Baru Resources Limited

ACN 147 324 847

Financial report for the period ended - 30 June 2011

Directors	Rick Anthon (Non Executive Chairman) Kevin Nichol (Executive Director) Peter Avery (Non Executive Director)
Company secretary	Melanie Leydin
Registered office	Suite 304 22 St Kilda Road St Kilda VIC 3182
Principal place of business	Suite 304 22 St Kilda Road St Kilda VIC 3182
Auditor	Hall Chadwick Corporate (NSW) Limited Level 29 St Martin's Tower 31 Market Street Sydney NSW 2000
Solicitors	Hemming and Hart Lawyers 307 Queen Street Brisbane QLD 4000
Website address	www.baru.com.au

Baru Resources Limited
Directors' report
30 June 2011

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Baru Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the period ended 30 June 2011.

Principal activities
During the financial period the principal continuing activities of the consolidated entity consisted of:
- identification and development of export hard coking coal and export thermal coal.
- preparing the Company for an upcoming listing on the Australian Stock Exchange.

Dividends
There were no dividends paid or declared during the current financial period.

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $110,335.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period
On 3 August 2011 the Company lodged a prospectus with the Australian Securities and Investments Commission for the issue of a minimum 20,000,000 ordinary shares and a maximum of 30,000,0000 to potentially raise between $4,000,000 and $6,000,000 repectively.

On 3 August 2011 the Company entered into a Unicorporated Joint Venture Agreement for the purpose of developing and exploiting both the coal and UCG potential of the tenements in the Joint Venture which provides the Company with a earn-in, ending on the second anniversary of the grant date of the newest tenements, by which the Company must have expended a minimum of $2,000,000 (Minimum Expenditure) on tenement maintenance and exploration programmes. Upon expending the Minimum Expenditure, the Company will earn an 80% interest in the Joint Venture.

On 16 September 2011, the Company issued 29,696,000 ordinary shares at an issue price of $0.20 per share, raising $5,939,200 before costs under the Company's initial public offering prospectus dated 3 August 2011.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation
Environmental aspects of the mining industry in Queensland are regulated by the Department of Environment and Resources Management (DERM) pursuant to the *Environmental Protection Act 1994 (QLD) (EP Act)*. The EP Act regulates 'environmetally relevant activities' which are essentially activities that have environmental impacts and includes mining exploration and development activities. An environmental authority is required to carry out a mining activity.

The Company must, as a condition of its environmental authorities, comply with the Standard Environmental Conditions outlined in the Code of Environmental Compliance for Exploration and Mineral Development Projects (EP Code). If the Company is unable to comply with the Standard Environmental Conditions it will be required to apply to DERM for a new environmental authority to obtain a non-EP Code compliant environmental authority which will likely include conditions specifically relating to the operation of the new environmental authority.

Information on directors

Name:	Rick Anthon
Title:	Non-executive Chairman
Qualifications:	BA LLB MAICD
Experience and expertise:	Mr Anthon is the managing partner of Hemming + Hart Lawyers, a commercial and corporate focused CBD law firm in Brisbane. Mr Anthon has practised extensively in the corporate and mining law area for more than 15 years including having worked in-house for listed mining companies. He has acted as company secretary for listed companies and has been a director of a number of listed companies since 1996. He regularly advises on a range of corporate and mining related matters including venture capital raising, public listings, mergers and acquisitions, titles and tenure, native title issues, project finance, construction and development. Mr Anthon holds a Bachelor of Laws and is also a member of the Australian Institute of Company Directors.
Other current directorships:	International Coal Limited (appointed 8 February 2011) Bass Metals Limited (appointed 7 October 2009) Renison Consolidated Mines NL
Former directorships (in the last 3 years):	None
Special responsibilities:	Not Applicable

Name:	Mr Kevin Nichol
Title:	Executive Chairman
Qualifications:	B.Comm (Hons) CFA
Experience and expertise:	After finishing his honours thesis in the energy sector, Kevin worked as a financial analyst for the late Kerry Packer's private company, Consolidated Press Holdings Pty Ltd (now Consolidated Media Ltd). In the mid 80s he joined Norths Stockbrokers, where he learnt his trade in the marketplace as an advisor. Kevin also spent several years on the trading floor of the Sydney Futures Exchange and traded commodities as well as interest-rate futures for several banking houses.
Other current directorships:	Celamin Holdings NL
Former directorships (in the last 3 years):	Bowen Energy Limited (resigned October 2008)
Special responsibilities:	Not Applicable

Name:	Mr Peter Avery
Title:	Non-executive Director
Qualifications:	Dip. Financial Planning
Experience and expertise:	Peter Avery has over 20 years professional experience within the stockbroking industry. During the previous 10 years, Peter has held a senior role as a private client advisor at Perth broking firm, DJ Carmichael (DJC). Prior to joining DJC, Peter developed specialist skills as an equity advisor at Todd Partners managing client portfolios. Peter's industry experience includes extensive capital raisings within the resource and mining sectors and he holds a Diploma of Financial Planning from Deakin University.
Other current directorships:	Celamin Holdings NL
Former directorships (in the last 3 years):	None
Special responsibilities:	Not Applicable

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary
Ms Leydin is a Chartered Accountant and is a Registered Company Auditor. She graduated from Swinburne university in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer.

In the course of her practice she audits listed and unlisted public companies involved in the resources industry. Her practice also involves outsourced company secretarial and accounting services to public companies in the resources sector. This involves preparation of statutory financial statements, annual reports, half year reports, stock exchange announcements and quarterly ASX reporting and other statutory requirements.

Ms Leydin has 19 years experience in the accounting profession and is a director and company secretary for a number of oil and gas, junior mining and exploration entities on the Australian Stock Exchange.

Meetings of directors
The number of meetings of the company's Board of Directors held during the period ended 30 June 2011, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Rick Anthon	1	1
Kevin Nichol	1	1
Peter Avery	1	1

Held: represents the number of meetings held during the time the director held office.

Shares under option
There were no options outstanding as at 30 June 2011.

Shares issued on the exercise of options
There were no shares of Baru Resources Limited issued on the exercise of options during the period ended 30 June 2011.

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor
Hall Chadwick Corporate (NSW) Limited continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Rick Anthon
Non Executive Chairman

19 September 2011
Melbourne

BARU RESOURCES LIMITED ACN 147 324 847

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF BARU RESOURCES LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

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

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

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Drew Townsend
Partner
Dated: 19 September 2011

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Baru Resources Limited
Financial report
For the period ended 30 June 2011

Contents

General information

The financial report covers Baru Resources Limited as a consolidated entity consisting of Baru Resources Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Baru Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Baru Resources Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 304
22 St Kilda Road
St Kilda VIC 3182

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 19 September 2011. The directors have the power to amend and reissue the financial report.

Baru Resources Limited
Statement of comprehensive income
For the period ended 30 June 2011

	Note	Consolidated 30 June 2011 $
Revenue	3	6,006
Expenses		
Administration expenses		(4,993)
Corporate expenses		(23,748)
Employee benefits expense		(87,600)
Loss before income tax expense		(110,335)
Income tax expense	4	-
Loss after income tax expense for the period attributable to the owners of Baru Resources Limited		(110,335)
Other comprehensive income for the period, net of tax		-
Total comprehensive income for the period attributable to the owners of Baru Resources Limited		(110,335)

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Baru Resources Limited
Statement of financial position
As at 30 June 2011

	Note	Consolidated 30 June 2011 $
Assets		
Current assets		
Cash and cash equivalents	5	140,151
Trade and other receivables	6	753
Total current assets		140,904
Non-current assets		
Exploration and evaluation	7	252,030
Total non-current assets		252,030
Total assets		392,934
Liabilities		
Current liabilities		
Trade and other payables	8	128,010
Total current liabilities		128,010
Total liabilities		128,010
Net assets		264,924
Equity		
Contributed equity	9	375,259
Accumulated losses		(110,335)
Total equity		264,924

The above statement of financial position should be read in conjunction with the accompanying notes

Baru Resources Limited
Statement of changes in equity
For the period ended 30 June 2011

	Contributed equity $	Retained profits $	Total equity $
Consolidated			
Balance at 23 November 2010	9	-	9
Other comprehensive income for the period, net of tax	-	-	-
Loss after income tax expense for the period		(110,335)	(110,335)
Total comprehensive income for the period	-	(110,335)	(110,335)
Transactions with owners in their capacity as owners:			
Contributions of equity, net of transaction costs	381,250	-	381,250
Capital Raising costs	(6,000)	-	(6,000)
Balance at 30 June 2011	375,259	(110,335)	264,924

The above statement of changes in equity should be read in conjunction with the accompanying notes

Baru Resources Limited
Statement of cash flows
For the period ended 30 June 2011

	Note	Consolidated 30 June 2011 $
Cash flows from operating activities		
Payments to suppliers (inclusive of GST)		(10,084)
Interest received		6,006
Net cash used in operating activities	18	(4,078)
Cash flows from investing activities		
Payments for exploration and evaluation	7	(237,030)
Net cash used in investing activities		(237,030)
Cash flows from financing activities		
Proceeds from issue of shares	9	381,259
Net cash from financing activities		381,259
Net increase in cash and cash equivalents		140,151
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period	5	140,151

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going concern
This financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Company is dependent upon the successful raising through its initial public offering to maintain sufficient funds for its operations and commitments.

On 16 September 2011, the Company issued 29,696,000 ordinary shares at an issue price of $0.20 per share, raising $5,939,200 before costs under the Company's initial public offering prospectus dated 3 August 2011 and as such the directors are of the opinion that the financial report has been appropriately prepared on going concern basis.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 15.

Note 1. Significant accounting policies (continued)

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Baru Resources Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the period then ended. Baru Resources Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Note 1. Significant accounting policies (continued)

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Other receivables are recognised at amortised cost, less any provision for impairment.

Exploration and evaluation assets
Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contributed equity
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. None have been recognised to date as they are not expected to realised in the forseeable future.

Exploration and evaluation assets
The directors have reviewed the carrying amount of each area of interest, with reference to the indicators of impairment outlined in AASB6 - Exploration and Evaluation of Mineral Resources.

Note 3. Revenue

	Consolidated 30 June $
Other revenue	
Interest	6,006
Revenue	6,006

Note 4. Income tax expense

	Consolidated 30 June 2011 $
Numerical reconciliation of income tax expense to prima facie tax payable	
Loss before income tax expense	(110,335)
Tax at the Australian tax rate of 30%	(33,101)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:	
Incorporation fees	591
Exploration Expenditure	(75,609)
Accrued expenses	29,280
	(78,839)
Income tax losses carried forward not taken up as a	78,839
Income tax expense	-

	Consolidated 30 June $
Deferred tax assets not recognised	
Deferred tax assets not recognised comprises temporary differences attributable to:	
Tax Losses	78,839
Temporary Differences	(45,738)
Total deferred tax assets not recognised	33,101

The taxation benefits of tax losses and temporary differences not brought to account will only be obtained if:
i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
ii) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and
iii) no change in tax legislation adversely affects the consolidated entity in realising the benefits from deducting the losses.

Note 5. Current assets - cash and cash equivalents

	Consolidated 30 June 2011 $
Cash at bank	140,151

Note 6. Current assets - trade and other receivables

	Consolidated 30 June 2011 $
BAS receivable	753

Note 7. Non-current assets - exploration and evaluation

	Consolidated 30 June 2011 $
Exploration and evaluation	252,030
	252,030
	252,030

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

	Exploration & Evaluation $	Total $
Consolidated		
Additions	252,030	252,030
Balance at 30 June 2011	252,030	252,030

On 21 March 2011 the company executed a Heads of Agreement with West Galilee Exploration Pty Ltd in relation to the formation of a joint venture agreement for the purpose of developing and exploiting both coal and analysis assessment ad development activities aimed at the in-situ gasification of coal, production of syngas and surface infrastructure to manage the syngas (UCG Activities).

Note 8. Current liabilities - trade and other payables

	Consolidated 30 June 2011 $
Trade payables	18,410
Other payables	109,600
	128,010

Refer to note 10 for detailed information on financial instruments.

Note 9. Equity - contributed

	Consolidated 30 June 2011 Shares	Consolidated 30 June 2011 $
Ordinary shares - fully paid	20,100,009	375,259

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Founder shares	23 November 2010	9	$1.00	9
Founder shares	Various	12,500,000	$0.00	1,250
Seed Capital	Various	7,600,000	$0.05	380,000
Less: Capital raising costs				(6,000)
Balance	30 June 2011	20,100,009		375,259

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 10. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk
The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Price risk
The consolidated entity is not exposed to any significant price risk.

Credit risk
Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The company's working capital, being current assets less current liabilities was $12,894 as at 30 June 2011. The majority of current liabilities was in relation to Directors fees payable of $87,600 which will be paid upon the successful listing of th Company on the ASX. Based on this the directors are satisfied that the company will have sufficient funds to pay its debts as and whn they fall due.

Note 10. Financial instruments (continued)

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Related party transactions
Related party transactions are set out in note 14.

Note 11. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Hall Chadwick Corporate (NSW) Limited, the auditor of the company, and its related practices:

	Consolidated 30 June 2011 $
Audit services - Hall Chadwick Corporate (NSW) Limited	
Audit or review of the financial report	10,000
Other services - Hall Chadwick Corporate (NSW) Limited	
Preparation of the independent accountants report	12,000
	22,000

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2011.

Note 13. Commitments for expenditure

	Consolidated 30 June 2011 $
Exploration and evaluation assets	
Committed at the reporting date but not recognised as liabilities, payable:	
Within one year	1,440,000
One to five years	1,500,000
	2,940,000

Note 13. Commitments for expenditure (continued)

In order to maintain current rights of tenure to exploration tenements, the Company and economic entity is required to outlay rentals and to meet the minimum expenditure requirements of the State Mines Departments. Minimum expenditure commitments may be subject to renegotiation and with approval may otherwise be avoided by sale, farm out or relinquishment.

The Company is not required to contribute the entire expenditure commitments to the Tenements. The extent of the Company's obligation to contribute towards the expenditure commitments for the Tenements is set out in the Joint Venture Agreement with West Galilee Exploration Pty Ltd.

The Joint Venture Agreement provides for an earn-in period for the Company, ending on the second anniversary of the grant date of the newest of the Tenements, by which time the Company must have expended a minimum of $2 million (Minimum Expenditure) on Tenement maintenance and exploration programmes, including an amount of $237,030 which paid by the Company representing the first year's rent and applicable environmental bonds for each of the Tenements that have fallen due for payment.

Note 14. Related party transactions

Parent entity
Baru Resources Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 16.

Transactions with related parties
There were no transactions with related parties during the financial period.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the reporting date.

Loans to/from related parties
There were no loans to or from related parties at the reporting date.

Note 15. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent 30 June 2011 $
Loss after income tax	(108,247)
Total comprehensive income	(108,247)

Note 15. Parent entity information (continued)

Statement of financial position

	Parent 30 June 2011 $
Total current assets	140,904
Total assets	395,022
Total current liabilities	128,010
Total liabilities	128,010
Equity	
Contributed equity	375,259
Accumulated losses	(108,247)
Total equity	267,012

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2011.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment.

Note 16. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding 30 June 2011 %
Baru Resources Pte Ltd*	Singapore	100.00

* Incorpoated on 28 January 2011.

Note 17. Events occurring after the reporting date

On 3 August 2011 the Company lodged a prospectus with the Australian Securities and Investments Commission for the issue of a minimum 20,000,000 ordinary shares and a maximum of 30,000,0000 to potentially raise between $4,000,000 and $6,000,000 repectively.

On 3 August 2011 the Company entered into a Unicorporated Joint Venture Agreement for the purpose of developing and exploiting both the coal and UCG potential of the tenements in the Joint Venture which provides the Company with a earn-in, ending on the second anniversary of the grant date of the newest tenements, by which the Company must have expended a minimum of $2,000,000 (Minimum Expenditure) on tenement maintenance and exploration programmes. Upon expending the Minimum Expenditure, the Company will earn an 80% interest in the Joint Venture.

On 16 September 2011, the Company issued 29,696,000 ordinary shares at an issue price of $0.20 per share, raising $5,939,200 before costs under the Company's initial public offering prospectus dated 3 August 2011.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 18. Reconciliation of profit/(loss) after income tax to net cash used in operating activities

	Consolidated 30 June 2011 $
Loss after income tax expense for the period	(110,335)
Change in operating assets and liabilities:	
Increase in trade and other receivables	(754)
Increase in trade and other payables	107,011
Net cash used in operating activities	(4,078)

Baru Resources Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial period ended on that date; and
- 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 directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Rick Anthon
Non Executive Chairman

19 September 2011
Melbourne

HALLCHADWICK
Chartered Accountants and Business Advisers

BARU RESOURCES LIMITED ACN 147 324 847

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARU RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Baru Resources Limited (the company) and Baru Resources Limited and Controlled Entity (the consolidated entity), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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HALLCHADWICK

BARU RESOURCES LIMITED ACN 147 324 847

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARU RESOURCES LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of Baru Resources Limited and Controlled Entity is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Hall Chadwick

Level 29, St Martins Tower

31 Market Street, SYDNEY NSW 2001

Drew Townsend
Partner
Date: 19 September 2011