GREEN ROCK ENERGY LIMITED

ABN 59 094 551 336

Annual financial report for the year ended 30 June 2007

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Corporate governance statement

INTRODUCTION

The Board of Directors of Green Rock Energy Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the consolidated entity on behalf of its shareholders by whom they are elected and to whom they are accountable.

In line with the above the Board has put in place a Board Charter. This charter sets out the way forward for the Company in its implementation of the ASX eight essential *Corporate Governance Principles and Recommendations.*

As in the prior year, the approach taken by the Board was to set the blue print for the consolidated entity to follow as it introduces elements of the governance process.

Due to the size of the consolidated entity and the scale of its operations, it has been neither practical nor economic for the full implementation of all the best practice recommendations.

SKILLS, EXPERENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR

A profile of each director, containing applicable information, is set out in the Directors' Report on page 2.

IDENTIFICATION OF INDEPENDENT DIRECTORS

Mr. Scott Spencer and Dr Jörg Baumgärtner are independent directors.

In determining whether a non- executive director is independent the individual must satisfy the following criteria:

- Less than 10% of the shares of the Company are held by the director and any entity or individual directly or indirectly associated with the director.
- No sales are made to or purchases from any entity or individual associated with the director.
- None of the directors income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the entity other than income derived as a director of the entity.

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his /her office as a director, then, provided the director first obtains approval for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

NOMINATION COMMITTEE

The Company has adopted a Nomination Committee Charter which sets out the responsibilities of the Committee which, amongst other things, include recommending to the Board the criteria for Board membership, screening candidates for membership, member succession, Board performance review, ongoing development and reviewing policy in respect of tenure, remuneration and retirement.

The full Board carried out the functions of the Nomination Committee during the year but did not meet formally as a Nomination Committee. Relevant matters were discussed on an as and when basis during regular meetings of the Board.

AUDIT COMMITTEE

The full Board carries out the functions of the Audit Committee. The Board did not meet formally as the Audit Committee during the financial year. All matters were discussed on an as required basis during regular Board meetings.

It is envisaged that the same approach will be adopted during the forthcoming year with the full Board being charged with performing the role of Audit Committee as and when required.

Directors' report

Your directors submit their Annual Financial Report on the consolidated entity consisting of Green Rock Energy Limited and the entities that it controlled during the financial year ended 30 June 2007.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

Directors

Name	Particulars
Adrian Larking (Managing Director)	Mr Larking holds a BSc Hons, MSc, Dip. Imperial College (Royal School of Mines, London), LLB, degrees and a Graduate Diploma in Legal Practice. Additionally, he is a Fellow of the Australian Institute of Mining and Metallurgy. He is a geologist and resources lawyer with around 30 years experience in the minerals and petroleum industries in Australia and internationally. Much of his experience was gained while working for Western Mining Corporation Limited (now owned by BHP Billiton). In the three years prior to the date of this report Mr Larking held no directorship in any other public listed company. Date of appointment as Managing Director - 25 February 2005.
Alan Knights (Executive Director)	Mr Knights holds Bachelor of Economics and Master of Business Administration degrees. He is a Certified Practicing Accountant with 30 years experience in the finance and mining industries. He has held the position of Group Treasurer, Company Secretary and General Manager Finance at Western Mining Corporation Limited and Chief Financial Officer of Perilya Limited. Mr Knights' focus is on financial management and commercial development. In the three years prior to the date of this report, Mr Knights held no directorship in any other public listed company. Date of appointment as Non-Executive Director - 10 May 2005. Date of appointment as Executive Director – 21 November 2005.
Hugh Warner (Non-Executive Director)	Mr Warner holds a Bachelor of Economics degree. He has been involved with a number of private and publicly listed companies in Australia, United Kingdom, and Canada operating in the oil and gas, gold, diamonds and technology sectors. He contributes general corporate and company secretarial management skills and has a sound understanding of the requirements of both the Australian and United Kingdom stock exchanges. Mr Warner held directorships with the following public listed companies in the three years prior to the date of this report:

Company Name	Date Appointed	Date Resigned
Mobi Limited	24 December 2006	15 December 2004
Black Range Minerals Limited	8 January 2004	27 June 2005
Monitor Energy Limited	16 April 2004	22 December 2005
OBJ Limited	13 February 2004	4 November 2005
Deep Yellow Limited	20 August 2004	18 July 2005
Service Stream Limited	20 November 2003	27 July 2004
I M Medical Limited	28 November 2003	16 September 2004
RMG Limited	31 January 2006	4 April 2006
Toodyay Resources Limited	22 December 2005	4 April 2006

Date of appointment as a Non-Executive Director 21 September 2000.

Mr Warner resigned from the Board on 16 February 2007.

Scott Spencer

(Non-Executive Director)

Mr Spencer holds a BA Hons, BPhil and MLitt degrees.

He served in the Department of Foreign Affairs and had several senior foreign postings before appointment as Regional Director in Western Australia.

He was a Non-Executive Director of ASX /AIM listed Hardman Resources Limited where, as an Executive Director, he had been active in the establishment and funding of a portfolio of petroleum exploration assets. He is currently Non-Executive Chairman of Monitor Holdings Limited , an ASX listed oil and gas company.

Date of appointment as a Non-Executive Director - 29 November 2005.

Mr Spencer held directorships with the following listed companies in the 3 years immediately prior to the date of this report.

Name	Date Appointed	Date Resigned
Monitor Energy Ltd	22 December 2005	current
Hardman Resources Ltd	19 July 1994	12 April 2006

Jörg Baumgärtner

(Non- Executive Director)

Dr Baumgärtner is one of the world's leading experts on the development and production of geothermal energy from Enhanced Geothermal Systems (EGS) or Hot Dry Rocks.

He is based in Germany and is the Chief Executive Officer of BESTEC Gmbh and BESTEC Drilling Gmbh companies actively involved in European deep geothermal projects.

He is a member of both the Management and Supervisory boards of the Soultz Geothermal project in Soultz-sous-Florets, the foremost EGS project in Europe. His experience extends to the use of micro-seismic technologies and use of chemical tracers to monitor the development of the fracture network in granites.

Dr Baumgärtner was a researcher at the German Continental Deep Drilling Program at the Institute of Geophysics at the Ruhr University in Bochum, Germany and carried out post doctorate research at Stanford University in Palo Alto, California and at Dowell Schlumberger Inc. at Tulsa , Oklahoma, USA.

Date of appointment as Non-Executive Director – 25 April 2007.

In the three years prior to this report Dr Baumgärtner held no directorship in any other public listed company.

Company Secretary

Nigel Hodder

Mr Hodder holds a Bachelor of Commerce degree from Rhodes University (South Africa) and held the position of Corporate Secretary for the First Mutual group of companies in addition to performing executive management roles in the marketing, administration and property development divisions of the business.

He was appointed Company Secretary on 4 April 2005.

Corporate Structure

Green Rock Energy Limited is a company limited by shares, incorporated and domiciled in Australia. It listed on the Australian Securities Exchange on 10 December 2003 and is assigned the code GRK.

Its principal place of business and registered office is:

Unit 6, 38 Colin Street, West Perth, WA 6005, Australia.

Principal activities

The principal continuing activity of the consolidated entity during the financial year was the pursuit of geothermal energy resources and the development of low emission, base load, renewable energy.

South Australia
The Company has 7 Geothermal Exploration Licences (GELs) totalling 2,897 square kilometres and 2 Geothermal Exploration Licence Applications surrounding Olympic Dam Mine and the Roxby Downs township, where an underground heat anomaly is known to exist.

During the year the Company lodged applications for six new GELs in the Upper Spencer Gulf of South Australia. The licences cover the area from south of Whyalla on the Eyre Peninsula north of Port Augusta and then south along the east coast of the Spencer Gulf to below Port Pirie.

Green Rock Energy also applied for and was granted 3 GELs in the Cooper Basin area of South Australia. These licences cover a combined area of 1,483 sq kms and are positioned over the Patchawarra Trough in South Australia. This area contains geological formations which are prospective for high heat flows of hot geothermal water. The Patchawarra Trough is a structure containing thick aquifers in excess of 1,200 m at depths in excess of 3,000m.

Hungary
In the year under review the Company acquired all of the issued share capital of Vulcan Geothermal Pty Ltd which is the parent company of a Hungarian entity Green Rock (Vulcan) Energy Kft. (previously Vulcan Energy Kft). The Hungarian entity is party to an unincorporated joint operating agreement with MOL, a Hungarian oil and gas company, and ENEX hf an Icelandic geothermal consulting and geothermal energy developer. The joint operating agreement is for a project to develop geothermal energy, for the production of renewable electricity and /or the direct sale of heat .

Other
The Company plans to continue to meet its obligations under the terms of its farm-in arrangement with Siberia Mining Corporation Limited in the Waukarlycarly Telfer joint venture project where a reappraisal of the two tenements held resulted in some encouragement for uranium and gold prospectivity within these areas. Applications for exploration licences have not yet been granted.

Review of operations

During the year under review, the consolidated entity achieved the following:

Results and Position

The loss after accounting for tax for the year ended 30 June 2007 is $1,452,727 (2006: $502,932). Revenue from continuing activities was $87,222 (2006: $33,076). Total expenses increased from $1,049,129 in 2006 to $1,620,016. This increase reflects the expanded interests of the Company and its exploration activity in Hungary. Net assets at year end were $11,382,179 against $8,223,888 at the close of the prior year. Total cash held at year end was $981,818 (2006: $220,449).

Exploration Activities

Hungary

In October, Green Rock Energy Limited completed negotiations and entered into an agreement to acquire **Vulcan Geothermal Pty Ltd**, which holds a 32% interest in an unincorporated joint venture (" Joint Venture") to establish the first geothermal power plant in Central-Eastern Europe.

The joint ventures in the Joint Venture, in addition to Green Rock Energy Limited, are one of Hungary's largest companies, the Hungarian oil and gas company, **MOL** ("MOL"), which is also the operator of the Joint Venture, and **Enex hf** ("Enex"), a leading Icelandic geothermal consulting and development company.

During the year existing , but shut-in , or out-of-use, petroleum wells were selected for flow testing following an evaluation of around 70 shut in wells owned by MOL out of thousands of petroleum wells drilled in Hungary.

The first two wells (Ortaháza -3 & Ortaháza -5), located near Iklódbördöce (Zala County), in south-west Hungary, were tested for hot water production rates.

Ortaháza 5 well produced good temperatures and chemistry of the geothermal water and yielded water flow rates useable for direct heat sales but below what is needed for commercial production of electricity. Further testing of the wells has been put on hold. Work has commenced on the selection of the next project site.

Green Rock is claiming a refund of approximately $1.4 million , a major proportion of the funds expended by it on this project in preparing and carrying out the production testing. This refund is expected to be paid by the end of 2007 from the Geofund geological risk insurance which was provided to the project by the World Bank Group.

Olympic Dam

During the year Green Rock Energy Limited measured the temperature in several deep mineral holes, drilled during the quarter by BHP Billiton to around 2,300 metres depth at the Olympic Dam mine, only a few kilometres away from Green Rock's Blanche No 1 well. Temperatures and the geothermal gradient were marginally higher than Blanche No 1 well confirming the heat anomaly of the Olympic Dam area.

Studies of the stresses in Blanche No 1 were carried out by CSIRO with favourable results.

Board changes

On the 16 February 2007 Mr Hugh Warner tendered his resignation as a director of the Company.

On 24 March 2007 Dr Jörg Baumgärtner was appointed a non-executive director. Dr Baumgärtner will hold office until the next general meeting of the Company and will make himself available for re-election at that meeting.

Corporate matters

During December 2006 the Company received the sum $359,706 from the Australian Taxation Office under the Commonwealth Government's Research and Development Tax Concession Scheme in respect of eligible research undertaken in the 2005/6 tax year.

Changes in state of affairs

Changes in the state of affairs of the consolidated entity during the financial year were:

a) An increase in contributed equity of $4,403,667 (from $9,776,727 to $14,180,394) as a result of:

- Issue of 4,432,142 ordinary shares to institutional and sophisticated investors at a price of 7 cents each during August 2006.
- Issue of 3,500,000 ordinary fully paid shares and granted 3,500,000 options (unlisted) expiring on 28 November 2008 and exercisable at 15 cents each to the vendors, or their respective nominees, of Vulcan Geothermal Pty Ltd. The deemed value of the shares was 10.5 cents per share. Both the shares and the options were subject to an escrow period ending on 1 September 2007.
- A private placement of 6,700,000 shares at a price of 5 cents per share and grant of 3,350,000 free options exercisable at 10 cents per option and expiring on 18 April 2008 during December 2006.
- During December 2006 issued 65,000 fully paid shares at 20 cents each on exercise of 65,000 options expiring on 31 December 2007.
- During January 2007 a renounceable rights issue of 73,787,607 fully paid ordinary shares to eligible shareholders at 5 cents each plus 36,893,810 free options expiring on 18 April 2008 exercisable at 10 cents each.

b) The total number of ordinary shares on issue and the number of 18 April 2008 options at 30 June 2007 were 147,640,214 (2006: 59,155,465) and 40,243,810 respectively. Unlisted options issued totaled 6,500,000.

Subsequent events

On 4 September 2007 the Company issued 12,000,000 shares to sophisticated investors at an issue price of 11 cents per share. The capital raised amounted to $1,320,000 (before costs) and will be used to supplement working capital.

On 9 August 2007 the Company issued 300,000 incentive options exercisable at 15 cents and expiring on 9 August 2011.

On 9 August 2007 the Company issued 1,000,000 incentive options exercisable at 15 cents and expiring on 9 August 2010 .

Except for the above, no other matters or circumstances, other than that referred to in the financial statements or notes thereto, have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information concerning likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, information of this nature has not been disclosed in this report.

Environmental regulations

The exploration activities of entities in the consolidated entity are subject to environmental regulations imposed by various regulatory authorities, particularly those relating to ground disturbance and the protection of rare and endangered flora and fauna.

Entities in the consolidated entity have complied with all environmental requirements up to the date of this report.

Dividends

No dividends were paid or declared by the Company since the end of the previous financial year.

Share Options

Share options granted to directors and executives

During and since the end of the financial year the following share options were granted to directors or executives of the Company.

Mr Alan Knights (Executive Director) - 2,000,000 options granted on 21 November 2006 which are exercisable at 25 cents each and expire on 21 November 2009. The options vest 50% on 21 November 2006 with the balance vesting on 21 November 2007. The grant of these options was approved by shareholders at the 2006 Annual General Meeting held on 28 November 2006.

Mr Scott Spencer (Non-Executive Director) - 500,000 options granted on 21 November 2006 which are exercisable at 25 cents each and expire on 21 November 2009. 50% of the options granted vest on 21 November 2006 with the balance vesting on 21 November 2007. The grant of these options was approved by shareholders at the 2006 Annual General Meeting held on 28 November 2006.

Mr Nigel Hodder (Company Secretary) - 500,000 options on 20 March 2007 with an exercise price of 7 cents each and expiring on 9 March 2011. The options vest 50% on 9 March 2008 with the remainder vesting on 9 March 2009. A further 300,000 options were granted to Mr Hodder on 9 August 2007, are exercisable at 15 cents and expire on 9 August 2011.

The total number of options granted to directors and executives during the year under review were 3,000,000.

Share options on issue

As at the end of the year, total un-issued ordinary shares under option were as follows:

Grant date	Expiry date	Exercise price	Number under option
28 November 2007 (unlisted)	28 November 2008	15 cents	3,500,000
21 November 2006 (unlisted)	21 November 2009	25 cents	2,500,000
6 February 2007 (listed)	18 April 2008	10 cents	40,243,810
6 February 2007 (unlisted)	9 March 2011	7 cents	500,000
Total			**46,743,810**

Option holders do not have any right by virtue of the option to participate in any share issue of the Company or any related body corporate.

Share options that expired or lapsed during the year.

22,867,464 options exercisable at 20 cents each and expiring on 31 December 2006 lapsed on that date. No options were cancelled during the course of the financial year ended 30 June 2007.

No shares were issued during the year as a result of exercise of options.

Indemnification of Officers

The Company gave indemnity and held the following liability cover in place during the course of the financial year:

1. Agreements to indemnify Mr. A Larking (Managing Director), Mr A Knights (Executive Director), Mr S Spencer and Dr J Baumgärtner (Non –Executive Directors) in respect of any liabilities incurred by them while acting in the normal course of business as a director of the entity and to insure them against certain risks they are exposed to as directors of the Company.

2. Pursuant to the above the Company has paid premiums to insure the directors and executive management against liabilities incurred in the conduct of the business of the Company and has provided right of access to the Company records. In accordance with common commercial practice, the insurance policy prohibits disclosure of the premium and the nature of the liability insured against.

Mr Adrian Larking	(Managing Director)
Dr Jörg Baumgärtner	(Non- Executive Director)
Mr Alan Knights	(Executive Director)
Mr Hugh Warner	(Non-Executive Director)
Mr Scott Spencer	(Non-Executive Director)
Mr Nigel Hodder	(Company Secretary)

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director.

During the financial year 14 Board meetings were held.

	Board of Directors	
Directors	Number eligible to attend	Number Attended
Adrian Larking	13	13
Jörg Baumgärtner	2	2
Alan Knights	13	11
Scott Spencer	13	13
Hugh Warner	8	7

Directors' shareholdings

The following table sets out each director's relevant interest in shares or options over shares of the Company as at the date of this report:

Directors	Ordinary shares	Options over shares
Adrian Larking	9,500,000	984,375
Jörg Baumgärtner	-	-
Alan Knights	2,318,232	2,771,993
Scott Spencer	-	500,000

Remuneration report

Remuneration policy for directors and executives

The Board of Directors is responsible for determining and reviewing compensation arrangements for directors and the executive team.

The Board assesses the appropriateness of the nature of the amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team and that each staff member's remuneration package properly reflects that person's duties and responsibilities.

At present, the Board does not consider it appropriate to link directors' and executive's remuneration to the performance of the Company.

Director and executive details

The directors of Green Rock Energy Limited during the year were:

Adrian Larking	(Managing Director)	Appointed 25 Feburary 2005
Jörg Baumgärtner	(Non-Executive Director)	Appointed 25 April 2007
Alan Knights	(Executive Director)	Appointed 10 May 2005
Scott Spencer	(Non-Executive Director)	Appointed 29 November 2005
Hugh Warner	(Non-Executive Director)	Appointed 21 September 2000 Resigned 16 February 2007

The only group executive of Green Rock Energy Limited during the year was:

Nigel Hodder	(Company Secretary)	Appointed 4 April 2005

Elements of director and executive remuneration

Remuneration packages contain the following key elements:

- Primary benefits – salaries / fees
- Post employment benefits - superannuation
- Share based payments

The following table discloses the remuneration of the directors of the Company:

	Primary			Post-employment			Equity	Other benefits	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options		
2007	$	$	$	$	$	$	$	$	$
Adrian Larking	180,000	-	-	16,200	-	-	-	-	196,200
Jorg Baumgartner	7,645			688	-	-	-	-	8,333
Alan Knights (i)	160,000	-	-	14,400	-	-	52,884	-	227,284
Scott Spencer (ii)	55,046	-	-	4,954	-	-	13,221	-	73,221
Hugh Warner	34,731	-	-	3,126	-	-	-	-	37,857
Total	437,422	-	-	39,368	-	-	66,105	-	542,895

(i) 2,000,000 options were granted as part of his appointment as a Director. 1,000,000 vested on 21 November 2006 and the balance will vest on 21 November 2007. Options expire on 21 November 2009.

(ii) 500,000 options were granted as part of his appointment as a Director. 250,000 vested on 21 November 2006 and the balance will vest on 21 November 2007. Options expire on 21 November 2009.

The following table discloses the remuneration of the other key management personnel of the Company :

	Primary			Post-employment			Equity	Other benefits	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options		
2007	$	$	$	$	$	$	$	$	$
Nigel Hodder (i)	100,000	-	-	9,000	-	-	2,917	-	111,917
Total	100,000	-	-	9,000	-	-	2,917	-	111,917

(i) 500,000 options were granted as part of remuneration for the year. Of this number 250,000 vest on 9 March 2008 with the balance vesting on 9 March 2009. These options expire on 9 March 2011.

Value of options issued to directors and executives

	Options granted Value at grant date $	Options exercised Value at exercise date $	Options lapsed Value at time of lapse $	Total Value of options granted Exercised or lapsed $	Value of options included in Remuneration for the year $	Percentage of total remuneration for the year that consists of options %
Alan Knights	66,800	-	-	66,800	52,884	23.27
Scott Spencer	16,700	-	-	16,700	13,221	18.05
Nigel Hodder	17,500	-	-	17,500	2,917	2.60
Total	**101,000**	**-**	**-**	**101,000**	**69,022**	

Value of Options - basis of calculation

The following factors and assumptions were used in determining the fair value of options at grant date:

	Option series		
Inputs into the model	A Knight	S Spencer	N Hodder
Grant date share price (cents)	10.00	10.00	5.10
Exercise price (cents)	25.00	25.00	7.00
Expected volatility	80%	80%	70%
Option life	3 years	3 years	4 years
Dividend yield	-	-	-
Risk-free interest rate	5.75%	5.75%	5.75%

1. The total value of options granted , exercised and lapsed during the year is calculated based on the following:

   - Fair value of the option at grant date multiplied by the number of options granted during the year; plus
   - Fair value of the option at the time of exercise multiplied by the number of options exercised during the year: plus
   - Fair value of the option at the time of lapse multiplied by the number of options lapsed or cancelled during the year

2. The total value of options included in remuneration for the year is calculated in accordance with AASB 124 " Related Party Disclosures" which requires the following:

   - The value of options is determined at grant date and is included in remuneration on a proportionate basis from grant date to vesting date. Where options immediately vest, the full value of the option is recognised in remuneration in the current year.

The options granted to Nigel Hodder vest in two equal tranches , on the first and second anniversary of the grant date. Half of the options granted to Alan Knights and Scott Spencer vest on 21 November 2006 and the balance one year after. As such only a portion of the fair value of the options at grant date have been included in remuneration for the year.

Proceedings on behalf of the Company

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

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 23 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 12 of the financial report.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

Scott Spencer
Non-Executive Director

Perth, Australia. 28 September 2007

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PARTNERS
CHARTERED ACCOUNTANTS

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

28 September 2007

To the Board of Directors of Green Rock Energy Limited

Dear Sirs

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2007, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully
ORD PARTNERS

Ian Macpherson
Partner

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GREEN ROCK ENERGY LIMITED

We have audited the accompanying financial report of Green Rock Energy Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Green Rock Energy Limited on 28 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

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Chartered Accountants

Auditor's opinion

In our opinion:

(a) the financial report of Green Rock Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 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 Note 3.

Inherent uncertainty regarding going concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter. As discussed in Note 3 "Going Concern" to the financial report, the ability of the Company and of its subsidiaries to continue as going concerns and meet their planned exploration commitments is dependent upon the Company and its subsidiaries raising further working capital, receiving a claim under the Geological Risk Insurance and/or commencing profitable operations. In the event that the Company cannot achieve the above, the Company and its subsidiaries may not be able to meet their liabilities as they fall due and the realisable value of the Company's and consolidated entity's non-current assets may be significantly less than book values. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

ORD PARTNERS
Chartered Accountants

Ian Macpherson

Partner

Perth, 28 September 2007

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company and its consolidated entities will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standards and giving a true and fair view of the financial position and performance of the consolidated entity and the Company; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the directors,

Scott Spencer
Non-Executive Director

Perth, Australia
28 September 2007

Income Statement for the Financial Year ended 30 June 2007

		Consolidated		Company	
	Note	2007 $	2006 $	2007 $	2006 $
Revenue					
			-		-
Interest income	6	49,222	33,076	49,135	33,076
Other income	6	38,000	-	15,000	-
Total revenue		87,222	33,076	64,135	33,076
Expenses					
Staff costs		(682,300)	(478,570)	(682,300)	(478,570)
Administrative expenditure		(93,165)	(72,099)	(93,165)	(72,099)
Audit and legal fees		(79,000)	(40,683)	(79,000)	(40,683)
Corporate advisory expenses		(64,407)	(142,771)	(64,407)	(142,771)
Office rent and outgoings		(49,716)	(43,043)	(49,716)	(43,043)
Insurance		(16,523)	(23,235)	(16,523)	(23,235)
Depreciation		(26,553)	(23,526)	(26,553)	(23,526)
Exchange losses		(121,744)	-	-	-
Impairment of loan to subsidiary		-	-	(195,930)	-
Exploration expenditure written off as incurred		(32,781)	(28,931)	(32,781)	(28,931)
Other expenses		(453,827)	(196,271)	(343,847)	(196,271)
Total expenses		(1,620,016)	(1,049,129)	(1,584,222)	(1,049,129)
Loss before income tax benefit	6	(1,532,794)	(1,016,053)	(1,520,087)	(1,016,053)
Income tax benefit		80,067	513,121	67,360	513,121
Loss for year		(1,452,727)	(502,932)	(1,452,727)	(502,932)
Loss per share:					
Basic (cents per share)	16	1.54	0.90		

Notes to the financial statements are included on pages 21 to 42.

Balance sheet as at 30 June 2007

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$	$	$	$
Current assets					
Cash and cash equivalents	8	981,818	220,449	972,071	220,371
Other receivables	9	1,519,757	-	70,302	-
Other current assets	9	10,000	362,534	10,000	362,534
Total current assets		2,511,575	582,983	1,052,373	582,905
Non-current assets					
Exploration & evaluation expenditure	10	8,953,576	7,545,644	1,670,591	1,545,722
Property, plant and equipment	11	80,722	99,020	78,772	99,020
Other financial assets	12	105,300	105,300	8,698,035	6,105,300
Total non-current assets		9,139,598	7,749,964	10,447,398	7,750,042
Total assets		11,651,173	8,332,947	11,499,771	8,332,947
Current liabilities					
Trade and other payables	13	250,152	87,705	98,750	87,705
Provisions	14	18,842	21,354	18,842	21,354
Total current liabilities		268,994	109,059	117,592	109,059
Total liabilities		268,994	109,059	117,592	109,059
Net assets		11,382,179	8,223,888	11,382,179	8,223,888
Equity					
Issued capital	15	14,180,394	9,776,727	14,180,394	9,776,727
Reserve	15	227,633	20,432	227,633	20,432
Accumulated losses		(3,025,848)	(1,573,271)	(3,025,848)	(1,573,271)
Total equity		11,382,179	8,223,888	11,382,179	8,223,888

Notes to the financial statements are included on pages 21 to 42.

Statement of changes in equity for the year ended 30 June 2007

Company

	Attributable to equity holders			
For the year ended 30 June 2007	**Ordinary Shares $**	**Reserves $**	**Accumulated Losses $**	**Total Equity $**
Total equity at beginning of year	**9,776,727**	**20,432**	**(1,573,271)**	**8,223,888**
Loss for year	-	-	(1,452,727)	-
Total recognised income and expenses	-	-	**(1,452,727)**	**(1,452,727)**
Share based payments	-	206,922	-	206,922
Shares issued net of costs	4,403,667	-	-	4,403,667
Exchange differences arising on translation of foreign operations	-	279	-	279
Equity at end of year	**14,180,394**	**227,633**	**(3,025,848)**	**11,382,179**

Company

	Attributable to equity holders			
For the year ended 30 June 2006	**Ordinary Shares $**	**Option Premium Reserve $**	**Accumulated Losses $**	**Total Equity $**
Total equity at beginning of year	**9,201,657**	**20,432**	**(1,070,339)**	**8,151,750**
Loss for year	-	-	(502,932)	-
Total recognised income and expenses	-	-	**(502,932)**	**(502,932)**
Shares issued net of costs	575,070	-	-	575,070
Equity at end of year	**9,776,727**	**20,432**	**(1,573,271)**	**8,223,888**

Notes to the financial statements are included on pages 21 to 42.

Statement in changes of equity for the Year ended 30 June 2007

Consolidated entity

For the year ended 30 June 2007	Ordinary Shares $	Option Premium Reserve $	Accumulated Losses $	Total Equity $
	Attributable to equity holders			
Total equity at beginning of year	**9,776,727**	**20,432**	**(1,573,271)**	**8,223,888**
Loss for year	-	-	(1,452,727)	-
Total recognised income and expenses			**(1,452,727)**	**(1,452,727)**
Share based payments	-	206,922	-	206,922
Shares issued net of costs	4,403,667	-	-	4,403,667
Exchange difference arising on translation of foreign operations	-	279	-	279
Equity at end of year	**14,180,394**	**227,633**	**(3,025,848)**	**11,382,179**

Consolidated entity

For the year ended 30 June 2006	Ordinary Shares $	Reserves $	Accumulated Losses $	Total Equity $
	Attributable to equity holders			
Total equity at beginning of year	**9,201,657**	**20,432**	**(1,070,339)**	**8,151,750**
Loss for the year	-	-	(502,932)	-
Total recognised income and expenses	-	-	**(502,932)**	**(502,932)**
Shares issued net of costs	575,070	-	-	575,070
At end of year	**9,776,727**	**20,432**	**(1,573,121)**	**8,223,888**

Notes to the financial statements are included on pages 21 to 42.

Cash flow statement for the financial year ended 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Interest received		49,222	33,076	49,135	33,076
Payments to suppliers and employees		(1,261,229)	(1,085,922)	(1,299,046)	(1,085,922)
Tax refund in respect of exploration expenditure		-	153,415	364,382	153,415
Receipts from customers		(29,360)	-	15,000	-
Net cash used in operating activities	25	(1,241,367)	(899,431)	(870,529)	(899,431)
Cash flows from investing activities					
Payments for exploration and evaluation		(2,025,176)	(1,226,829)	(124,797)	(1,226,809)
Payment for plant and equipment		(8,255)	(69,703)	(6,305)	(69,703)
Receivables – non current		-	-	(2,282,836)	-
Payments for deposits lodged with bank to secure payment to third parties		-	(105,300)	-	(105,300)
Net cash used in investing activities		(2,033,431)	(1,401,832)	(2,413,938)	(1,401,812)
Cash flows from financing activities					
Proceeds from issues of shares and options		4,347,630	579,680	4,347,630	579,680
Share issue costs		(311,463)	(4,610)	(311,463)	(4,610)
Net cash provided by financing activities		4,036,167	575,070	4,036,167	575,070
Net increase (decrease) in cash held		761,369	(1,726,193)	751,700	(1,726,173)
Cash and cash equivalents at the beginning of the financial year		220,449	1,946,642	220,371	1,946,544
Cash and cash equivalents at the end of the financial year	8	981,818	220,449	972,071	220,371

Notes to the financial statements are included on pages 21 to 42.

Notes to the financial statements for the financial year ended 30 June 2007

1. General information

Green Rock Energy Limited (the Company) is a listed public company, incorporated in Australia and operating in Australia and Hungary.

Green Rock Energy Limited's registered office and its principal place of business are as follows:

Registered office	Principal place of business
Unit 6, 38 Colin Street	Unit 6, 38 Colin Street
WEST PERTH WA 6005	WEST PERTH WA 6005

2. Adoption of New and Revised Accounting Standards

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated entity's and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
• AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
• AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
• AASB 8 'Operating Segments'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the Company:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
• AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
• AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
• AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008	30 June 2009
• AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
• AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	30 June 2008

•	AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
•	AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
•	AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

AASB Interpretation 10

AASB 134 'Interim Financial Reporting' requires an entity to apply the same accounting policies in its interim financial report as are applied in its annual financial report. It also states that measurements for interim reporting purposes are made on a year-to-date basis so that the frequency of reporting does not affect an entity's annual reports. AASB Interpretation 10 clarifies that an entity cannot reverse an impairment loss recognised in a previous interim period in relation to goodwill or either an investment in an equity instrument or in a financial asset carried at cost

This approach is consistent with impairment reversal prohibitions in AASB 136 'Impairment of Assets' and AASB 139 'Financial Instruments: Recognition and Measurement'.

AASB Interpretation 10 is required to be applied prospectively from the date at which the entity first applied AASB 36 (ie. 1 July 2004) and AASB 139 (ie. 1 July 2005), for goodwill and investments in either equity instruments or financial assets carried at cost, respectively.

AASB Interpretation 11 and AASB 2007-1

AASB Interpretation 11 clarifies the application of AASB 2 'Share-based Payment' to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. AASB 2007-1 amends AASB 2 to insert transitional provisions of IFRS 2 'Share-based Payment' that had previously been set out in AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'.
AASB Interpretation 11 and AASB 2007-1 are required to be applied retrospectively.

AASB Interpretation 12 and AASB 2007-2

AASB Interpretation 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. The company nor the consolidated entity does not operate such services.

AASB 2007-4

AASB 2007-4 makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required and make a number of editorial amendments.

Whilst a large number of Accounting Standards are amended by AASB 2007-4, key accounting policy options introduced by AASB 2007-4 relate to:

- the measurement and presentation of government grants;
- the accounting for jointly controlled entities using the proportionate consolidation method; and the presentation of the cash flow statement.

The consolidated entity does not intend to change any of its current accounting policies on adoption of AASB 2007-4; accordingly, there will no financial impact to the financial report. However, in the [consolidated entity's/company's] financial report for the financial year ending 30 June 2008, certain information may no longer be disclosed, or may be disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

AASB Interpretation 13

AASB Interpretation 13 addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (i.e. award credits) as part of a sales transaction. AASB Interpretation 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. AASB Interpretation 13 is required to be applied retrospectively.

2. Adoption of New and Revised Accounting Standards (continued)

AASB Interpretation 14

AASB Interpretation 14 addresses three issues for entities that (a) have a defined benefit superannuation plan; and (b) have a defined benefit plan asset. Neither the consolidated entity nor the Company has such a plan or an asset.

AASB 123 (revised) and AASB 2007-6

AASB 123 (July 2004) permits an entity to either expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under AASB 123 (revised), entities are no longer permitted to choose between alternate treatments and must capitalise borrowing costs relating to qualifying assets. AASB 2007-6 makes amendments to various Accounting Standards arising from the issue of AASB 123 (revised).

AASB 123 (revised) is generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Accordingly, no restatements will be required in respect of transactions prior to the date of adoption.

3. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard , AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 28 September 2007.

Basis of preparation

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Company and the consolidated entity to continue as going concerns and to pay their debts as and when they fall due is dependent on the ability of the Company and the consolidated entity to secure additional funding which would be sufficient to fund project development and to provide adequate working capital for a further 12 months.

The directors took steps during the year under report to ensure the Company and the consolidated entity continued as going concerns. These steps included:

- In August 2006 raised $300,250 net via private placement to institutional and sophisticated investors.
- A private placement to sophisticated investors in December 2006 raised $314,900 after costs.
- In December 2006 raised $3,408,018 net via a pro-rata Renounceable Rights Issue.

Since the end of the last financial year the Company has, through the issue of 12,000,000 shares raised $1,251,525 (net of costs) from a private placement to professional investors. Additionally, arising from the flow test results achieved from its Hungarian Orthahaza project, it has lodged a claim in the amount of $1,406,986 under the Geological Risk Insurance provided by the Geothermal Energy Development Programme (GeoFund). This programme is funded by the Global Environment Facility Fund and implemented by the World Bank and International Finance Corporation. Following an independent assessment of the flow results of the project, and audit of the costs incurred, the directors have every reason to believe that the claim will succeed and that it will not be moderated.

3. Significant accounting policies (continued)

Going concern (continued)

Notwithstanding this, there is uncertainty whether the Company and the consolidated entity will be able to continue as going concerns.

Should the Company and the consolidated entity be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company and the consolidated entity be unable to continue as going concerns.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2007, the comparative information presented in these financial statements for the year ended 30 June 2006, and in the preparation of the opening A-IFRS balance sheet at 1 January 2004, the consolidated entity's date of transition.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 19 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entities in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the consolidated entities interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the consolidated entities interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. Significant accounting policies (continued)

(c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held with banks.

(d) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(e) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Other financial assets, including trade receivables, loans, and other receivables, are classified as loans and receivables, and are recorded at amortised cost less impairment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(f) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

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

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

3. Significant accounting policies (continued)

(h) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3. Significant accounting policies (continued)

(i) **Income tax (continued)**

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

(j) **Exploration and Evaluation Expenditure**

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

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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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 community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(k) **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) **Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(m) **Plant and equipment**

Plant and equipment, are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

3. Significant accounting policies (continued)

(m) Plant and equipment (continued)

The following estimated useful lives are used in the calculation of depreciation:

- Office equipment 2.6 – 8.7 years
- Technical equipment 4 - 5 years

(n) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(o) Revenue recognition

Interest revenue is recognised when receivable.

(p) Trade and other receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

(q) Comparative figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Share Based Payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 21.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

4. Critical Accounting Judgments

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

4. Critical Accounting Judgments (continued)

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Key estimates — impairment
The consolidated entities assesses impairment at each reporting date by evaluating conditions specific to the consolidated entitles that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The consolidated entities policy on the capitalisation of exploration and evaluation expenditure is detailed in note 3(j).

Key estimates — share based payments
The consolidated entities measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model.

One of the inputs into the option valuation model is volatility of the underlying share price which is estimated on the one year history of the share price and has been estimated at approximately 100%.

Key judgments — doubtful debts/recovery of provision
The Directors believe that the recovery of the intercompany loan from Green Rock Energy Limited to the consolidated entities is dependent on the successful development and commercial exploitation or, alternatively, the sale of the exploration assets held by the controlled entity.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

5 Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, geographical segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments
The consolidated entity operates in two principal geographical areas:
- Australia
- Hungary

Business segments
The consolidated entity operates in predominantly one business segment, being geothermal energy and development activities.

5 Segment reporting (continued)

Geographical segments

	Australia		Hungary		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
Interest	49,135	33,076	87	-	-	-	49,222	33,076
Other	15,000	-	23,000	-	-	-	38,000	-
Total revenue	64,135	33,076	23,087	-	-	-	87,222	33,076
Loss before tax	(1,452,727)	(1,016,053)	(213,504)	-	200,797	-	(1,465,434)	(1,016,053)
Income tax benefit	67,360	513,121	12,707	-	-	-	80,067	513,121
Loss for the period	(1,385,367)	(502,932)	(200,797)	-	200,797	-	(1,385,367)	(502,932)
Total segment assets	11,907,080	8,332,947	2,314,814	-	(2,570,721)	-	11,651,173	8,332,947
Total segment liabilities	117,592	109,059	2,434,314	-	(2,282,911)	-	268,994	109,059
Cash flows from operating activities	(870,529)	(899,431)	(370,838)	-	-	-	(1,241,367)	(899,431)
Cash flows from investing activities	(2,413,938)	(1,401,832)	380,507	-	-	-	(2,033,431)	(1,401,832)
Cash flows from financing activities	4,036,167	575,070	-	-	-	-	4,036,167	575,070

6. Loss from operations

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(a) Revenue				
Revenue from continuing activities consisted of the following items:				
Interest Income	49,222	33,076	49,135	33,076
Other	38,000	-	15,000	-
	87,222	33,076	64,135	33,076
(b) Loss before income tax expense				
Loss before income tax has been arrived at after charging the following specific expenses:				
Operating lease rental expenses	49,716	43,043	49,716	43,043
Employee benefits expense:				
Salaries and fees	615,790	419,464	615,790	419,464
Post employment benefits	69,022	37,752	69,022	37,752
Other employee benefits (accrued leave)	18,842	21,354	18,842	21,354
	703,654	478,570	703,654	478,570

7. Income taxes

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(a) Income tax recognised in profit or loss				
Tax income comprises:				
Current income tax benefit	80,067	359,706	67,360	359,706
Adjustments in respect of current income tax of prior periods	-	153,415	-	153,415
Total tax income	80,067	513,121	67,360	513,121
The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:				
Loss from operations	1,532,794	1,016,053	1,520,087	1,016,053
Income tax expense calculated at 30%	459,838	304,816	456,026	304,816
Research and development concession	13,472	71,941	13,472	71,941
Non deductible expenses	(61,202)	-	(61,204)	-
Effect of lower rate of tax on overseas income	(49,820)	-	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	(282,221)	(17,051)	(340,934)	(17,051)
	80,067	359,706	67,360	359,706
Overprovision in prior year	-	153,415	-	153,415
Income tax attributable to operating loss	80,067	513,121	67,360	513,121

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Temporary differences	14,199	34,249	14,199	34,249
Exploration and evaluation	2,686,073	2,263,693	501,177	463,717
Tax losses – revenue	1,754,286	814,481	1,759,371	814,481
	4,454,558	3,112,423	2,274,747	1,312,447

8. Cash and cash equivalents

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash at bank and in hand	28,027	220,449	18,280	220,371
Deposits at call	953,791	-	953,791	-
	981,818	220,449	972,071	220,371

9. Other receivables

Current				
Other receivables (i)	1,519,757		70,302	
Other current assets	10,000	362,534	10,000	362,534
	1,529,757	362,534	80,302	362,534

(i) Included in other receivables is an amount of $1,406,986 claimed under the Geological Risk Insurance provided by the Geothermal Energy Development Programme (GeoFund) which is funded by the Global Environment Facility Trust Fund and implemented jointly by the World Bank and International Finance Corporation.

As at the date of this report all documentation supporting the claim had been reviewed by World Bank officials in Europe and found to be correctly complied and adequately detailed. The costs under claim have been independently verified and audited. The claim has been lodged with the World Bank and acknowledged but is subject to fund approval by GeoFund.

10. Exploration and evaluation expenditure

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Exploration expenditure capitalised				
- exploration and evaluation phases				
Total exploration expenditure	8,953,576	7,545,644	1,670,591	1,545,742
Movement in the carrying amount for deferred exploration expenditure:				
Brought forward at the beginning of year	7,545,644	6,347,746	1,545,742	347,844
Capitalised during year	1,407,932	1,197,898	124,849	1,197,898
Exploration expenditure written off	-	-	-	-
Carried forward exploration expenditure	8,953,576	7,545,644	1,670,591	1,545,742

Recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

Capitalised costs amounting to $2,025,176 (2006: $1,226,829) have been included in cash flows from investing activities in the cash flow statement.

11. Plant and equipment

	Consolidated		Company	
Plant and equipment at cost	2007 $	2006 $	2007 $	2006 $
Gross carrying amount				
Balance at 1st July 2006	123,737	54,034	123,737	54,034
Additions	8,255	69,703	6,305	69,703
Disposals	-	-	-	-
Balance at 30th June 2007	131,992	123,737	130,042	123,737
Accumulated depreciation				
Balance at 1st July 2006	24,717	1,191	24,717	1,191
Depreciation expense	26,553	23,526	26,553	23,526
Depreciation on asset disposed	-	-	-	-
Balance at 30th June 2007	51,270	24,717	51,270	24,717
Net book value at 30th June 2007	80,722	99,020	78,772	99,020

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
12. Other non-current financial assets				
Investments in controlled entities at cost (ii)	-	-	6,505,400	6,000,000
Loan to subsidiary	-	-	2,282,836	-
Less: provision for impairment	-	-	(195,501)	-
Other financial assets (i)	105,300	105,300	105,300	105,300
	105,300	105,300	8,698,035	6,105,300

(i) In compliance with the requirements of the South Australian Petroleum Act of 2000, the Company is required to lodge and maintain with the Minister, for the satisfaction of obligations arising under the Act or the Geothermal Exploration Licences (GELs) granted, security of $100,000 (one hundred thousand dollars). The security is to be lodged in cash or an unconditional irrevocable bank guarantee or a letter of credit from a financial institution approved by the Minister.

If on expiry of the GELs they are not renewed and the Minister is satisfied that there are no further obligations under the licences or the Act, the Minister will return the security to the Company.

(ii) Detailed information on shares in controlled entities in which the Company had a direct or indirect interest at 30 June 2007 is disclosed in note 19.

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
13. Current trade and other payables				
Trade payables	233,402	73,705	82,000	73,705
Other payables	16,750	14,000	16,750	14,000
	250,152	87,705	98,750	87,705

The average credit period on purchases of goods and services is 30 days. No interest is charged on the trade payables for the first 60 days from the date of the invoice.

The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
14. Current provisions				
Employee benefits	18,842	21,354	18,842	21,354
	18,842	21,354	18,842	21,354

15. Issued capital and reserves

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(a) Issued capital				
Fully paid ordinary shares	14,180,394	9,776,727	14,180,394	9,776,727
	14,180,394	9,776,727	14,180,394	9,776,727

	2007 No.	2007 $	2006 No.	2006 $
Balance at beginning of financial year	59,155,465	9,776,727	40,532,465	6,201,657
Share placement 10 August 2006 (at 7 cents each)	4,432,142	310,250	-	-
Acquisition of geothermal project 30 Nov 2006 (at 10.5 cents each)	3,500,000	367,500	-	-
Share placement 15 December 2006	6,700,000	335,000	-	-
Conversion of 31 Dec 2006 Options	65,000	13,000	-	-
Renounceable Rights Issue	73,787,607	3,689,380	-	-
Class A Performance shares converted 25 July 2005 (at 20 cents each)	-	-	15,000,000	3,000,000

15. Issued capital and reserves (continued)

Share Purchase Plan 13 December 2005 (at 16 cents each)	-	-	3,623,000	579,680
Share issue costs	-	(311,463)	-	(4,610)
Balance at end of financial year	147,640,214	14,180,394	59,155,465	9,776,727

Ordinary shares carry one vote per share and the right to dividends.

Share options carry no rights to dividends and have no voting rights.

	Consolidated		Company	
(b) Reserves	**2007 $**	**2006 $**	**2007 $**	**2006 $**
Option premium reserve	158,332	20,432	158,332	20,432
Share based payments reserve (i)	69,022	-	69,022	-
Foreign translation reserve	279	-	279	-
	227,633	20,432	227,633	20,432

(i) the full amount of the share based payment reserve was incurred during the year under review.

As at 30 June 2007, there were 40,241,810 listed and 6,500,00 unlisted un-issued ordinary shares in respect of which options were outstanding (2006 : 22,932,465). The listed options expire on 18 April 2008 and have an exercise price of 10 cents.

16. Loss per share

	Consolidated	
	2007 Cents per share	**2006 Cents per share**
Basic loss per share:	1.54	0.90

Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2007 $	**2006 $**
Loss for year	1,452,727	502,932
Weighted average number of ordinary shares for the purposes of basic loss per share	94,494,912	56,175,115

Diluted loss per share

Diluted loss per share has not been calculated as the Company's potential ordinary shares are not considered dilutive and do not increase loss per share.

17. Commitments for expenditure

(a) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments.

These obligations can be reduced by selective relinquishment of exploration tenure or renegotiation. Due to the nature of the consolidated entities operations in exploring and evaluating areas of interest, it is very difficult to forecast the nature and amount of future expenditure.

Exploration expenditure forecast
These obligations are not provided for in the financial report and are payable:

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Within one year	400,000	250,000	400,000	250,000
One year or later and no later than five years	5,000,000	1,250,000	5,000,000	1,250,000
	5,400,000	1,500,000	5,400,000	1,500,000

(b) Operating lease commitments

The lease held in respect of Unit 6, 38 Colin Street is a three year lease which commenced on 16 May 2005 with an option to renew for a further three years (to 15 May 2011) and includes secure parking. The outgoing costs are based on actual expenditure.

The facility to sublet is contained within the lease and permission may not be unreasonably withheld. Based on its location, the standard of fit-out and usable area, this self-contained office unit could be easily sublet. The annual rent for this unit is $45,972 (2006: $40,465).

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Not longer than 1 year	45,972	40,465	45,972	40,465
Longer than 1 year and not longer than 5 years	35,463	77,144	35,463	77,144
Later than five years	-	-	-	-
	81,435	117,609	81,435	117,609

18. Contingent liabilities and contingent assets

There were no contingent liabilities nor contingent assets at year end.

19. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2007 %	Ownership interest 2006 %
Parent Entity			
Green Rock Energy Limited	Australia		
Subsidiaries			
Green Heat Resources Pty Ltd	Australia	100%	100%
Green Rock Geothermal Pty Ltd	Australia	100%	100%
Vulcan Geothermal Pty Ltd	Australia	100%	-
Green Rock (Vulcan) Energy Kft (i)	Hungary	100%	-

(i) controlled by a 100% ownership interest in Vulcan Geothermal Pty Ltd.

20. Acquisitions of entities

Acquisition of new subsidiary

On 27 November 2006, the Company acquired 100% of the issued share capital of Vulcan Geothermal Pty Ltd an Australian company which fully owns a Hungarian geothermal company Vulcan Energy Kft (subsequently renamed Green Rock (Vulcan) Energy Kft) for a consideration of $505,400. The consideration comprised the issue of 3,500,000 ordinary shares at 10.5 cents per share and 3,500,000 unlisted options (exercisable at 15 cents , expiring on 28 November 2008) valued at 3.94 cents per option. Vulcan's principal activity is the identification and development of geothermal energy resources for the production of electricity. This transaction has been accounted for using the acquisition method of accounting. The date of acquisition was deemed to be 28 November 2006, being the date the acquisition was approved by the Company's shareholders.

Acquisition of new subsidiary

The net assets acquired in the business combination, and the goodwill arising, are as follows:

	Acquiree's carrying amount before business combination $	Fair value adjustments $	Fair value $
Net assets acquired:			
Cash and cash equivalents	15,118	-	15,118
Property, plant and equipment	3,183	-	3,183
Other receivables	15,650	-	15,650
Exploration expenditure	-	472,338	472,338
Trade and other payables	(889)	-	(889)
	33,062	472,338	505,400
Goodwill arising on acquisition			-
Fair value of consideration			505,400

Included in the net loss for the period is $ 2,934 attributable to the additional costs generated by Vulcan Geothermal Pty Ltd and Vulcan Energy Kft (the Hungarian operation).

Had the business combinations been effected at 1 July 2006, the revenue of the consolidated entities would be $391,298, and net loss $402,771. The directors of the consolidated entities consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

21. Share Based Payment Arrangements

The following share-based payment arrangements were in existence during the current period:

Options series	Number	Grant date	Expiry date	Exercise price (cents)	Fair value at grant date (cents)
Directors					
Issued 21/11/06 (i)	2,000,000	21/11/06	21/11/09	25	3.34
Issued 21/11/06 (ii)	500,000	21/11/06	21/11/09	25	3.34
Employee Incentive Option Plan					
Issued 20/03/07 (iii)	500,000	20/03/07	9/03/11	7	5.10

(i) Mr Alan Knights (Executive Director) - 2,000,000 options granted on 21 November 2006 which are exercisable at 25 cents each and expire on 21 November 2009. The options vest 50% on 21 November 2006 with the balance vesting on 21 November 2007. The grant of these options was approved by shareholders at the 2006 Annual General Meeting held on 28 November 2006.

(ii) Mr Scott Spencer (Non-Executive Director) - 500,000 options granted on 21 November 2006 which are exercisable at 25 cents each and expire on 21 November 2009. 50% of the options granted vest on 21 November 2006 with the balance vesting on 21 November 2007. The grant of these options was approved by shareholders at the 2006 Annual General Meeting held on 28 November 2006.

(iii) Mr Nigel Hodder (Company Secretary) - 500,000 options on 20 March 2007 with an exercise price of 7 cents each and expiring on 9 March 2011. The options vest 50% on 9 March 2008 with the remainder vesting on 9 March 2009. 300,000 options were granted on 9 August 2007, are exercisable at 15 cents and expire on 9 August 2011.

The fair value of the share options granted during the financial year under share based payment arrangements is $69,022 (2006: Nil). Options were priced using a Black Scholes model. Expected volatility is based on the movement of the underlying share price around its average price over the expected term of the option. The directors have determined that the expected period of exercise to be similar to the option life based on historical experience.

	Option series		
Inputs into the model	**A Knight**	**S Spencer**	**N Hodder**
Grant date share price (cents)	10.00	10.00	5.10
Exercise price (cents)	25.00	25.00	7.00
Expected volatility	80%	80%	70%
Option life	3 years	3 years	4 years
Dividend yield	-	-	-
Risk-free interest rate	5.75%	5.75%	5.75%

The following reconciles the outstanding share options granted at the beginning and end of the financial year:

	2007		2006	
	Number of options	**Weighted Average Exercise price (Cents)**	**Number of options**	**Weighted Average Exercise price (cents)**
Balance at beginning of the financial year	-	-	-	-
Granted during the financial year				
• Directors	2,500,000	25.00	-	-
• Employees	500,000	25.00	-	-
Balance at end of the financial year	3,000,000	25.00	-	-
Exercisable at end of the financial year	1,250,000	25.00	-	-

Exercised during the financial year

No share options granted under the employee share option plan were exercised during the financial year.

Balance at end of the financial year

The share options outstanding and exercisable at the end of the financial year had a weighted average remaining contractual life of 1,700 days.

22. Key management personnel remuneration

The key management personnel of Green Rock Energy Limited during the year were:

- Adrian Larking — Managing Director — Appointed 25 February 2005
- Jörg Baumgärtner — Non-Executive Director — Appointed 25 April 2007
- Alan Knights — Executive Director — Appointed 10 May 2005
- Hugh Warner — Non-Executive Director — Appointed 21 September 2000, Resigned 16 February 2007
- Scott Spencer — Non-Executive Director — Appointed 29 November 2005
- Nigel Hodder — Company Secretary — Appointed 4 April 2005

22. Key management personnel remuneration (continued)

(a) Key management personnel remuneration

The Board seeks to set remuneration at a level that provides the Company with the ability to attract and retain directors of high caliber , whilst incurring a cost which is acceptable to shareholders.

The level of fixed remuneration is set so as to provide a base level which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually and this process consists of a review of Company and individual performance, comparative remuneration in the market and where appropriate external advice on policies and practices.

The directors do not consider performance based remuneration to be appropriate at present.

Details of the nature and amount of each element of the remuneration of each director and executive officer of the Company for the year ended 30 June 2007 are as follows:

	Primary			Post-employment			Equity	Other	Total
	Salary & fees	Bonus	Non-monetary	Super-annua-tion	Pre-scribed benefits	Other	Options	bene-fits	
2007	$	$	$	$	$	$	$	$	$
Adrian Larking	180,000	-	-	16,200	-	-	-	-	196,200
Jörg Baumgärtner	7,645			688			-		8,333
Alan Knights	160,000	-	-	14,400	-	-	52,884	-	227,284
Scott Spencer	55,046	-	-	4,954	-	-	13,221	-	73,221
Hugh Warner	34,731	-	-	3,126	-	-	-	-	37,857
Nigel Hodder	100,000	-	-	9,000	-	-	2,917	-	111,917
Total	537,422	-	-	48,368	-	-	69,022	-	654,812

	Primary			Post-employment			Equity	Other	Total
	Salary & fees	Bonus	Non-mone-tary	Super-annua-tion	Pre-scribed benefits	Other	Options	benefits	
2006	$	$	$	$	$	$	$	$	$
Adrian Larking	180,000	-	-	16,200	-	-	-	-	196,200
Alan Knights	98,180	-	-	8,836	-	-	-	-	107,016
Scott Spencer	32,110	-	-	2,890	-	-	-	-	35,000
Hugh Warner	59,174	-	-	826	-	-	-	-	60,000
Nigel Hodder	100,000	-	-	9,000	-	-	-	-	109,000
Total	469,464	-	-	37,752	-	-	-	-	507,216

(b) Contracts for services with key management personnel

Contracts binding the Managing Director and the Executive Director have been formalised. These contracts may be terminated at any time by the individuals or the Board giving three months notice in writing to terminate the Employment Agreement .

The two Non-Executive Directors are both bound by contract. The initial term of Dr Jorg Baumgartner's contract expires at the conclusion of the Annual General Meeting in November 2007 at which time he may offer himself for re-appointment. The contracts of the Non- Executive Directors may be terminated at any time by notice in writing or by shareholders acting by majority vote.

The contract of employment of the Company Secretary is such that he will continue in employment until either the Company or the individual give at least one months notice in writing of the desire to terminate his contract.

22. Key management personnel remuneration (continued)

Leave is accrued at the rate of 4 weeks per annum. Long service leave accrues in accordance with the statutory provisions applying from time to time in Western Australia.

The calculation of terminal benefits is made in accordance with statutory provisions and is payable by the Company at the time of vacating office.

23. Remuneration of auditors

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
During the year the following fees were paid or were payable for services provided by the auditor of the Company, its related practices and non related audit firms				
Audit services				
Audit and review of the financial report	30,750	23,550	30,750	23,550
Other non-audit services	4,500	1,750	4,500	1,750
	35,250	25,300	35,250	25,300

The auditor of Green Rock Energy Limited is Ord Partners, Chartered Accountants.

24. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries and loans to subsidiaries are disclosed in note 19 and this note respectively.

(b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 22 to the financial statements.

(c) Key management personnel equity holdings

Fully paid ordinary shares.

2007	Balance@ 1/7/06 No.	Balance on appointment	Net other change No.	Balance on resignation No.	Balance@ 30/6/07 No.
Adrian Larking (i)	7,531,250	N/A	1,968,750	N/A	9,500,000
Jörg Baumgärtner	N/A	-	-	N/A	-
Alan Knights (ii)	74,246	N/A	2,043,986	N/A	2,118,232
Scott Spencer	-	N/A	-	N/A	-
Hugh Warner (iii)	823,751	N/A	681,569	1,505,320	N/A
Nigel Hodder (iv)	-	N/A	207,694	N/A	207,694
Total	8,429,247	-	4,901,999	1,505,320	11,825,926

(i) acquired additional shares through Renounceable Rights Issue
(ii) acquired shares on market and through Renounceable Rights Issue
(iii) acquired on market
(iv) acquired shares on market, and through Renounceable Rights Issue

24. Related party disclosures (continued)

Fully paid ordinary shares

2006	Balance@ 1/7/05	Net other change	Balance on resignation	Balance@ 30/6/06
	No.	No.	No.	No.
Adrain Larking (i)	7,500,000	31,250	-	7,531,250
Alan Knights (ii)	-	74,246	-	74,246
Scott Spencer	-	-	-	-
Hugh Warner (iii)	730,001	93,750	-	823,751
Nigel Hodder	-	-	-	-
Total	8,230,001	199,246	-	8,397,997

(i) acquired additional shares through the Share Purchase Plan
(ii) acquired additional shares on market and through the Share Purchase Plan
(iii) additional shares acquired through the Share Purchase Plan

Share option holdings

2007	Bal @ 1/7/06	Granted as remuneration	Net other change	Balance on resigna-tion	Bal @ 30/06/07	Bal vested @ 30/06/07	Vested but not exerci-sable	Vested and exercisable 30 June 2007	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Adrian Larking	-	-	984,375	-	984,375	984,375	-	984,375	-
Jorg Baumgartner	N/A	-	-	-	-	-	-	-	-
Alan Knights	-	2,000,000	771,993	-	2,771,993	1,771,993	-	1,771,993	1,000,000
Hugh Warner	630,066	-	(253,735)	376,331	N/A	-	-	-	-
Scott Spencer	-	500,000	-	-	500,000	250,000	-	250,000	250,000
Nigel Hodder	-	500,000	101,924	-	601,924	101,924	-	101,924	-
Total	630,066	3,000,000	1,604,557	376,331	4,858,292	3,108,292	-	3,108,292	1,250,000

Share option holdings

2006	Balance at 1/7/2005	Granted as remuner-ation	Net other change	Balance on resignat ion	Bal @ 30/06/06	Bal vested@ 30/06/06	Vested but not exercis able	Vested and exercisable 30 June 2006	Options vested during year
Adrian Larking	-	-	-	-	-	-	-	-	-
Alan Knights	-	-	-	-	-	-	-	-	-
Hugh Warner	630,066	-	-	-	630,066	-	-	630,066	-
Scott Spencer	-	-	-	-	-	-	-	-	-
Nigel Hodder	-	-	-	-	-	-	-	-	-
Total	630,066	-	-	-	630,066	-	-	630,066	-

(d) Other transactions with Key Management Personnel:

There were no other transactions with Key Management Personnel.

25. Subsequent events

On 4 September 2007 the Company issued 12,000,000 shares to sophisticated investors at an issue price of 11 cents per share. The capital raised amounted to $1,320,000 (before costs) and will be used to supplement working capital.

On 9 August 2007 the Company issued 300,000 incentive options exercisable at 15 cents and expiring on 9 August 2011.

On 9 August 2007 the Company issued 1,000,000 incentive options exercisable at 15 cents and expiring on 9 August 2010 .

Except for the above, no other matters or circumstances, other than that referred to in the financial statements or notes thereto, have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

26. Notes to the cash flow statement

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(a) Reconciliation of loss for the period to net cash flow used in operating activities				
Loss for the period	(1,452,727)	(502,932)	(1,452,727)	(502,932)
Exploration expenditure written off	32,781	28,932	32,781	28,932
Depreciation and amortisation of non-current assets	26,553	23,526	26,553	23,526
Impairment of loan to subsidiary	-	-	195,930	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables		(355,662)	(70,302)	(355,662)
Other	(8,060)		342,534	
Increase/(decrease) in liabilities:				
Current payables	162,598	(105,149)	57,214	(105,149)
Current provisions	(2,512)	11,854	(2,512)	11,854
Net cash used in operating activities	(1,241,367)	(899,431)	(870,529)	(899,431)

(b) **Significant non-cash items:**

On the 30th November 2006 the Company issued 3,500,000 shares at 10.5 cents each to acquire exploration assets.

27. Financial instruments

(a) Financial risk management objectives

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and credit risk and the consolidated entity manages the financial risks relating to the operations of the consolidated entity.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

27. Financial instruments (continued)

(c) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate products which also facilitate access to money.

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2007:

2007	Weighted average effective interest rate %	Variable interest rate $	Fixed maturity dates: Less than 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	5+ years $	Non interest bearing $	Total $
Financial assets:										
Cash	5.75	972,071	-	-	-	-	-	-	-	972,071
Other financial assets	4.70	-	105,300	-	-	-	-	-	-	105,300
		972,071	105,300	-	-	-	-	-	-	1,077,371

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2006

2006	Weighted average effective interest rate %	Variable interest rate $	Maturity dates: Less than 1 year $	1-5 years $	More than 5 years $	Non interest bearing $	Total $
Financial assets:							
Cash	4.5	220,449	-	-	-	-	220,449
Other Financial assets	5.0	-	105,300	-	-	-	105,300
		220,449	105,300	-	-	4,677	330,426
Financial liabilities:							

(d) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2006: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

(e) Liquidity risk management

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