Baru Resources Limited and controlled entities

ACN 147 324 847

Financial report for the period ended - 30 June 2011

Directors	Richard 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 Ph : (03) 9692 7222
Principal place of business	Suite 304 22 St Kilda Road St Kilda VIC 3182 Ph : (03) 9692 7222
Share register	Advanced Share Registry Ltd 150 Stirling Highway Nedlands WA 6009
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
Bankers	Macquarie Bank Limited Level 26 101 Collins Street Melbourne Vic 3000
Stock exchange listing	Baru Resources Limited shares are listed on the Australian Securities Exchange (ASX code: BAC)
Website address	www.baru.com.au

Baru Resources Limited and controlled entities
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 and controlled entities (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the period ended 30 June 2011.

Directors

The following persons were directors of Baru Resources Limited and controlled entities during the whole of the financial period and up to the date of this report, unless otherwise stated:

Mr Richard Anthon (appointed 23 November 2010)
Mr Kevin Nichol (appointed 23 November 2010)
Mr Peter Avery (appointed 23 November 2010)

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.

Financial Position

The net assets of the consolidated entity increased to $264,924 as at 30 June 2011. The major movements were in relation to increases of issued capital and exploration and evaluation expenditure during the financial year.

The consolidated entity's working capital, being current assets less current liabilities increased to $12,824.

Significant changes in the state of affairs

On 23 November 2010 the Company issued 9 fully paid ordinary shares to directors at an issue price of $1 per share.

On 17 December 2010 the Company issued 12,500,000 fully paid ordinary shares to founders at an issue price of $0.0001 per share raising $1,250 and 4,000,000 to seed capital investors at an issue price of $0.05 raising $200,000.

On 28 January 2011 the Company incorporated a wholly owned subsidiary, Baru Resources Pte Ltd, in Singapore.

On 18 February 2011 the Company issued 3,600,000 fully paid ordinary shares to seed capital investors at an issue price of $0.05 per share raising $180,000.

There were no other 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.

On 22 September 2011, the Company was officially listed on the Austalian Stock Exchange.

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 'environmentally 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:	Richard 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
Interests in shares:	3,700,003 fully paid shares
Interests in options:	None

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
Interests in shares:	1,000,003 fully paid ordinary shares
Interests in options:	None

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
Interests in shares:	3,000,003 fully paid ordinary shares
Interests in options:	None

'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 Melanie 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.

Remuneration report (audited)
The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

Alignment to shareholders' interests:
- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants' interests:
- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-executive directors remuneration
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee.

ASX listing rules requires that the aggregate non-executive directors remuneration shall be determined periodically by a general meeting. The most recent determination was at the General Meeting, where the shareholders approved an aggregate remuneration of $350,000.

Executive remuneration
The consolidated entity and company aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:
- base pay and non-monetary benefits
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the executive.

The long-term incentives ('LTI') includes long service leave and share-based payments. . The Nomination and Remuneration Committee intends to revisit the long-term equity-linked performance incentives specifically for executives at the end of each financial year.

Consolidated entity performance and link to remuneration
Remuneration packages do not include performance-based components. An individual member of staff's performance assessment is done by reference to their contribution to the Company's overall operational achievements. All Directors and Executives hold shares and options in the Company to facilitate goal congruence between Executives with that of the business and shareholders. Further information has not been disclosed as it is commercially

B Details of remuneration

Amounts of remuneration
Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Baru Resources Limited and controlled entities are set out in the following tables.

30 June 2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Peter Avery	20,000	-	-	1,800	-	-	21,800
Rick Anthon	20,000	-	-	1,800	-	-	21,800
Executive Directors:							
Kevin Nichol	44,000	-	-	-	-	-	44,000
	84,000	-	-	3,600	-	-	87,600

All amounts stated above remain outstanding at 30 June 2011.

C Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Rick Anthon
Title:	Non Executive Chairman
Agreement commenced:	1 March 2011
Term of agreement:	Initial term of 12 months
Details:	Mr Anthon may resign from his position and thus terminate his contract by giving one months written notice. The Company may terminate by either party by giving one month's notice in writing. The contract may be terminated with immediate effect in the event of serious misconduct.
Name:	Kevin Nichol
Title:	Executive Director
Agreement commenced:	1 March 2011
Term of agreement:	Initial term of 12 months
Details:	Mr Nichol may resign from his position and thus terminate his contract by giving one months written notice. The Company may terminate by either party by giving one month's notice in writing. The contract may be terminated with immediate effect in the event of serious misconduct. Upon termination of Mr Nichol's contract, the Company must pay an exist fee equivalent to three months consulting fees unless Mr Nichol resigns from his position as director of the Company.
Name:	Peter Avery
Title:	Non Executive Director
Agreement commenced:	1 March 2011
Term of agreement:	Initial term of 12 months
Details:	Mr Avery may resign from his position and thus terminate his contract by giving one months written notice. The Company may terminate by either party by giving one month's notice in writing. The contract may be terminated with immediate effect in the event of serious misconduct.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

D Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the period ended 30 June 2011.

Options
There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2011.

There were no options granted to or exercised by directors and other key management personnel as part of compensation during the period ended 30 June 2011.

This concludes the remuneration report, which has been audited.

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 and controlled entities 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.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 13 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 13 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of Hall Chadwick Corporate (NSW) Limited
There are no officers of the company who are former audit partners of Hall Chadwick Corporate (NSW) Limited.

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

____
Richard Anthon
Non Executive Chairman

30 September 2011
Melbourne

HALLCHADWICK

Chartered Accountants and Business Advisers

BARU RESOURCES LIMITED ACN 147 324 847
AND CONTROLLED ENTITIES

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: 30 September 2011

SYDNEY

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

Contents

General information

The financial report covers Baru Resources Limited and controlled entities as a consolidated entity consisting of Baru Resources Limited and controlled entities and the entities it controlled. The financial report is presented in Australian dollars, which is Baru Resources Limited and controlled entities'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 and controlled entities is a listed 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
Ph : (03) 9692 7222

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 30 September 2011. The directors have the power to amend and reissue the financial report.

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

	Note	Consolidated 30 June 2011 $
Revenue	4	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	5	-
Loss after income tax expense for the period attributable to the owners of Baru Resources Limited and controlled entities		(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 and controlled entities		(110,335)
		Cents
Basic earnings per share	21	(0.65)
Diluted earnings per share	21	(0.65)

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

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

	Note	Consolidated 30 June 2011 $
Assets		
Current assets		
Cash and cash equivalents	6	140,151
Trade and other receivables	7	753
Total current assets		140,904
Non-current assets		
Exploration and evaluation	8	252,030
Total non-current assets		252,030
Total assets		392,934
Liabilities		
Current liabilities		
Trade and other payables	9	128,010
Total current liabilities		128,010
Total liabilities		128,010
Net assets		264,924
Equity		
Contributed equity	10	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 and controlled entities
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 and controlled entities
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	20	(4,078)
Cash flows from investing activities		
Payments for exploration and evaluation	8	(237,030)
Net cash used in investing activities		(237,030)
Cash flows from financing activities		
Proceeds from issue of shares	10	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	6	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 17.

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 and controlled entities ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the period then ended. Baru Resources Limited and controlled entities 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.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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)

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Baru Resources Limited and controlled entities, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 1. Significant accounting policies (continued)

AASB 2009-12 Amendments to Australian Accounting Standards
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2009-14 Amendments to Australian Interpretations - Prepayments of a Minimum Funding Requirement
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments arise from the issuance of Interpretation 14 ‘AASB 119 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction as a consequence of the issuance of Prepayments of a Minimum Funding Requirements’ (Amendments to IFRIC 14). The amendments to IFRIC 14 meant that entities with minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendments in AASB 2009-14 allow entities to treat the benefit of early payment as a pension asset. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity as there are no surpluses in the defined benefit scheme.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

Note 1. Significant accounting policies (continued)

AASB 1053 Application of Tiers of Australian Accounting Standards
This standard is applicable to annual reporting periods on or after 1 July 2013. This standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements, being Tier 1 Australian Accounting Standards and Tier 2 Australian Accounting Standards - Reduced Disclosure Requirements. Even though it qualifies as a Tier 2, the consolidated entity will not adopt this standard for reduced disclosure.

AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013. These amendments make numerous amendments to a range of Australian Accounting Standards and Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities in preparing general purpose financial statements. Even though it qualifies as a Tier 2, the consolidated entity will not adopt these amendments for reduced disclosure.

AASB 2010-5 Amendments to Australian Accounting Standards
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 124 Related Party Disclosures (December 2009)
This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets
These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets
These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

Note 1. Significant accounting policies (continued)

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements
These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel (KMP). The adoption of these amendments from 1 July 2013 will remove the duplication of relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation and AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements
AASB 2011-5 is applicable to annual reporting periods beginning on or after 1 July 2011 and AASB 2011-6 on or after 1 July 2013. These amendments extend relief from consolidation, the equity method and proportionate consolidation where the ultimate or intermediate parent applies not-for-profit Aus paragraphs in Australian IFRSs as adopted in Australia, or Australian Accounting Standards – Reduced Disclosure Requirements (RDR). The adoption of these amendments from 1 July 2011 and 1 July 2013 respectively will not have impact on the consolidated entity.

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. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segments: exploration for coal in Australia. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 4. Revenue

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

Note 5. 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	-

Note 5. Income tax expense (continued)

	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 6. Current assets - cash and cash equivalents

	Consolidated 30 June 2011 $
Cash at bank	140,151

Note 7. Current assets - trade and other receivables

	Consolidated 30 June 2011 $
BAS receivable	753

Note 8. Non-current assets - exploration and evaluation

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

Note 8. Non-current assets - exploration and evaluation (continued)

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 9. Current liabilities - trade and other payables

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

Refer to note 11 for detailed information on financial instruments.

Note 10. 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	Various	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		-	$0.00	(6,000)
Balance	30 June 2011	20,100,009		375,259

Note 10. Equity - contributed (continued)

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.

Share buy-back
There is no current on-market share buy-back.

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.

Note 11. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including 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 different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, 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 the board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits.

Market risk

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.

Note 11. Financial instruments (continued)

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.

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.

Note 12. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 30 June 2011 $
Short-term employee benefits	84,000
Post-employment benefits	3,600
	87,600

Shareholding

The number of shares in the parent entity held during the financial period by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

30 June 2011	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the period
Ordinary shares					
Richard Anthon*	3	-	3,700,000	-	3,700,003
Kevin Nichol*	3	-	1,000,000	-	1,000,003
Peter Avery*	3	-	3,000,000	-	3,000,003
	9	-	7,700,000	-	7,700,009

* Issued as founder shares at an issue price of $0.0001 per share.

Note 12. Key management personnel disclosures (continued)

Related party transactions
Related party transactions are set out in note 16.

Note 13. 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 14. Contingent liabilities

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

Note 15. 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 15. 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 16. Related party transactions

Parent entity
Baru Resources Limited and controlled entities is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 18.

Key management personnel
Disclosures relating to key management personnel are set out in note 12 and the remuneration report in the directors' report.

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 17. 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 17. 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 18. 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 19. 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.

On 22 September 2011, the Company was officially listed on the Austalian Stock Exchange.

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 20. 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)

Note 21. Earnings per share

	Consolidated 30 June 2011 $
Loss after income tax attributable to the owners of Baru Resources Limited and controlled entities	(110,335)
	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	16,861,653
Weighted average number of ordinary shares used in calculating diluted earnings per share	16,861,653
	Cents
Basic earnings per share	(0.65)
Diluted earnings per share	(0.65)

Note 22. Company details

The registered office and principal place of business of the Company is:

Suite 304
22 St Kilda Road
ST KILDA VIC 182

Baru Resources Limited and controlled entities
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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Richard Anthon
Non Executive Chairman

30 September 2011
Melbourne

HALLCHADWICK

Chartered Accountants and Business Advisers

BARU RESOURCES LIMITED ACN 147 324 847
AND CONTROLLED ENTITIES

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 information 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 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.

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**BARU RESOURCES LIMITED ACN 147 324 847
AND CONTROLLED ENTITIES**

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

Independence

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

Auditor's Opinion

In our opinion:

a. the financial report of 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 its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the remuneration report of Baru Resources Limited and Controlled entity for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

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

Drew Townsend
Partner
Date: 30 September 2011

Baru Resources Limited and controlled entities
Shareholder information
30 June 2011

The shareholder information set out below was applicable as at 27 September 2011.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	-
1,001 to 5,000	1
5,001 to 10,000	233
10,001 to 100,000	245
100,001 and over	84
	563

Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Nambia Pty Ltd <The Anthon Family S/Fund A/C>	3,700,003	7.42
Dawesville Nominees Pty Ltd <Peter Avery Super Fund A/C>	3,000,003	6.01
Beny Manuru	2,000,000	4.01
Tranaj Nominees Pty Ltd <F/T A/C>	2,000,000	4.01
Mr Kong H Tan & Mrs Mary M M Ang	1,325,000	2.66
Kevin Nichol	1,000,003	2.00
J & TW Dekker Pty Ltd <J & TW Dekker Family A/C>	1,000,000	2.00
Celamin Holdings NL	1,000,000	2.00
Graham G Walker & Mrs Thelma J Walker <Walker Super Fund A/C>	1,000,000	2.00
Ekirston Nominees Pty Ltd <GFCR Investment A/C>	800,000	1.60
R W Associates Pty Ltd <Super Fund A/C>	687,000	1.38
Hawera Pty Ltd <The Bailey Family A/C>	600,000	1.20
Ms Amber L Walker	500,000	1.00
Nino Constructions Pty Ltd	500,000	1.00
Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	500,000	1.00
Mr Mark Buratovic	500,000	1.00
R W Associates Pty Ltd	500,000	1.00
Twokind Pty Ltd <David Bayly Super A/C>	500,000	1.00
Mr Guy Cappa	500,000	1.00
Ms Sally J Molyneux	500,000	1.00
	22,112,009	44.29

Unquoted equity securities

	Number on issue	Number of holders
Fully Paid Ordinary Shares restricted until 17 December 2011	2,175,000	15
Fully Paid Ordinary Shares restricted until 18 February 2012	2,400,000	14
Fully Paid Ordinary Shares restricted until 22 September 2013	13,625,009	11

Substantial holders
Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Nambia Pty Ltd <The Anthon Family S/Fund A/C>	3,700,003	7.42
Dawesville Nominees Pty Ltd <Peter Avery Super Fund A/C>	3,000,003	6.01

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
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.

There are no other classes of equity securities.

Baru Resources Limited
Corporate Governance Statement

The Board of Directors ('the Board') of Baru Resources Limited (the 'Company') is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Revised Principles and Recommendations.

Principles and Recommendations		Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the Board and those delegated to manage and disclose those functions.	The Board is responsible for the overall corporate governance of the Company. The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. On appointment of a director, the Company issues a letter of appointment setting out the terms and conditions of appointment to the Board.	Complies.
1.2	Disclose the process for evaluating the performance of senior executives.	The Board meets annually to review the performance of executives. The senior executives' performance is assessed against performance of the Company as a whole.	Complies.
1.3	Provide the information indicated in *Guide to reporting on Principle 1.*	A Board charter has been disclosed on the Company's website and is summarised in this Corporate Governance Statement. A performance evaluation process is included in the Board Charter, which has been disclosed on the Company's website and is summarised in this Corporate Governance Statement. The Board will conduct a performance evaluation for senior executives at June 2012 in accordance with the process above.	Complies. Complies. Complies.
Principle 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent directors.	The majority of the Board's directors are not independent directors of the Company. Mr Richard Anthon is a Non-Executive Director and Chairman. Mr Kevin Nichol is an Executive Director. Mr Peter Avery is a Non-Executive Director.	Due to the Company's size, the Board considers that a majority of independent Directors is not currently warranted. As the Company's activities expand, this policy will be reviewed, with a view to aligning the Company's policies to conformity with this recommendation. The Board recognises that Directors remain in office for the benefit of and are accountable to shareholders and that shareholders have the voting power to elect members to the Board regardless of their standing, independent or

Principles and Recommendations		Compliance	Comply
			otherwise.
2.2	The chair should be an independent director.	Mr Richard Anthon is the Chairman and is not an independent Non-Executive Director.	Whilst the Board recognises that it is desirable for the Chairman to be an independent director, the Company's current early stage of development and size dictate that this is the most efficient mode of operation at the current time. The Board will review the appointment of an independent Chairperson should the Company's size and growth warrant this.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Mr Richard Anthon is the Chairman and Mr Matthew Bull is the Chief Executive Officer.	Complies.
2.4	The Board should establish a nomination committee.	The Company has established a Nomination and Remuneration Committee which consists of the entire Board. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the Company. The Board supports the nomination and election of the incumbent directors at the Company's Annual General Meeting.	Complies
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	The Company conducts the process for evaluating the performance of the Board, its committees and individual directors as outlined in the Board Charter which is available on the Company's website. The Board's induction program provides incoming directors with information that will enable them to carry out their duties in the best interests of the Company. This includes supporting ongoing education of directors for the benefit of the Company.	Complies.
2.6	Provide the information indicated in the *Guide to reporting on Principle 2.*	This information has been disclosed (where applicable) in the Company's Prospectus and on the Company's website. The Company does not currently have any independent Directors. A director is considered independent when he substantially satisfies the test for independence as set out in the ASX	Complies. Complies

Principles and Recommendations		Compliance	Comply
		Corporate Governance Recommendations. Members of the Board are able to take independent professional advice at the expense of the Company. Mr Richard Anthon, Non-Executive Chairman, was appointed to the Board at incorporation of the Company in November 2010. Mr Kevin Nichol, Executive Director, was appointed to the Board at incorporation of the Company in November 2010. Mr Peter Avery, Non-Executive Director, was appointed to the Board at incorporation of the Company in November 2010. Mr Matthew Bull, Chief Executive Officer was appointed in August 2011. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the Company. In accordance with the information suggested in *Guide to Reporting on Principle 2*, the Company has disclosed full details of its directors in the Prospectus. Other disclosure material on the Structure of the Board has been made available on the Company's website.	
Principle 3 – Promote ethical and responsible decision making			
3.1	Establish a code of conduct and disclose the code or a summary of the code.	The Board has adopted a code of conduct. The code establishes a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. The code is available on the Company's website.	Complies.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving	The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction. The Boardhas adopted a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the Company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment	Complies

Principles and Recommendations		Compliance	Comply
	them.	of directors, and identify key measurable diversity performance objectives for the Board, CEO and senior management.	
3.3	Provide the information indicated in *Guide to reporting on Principle 3.*	The Company will report in each annual report the measurable objectives for achieving gender diversity set by the Board. The Company will include in the directors' report the proportion of women employees and their positions held within the Company.	Complies Complies.
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee.	The Board has established an audit and risk committee which operates under an audit and risk committee charter to focus on issues relevant to the integrity of the Company's financial reporting.	Complies.
4.2	The audit committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have at least 3 members.	The audit and risk committee consists of the entire Board. Mr Peter Avery (Chair of the audit and risk committee) is a Non-Executive Director and is not chair of the Board. The committee consists of two non-executive directors.	Complies
	The audit committee should have a formal charter.	An audit and risk management charter has been adopted by the Audit and Risk Management Committee This charter is available on the Company's website.	Complies.
4.4	Provide the information indicated in *Guide to reporting on Principle 4.*	In accordance with the information suggested in *Guide to Reporting on Principle 2,* this has been will be in the directors' report in the Company's 2012 Annual Report and is summarised in this Corporate Governance Statement. The members of the audit and risk committee are appointed by the Board and recommendations from the committee are presented to the Board for further discussion and resolution. The audit and risk committee have not held any meetings to date and will meet at least twice per annum as a listed entity. The audit and risk charter, and information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners (which is determined by the audit committee), is available on the Company's website.	Complies.

Principle 5 – Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted an ASX Disclosure Policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001. This policy is available on the Company's website.	Complies.
5.2	Provide the information indicated in the *Guide to reporting on Principle 5.*	The Company's ASX Disclosure policy is available on the Company's website.	Complies.
Principle 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The Company has adopted a shareholder communications policy. The Company uses its website (www.baru.com.au), annual report, market announcements, media disclosures and webcasting to communicate with its shareholders, as well as encourages participation at general meetings. This policy is available on the Company's website.	Complies.
6.2	Provide the information indicated in the *Guide to reporting on Principle 6.*	The Company's shareholder communications policy is available on the Company's website.	Complies.
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	The Company has adopted a risk management statement within the audit and risk committee charter. The audit and risk committee is responsible for managing risk; however, ultimate responsibility for risk oversight and risk management rests with the Board. The audit and risk charter is available on the Company's website and is summarised in this Corporate Governance Statement.	Complies.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that	The Board believes the risk management and internal control systems designed and implemented by the Directors and the Financial Officer are adequate given the size and nature of the Company's activities. The Board informally reviews and requests management internal control.	Management has not formally reported to the Board as to the effectiveness of the Company's management of its material business risks. Given the nature and size of the Company and the Board's ultimate responsibility to manage the risks of the Company this is not considered critical. The

Principles and Recommendations		**Compliance**	**Comply**
	management has reported to it as to the effectiveness of the Company's management of its material business risks.		Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.
7.3	The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	The Board will receive statements from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.
7.4	Provide the information indicated in *Guide to reporting on Principle 7.*	An audit and risk management charter has been adopted by the Audit and Risk Management Committee which includes a statement of the Company's risk policies. This charter is available on the Company's website and is summarised in this Corporate Governance Statement. The Company has identified key risks within the business and has received a statement of assurance from the chief executive officer and chief financial officer.	Complies.
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	The Board has established a Nomination and Remuneration Committee and has adopted a remuneration charter. The Nomination and Remuneration Committee consists of the entire Board and is Chaired by Mr Peter Avery.	Complies.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Company complies with the guidelines for executive remuneration packages and non-executive director remuneration. No senior executive is involved directly in deciding their own remuneration.	Complies.

Principles and Recommendations		**Compliance**	**Comply**
8.3	Provide the information indicated in *the Guide to reporting on Principle 8.*	The Board has adopted a Nomination and Remuneration Committee charter. The Company does not have any schemes for retirement benefits other than superannuation for non-executive directors.	Complies.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Baru Resources Limited, refer to our website: www.baru.com.au