

Petratherm Ltd

ABN 17 106 806 884

Annual Financial Report

for the year ended 30 June 2005

Corporate Information

ABN 17 106 806 884

Directors

Derek Carter (Chairman, Non-Executive Director)

Lloyd Taylor (Non-Executive Director)

Richard Bonython (Non-Executive Director)

Richard Hillis (Non-Executive Director)

Simon O'Loughlin (Non-Executive Director)

Company Secretary

Donald Stephens

Registered Office

c/o HLB Mann Judd Stephens Pty Ltd

82 Fullarton Road

Norwood SA 5067

Principal Place of Business

247 Greenhill Road

Dulwich SA 5065

Solicitors

O'Loughlins Lawyers

Level 2, 99 Frome Street

Adelaide, South Australia 5000

Bankers

National Australia Bank Ltd

22 - 28 King William Street

Adelaide, South Australia 5000

Share Register

Computershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street

Adelaide, South Australia 5000

Auditors

Grant Thornton

Level 1, 67 Greenhill Road

Wayville, South Australia 5034

Internet Address

www.petratherm.com.au

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Directors' Report

Your directors submit their report for the year ended 30 June 2005.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows.

Mr Derek Carter	Chairman, Non-Executive Director	Appointed 24 October 2003
Mr Lloyd Taylor	Non-Executive Director	Appointed 22 March 2004
Mr Richard Bonython	Non-Executive Director	Appointed 1 March 2004
Mr Richard Hillis	Non-Executive Director	Appointed 1 March 2004
Mr Simon O'Loughlin	Non-Executive Director	Appointed 24 October 2003

Names, qualifications, experience and special responsibilities

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

Derek Carter has over 31 years experience in exploration and mining geology and management. He held senior positions in the Shell Group of Companies and Burnine Limited before founding Minotaur Gold NL where he was Managing Director for 7 years. He was Managing Director of Minotaur Resources Ltd from February 2000 until its restructure when he became Managing Director of Minotaur Exploration Ltd in February 2005. He is also a board member of Mithril Resources Ltd and the Australian Gold Council and chairs the Council's Investment Group; is former President, and current Vice President of the South Australian Chamber of Mines and Energy and is a Member of the South Australian Resources Development Board and the South Australian Minerals and Petroleum Experts Group.

Lloyd Taylor, PhD MAICD (Non-Executive Director)

Lloyd Taylor holds a doctorate in geology and geophysics from the University of Sydney. He has twenty seven years exploration and production experience with Woodside Petroleum Ltd, Shell International, Santos Ltd and Fletcher Challenge Energy Ltd. During the last thirteen years he has been responsible for general management and leadership of oil and gas business operations in Australia, Papua New Guinea, USA, United Kingdom, Canada, Indonesia, Brunei and New Zealand. Most recently he held the role of Chairman and Managing Director of Shell New Zealand. Prior to that he was the Chief Operating Officer of Fletcher Challenge Energy Ltd. Lloyd is the Chairman of Core Collaborative, an Australian based Asia/Pacific energy industry consulting network. He is a member of the Australian Institute of Company Directors.

Richard Bonython, BAgSc (Non-Executive Director)

Richard Bonython has over 40 years experience in the building, construction, rural and mining exploration industries. In the last 10 years he has primarily been involved in the mining industry and has been influential in the formation and ultimate listing of several mining exploration groups. He is chairman of Hindmarsh Resources Ltd and a director of Minotaur Exploration Ltd and Mithril Resources Ltd. He is a member of the Company's audit committee.

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

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

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

Simon O'Loughlin is a legal practitioner with over 25 years experience as a corporate and commercial solicitor. He has had extensive involvement in the mining industry, especially in relation to the formation, structuring and listing of small to medium sized resources companies. He is a past chairman of the Taxation Institute of Australia (SA Division), and is currently a non-executive director of Living Cell Technologies Ltd, WCP Diversified Investments Ltd and Hindmarsh Resources Ltd, all of which are listed on the ASX. He is a member of the Company's audit committee.

Directors' Report continued

COMPANY SECRETARY

Donald Stephens, BAAcc, FCA

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

Interests in the shares and options of the company and related bodies corporate

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

	Ordinary Shares	Options over Ordinary Shares
Derek Carter	60,000	1,200,000
Lloyd Taylor	300,000	400,000
Richard Bonython	270,000	500,000
Richard Hillis	20,000	300,000
Simon O'Loughlin	100,000	200,000

Refer to note 20 to the financial statements for further details.

OPERATING RESULTS

The operating loss for the consolidated entity after income tax for the year ended 30 June 2005 amounted to \$380,924.

EARNINGS PER SHARE

	Cents
Basic earnings per share	(1.1)
Diluted earnings per share	(0.9)

DIVIDENDS

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

NATURE OF OPERATIONS AND PRINCIPLE ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

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

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

Directors' Report continued

30 JUNE 2005

OPERATING AND FINANCIAL REVIEW

Group Overview

On the 27th of July 2004, the Company listed on the ASX following the successful completion of a \$4,000,000 public offering. Minotaur Resources Investments Pty Ltd, a wholly-owned subsidiary of Minotaur Exploration Ltd, is a substantial shareholder of the company (42.86% interest).

The Company held \$2,575,000 net cash reserves at 30th of June 2005. The Company was active in exploring three project areas in South Australia for hot rock geothermal energy. These are Ferguson Hill (GEL 158), Callabonna (GEL 157 and GEL 179) and Paralana (GEL 156, GEL 178 and GEL 180).

During the period geological and geophysical studies identified a number of potentially favourable terrains for hot rock power generation in areas close to regional mining centres and other infrastructure sites in Australia. Using Petratherm's predictive model, international areas of potential hot rock prospectivity have been screened and a number of favourable terrains and targets identified.

Exploration commenced on two project areas during the period. Geophysical surveys were initiated at Paralana and Callabonna to help determine the best sites for geothermal drill evaluation. At Paralana down hole temperature measurements of recent drilling by mineral explorers also demonstrated elevated temperature gradients, consistent with the presence of significant thermal anomaly in the area.

Drill preparations were concluded for both project areas and in January 2005 Petratherm's maiden hot rock evaluation well was spudded at Paralana. Shallow temperature logging of the upper cased portion of Paralana 1 confirmed a high temperature gradient consistent with target models. However, the drilling operation encountered unstable hole conditions and the hole was stopped short at 306m.

In view of the problems encountered with Paralana 1 a much larger capacity drilling rig, able to manage the unstable hole conditions by drilling with a weighted mud system, was sourced to complete the hole to the original target depth of 500-600m. With the availability of a larger capacity rig, drilling of the Callabonna Hot Rock Target (GEL 157) 70 km north of Paralana was moved forward in the drilling schedule.

In May 2005 the Company was successful in obtaining a \$140,000 South Australian Government "Plan For Accelerating Exploration" (PACE) grant to support the drilling of its geothermal evaluation well at Callabonna.

Beyond the reporting period, in August 2005 the Callabonna geothermal evaluation well was successfully drilled to 693.5 metres. The hole (Yerila-01) recorded an exceptionally high temperature gradient of 68 degrees per kilometre, one of the highest gradients recorded in Australia. This supports the Company's initial model for locating shallow geothermal resources in excess of 220 degrees centigrade at around 3.5 kilometres depth. As such, Yerila-1 marks a breakthrough in the evolution of the hot rock industry towards a business model based on the identification and evaluation of prospective thermal regimes closer to markets and infrastructure, with attendant reduction in project risk and improved total energy supply economics. Re-drilling of the Paralana geothermal evaluation well commenced in September 2005.

Risk Management

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

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As indicated in the Operating and Financial Review, Petratherm Ltd listed on the Australian Stock Exchange following the successful Initial Public Offering of 20 million shares at 20 cents, resulting in \$4 million of initial capital.

Directors' Report continued

30 JUNE 2005

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The consolidated entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The entity is aware of its responsibility to impact as little as possible on the environment, and where there is any disturbance, to rehabilitate sites. During the period under review the majority of work carried out was in South Australia and the entity followed procedures and pursued objectives in line with guidelines published by the South Australian Government. These guidelines are quite detailed and encompass not only the impact on owners and land users, heritage, health and safety and proper restoration practices. The entity supports this approach and is confident that it properly monitors and adheres to these objectives, and any local conditions applicable, both in South Australia and elsewhere.

SHARE OPTIONS

Unissued shares

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

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2004	Issued during Year	Balance at 30 June 2005
25/03/2004	24/03/2009	\$0.20	7,500,000	-	7,500,000
05/04/2004	04/04/2009	\$0.20	2,600,000	-	2,600,000
27/07/2004	26/07/2009	\$0.20	-	2,000,000	2,000,000
28/07/2004	27/07/2009	\$0.20	-	650,000	650,000
22/08/2004	23/08/2009	\$0.32	-	40,000	40,000
16/12/2004	15/12/2009	\$0.32	-	50,000	50,000
			<u>10,100,000</u>	<u>2,740,000</u>	<u>12,840,000</u>

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$35,586. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

REMUNERATION REPORT

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

Remuneration philosophy

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

Employment contracts

The employment conditions of the Chief Executive Officer, Mr Peter Reid, are formalised in a contract of employment. Mr Reid commenced employment on 27 July 2004 and his base salary is \$120,000 plus statutory superannuation contribution of 9%. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Directors' Report continued

30 JUNE 2005

Director remuneration for the year ended 30 June 2005

	Primary benefits		Post Employment		Equity Options	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits		
Derek N Carter 2005	27,500	-	2,475	-	-	29,975
Lloyd Taylor 2005	10,417	-	14,563	-	-	24,980
Richard M Bonython 2005	20,438	-	4,542	-	-	24,980
Richard Hillis 2005	22,917	-	2,063	-	-	24,980
Simon O'Loughlin 2005	22,917	-	2,063	-	-	24,980

Remuneration of executives for the year ended 30 June 2005

	Primary benefits		Post Employment		Equity Options	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits		
Peter Reid 2005	112,125	-	10,091	-	36,440	158,656

Options granted as part of remuneration for the year ended 30 June 2005

	Grant date	Number Granted	Date Vested	Fair value per option at grant date	Exercised Number	Total fair value	% of remuneration
Peter Reid	28 July 2004	400,000	28 July 2004	\$0.0911	-	36,440	22.97%

At the time of issue, the value of the options using the Black-Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option, was \$0.0911 per option.

DIRECTORS' MEETINGS

The numbers of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings
Number of meetings held:	8
Number of meetings attended:	
Derek Carter	8
Lloyd Taylor	8
Richard Bonython	8
Richard Hillis	8
Simon O'Loughlin	8

Directors' Report continued

30 JUNE 2005

Committee membership

An audit committee was established in June 2005. There were no meetings of the audit committee held prior to the 30 June 2005.

Members acting on the audit committee of the Board were:

Richard Bonython

Simon O'Loughlin

Donald Stephens

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The board of directors is satisfied that there was no provision of non-audit services during the year, and that all services were compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The auditors' independence declaration for the year ended 30 June 2005 has been received and can be found on page 9 of the directors' report.

AUDITORS' INDEPENDENCE

The auditors' independence declaration for the year ended 30 June 2005 has been received and can be found on page 9.

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



Derek Carter

Chairman

Dated this 30th day of September 2005.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Ltd for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Regulations 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
CHARTERED ACCOUNTANTS



S J GRAY
Partner

Dated this **30** day of *September* 2005

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Corporate Governance Statement

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

Board Responsibilities

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

The key responsibilities of the board include:

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

Chief Executive Officer and Company Secretary Declaration to the Board of Directors

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

Board Composition

At the date of this statement the board consists of five non-executive directors, Mr D Carter, who is also chairman of the board, Mr L Taylor, Mr R Hillis, Mr R Bonython and Mr S O'Loughlin. Mr Taylor, Mr Hillis and Mr O'Loughlin have no other material relationship with the Company or its subsidiary other than their directorships. Messrs Carter and Bonython are directors of Minotaur Exploration Ltd which is the beneficial holder of 42.9% of the issued capital Petratherm Ltd. The company therefore has three independent directors as those relationships are currently defined.

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

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

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

Board Remuneration

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

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

Conflicts of Interest

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

Corporate Governance Statement continued

Director and Senior Management Dealings in Company Securities

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

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

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

Board Committees

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

- Establishing compensation arrangements of its chief executive officer and its senior executives and officers
- Appointment and retirement of non-executive directors
- Appointment of auditors
- Areas of Business Risk
- Maintenance of Ethical Standards

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

The board established an audit committee in June 2005 comprising two directors of the company, Mr Richard Bonython and Mr Simon O'Loughlin and the company secretary, Mr Donald Stephens. As at the reporting date no meetings of the audit committee had been held. The committee will be responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

External Auditor Attendance at Annual General Meeting

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

Continuous Disclosure

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

Code of Ethics

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

The Role of Shareholders

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

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

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

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

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

- There have been no formal disclosures of policies or processes. Given the involvement of all five directors it is not considered that formal policies or processes are yet required as principles are followed.
- The board has formed an audit committee which will formulate the objectives and responsibilities for that committee. No other committees have been established. As previously noted this is because of the size of the Company and the involvement of the board in the operations of the company. The board takes ultimate responsibility for these matters.

Statement of Financial Performance

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
REVENUE FROM ORDINARY ACTIVITIES	2	146,363	-	146,218	-
Depreciation and amortisation expenses	3	(4,286)	-	-	-
Salaries and employee benefits expense		(196,413)	-	(129,892)	-
Exploration expenditure	3	(54,495)	-	-	-
Other expenses from ordinary activities	3(c)	(272,093)	-	(64,968)	-
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(380,924)	-	(48,642)	-
INCOME TAX EXPENSE	4	-	-	-	-
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(380,924)	-	(48,642)	-
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF PETRATHERM LTD	15	(380,924)	-	(48,642)	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF PETRATHERM LTD		(380,924)	-	(48,642)	-
Basic earnings per share (cents per share)	18	(1.1)	-		
Diluted earnings per share (cents per share)	18	(0.9)	-		

The Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements.

Statement of Financial Position

30 JUNE 2005	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		2,670,150	6,820	2,497,338	1
Receivables	5	134,041	-	1,008,593	-
Other	8	26,366	-	18,240	-
TOTAL CURRENT ASSETS		2,830,557	6,820	3,524,171	1
NON-CURRENT ASSETS					
Property, plant and equipment	9	13,984	3,086	-	-
Exploration and evaluation costs	10	881,841	402,732	-	-
Other financial assets	6	-	-	300,000	300,000
TOTAL NON-CURRENT ASSETS		895,825	405,818	300,000	300,000
TOTAL ASSETS		3,726,382	412,638	3,824,171	300,001
CURRENT LIABILITIES					
Payables	11	207,703	112,637	20,262	-
Provisions	12	47,052	-	-	-
TOTAL CURRENT LIABILITIES		254,755	112,637	20,262	-
TOTAL LIABILITIES		245,755	-	20,262	-
NET ASSETS		3,471,627	300,001	3,803,909	300,001
EQUITY					
Contributed equity	13	3,852,551	300,001	3,852,551	300,001
Retained profits/(losses)	14	(380,924)	-	(48,642)	-
TOTAL EQUITY		3,471,627	300,001	3,803,909	300,001

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

Statement of Cash Flows

YEAR ENDED 30 JUNE 2005	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(440,816)	-	(200,024)	-
Interest received		129,002	-	128,842	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	15(a)	(311,814)	-	(71,182)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(16,240)	-	-	-
Payments for exploration activity		(526,795)	-	-	-
Loans to wholly-owned subsidiary		-	-	(956,479)	-
Loans from/(to) related parties		(6,819)	6,819	-	-
Purchase of controlled entity (net of cash acquired)	15(e)	(27,552)	-	(27,552)	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(577,406)	6,819	(984,031)	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		4,000,000	1	4,000,000	1
Payment of share issue costs		(447,450)	-	(447,450)	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		3,552,550	1	3,552,550	1
NET INCREASE/(DECREASE) IN CASH HELD		2,663,330	6,820	2,497,337	1
CASH AT THE BEGINNING OF THE YEAR		6,820	-	1	-
CASH AT THE END OF THE YEAR	15(b)	2,670,150	6,820	2,497,338	1

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention and on an accrual basis and do not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

Petratherm Ltd is a listed public company, incorporated and domiciled in Australia.

(b) Changes in accounting policies

As the Company is reporting its inaugural results, it is the first year in which the accounting policies have been applied. Accordingly, there have been no changes in accounting policies.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Petratherm Ltd (the parent entity) and all entities which Petratherm Ltd controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Interest is taken up as income on an accrual basis.

(f) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down.

Notes continued

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Property, plant and equipment

Cost basis

All classes of property, plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment.

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

- Plant & Equipment	10 - 40%
---------------------	----------

(h) Exploration and evaluation costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Grants and subsidies are offset against costs as incurred.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

(i) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(j) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

(k) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Interest is recognised when the entity has control of the right to receive the interest payment.

Notes continued

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

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

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

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

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

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

(n) Tax consolidation legislation

Petratherm Ltd and its wholly-owned Australian controlled entity have not yet decided to implement the tax consolidation legislation as of 1 July 2004. The Australian Taxation Office has not yet been notified of any decision.

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

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

Notes continued

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.

The value of the equity-based compensation scheme described in note is not being recognised as an employee benefits expense.

(p) Earnings per share

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

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Notes continued

30 JUNE 2005

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Interest received or receivable		146,363	-	146,218	-
Total revenues from ordinary activities		146,363	-	146,218	-
3. EXPENSES AND LOSSES/(GAINS)					
(a) Expenses					
Depreciation of non-current assets					
- Plant and equipment		4,286	-	-	-
Total depreciation of non-current assets		4,286	-	-	-
Exploration and evaluation costs					
- written off		54,495	-	-	-
Total exploration and evaluation costs		54,495	-	-	-
(b) Movement in provisions:					
Employees annual leave		7,011	-	-	-
Employees long service leave		10,369	-	-	-
		17,380	-	-	-
(c) Other Expenses from ordinary activities					
Secretarial and professional fees		50,548	-	-	-
Occupancy costs		19,044	-	-	-
Share register maintenance		18,844	-	18,844	-
Insurance costs		39,633	-	32,227	-
Promotion and advertising		14,362	-	-	-
Service Charges		38,603	-	-	-
Consulting fees		25,869	-	-	-
Travel expenses		18,188	-	-	-
Stock exchange fees		11,313	-	11,313	-
Audit fees		12,500	-	-	-
Other expenses		23,189	-	2,584	-
		272,093	-	64,968	-

Notes continued

30 JUNE 2005

Notes	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
4. INCOME TAX				
The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:				
Prima facie tax on profit from ordinary activities	(114,277)	-	(14,593)	-
Add: Tax effect of non-allowable items	23,775	-	2,213	-
Less: Tax effect of other deductible items	(188,079)	-	(26,847)	-
Income tax benefit attributable to ordinary activities not brought to account as the benefit is not virtually certain of being realised.	<u>(278,581)</u>	-	<u>(39,227)</u>	-

Income tax losses

Future income tax benefit arising from tax losses of a controlled entity not recognised at reporting date as realisation of the benefit is not regarded as virtually certain

- timing differences at 30%
- tax losses at 30%

- timing differences at 30%	(30,069)	-	109,601	-
- tax losses at 30%	278,581	-	39,227	-
	<u>248,512</u>	-	<u>148,828</u>	-

This future income tax benefit will only be obtained if:

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

Tax consolidation

Petratherm Ltd and its wholly-owned Australian controlled entity (MNGI Pty Ltd) have not yet decided to implement the tax consolidation legislation as of 1 July 2004. The Australian Taxation Office has not yet been notified of any decision. The accounting policy relating to the possible implementation of the tax consolidation legislation is set out in note 1, together with the impact on the income tax expense for the year.

Notes continued

30 JUNE 2005

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
5. RECEIVABLES (CURRENT)					
Trade debtors	5(b)	93,980	-	-	-
Sundry debtors	5(b)	39,843	-	24,563	-
Goods and Services Tax receivable		-	-	-	-
Amounts other than trade debts receivable from related parties:	5(a)				
Wholly-owned group					
- controlled entities	21	-	-	984,030	-
Other related parties					
- Director related entity: Minotaur Exploration Ltd		218	-	-	-
		<u>134,041</u>	<u>-</u>	<u>1,008,593</u>	<u>-</u>

(a) Total related party receivables

Wholly-owned group					
- controlled entities	21	-	-	984,030	-
Other related parties					
- Director related entity: Minotaur Exploration Ltd	21	218	-	-	-
		<u>218</u>	<u>-</u>	<u>984,030</u>	<u>-</u>

(b) Terms and conditions

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

6. OTHER FINANCIAL ASSETS

Shares in controlled entities (MNGI Pty Ltd)	-	-	300,000	300,000
	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>300,000</u>

The shares represent the investment in MNGI Pty Ltd, which is a private company and as such, the carrying amount of the investment is at cost.

7. INTEREST IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2005	2004	2005	2004
		%	%	\$	\$
MNGI Pty Ltd	Australia	100	100	300,000	300,000
				<u>300,000</u>	<u>300,000</u>

8. OTHER CURRENT ASSETS

Prepayments	11,164	-	3,038	-
Other current assets	15,202	-	15,202	-
	<u>26,366</u>	<u>-</u>	<u>18,240</u>	<u>-</u>

Notes continued

30 JUNE 2005

Notes

CONSOLIDATED

PARENT ENTITY

2005

2004

2005

2004

\$

\$

\$

\$

9. PROPERTY, PLANT AND EQUIPMENT

Plant & equipment

At cost

18,270

3,086

-

-

Accumulated depreciation

(4,286)

-

-

-

Total plant and equipment

9(a)

13,984

3,086

-

-

(a) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

Plant and equipment

Balance at the beginning of the period

3,086

-

-

-

Additions

15,184

3,086

-

-

Depreciation expense

(4,286)

-

-

-

13,984

3,086

-

-

10. EXPLORATION AND EVALUATION COSTS

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

Pre-production

- Exploration and evaluation phase

881,841

402,732

-

-

881,841

402,732

-

-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

11. PAYABLES (CURRENT)

Trade creditors

170,894

105,818

-

-

Other creditors (a)

36,809

6,819

20,262

-

207,703

112,637

20,262

-

(a) Total related party payables

Other related parties

- Director related entity: Minotaur Resources Ltd

21

-

6,819

-

-

12. PROVISIONS (CURRENT)

Employee benefits

16

47,052

-

-

-

47,052

-

-

-

Notes continued

30 JUNE 2005

	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
13. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		3,852,551	300,001	3,852,551	300,001
		<u>3,852,551</u>	<u>300,001</u>	<u>3,852,551</u>	<u>300,001</u>

(b) Movements in shares on issue

	2005		2004	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	15,000,001	300,001	-	-
Issued during the year				
– Shares issued pursuant to Prospectus	20,000,000	4,000,000	15,000,001	300,001
less transaction costs	-	(447,450)	-	-
End of the financial year	<u>35,000,001</u>	<u>3,852,551</u>	<u>15,000,001</u>	<u>300,001</u>

14. RESERVES AND RETAINED PROFITS/(LOSSES)

Retained profits	14(a)	<u>(380,924)</u>	-	<u>(48,642)</u>	-
(a) Retained profits					
Balance at the beginning of year		-	-	-	-
Net profit attributable to members of Petratherm Ltd		(380,924)	-	(48,642)	-
Total available for appropriation		<u>(380,924)</u>	-	<u>(48,642)</u>	-
Balance at end of year		<u>(380,924)</u>	-	<u>(48,642)</u>	-

Notes continued

30 JUNE 2005	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
15. STATEMENT OF CASH FLOWS					
(a) Reconciliation of the net profit/(loss) to the net cash flows from operations					
Net profit/(loss)		(380,924)	-	(48,642)	-
Non-Cash Items					
Depreciation of non-current assets		4,286	-	-	-
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		(30,466)	-	(15,202)	-
(Increase)/decrease in prepayments		(11,164)	-	(3,037)	-
(Decrease)/increase in trade and other creditors		59,142	-	20,262	-
(Increase)/decrease in withholding tax receivable		(2,175)	-	(2,175)	-
(Increase)/decrease in net goods and services tax receivable		(22,388)	-	(22,388)	-
(Decrease)/increase in employee entitlements		17,380	-	-	-
Write off of tenement costs (classified as an investing activity)		54,495	-	-	-
Net cash flow from operating activities		(311,814)	-	(71,182)	-
(b) Reconciliation of cash					
Cash balance comprises:					
- cash on hand		2,670,150	6,820	2,497,338	1
Closing cash balance		2,670,150	6,820	2,497,338	1

(c) Acquisition of Controlled Entity

Petratherm Ltd acquired its subsidiary MNGI Pty Ltd by purchasing 100% of the issued capital in exchange for 15,000,000 ordinary shares. The details of the transaction are listed below:

	\$
Consideration	
- Fair value of shares issued	300,000
	<u>300,000</u>
\$	
Net Assets of MNGI Pty Ltd at acquisition date:	
- tenement properties	357,224
- payables	(60,524)
Net Assets acquired (excluding cash)	296,700
Shares issued	(300,000)
	3,300
Cash included in net assets acquired	(3,300)
	<u>-</u>
Cash paid for the purchase of controlled entity as reflected in the consolidated statement of cash flow	27,552
Represented by:	
- settlement of payables	(60,524)
- employee provision undertaken	29,672
- cash included in net assets acquired	3,300

Notes continued

30 JUNE 2005

Notes

CONSOLIDATED

PARENT ENTITY

2005

2004

2005

2004

\$

\$

\$

\$

16. EMPLOYEE BENEFITS

Employee Benefits

The aggregate employee benefit liability is comprised of:

Accrued wages, salaries and on costs
Provisions (current)

7,375	-	7,375	-
47,052	-	-	-
54,427	-	7,375	-

Employee Share Option Scheme

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

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

Information with respect to the number of options granted under the share option plan is as follows:

		2005		2004	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
- granted during the year		490,000	0.22	-	-
Balance at end of year	16(a)	490,000	0.22	-	-
Exercisable at end of year		490,000	0.22	-	-

The fair value of options issued during the year was \$64,755.

(a) Options held as at the end of the reporting period

The following table summarises information about options held by employees as at 30 June 2005:

Number of options	Grant date	Vesting date	Expiry date	Exercise price
400,000	28 July 2004	28 July 2004	27 July 2009	20 cents
40,000	22 August 2004	22 August 2004	23 August 2009	32 cents
50,000	16 December 2004	16 December 2004	15 December 2009	32 cents
490,000				

Notes continued

30 JUNE 2005

Notes

CONSOLIDATED

PARENT ENTITY

2005

2004

2005

2004

\$

\$

\$

\$

17. SUBSEQUENT EVENTS

No matters or events have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of its operations, or the state of affairs of the Company in subsequent financial years.

18. EARNINGS PER SHARE

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

Net profit

(380,924)

-

Earnings used in calculating basic and diluted earnings per share

(380,924)

-

Number of
shares

Number of
shares

Weighted average number of ordinary shares used in calculating basic earnings per share

35,000,001

15,000,001

Effect of dilutive securities:

Shares issued free of consideration

4,780,531

-

Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share

39,780,532

15,000,001

19. AUDITORS' REMUNERATION

Amounts received or due and receivable by Grant Thornton for:

- an audit or review of the financial report of the entity and any other entity in the consolidated entity

12,500

-

-

-

12,500

-

-

-

20. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Directors and Specified Executives

(i) Directors

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

(ii) Specified executives

Mr Peter Reid	Chief Executive Officer
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Notes continued

30 JUNE 2005

20. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

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

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

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

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

(ii) Remuneration of Specified Directors and Specified Executives

	Primary Salary & Fees	Post Employment Superannuation	Retirement benefits	Equity Options	Total
Directors					
Derek Carter	27,500	2,475	-	-	29,975
Lloyd Taylor	10,417	14,563	-	-	24,980
Richard Bonython	20,438	4,542	-	-	24,980
Richard Hillis	22,917	2,063	-	-	24,980
Simon O'Loughlin	22,917	2,063	-	-	24,980
Total Remuneration: Directors					
	104,189	25,706	-	-	129,895
Specified Executives					
Peter Reid	112,125	10,091	-	36,440	158,656
Total Remuneration: Specified Executives					
	112,125	10,091	-	36,440	158,656

As this is the company's inaugural report, no comparative information is available.

Notes continued

30 JUNE 2005

20. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(c) Remuneration options: Granted and vested during the year

	Number Vested	Number Granted	Grant Date	Terms & Conditions for Each Grant			
				Fair value per option at grant date (\$)	Exercise Price per share (\$)	First Exercise Date	Last Exercise Date
Specified Directors	-	-	-	-	-	-	-
Specified Executives							
Peter Reid	400,000	400,000	28 Jul 2005	\$0.0911	\$0.20	28 Jul 2005	27 Jul 2009
Donald Stephens	250,000	250,000	28 Jul 2005	\$0.0911	\$0.20	28 Jul 2005	27 Jul 2009

(d) Option holdings of specified directors and specified executives

	Balance at beginning of period 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period		Vested at 30 June 2005	
					30 June 2005	Total	Not exercisable	Exercisable
Specified Directors								
Derek Carter	1,200,000	-	-	-	1,200,000	1,200,000	1,200,000	-
Lloyd Taylor	400,000	-	-	-	400,000	400,000	400,000	-
Richard Bonython	500,000	-	-	-	500,000	500,000	500,000	-
Richard Hillis	300,000	-	-	-	300,000	300,000	300,000	-
Simon O'Loughlin	200,000	-	-	-	200,000	200,000	200,000	-
Specified Executives								
Peter Reid	-	400,000	-	-	400,000	400,000	-	400,000
Donald Stephens	-	250,000	-	-	250,000	250,000	-	250,000
Total	2,600,000	650,000	-	-	3,250,000	3,250,000	2,600,000	650,000

Options issued to the Directors of the consolidated entity are escrowed until 27 July 2006, at which point they will be exercisable at any time until 4 April 2009.

(e) Shareholdings of Directors and Specified Executives

Shares held in Petratherm Ltd	Balance 1 July 2004	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2005
	Ord	Ord	Ord	Ord	Ord
Specified Directors					
Derek Carter	-	-	-	60,000	60,000
Lloyd Taylor	-	-	-	300,000	300,000
Richard Bonython	-	-	-	270,000	270,000
Richard Hillis	-	-	-	20,000	20,000
Simon O'Loughlin	-	-	-	100,000	100,000
Specified Executives					
Mr Peter Reid	-	-	-	50,000	50,000
Total	-	-	-	800,000	800,000

All shares acquired by the directors and specified executives of the consolidated entity were in relation to the IPO of Petratherm Ltd. All shares were acquired at the price of \$0.20 per share.

Messrs Carter and Bonython are directors of Minotaur Exploration Ltd which is the beneficial holder of 15,000,001 ordinary shares.

Notes continued

30 JUNE 2005

21. RELATED PARTY DISCLOSURES

Wholly-owned group transactions

Loans

The wholly-owned Group consists of Petratherm Ltd and its wholly owned controlled entity MNGI Pty Ltd. Ownership interests in these controlled entities are set out in note 7. Transactions between Petratherm Ltd and MNGI Pty Ltd during the year consisted of loans advanced by Petratherm Ltd to fund exploration and investment activities. The loan amounts are detailed in note 5 (a).

Other related party transactions

Administrative Costs

Administration and service fees have been paid to Minotaur Exploration Ltd, which is a related party of Petratherm Ltd. These fees relate to shared administrative costs including the salaries of key administrative staff, use of computer network and shared office space. Additionally included are disbursements of administration related expenditure. These costs have been incurred at an amount that would be attracted in an arms length commercial transaction. The total expense incurred by Petratherm Ltd in regards to Minotaur Exploration Ltd's services throughout the reporting period was \$26,142 (exclusive of GST).

Prior to its demerger, Minotaur Resources Ltd was also a related party of Petratherm Ltd which provided the same services, as previously mentioned. The total expense incurred by Petratherm Ltd in regards to Minotaur Resources Ltd's services throughout the reporting period was \$54,628 (exclusive of GST).

22. SEGMENT REPORTING

The Company operates solely in the mineral exploration industry within Australia.

23. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result in changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2005	Notes	Fixed Interest for:				Total
		Floating Interest rate	1 year Or less	Over 1 to 5 years	Non-interest Bearing	
Financial Assets						
Cash and deposits		570,150	2,100,000	-	-	2,670,150
Receivables	5	-	-	-	149,243	149,243
		<u>570,150</u>	<u>2,100,000</u>	<u>-</u>	<u>149,243</u>	<u>2,819,393</u>
Weighted average interest rate		4.34%	5.79%	-	-	
Financial Liabilities						
Trade and other creditors	11	-	-	-	207,703	207,703
		<u>-</u>	<u>-</u>	<u>-</u>	<u>207,703</u>	<u>207,703</u>
Weighted average interest rate		-	-	-	-	

(b) Credit Risk

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors.

(c) Net Fair Value

At balance date the carrying amount of financial assets and their realisable value are not materially different

Notes continued

30 JUNE 2005	Notes	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
24. COMMITMENTS FOR EXPENDITURE					
(a) Operating Lease Commitments Payable					
- not later than one year		19,665	-	-	-
- later than one year but not later than 5 years		33,756	-	-	-
- aggregate lease expenditure contracted for at reporting date		<u>53,421</u>	-	-	-

(b) Exploration Leases

In order to maintain current rights of tenure to exploration tenements the Company will be required to outlay in the year ending 30 June 2006 amounts of approximately \$1,318,360 in respect of tenement lease rentals and to meet minimum expenditure requirements. These obligations are expected to be fulfilled in the normal course of operations.

25. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Petratherm Ltd is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the consolidated and parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated.

The consolidated entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that there are no material differences in the consolidated entity's accounting policies on conversion to AIFRS. Users of the financial statements should note, however, that this could change if there are any amendments by standard-setters to the current AIFRS, or interpretation of the AIFRS requirements changes from the continuing work of the consolidated entity's management.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

Exploration and Evaluation

AASB 6 was issued in December 2004 to facilitate the introduction of Australian equivalents to IFRS in respect of the treatment of exploration and evaluation expenditure. There is still no comprehensive international standard covering the extractive industries and AASB 6 provides no real guidance other than allowing entities to "grandfather" previous accounting policies adopted for the extractive industries. The new AASB 6 retains the Area of Interest approach as contained in AASB 1022. The board has elected to adopt the key policies keeping strictly in line with AASB 6, and in the transition to AASB 6 during the Financial Year, the consolidated entity has completed Impairment Testing on all of its Exploration and Evaluation Expenditure previously capitalised which has not resulted in any write-down.

Recoverable Amount of Non-Current Assets

The consolidated entity's existing approach to impairment is consistent with the requirements of AASB 136. As a result the introduction of this standard will have no impact on the consolidated entity's financial statements.

Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of the fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generate cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

Share Based Payments

Under AASB 2: Share Based Payments, the consolidated entity is required to recognise an expense for those options that were issued to employees or executives. This will result in a change to the current accounting policy under which no expense is recognised for equity based remuneration. If the policy required by AASB 2 had been applied during the year ended 30 June 2005, consolidated employee benefits expense would have been \$64,755 higher with a corresponding increase in share based payment reserve.

Notes continued

30 JUNE 2005

25. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont'd)

Income Tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the differences between the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax base.

This will result in a change to the accounting policy under which deferred tax balances are determined using the income statement method. The standard requires the recognition of temporary differences when it is probable that the Consolidated entity will generate sufficient taxable profit in the same period as the reversal of the deductible temporary difference or taxation loss (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward) At the date of this report it is considered that the Consolidated entity would not meet this criteria.

AASB 112 requires the recognition of temporary differences associated with revenues and expenses taken directly to equity. The Consolidated entity has previously recognised transaction costs associated with capital raising directly in equity. The effect of this recognition is to increase share capital by \$134,235 and increase accumulated losses by \$134,235. The adjustment to accumulated losses reflects the directors view that the criteria for recognition of deferred tax assets has not been met.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

Notes	CONSOLIDATED 30 June 2005 \$	PARENT ENTITY 30 June 2005 \$
Total equity under AGAAP	3,471,627	3,803,909
AASB 12 adjustment in regards to capital raising costs	(134,235)	(134,235)
Decrease in current year profit resulting from transition to AIFRS	(64,755)	(64,755)
Total equity under AIFRS	3,272,637	3,604,919

This represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

(b) Reconciliation of net profit under AGAAP to that under AIFRS

YEAR ENDED 30 JUNE 2005	CONSOLIDATED \$	PARENT ENTITY \$
Net profit as reported under AGAAP	(380,924)	(48,642)
AASB 12 adjustment in regard to employee share options	(64,755)	(64,755)
Net profit under AIFRS	(445,679)	(113,397)

Directors' Declaration

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

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity are 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 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board



Derek Carter
Chairman

Adelaide, ¹¹ 27 September 2005

**INDEPENDENT AUDIT REPORT
TO MEMBERS OF PETRATHERM LTD AND CONTROLLED ENTITIES****Scope****The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration of Petratherm Ltd and Controlled Entities (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

Independence

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

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Audit opinion

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

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of Petratherm Ltd's and consolidated entity's financial position as at 30 June 2005, and of its performance for the year ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Act 2001; and
- (b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON
CHARTERED ACCOUNTANTS


S J GRAY
Partner

Signed at Adelaide this **30** day of *September* 2005