / (loss)	127	(9)
	136	(50)
Net finance income / (expense) recognised in profit or loss	191	225

Accounting Policy

Finance income comprises interest income on funds invested (including financial assets). Interest income is recognised as it accrues in profit or loss, using the effective interest method. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

5. Taxation

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Current income tax		
Current income tax charge	-	-
Adjustments in respect of previous current income tax	-	-
	-	-
Deferred income tax		
Tax relating to origination and reversal of temporary differences	-	-
	-	-
Total income tax expense reported in equity	-	-
Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting profit / (loss) before tax	(10,751)	(28,823)
Income tax (expense) / benefit using the domestic corporation tax rate of 30%	3,225	8,647
(Increase) / decrease in income tax due to:		
Non-deductible expenses	(180)	(2)
Temporary differences and tax losses not brought to account as a DTA	(3,045)	(8,645)
Tax losses utilised	-	-
Income tax benefit / (expense) on pre-tax loss	-	-

Accounting Policy

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Unrecognised net deferred tax assets

Net deferred tax assets have not been recognised in respect of the following items.

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020	Movement
Deferred tax assets			
Business related costs	-	1	(1)
Accruals	15	15	-
Provisions	2,151	1,962	189
Development expenditure	3,770	5,020	(1,250)
Exploration expenditure	(2,850)	216	(3,066)
Lease liabilities	612	637	(25)
Tax losses	53,615	46,200	7,415
Unrealised foreign exchange	(17)	22	(39)
	57,296	54,073	3,223
Deferred tax liabilities			
Property, plant and equipment	(293)	(310)	17
Investments in listed entities	(24)	(24)	-
Rehabilitation	(516)	(474)	(42)
Lease assets	(615)	(644)	29
	(1,448)	(1,452)	4
Net DTA not brought to account	55,848	52,621	3,227

Accounting Policy

Deferred tax is not provided for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. In accordance with the group's accounting policies for deferred taxes, a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. This includes estimates and judgements about oil and gas prices, reserves, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

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 yet probable that future taxable profit will be available against which the Group can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Tax consolidation

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

Tax effect 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 Energy. In this regard, Buru Energy 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.

Goods and Services Tax

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. Oil and Gas Assets

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Carrying amount at beginning of the period	19,328	41,966
Impairment of oil and gas assets	-	(20,000)
Development expenditure	5,649	3,108
Transfer from property, plant and equipment	-	-
Amortisation expense	(2,949)	(5,746)
Carrying amount at the end of the period	22,028	19,328

Accounting Policy

Oil and gas assets are measured at cost less amortisation and impairment losses. The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying amount of oil and gas assets is reviewed bi-annually. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and included in the profit or loss. Oil and gas assets are amortised over their estimated life according to the rate of depletion of the proved and probable hydrocarbon reserves. When no reserves are certified, oil and gas assets are amortised on a straight-line basis over their estimated useful life until such time when reserves are certified. Retention of petroleum assets is subject to meeting certain work obligations/ commitments.

The estimated quantities of proved and probable hydrocarbon reserves and resources reported by the group are integral to the calculation of amortisation (depletion) and assessments of possible impairments. Estimated reserves and resources quantities are based upon interpretations of geological and geophysical models and assessment of the technical feasibility and commercial viability of producing the reserves and resources. Management prepares estimates which conform to guidelines prepared by the Society of Petroleum Engineers. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves and resources may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. The Ungani Oilfield does not currently have certified reserves and is therefore currently being amortised on a straight-line basis over the remaining life of the Oilfield.

Impairment recorded against the Ungani Oilfield in the prior period (2020)

As a result of the COVID-19 pandemic and the very significant fall in global crude prices during 2020, and lower production rates than expected from the Ungani 7 well, the Company conducted a detailed review of the recoverable amount of the Ungani Oilfield Cash Generating Unit (CGU). The assessment indicated that the asset was unlikely to recover its pre-impairment carrying value in full and a non-cash impairment of \$20,000,000 was recorded for the year. The recoverable amount for the Ungani Oilfield CGU is based on a Fair Value Less Cost to Dispose (FVLCD) discounted cash flow calculation. This approach is categorised as a Level 3 fair value using the income approach, based on the inputs in the valuation technique, in accordance with AASB 13 Fair value measurement. The post-impairment carrying value of the Ungani Oilfield as at 31 December 2020 represents its recoverable amount. The FVLCD valuation will result in a higher fair value than the Value in Use (VIU) valuation. For further information refer to the 2020 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

7. Exploration and Evaluation Expenditure

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Carrying amount at beginning of the period	-	720
Exploration assets additions	9,501	-
Impairment of exploration expenditure	-	(720)
Movement in rehabilitation provision for exploration assets	-	-
Carrying amount at the end of the period	9,501	-

Accounting Policy

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 drilling successful wells and the costs of acquiring interests in new exploration assets, and appraisal costs relating to determining development feasibility, which are capitalised as an asset.

An exploration/appraisal well is unsuccessful if no recoverable hydrocarbons are identified, or the Board considers that the hydrocarbons are not commercially viable. Where hydrocarbon resources exist, the costs of successful wells may remain capitalised where further appraisal of the discovery is planned. If this further appraisal does not lead to the discovery of commercially recoverable reserves, all these costs would be impaired. Exploration and evaluation expenditure is accumulated on a well-by-well basis and may be carried forward at the end of a reporting period, pending determination.

An area of interest refers to an individual geological area where the presence of oil or a natural gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual prospective oil or gas field. Exploration and evaluation expenditure is recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

- such expenditure is expected to be recovered through successful development and commercial exploitation of the area of interest or, alternatively, by its sale; or
- the exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Rafael 1 exploration well was capitalised during the 2021 year with initial results from the well suggesting potential for a substantial accumulation of high quality gas to be present in the structure. Although the exploration activities at Rafael 1 have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, significant further exploration operations are planned at Rafael 1 over the coming years.

Where an ownership interest in an exploration and evaluation asset is exchanged for another, the transaction is recognised by reference to the carrying value of the original interest. Any cash consideration paid, including transaction costs, is accounted for as an acquisition of exploration and evaluation assets. Any cash consideration received, net of transaction costs, is treated as a recoupment of costs previously capitalised with any excess accounted for as a gain on disposal of non-current assets. The carrying amounts of the Group's exploration and evaluation assets are reviewed at each reporting date to determine whether any of the following indicators of impairment exists:

- ◆ tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or
- ◆ substantive expenditure on further exploration for and evaluation of resources in the specific area is not budgeted or planned; or
- ◆ exploration for and evaluation of resources in the specific area has not led to the discovery of commercially viable quantities of resources, and the Group has decided to discontinue activities in the specific area; or
- ◆ sufficient data exists to indicate that although a development is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made and any resultant impairment loss is recognised in the income statement. When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to oil and gas assets. Determining the recoverability of exploration and evaluation expenditure capitalised requires estimates and judgements as to future events and circumstances, in particular, whether successful development and commercial exploitation or sale of the respective area of interest is likely. Critical to this assessment are estimates and assumptions as to the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. If, after having capitalised the expenditure a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

8. Property, Plant and Equipment (PPE)

<i>in thousands of AUD</i>	Plant and equipment	Right-of-use assets	Other	Cultural assets	Total
Cost					
Carrying amount at 1 Jan 2020	1,406	3,263	5	877	5,551
Additions	-	1,273	-	-	1,273
Disposals	-	-	(5)	-	(5)
Balance at 31 Dec 2020	1,406	4,536	-	877	6,819
Carrying amount at 1 Jan 2021	1,406	4,536	-	877	6,819
Additions	8	1,195	-	-	1,203
Disposals	(35)	-	-	-	(35)
Balance at 31 Dec 2021	1,379	5,731	-	877	7,987
Depreciation					
Carrying amount at 1 Jan 2020	(784)	(1,210)	(5)	-	(1,999)
Depreciation for the period	(111)	(1,182)	5	-	(1,288)
Disposal	-	-	-	-	-
Transfer	-	-	-	-	-
Balance at 31 Dec 2020	(895)	(2,392)	-	-	(3,287)
Carrying amount at 1 Jan 2021	(895)	(2,392)	-	-	(3,287)
Depreciation for the period	(95)	(1,291)	-	-	(1,386)
Disposal	35	-	-	-	35
Balance at 31 Dec 2021	(955)	(3,683)	-	-	(4,638)
Carrying amounts					
At 31 December 2020	511	2,144	-	877	3,532
At 31 December 2021	424	2,048	-	877	3,349

Accounting Policy

Items of PPE are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of PPE and are recognised net in profit or loss. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably. The costs of the day-to-day servicing of PPE are recognised in profit or loss as incurred. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of PPE, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

◆ plant & equipment	10 – 30 years
◆ right-of-use assets	1 – 4 years
◆ other	3 – 20 years
◆ cultural assets	not depreciated

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

The Group's accounting policy under AASB 16 as lessee is as follows:

For any new contracts entered into as a lessee, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluation criteria which are whether:

- ◆ the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- ◆ the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- ◆ the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Right-of-use assets and lease liabilities

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate of 3.00%. As at the end of the reporting year, the Group's current lease liabilities were \$1,249,000 (2020: \$1,244,000) and non-current lease liabilities were \$790,000 (2020: \$878,000).

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. Lease liabilities are shown directly on the statement of financial position (current and non-current).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Trade and Other Receivables

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Accrued income	-	82
Interest receivable	19	23
Joint operation receivables	-	238
GST receivable	235	53
Prepayments	207	405
Receivable from Origin in recognition of past exploration costs	-	1,000
Receivable from Origin in recognition of specific past well costs	-	593
Receivable from Origin for initial payment towards farm-in	-	3,407
Insurance refund receivable	452	-
Other receivables	6	125
Total	919	5,926

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 24.

10. Inventories

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Materials and consumables at net realisable value	259	1,488
Petroleum products at cost	1,776	255
Total	2,035	1,743

Accounting Policy

Inventories are valued at the lower of cost or 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. Cost is determined as follows:

- Materials and consumables, which include drilling and production materials and consumables, are valued at the cost of acquisition which includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition; and
- Petroleum products, comprising extracted crude oil stored in tanks and pipeline systems, are valued using the full absorption cost method.

Materials and consumables are accounted for on a FIFO basis. During the year, the Group tested its inventories for impairment and wrote down materials and consumables inventories to their net realisable value, which resulted in an increase in provisions against inventories of \$32,000 (2020: \$907,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. (a) Cash and Cash Equivalents

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Bank balances	9,509	3,715
Term deposits available at call	14,214	17,713
Cash and cash equivalents in the statement of cash flows	23,723	21,428

The Group's exposure to interest rate risk and sensitivity analysis for financial assets is disclosed in note 24.

(b) Reconciliation of Cash Flows from Operating Activities

<i>in thousands of AUD</i>	Note	31 Dec 2021	31 Dec 2020
Cash flows from operating activities			
Income / (Loss) for the period		(10,751)	(28,823)
Adjustments for:			
Depreciation	8	1,386	1,288
Amortisation on development expenditure	6	2,949	5,746
Increase in provisions against inventories	10	32	907
Impairment of oil and gas assets	6	-	20,000
Impairment of exploration expenditure	7	-	720
(Gain) / loss on asset disposal		(23)	-
Share based payment expenses		565	-
Pursuant to Origin Farm-in Agreement reimbursement of past exploration costs	9	-	(1,000)
Pursuant to Origin Farm-in Agreement reimbursement of past well costs	9	-	(593)
Insurance refund receivable	9	452	-
Net finance (income) / costs	4	(191)	(225)
Operating loss before changes in working capital and provisions		(5,581)	(1,980)
Changes in working capital			
Change in trade and other receivables		1,001	(686)
Change in trade and other payables		(716)	(679)
Change in inventories		(1,281)	960
Change in provisions		624	136
Change in financial assets		-	52
Cash used in operating activities		(372)	(217)
Net cash outflow from operating activities		(5,953)	(2,197)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

12. Capital and Reserves

Share capital

	Ordinary Shares 31 Dec 2021 No.	Ordinary Shares 31 Dec 2020 No.
Fully paid shares on issue at the beginning of the period	432,074,241	432,074,241
Issued under Institutional Placement – 6 May 2021	100,000,000	-
Issued under Share Purchase Plan – 10 June 2021	6,368,750	-
On issue at the end of the period – fully paid	538,442,991	432,074,241

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.

On 30 April, Buru announced a successful share placement, receiving firm commitments from institutional, professional and sophisticated investors to raise a total of \$15 million before costs (Placement) resulting in the issue of 100,000,000 new shares at the Placement issue price of \$0.15. The Placement shares were issued on 6 May 2021 under the Company's placement capacity pursuant to ASX Listing Rule 7.1 (64,811,136 shares) and ASX Listing Rule 7.1A (35,188,864 shares). Approximately \$1 million before costs was further raised from existing shareholders in the accompanying Share Purchase Plan (SPP) resulting in the issue of 6,368,750 new shares at the SPP issue price of \$0.16.

13. Earnings / (Loss) Per Share

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Earnings / (loss) attributable to ordinary shareholders	(10,751)	(28,823)

Basic and diluted earnings / (loss) per share

Weighted average number of ordinary shares

	31 Dec 2021 No.	31 Dec 2020 No.
Issued ordinary shares at beginning of the period	432,074,241	432,074,241
Effect of shares issued	69,038,973	-
Weighted average number of ordinary shares at the end of the period	501,113,214	432,074,241
Basic and dilutive loss per share calculated using the weighted average number of ordinary shares at the end of the period (cents)	(2.15)	(6.67)

The Group presents basic and diluted earnings or loss per share (EPS or LPS) data for its ordinary shares. Basic EPS or LPS 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. Diluted EPS or LPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

The Company's potential ordinary shares, being 7,400,000 options, are not considered dilutive as the options were 'out of the money' as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. Trade and Other Payables

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Trade payables	750	337
Accruals	5,398	950
Joint Venture cash calls received in advance	2,797	3,407
Other payables	8	50
	8,953	4,744

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

15. Loans and Borrowings

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Borrowings at beginning of the year	-	2,000
Interest expense	-	86
Repayment to Alcoa	-	(2,086)
Loan at the end of the year	-	-

Accounting Policy

Loans and borrowings are initially recognised at fair value less transaction costs and are subsequently carried at amortised cost. The Group's exposure to currency and liquidity risk related to loans and borrowings is disclosed in note 24. All borrowings relating to the amount payable to Alcoa under a legacy gas sales agreement was repaid in 2020. The Company has no outstanding loans or borrowings as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Provisions

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Current		
Provision for annual leave	1,141	1,134
Provision for long-service leave	142	185
Provision for site restoration	493	493
	1,776	1,812
Non-Current		
Provision for long-service leave	365	295
Provision for site restoration	4,969	4,379
	5,334	4,674
Movements in the site restoration provision		
<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Opening balance	4,872	4,920
Provision used during the period	(192)	(65)
Revaluation of provision during the period	782	17
Balance at the end of the period	5,462	4,872

Accounting Policy

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and that the obligation can be measured reliably. The site restoration provision is in respect of the Group's obligation to rectify environmental liabilities relating to exploration and production in the Canning Basin in accordance with the requirements of DWER and DMIRS. The provision is derived from an annual internal review of the liabilities. These liabilities are also reviewed by independent external consultants as and when required. Due to the long-term nature of the liability, there is significant uncertainty in estimating the costs that will be incurred at a future date. Changes to estimated future costs are recognised in the statement of financial position by adjusting the rehabilitation asset and liability. The rehabilitation is expected to continue to occur progressively.

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 of 0.30% 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. Share-based Payments

<i>Fair value expensed in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Employee Share Option Plan expense	565	-
	565	-

Accounting Policy

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

A total of 8,000,000 unlisted options were granted to employees of the Company under the terms of the Employee Share Option Plan (ESOP) during the reporting period. The options have an exercise price of \$0.23 and an expiry date of 31 December 2023. All options vested immediately and were exercisable from the grant date of 17 February 2021. Refer to the Remuneration Report for the assumptions used to value the options granted under the ESOP to KMP.

Employee Share Option Plan (ESOP)

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 2021	0.40	4,850,000
Lapsed during the period ended 31 December 2021	0.40	(4,850,000)
Granted on 17 February 2021	0.23	8,000,000
Lapsed during the period ended 31 December 2021	0.23	(600,000)
Outstanding as at 31 December 2021	0.23	7,400,000

The unlisted share options outstanding as at 31 December 2021 have a weighted average exercise price of \$0.23 (Dec 2020: \$0.40), and a weighted average contractual life of 2 years (Dec 2020: 1 year).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Group Entities

Parent entity	Country of incorporation	Ownership interest	Ownership interest
Buru Energy Limited	Australia		
Subsidiaries		31 Dec 2021	31 Dec 2020
Royalty Holding Company Pty Limited	Australia	100%	100%
Buru Operations Pty Limited	Australia	100%	100%
Noonkanbah Diamonds Pty Limited	Australia	100%	100%
Buru Fitzroy Pty Limited	Australia	100%	100%
Battmin Pty Ltd (formerly Acorn Minerals Pty Ltd)	Australia	100%	100%
2H Resources Pty Limited	Australia	100%	0%
Geovault Pty Limited	Australia	100%	0%

Buru Energy Limited is the head entity of the tax consolidated group and all subsidiaries are members of the tax consolidated group. 2H Resources Pty Limited was incorporated during the year as a special purpose vehicle established to explore for and commercialise natural hydrogen accumulations. Geovault Pty Limited was incorporated during the year as a special purpose vehicle to develop the expertise for the geological requirements for effective and commercially viable carbon capture and storage.

19. Parent Entity Disclosures

As at, and throughout the year ended 31 December 2021 the parent company of the Group was Buru Energy Limited.

<i>in thousands of AUD</i>	Company 12 months ended 31 Dec 2021	Company 12 months ended 31 Dec 2020
Result of the parent entity		
Total comprehensive profit / (loss) for the period	(9,030)	(27,630)
Financial position of the parent entity at year end		
Current assets	27,017	29,603
Total assets	61,475	51,956
Current liabilities	11,898	7,800
Total liabilities	18,022	13,351
Total equity of the parent entity at year end		
Share capital	286,891	271,857
Reserves	565	528
Accumulated losses	(244,003)	(233,780)
Total equity	43,453	38,605

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Joint Operations

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control exists only when decisions about the relevant activities - i.e. those that significantly affect the returns of the arrangement - require the unanimous consent of the parties sharing control of the arrangement. In accordance with AASB 11, the arrangements have been classified as joint operations (whereby the jointly controlling parties have rights to the assets and obligations for the liabilities relating to the arrangement) as opposed to a joint venture because separate vehicles have not been established through which activities are conducted. The Group therefore recognises its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements.

The consolidated entity has an interest in the following joint operations as at 31 December 2021 whose principal activities were oil and gas exploration, development and production.

Permit/Joint Operation	December 2021 Beneficial Interest	December 2020 Beneficial Interest	Operator	Country
L20	50.00%	50.00%	Buru Energy Ltd	Australia
L21	50.00%	50.00%	Buru Energy Ltd	Australia
EP 129 ³	50.00%	50.00%	Buru Energy Ltd	Australia
EP 391 ²	50.00%	50.00%	Buru Energy Ltd	Australia
EP 428	50.00%	50.00%	Buru Energy Ltd	Australia
EP 431	50.00%	50.00%	Buru Energy Ltd	Australia
EP 436 ²	50.00%	50.00%	Buru Energy Ltd	Australia
EP 457 ¹	40.00%	60.00%	Buru Fitzroy Pty Ltd	Australia
EP 458 ¹	40.00%	60.00%	Buru Fitzroy Pty Ltd	Australia
E04/2674	50.00%	0%	Sipa Resources Ltd	Australia
E04/2684	50.00%	0%	Sipa Resources Ltd	Australia
L20-1	50.00%	0%	Buru Energy Ltd	Australia

1 The transfer of each 20% interest to Origin Energy in these permits was registered by DMIRS on 7 Jan 2022

2 Origin Energy's interests in EP 391 and EP 436 exclude the Yulleroo Gasfield Area

3 Buru's interest in EP 129 exclude the Backreef Area

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

21. Capital and Other Commitments

<i>in thousands of AUD</i>	31 Dec 2021	31 Dec 2020
Exploration expenditure commitments		
<i>Contracted but not yet provided for and payable:</i>		
Within one year	302	1,700
One year later and no later than five years	1,993	280
	2,295	1,980

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, Industry Regulation & Safety (DMIRS), and these obligations may be varied from time to time, subject to approval by DMIRS.

22. Contingencies

There were no material contingent liabilities or contingent assets for the Group as at 31 December 2021 (31 Dec 2020: nil).

23. Related Parties

Key management personnel compensation

The key management personnel compensation comprised:

<i>in AUD</i>	31 Dec 2021	31 Dec 2020
Short term employee benefits	1,941,290	1,552,153
Post-employment benefits	179,672	138,418
Long term employee benefits	25,474	31,979
Share-based payments	171,798	-
	2,318,234	1,722,550

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' report on pages 19 to 23.

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

Other related party transactions

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

24. Financial Risk Management

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:

<i>in thousands of AUD</i>	Note	Carrying amount	
		31 Dec 2021	31 Dec 2020
Cash and cash equivalents and term deposits at call	11a	23,723	21,428
Trade and other receivables	9	919	5,926
		24,642	27,354

The Group's cash and cash equivalents and term deposits at call are held with bank and financial institution counterparties, which are rated at least AA-, based on rating agency Fitch Ratings.

Trade and other receivables include accrued income on sales of Ungani crude, accrued interest receivable from Australian accredited banks, JV receivables, insurance refund receivables and tax amounts receivable from the Australian Taxation Office. The Group has elected to measure loss allowances for trade and other receivables at an amount equal to the 12 month Expected Credit Loss (ECL). When determining the credit risk of a financial asset, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both the quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when the financial asset is more than 90 days past due.

As at 31 December 2021, no receivables were more than 30 days past due. The Group has always received full consideration for all Ungani sales within thirty days and there is no reason to believe that this will not continue going forward. No receivables are considered to have a material credit risk.

Liquidity risk

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

<i>in thousands of AUD</i>	31 Dec 2021		31 Dec 2020	
	Less than 1 year	1 - 5 years	Less than 1 year	1 - 5 years
Lease liabilities	1,249	790	1,244	878
Trade and other payables	8,953	-	4,744	-
	10,202	790	5,988	878

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Market risk

Market risk is the risk that changes in market prices, such as currency 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.

Currency risk

The Group is exposed to currency risk on sales that are denominated in a currency other than the functional currency of the Group (AUD). All sales of crude oil are denominated in US dollars. The Group does not hedge its foreign currency exposure.

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

<i>in thousands</i>	31 Dec 2021		31 Dec 2020	
	AUD	USD	AUD	USD
Cash and cash equivalents	112	81	205	158
Accrued income	-	-	82	63
Gross balance sheet exposure	112	81	287	221

The average exchange rate from AUD to USD during the period was AUD 1.0000 / USD 0.7514 (Dec 2020: AUD 1.0000 / USD 0.6906). The reporting date spot rate was AUD 1.0000 / USD 0.7256 (Dec 2020: AUD 1.0000 / USD 0.7702). 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 \$969,000 (Dec 2020: increased loss after tax by \$1,138,000). 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 \$969,000 (Dec 2020: decreased loss after tax by \$1,138,000). This analysis assumes that all other variables remain constant.

Commodity price risk

The Group is exposed to commodity price fluctuations through the sale of Ungani crude at a differential against the dated Brent crude. The Group does not hedge its commodity price exposure and the Group did not enter into any commodity derivative contracts during the year.

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

<i>in thousands</i>	31 Dec 2021		31 Dec 2020	
	AUD	USD	AUD	USD
Sales of crude oil	-	-	82	63
Gross balance sheet exposure	-	-	82	63

The average Brent Platts price for crude sold over the period was AUD 89/bbl (Dec 2020: AUD 52/bbl). A 10 percent strengthening of the dated Brent crude price over the period would have decreased the loss after tax for the financial period by \$969,000 (Dec 2020: decreased loss after tax by \$1,138,000). A 10 percent weakening of the dated Brent crude price over the period would have increased the loss after tax for the financial period by \$969,000 (Dec 2020: increased loss after tax by \$1,138,000). This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Interest rate risk

At balance date the Group's exposure to market risk for changes in interest rates relate primarily to the Group's short term cash deposits. The interest rate risk is only applicable to interest revenue as the Group does not have any short or long term borrowings. The Group constantly analyses its exposure to interest rates, with consideration given to potential renewal of the terms of existing deposits. Fixed rate instruments are term deposits held with bank and financial institution counterparties and are available at call, therefore the fair value approximates the carrying amount.

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

<i>in thousands of AUD</i>	Carrying amount	
	31 Dec 2021	31 Dec 2020
<i>Fixed rate instruments</i>		
Cash and cash equivalents with fixed interest	14,214	17,713
Total fixed interest bearing financial assets	14,214	17,713

<i>in thousands of AUD</i>	Carrying amount	
	31 Dec 2021	31 Dec 2020
<i>Variable rate instruments</i>		
Cash and cash equivalents with variable interest	9,509	3,715
Total variable interest bearing financial assets	9,509	3,715

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss after tax by \$95,090 (2020: \$37,150). This analysis assumes that all other variables remain constant.

Capital management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so as to maintain future exploration and development of its projects. Capital consists of share capital of the Group. In order to maintain or adjust its capital structure, Buru Energy may in the future return capital to shareholders, issue new shares, borrow funds from financiers or farm-down / sell assets. Buru Energy's focus has been to maintain sufficient funds to fund exploration and development activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

25. Changes in significant accounting policies

The Group has adopted all accounting standards and interpretations that had a mandatory application for this reporting period which did not have material impact.

26. Standards issued but not yet effective

No new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022.

27. Subsequent Events

Impairment recorded subsequent to the end of the reporting period.

The Ungani 8 well was spudded on 18 December. During January, the well was drilled to a total measured depth of 2,605 metres into the Ungani Dolomite at a hole angle of some 76 degrees, substantially as planned. As the drill string was being retrieved prior to running the 9 $\frac{5}{8}$ inch casing it became stuck in the upper part of the Laurel Shale. Despite extensive efforts to recover the drill string it was unable to be freed. It was subsequently backed off at a depth of 2,206 metres measured depth and the remaining drill string was retrieved. Subsequent to analysis of the options for the forward program for the well it was agreed that ROC would undertake a sidetrack to complete the well as a sole risk operation. The Ungani 8 sidetrack was drilled to a measured depth of 2,473 metres in the Ungani Shale with a further incident of stuck pipe and the well was suspended. All costs incurred undertaking the sidetrack were borne by ROC.

A non-cash impairment of \$8,031,000 was recorded after the end of the reporting period being Buru's share of costs associated with the Ungani 8 well incurred and capitalised as Oil and Gas Assets, including \$4,219,000 that had been incurred and capitalised as of 31 December 2021.

No other significant events have occurred subsequent to balance date that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

- The Group's operations; or
- The results of those operations; or
- The Group's state of affairs.

28. Auditors' Remuneration

	31 Dec 2021	31 Dec 2020
Audit services		
KPMG Australia: Audit and review of financial reports	83,000	80,000
KPMG Australia: Audit of Joint Venture reports	3,267	3,267
KPMG Australia: Audit of Traditional Owner Royalty Statements	2,500	5,000

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