

# **Petratherm Ltd**

**ABN 17 106 806 884**

## **Annual Financial Report**

**for the year ended 30 June 2010**

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## Corporate Information

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This annual report covers both Petratherm Ltd (ABN 17 106 806 884) and its controlled entities ("Group"). The Group's functional and presentation currency is Australian Dollars.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 4 to 21.

### Directors

Derek Carter (Chairman)  
Terry Kallis (Managing Director)  
Richard Bonython  
Richard Hillis  
Simon O'Loughlin  
Lew Owens (appointed 1/04/2010)

### Company Secretary

Donald Stephens

### Registered Office

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

### Principal place of business

Level 1, 129 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 South Australian Partnership  
Chartered Accountants  
67 Greenhill Road  
WAYVILLE SA 5034

## Directors' report

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Your directors submit their report for the year ended 30 June 2010.

### DIRECTORS

Derek Carter	Chairman
Terry Kallis	Managing Director
Richard Bonython	Non-Executive Director
Richard Hillis	Non-Executive Director
Simon O'Loughlin	Non-Executive Director
Lewis Owens	Non-Executive Director (appointed 1/04/2010)

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

### Names, qualifications, experience and special responsibilities

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

Derek Carter has over 40 years experience in exploration and mine geology, including 17 years in management of ASX- listed exploration companies. He held senior positions in the Shell Group of Companies and Burmine Ltd before founding Minotaur in 1993. He was Managing Director of Minotaur from its inception until early 2010 when he became Chairman of that company. He is a Director of both Mithril Resources Ltd and Toro Energy Ltd, both of which are listed on the ASX.

He was Vice President and later, President, of the South Australian Chamber of Mines and Energy, was a Director of the Australian Gold Council and Chairman of the Minerals Exploration Advisory Group, a body advising the Federal Minister on issues affecting exploration within Australia. He is a member of the South Australian Resources Development Board, and the South Australian Minerals and Petroleum Experts Group.

He was awarded AMEC's Prospector of the Year Award (jointly) in 2003, is a Centenary Medalist and was recently honored with the President's Award from the AusIMM.

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

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

## Directors' report

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

Richard Bonython was a director of Minotaur Gold Limited for six years, Minotaur Resources Limited for 5 years and retired as chairman of Hindmarsh Resources Limited 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 Limited for over 15 years and has experience of over 40 years in the building, rural and mineral industries. He is a director of Mithril Resources Limited (ASX Listed) and Minotaur Exploration Limited (ASX Listed), and is a member of the Company's audit committee.

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

Richard Hillis is CEO of the Deep Exploration Technologies Cooperative Research Centre (DET CRC). The DET CRC is an industry- and government-funded company established to deliver research programs in mineral exploration technologies. Richard graduated BSc (Hons) from Imperial College (London, 1985), and PhD from the University of Edinburgh (1989) and was until recently State of South Australia Professor of Petroleum Geology and Head of the Australian School of Petroleum (University of Adelaide). He has published over 100 papers in the areas of petroleum geomechanics and basin tectonics and has consulted extensively to, and run short courses for, the petroleum industry on these topics. Richard is a non-executive director of the unlisted companies JRS Petroleum Research and AuScope.

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

Simon O'Loughlin is the founding member of O'Loughlins Lawyers, an Adelaide based medium sized specialist commercial law firm. He has obtained extensive experience in the corporate and commercial law fields while practising in Sydney and Adelaide. More recently, he has been focusing on the resources sector. Simon also holds accounting qualifications. He is currently chairman of Bondi Mining Limited, Kagera Nickel Limited and Avenue Resources Limited and a director of Aura Energy Limited, Living Cell Technologies Limited, Strzelecki Metals Limited, Chesser Resources Limited, Probiomics Limited and WCP Resources Limited. He has comprehensive experience with companies in the small industrial and resources sectors.

Simon is a former Chairman of the Taxation Institute of Australia (SA Division) and Save the Children Fund (SA Division).

### **Lewis Owens, MSc, BE(Hons), BA (Non-Executive Director)**

Lewis has 20 years' experience as a Chief Executive Officer in the public and private sectors. This includes roles as CEO and Director of the South Australian electricity distributor ETSA Utilities, and as Chairman of the Essential Services Commission of South Australia responsible for regulation the SA electricity and gas industries, intra-state and Darwin railways, ports and urban water pricing. He was previously the CEO for WorkCover Corporation and Funds SA during the 1990s before returning to the energy industry for the past decade.

## Directors' report

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### COMPANY SECRETARY

**Donald Stephens**, BA (Acc), FCA

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Limited and Papyrus Australia Limited and is company secretary to Toro Energy Limited, Mithril Resources Limited and Minotaur Resources Limited of which are listed on the ASX. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations. He is a member of the Company's audit committee.

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

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Derek Carter	1,328,750	600,000
Terry Kallis	150,480	2,400,000
Richard Bonython	1,231,438	450,000
Richard Hillis	182,500	750,000
Simon O'Loughlin	358,333	450,000
Lewis Owens	72,500	450,000

### DIVIDENDS

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

### PRINCIPAL ACTIVITIES

The principal activities of Group during the financial year were:

- to test hot rocks, with high temperatures;
- establishing an economically viable, emission free, renewable source for power generation.

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

## Directors' report

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### OPERATING RESULTS

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$3,476,671 [2009: \$3,147,579].

### OPERATIONS OVERVIEW

Throughout the year, Petratherm has worked diligently to progress its interests in Australia and overseas with the Company achieving many successes.

The flagship Paralana geothermal energy project was again the major focus for the Company with expenditure continuing to advance the project toward production, including funding the completion of the Paralana 2 deep injector well.

There was a combination of joint venture funding, government grants and additional funds sourced from the equity markets that was used to progress the Company's portfolio of projects. One of the major announcements involved the Federal Government recognizing the Paralana project by awarding the joint venture a \$62.8 million grant, subject to proof of concept, under the \$435 million Renewable Energy Demonstration Program (REDP). These funds will contribute toward the cost of building a 30MW commercial demonstration project at the Paralana site in South Australia.

Paralana has received significant recognition from government with the company, along with our joint venture partners Beach Energy and TRUenergy Geothermal, having been awarded \$7 million under the Commonwealth Government's Geothermal Drilling Program (GDP) during the previous financial year. Petratherm also received support through the South Australian State Government's Plan for Accelerated Exploration (PACE) in its bid to produce emission-free, base-load energy at its Paralana site.

During the reporting period, the Company invested considerably on exploration and development of its projects. A total of \$20,210,789 was spent on Paralana, of which \$6,928,000 was funded by JV partners and \$4,763,000 by government grants. A total of \$4,592,000 was raised during the year from the equity markets and conversion of options resulting in the Company at year end with a cash position of \$2,716,780.

Petratherm continued to prove itself a leader in the geothermal energy sector throughout the reporting period as it advances its projects and actively participates in the policy debate, increasing its profile in Australia and overseas.

Two board members were recognised for their achievements.

Petratherm board Chairman Derek Carter was presented the prestigious President's Award in the annual Australasian Institute of Mining and Metallurgy awards for 2009. The annual AusIMM Awards recognize excellence in the minerals sector and Mr Carter was particularly recognized for his leading role in demonstrating the exceptional prospectivity of South Australia through the Minotaur group of companies.

## Directors' report

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Board member Richard Hillis was appointed Chief Executive Officer of the new national Cooperative Research Centre for Deep Exploration Technology, set up to undertake research in new techniques for mineral exploration at depth and under cover.

In another coup for the Company, a well-known name in the energy industry, Lewis Owens, joined the Petratherm board in April this year. Mr Owens brings a wealth of experience to the company. He is a former chief executive of ETSA Utilities and a former South Australian energy regulator. He has 20 years experience as a Chief Executive Officer in the public and private sectors, including Chairman of the Essential Services Commission of South Australia and former CEO for WorkCover Corporation and Funds SA.

In terms of policy debate on a national level, Petratherm's Managing Director Terry Kallis was a key player in his role as Chairman of the Australian Geothermal Energy Association and as the association's representative on the Australia Energy Market Commission's Stakeholder Committee Review of Australia's Energy Market.

A new independent report by leading energy economics firm McLennan Magasanik Associates was commissioned by AGEA. The report showed geothermal had the potential to be the cheapest form of renewable energy in Australia. It studied the cost benefit of connecting an electricity transmission line from Innamincka in northern SA via Olympic Dam near Moomba to Davenport near Port Augusta - taking in the geothermal energy projects of Geodynamics in the Cooper Basin and Petratherm in the Arrowie Basin in the northern Flinders Ranges.

The major finding of the MMA report was that it showed investing \$172 million in transmission would create savings of \$860 million for South Australian customers and \$2,800 million for customers of the National Electricity Market from 2011 to 2030.

Earlier this year, Mr Kallis was appointed to the Centre for Energy Technology Advisory Board at Adelaide University, chaired by former South Australian Premier John Olsen. The CET was established within the University of Adelaide's Environment Institute and the Institute for Mineral and Energy Resources to address the issue of greenhouse gas mitigation.

Mr Kallis continued in his role as a board member of the national Clean Energy Innovation Centre (CEIC) based in Newcastle, New South Wales, to help build collaboration between researchers and businesses, and help clean energy businesses access latest technologies and market specific information. Mr Kallis was also on the Council of the SA Chamber of Mines and Energy (SACOME) to represent Geothermal/Renewables. SACOME is the peak industry association for companies with business interests in the resources industry in South Australia.

The Company ensured it was also actively involved on an international scale and during the reporting period, Petratherm was represented at key events including the World Geothermal Congress in Bali and the Geothermal Resources Council 2009 Annual Conference in Reno, Nevada, a state where geothermal is progressing rapidly.

Geothermal energy is also gaining profile in Spain, and here, Petratherm's Spanish Manager Raúl Hidalgo Fernández continued in his role as President of the Geothermal Division of the Spanish Renewable Energy Generators Association (Asociacion de Productores de Energías Renovables - APPA).



## Directors' report

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### RISK MANAGEMENT

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

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

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

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

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

The flagship Paralana geothermal energy project was the major focus for the Company with expenditure continuing to advance the project toward production, including funding the completion of the Paralana 2 deep injector well.

The Federal Government awarded Petratherm, and our joint venture partners Beach Energy and TRUenergy Geothermal, a \$62.8 million Renewable Energy Demonstration Program (REDP) grant.

Shareholders were able to purchase up to \$15,000 worth of shares under the Company's share purchase plan (SPP) offer at \$0.24, representing a discount to the closing price of the Company's shares on ASX as at 9 March 2010 of \$0.07 or 22 per cent. The SPP closed on 9 April 2010 and raised \$3,431,500. In addition, the Company raised \$0.7 million at \$0.24 per share before costs from a Share Placement to clients of Taylor Collison Limited.

On the 28<sup>th</sup> July 2010 Petratherm announced to the ASX a renegotiation of the Beach Energy milestone 2 payment, bringing immediate contributions of \$2.7m in replacement of the original agreement for \$5m upon commencement of Paralana 3.

## Directors' report

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### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On the 6 July the Group issued 1,535,000 options to employees under the Petratherm ESOP plan. The fair value of these options were \$0.071 per option.

On the 16 July Petratherm announced that the \$62.8 million grant Funding Deed under the Commonwealth Government's Renewable Energy Demonstration Program (REDP) has been executed.

Other than those matters noted there were no other material subsequent events.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Group intends to continue to undertake appropriate exploration and evaluation expenditure thereby enabling it to maintain good title to all its prospective geothermal

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 Group.

### **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. The Company's Spanish operations follow regulations as outlined by Spanish Mining Law, and Petratherm's internal Health Safety and Environment management system, which is internationally compliant. The Company is in compliance with the state and/or commonwealth environmental laws for the jurisdictions in which it operates.

## Directors' report

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### 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 2009	Net Issued/ (Exercised/ Other)	Balance at 30 June 2010
27/07/2004	26/07/2009	\$0.20	2,000,000	(2,000,000) (1)	-
28/07/2004	27/07/2009	\$0.20	250,000	(250,000) (1)	-
01/01/2006	31/12/2010	\$0.40	60,000	(60,000) (2)	-
22/05/2006	21/05/2011	\$0.32	200,000	-	200,000
22/05/2006	21/05/2011	\$0.37	200,000	-	200,000
22/03/2007	21/03/2012	\$0.91	20,000	-	20,000
30/06/2006	30/04/2012	\$0.32	650,000	-	650,000
30/06/2006	30/04/2013	\$0.37	750,000	-	750,000
01/01/2007	01/01/2012	\$0.53	100,000	(100,000) (2)	-
02/01/2007	01/01/2012	\$0.53	100,000	-	100,000
04/03/2007	04/03/2012	\$0.91	40,000	-	40,000
31/05/2007	31/05/2012	\$0.90	40,000	-	40,000
31/05/2007	31/05/2013	\$0.90	400,000	-	400,000
26/06/2007	25/06/2012	\$0.97	200,000	-	200,000
07/01/2008	06/01/2013	\$1.20	20,000	(20,000) (2)	-
07/01/2008	06/01/2013	\$1.20	60,000	-	60,000
07/01/2008	06/01/2013	\$1.20	30,000	(30,000) (2)	-
07/01/2008	06/01/2013	\$1.20	30,000	-	30,000
06/07/2008	05/07/2013	\$0.76	400,000	(400,000) (2)	-
28/11/2008	27/11/2013	\$0.42	450,000	(100,000) (2)	350,000
01/09/2008	31/08/2013	\$0.67	15,000	-	15,000
07/10/2008	06/10/2013	\$0.56	50,000	-	50,000
30/06/2009	29/06/2014	\$0.50	75,000	-	75,000
24/11/2009	23/11/2014	\$0.50	-	60,000	60,000
24/12/2009	23/12/2014	\$0.50	-	1,000,000	1,000,000
04/01/2010	03/01/2015	\$0.53	-	300,000	300,000
05/06/2010	04/01/2015	\$0.24	-	3,100,000	3,100,000
05/06/2010	04/01/2015	\$0.29	-	500,000	500,000
20/04/2010	19/04/2015	\$0.38	-	75,000	75,000
			<u>6,140,000</u>	<u>2,075,000</u>	<u>8,215,000</u>

(1) Relates to options exercised during the year.

(2) Relates to options lapsed during the year.

## Directors' report

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### SHARE OPTIONS

#### Shares issued as a result of the exercise of unlisted options

During the financial year 30,000 options were exercised under the Company ESOP at price of \$0.32 cents raising \$9,600. A further \$450,000 was raised from 2,250,000 unrelated option holders at a price of \$0.20.

#### Cancellation of Options

During the financial year 680,000 options lapsed due to not being exercised within the given exercise period.

#### New options issued

During the financial year 1,135,000 options were issued under the Company's ESOP to various employees. A further 3,900,000 were issued to Directors and the Company Secretary. New options issued to Directors received shareholder approval in accordance with relevant legislation.

### 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 \$20,641. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

### REMUNERATION REPORT - AUDITED

This report outlines the remuneration arrangements in place for directors and key management personnel 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 \$310,000 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

## Directors' report

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### REMUNERATION REPORT - AUDITED (continued)

dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the Exploration Manager, 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 \$181,000 per annum. The Company may terminate the employment contract 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 Business Development Manager, Mr Jonathan Teubner, are formalised in a contract of employment. Mr Teubner commenced employment on 1 June 2007 and his base salary, inclusive of superannuation, is \$178,000 per annum. The Company may terminate the employment contract 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.

### 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.

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 Group 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. No portion of remuneration paid or payable to any Key Management Personnel employed by Petratherm is performance based.

## Directors' report

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### REMUNERATION REPORT - AUDITED (continued)

Table 1: Directors' remuneration for the year ended 30 June 2009 & 2010

	Short-term employee benefits	Post employment benefits	Share based payments	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2010	60,000	5,400	57,600	<b>123,000</b>
2009	50,000	4,500	-	<b>54,500</b>
Terry Kallis				
2010	280,539	14,461	93,000	<b>388,000</b>
2009	256,881	23,119	-	<b>280,000</b>
Richard Bonython				
2010	45,780	-	43,200	<b>88,980</b>
2009	47,688	-	-	<b>47,688</b>
Simon O'Loughlin				
2010	42,000	3,780	43,200	<b>88,980</b>
2009	35,000	3,150	-	<b>38,150</b>
Lewis Owens				
2010	10,500	945	43,200	<b>54,645</b>
2009	-	-	-	<b>-</b>
Richard Hillis				
2010	42,000	3,780	62,400	<b>108,180</b>
2009	35,000	3,150	214,800	<b>252,950</b>

## Directors' report

### REMUNERATION REPORT - AUDITED (continued)

**Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2009 & 2010**

	Short-term employee benefits	Post employment benefits	Share based payments	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2010	163,889	14,461	32,400	<b>210,750</b>
2009	161,193	14,507	19,500	<b>195,200</b>
Jonathan Teubner				
2010	160,301	14,298	64,800	<b>239,399</b>
2009	157,065	14,135	19,500	<b>190,700</b>
John King				
2010	74,508	12,263	-	<b>86,771</b>
2009	144,100	12,969	177,828	<b>334,897</b>
Donald Stephens				
2010	-	-	62,700	<b>62,700</b>
2009	-	-	-	<b>-</b>

HLB Mann Judd (SA) Pty Limited has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$160,875 (2009: \$147,464). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited. \$42,618 remains outstanding at year end.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of \$90,250 (2009:\$90,581) during the year. \$11,224 remains outstanding at year end.

Professor Richard Hillis has a consultancy agreement with the Company and received geological consulting fees of \$24,525. \$1,998 remains outstanding at year end.

Share-based payments remuneration relates to amortisation of the fair value of options granted during the 2010 financial year.

## Directors' report

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### REMUNERATION REPORT - AUDITED (continued)

#### Table 3: Options granted as part of remuneration

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

	Grant date	Grant number	Vesting date	Exercise price	Value per option at grant date	Exercised number	Total Fair value	% of Remuneration
<b>Directors</b>								
Terry Kallis	05/01/10	500,000	05/01/10	0.29	0.09	-	45,000	11.59%
Terry Kallis	05/01/10	500,000	05/01/10	0.24	0.096	-	48,000	12.37%
Derek Carter	05/01/10	600,000	05/01/10	0.24	0.096	-	57,600	46.83%
Richard Bonython	05/01/10	450,000	05/01/10	0.24	0.096	-	43,200	48.55%
Lewis Owens	05/01/10	450,000	05/01/10	0.24	0.096	-	43,200	79.06%
Richard Hillis	05/01/10	650,000	05/01/10	0.24	0.096	-	62,400	57.68%
Simon O'Loughlin	05/01/10	450,000	05/01/10	0.24	0.096	-	43,200	48.55%
<b>Executives</b>								
Donald Stephens	05/01/10	300,000	05/01/10	0.53	0.209	-	62,700	100%
Peter Reid	24/12/09	150,000	24/12/09	0.50	0.216	-	32,400	15.37%
Jonathan Teubner	24/12/09	300,000	24/12/09	0.50	0.216	-	64,800	27.07%

No portion of remuneration paid or payable to any Key Management Personnel employed by Petratherm was performance based in 2009 or 2010.



## Directors' report

### REMUNERATION REPORT - AUDITED (continued)

**Table 4: Options holdings of Key Management Personnel**

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised	Options Lapsed	Balance at end of period	Expiry date	First exercise date	Last exercise date
<b>Directors</b>								
Terry Kallis	650,000	-	-	-	650,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Terry Kallis	-	1,000,000	-	-	1,000,000	04/01/15	03/06/10	04/01/15
Derek Carter	-	600,000	-	-	600,000	04/01/15	03/06/10	04/01/15
Richard Bonython	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
Lewis Owens	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
Richard Hillis	-	650,000	-	-	650,000	04/01/15	03/06/10	04/01/15
Richard Hillis	200,000	-	-	-	200,000	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
<b>Executives</b>								
Donald Stephens	250,000	-	(250,000)	-	-	27/07/09	28/07/05	27/07/09
Donald Stephens	-	300,000	-	-	300,000	03/01/15	05/01/10	03/01/15
Peter Reid	-	150,000	-	-	150,000	23/12/14	24/12/09	23/12/14
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Peter Reid	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
John King	400,000	-	-	(400,000)	-	06/07/13	07/07/09	06/07/13
Jonathan Teubner	-	300,000	-	-	300,000	23/12/14	24/12/09	23/12/14
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
Jonathan Teubner	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
	<b>3,350,000</b>	<b>4,350,000</b>	<b>(250,000)</b>	<b>(400,000)</b>	<b>7,050,000</b>			

## Directors' report

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### REMUNERATION REPORT - AUDITED (continued)

30 June 2009	Balance at beginning of period	Granted as remuneration	Options exercised	Options Lapsed	Balance at end of period	Expiry date	First exercise date	Last exercise date
<b>Directors</b>								
Terry Kallis	650,000	-	-	-	650,000	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
Richard Hillis	200,000	-	-	-	200,000	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	200,000	-	(200,000)	-	-	04/04/09	05/04/04	04/04/09
<b>Executives</b>								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	(400,000)	-	-	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Peter Reid	-	100,000	-	-	100,000	27/11/13	28/11/08	27/11/13
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
Jonathan Teubner	-	100,000	-	-	100,000	27/11/13	28/11/08	27/11/13
John King	-	400,000	-	-	400,000	06/07/13	07/07/09	06/07/13
	5,750,000	600,000	(3,000,000)	-	3,350,000			

## Directors' report

### REMUNERATION REPORT - AUDITED (continued)

Table 5: Shareholdings of Key Management Personnel

	30 June 2010	Balance at 1 July 09	On Exercise of Options	Net Change Other	Balance 30 June 10
<b>Directors</b>					
Terry Kallis		119,230	-	31,250	150,480
Derek Carter		1,266,250	-	62,500	1,328,750
Richard Bonython		1,106,440	-	124,998	1,231,438
Lewis Owens		-	-	72,500	72,500
Richard Hillis		120,000	-	62,500	182,500
Simon O'Loughlin		325,000	-	33,333	358,333
<b>Executives</b>					
Peter Reid		389,230	-	-	389,230
Jonathan Teubner		-	-	-	-
Donald Stephens		-	-	-	-
John King		-	-	-	-
	30 June 2009	Balance at 1 July 08	On Exercise of Options	Net Change Other	Balance 30 June 09
<b>Directors</b>					
Terry Kallis		100,000	-	19,230	119,230
Derek Carter		66,250	1,200,000	-	1,266,250
Richard Bonython		532,500	500,000	73,940	1,106,440
Lloyd Taylor		300,000	400,000	(700,000)	-
Richard Hillis		20,000	300,000	(200,000)	120,000
Simon O'Loughlin		125,000	200,000	-	325,000
<b>Executives</b>					
Peter Reid		34,918	400,000	(45,688)	389,230
Jonathan Teubner		-	-	-	-
Donald Stephens		-	-	-	-
John King		-	-	-	-

## Directors' report

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### 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
<b>Number of meetings held</b>	12	2
<b>Number of meetings attended:</b>		
Derek Carter	11	-
Terry Kallis	12	-
Richard Bonython	12	2
Richard Hillis	12	-
Simon O'Loughlin	11	2
Lewis Owens*	5	-

\* Lewis Owens was appointed as a Director on the 1 April 2010 and was only eligible to attend five Directors meetings.

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

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### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Grant Thornton South Australian Partnership, in its capacity as auditor for Petratherm Limited, has not provided any non-audit services throughout the reporting period. Details of the auditor's remuneration can be found in note 24 to the financial statements. The auditor's independence declaration for the year ended 30 June 2010 as required under section 307C of the Corporations Act 2001 has been received and can be found on the following page.

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



Mr Terry Kallis  
Managing Director

Dated this 30 day of September 2010



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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF PETRATHERM 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 2010, 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

A handwritten signature in blue ink, appearing to read "J L Humphrey".

J L Humphrey  
Partner

Adelaide, 30 September 2010

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# Corporate Governance Statement

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## Introduction

The board of directors is responsible for the corporate governance of Petratherm Ltd (the Company) and its controlled entities (the Group). The Group operates in accordance with the corporate governance principles as set out by the ASX corporate governance council and required under ASX listing rules.

The Group details below the corporate governance practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated. Some of the charters and policies that form the basis of the corporate governance practices of the Group may be located on the Group's website, [www.petratherm.com.au](http://www.petratherm.com.au).

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity, remuneration, trading policies and briefings. The Group has addressed the amended principles within this statement.

## Principle 1: Lay solid foundations for management and oversight

### Recommendation 1.1: Role of the Board and Management

The board is accountable to the Shareholders for the performance of the Group and has 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 and ultimately to senior executives.

The key functions reserved to the board include:

- Approving the strategic direction and related objectives of the Group and monitoring management performance in the achievement of these objectives;
- Adopting budgets and monitoring the financial performance of the Group;
- Reviewing annually the performance of the managing director and senior executives against the objectives and performance indicators established by the board. The annual review of senior executives was undertaken by the board during the year.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Overseeing the implementation and management of effective safety and environmental performance systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Group meets its legal and statutory obligations.

For the purposes of the proper performance of their duties, the directors are entitled to seek independent professional advice at the Group's expense, unless the board determines otherwise. The board schedules meetings on a regular basis and other meetings as and when required. The Group has not formally established the functions reserved to the board and those delegated to senior executives in accordance with recommendations 1.1 and 1.3 of the ASX Corporate Governance Council. Given the size of the Group, the board has not considered it necessary to formulate a board charter.

## Corporate Governance Statement

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### Recommendation 1.2: Performance evaluation of Senior Management

The Managing Director and senior management participate in annual performance reviews. The performance of staff is measured against the objectives and performance indicators established by the board. A performance evaluation for senior management took place for the current reporting period in accordance with the Group's documented process. The performance of senior management is reviewed by comparing performance against agreed measures, examining the effectiveness and results of their contribution and identifying area for potential improvement. In accordance with recommendations 1.2 and 1.3 of the ASX Corporate Governance Council the Group has not disclosed a description of the performance evaluation process in addition to the disclosure above.

### Principle 2: Structure the board to add value

#### Size and composition of the Board

At the date of this statement the board consists of five non-executive directors and one executive. Directors are expected to bring independent views and judgement to the board's deliberations.

- |                       |                        |
|-----------------------|------------------------|
| • Mr Derek Carter     | Non-Executive Chairman |
| • Terry Kallis        | Managing Director, CEO |
| • Mr Simon O'Loughlin | Non-Executive          |
| • Richard Bonython    | Non-Executive          |
| • Mr Richard Hillis   | Non-Executive          |
| • Mr Simon O'Loughlin | Non-Executive          |
| • Mr Lewis Owens      | Non-Executive          |

The board considers this to be an appropriate composition given the size and development of the Group at the present time. A profile of each director including their skills, qualifications and experience is set out in the director's report of this Annual Report.

### Recommendation 2.1: Independence

The board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the board. Those directors who have interests in specific transactions or potential transactions do not receive board papers related to those transactions or potential transactions, do not participate in any part of a directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other directors. Each director is required by the Company to declare on an annual basis the details of any financial or other relevant interests that they may have in the Company.

At the date of this statement the board consists of five non-executive directors, Mr Carter, who is also chairman of the board, Mr O'Loughlin, Mr Bonython, Mr Hillis, Mr Owens and an executive director, Mr Kallis. Mr O'Loughlin, Mr Hillis and Mr Owens have no other material relationship with the Group or its subsidiary other than their directorships. Mr Carter and Mr Bonython are directors of Minotaur Exploration Ltd which is the beneficial holder of 18.35% of the issued capital of Petratherm Ltd. The Group therefore has three independent directors as that relationship is currently defined.



## Corporate Governance Statement

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The board does not consist of a majority of independent directors and therefore the Group has not complied with recommendation 2.1 of the Corporate Governance Council. The board defines 'independence' in accordance with ASX recommendations. The board considers the current structure to be an appropriate composition of the required skills and experience, given the experience of the individual directors and the size and development of the Group at the present time.

### **Recommendations 2.2, 2.3: Role of the Chairman**

The role of the Chairman is to provide leadership to the board and facilitate the efficient organisation and conduct of the board's functioning. Mr Derek Carter, the Chairman of the Group does not also perform the role of the Managing Director, in accordance with recommendation 2.3 of the Corporate Governance Council, however the Chairman is not considered 'independent' as defined by ASX Corporate Governance Principles and recommendation 2.2.

### **Recommendation 2.4: Nomination, retirement and appointment of Directors**

The board has not established a nomination and remuneration committee in accordance with recommendation 2.4 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and continues to monitor the composition of the board. Accordingly, the Group has not established a remuneration and nomination committee charter in accordance with recommendations 2.4 and 2.6 of the ASX Corporate Governance Council.

### **Recommendation 2.5: Evaluation of Board performance**

The board continues to review performance against appropriate measures and identify ways to improve performance. A performance evaluation of the board, its Committees and individual directors took place for the current reporting period in accordance with the Group's documented process. The board has not formally disclosed the process in accordance with recommendations 2.5 and 2.6 of the ASX Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of the performance evaluation necessary at this stage.

## **Principle 3: Promote ethical and responsible decision making**

### **Recommendation 3.1: Code of Conduct**

The board recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Group intends to maintain a reputation for integrity and is highly committed to demonstrating appropriate corporate practices and decision making. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The board has not adopted and disclosed a formal code of conduct applying to the board and all Employees in accordance with recommendations 3.1 and 3.3 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of the code necessary at this stage.

### **Securities Trading Policy**

Effective from the 1 January 2011, the Group is required to adopt and disclose a securities trading policy under ASX Listing Rules. A securities trading policy was previously a recommendation of the Corporate Governance Council, however the

## Corporate Governance Statement

Group has chosen to early-adopt the amendments in accordance with the addition to the ASX Listing Rules. The Group has established a policy concerning trading in Group securities by directors, senior executives and employees, however the plan has not yet been publicly disclosed and therefore has not complied with recommendation 3.2 or 3.3 of the second edition of the Corporate Governance Council principles. The Board takes ultimate responsibility for these matters.

The Company's constitution permits designated persons to acquire securities in the Company, however Group policy prohibits designated persons from dealing in 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 Group's quarterly, half yearly and annual financial results to the Australian Securities Exchange; and
- The Annual General Meeting.

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

### **Recommendations 3.2, 3.3, 3.4: Diversity**

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background. The board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

The Group continues to strive towards achieving objectives established towards increasing gender diversity. At the end of the reporting period, the Group employed ten staff, of which five were female and the board of directors consisted of six male members.

The Group is highly aware of the positive impacts that diversity may bring to an organisation. The Group continues to assess all staff and board appointments on their merits with consideration to diversity a driver in decision making. The Group has not yet developed or disclosed a formal diversity and policy and therefore has not complied with the recommendations 3.2 and 3.3 of the Corporate Governance Council effective from 1 January 2011.

### **Principle 4: Safeguard integrity in financial reporting**

The Group has structured financial management to independently verify and safeguard the integrity of their financial reporting. The structure established by the Group includes:

- Review and consideration of the financial statements by the audit committee;
- A process to ensure the independence and competence of the Group's external auditors.

## Corporate Governance Statement

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### **Recommendations 4.1, 4.2, 4.3: Audit Committee**

The audit, risk and compliance committee comprises Mr O'Loughlin (Chairman) who is also a non-executive director, Mr Richard Bonython a non-executive director and Mr Donald Stephens the Company Secretary. Mr O'Loughlin and Mr Stephens are both considered independent thereby representing a majority. The board will annually confirm the membership of the committee.

The committee's primary responsibilities are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- oversee the management of risk within the Group;
- oversee the financial reporting process;
- review the annual and half-year financial reports and recommend them for approval by the board of directors;
- nominate external auditors;
- review the performance of the external auditors and existing audit arrangements; and
- ensure compliance with laws, regulations and other statutory or professional requirements, and the Group's governance policies.

The Group has complied with recommendation 4.2 of the Corporate Governance Council because the majority consist of independents. Given the skills and experience of the audit committee, the board believes the structure and process to be adequate. The board continues to monitor the composition of the committee and the roles and responsibilities of the members.

The board has not adopted and disclosed a formal committee charter in accordance with recommendations 4.3 and 4.4 of the Corporate Governance Council.

### **Principle 5: Make timely and balanced disclosure**

The Group has a policy that all shareholders and investors have equal access to the Group's information. The board 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 and is accountable to the board through the Chair for all governance matters.

### **Recommendations 5.1: Disclosure policy**

The Group has not publicly disclosed a formal disclosure policy in accordance with recommendations 5.1 and 5.2 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a disclosure policy to be appropriate at this stage.

### **Principle 6: Respect the rights of shareholders**

The board strives to ensure that Shareholders are provided with sufficient information to assess the performance of the Group and its directors and to make well-informed investment decisions.

## Corporate Governance Statement

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### **Recommendations 6.1: Communications policy**

Information is communicated to Shareholders through:

- annual, half-yearly and quarterly financial reports;
- annual and other general meetings convened for Shareholder review and approval of board proposals;
- continuous disclosure of material changes to ASX for open access to the public; and
- the Group maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

All information disclosed to the ASX is posted on the Group's web site [www.petratherm.com.au](http://www.petratherm.com.au).

The auditor is invited to attend the annual general meeting of Shareholders. The Chairman will permit Shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

The Group has not publicly disclosed a communications policy in accordance with recommendations 6.1 and 6.2 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a communications policy to be appropriate at this stage.

### **Principle 7: Recognise and manage risk**

The board has identified the significant areas of potential business and legal risk of the Group. In addition the board has developed the culture, processes and structures of the company to encourage a framework of risk management which identifies, monitors and manages the material risks facing the organisation.

### **Recommendations 7.1, 7.2: Risk management policy**

The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the board. The board has also established the audit, risk and compliance committee which addresses the risks of the Group.

The board reviews and monitors the parameters under which such risks will be managed. Management accounts are prepared and reviewed with the Managing Director at subsequent board meetings. Budgets are prepared and compared against actual results.

Management and the board monitor the Group's material business risks and reports are considered at regular meetings.

The Group has not publicly disclosed a policy for the oversight and management of material business risks in accordance with recommendations 7.1 and 7.4 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a risk management policy to be appropriate at this stage.

### **Recommendations 7.3: Declaration from Managing Director and Company Secretary**

The Managing Director and the Company Secretary will be required to state in writing to the board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results are in

## Corporate Governance Statement

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accordance with relevant accounting standards. Included in this statement will be confirmation that the Group's risk management and internal controls are operating efficiently and effectively.

### **Principle 8: Remunerate fairly and responsibly**

The Chairman and the non-executive directors are entitled to draw director's fees and receive reimbursement of reasonable expenses for attendance at meetings. The Group is required to disclose in its annual report details of remuneration to directors. The maximum aggregate annual remuneration which may be paid to non-executive directors is \$300,000. This amount cannot be increased without the approval of the Group's shareholders. Please refer to the remuneration report within the director's report for details regarding the remuneration structure of the managing director and senior management.

### **Recommendation 8.1: Remuneration Committee**

The board has not established a remuneration committee or disclosed a committee charter on the Company website and therefore has not complied with recommendations 8.1 and 8.3 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider a remuneration committee to be appropriate at this stage.

## Statement of Comprehensive Income

### FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$	2009 \$
Revenue	4 (a)	276,503	185,296
Impairment of non-current assets	4 (b)	(79,033)	(1,053,078)
Employee benefits expense	4 (c)	(1,770,448)	(1,219,667)
Depreciation expense	4 (b)	(68,657)	(61,905)
Borrowing costs	4 (b)	(2,827)	-
Other expenses	4 (d)	(1,996,357)	(1,362,069)
<b>Loss before income tax expense</b>		<b>(3,640,819)</b>	<b>(3,511,423)</b>
Income tax (expense)/benefit	5	164,148	363,844
<b>Loss from continuing operations</b>		<b>(3,476,671)</b>	<b>(3,147,579)</b>
<b>Loss for the period</b>		<b>(3,476,671)</b>	<b>(3,147,579)</b>
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		(378,115)	(177,878)
<b>Total comprehensive income for the period</b>		<b>(3,854,786)</b>	<b>(3,325,457)</b>
<b>Total comprehensive income attributable to:</b>			
Non-controlling interest	21	-	-
<b>Total comprehensive income attributable to the parent entity</b>		<b>(3,854,786)</b>	<b>(3,325,457)</b>
<b>Earnings per share:</b>		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	6	(3.57)	(2.77)
Diluted earnings per share	6	(3.57)	(2.77)

*The accompanying notes form part of these financial statements*

## Statement of Financial Position

### AS AT 30 JUNE 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	2,716,750	13,002,052
Trade and other receivables	8	1,635,418	2,317,699
Other current assets	9	60,684	59,944
<b>TOTAL CURRENT ASSETS</b>		<b>4,412,852</b>	<b>15,379,695</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	202,627	191,356
Exploration and evaluation assets	11	17,683,266	5,549,372
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17,885,893</b>	<b>5,740,728</b>
<b>TOTAL ASSETS</b>		<b>22,298,745</b>	<b>21,120,423</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	2,271,158	4,522,141
Deferred Income	14	-	683,611
Borrowings	15	6,585	6,032
Short term provisions	16	118,461	88,840
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,396,204</b>	<b>5,300,624</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	15	26,898	33,783
Long term provisions	16	88,461	74,133
Other	17	2,898,000	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,013,359</b>	<b>107,916</b>
<b>TOTAL LIABILITIES</b>		<b>5,409,563</b>	<b>5,408,540</b>
<b>NET ASSETS</b>		<b>16,889,182</b>	<b>15,711,883</b>
<b>EQUITY</b>			
Issued capital	18	27,434,757	23,048,738
Reserves	19	653,767	628,851
Retained earnings	20	(11,199,342)	(7,965,706)
<b>Parent interests</b>		<b>16,889,182</b>	<b>15,711,883</b>
<b>Non-controlling interests</b>	21	-	-
<b>TOTAL EQUITY</b>		<b>16,889,182</b>	<b>15,711,883</b>

*The accompanying notes form part of these financial statements*

## Statement of Changes in Equity

### FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated					Total \$
	Issued Capital Ordinary \$	Retained Earnings \$	Share Option Reserve \$	Foreign Currency Translation Reserve \$	Minority Interest \$	
<b>Balance at 1 July 2008</b>	14,228,516	(4,877,186)	587,735	(7,420)	-	9,931,646
Total comprehensive income for the year	-	(3,147,579)	-	-	-	(3,147,579)
Issued pursuant to share purchase plan	4,319,500	-	-	-	-	4,319,500
Shares issued via placement	3,083,600	-	-	-	-	3,083,600
Issue of share options	-	-	327,453	-	-	327,453
Exercise of options at various dates	1,628,800	-	-	-	-	1,628,800
Transaction costs	(362,368)	-	-	-	-	(362,368)
Tax portion of IPO costs	108,710	-	-	-	-	108,710
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	-	59,060	(59,060)	-	-	-
Foreign exchange translations	-	-	-	(177,878)	-	(177,878)
Transfer from employee equity-settled benefits reserve upon exercise of vested options	41,980	-	(41,980)	-	-	-
<b>Balance at 30 June 2009</b>	<b>23,048,738</b>	<b>(7,965,706)</b>	<b>814,149</b>	<b>(185,298)</b>	<b>-</b>	<b>15,711,883</b>
<b>Balance at 1 July 2009</b>	23,048,738	(7,965,706)	814,149	(185,298)	-	15,711,883
Total comprehensive income for the year	-	(3,476,671)	-	-	-	(3,476,671)
Issued pursuant to share purchase plan	3,361,000	-	-	-	-	3,361,000
Shares issued via placement	771,360	-	-	-	-	771,360
Issue of share options	-	-	647,536	-	-	647,536
Exercise of options at various dates	459,600	-	-	-	-	459,600
Transaction costs	(296,302)	-	-	-	-	(296,302)
Tax portion of IPO costs	88,891	-	-	-	-	88,891
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	-	243,035	(243,035)	-	-	-
Foreign exchange translations	-	-	-	(378,115)	-	(378,115)
Transfer from employee equity-settled benefits reserve upon exercise of vested options	1,470	-	(1,470)	-	-	-
<b>Balance at 30 June 2010</b>	<b>27,434,757</b>	<b>(11,199,342)</b>	<b>1,217,180</b>	<b>(563,413)</b>	<b>-</b>	<b>16,889,182</b>

*The accompanying notes form part of these financial statements*



## Statement of Cash Flows

### FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(2,348,426)	(2,105,484)
Finance Costs		(2,827)	-
Research & Development Tax offset received		287,340	472,554
Management Fee		70,599	-
Interest received		204,572	186,725
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>7</b>	<b>(1,788,742)</b>	<b>(1,446,205)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(96,958)	(117,836)
REDI Grant proceeds		537,000	707,575
Joint Venture receipts		6,928,000	6,855,458
Payments for exploration activities		(24,916,715)	(6,428,487)
Government exploration related grants		4,763,000	175,000
<b>NET CASH PROVIDED/(USED IN) INVESTING ACTIVITIES</b>		<b>(12,785,673)</b>	<b>1,191,710</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		4,592,000	9,031,900
Transaction costs of issue of shares		(296,302)	(362,368)
Repayment of borrowings		(6,585)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>4,289,113</b>	<b>8,669,532</b>
Net increase/(decrease) in cash and cash equivalents		(10,285,302)	8,415,037
Cash at the beginning of the year		13,002,052	4,587,015
<b>CASH AT THE END OF THE YEAR</b>	<b>7</b>	<b>2,716,750</b>	<b>13,002,052</b>

*The accompanying notes form part of these financial statements*

# Notes to the Financial Statements

## FOR THE YEAR ENDED 30 JUNE 2010

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### 1. CORPORATE INFORMATION

The financial report of Petratherm Ltd (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 29 September 2010. Petratherm Ltd is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Petratherm Limited and controlled entities ('Group').

#### **Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### **Third statement of financial position**

Two comparative periods are presented for the statement of financial position when the Company:

- i Applies an accounting policy retrospectively
- ii Makes a retrospective restatement of items in its financial statements, or
- iii Reclassifies items in the financial statements.

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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**a. Principles of consolidation**

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

A controlled entity is any entity Petratherm Limited 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 25 to the financial statements.

The financial statements of the subsidiaries 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.

**b. 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:

*Interest income*

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

*Sale of Goods*

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

*Provision of services*

Revenue relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable. All revenue is stated net of goods and services tax.

**c. Government grants**

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

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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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 statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

#### d. Finance costs

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as

the assets are substantially ready for their intended use of sale. Other costs are expensed as incurred.

#### e. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### f. 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.

#### g. Financial instruments

##### *Initial recognition and measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instrument classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

##### *Effective interest rate method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

#### ***Classification and subsequent measurement***

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

##### *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

##### *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.

##### ***Impairment of financial assets***

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 significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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#### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

#### **h. 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 reporting 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

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting 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 reporting 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 Limited and its wholly-owned Australian controlled entity have not yet decided to implement the tax consolidation legislation as of 1 July 2007. 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 Limited, 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.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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#### i. Goods and Services Tax (GST)

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

- 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 statement of financial position.

Cash flows are included in the statement of cash flows 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.

#### j. 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%

Motor vehicles - 22.5%

#### *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.



## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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

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

#### **k. 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.

#### **l. Exploration expenditure**

Exploration and evaluation 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

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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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.

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.

#### **m. 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.

#### **n. 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.

#### **o. Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### **p. 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 provisions in respect of employees'

services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### *Long service leave*

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

##### *Share-based payment transactions*

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

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

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

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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The cost of equity-settled transactions is recognised as an expense in the statement of comprehensive income, 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.

#### q. **Issued Capital**

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.

#### r. **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.

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account in 2009 and 2010.

#### s. **Foreign Currency Translation**

##### *Functional and presentation currency*

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

##### *Transactions and balances*

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

##### *Group companies*

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of comprehensive income are

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

#### t. **Joint Venture**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation. The Group has entered into a number of Joint Ventures with various parties to explore certain tenements that the Group has beneficial interest in. A full list of these JV's, as well as the parties involved, can be found in note 29.

#### u. **Adoption of New and Revised Accounting Standards**

During the current year the Consolidated group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations that became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact that adoption of these standards and interpretations has had on the financial statements.

#### **AASB 3: Business Combinations**

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes only apply to business combinations first recognised after 1 July 2009.

##### *Recognition and measurement impact*

**Recognition of acquisition costs** - The revised standard requires that all acquisition costs are expensed in the period in which they occur. Previously these costs were capitalised as part of the cost of the business combination.

**Measurement of contingent consideration** - The revised standard requires that contingent consideration associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of expected payment. Any subsequent changes in the fair value or probability of settlement are recognised in the statement of comprehensive income, except to the extent that they relate to conditions that existed at the date of acquisition and that are identified during any "Measurement period." In

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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this case the cost of acquisition is adjusted. The previous version of the standard allowed such changes to be recognised as a cost of the combination impacting goodwill.

#### *AASB 8: Operating Segments*

In February 2007, the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. Consequently, some of the required operating segment disclosures have changed. In addition, there is a possible impact on the impairment testing of goodwill allocated to cash generating units (CGUs) of the entity. Set out below is an overview of the key changes and the impact on the Consolidated group's financial statements.

Identification and measurement of segments - AASB 8 requires a "management approach" to the identification, measurement and disclosure of operating segments. This approach requires that segments are identified on the basis of internal reports that are regularly reviewed by management, for the purpose of allocating resources and assessing performance.

Unlike AASB 114 this could identify segments that primarily or exclusively sell to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered. The adoption of the management approach to segment reporting has identified reportable segments largely consistent with the prior year.

#### *AASB 101: Presentation of Financial Statements*

In September 2007, the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. An overview of the key impacts on the Consolidated group's financial statements is set out below.

Terminology changes - The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements and the change of the term "minority interests" to "non-controlling interests."

Reporting changes in equity - The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be recognised in the statement of changes in equity, with all other changes in equity to be recognised in a new statement of comprehensive income. Previously, all changes in equity were recognised in the statement of changes in equity.

Statement of comprehensive income - The revised standard requires that all income and expenses are presented in either a single statement of comprehensive income or in two statements, one being a separate income statement as well as a new statement of comprehensive income. Previously, only an income statement was required. The Consolidated group has adopted

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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the two statement approach and the financial statements now include a statement of comprehensive income as well as a separate income statement.

Other comprehensive income - The revised standard introduces the concept of "other comprehensive income" which comprises income and expenses that are not recognised in profit or loss as required by Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

#### v. **New accounting standards for application in future periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

*AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a) the objective of the entity's business model for managing the financial assets;
  - and
  - b) the characteristics of the contractual cash flows.

*AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).*

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

*AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).*

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

*AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).*

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

*AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).*

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

*AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).*

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.



## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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*AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).*

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

*AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).*

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

*AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).*

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

*AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).*

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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#### w. Critical Accounting Estimates and Judgments

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

##### *Key Estimates — Exploration and evaluation*

The Group's policy for exploration and evaluation is discussed in note 2(l). The application of this policy requires management to make certain assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploration, then the relevant capitalised amount will be written off through the statement of comprehensive income. Refer to note 11 for further details and a reconciliation of the capitalised expenditure written off during the year.

### 3. OPERATING SEGMENTS

The Group has adopted AASB 8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor Standard (AASB 114 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risk rewards approach, with the entity's 'system of internal financial reporting to 'key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed.

Segment information reported externally was analysed on the basis of the business segments encountered by Petratherm (namely Exploration in both Australia and Spain). However, information reported to the Company's Managing Director for the purposes of resources allocation and assessment of performance is more specifically focused on the areas in which the Group is exploring in Australia and Spain, as well as the Company's Paralana Project. The Group's reportable segments under AASB 8 are therefore as follows:

- Exploration activities - Paralana Project
- Exploration activities - Australia (Other);and
- Exploration activities - Spain.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	Segment Revenue		Segment Result	
	Year ended		Year ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
Paralana Project	70,599	-	-	-
Australia (Other)	-	-	(79,033)	(1,053,078)
Spain	-	-	-	-
	70,599	-	(79,033)	(1,053,078)
Administration/Corporate	205,905	185,296	(3,490,302)	(2,396,440)
Finance Costs	-	-	(2,827)	-
Depreciation	-	-	(68,657)	(61,905)
Consolidated revenue	276,503	185,296		
Profit/(Loss) before income tax			(3,640,819)	(3,511,423)
Income tax benefit			164,148	363,844
Profit/(Loss) for period			(3,476,671)	(3,147,579)

The revenue reported above represents revenue generated from financial institutions and joint venture partners. There were no intersegment sales during the period.

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs, depreciation and income tax (expense)/benefit. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

#### *Segment Assets and Liabilities*

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location. The Group has not reported on segment liabilities as such amounts are not regularly provided to the chief operating decision maker. The following is an analysis of the Group's assets by reportable operating segment.

	Opening Balance	Exploration Expenditure	Impairment	Closing Balance
	\$	\$	\$	\$
Paralana Project	3,300,742	11,708,194	-	15,008,936
Australia (Other)	123,965	80,823	(79,033)	125,755
Spain	2,124,665	423,910	-	2,548,575
Total segment assets	5,549,372	12,212,927	(79,033)	17,683,266
Other				
Administration/Corporate (i)	15,571,051			4,615,478
	21,120,423			22,298,744

(i) Administration assets largely relate to unallocated cash assets.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	Opening Balance 1/07/2008 \$	Exploration Expenditure \$	Impairment \$	Closing Balance 30/06/2009 \$
Australia (Other)	1,072,111	104,932	(1,053,078)	123,965
Paralana Project	2,379,863	920,879		3,300,742
Spain	1,849,425	275,240	-	2,124,665
Total segment assets	5,301,399	1,301,051	(1,053,078)	5,549,372
Other				
Administration/Corporate (i)	5,052,487			15,571,051
	<u>10,353,886</u>			<u>21,120,423</u>

(i) Administration assets largely relate to unallocated cash assets.

#### 4. REVENUE AND EXPENSES

##### (a) Revenue and other income

Bank interest received or receivable	205,904	185,296
Management Fees	70,599	-
	<u>276,503</u>	<u>185,296</u>

##### (b) Expenses

###### *Impairment of non-current assets*

Capitalised tenement costs written off	79,033	1,053,078
Total impairment of non-current assets	<u>79,033</u>	<u>1,053,078</u>

###### *Depreciation of non-current assets*

Plant and equipment	68,657	61,905
Total depreciation	<u>68,657</u>	<u>61,905</u>

###### *Borrowing Costs*

Hire-Purchase Interest	2,827	-
Total borrowing costs	<u>2,827</u>	<u>-</u>

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>(c) Employees benefits expense</b>		
Wages, salaries, directors fees and other remuneration expenses	993,517	754,906
Superannuation	101,388	113,718
Transfer to/(from) annual leave provision	15,914	12,562
Transfer to/(from) long service leave	14,327	11,028
Share-based payments expense	645,302	327,453
	<b>1,770,448</b>	<b>1,219,667</b>
<b>(d) Other expenses from ordinary activities</b>		
Secretarial, professional and consultancy	301,172	205,334
Travel expenses	178,991	141,293
Recruitment expenses	77,545	28,351
Promotion and advertising	100,723	134,754
Occupancy costs	114,956	75,471
Share register maintenance	44,195	46,766
Insurance costs	37,917	48,237
Payroll tax	42,444	46,766
Conference & seminars	27,484	14,952
Entertainment	28,163	31,179
AGM expenses	57,954	30,560
Audit fees	42,173	28,000
Listing fees	24,049	19,420
Subscriptions and publications	89,891	62,383
Legal fees	35,335	32,670
ASX	9,386	7,249
Bank Charges	6,024	6,210
Communication & computer expenses	70,814	29,018
Office expenses	115,098	113,588
Other expenses	592,043	259,868
	<b>1,996,357</b>	<b>1,362,069</b>

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### 5. INCOME TAX

	Consolidated	
	2010	2009
	\$	\$
The major components of income tax expense are:		
<i>Current income tax</i>		
Current income tax charge/(benefit)	88,891	108,710
R&D Tax offset	(253,039)	(472,554)
Income tax expense/(benefit) reported in the income statement	(164,148)	(363,844)

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before income tax	(3,476,671)	(3,147,579)
At the Group's statutory income tax rate of 30% (2009: 30%)	(1,053,427)	(944,274)
Expenditure not allowable for income tax purposes	250,366	762,952
Other deductible items	3,645,342	(477,101)
Tax losses not recognised due to not meeting recognition criteria	(2,842,281)	658,423
Tax portion of share issue costs	88,891	108,710
	88,891	108,710

The Group may have tax losses arising in Australia of \$23,144,657 (2009: \$8,187,251) that are available for offset against future taxable profits of the companies in which the losses arose.

No DTA has been recognised because it's not likely future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised.

#### Tax consolidation

Petratherm Limited and its wholly-owned Australian controlled entity (MNGI Pty Limited) have not yet decided to implement the tax consolidation legislation as of 1 July 2008. 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(h), 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 accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Net loss from continued operations	(3,854,786)	(3,147,579)
	<b>2010</b>	<b>2010</b>
Weighted average number of ordinary shares for basic earnings per share	97,499,705	62,859,755
Effect of dilution	N/A	N/A
Weighted average number of ordinary shares adjusted for the	97,499,705	62,859,755

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 2009 and 2010.

## 7. CASH AND CASH EQUIVALENTS

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	2,539,750	12,854,602
Short-term deposits	177,000	147,450
	2,716,750	13,002,052

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 Statement of Cash Flows

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

Cash at banks and in hand	2,539,750	12,854,602
Short-term deposits	177,000	147,450
	2,716,750	13,002,052

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation of net profit/(loss) after tax to net cash flows from operations</b>		
Net loss	(3,476,671)	(3,147,579)
<i>Adjustments for non-cash items:</i>		
Depreciation	68,657	61,905
Impairment of non-current assets	79,033	1,053,078
Non cash income tax expense	(164,148)	108,710
Grants classified as an investing activity	-	(175,000)
Share options expensed	645,302	327,453
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(682,281)	(94,941)
(Increase)/decrease in prepayments	740	(15,249)
(Decrease)/increase in trade and other payables	338,326	(41,875)
(Decrease)/increase in employee	550,781	32,445
(Decrease)/increase in net goods and service tax receivable	851,519	444,848
Net cash from operating activities	<u>(1,788,742)</u>	<u>(1,446,205)</u>
<b>8. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables (i)	9,872	107,984
Goods & Services Tax receivable	133,448	77,454
JV Contributions receivable	1,492,098	2,132,261
	<u>1,635,418</u>	<u>2,317,699</u>

- i). Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No impairment was recognised in 2009 or 2010 and no receivables are past due at balance date.



## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>9. OTHER CURRENT ASSETS</b>		
Prepayments	58,372	58,964
Accrued income	2,312	980
	<b>60,684</b>	<b>59,944</b>
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>Plant and equipment</b>		
<u>Cost</u>		
Balance at 1 July	305,235	187,399
Additions	79,928	117,836
Balance at 30 June	<b>385,163</b>	<b>305,235</b>
<u>Accumulated Depreciation</u>		
Balance at 1 July	113,879	51,974
Depreciation for the year	68,657	61,905
Balance at 30 June	<b>182,536</b>	<b>113,879</b>
<b>Total net book value as at 30 June</b>	<b>202,627</b>	<b>191,356</b>

#### *Impairment of property, plant and equipment*

No material impairment loss was recognised or reversed for the year ended 30 June 2009 and 2010 with respect to plant and equipment.

The depreciation rate of the assets was estimated as follows both for 2009 and 2010:  
Plant and equipment 10 - 40%.

### 11. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs carried forward in respect of Geothermal areas of interest

Exploration and evaluation phases	17,683,266	5,549,372
	<b>17,683,266</b>	<b>5,549,372</b>

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 geothermal areas.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

Consolidated entity	Total
Capitalised tenement expenditure movement reconciliation	
Balance at the beginning of the year	5,549,372
Additions through expenditure capitalised	12,212,927
Write off of tenements relinquished	(79,033)
Balance at end of year	<u>17,683,266</u>

The impairment expense of \$79,033 arose from a review of the Group's capitalised costs and the relevant tenements to which the costs related. Costs written off related to tenements relinquished during the year.

## 12. SHARE-BASED PAYMENTS

### Employee Share Option Plan

The Group has established the Petratherm Limited 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 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 Group 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.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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

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

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

	2010 No.	2010 WAEF	2009 No.	2009 WAEF
Outstanding at the beginning of the year	2,290,000	0.63	1,800,000	0.60
Granted during the year	1,135,000	0.50	1,150,000	0.62
Forfeited during the year	(680,000)	0.69	(170,000)	0.44
Exercised during the year	(30,000)	0.32	(490,000)	0.22
Outstanding at the end of the year	2,715,000	0.56	2,290,000	0.63
Exercisable at the end of the year	2,715,000	0.56	2,290,000	0.63

The outstanding balance as at 30 June 2010 is represented by:

- A total of 200,000 options exercisable any time until 21 May 2011 with a strike price of \$0.32
- A total of 200,000 options exercisable any time until 21 May 2011 with a strike price of \$0.37
- A total of 100,000 options exercisable any time until 1 January 2012 with a strike price of \$0.53
- A total of 40,000 options exercisable any time until 4 March 2012 with a strike price of \$0.91
- A total of 20,000 options exercisable any time until 21 March 2012 with a strike price of \$0.91
- A total of 440,000 options exercisable any time until 31 May 2012 with a strike price of \$0.90
- A total of 90,000 options exercisable any time until 7 January 2013 with a strike price of \$1.20
- A total of 15,000 options exercisable any time until 31 August 2013 with a strike price of \$0.67
- A total of 50,000 options exercisable any time until 31 August 2013 with a strike price of \$0.56
- A total of 350,000 options exercisable any time until 27 November 2013 with a strike price of \$1.20
- A total of 75,000 options exercisable any time until 30 June 2014 with a strike price of \$1.20
- A total of 60,000 options exercisable any time until 23 November 2014 with a strike price of \$0.50
- A total of 1,000,000 options exercisable any time until 23 December 2014 with a strike price of \$0.50

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

- A total of 75,000 options exercisable any time until 19 April 2015 with a strike price of \$0.38

#### *Contractual life of options*

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 3.21 (2009: 3.30 years).

#### *Exercise price of options*

The range of exercise prices for options outstanding at the end of the year was \$0.32-\$1.20 (2009: \$0.32-\$1.20).

#### *Fair value of options*

The weighted average fair value of options granted during the year was \$0.50 (2009: \$0.57)

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 2009 and 30 June 2010:

	<b>2010</b>	<b>2009</b>
Historical volatility (%)	73.38%	82.10%
Risk-free interest rate (%)	5.32%	5.21%
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.

#### **Director Options**

The Group issues options to directors in order to retain their services and provide incentive linked to the performance of the Company. Shareholder approval is sought for all options issued to directors in accordance with applicable legislation.

During the year, the Group issued a total of 3,600,000 options to directors and 300,000 to the company secretary. Full details of option holdings of directors and company secretary are disclosed in the remuneration report and note 27. The fair value of the equity-settled share options granted to directors is calculated using the method detailed above. The following table lists the inputs to the model used for the year ended 30 June 2010 (there were no director options issued and valued in the year ended 30 June 2009):

	<b>2010</b>
Historical volatility (%)	76.63%
Risk-free interest rate (%)	5%
Expected life of option (years)	5

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### 13. TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	\$	\$
Trade payables (i)	817,793	295,397
Goods & Services Tax Payable	18,552	-
Other Payables	1,434,813	4,226,744
	2,271,158	4,522,141

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

#### 14. DEFERED INCOME

Income received in advance	-	683,611
	-	683,611

#### 15. BORROWINGS

##### Current

Hire purchase contracts	6,585	6,032
	6,585	6,032

##### Non-current

Hire purchase contracts	26,898	33,783
	26,898	33,783

#### 16. PROVISIONS

##### Current

Annual leave provision		
Balance at 1 July	88,840	121,000
Transfer to/ (from) provision	29,621	(32,160)
Closing Balance 30 June	118,461	88,840

##### Non-current

Long Service Leave:		
Balance at 1 July	74,133	9,529
Transfer to/ (from) provision	14,328	64,604
Closing Balance 30 June	88,461	74,133

##### *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(p) to this report.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### *Provision for Current Employee Benefits*

A provision has been recognised for employee entitlements relating to annual leave. Annual leave is expected to be settled within 12 months of the reporting date

## 17. OTHER NON-CURRENT LIABILITIES

	Consolidated	
	2010	2009
	\$	\$
Deferred Government Grants	2,898,000	-
	2,898,000	-

## 18. ISSUED CAPITAL

#### Issued capital

111,711,583 fully paid ordinary shares  
(2009: 92,213,673)

27,434,757	23,048,738
27,434,757	23,048,738

	2010		2009	
	Number	\$	Number	\$
Balance at beginning of financial year	92,213,673	23,048,738	57,874,626	14,228,516
Issued pursuant to share purchase plan @ 24 cents per share	14,003,910	3,361,000	16,612,797	4,319,500
Shares issued via placement @ 24 cents per share	3,214,000	771,360	9,636,250	3,083,600
Issue of shares for cash on exercise of share options @ various prices	2,280,000	459,600	8,090,000	1,628,800
Transaction costs on share issue	-	(296,302)	-	(362,368)
Tax portion of capital raising costs	-	88,891	-	108,710
Transfer from share option reserve	-	1,470	-	41,980
Balance at end of financial year	111,711,583	27,434,757	92,213,673	23,048,738

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

## 19. RESERVES

#### *Share option reserve*

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

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### *Foreign currency translation reserve*

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as discussed in note 1(s).

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Reserves</b>		
Foreign currency translation	(563,413)	(185,298)
Share option reserve	1,217,180	814,149
	<u>653,767</u>	<u>628,851</u>
<b>Foreign currency translation</b>		
Balance at beginning of financial year	(185,298)	(7,419)
Foreign exchange translations	(378,115)	(177,879)
Balance at end of financial year	<u>(563,413)</u>	<u>(185,298)</u>
<b>Share option reserve</b>		
Balance at beginning of financial year	814,149	587,735
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	(243,035)	(59,060)
Issue of Share Options	647,536	327,454
Transfer to share capital upon conversion of options	(1,470)	(41,980)
Balance at end of financial year	<u>1,217,180</u>	<u>814,149</u>
<b>20. RETAINED EARNINGS</b>		
Balance at beginning of financial year	(7,965,706)	(4,877,186)
Net profit attributable to members of the parent entity	(3,476,671)	(3,147,579)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	243,035	59,060
Balance at end of financial year	<u>(11,199,342)</u>	<u>(7,965,706)</u>
<b>21. MINORITY INTEREST</b>		
Contributed capital	344	344
Retained losses	(344)	(344)
Balance at end of financial year	<u>-</u>	<u>-</u>

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### 22. COMMITMENTS FOR EXPENDITURE

##### Operating leases

Not longer than 1 year	123,060	112,548
Longer than 1 year and not longer than 5 years	390,265	493,925
Longer than 5 years	-	-
	<u>513,325</u>	<u>606,473</u>

##### Hire purchase commitments

Not longer than 1 year	6,585	9,159
Longer than 1 year and not longer than 5 years	26,898	27,477
Longer than 5 years	-	-
	<u>33,483</u>	<u>36,636</u>

##### Terms of lease arrangements

The Group has operating leases in place for plant and equipment and its principal place of business. The plant and equipment lease has 4 year lease and the principal place of business having a 5 year lease. Both leases have terms of renewal and the lease for the Group's principal place of residence has an escalation clause linked to CPI.

##### Hire purchase arrangements

Future minimum lease payments under hire purchase contracts together with the present value of the net minimum payments are listed above in the above table.

##### Exploration leases

In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay \$5,780,00 in respect of tenement lease rentals and to meet minimum expenditure requirements.

#### 23. 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. It is however noted that the Company has entered into various bank guarantees with a number of State Governments in Australia, totalling \$177,543 at 30 June 2010. These guarantees are designed to act as collateral over the tenements which Petratherm explores on and can be used by the relevant Government authorities in the event that Petratherm does not sufficiently rehabilitate the land it explores. It is noted that the bank guarantees have as at the date of signing this report have not been utilised by any State Government.



## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### 24. AUDITOR'S REMUNERATION

	Consolidated	
	2010	2009
	\$	\$
Audit or review of financial report	42,173	28,000
	42,173	28,000

No other services have been provided

#### 25. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2010 %*	2009 %*
<u>Parent entity</u> Petratherm Ltd	Australia		
<u>Subsidiary</u> MNGI Pty Ltd	Australia	100	100
<u>Subsidiary</u> Heliotherm Ltd	Australia	100	-
<u>Subsidiary</u> PTR Holdings BV	Netherlands	100	100
<u>Subsidiary</u> Petratherm Espana SL	Spain	93	93

\* Percentage of voting power is in proportion to ownership

#### 26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

##### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 18, 19 and 20 respectively.

Proceeds from share issues are used to maintain and expand the Group's exploration activities and fund operating costs.

There are no externally imposed capital requirements.

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### Categories of financial instruments

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	2,716,750	13,002,052
Trade and other receivables	1,635,418	2,317,699
<b>Financial Liabilities</b>		
Trade and other payables	2,271,158	4,522,141

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from activities.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves.

#### Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Non-interest bearing financial liabilities are generally settled on 60-day terms.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

	< 1year \$	> 1 - <5 years \$	Non-Interest Bearing \$	Total \$
<b>Year ended 30 June 2010</b>				
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Trade and Other Payables	-	-	2,271,158	2,271,158
Weighted average effective interest rate	-	-	-	-
<b>Year ended 30 June 2009</b>				
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Trade and Other Payables	-	-	4,522,141	4,522,141
Weighted average effective interest rate	-	-	-	-

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period. Non-interest bearing financial assets are generally issued on 30-90 day terms

	< 1year \$	> 1 - <5 years \$	Non-Interest Bearing \$	Total \$
<b>Year ended 30 June 2010</b>				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Cash assets	177,000	-	-	177,000
Receivables	-	-	1,635,418	1,635,418
Weighted average effective interest rate	<b>4.24%</b>	-	-	-
<i>Floating rate</i>				
Cash assets	2,539,750	-	-	2,539,750
Weighted average effective interest rate	<b>4.50%</b>	-	-	-
<b>Year ended 30 June 2009</b>				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Term Deposits	147,450	-	-	147,450
Receivables	-	-	2,317,699	2,317,699
Weighted average effective interest rate	<b>5.94%</b>	-	-	-
<i>Floating rate</i>				
Cash assets	12,854,602	-	-	12,854,602
Weighted average effective interest rate	<b>4.25%</b>	-	-	-

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net loss would increase or decrease by \$135,838 which is mainly attributable to the

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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Group's exposure to interest rates on its variable bank deposits.

#### 27. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

##### Payments to related parties

HLB Mann Judd (SA) Pty Limited has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$160,875 (2009: \$147,464). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited. \$42,618 remains outstanding at year end.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of \$90,250 (2009:\$90,581) during the year. \$11,224 remains outstanding at year end.

Professor Richard Hillis has a consultancy agreement with the Company and received geological consulting fees of \$24,525. \$1,998 remains outstanding at year end.

Throughout the year, Petratherm Limited was invoiced by a director related entity Minotaur Exploration Limited, for the provision of technical staff and equipment, as well as reimbursements for expenditure jointly incurred. Mr Carter & Mr Bonython are directors of Minotaur. These transactions were undertaken on arms length basis and in aggregate for the year ended 30 June 2010 totalled \$2,349 (2009:\$43,778) \$1,633 remains outstanding at year end.

All related party transactions are conducted as commercial rates on all arms length basis.

##### Key management personnel remuneration and equity holdings

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

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

All remuneration paid to directors and executives is expensed as incurred. Executives are also entitled to participate in the Company share option scheme. Options are valued using the Black-Scholes methodology. The board policy is to remunerate non-executive directors at market rates based on comparable companies for time, commitment and responsibilities. The board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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The following individuals are classified as key management personnel in accordance with AASB 124 'Related Party Disclosures':

Derek Carter (Chairman)  
 Terry Kallis (Managing Director)  
 Richard Bonython (Non-Executive Director)  
 Richard Hillis (Non-Executive Director)  
 Simon O'Loughlin (Non-Executive Director)  
 Lewis Owens (Non-Executive Director)  
 Donald Stephens (Company Secretary)  
 Peter Reid (Exploration Manager)  
 Jonathan Teubner (Business Development Manager)  
 John King (Paralana Project Manager)

The remuneration details of the above personnel can be found in the body of the directors' report. The totals of remuneration paid to key management personnel of the Group during the year are as follows :

	2010	2009
	\$	\$
<b>Consolidated group</b>		
Short-term employee benefits	879,517	886,927
Post employment benefits	69,388	75,530
Share-based payments	502,500	431,628
	<u>1,451,405</u>	<u>1,394,085</u>

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### Option holdings of Key Management Personnel

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised	Options Lapsed	Balance at end of period	Expiry date	First exercise date	Last exercise date
<b>Directors</b>								
Terry Kallis	650,000	-	-	-	650,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Terry Kallis	-	1,000,000	-	-	1,000,000	04/01/15	03/06/10	04/01/15
Derek Carter	-	600,000	-	-	600,000	04/01/15	03/06/10	04/01/15
Richard Bonython	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
Lewis Owens	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
Richard Hillis	-	650,000	-	-	650,000	04/01/15	03/06/10	04/01/15
Richard Hillis	200,000	-	-	-	200,000	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	-	450,000	-	-	450,000	04/01/15	03/06/10	04/01/15
<b>Executives</b>								
Donald Stephens	250,000	-	(250,000)	-	-	27/07/09	28/07/05	27/07/09
Donald Stephens	-	300,000	-	-	300,000	03/01/15	05/01/10	03/01/15
Peter Reid	-	150,000	-	-	150,000	23/12/14	24/12/09	23/12/14
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Peter Reid	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
John King	400,000	-	-	(400,000)	-	06/07/13	07/07/09	06/07/13
Jonathan Teubner	-	300,000	-	-	300,000	23/12/14	24/12/09	23/12/14
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
Jonathan Teubner	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
	3,350,000	4,350,000	(250,000)	(400,000)	7,050,000			

\* A total 2,600,000 unlisted options issued to the Directors of the Board (excluding the Managing Director), with the terms being 5 year options exercisable at any time until 4 January 2015 with a exercise price of \$0.24. In addition to this, 1,000,000 unlisted options were issued to the Managing Director in two tranches of 500,000. The first tranche has terms being 5 year options exercisable at any time until 4 January 2015, with an exercise

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

price of \$0.24. The second tranche has terms being 5 year options exercisable at any time until 4 January 2015, with an exercise price of \$0.29. The company secretary received 300,000 unlisted options being 5 year options exercisable at any time until 3 January 2015 with a exercise price of \$0.53. Key Management Personnel received 450,000 unlisted options being 5 year options exercisable at any time until 23 December 2014 with a exercise price of \$0.50.

\*\* \$50,000 was raised through directors and consultants exercising 250,000 options at \$0.20 cents during the financial year ending June 2010.

\*\*\* The reduction in options held by KMP relates to the expiry or lapse of unexercised options.

30 June 2009	Balance at beginning of period	Granted as remuneration	Options exercised	Options Lapsed	Balance at end of period	Expiry date	First exercise date	Last exercise date
<b>Directors</b>								
Terry Kallis	650,000	-	-	-	650,000	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
Richard Hillis	200,000	-	-	-	200,000	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	200,000	-	(200,000)	-	-	04/04/09	05/04/04	04/04/09
<b>Executives</b>								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	(400,000)	-	-	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Peter Reid	-	100,000	-	-	100,000	27/11/13	28/11/08	27/11/13
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
Jonathan Teubner	-	100,000	-	-	100,000	27/11/13	28/11/08	27/11/13
John King	-	400,000	-	-	400,000	06/07/13	07/07/09	06/07/13
	5,750,000	600,000	(3,000,000)	-	3,350,000			

\* A total of 3,000,000 unlisted options were exercised by directors at \$0.20 per unlisted option raising \$600,000

*The accompanying notes form part of these financial statements*

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### Share holdings of Key Management Personnel

	30 June 2010	Balance at 1 July 09	On Exercise of Options	Net Change Other	Balance 30 June 10
<b>Directors</b>					
Terry Kallis		119,230	-	31,250	150,480
Derek Carter		1,266,250	-	62,500	1,328,750
Richard Bonython		1,106,440	-	124,998	1,231,438
Lewis Owens		-	-	72,500	72,500
Richard Hillis		120,000	-	62,500	182,500
Simon O'Loughlin		325,000	-	33,333	358,333
<b>Executives</b>					
Peter Reid		389,230	-	-	389,230
Jonathan Teubner		-	-	-	-
Donald Stephens		-	-	-	-
John King		-	-	-	-
	30 June 2009	Balance at 1 July 08	On Exercise of Options	Net Change Other	Balance 30 June 09
<b>Directors</b>					
Terry Kallis		100,000	-	19,230	119,230
Derek Carter		66,250	1,200,000	-	1,266,250
Richard Bonython		532,500	500,000	73,940	1,106,440
Lloyd Taylor		300,000	400,000	(700,000)	-
Richard Hillis		20,000	300,000	(200,000)	120,000
Simon O'Loughlin		125,000	200,000	-	325,000
<b>Executives</b>					
Peter Reid		34,918	400,000	(45,688)	389,230
Jonathan Teubner		-	-	-	-
Donald Stephens		-	-	-	-
John King		-	-	-	-

*The accompanying notes form part of these financial statements*



## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

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#### Wholly owned Group transactions

##### Loans

The wholly owned Group consists of Petratherm Limited and its wholly owned controlled entity MNGI Pty Limited, Heliotherm Limited, PTR Holdings BV and majority owned Petratherm Espana SL. Ownership interests in the controlled entity are set out in note 25. Transactions between Petratherm Limited and its subsidiary's during the year consisted of loans advanced by Petratherm Limited to fund exploration and investment activities. The closing value of the loan to its wholly owned subsidiary is contained within the statement of financial position under current assets. Intercompany and cash movements throughout the year are detailed within the body of the statement of cash flows under 'Loans to wholly-owned subsidiary'.

#### 28. SUBSEQUENT EVENTS

On the 6 July the Group issued 1,535,000 options to employees under the Petratherm ESOP plan.

On the 16 July Petratherm announced that the \$62.8 million grant Funding Deed under the Commonwealth Government's Renewable Energy Demonstration Program (REDP) has been executed.

#### 29. ADDITIONAL INFORMATION (JOINT VENTURES)

- Beach Energy Limited is an oil & gas company that farmed-in to the Paralana Project in January 2007. Beach can earn up to 36% of the project for \$30 million plus their equity share of project costs.
- TRUenergy Geothermal farmed-in to the Paralana Project in August 2008. TRUenergy Geothermal can earn up to 30% of the project for \$57 million plus their equity share of project costs.

## Notes to the Financial Statements

### FOR THE YEAR ENDED 30 JUNE 2010

#### 30. PARENT ENTITY INFORMATION

	Parent	
	2010	2009
	\$	\$
<b>Financial Position</b>		
<b>Assets</b>		
Current Assets	16,820,053	15,702,875
Non-current Assets	527,062	480,027
	17,347,115	16,182,902
<b>Liabilities</b>		
Current Liabilities	342,574	363,103
Non-current Liabilities	115,359	10,796
	457,933	373,899
<b>Equity</b>		
Issued Capital	27,434,757	23,048,738
Reserves	1,217,180	814,148
Retained Earnings	(11,762,755)	(8,151,003)
	16,889,182	15,711,883
<b>Financial Position</b>		
(Loss) for the year	(3,852,556)	(3,325,458)
Other comprehensive income	-	-
	(3,852,556)	(3,325,458)

#### Contingent Liabilities

Contingent liabilities of the parent entity have been incorporated into the Group information in note 23. The contingent liabilities of the parent are consistent with that of the Group.

#### Contractual Commitments

Contractual Commitments of the parent entity relating to operating and hire purchase have been incorporated into the Group information in note 22. The parent entity does not have exploration lease commitments.

#### 31. GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of a going concern.

The cash flow projections of the Group indicate that Group is reliant on the completion of a capital raising for continued operations. The Group will be seeking to raise equity to fund operations, including exploration and working capital.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the annual financial report.

*The accompanying notes form part of these financial statements*

## Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 20 to 74, are in accordance with the Corporations Act 2001 and:
  - a. comply with Australian Accounting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2010 and the performance for the year ended on that date of the Company and consolidated Group;
  - c. comply with International Financial Report Standards as disclosed in Note 2
  
2. the Managing Director and Company Secretary have each declared that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
  
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of Directors.



Terry Kallis  
Managing Director

Dated 30 September 2010

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRATHERM LTD**

### **Report on the financial report**

We have audited the accompanying financial report of Petratherm Ltd (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

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

### **Auditor's responsibility**

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

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRATHERM LTD Cont**

### **Auditor's responsibility Cont**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### **Independence**

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

### **Auditor's opinion**

In our opinion:

- a the financial report of Petratherm Ltd is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

### **Significant uncertainty regarding continuation as a going concern**

Without qualifying our opinion, we draw attention to Note 31 – Going Concern Basis of Accounting in the financial report. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF PETRATHERM LTD Cont**

**Report on the remuneration report**

We have audited the Remuneration Report included in pages 12 to 19 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the Remuneration Report of Petratherm Ltd for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



J L Humphrey  
Partner

Adelaide, 30 September 2010