

Petratherm Ltd

ABN 17 106 806 884

Annual Financial Report

for the year ended 30 June 2007

Contents to Financial Report

Corporate Information	3
Directors' report.....	4
Auditor's Independence declaration	17
Corporate Governance Statement	18
Income Statement.....	22
Balance Sheet.....	23
Statement of Changes in Equity.....	24
Cash Flow Statement.....	25
Notes to the Financial Statements	26
1. CORPORATE INFORMATION	26
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	26
3. SEGMENT INFORMATION	37
4. REVENUE AND EXPENSES	37
5. INCOME TAX.....	38
6. EARNINGS PER SHARE.....	39
7. CASH AND CASH EQUIVALENTS.....	40
8. TRADE AND OTHER RECEIVABLES	42
9. OTHER CURRENT ASSETS	42
10. FINANCIAL ASSETS	42
11. PROPERTY, PLANT AND EQUIPMENT	43
12. EXPLORATION AND EVALUATION ASSETS	45
13. SHARE-BASED PAYMENTS.....	45
14. TRADE AND OTHER PAYABLES (CURRENT)	48
15. OTHER NON CURRENT LIABILITIES	48
16. PROVISIONS.....	48
17. ISSUED CAPITAL.....	49
18. RESERVES	49
19. RETAINED EARNINGS	50
20. MINORITY INTEREST.....	50
21. COMMITMENTS FOR EXPENDITURE	50
22. CONTINGENT ASSETS AND LIABILITIES	51
23. AUDITOR'S REMUNERATION.....	51
24. SUBSIDIARIES.....	51
25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS	51
26. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION	54
Directors' Declaration	55
Independent Audit Report to the members of Petratherm Ltd	56
ASX Additional Information	58

Corporate Information

This annual report covers both Petratherm Ltd (ABN 17 106 806 884) as an individual entity and the Group comprising Petratherm Ltd and its subsidiary. The Group's functional and presentation currency is AUD \$.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 4 to 8. The directors' report is not part of the financial report.

Directors

Derek Carter (Chairman)
Terry Kallis (Managing Director)
Lloyd Taylor
Richard Bonython
Richard Hillis
Simon O'Loughlin

Company Secretary

Donald Stephens

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd
82 Fullarton Road
NORWOOD SA 5067

Principal place of business

105 - 106 Greenhill Road
UNLEY SA 5061

Share Registry

Comptuershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
ADELAIDE SA 5000

Legal Advisors

O'Loughlins Lawyers
Level 2, 99 Frome Street
ADELAIDE SA 5000

Bankers

National Australia Bank
22 - 28 King William Street
ADELAIDE SA 5000

Auditors

Grant Thornton
Chartered Accountants
67 Greenhill Road
WAYVILLE SA 5034

Directors' report

Your directors submit their report for the year ended 30 June 2007.

DIRECTORS

Derek Carter	Chairman
Terry Kallis	Managing Director
Lloyd Taylor	Non-Executive Director
Richard Bonython	Non-Executive Director
Richard Hillis	Non-Executive Director
Simon O'Loughlin	Non-Executive Director

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. The directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Derek Carter, MSc, FAusIMM (CP) (Chairman, Non- Executive Director)

Derek Carter has over 32 years experience in exploration and mining geology and management. He held senior positions in the Shell Group of Companies and Burmine Ltd before founding Minotaur in 1993 and is currently managing director of Minotaur Exploration Ltd. He is the chairman of Petratherm Ltd, is a board member of Mithril Resources Ltd and Toro Energy Ltd; is former President and Vice President of the South Australian Chamber of Mines and Energy, former board member of the Australian Gold Council, and is a Member of the South Australian Resources Development Board and the South Australian Minerals and Petroleum Experts Group and chairman of the Minerals Exploration Advisory Group. He was awarded AMEC's Prospector of the Year Award (jointly) in 2003 and is a Centenary Medalist.

Terry Kallis, BE (Elec) MBA (Managing Director)

Terry Kallis joined the board of directors on 1 May 2006. He holds degrees in Electrical Engineering and a Masters in Business Administration. He has a very successful and highly regarded career in the Australian Electricity Industry both as a consultant and senior executive. His role was primarily as chief financial officer and latterly as executive manager Network - ElectraNet SA. During his time at ETSA, he was intimately involved with major reforms implemented in the late 1990's. Those reforms included commercialisation, corporatisation, involvement in the new National Electricity Market (NEM) and the ETSA sale.

Directors' report

Lloyd Taylor, BSc (Hons), PhD, MAICD (Non-Executive Director)

Lloyd Taylor joined the board of directors on 22 March 2004. He holds a doctorate in Geology and Geophysics from the University of Sydney. He has 30 years international oil exploration and production experience with Woodside Petroleum, Shell International, Santos and Fletcher Challenge Energy. In 2003 he retired as chairman and CEO of Shell New Zealand. During his career, he held general management and leadership responsibilities for oil and gas business operations in ten countries. He has been a company director for fifteen years. He is a former director of Visean Information Services Limited.

Richard Bonython, B Ag Sc (Non- Executive Director)

Richard Bonython joined the board of directors on 1 March 2004. He was a director of Minotaur Gold Ltd for six years, Minotaur Resources Ltd for 5 years and retired as chairman of Hindmarsh Resources Ltd following the take over of that company in early 2006. He retired as chairman of Diamin Resources NL in 1999 having been a director of that company for 15 years. He was executive director of Pioneer Property Group Ltd for over 15 years and has experience of over 40 years in the building, rural and mineral industries. He is a director of Mithril Resources Ltd and Minotaur Exploration Ltd, and is a member of the Company's audit committee.

Richard Hillis, BSc, ARSM, PhD (Non-Executive Director)

Richard Hillis joined the board of directors on 1 March 2004. He is the State of South Australia Professor of Petroleum Geology and Mawson Professor of Geology and Geophysics at the University of Adelaide. His research expertise is in the area of subsurface stresses within the crust and their impact on petroleum exploration-related issues such as wellbore stability, fracture stimulation and subsurface fluid flow. He has undertaken 30 consulting projects for 16 oil companies, primarily in the area of subsurface stresses and has taught industry professionals short courses on the subject in Australia, Japan, Vietnam, Brunei and the United Kingdom. Richard, who has authored or co-authored 80 scientific papers and edited two books, heads a research Group at the University of Adelaide, which includes post-doctoral and PhD students, researching crustal stress.

Simon O'Loughlin, BA (Acc) (Non-Executive Director)

Simon O'Loughlin joined the board of directors on 24 October 2003. He is a legal practitioner with over 26 years experience as a corporate and commercial solicitor. He has had extensive involvement in the mining industry, especially in relation to the formation, structuring and listing of small and medium sized resources companies. He is a past chairman of the Taxation Institute of Australia (SA Division), and is currently chairman of Living Cell Technologies Ltd and WCP Diversified Investments Ltd, non-executive chairman Bondi Mining Ltd and a non-executive director of Aura Energy Ltd and Chesser Resources Ltd, all of which are listed on the ASX. He is also a member of the Company's audit committee.

Directors' report

COMPANY SECRETARY

Donald Stephens, BA (Acc), FCA

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Ltd and Papyrus Australia Ltd and is company secretary to Mithril Resources Ltd, Petratherm Ltd, Ferraus Ltd, Chesser Resources Ltd, Innovance Ltd and Arasor International Ltd. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations. He is a member of the Company's audit committee.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of Petratherm Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Derek Carter	66,250	1,200,000
Terry Kallis	-	1,500,000
Lloyd Taylor	300,000	400,000
Richard Bonython	532,500	500,000
Richard Hillis	20,000	300,000
Simon O'Loughlin	100,000	200,000

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were:

- Test hot rocks, specifically granitic and hydrothermal iron oxide systems, with high temperatures;
- Establishing an economically viable, emission free, renewable source for power generation.

There have been no significant changes in the nature of these activities during the year.

Directors' report

OPERATING RESULTS

The consolidated loss of the Group (after accounting for minority interests) for the financial year after providing for income tax amounted to \$1,334,179 [2006: \$835,611].

OPERATIONS OVERVIEW

2006/2007 Highlights

During the 2006/2007 year Petratherm Ltd established itself as a leader in the Australian Geothermal Energy Sector and made significant progress toward developing its first commercial geothermal energy project at Paralana, in South Australia.

Highlights included:

- **September 2006** – temperature measurements at a depth of 1,806 metres confirmed the Paralana Thermal Province as one of Australia's leading geothermal resources.
- **September 2006** – an independent pre-feasibility study and economic model for the Paralana geothermal energy project was completed indicating that both small-scale (7.5MW to 30MW) and large-scale base-load power (260MW to 520MW) generation could commercially be supported, in the short and long term, respectively.
- **November 2006** – a landmark Memorandum of Understanding for the supply of power to Heathgate Resources' Beverley Uranium Mine was established on 1 November 2006 at a signing ceremony witnessed by SA Mineral Resources Minister, the Honourable Paul Holloway MLC.
- **November 2006** – Petratherm obtained project endorsement from the Asia Pacific Partnership on Climate and Clean Development (APP) to undertake a study to "identify high prospect geothermal energy projects in China".
- **January 2007** – a \$30M Joint Venture with Beach Petroleum earning equity of up to 36% in the Paralana geothermal energy project was arranged.
- **February 2007** – a \$5M Renewable Energy Development Initiative (REDI) Grant was awarded by the Federal Government to assist in the establishment of Petratherm's unique Heat Exchanger within Insulator (HEWI) model at the Paralana geothermal energy project.

Directors' report

- **February 2007** – Petratherm España SL lodged applications for highly prospective tenement holdings close to Spain's two largest cities – Madrid and Barcelona – thus securing "first mover" advantage in the geothermal renewable energy sector in Spain.
- **February 2007** – two new geothermal exploration licences were awarded near Renmark, South Australia, close to two major transmission lines capable of carrying in excess of 220MW of power.
- **March 2007** – the Federal Government initiated the COAG (Council of Australian Government) road map project for geothermal energy – the Australian Geothermal Industry Development Framework – aimed at developing a clear path for the industry to develop and succeed. As a recognised leader in the industry, Petratherm was appointed to a small reference group that will oversight the project.
- **June 2007** – a geothermal exploration licence (GEL) awarded for Tenerife in Spain's Canary Islands, off the north-west coast of Africa, focuses on conventional geothermal energy close to substantial transmission infrastructure supporting an average population of 1 million that peaks at around 1.5 million during the tourist season.

Petratherm undertook two successful share placements (November 2006 and May 2007) raising a total of \$8.3million to fund its growing portfolio of projects in Australia, Spain and China.

Directors' report

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of performance indicators of both a financial and non financial nature.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- \$30M Joint Venture with Beach Petroleum earning equity of up to 36% in the Paralana geothermal energy project was arranged.
- Petratherm undertook two successful share placements (November 2006 and May 2007) raising a total of \$8.3million to fund its growing portfolio of projects in Australia, Spain and China.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No events have arisen since the end of the financial year which significantly affected the financial position of the Company.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company intends to continue to undertake appropriate exploration and evaluation expenditure thereby enabling it to maintain good title to all its prospective mineral properties until proper decisions can be made to successfully develop and exploit, sell or abandon such properties. New projects will be sought and evaluated. Provision of any further information may result in unreasonable prejudice to the Company.

Directors' report

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is aware of its responsibility to impact as little as possible on the environment, and where there is any disturbance, to rehabilitate sites. During the period under review the majority of work carried out was in South Australia and the Group followed procedures and pursued objectives in line with guidelines published by the South Australian Government. These guidelines are quite detailed and encompass the impact on owners and land users, heritage, health and safety and proper restoration practices. The Group supports this approach and is confident that it properly monitors and adheres to these objectives, and any local conditions applicable, both in South Australia and elsewhere.

SHARE OPTIONS

Unissued Shares

At the date of this report, the following options to acquire ordinary shares in the Company were on issue:

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2006	Net Issued/ (Exercised) during Year	Balance at 30 June 2007
25/03/2004	24/03/2009	\$0.20	7,500,000	(2,500,000)	5,000,000
05/04/2004	04/04/2009	\$0.20	2,600,000	-	2,600,000
27/07/2004	26/07/2009	\$0.20	2,000,000	-	2,000,000
28/07/2004	27/07/2009	\$0.20	650,000	-	650,000
24/09/2004	23/09/2009	\$0.32	40,000	-	40,000
16/12/2004	15/12/2009	\$0.32	50,000	-	50,000
01/01/2006	31/12/2010	\$0.40	30,000	-	30,000
06/02/2006	05/02/2011	\$0.40	40,000	(40,000)	-
22/05/2006	21/05/2011	\$0.32	200,000	-	200,000
22/05/2006	21/05/2011	\$0.37	200,000	-	200,000
30/05/2006	29/05/2011	\$0.32	50,000	(20,000)	30,000
30/06/2006	30/04/2012	\$0.32	750,000	-	750,000
30/06/2006	30/04/2013	\$0.37	750,000	-	750,000
01/01/2007	01/01/2012	\$0.53	-	100,000	100,000
02/01/2007	01/01/2012	\$0.53	-	100,000	100,000
04/03/2007	04/03/2012	\$0.91	-	40,000	40,000
21/03/2007	21/03/2012	\$0.91	-	20,000	20,000
31/05/2007	31/05/2012	\$0.90	-	40,000	40,000
31/05/2007	31/05/2013	\$0.90	-	400,000	400,000
25/06/2007	25/06/2013	\$0.93	-	20,000	20,000
Balance at 30 June 2007			14,860,000	(1,840,000)	13,020,000

Shares issued as a result of the exercise of options

Since the end of the financial year, no further options have been exercised.

Directors' report

Cancellation of options

During the financial year 60,000 options issued under the Employee Share Option Plan ("ESOP") lapsed due to not being exercised within the prescribed timeframe.

New options issued

During the financial year 680,000 options were issued under the Company's ESOP to various employees and 40,000 options were issued to a contractor of the Company.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$25,559. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Petratherm Ltd.

Remuneration philosophy

The board is responsible for determining remuneration policies applicable to directors and senior executives of the Group. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the board to the Group's financial performance.

Employment contracts

The employment conditions of the managing director, Mr Terry Kallis, are formalised in a contract of employment. Mr Kallis commenced employment on 1 May 2006 and his base salary, inclusive of superannuation, is \$240,000 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the chief executive officer, Mr Peter Reid, are formalised in a contract of employment. Mr Reid commenced employment on 27 July 2004 and his base salary, inclusive of superannuation, is \$161,000 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Directors' report

The employment conditions of the business development manager, Mr Jonathan Teubner, are formalised in a contract of employment. Mr Teubner commenced employment on 1 June 2007 and his base salary, inclusive of superannuation, is \$160,000 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Remuneration Report

Table 1: Directors' remuneration for the year ended 30 June 2007

	Short-term employee benefits	Post employment benefits	Share based payment	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2007	30,000	2,700	-	32,700
2006	30,000	2,700	-	32,700
Terry Kallis				
2007	189,603	17,064	42,334	249,001
2006	30,581	2,752	7,952	41,285
Richard Bonython				
2007	27,250	-	-	27,250
2006	27,813	-	-	27,813
Simon O'Loughlin				
2007	25,000	2,250	-	27,250
2006	25,000	2,250	-	27,250
Lloyd Taylor				
2007	-	27,250	-	27,250
2006	25,000	2,250	-	27,250
Richard Hillis				
2007	25,000	2,250	-	27,250
2006	25,000	2,250	-	27,250

Directors' report

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2007

	Short-term employee benefits	Post employment benefits	Share based payment	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2007	113,115	42,385	11,500	167,000
2006	128,807	11,593	23,800	164,200
Jonathan Teubner				
2007	12,232	1,101	5,466	18,800

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$81,421 (2006: 71,655). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd. A total of \$11,725 was outstanding at 30 June 2007.

Table 3: Options granted as part of remuneration

The options issued to directors and executives during the year were as follows:

	Grant date	Grant number	Vesting date	Exercise price	Value per option at grant date	Exercised number	Total Fair value	% of Remuneration
Peter Reid	01/01/07	100,000	01/01/07	0.53	0.115		11,500	14.52%
Jonathan Teubner	31/05/07	400,000	31/05/07	0.90	0.172		68,800	1.19%

Note: None of the above options granted to key management personnel have attached performance conditions in accordance with the current remuneration policy of the company.

Directors' report

Table 4: Options holdings of Key Management Personnel

30 June 2007	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	750,000	-	-	-	750,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	-	-	-	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	-	-	-	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	-	-	-	400,000	04/04/09	05/04/04	04/04/09
Richard Hillis	300,000	-	-	-	300,000	04/04/09	05/04/04	04/04/09
Simon O'Loughlin	200,000	-	-	-	200,000	04/04/09	05/04/04	04/04/09
Executives								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Jonathan Teubner	-	400,000	-	-	400,000	31/05/13	01/06/08	31/05/13
	5,250,000	400,000	-	-	5,650,000			

Directors' report

30 June 2006	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	-	750,000	-	-	750,000	30/04/12	01/05/07	30/04/12
Terry Kallis		750,000	-	-	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	-	-	-	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	-	-	-	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	-	-	-	400,000	04/04/09	05/04/04	04/04/09
Richard Hillis	300,000	-	-	-	300,000	04/04/09	05/04/04	04/04/09
Simon O'Loughlin	200,000	-	-	-	200,000	04/04/09	05/04/04	04/04/09
Executives								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	-	400,000	-	-	400,000	21/05/11	22/05/06	21/05/11
	3,250,000	1,900,000	-	-	5,150,000			

Table 5: Shareholdings of Key Management Personnel

30 June 2007	Balance at 1 July 06	On Exercise of Options	Net Change Other	Balance 30 June 07
Directors				
Terry Kallis	-	-	-	-
Derek Carter	60,000	-	6,250	66,250
Richard Bonython	520,000	-	12,500	532,500
Lloyd Taylor	300,000	-	-	300,000
Richard Hillis	20,000	-	-	20,000
Simon O'Loughlin	100,000	-	-	100,000
Executives				
Peter Reid	50,000	-	-	50,000
Jonathan Teubner	-	-	-	-

Directors' report

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Audit
Number of meetings held	7	2
Number of meetings attended:		
Derek Carter	6	-
Terry Kallis	6	-
Lloyd Taylor	7	-
Richard Bonython	7	2
Richard Hillis	7	-
Simon O'Loughlin	7	2

Members acting on the audit committee of the board are:

Richard Bonython	Non-executive director
Simon O'Loughlin	Non-executive director
Donald Stephens	Company secretary

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Grant Thornton, in its capacity as auditor for Petratherm Ltd, has not provided any non-audit services throughout the reporting period. The auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 17.

Signed in accordance with a resolution of the board of directors.



Mr Terry Kallis
Managing Director

Dated this 28 day of September 2007

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PETRATHERM LTD & CONTROLLED ENTITIES**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Ltd for the period ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of 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.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at *Adelaide* this *28* day of *September* 2007

Corporate Governance Statement

The board of directors is responsible for the corporate governance of Petratherm Ltd (the Company) and its controlled entity (MNGI Pty Ltd). Summarised in this statement are the main corporate governance practices that have been developed by the board and were in place at the end of the financial year.

Board Responsibilities

The board of directors is accountable to shareholders for the performance of the Group and has an overall responsibility for its operations. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the managing director.

The key responsibilities of the board include:

- Developing the strategic direction and related objectives for the Group and monitoring management performance in the achievement of these objectives.
- Adopting budgets and monitoring the financial performance of the Group.
- Reviewing the performance of the managing director.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Group meets its legal and statutory obligations.

Managing Director and Company Secretary Declaration to the Board of Directors

The declaration made by the managing director and the company secretary to the board with regard to the integrity of the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Board Composition

At the date of this statement the board consists of the managing director Mr T Kallis and five non-executive directors, Mr D Carter, who is also chairman of the board, Dr L Taylor, Prof R Hillis, Mr R Bonython and Mr S O'Loughlin. Dr Taylor, Prof Hillis and Mr O'Loughlin have no other material relationship with the Company or its subsidiary other than their directorships. Messrs Carter and Bonython are directors of Minotaur Exploration Ltd which is the beneficial holder of 31.91% of the issued capital of Petratherm Ltd. The Company therefore has three independent directors as those relationships are currently defined.

The board considers this to be an appropriate composition given the size and development of the Group at the present time. The names of directors including details of their qualification and experience are set out in the Directors' Report of this Annual Report.

Corporate Governance Statement

The composition/membership of the board is subject to review in a number of ways, as outlined below:

- The Company's constitution provides that at every Annual General Meeting, one third of the directors shall retire from office but may stand for re-election.
- Board composition is also reviewed periodically either when a vacancy arises or if it is considered that the board would benefit from the services of a new director, given the existing mix of skills and experience of the board which should match the strategic demands of the Group. Once it has been agreed that a new director is to be appointed, a search would be undertaken, sometimes using the services of external consultants. Nominations are subsequently received and reviewed by the board.

Board Remuneration

The maximum aggregate annual remuneration which may be paid to non-executive directors is currently \$300,000. This cannot be increased without approval of the Company's shareholders.

Remuneration of the non-executive directors is reviewed and approved by the board.

Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's constitution directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists the director concerned does not receive the relevant board papers, is not present at the meeting whilst the item is considered and takes no part in any decision.

Director and Senior Management Dealings in Company Securities

The Company's constitution permits directors to acquire securities in the Company, however Company policy prohibits directors and senior management from dealing the Company's securities at any time whilst in possession of price sensitive information and for 24 hours after:

- Any major announcements;
- The release of the Company's quarterly, half yearly and annual financial results to the Australian Stock Exchange; and
- The Annual General Meeting.

Directors must advise the chairman of the board before buying or selling securities in the Company. All such transactions are reported to the board. In accordance with the provisions of the Corporations Act and the Listing Rules of the Australian Stock Exchange, the Company advises the Exchange of any transaction conducted by directors in securities in the Company.

Corporate Governance Statement

Board Committees

The board of directors takes ultimate responsibility for corporate governance including the functions of:

- Establishing compensation arrangements of its managing director, chief executive officer and its senior executives and officers
- Appointment and retirement of non-executive directors
- Appointment of auditors
- Areas of business risk
- Maintenance of ethical standards

The board of directors seeks independent professional advice as necessary in carrying out their duties and responsibilities.

The board has established an audit committee comprising two directors of the Company, Mr Richard Bonython and Mr Simon O'Loughlin and the Company secretary, Mr Donald Stephens. The audit committee met on two occasions during the financial year. The committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

External Auditor Attendance at Annual General Meeting

An external auditor attends the Company's Annual General Meeting and is available to answer questions from shareholders on the auditors' report and the conduct of the audit.

Continuous Disclosure

The Company has a policy that all shareholders and investors have equal access to the Company's information. The chairman ensures that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporation's Act and ASX Listing Rules. The company secretary has primary responsibility for all communications with the ASX.

Code of Ethics

Directors, management and staff are expected to perform their duties for the Group in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Role of Shareholders

The board of directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:-

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document);
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period (the financial report is sent to any shareholder who requests it);
- The ASX quarterly cash reports containing summarised financial information and a review of operations of the Group during the periods;
- Notices of all meetings of shareholders.

All information disclosed to the ASX is posted on the Company's web site www.petratherm.com.au.

Corporate Governance Statement

Departures from ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations"

In a number of instances the Company has departed from the various recommendations as set out in the "Principles of Good Corporate Governance and Best Practice Recommendations" released by the ASX Corporate Governance Council. This is primarily due to the size of the Company and the nature and scope of its operations and the cost benefit of adopting such recommendations. These departures and reasons for departure are as follows:

- There have been no formal disclosures of policies or processes.
- The board has formed an audit committee which has formulated the objectives and responsibilities for that committee. No other committees have been established. As previously noted this is because of the size of the Company and the involvement of the board in the operations of the Company. The board takes ultimate responsibility for these matters.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	4 (a)	173,178	130,526	170,950	127,725
Impairment of non-current assets	4 (b)	(44,275)	(10,485)	(1,041,991)	(793,432)
Employee benefits expense	4 (c)	(493,726)	(338,673)	(207,128)	(173,800)
Depreciation expense	4 (b)	(15,948)	(7,315)	-	-
Other expenses	4 (d)	(955,776)	(586,202)	(137,028)	(304,924)
Loss before income tax expense		(1,336,547)	(812,149)	(1,215,197)	(1,144,431)
Income tax (expense)/benefit	5	2,024	(23,462)	(119,299)	(23,462)
Loss for the year		(1,334,523)	(835,611)	(1,334,496)	(1,167,893)
Loss attributable to minority interest	20	344	-	-	-
Loss attributable to members of the parent entity		(1,334,179)	(835,611)	(1,334,496)	(1,167,893)
Earnings per share:					
Basic earnings per share	6	Cents (2.77)	Cents (2.16)		
Diluted earnings per share	6	(2.77)	(2.16)		

The accompanying notes form part of these financial statements

Balance Sheet

AS AT 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT ASSETS					
Cash and cash equivalents	7	8,189,083	2,554,246	8,056,273	2,497,437
Trade and other receivables	8	58,231	125,249	3,294,425	1,992,693
Other	9	21,371	11,452	6,732	11,198
TOTAL CURRENT ASSETS		8,268,685	2,690,947	11,357,430	4,501,328
NON-CURRENT ASSETS					
Financial assets	10	-	-	304,590	300,000
Property, plant and equipment	11	92,091	32,321	-	-
Exploration and evaluation assets	12	3,604,611	2,872,967	-	-
TOTAL NON-CURRENT ASSETS		3,696,702	2,905,288	304,590	300,000
TOTAL ASSETS		11,965,387	5,596,235	11,662,020	4,801,328
CURRENT LIABILITIES					
Trade and other payables	14	240,069	756,938	64,833	30,866
Other current liabilities	15	28,366	-	-	-
Short term provisions	16	52,061	33,189	-	2,463
TOTAL CURRENT LIABILITIES		320,496	790,127	64,833	33,329
NON-CURRENT LIABILITIES					
Long term provisions	16	47,704	38,109	-	-
TOTAL NON-CURRENT LIABILITIES		47,704	38,109	-	-
TOTAL LIABILITIES		368,200	828,236	64,833	33,329
NET ASSETS		11,597,187	4,767,999	11,597,187	4,767,999
EQUITY					
Issued capital	17	14,184,561	6,089,542	14,184,561	6,089,542
Reserves	18	160,490	93,982	160,807	93,982
Retained earnings	19	(2,747,864)	(1,415,525)	(2,748,181)	(1,415,525)
Parent interests		11,597,187	4,767,999	11,597,187	4,767,999
Minority interests	20	-	-	-	-
TOTAL EQUITY		11,597,187	4,767,999	11,597,187	4,767,999

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated					Parent			
	Issued Capital \$	Retained Earnings \$	Reserves \$	Minority Interests \$	Total \$	Issued Capital \$	Retained Earnings \$	Reserves \$	Total \$
Balance at 1 July 2005	3,986,786	(579,914)	64,755	-	3,471,627	3,986,786	(247,632)	64,755	3,803,909
Profit attributable to members of the parent entity	-	(835,611)	-	-	(835,611)	-	(1,167,893)	-	(1,167,893)
Share options issued	-	-	29,227	-	29,227	-	-	29,227	29,227
Shares issued via placement	1,470,000	-	-	-	1,470,000	1,470,000	-	-	1,470,000
Transaction costs (net of tax)	(54,744)	-	-	-	(54,744)	(54,744)	-	-	(54,744)
Issued on exercise of options	500,000	-	-	-	500,000	500,000	-	-	500,000
Cost of share based payment	187,500	-	-	-	187,500	187,500	-	-	187,500
Balance at 30 June 2006	6,089,542	(1,415,525)	93,982	-	4,767,999	6,089,542	(1,415,525)	93,982	4,767,999
Balance at 1 July 2006	6,089,542	(1,415,525)	93,982	-	4,767,999	6,089,542	(1,415,525)	93,982	4,767,999
Profit attributable to members of the parent entity	-	(1,334,179)	-	-	(1,334,179)	-	(1,334,496)	-	(1,334,496)
Shares issued via placement	5,680,000	-	-	-	5,680,000	5,680,000	-	-	5,680,000
Issued pursuant to share purchase plan	2,719,700	-	-	-	2,719,700	2,719,700	-	-	2,719,700
Issue of share options under employee share option plan	-	-	68,664	-	68,664	-	-	68,665	68,665
Capital contribution from minority interest holder	-	-	-	344	344	-	-	-	-
Minority interest share of loss	-	-	-	(344)	(344)	-	-	-	-
Transaction costs (net of tax)	(304,681)	-	-	-	(304,681)	(304,681)	-	-	(304,681)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	-	1,840	(1,840)	-	-	-	1,840	(1,840)	-
Issued on exercise of options	-	-	-	-	-	-	-	-	-
Foreign exchange translations	-	-	(316)	-	(316)	-	-	-	-
Balance at 30 June 2007	14,184,561	(2,747,864)	160,490	-	11,597,187	14,184,561	(2,748,181)	160,807	11,597,187

The accompanying notes form part of these financial statements

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(1,299,928)	(736,952)	(246,610)	(249,390)
R&D Tax offset received		121,323	-	-	-
Interest received		168,678	145,370	166,450	142,568
NET CASH USED IN OPERATING ACTIVITIES	7	(1,009,927)	(591,582)	(80,160)	(106,822)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(75,719)	(25,099)	-	-
Loans from/(to) related parties		218	(218)	-	-
Loans to wholly- owned subsidiary		-	-	(2,336,724)	(1,784,873)
REDI Grant proceeds		49,775	-	-	-
Payments for exploration activities		(1,305,230)	(1,390,799)	-	-
NET CASH USED IN INVESTING ACTIVITIES		(1,330,956)	(1,416,116)	(2,336,724)	(1,784,873)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		8,399,700	1,970,000	8,399,700	1,970,000
Transaction costs of issue of shares		(423,980)	(78,206)	(423,980)	(78,206)
NET CASH PROVIDED BY FINANCING ACTIVITIES		7,975,720	1,891,794	7,975,720	1,891,794
Net increase/(decrease) in cash and cash equivalents		5,634,837	(115,904)	5,558,836	99
Cash at the beginning of the year		2,554,246	2,670,150	2,497,437	2,497,338
CASH AT THE END OF THE YEAR	7	8,189,083	2,554,246	8,056,273	2,497,437

The accompanying notes form part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1. CORPORATE INFORMATION

The financial report of Petratherm Ltd (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 28 September 2007. Petratherm Ltd is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accrual basis and is based on historical costs, modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

b. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2007 with the exception of 2007-4. Compliance with AIFRS ensures that the consolidated financial statements and notes of Petratherm Ltd comply with International Financial Reporting Standards (IFRS).

c. Principles of consolidation

The consolidated financial statements comprise the financial statements of Petratherm Ltd and its subsidiaries as at 30 June each year (the Group).

A controlled entity is any entity Petratherm Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 24 to the financial statements.

The financial statements of the subsidiary are prepared for the same reporting period as the parent Company, using consistent accounting policies.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra Group transactions have been eliminated in full.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to the minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from the minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary

Minority interest in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

d. Significant assumptions

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model based on the assumptions detailed in note 13.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 13.

e. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of services to customers.

All revenue is stated net of the amount of goods and services tax (GST).

Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial asset.

f. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

During the year the entity made an early adoption of AASB 2007-04 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments which was otherwise effective for financial years beginning 1 July 2007. The adoption of this standard has resulted in a change in the entity's accounting for government grants under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, in that the entity has taken the option now available to present exploration and evaluation assets net of the government grant received. This presentation is considered to better reflect the purpose of the government funding and shows the impact of the receipt of the grant in the appropriate financial year. Under AASB 108 Accounting Policies, Changes in Accounting Estimates, and Errors the change has been accounted for with effect from 1 July 2006.

g. Finance costs

Finance costs are recognised as an expense when incurred.

h. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and cash in hand and short term deposits with an original maturity of six months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

i. Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

j. Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Available-for-sale financial assets

Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

k. Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

Petratherm Ltd and its wholly-owned Australian controlled entity have not yet decided to implement the tax consolidation legislation as of 1 July 2006. The Australian Taxation Office has not yet been notified of any decision.

If the Group were to implement the tax consolidation legislation in the current or future reporting period, the consequence would be that Petratherm Ltd, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entity in the group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue). The deferred tax balances recognised by the parent entity in relation to wholly-owned entity joining the tax consolidated group are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime.

There will be no impact of the legislation on the Group's historical carrying amounts of its deferred tax assets, as these have not been recognised in the parent or Group's financial statements.

I. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

m. Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis on all plant and equipment.

Major depreciation rates used for each class of depreciable asset are:

Plant and equipment 10 - 40%

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

n. Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

o. Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to the basis that the restoration will be completed within one year of abandoning the site.

p. Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

q. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects the risks specific to the liability.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

r. Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share-based payment transactions

The Group provides benefits to employees of the Group in the form of share-based payments, whereby employees receive options incentives (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued.

Upon the exercise of options, the balance of share based payments reserve relating to those options is transferred to share capital.

s. 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.

t. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

u. New Accounting and UIG Interpretations

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. With the exception of AASB 2007-4 (AASB 120) they have not been adopted in the preparation of the financial statements at reporting date.

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
7	Financial Instruments: Disclosure	Aug 2005	1 Jan 2007
8	Operating Segments	Feb 2007	1 Jan 2009
101	Presentation of Financial Statements (Amended)	Oct 2006	1 Jan 2007
123	Borrowing Costs (Amended)	June 2007	1 Jan 2009
2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, &1038]	April 2007	1 July 2007

Please refer to note 2(f) with regards to early adoption of accounting standards under AASB 108.

v. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Exploration and evaluation

The Group's policy for exploration and evaluation is discussed in note q. The application of this policy requires management to make certain assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploration, then the relevant capitalised amount will be written off through the income statements

w. Foreign Currency Translation

Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Petratherm Group's functional and presentational currency.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet
- income and expenses for each Income Statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

3. SEGMENT INFORMATION

Industry & Geographical Segment

The Group operates in the geothermal exploration sector in Australia and Spain.

4. REVENUE AND EXPENSES

(a) Revenue and other income

Bank interest received or receivable	173,178	130,526	170,950	127,725
	173,178	130,526	170,950	127,725

(b) Expenses

Impairment of non-current assets

Capitalised tenement costs written off	44,275	10,485	-	-
Other	-	-	1,041,991	793,432
Total impairment of non-current assets	44,275	10,485	1,041,991	793,432

Depreciation of non-current assets

Plant and equipment	15,948	7,315	-	-
Total depreciation	15,948	7,315	-	-

(c) Employees benefits expense

Wages, salaries, directors fees and other remuneration expenses	704,068	254,054	138,326	132,660
Defined contribution plan expense	-	33,609	-	9,450
Superannuation	47,410	-	-	-
Transfer to/(from) annual leave provision	13,575	13,415	-	2,463
Transfer to/(from) long service leave provision	9,595	8,368	-	-
Share-based payments expense	68,802	29,227	68,802	29,227
Transfer to capitalised tenements	(349,724)	-	-	-
	493,726	338,673	207,128	173,800

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
(d) Other expenses from ordinary activities				
Secretarial, professional and consultancy	149,605	71,167	11,725	1,993
Travel expenses	70,808	25,084	70	8,270
Recruitment expenses	61,475	-	-	-
Promotion and advertising	60,433	12,601	-	-
Occupancy costs	51,790	21,384	-	-
Share register maintenance	44,578	22,218	44,578	22,218
Insurance costs	42,739	47,045	34,525	40,908
Payroll tax	33,325	-	-	-
Conference & seminars	30,250	-	-	-
Entertainment	29,984	-	-	-
AGM expenses	23,690	-	23,690	-
Audit fees	18,091	17,390	-	5,300
Listing Fees	11,646	-	11,646	-
Subscriptions and publications	10,628	-	551	-
Legal	8,929	-	-	-
Stock exchange fees	7,878	10,639	7,878	10,639
Service charges	-	33,431	-	-
Consulting fees	-	187,500	-	187,500
Other expenses	299,927	137,743	2,366	28,096
	955,776	586,202	137,028	304,924

5. INCOME TAX

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)	(400,964)	(243,645)	(364,559)	(343,329)
Tax effect of permanent differences				
Non allowable items	51,458	14,658	312,597	240,813
Other deductible items	(316,061)	(817,817)	(57,655)	(28,255)
R&D Tax Offset	121,323	-	-	-
Future income tax benefit not realised as recognition criteria of AASB 112 not met	542,220	1,070,266	228,916	154,233
	(2,024)	23,462	119,299	23,462

The Group has tax losses arising in Australia of \$5,709,842 (2006: \$5,736,143) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2007, there is no recognised or unrecognised deferred income tax liability (2006: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture, as the Group has no liability for additional taxation should such amounts be remitted.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Income tax losses				
Future income tax asset arising from carried forward tax losses and temporary differences not recognised at reporting date as the asset is not regarded as meeting the proable criteria				
Timing Difference at 30%	(759,552)	(645,462)	172,233	132,225
Tax losses at 30%	1,712,953	1,016,676	261,944	177,037
	953,401	371,214	434,177	309,262

This future income tax benefit will only be obtained if

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- No changes in tax legislation adversely affect the Group in realising the benefit.

Tax consolidation

Petratherm Ltd and its wholly-owned Australian controlled entity (MNGI Pty Ltd) have not yet decided to implement the tax consolidation legislation as of 1 July 2005. The Australian Taxation Office has not yet been notified of any decision. The accounting policy relating to the possible implementation of the tax consolidation legislation is set out in note 1, together with the impact on the income tax expense for the year.

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss attributable to ordinary equity holders of the parent			(1,334,179)	(835,611)
			2007	2006
Weighted average number of ordinary shares for basic earnings per share			48,148,933	38,728,083
Effect of dilution			N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution			48,148,933	38,728,083

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account in 2007.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

7. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	7,150,688	354,246	7,017,878	297,437
Short-term deposits	1,038,395	2,200,000	1,038,395	2,200,000
	8,189,083	2,554,246	8,056,273	2,497,437

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Consolidated		Parent	
2007	2006	2007	2006
\$	\$	\$	\$

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at banks and in hand	7,150,688	354,246	7,017,878	297,437
Short-term deposits	1,038,395	2,200,000	1,038,395	2,200,000
	8,189,083	2,554,246	8,056,273	2,497,437

Reconciliation of net profit after tax to net cash flows from operations

Net profit	(1,334,523)	(835,611)	(1,334,496)	(1,167,893)
<i>Adjustments for non-cash items:</i>				
Depreciation	15,948	7,315	-	-
Impairment of non-current assets and held-for-sale assets	44,275	10,485	1,041,991	793,432
Income Tax expense provided	(2,024)	23,462	119,299	23,462
Net (profit)/loss on disposal of property, plant and equipment	-	505	-	-
Share options expensed	68,663	29,227	68,663	29,227
Shares issued in accordance with a consultancy agreement	-	187,500	-	187,500
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(4,500)	21,341	(4,500)	8,672
(Increase)/decrease in prepayments	(14,386)	70	8,966	(7,801)
(Decrease)/increase in trade and other payables	-	24,313	33,967	2,614
(Decrease)/increase in employee entitlements	28,467	24,246	(2,464)	2,464
(Decrease)/increase in net goods and service tax receivable	66,830	(84,435)	(11,586)	21,502
Net cash from operating activities	(1,131,250)	(591,582)	(80,160)	(106,822)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
8. TRADE AND OTHER RECEIVABLES				
Trade receivables (i)	9,969	10,395	-	8,014
Sundry receivables	-	8,015	-	-
Goods & Services Tax receivable	48,262	106,839	20,488	885
	<u>58,231</u>	<u>125,249</u>	<u>20,488</u>	<u>8,899</u>
Related party receivables: (ii)				
Wholly-owned group - controlled entities	-	-	5,109,360	2,777,226
Less: Impairment	-	-	(1,835,423)	(793,432)
	<u>58,231</u>	<u>125,249</u>	<u>3,294,425</u>	<u>1,992,693</u>

- i). Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.
- ii). Loans to wholly-owned subsidiaries are at call loans, with no fixed repayment schedule and are non-interest bearing.

9. OTHER CURRENT ASSETS

Prepayments	16,514	11,094	1,874	10,840
Accrued income	4,857	358	4,858	358
	<u>21,371</u>	<u>11,452</u>	<u>6,732</u>	<u>11,198</u>

10. FINANCIAL ASSETS

At cost:				
Shares in controlled entity (MNGI Pty Ltd)	-	-	300,000	300,000
Shares in controlled entity (Petratherm Espana SL)	-	-	4,590	-
	<u>-</u>	<u>-</u>	<u>304,590</u>	<u>300,000</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Plant & equipment \$
Year ended 30 June 2007	
At 1 July 2005, net of accumulated depreciation and impairment	32,321
Additions	77,282
Disposals	(1,564)
Impairment	
Depreciation charge for the year	(15,948)
At 30 June 2006, net of accumulated depreciation and impairment	<u>92,091</u>
At 1 July 2006	
Cost or fair value	43,439
Accumulated depreciation and impairment	(11,118)
Net carrying amount	<u>32,321</u>
At 30 June 2007	
Cost or fair value	118,715
Accumulated depreciation and impairment	(26,624)
Net carrying amount	<u>92,091</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated Plant & equipment \$
Year ended 30 June 2006	
At 1 July 2004, net of accumulated depreciation and impairment	13,984
Additions	26,955
Disposals	(1,303)
Depreciation charge for the year	(7,315)
At 30 June 2005, net of accumulated depreciation and impairment	<u>32,321</u>
At 1 July 2005	
Cost or fair value	18,270
Accumulated depreciation and impairment	(4,286)
Net carrying amount	<u>13,984</u>
At 30 June 2006	
Cost or fair value	43,439
Accumulated depreciation and impairment	(11,118)
Net carrying amount	<u>32,321</u>

Impairment of property, plant and equipment

No material impairment loss was recognised or reversed for the year ended 30 June 2006 and 2007 with respect to plant and equipment.

The depreciation rate of the assets was estimated as follows both for 2006 and 2007:
Plant and equipment 10 - 40%.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

12. EXPLORATION AND EVALUATION ASSETS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Exploration, evaluation and development costs carried forward in respect of mining areas of interest				
Exploration and evaluation phases	3,604,611	2,872,967	-	-
	3,604,611	2,872,967	-	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

Consolidated entity	Total
Capitalised tenement expenditure movement reconciliation	
Balance at the beginning of the year	2,872,967
Additions through expenditure capitalised	775,919
Write off of tenements relinquished	(44,275)
Balance at end of year	<u>3,604,611</u>

13. SHARE-BASED PAYMENTS

Employee Share Option Plan

The Company has established the Petratherm Ltd Employee Share Option Plan and a summary of the Rules of the Plan are set out below:

- All employees (full and part time) will be eligible to participate in the Plan after a qualifying period of 12 months employment by a member of the Group, although the board may waive this requirement.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue. Options will be issued free. The exercise price of options will be determined by the board, subject to a minimum price equal to the market value of the Company's shares at the time the board resolves to offer those options. The total number of shares, the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.
- If, prior to the expiry date of options, a person ceases to be an employee of a Group Company for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 6 months from the date of such occurrence, and b) the expiry

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.

- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The board may amend the Plan Rules subject to the requirements of the Australian Stock Exchange Listing Rules.

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4c.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year:

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding at the beginning of the year	1,010,000	0.28	490,000	0.22
Granted during the year	680,000	0.79	520,000	0.35
Forfeited during the year	(60,000)	0.37	-	-
Outstanding at the end of the year	1,630,000	0.49	1,010,000	0.28
Exercisable at the end of the year	1,210,000	0.35	1,010,000	0.28

The outstanding balance as at 30 June 2007 is represented by:

- A total of 400,000 options exercisable any time until 27 July 2009 with a strike price of \$0.20.
- A total of 40,000 options exercisable any time until 23 August 2009 with a strike price of \$0.32.
- A total of 50,000 options exercisable any time until 15 December 2009 with a strike price of \$0.32.
- A total of 30,000 options exercisable any time until 31 December 2010 with a strike price of \$0.40
- A total of 400,000 options exercisable any time until 21 May 2011 with a strike price of \$0.32
- A total of 30,000 options exercisable any time until 29 May 2011 with a strike price of \$0.32
- A total of 100,000 options exercisable any time until 1 January 2012 with a strike price of \$0.53

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

- A total of 100,000 options exercisable any time until 1 January 2012 with a strike price of \$0.53
- A total of 40,000 options exercisable any time until 4 March 2012 with a strike price of \$0.91
- A total of 20,000 options exercisable any time until 21 March 2012 with a strike price of \$0.91
- A total of 400,000 options exercisable any time until 31 May 2013 with a strike price of \$0.90. The options have vesting conditions until 1 June 2008.
- A total of 20,000 options exercisable any time until 25 June 2013 with a strike price of \$0.93. The options have vesting conditions until 25 June 2008.

Contractual life of options

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 3.99 (2006: 3.72 years).

Exercise price of options

The range of exercise prices for options outstanding at the end of the year was \$0.20-\$0.93 (2006: \$0.20-\$0.40).

Fair value of options

The weighted average fair value of options granted during the year was \$0.185 (2006: \$0.043).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2006 and 30 June 2007:

	2007	2006
Historical volatility (%)	17%	14%
Risk-free interest rate (%)	6%	5%
Expected life of option (years)	5	5

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

14. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables (i)	240,069	709,700	64,833	14,228
Other payables	-	47,238	-	16,638
	240,069	756,938	64,833	30,866

i. Trade payables are non-interest bearing and are normally settled on 60-day terms.

15. OTHER NON CURRENT LIABILITIES

Income received in advance	28,366	-	-	-
	28,366	-	-	-

16. PROVISIONS

Current

Annual leave provision				
Balance at 1 July	33,189	17,311	-	-
Transfer to/ (from) provision	18,872	15,878	-	2,463
Closing Balance 30 June	52,061	33,189	-	2,463

Non-current

Long Service Leave:				
Balance at 1 July	38,109	29,741	-	-
Transfer to/ (from) provision	9,595	8,368	-	-
Closing Balance 30 June	47,704	38,109	-	-

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

17. ISSUED CAPITAL

57,774,626 fully paid ordinary shares (2006:
43,375,001)

14,184,561	6,089,542	14,184,561	6,089,542
14,184,561	6,089,542	14,184,561	6,089,542

	2007		2006	
	Number	\$	Number	\$
Balance at beginning of financial year	43,375,001	6,089,542	35,000,001	3,986,786
Ordinary shares participating in dividends	11,000,000	5,680,000	5,250,000	1,470,000
Issued on 8th February 2006 for cash on exercise of share options	-	-	2,500,000	500,000
Issued pursuant to sale and purchase agreement	3,399,625	2,719,700	625,000	187,500
Transaction costs on share issue	-	(304,681)	-	(54,744)
Balance at end of financial year	57,774,626	14,184,561	43,375,001	6,089,542

Fully paid ordinary shares carry one vote per share and carry the right to dividends (in the event such a dividend was declared).

18. RESERVES

Share option reserve

The share option reserve records items recognised as expenses on valuation of employee share options and other equity settled transactions.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as discussed in note 1(w). The reserve is recognised in profit and loss when the net investment is disposed of.

Reserves

Foreign currency translation	360	-	-	-
Share option reserve	160,130	93,982	160,807	93,982
	160,490	93,982	160,807	93,982

Foreign currency translation

Balance at beginning of financial year	-	-	-	-
Foreign exchange translations	360	-	-	-
Balance at end of financial year	360	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Share option reserve				
Balance at beginning of financial year	93,982	64,775	93,982	64,775
Foreign exchange translations	(316)	-	-	-
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	(1,840)	-	(1,840)	-
Issued to employees and officer under Employee Share Option Plan	68,664	29,207	68,665	29,207
Balance at end of financial year	160,490	93,982	160,807	93,982

19. RETAINED EARNINGS

Balance at beginning of financial year	(1,415,525)	(579,914)	(1,415,525)	(247,632)
Net profit attributable to members of the parent entity	(1,334,179)	(835,611)	(1,334,496)	(1,167,893)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	1,840	-	1,840	-
Balance at end of financial year	(2,747,864)	(1,415,525)	(2,748,181)	(1,415,525)

20. MINORITY INTEREST

Balance at beginning of financial year	-	-	-	-
Contributions of equity	344	-	-	-
Share net loss	(344)	-	-	-
Balance at end of financial year	-	-	-	-

21. COMMITMENTS FOR EXPENDITURE

Operating leases

Not longer than 1 year	73,208	-	73,208	-
Longer than 1 year and not longer than 5 years	87,223	-	87,223	-
Longer than 5 years	-	-	-	-
	160,430	-	160,430	-

Terms of lease arrangements

The Group has operating leases in place for plant and equipment and its principal place of business. Both categories of leases exceed 1 year. Both leases have terms of renewal and the lease for the Group's principal place of residence has an escalation clause linked to CPI.

Exploration leases

In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay in the year ending 30 June 2008 amounts of approximately \$2,850,000 in respect of tenement lease rentals and to meet minimum expenditure requirements. These obligations are expected to be fulfilled in the normal course of operations.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

22. CONTINGENT ASSETS AND LIABILITIES

At the date of signing this report, the Group is not aware of any contingent asset or liability that should be disclosed in accordance with AASB 137.

23. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Audit or review of financial report	18,090	17,390	-	5,300
	18,090	17,390	-	5,300

24. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2007	2006
		%*	%*
<u>Parent entity</u>			
Petratherm Ltd	Australia		
<u>Subsidiary</u>			
MNGI Pty Ltd	Australia	100	100
<u>Subsidiary</u>			
Petratherm Espana SL	Spain	93	-

* Percentage of voting power is in proportion to ownership

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

Credit risk

The Group trades only with recognised, creditworthy third parties.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Interest rate risk CONSOLIDATED

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2007					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Cash assets	1,038,395	-	-	-	1,038,395
Receivables	-	-	-	63,088	63,088
Weighted average effective interest rate	5.94%	-	-	-	-
<i>Floating rate</i>					
Cash assets	7,150,688	-	-	-	7,150,688
Weighted average effective interest rate	4.62%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	240,069	240,069
Weighted average effective interest rate	-	-	-	-	-

PARENT

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2007					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Cash Assets	1,038,395	-	-	-	1,038,395
Receivables	-	-	-	3,299,283	3,299,283
Weighted average effective interest rate	5.94%	-	-	-	-
<i>Floating rate</i>					
Cash assets	7,017,878	-	-	-	7,017,878
Weighted average effective interest rate	4.25%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	64,833	64,833
Weighted average effective interest rate	-	-	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Interest rate risk CONSOLIDATED

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2006					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Term Deposits	2,100,000	-	-	-	2,100,000
Receivables	-	-	-	149,243	149,243
Weighted average effective interest rate	5.79%	-	-	-	-
<i>Floating rate</i>					
Cash assets	570,150	-	-	-	570,150
Weighted average effective interest rate	4.34%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	207,703	207,703
Weighted average effective interest rate	-	-	-	-	-

PARENT

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2006					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Term Deposits	2,200,000	-	-	-	2,200,000
Receivables	-	-	-	1,993,051	-
Weighted average effective interest rate	5.79%	-	-	-	-
<i>Floating rate</i>					
Cash assets	297,437	-	-	-	297,437
Weighted average effective interest rate	4.34%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	30,866	30,866
Weighted average effective interest rate	-	-	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

26. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

Payments to related parties

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$81,421 (2006: 71,655). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd. A total of \$11,725 was outstanding at 30 June 2007.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of \$8,895 (2006:\$2,763) during the year.

JRS Petroleum of which Richard Hillis is a director received \$15,180 (2006: 15,180) for drilling during the year.

All related party transactions are conducted at commercial rates on an arm's length basis.

Key management personnel remuneration and equity holdings

The board currently determines the nature and amount of remuneration for board members and senior executives of the Group. The policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results.

The non-executive directors and other executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is expensed as incurred. Executives are also entitled to participate in the Company share option scheme. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates based on comparable companies for time, commitment and responsibilities. The board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

Wholly owned Group transactions

Loans

The wholly owned Group consists of Petratherm Ltd and its wholly owned controlled entity MNGI Pty Ltd. Ownership interests in the controlled entity are set out in note 24. Transactions between Petratherm Ltd and MNGI Pty Ltd during the year consisted of loans advanced by Petratherm Ltd to fund exploration and investment activities. The closing value of the loan to its wholly owned subsidiary is contained within the balance sheet under current assets. Intercompany and cash movements throughout the year are detailed within the body of cash flow statement under 'Loans to wholly-owned subsidiary'.

Directors' Declaration

In accordance with a resolution of the directors of Petratherm Ltd, I state that:

1. In the opinion of the directors:
 - a. the financial statements and notes of the Company and of the Group are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements ; and
 - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - c. the audited remuneration disclosures set out in the Remuneration Report of the directors' report comply with Accounting Standard AASB 124 ' Related Party Disclosures.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

On behalf of the board



Terry Kallis
Managing Director

Dated 28 September 2007

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PETRATHERM LTD & CONTROLLED ENTITIES****Report on the Financial Report**

We have audited the accompanying financial report of Petratherm Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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. These Auditing 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 judgement, 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*.

Level 1
67 Greenhill Road
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide
T (08) 8372 6666
F (08) 8372 6677
E info@gttsa.com.au
W www.grantthornton.com.au

Grant Thornton South Australian Partnership ABN 27 244 906 724

An independent South Australian partnership entitled to trade under the international name Grant Thornton.

Grant Thornton is a trademark owned by Grant Thornton International and used under licence by independent firms and entities throughout the world.

Auditor's Opinion

In our opinion the financial report of Petratherm Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the period ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

The financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at *Adelaide* this *28* day of *September* 2007