

Petratherm Ltd

ABN 17 106 806 884

Annual Financial Report

for the year ended 30 June 2006

Contents to Financial Report

Corporate Information	3
Directors' report	4
Auditor's Independence declaration	15
Corporate Governance Statement	16
Income Statement	20
Balance Sheet.....	21
Statement of Changes in Equity	22
Cash Flow Statement.....	23
Notes to the Financial Statements.....	24
1. CORPORATE INFORMATION	24
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	24
3. SEGMENT INFORMATION	33
4. REVENUE AND EXPENSES.....	33
5. INCOME TAX	34
6. EARNINGS PER SHARE	35
7. CASH AND CASH EQUIVALENTS.....	36
8. TRADE AND OTHER RECEIVABLES	37
9. OTHER CURRENT ASSETS.....	38
10. AVAILABLE FOR SALE FINANCIAL INVESTMENTS	38
11. PROPERTY, PLANT AND EQUIPMENT.....	38
12. EXPLORATION AND EVALUATION ASSETS	40
13. SHARE-BASED PAYMENTS	40
14. TRADE AND OTHER PAYABLES (CURRENT)	43
15. PROVISIONS.....	43
16. OTHER NON CURRENT LIABILITIES.....	43
17. ISSUED CAPITAL	44
18. SHARE OPTION RESERVE.....	44
19. RETAINED EARNINGS.....	44
20. COMMITMENTS FOR EXPENDITURE	44
21. CONTINGENT ASSETS AND LIABILITIES	45
22. AUDITOR'S REMUNERATION	45
23. SUBSIDIARY	45
24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS	45
25. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION	48
26. TRANSITION TO AIFRS	54
Directors' Declaration	56
Independent Audit Report to the members of Petratherm Ltd.....	57

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 7. The directors' report is not part of the financial report.

Directors

Mr Derek Carter (Chairman)
Mr Terry Kallis
Dr Lloyd Taylor
Mr Richard Bonython
Prof Richard Hillis
Mr Simon O'Loughlin

Company Secretary

Mr 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 2006.

DIRECTORS

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. 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 joined the board of directors on 24 October 2003. He has over 31 years experience in exploration and mining geology and management. He held senior positions in the Shell Group of Companies and Burmine Limited before founding Minotaur Gold NL where he was managing director for 7 years. He was managing director of Minotaur Resources Ltd from February 2000 until its restructure in February 2005. He is the managing director of Minotaur Exploration Ltd, is a board member of Mithril Resources Ltd and Toro Energy Ltd; is former President, and current 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.

Terry Kallis, (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.

Lloyd Taylor, 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. Most recently he was the Chairman and CEO of Shell New Zealand. During his career he has been responsible for general management and leadership of oil and gas business operations in ten countries. He has been a company director for fourteen years, both in Australia and abroad. Currently, Lloyd is the chairman of Core Collaborative, an Australian based Asia/Pacific energy advisory network and is a non-executive director of Visean Information Services, a drilling communication and data management service provider to the oil and gas industry.

Directors' report

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. In addition to normal director duties, he provides administration services to the Company. 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 and a non- executive director of Aura Energy Ltd, all of which are listed on the ASX. He is also a member of the Company's audit committee.

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 (SA) Pty Ltd, 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, Minotaur Exploration Ltd, FerrAus Ltd and Toro Energy Ltd. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations. He is also a member of the Company's audit committee.

Directors' report

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	60,000	1,200,000
Terry Kallis*	-	1,500,000
Lloyd Taylor	300,000	400,000
Richard Bonython	500,000	500,000
Richard Hillis	20,000	300,000
Simon O'Loughlin	100,000	200,000

*Appointed on 1st May 2006.

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.

OPERATING RESULTS

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$835,611 [2005: \$579,915].

Directors' report

OPERATIONS OVERVIEW

During the 2005/2006 year and more recently the Company made significant progress towards achieving its stated mission which is to;

“Explore and develop, emission free, commercially sustainable geothermal energy projects”

The chronological highlights over the year included,

- **September 2005** – Following shallow Phase 1 drilling at the Paralana and Callabonna project sites, exceptional temperature gradients of 81 degrees C/km and 68 oC/km, respectively were confirmed.
- **January 2006** – Successful capital placement of \$ 1.97 million to fund the Phase 2 extension of the Paralana well.
- **February 2006** – Appointment of Jane Thomas, a Project Geologist to expand our technical base and assist in the Paralana drilling campaign and to focus on new project development work
- **May 2006** – Appointment of a Managing Director, Terry Kallis who has considerable experience in the power industry and renewable energy project development to complement the skills and capabilities of Petratherm's Board and Management.
- **June 2006** – Successful Phase 2 drilling program completed within budget and ahead of schedule at Paralana with the geothermal test well being extended from 485 metres to 1807 metres.
- **July 2006** – Appointment of Tania Littlely, as our Office Administrator to coordinate the expanding activities of the Company.
- **August 2006** – Confirmation of world class thermal resource at Paralana and vindication of the Petratherm Exploration model, with temperatures in excess of 200 degrees C expected at a depth of 3.6 kilometres.
- **September 2006** – Moved into our new offices on Greenhill Road to accommodate the growing needs of the Company.

The Company is now excellently positioned to embark on its next major stage of development, establishing the underground heat exchanger (Phase 3 drilling) at Paralana as a precursor to developing geothermal electricity and the exploration for, and development of other existing and new projects in SA, Australia and Overseas.

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.

Directors' report

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.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included on Note 26 to this Report.

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:

Issue of shares:

- There was a share placement of 5,250,000 ordinary shares on 25 January 2006 at \$0.28 per share.
- Minotaur Resources Investments Pty Ltd has exercised options to acquire 2,500,000 fully paid ordinary shares in Petratherm Ltd at an exercise price of \$0.20.
- Adelaide Research & Innovation Pty Ltd were issued 625,000 ordinary shares on 26 September 2005 under a consultancy services agreement entered into with the Company and the fair value of the ordinary shares was \$0.30 being the market price on the date of issue.

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.

Directors' report

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 2005	Net Issued/ (Exercised) during Year	Balance at 30 June 2006
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	\$0.315	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	50,000
30/06/2006	30/04/2012	\$0.32	-	750,000	750,000
30/06/2006	30/04/2013	\$0.37	-	750,000	750,000
			<u>12,840,000</u>	<u>(480,000)</u>	<u>12,360,000</u>

Shares issued as a result of the exercise of options

During the financial year, Minotaur Resources Investments Pty Ltd have exercised options to acquire 2,500,000 fully paid ordinary shares in Petratherm Ltd at an exercise price of \$0.20. Since the end of the financial year, no further options have been exercised.

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 \$34,751. 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.

Directors' report

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 \$200,000 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 \$140,400 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

Remuneration Report

Table 1: Directors' remuneration for the year ended 30 June 2006

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2006	30,000	2,700	-	32,700
2005	27,500	2,475	-	29,975
Terry Kallis				
2006	30,581	2,752	160	33,493
2005	-	-	-	-
Richard Bonython				
2006	27,813	-	-	27,813
2005	20,438	4,543	-	24,980
Simon O'Loughlin				
2006	25,000	2,250	-	27,250
2005	22,918	2,063	-	24,980
Lloyd Taylor				
2006	25,000	2,250	-	27,250
2005	10,418	14,563	-	24,980
Richard Hillis				
2006	25,000	2,250	-	27,250
2005	22,918	2,063	-	24,980

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2006

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2006	128,807	11,593	23,800	164,200
2005	112,125	10,091	36,440	158,656

HLB Mann Judd (SA) Pty Ltd has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$71,655 (2005: 30,221). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd.

Directors' report

Table 3: Options granted as part of remuneration

Options are issued to executives as part of their remuneration to attract and retain their services and to provide incentive linked to performance of the Company. The options issued will only be of benefit if executives perform to a level whereby the value of the Company increases sufficiently to warrant exercising the options. It is considered that any additional performance criterion is not warranted. These options were valued using Black-Scholes method (Note 13).

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	22/05/06	200,000	22/05/06	0.32	0.071	-	14,200	0.11%
Peter Reid	22/05/06	200,000	22/05/06	0.37	0.048	-	9,600	7.45%
Terry Kallis	30/06/06	750,000	01/05/07	0.32	0.049	-	55	0.18%
Terry Kallis	30/06/06	750,000	01/05/08	0.37	0.031	-	105	0.34%

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	8	2
Number of meetings attended:		
Derek Carter	8	-
Terry Kallis*	2	-
Lloyd Taylor	7	-
Richard Bonython	8	2
Prof Richard Hillis	6	-
Mr Simon O'Loughlin	8	2

*Mr Kallis joined the board of directors on 1 May 2006.

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

Directors' report

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 2006 has been received and can be found on page 14.

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



Mr Terry Kallis
Managing Director

Dated this 26 day of September 2006

TO THE DIRECTORS OF MITHRIL RESOURCES LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Ltd for the year ended 30 June 2006, 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 26 day of September 2006

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@gtsa.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 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.

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 40.35% 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 2006

	Note	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	4 (a)	130,526	146,363	127,725	146,218
Impairment of non-current assets	4 (b)	(10,485)	(54,495)	(793,432)	-
Employee benefits expense	4 (c)	(338,673)	(278,962)	(173,800)	(194,647)
Depreciation expense	4 (b)	(7,315)	(4,286)	-	-
Other expenses	4 (d)	(586,202)	(254,300)	(304,924)	(64,968)
Profit/(Loss) before income tax expense		(812,149)	(445,680)	(1,144,431)	(113,397)
Income tax expense	5	(23,462)	(134,235)	(23,462)	(134,235)
Profit/(Loss) for the period		(835,611)	(579,915)	(1,167,893)	(247,632)
Loss attributable to members of the parent entity		(835,611)	(579,915)	(1,167,893)	(247,632)
Earnings per share:					
Basic earnings per share	6	(2.16)	(1.66)		
Diluted earnings per share	6	(2.16)	(1.66)		

The accompanying notes form part of these financial statements

Balance Sheet

AS AT 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash and cash equivalents	7	2,554,246	2,670,150	2,497,437	2,497,338
Trade and other receivables	8	125,249	134,041	1,992,693	1,008,593
Other	9	11,452	26,366	11,198	18,240
TOTAL CURRENT ASSETS		2,690,947	2,830,557	4,501,328	3,524,171
NON-CURRENT ASSETS					
Other financial assets	10	-	-	300,000	300,000
Property, plant and equipment	11	32,321	13,984	-	-
Exploration and evaluation assets	12	3,012,967	967,277	-	-
TOTAL NON-CURRENT ASSETS		3,045,288	981,261	300,000	300,000
TOTAL ASSETS		5,736,235	3,811,818	4,801,328	3,824,171
CURRENT LIABILITIES					
Trade and other payables	14	756,938	207,703	30,866	20,262
Short term provisions	15	33,189	17,311	2,463	-
TOTAL CURRENT LIABILITIES		790,127	225,014	33,329	20,262
NON-CURRENT LIABILITIES					
Long term provisions	15	38,109	29,741	-	-
Other	16	140,000	85,436	-	-
TOTAL NON-CURRENT LIABILITIES		178,109	115,177	-	-
TOTAL LIABILITIES		968,236	340,191	33,329	20,262
NET ASSETS		4,767,999	3,471,627	4,767,999	3,803,909
EQUITY					
Issued capital	17	6,089,542	3,986,786	6,089,542	3,986,786
Retained earnings	19	(1,415,525)	(579,914)	(1,415,525)	(247,632)
Reserves	18	93,982	64,755	93,982	64,755
TOTAL EQUITY		4,767,999	3,471,627	4,767,999	3,803,909

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated				Parent			
	Share Capital Ordinary \$	Retained Earnings \$	Reserves \$	Total \$	Share Capital Ordinary \$	Retained Earnings \$	Reserves \$	Total \$
Balance at 1 July 2004	300,001	-	-	300,001	300,001	-	-	300,001
Profit attributable to members of the parent entity	-	(579,914)	-	(579,914)	-	(247,632)	-	(247,632)
Share options issued	-	-	64,755	64,755	-	-	64,755	64,755
Shares issued via placement	4,000,000	-	-	4,000,000	4,000,000	-	-	4,000,000
Transaction costs (net of tax)	(313,215)	-	-	(313,215)	(313,215)	-	-	(313,215)
Balance at 30 June 2005	3,986,786	(579,914)	64,755	3,471,627	3,986,786	(247,632)	64,755	3,803,909
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)
Shares issued via placement	1,470,000	-	-	1,470,000	1,470,000	-	-	1,470,000
Issue of share options under employee share option plan	-	-	29,227	29,227	-	-	29,227	29,227
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

The accompanying notes form part of these financial statements

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(736,952)	(440,816)	(249,390)	(200,024)
Interest received		145,370	129,002	142,568	128,842
NET CASH USED IN OPERATING ACTIVITIES	7	(591,582)	(311,814)	(106,822)	(71,182)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(25,099)	(16,240)	-	-
Loans from/(to) related parties		(218)	(6,819)	-	-
Loans to wholly- owned subsidiary		-	-	(1,784,873)	(956,479)
Acquisition of subsidiary, net of cash acquired		-	(27,552)	-	(27,552)
Payments for exploration activities		(1,390,799)	(526,795)	-	-
NET CASH USED IN INVESTING ACTIVITIES		(1,416,116)	(577,406)	(1,784,873)	(984,031)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,970,000	4,000,000	1,970,000	4,000,000
Transaction costs of issue of shares		(78,206)	(447,450)	(78,206)	(447,450)
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,891,794	3,552,550	1,891,794	3,552,550
Net increase/(decrease) in cash and cash equivalents		(115,904)	2,663,330	99	2,497,337
Cash at the beginning of the reporting period		2,670,150	6,820	2,497,338	1
CASH AT THE END OF THE REPORTING PERIOD	7	2,554,246	2,670,150	2,497,437	2,497,338

The accompanying notes form part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

1. CORPORATE INFORMATION

The financial report of Petratherm Ltd (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 26 September 2006. 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.

b. First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS) - Group

Petratherm Ltd and its controlled entity, and Petratherm Ltd as an individual parent entity have prepared financial statements in accordance with AIFRS from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and Group accounts resulting from the introduction of AIFRS have been applied retrospectively to prior year comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Petratherm Ltd to be prepared in accordance with AIFRS.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Group.

The accounting policies set out below have been consistently applied to all years presented. Reconciliation of the transition from previous Australian

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Generally Accepted Accounting Principles (AGAAP) to AIFRS has been included in Note 26 to this report.

c. Principles of consolidation

The consolidated financial statements comprise the financial statements of Petratherm Ltd and its subsidiary 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 23 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.

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.

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 and contractors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, using 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

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.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

g. Borrowing costs

Borrowing 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 2006

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 2006

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 2005. 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. Other taxes

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

- 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.

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 2006

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 2006

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.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

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. New Accounting and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Groups' assessment of the impact of these new standards and interpretations is that there would be no material impact on the reported results of the Group for the year ended 30 June 2006.

u. 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 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. SEGMENT INFORMATION				
Industry & Geographical Segment				
The Group operates in the mining exploration sector solely within Australia.				
4. REVENUE AND EXPENSES				
(a) Revenue				
Bank interest received or receivable	130,526	146,363	127,725	146,218
	<u>130,526</u>	<u>146,363</u>	<u>127,725</u>	<u>146,218</u>
(b) Expenses				
<i>Impairment of non-current assets</i>				
Capitalised tenement costs written off	10,485	54,495	-	-
Other	-	-	793,432	-
Total impairment of non-current assets	<u>10,485</u>	<u>54,495</u>	<u>793,432</u>	<u>-</u>
<i>Depreciation of non-current assets</i>				
Plant and equipment	7,315	4,286	-	-
Total depreciation	<u>7,315</u>	<u>4,286</u>	<u>-</u>	<u>-</u>
(c) Employees benefits expense				
Wages, salaries, directors fees and other remuneration expenses	254,054	155,706	132,660	104,188
Defined contribution plan expense	33,609	41,121	9,450	25,704
Transfer to/(from) annual leave provision	13,415	7,011	2,463	-
Transfer to/(from) long service leave provision	8,368	10,369	-	-
Share-based payments expense	29,227	64,755	29,227	64,755
	<u>338,673</u>	<u>278,962</u>	<u>173,800</u>	<u>194,647</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
(d) Other expenses from ordinary activities				
Secretarial, professional and consultancy	71,167	50,548	1,993	-
Occupancy costs	21,384	19,044	-	-
Share register maintenance	22,218	18,844	22,218	18,844
Insurance costs	47,045	39,633	40,908	32,227
Promotion and advertising	12,601	14,362	-	-
Service charges	33,431	38,603	-	-
Consulting fees	187,500	25,869	187,500	-
Travel expenses	25,084	18,188	8,270	-
Stock exchange fees	10,639	11,313	10,639	11,313
Audit fees	17,390	12,500	5,300	-
Other expenses	137,742	5,396	28,096	2,584
	586,202	254,300	304,924	64,968

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%)

Tax effect of permanent differences

Non allowable items

Other deductible items

Future income tax benefit not realised as recognition criteria of AASB 112 not met

	(250,683)	(114,277)	(350,368)	(14,593)
Non allowable items	14,658	23,775	240,813	2,213
Other deductible items	(817,817)	(188,079)	(28,255)	(26,847)
Future income tax benefit not realised as recognition criteria of AASB 112 not met	1,030,380	144,346	114,348	(95,008)
	(23,462)	(134,235)	(23,462)	(134,235)

The Group has tax losses arising in Australia of \$5,736,143 (2005: \$928,604) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability (2005: \$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 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
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 probable criteria				
Timing Difference at 30%	(645,462)	(30,069)	132,225	109,601
Tax losses at 30%	1,720,843	278,581	177,037	39,227
	<u>1,075,381</u>	<u>248,512</u>	<u>309,262</u>	<u>148,828</u>

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 2006

	Consolidated	
	2006	2005
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(835,611)	(579,915)
	2006	2005
Weighted average number of ordinary shares for basic earnings per share	38,728,083	35,000,001
Effect of dilution	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	38,728,083	35,000,001

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 taking into account in 2006.

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.

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

7. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	354,246	570,150	297,437	397,338
Short-term deposits	2,200,000	2,100,000	2,200,000	2,100,000
	2,554,246	2,670,150	2,497,437	2,497,338

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.

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	354,246	570,150	297,437	397,338
Short-term deposits	2,200,000	2,100,000	2,200,000	2,100,000
	2,554,246	2,670,150	2,497,437	2,497,338

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	(835,611)	(579,915)	(1,167,893)	(247,632)
<i>Adjustments for non-cash items:</i>				
Depreciation	7,315	4,286	-	-
Impairment of non-current assets and held-for-sale assets	10,485	54,495	793,432	-
Income Tax expense provided	23,462	134,235	23,462	134,235
Net (profit)/loss on disposal of property, plant and equipment	505	-	-	-
Share options expensed	29,227	64,755	29,227	64,755
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	21,341	(30,466)	8,672	(15,202)
(Increase)/decrease in prepayments	70	(11,164)	(7,801)	(3,037)
(Decrease)/increase in trade and other payables	24,313	59,142	2,614	20,262
(Decrease)/increase in withholding tax payable	-	(2,175)	-	(2,175)
(Decrease)/increase in employee entitlements	24,246	17,380	2,464	-
(Decrease)/increase in net goods and service tax receivable	(84,435)	(22,387)	21,502	(22,388)
Net cash from operating activities	(591,582)	(311,814)	(106,822)	(71,182)

8. TRADE AND OTHER RECEIVABLES

Trade receivables (i)	10,395	93,980	8,014	-
Sundry receivables	8,548	17,439	-	-
Goods & Services Tax receivable	106,839	22,404	885	24,562
	125,782	133,823	8,899	24,562
Related party receivables: (ii)				
Wholly-owned group - controlled entities	-	-	2,777,226	984,031
Less: Impairment	-	-	(793,432)	-
Minotaur Exploration Ltd	-	218	-	-
	125,782	134,041	1,992,693	1,008,593

- 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 subsidiary is an, at call loan, with no fixed repayment schedule and is non-interest bearing.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
9. OTHER CURRENT ASSETS				
Prepayments	11,094	11,164	10,840	3,038
Accrued income	358	15,202	358	15,202
	<u>11,452</u>	<u>26,366</u>	<u>11,198</u>	<u>18,240</u>

10. AVAILABLE FOR SALE FINANCIAL INVESTMENTS

At cost:				
Shares in controlled entity (MNGI Pty Ltd)	-	-	300,000	300,000
	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>300,000</u>

Available-for-sale investments consist of the investment in MNGI Pty Ltd, and as such, the carrying amount of the investment is listed at cost. The fair value of the unlisted available-for-sale investments could not be estimated using valuation techniques based on assumptions that are supported by observable market prices or rates. Therefore the investment has been valued at cost.

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Plant & equipment \$
Year ended 30 June 2006	
At 1 July 2005, net of accumulated depreciation and impairment	13,984
Additions	26,955
Disposals	(1,303)
Impairment	
Depreciation charge for the year	(7,315)
At 30 June 2006, 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>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated Plant & equipment \$
Year ended 30 June 2005	
At 1 July 2004, net of accumulated depreciation and impairment	3,086
Additions	15,184
Depreciation charge for the year	(4,286)
At 30 June 2005, net of accumulated depreciation and impairment	<u>13,984</u>
At 1 July 2004	
Cost or fair value	3,086
Accumulated depreciation and impairment	
Net carrying amount	<u>3,086</u>
At 30 June 2005	
Cost or fair value	18,270
Accumulated depreciation and impairment	(4,286)
Net carrying amount	<u>13,984</u>

Impairment of property, plant and equipment

No material impairment loss was recognised or reversed for the year ended 30 June 2005 and 2006 with respect to plant and equipment.

The depreciation rate of the assets was estimated as follows both for 2005 and 2006:
Plant and equipment 10 - 40%.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

12. EXPLORATION AND EVALUATION ASSETS

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Exploration, evaluation and development costs carried forward in respect of mining areas of interest				
Exploration and evaluation phases	3,012,967	967,277	-	-
	3,012,967	967,277	-	-

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	Exploration Other	Total
Capitalised tenement expenditure movement reconciliation		
Balance at the beginning of the year	967,277	967,277
Additions through expenditure capitalised	2,056,175	2,056,175
Write off of tenements relinquished	(10,485)	(10,485)
Balance at end of year	3,012,967	3,012,967

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 2006

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:

	2006 No.	2006 WAEP	2005 No.	2005 WAEP
Outstanding at the beginning of the year	490,000	0.22	-	-
Granted during the year	520,000	0.35	490,000	0.22
Outstanding at the end of the year	<u>1,010,000</u>	<u>0.28</u>	<u>490,000</u>	<u>0.22</u>
Exercisable at the end of the year	<u>1,010,000</u>	<u>0.28</u>	<u>490,000</u>	<u>0.22</u>

The outstanding balance as at 30 June 2006 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 40,000 options exercisable any time until 5 February 2011 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 50,000 options exercisable any time until 29 May 2011 with a strike price of \$0.32

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Contractual life of options

The weighted average remaining contractual life for the share options outstanding as at 30 June 2006 is 3.72 (2005: 4.12 years).

Exercise price of options

The range of exercise prices for options outstanding at the end of the year was \$0.20-\$0.40(2005: \$0.20).

Fair value of options

The weighted average fair value of options granted during the year was \$0.043 (2005: \$0.0911).

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 2005 and 30 June 2006:

	2006	2005
Historical volatility (%)	14%	20%
Risk-free interest rate (%)	5%	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 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
14. TRADE AND OTHER PAYABLES (CURRENT)				
Trade payables (i)	709,700	170,894	14,228	-
Other payables	47,238	36,809	16,638	20,262
	756,938	207,703	30,866	20,262

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

Information regarding the credit risk of current payables is set out in note 24.

15. PROVISIONS

Current

Annual leave provision				
Balance at 1 July	17,311	10,300	-	-
Transfer to/ (from) provision	15,878	7,011	2,463	-
Closing Balance 30 June	33,189	17,311	2,463	-

Non-current

Long Service Leave:				
Balance at 1 July	29,741	19,372	-	-
Transfer to/ (from) provision	8,368	10,369	-	-
Closing Balance 30 June	38,109	29,741	-	-

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.

16. OTHER NON CURRENT LIABILITIES

Non-current

Grant -				
Revenue received in advance	140,000	85,436	-	-
	140,000	85,436	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
17. ISSUED CAPITAL				
Issued capital				
43,375,001 fully paid ordinary shares (2005: 35,000,001)	6,089,542	3,986,786	6,089,542	3,986,786
	6,089,542	3,986,786	6,089,542	3,986,786
	2006		2005	
	Number	\$	Number	\$
43,375,001 fully paid ordinary shares (2005: 35,000,001)				
Balance at beginning of financial year	35,000,001	3,986,786	15,000,001	300001
Shares issued pursuant to prospectus	-	-	20,000,000	4,000,000
Shares issued during the year :				
Ordinary shares participating in dividends	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	625,000	187,500	-	-
Transaction costs on share issue	-	(54,744)	-	(313,215)
Balance at end of financial year	43,375,001	6,089,542	35,000,001	3,986,786

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

18. SHARE OPTION RESERVE

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

19. RETAINED EARNINGS

Balance at beginning of financial year	(579,914)	-	(247,632)	-
Net profit attributable to members of the parent entity	(835,611)	(579,914)	(1,167,893)	(247,632)
Balance at end of financial year	(1,415,525)	(579,914)	(1,415,525)	(247,632)

20. COMMITMENTS FOR EXPENDITURE

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 2007 amounts of approximately \$1,580,000 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 2006

21. 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.

22. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Audit or review of financial report	17,390	12,500	5,300	-
	17,390	12,500	5,300	-

23. SUBSIDIARY

Name of entity	Country of incorporation	Ownership interest	
		2006 %	2005 %
<u>Parent entity</u>			
Petratherm Ltd	Australia		
<u>Subsidiary</u>			
MNGI Pty Ltd	Australia	100	100

24. 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 2006

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>					
Cash assets	2,200,000	-	-	-	2,200,000
Receivables	-	-	-	126,140	126,140
Weighted average effective interest rate	5.94%	-	-	-	-
<i>Floating rate</i>					
Cash assets	354,246	-	-	-	354,246
Weighted average effective interest rate	4.62%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	756,938	756,938
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>					
Cash Assets	2,200,000	-	-	-	2,200,000
Receivables	-	-	-	1,993,051	1,993,051
Weighted average effective interest rate	5.94%	-	-	-	-
<i>Floating rate</i>					
Cash assets	297,437	-	-	-	297,437
Weighted average effective interest rate	4.25%	-	-	-	-
<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 2006

Interest rate risk CONSOLIDATED

	< 1year \$	> 1 - <3 years \$	> 5 years \$	Non-Interest Bearing \$	Total \$
Year ended 30 June 2005					
<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 2005					
<i>FINANCIAL ASSETS</i>					
<i>Fixed rate</i>					
Term Deposits	2,100,000	-	-	-	2,100,000
Receivables	-	-	-	-	-
Weighted average effective interest rate	5.79%	-	-	-	-
<i>Floating rate</i>					
Cash assets	397,338	-	-	-	397,338
Weighted average effective interest rate	4.34%	-	-	-	-
<i>FINANCIAL LIABILITIES</i>					
<i>Fixed rate</i>					
Trade and Other Payables	-	-	-	20,262	20,262
Weighted average effective interest rate	-	-	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

25. 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 \$71,655 (2005: 30,221). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of \$2,763 (2005:\$2,126) during the year.

JRS Petroleum of which Richard Hillis is a director received \$15,180 (2005: NIL) for drilling during the year.

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Specified directors' remuneration

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2006	30,000	2,700	-	32,700
2005	27,500	2,475	-	29,975
Terry Kallis				
2006	30,581	2,752	160	33,493
2005	-	-	-	-
Richard Bonython				
2006	27,813	-	-	27,813
2005	20,438	4,543	-	24,980
Simon O'Loughlin				
2006	25,000	2,250	-	27,250
2005	22,918	2,063	-	24,980
Lloyd Taylor				
2006	25,000	2,250	-	27,250
2005	10,418	14,563	-	24,980
Richard Hillis				
2006	25,000	2,250	-	27,250
2005	22,918	2,063	-	24,980

Specified executives' remuneration

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2006	128,807	11,593	23,800	164,200
2005	112,125	10,091	36,440	158,656

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Compensation options: Granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the employee share option plan to certain key management personnel as disclosed above. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the Group at an exercise price equal to the market price of the shares on the date of grant. The contractual life of each option granted is five years. There are no cash settlement alternatives. For further details relating to the options, refer to note 13.

30 June 2006	Grant number	Vested number	Grant date	Value per option at grant date (\$)	Exercise price per option	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	750,000	-	30/06/06	0.049	0.32	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	30/06/06	0.031	0.37	30/04/13	01/05/08	30/04/13
Executives								
Peter Reid	200,000	200,000	22/05/06	0.071	0.32	21/05/11	22/05/06	21/05/11
Peter Reid	200,000	200,000	22/05/06	0.048	0.37	21/05/11	22/05/06	21/05/11
30 June 2005	Grant number	Vested number	Grant date	Value per option at grant date (\$)	Exercise price per option	Expiry date	First exercise date	Last exercise date
Directors								
Not applicable								
Executives								
Donald Stephens	250,000	250,000	28/07/05	0.0911	0.20	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	400,000	28/07/05	0.0911	0.20	27/07/09	28/07/05	27/07/09

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Option holdings of Key Management Personnel

30 June 2006	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 30 June 2006		
						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

30 June 2005	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 30 June 2005		
						Expiry date	First exercise date	Last exercise date
Directors								
Derek Carter	1,200,000	-	-	-	1,200,000	4/04/09	5/04/04	4/04/09
Richard Bonython	500,000	-	-	-	500,000	4/04/09	5/04/04	4/04/09
Lloyd Taylor	400,000	-	-	-	400,000	4/04/09	5/04/04	4/04/09
Richard Hillis	300,000	-	-	-	300,000	4/04/09	5/04/04	4/04/09
Simon O'Loughlin	200,000	-	-	-	200,000	4/04/09	5/04/04	4/04/09
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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Shareholdings of Key Management Personnel (Consolidated)

Directors shareholding

	30 June 2006	Balance at 1 July 05	On Exercise of Options	Net Change Other	Balance 30 June 06
Directors					
Terry Kallis		-	-	-	-
Derek Carter		60,000	-	-	60,000
Richard Bonython		270,000	-	230,000	500,000
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

Messrs Carter and Bonython are directors of Minotaur Exploration Ltd which acquired 2,500,000 shares during the year by way of exercising of options and is the beneficial holder of 40.35% of the issued capital of Petratherm Ltd at the end of the year.

	30 June 2005	Balance at 1 July 04	On Exercise of Options	Net Change Other	Balance 30 June 05
Directors					
Terry Kallis		-	-	-	-
Derek Carter		-	-	60,000	60,000
Richard Bonython		-	-	270,000	270,000
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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

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 23.

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'.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

26. TRANSITION TO AIFRS

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	Consolidated			Parent		
		AGAAP \$	AIFRS Impact \$	AIFRS \$	AGAAP \$	AIFRS Impact \$	AIFRS \$
CURRENT ASSETS							
Cash and cash equivalents		2,670,150	-	2,670,150	2,497,338	-	2,497,338
Trade and other receivables		134,041	-	134,041	1,008,593	-	1,008,593
Other current assets		26,366	-	26,366	18,240	-	18,240
TOTAL CURRENT ASSETS		2,830,557	-	2,830,557	3,524,171	-	3,524,171
NON-CURRENT ASSETS							
Financial assets		-	-	-	300,000	-	300,000
Property, plant and equipment		13,984	-	13,984	-	-	-
Exploration and evaluation assets	3	881,841	85,436	967,277	-	-	-
TOTAL NON-CURRENT ASSETS		895,825	85,436	981,261	300,000	-	300,000
TOTAL ASSETS		3,726,382	85,436	3,811,818	3,824,171	-	3,824,171
CURRENT LIABILITIES							
Trade and other payables		207,703	-	207,703	20,262	-	20,262
Short-term provisions		17,311	-	17,311	-	-	-
TOTAL CURRENT LIABILITIES		225,014	-	225,014	20,262	-	20,262
NON-CURRENT LIABILITIES							
Long-term provisions		29,741	-	29,741	-	-	-
Other	3	-	85,436	85,436	-	-	-
TOTAL NON-CURRENT LIABILITIES		29,741	85,436	115,177	-	-	-
TOTAL LIABILITIES		254,755	85,436	340,191	20,262	-	20,262
NET ASSETS		3,471,627	-	3,471,627	3,803,909	-	3,803,909
EQUITY							
Equity attributable to equity holders of the parent							
Issued capital	1	3,852,551	134,235	3,986,786	3,852,551	134,235	3,986,786
Retained earnings	1&2	(380,924)	(198,990)	(579,914)	(48,642)	(198,990)	(247,632)
Reserves	2	-	64,755	64,755	-	64,755	64,755
Parent interests		3,471,627	-	3,471,627	3,803,909	-	3,803,909
Minority interests		-	-	-	-	-	-
TOTAL EQUITY		3,471,627	-	3,471,627	3,803,909	-	3,803,909

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Income Statement reflecting reconciliation of adjustments to AIFRS for the year ended 30 June 2005

	Note	Consolidated			Parent		
		AGAAP \$	AIFRS Impact \$	AIFRS \$	AGAAP \$	AIFRS Impact \$	AIFRS \$
Revenue		146,363	-	146,363	146,218	-	146,218
Impairment of non-current assets		(54,495)	-	(54,495)	-	-	-
Employee benefits expense	2	(214,207)	(64,755)	(278,962)	(129,892)	(64,755)	(194,647)
Depreciation expense		(4,286)	-	(4,286)	-	-	-
Other expenses		(254,300)	-	(254,300)	(64,968)	-	(64,968)
Profit/(Loss) before income tax expense		(380,925)	(64,755)	(445,680)	(48,642)	(64,755)	(113,397)
Income tax expense	1	-	(134,235)	(134,235)	-	(134,235)	(134,235)
Profit/(Loss) for the period		(380,925)	(198,990)	(579,915)	(48,642)	(198,990)	(247,632)
Profit attributable to members of the parent entity		(380,925)	(198,990)	(579,915)	(48,642)	(198,990)	(247,632)

Notes relating to the reconciliation of adjustments to AIFRS

1. Under AASB 112, 'Income Taxes' temporary deductible differences relating to scheme costs previously recognised directly in equity are recognised as a deferred tax asset. As the directors were of the view at 30 June 2005 that the criteria for recognition of deferred tax assets has not been met, the temporary difference is taken directly to retained earnings.
2. Under AASB 2 'Share Based Payments', share options issued to the Groups directors and employees for the value of \$64,755 (included in 'employee benefit expenses') are recognised as expense under AIFRS, with a corresponding increase in the share-option reserve
3. Under AASB 120, 'Government Grants', a government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it. Hence the pace funding of \$85,436 received during the year ended 30 June 2005 is recognised as a long term liability until such time that the Group fulfils the conditions of the grant.

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 2006 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001; 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.
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 2006.

On behalf of the board



Mr Terry Kallis
Managing Director

Dated 26 September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PETRATHERM LTD

Scope and summary of our role

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Petratherm Ltd (the company) and its Controlled Entities (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

The auditor's role and work

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

Level 1
67 Greenhill Road
Wayville S 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 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.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Petratherm Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 26 day of September 2006

Level 1
67 Greenhill Road
Wayville S 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide
T (08) 8372 6666
F (08) 8372 6677
E info@gtsa.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 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.