

27 October 2008

ASX Code: PTR

ABN 17 106 806 884

105-106 Greenhill Road
Unley SA 5061

T: +61 8 8274 5000

F: +61 8 8272 8141

W: www.petratherm.com.au/

E: admin@petratherm.com.au



PETRATHERM LIMITED
ABN 17 106 806 884

2007/2008 Annual Report released

Petratherm is pleased to submit the Company's 2007/2008 Annual Report which details the significant progress the company has made during the year.

Major achievements for the period are outlined below.

South Australia - Paralana Geothermal Energy Project

- TRUenergy was added as a joint venture partner in the Company's flagship Paralana project under a farm-in agreement in which TRUenergy may earn up to 30% of the project for an investment of \$57 million (plus their equity share of project costs)
- The partnership with TRUenergy, together with the existing up to \$30 million JV with Beach Petroleum, means that for the next project stage a total of \$10.5 million per well will be provided through JV's and a Commonwealth Government REDI grant.
- A 2,000 HP LeTourneau 'Lightning' Drilling Rig has been secured through a drilling services contract with Weatherford Drilling International, with spudding of the first deep well expected in May 2009.
- Significant surface work including a reflection seismic study, a magneto-telluric survey and the installation of a passive seismic array were completed during the year and have contributed to establishing the final location of the Paralana 2 deep well and to understanding the characteristics of the Paralana resource.
- The Paralana project plan is on track to enable the Company to prove its unique HEWI model (that seeks to lower costs and risks) and to be the first to produce commercial EGS energy in late 2010.

Spain – Madrid and Canary Islands

- The Company's Spanish project portfolio was expanded from two to seven, with several projects located adjacent to the prime electricity consumption markets of Madrid and Barcelona
- Petratherm has secured first mover advantage in Spain with projects spanning conventional geothermal, EGS and direct heating technologies
- Excellent progress has been made on the Geo-Madrid Geothermal District Heating (GDH) Project with a recent re-entry inspection program of two existing wells confirming better than expected project economics. The Company estimates the Geo-Madrid project could commence construction by November 2009 with geothermal heat production and project revenues flowing by July 2010.

China

- During the period, Petratherm entered into an exclusive, landmark Agreement with four Chinese Government institutions and is aiming to secure geothermal exploration licenses over high value prospects. The Agreement uniquely positions Petratherm to exploit the very large geothermal resource potential available in China - providing base-load, large scale, emission free sources of heat and electricity in the world's largest growing energy market.

Corporate, Market, Industry and Regulatory

- Petratherm's internal skill base was expanded with the appointments of John King (Project Manager, Paralana), Victor Guerrero (Project Geologist, Spain), Brett Meredith (Tenement & Compliance Manager), Caroline Jasper (Public & Investor Relations Manager) and Wendy Blackeby (Administrative Assistant). In addition the Company secured, on an Australia exclusive basis, the services of Geothermal Explorers – a Swiss based expert EGS consultants to assist with the Paralana project
- The Company's Managing Director, Mr. Terry Kallis was appointed to a number of key industry leadership positions including Deputy Chair of the Australian Geothermal Energy Association (AGEA), member of the Australian Geothermal Industry Development Framework (AGIDF) project reference group and as AGEA's representative to the Australian Energy Market Commission's (AMEC) Stakeholder Advisory Committee to review the national gas and electricity market – in light of Climate Change and Renewable Energy policies.
- The Federal Government has established the \$50 million Drilling Fund that provides up to \$7 million per project to assist deep drilling activities. In addition a long-term framework for Climate Pollution Reduction Scheme and a Renewable Energy Target is being vigorously pursued by Government.

Calendar year 2009 represents a watershed year for the Company as major deep drilling activity will commence at Paralana, significant commercial development is expected to continue in Spain in particular the Geo-Madrid District Heating project. The Company also expects to enter the Chinese energy market, securing new geothermal exploration licenses during 2009.

Yours faithfully



Terry Kallis
Managing Director

MEDIA CONTACTS:

Terry Kallis
Jenny Brinkworth

Petratherm Limited
Hughes Public Relations

08 8274 5000
08 8412 4100



CORPORATE INFORMATION

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

A description of the Group's operations and its principal activities is included in the Review of Operations.

ASX Code: PTR

www.petratherm.com.au



Mt Tiede, Tenerife

Directors

Derek Carter (Chairman)
Terry Kallis (Managing Director)
Lloyd Taylor (resigned 31/08/2008)
Richard Bonython
Richard Hillis
Simon O'Loughlin

Company Secretary

Donald Stephens

Registered Office

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

Legal Advisors

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

Principal Place of Business

105 – 106 Greenhill Road
UNLEY SA 5061

Bankers

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

Share Registry

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

Auditors

Grant Thornton South Australian Partnership
Chartered Accountants
67 Greenhill Road
WAYVILLE SA 5034

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CHAIRMAN'S REPORT



During the 2007/2008 financial year the Company made significant progress in its Australian and Spanish projects and also commenced exploration activities in China – establishing itself as an Australian explorer with an international reach with geothermal projects across the spectrum of technologies. These include electricity generation from engineered geothermal systems (EGS) and conventional volcanic-based systems, and direct use geothermal heat for district heating.

In Australia, Petratherm and its joint venture partner Beach Petroleum took major strides with their flagship Paralana geothermal energy project. Consistent with its planned phased approach to development, the Company completed seismic reflection and magneto-telluric surveys and well design work in preparation for drilling the first of two, four kilometre deep wells (Paralana 2 and 3). Passive seismic monitoring to provide a basis for measuring background seismic activity and the creation of the requisite underground reservoir has also commenced at the Paralana site.

The near term aim for the Company at Paralana is to prove, during calendar year 2009, its unique HEWI model that seeks to lower costs and risks, enabling EGS-based geothermal projects to be commercially viable. Beyond that, the Company is aiming to produce its first commercial EGS power at Paralana in late 2010.

The preparatory work referred to above has provided the Company with a better understanding of the geological characteristics of the Paralana project and enabled overall project risks to be further reduced. This has provided a sound foundation upon which to commence the deep drilling and fracture stimulation program.

Post the reporting period an additional JV partner, TRUenergy (internationally owned by the Hong Kong based CLP Group) was added to the project under a farm-in agreement for up to \$57 million for 30% for the Project. In addition, a 2000HP drilling rig has been secured through a drilling services contract with Weatherford Drilling International.

The TRUenergy farm-in complements the existing JV with Beach Petroleum (up to \$30 million for 36%) and together with Petratherm's geological capabilities, provides a formidable collaboration.

Strong government support for the Australian geothermal energy industry was further enhanced in 2007/08 with the announcement of the Federal Government \$50 million Drilling Fund that aims to support deep drilling for proof of concept projects, such as Paralana. The government's Geothermal Industry Development Framework and the \$450 million Renewable Energy Fund also provide further and strong support for the geothermal energy industry while

TRUenergy and Petratherm representatives at the farm-in signing ceremony in Melbourne on 4 August 2008.



the new Carbon Pollution Reduction Scheme and Renewable Energy Target will provide a robust long term framework in which geothermal and other renewable energy projects can operate.

In Spain, Petratherm increased its project portfolio from two to seven with projects covering the spectrum of geothermal technologies across mainland Spain and the Canary Islands. The results of the Geo-Madrid district heating project pre-feasibility study were very encouraging and a full feasibility assessment is now underway with plans to produce first project revenues in mid 2010. Recent confirmation that one of the existing two wells at the Geo-Madrid site can be used for injection has resulted in an estimated 30% saving in total capital costs, considerably improving the economics of the project.

Conventional volcanic geothermal projects on the islands of Tenerife and Gran Canaria have also shown encouraging prospects and exploration activity will now focus on studies to pinpoint the expected naturally occurring high temperature reservoirs. Petratherm's Madrid EGS project is also attracting significant interest and attention from Spanish governments (federal and regional) because of the potential to deliver large scale, emission free base-load power into a market that is reliant on external sources of energy.

In China, Petratherm commenced an assessment of potential high quality geothermal projects achieving access to key data through an exclusive agreement with four Chinese government institutions. During the year the Company examined the potential for both conventional and EGS projects in China and through the Federal Government's Asia Pacific Partnership (APP) program, secured the support of the Chinese and Australian

governments to collaboratively 'identify' high prospect geothermal projects in China. The Chinese market for power, direct-use heat and renewable energy is potentially enormous and presents a major growth opportunity for the Company.

During the year the Petratherm team expanded its skills base with the appointments of John King (Project Manager, Paralana), Victor Guerrero (Spanish Project Geologist) and Brett Meredith (Tenement and Compliance Manager) to meet the growing needs of the business. Other appointments included Mathieu Messelier (Project Geologist), Caroline Jasper (Public and Investor Relations) and Wendy Blackeby (Administrative Assistant).

In addition to these appointments, the services of a number of skilled consultants were secured. Swiss-based EGS consultant, Geothermal Explorers Limited, was engaged on an Australia-exclusive basis, to provide key advice on the Paralana Project, while Professor Richard Hillis and Associate Professor Martin Hand, of the University of Adelaide were retained to assist in the Company's exploration and project development processes.

I am confident that with the skilled team assembled at Petratherm and the ongoing support by government, at all levels, the Company will continue to achieve excellent progress. I thank all who have contributed to the Company's activities to date and look forward to working with them in the coming year. In particular, I offer congratulations to our Managing Director Terry Kallis on his appointment to the Australian Energy Market Commission's Stakeholder Advisory Committee Review of Australia's gas and electricity frameworks and for his efforts in forming the Australian Geothermal Energy Association, of which he is Deputy Chairman, to represent the interests of the geothermal industry.

Yours sincerely



Derek Carter
Chairman

2000HP Drilling Rig for Paralana 2 well announced on 3 September 2008



CORPORATE OVERVIEW

During the 2007/2008 year, Petratherm Limited affirmed its position as a leader in the Australian Geothermal Energy Sector, making significant progress on its flagship Paralana Project and in its Madrid direct heating project. These advances were made amid major concerns world-wide regarding climate change and the impact of carbon dioxide.

In this respect, the Federal Government announced that it is targeting a 60% greenhouse emissions cut by 2050, introducing an Emissions Trading Scheme (ETS) and expanding the Mandatory Renewable Energy Target (MRET) Scheme.

In relation to specific geothermal energy industry policy, the Federal Government will shortly finalize its Australian Geothermal Industry Development Framework (AGIDF) that aims to identify barriers and issues faced by the Industry and to propose solutions. The AGIDF is part of the COAG Technology Roadmap and its recommendations are to be finalized by November 2008.

Further evidence of strong support is the Government's August 2008 guidelines for its \$50 million drilling fund (for nominally the first seven projects to undertake deep drilling) to bridge the clear gap between the existing REDI/Climate Ready and the Renewable Energy Demonstration Fund (REDF) capital grant programs. The maximum available grant is \$7 million per 'proof of concept' project.

The Australian Geothermal Energy Association (AGEA) was formed in November 2007 and Terry Kallis appointed Deputy Chairman. AGEA has been very active and has provided input into a number of policy positions including the Emissions Trading Scheme, Renewable Energy Target, the \$450 million Renewable Energy Demonstration Fund, the \$50 million Drilling Fund and the Australian Geothermal Industry Development Framework.

Terry Kallis was also appointed to the AGIDF project implementation group and as AGEA's representative to the Australian Energy Market Commission's (AEMC) Stakeholder Advisory Committee review of Australia's gas and electricity markets.

Re-entry well in Geo-Madrid Geothermal District Heating (GDH) Project.



Mission

'to explore for and develop, emission free, geothermal energy projects that are commercially sustainable'

Business Model

'to develop a portfolio of quality geothermal energy projects, conventional and Engineered Geothermal Systems (EGS) – for power and heat – where there is a favourable combination of geology and market conditions – and introduce joint venture partners with skills, appetite and funding ability to further develop projects through to production'

The geothermal energy industry has strong bi-partisan support, and based on the above, the Industry is expected to have a very supportive regulatory market and government policy environment in which to operate leading into calendar 2009.

Petratherm, as a clear leader in the Industry, is very well positioned to take early and significant advantage of the supportive environment for geothermal energy.

Low Emission & Renewable Energy Technologies

Recent independent analyses of the various renewable energy technologies have reaffirmed the competitive advantages available from geothermal energy. They are:

- Ability to provide large-scale base-load power unlike the intermittent power sources of wind and solar
- Large reserves that potentially could satisfy Australian electricity demand for several centuries
- Reliable, emission free and low environmental impact.

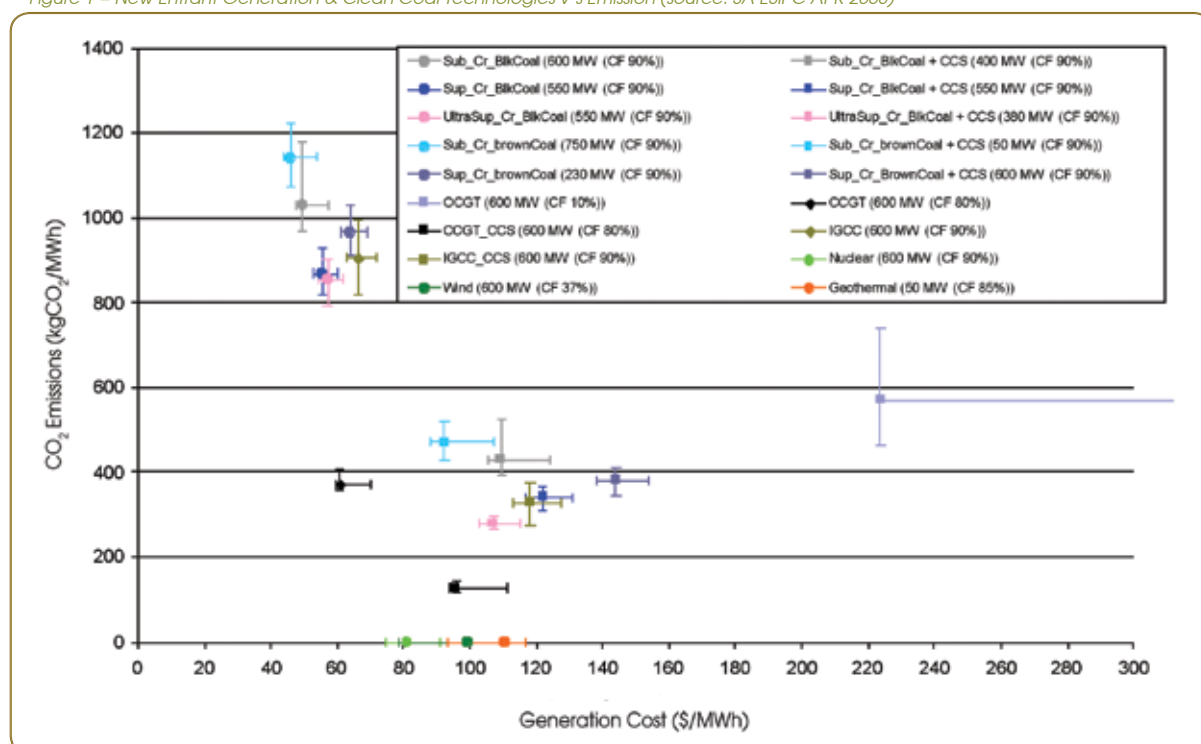
The South Australian Electricity Supply Industry Planning Council's (ESIPC) Annual Planning Report 2008 (released in July 2008) that analyzed various renewable energy technologies and low emission coal, gas and nuclear options has assessed geothermal energy as the current lowest cost renewable energy source of electricity production (Refer Figure 1).

A recent report from McLennan Magasanik Associates (MMA), commissioned by AGEA and launched in August 2008, has concluded that substantial amounts of competitively priced geothermal power could be delivered into the National Electricity Market (NEM) supplying needed renewable base-load power and contributing to the Australian economy (Refer Figures 2 and 3).

The key findings of the MMA report include:

- The emerging Australian Geothermal Energy Industry can be expected to provide at least 1,000 MW and potentially up to 2,200 MW of base-load capacity by 2020 into the National Electricity Market
- That capacity potentially represents up to 40% of the Federal Government's 2020 Renewable Energy target of 45,000 GWh – the equivalent output of up to 6,000 MW of wind farms

Figure 1 – New Entrant Generation & Clean Coal Technologies v's Emission (source: SA ESIPC APR 2008)



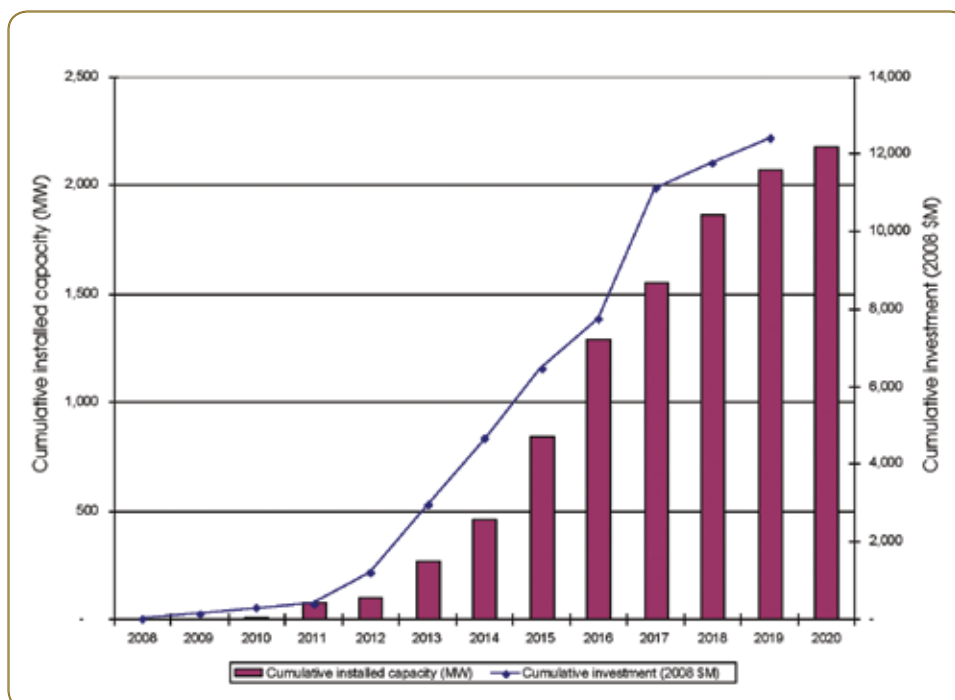


Figure 2 – Cumulative MW installed and cumulative investment

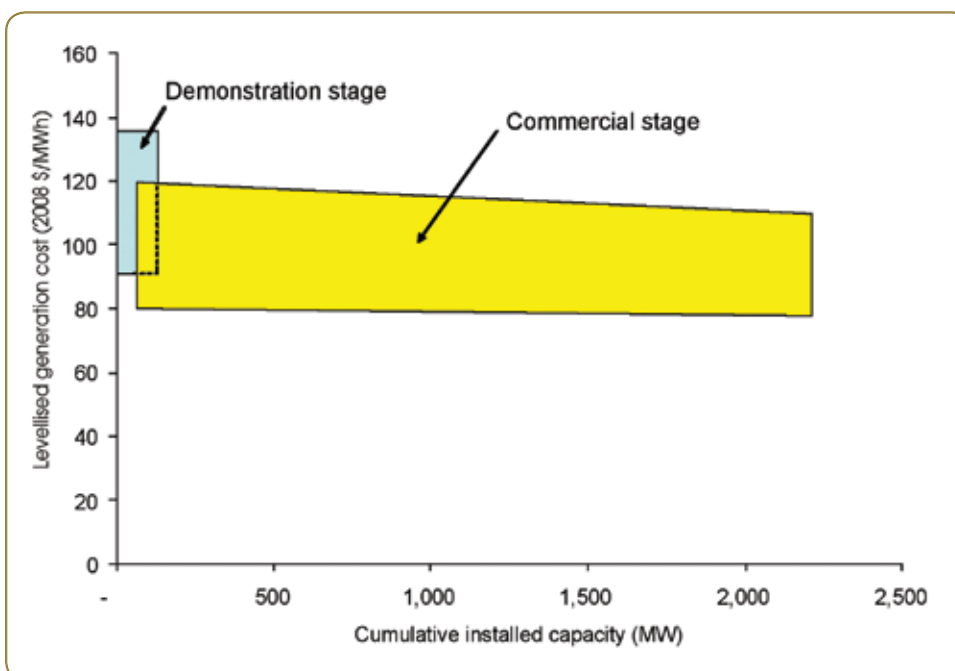


Figure 3 – Levelised generation costs by cumulative installed capacity

- An estimated \$12 billion would be invested to develop 2,200 MW of installed capacity
- The cost of generating electricity from geothermal resources is expected to move rapidly down the cost curve through to 2020 – through learning, experience and economies of scale outcomes commencing at around \$120/MWh at small scale (10 MW to 50 MW) and decreasing to around \$80/MWh at large scale (300 MW or greater) by 2020
- Prices are expected to be the lowest cost of any form of renewable energy
- Most of the capacity is expected to come from developments in South Australia with other states increasing their contribution toward the end of the 2020 period.



Australian Market and Competition for Geothermal Power

According to the National Electricity Market Management Company (NEMMCO) the interconnected National Electricity Market (NEM) is projected to require at least 5,000 MW of new electricity generation capacity over the next ten years.

South Australia is projected to require at least 500 MW of new capacity over the next decade (Refer Figure 4).

Importantly, it should be noted that the forecast in Figure 4 does not include the potentially, very large increase in BHP Billiton's Olympic Dam mine's electricity supply, estimated at 520 MW (growing from 130 MW to 650 MW by 2014).

Beyond the next ten year period – when Leigh Creek coal is expected to be depleted – the total demand for the State over the decade is expected to reach around 1500 MW therefore requiring either new coal or new generation capacity of 520 MW to be available.

Petratherm is targeting to supply about one third of the additional 1500 MW demand – around 520 MW and has developed a long term, realistic commercialization plan for its Paralana Project (refer later) to meet that target.

The market and competition for Engineered Geothermal Systems (EGS) projects in Australia has grown considerably over the last year with some 39 companies holding around 277 Geothermal Exploration Licences (GELs) with 90% of activity in South Australia.

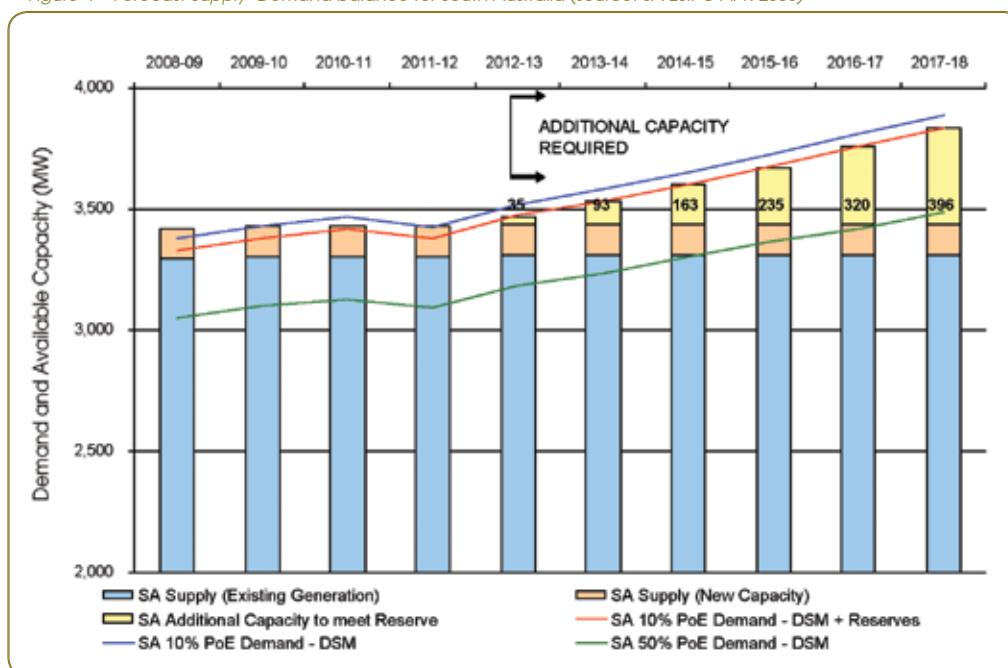
Petratherm has established itself as a recognized industry leader, and continues to assess the market, competition and new opportunities, and has reconfirmed its view that the Paralana Project is the best geothermal energy project under development.

Market Differentiation and Competitive Advantages

Petratherm has successfully differentiated itself in the geothermal energy sector through both its innovative Exploration Model and the Heat Exchanger within Insulator (HEWI) model.

Petratherm's exploration model and process, developed in collaboration with the University of Adelaide, has positioned the Company to be able to 'explore for heat' and to quickly assess the viability of geothermal projects – across a variety of geological settings, end use markets and regulatory regimes in various countries.

Figure 4 – Forecast Supply–Demand balance for South Australia (source: SA ESIPC APR 2008)



The Company has a portfolio of quality geothermal energy projects in Australia and Spain, with more to come in those countries, and soon in China – where Petratherm has the support of the Chinese and Australian governments through the Asia-Pacific Partnership.

Of particular importance has been the strategic entry into Spain, securing 'first mover' advantage with projects near the large electricity consumption markets of Madrid and Barcelona, as well as access to conventional geothermal acreage on the Islands of Tenerife and Gran Canaria (in the Canary Islands). The Company has expanded its Spanish portfolio to include projects in Seville, Alicante and the Almazan areas.

Over the 2007/2008 financial year Petratherm expanded its project portfolio from 7 to 11 with 4 new Spanish projects – including Gran Canaria, Almazan, Seville and Alicante.

Petratherm uses the skills of a multi-disciplinary team (internal and external) to understand and assess the market, regulatory regime, technology and geological characteristics of potential projects in order to maximize potential value of those projects whilst concurrently minimizing project risks.

Petratherm's 'exploration for heat' and HEWI models resulted from that strategic approach and Petratherm is committed to finding ways to continue to reduce costs and risks.

Northern Flinders Ranges



REVIEW OF OPERATIONS

Australian Projects

Exploration and development efforts continued to focus on hot spots within the South Australian Heat Flow Anomaly (SAHFA) where Petratherm has four projects (Refer Figure 5) – Paralana, Callabonna, Ferguson Hill and Renmark.

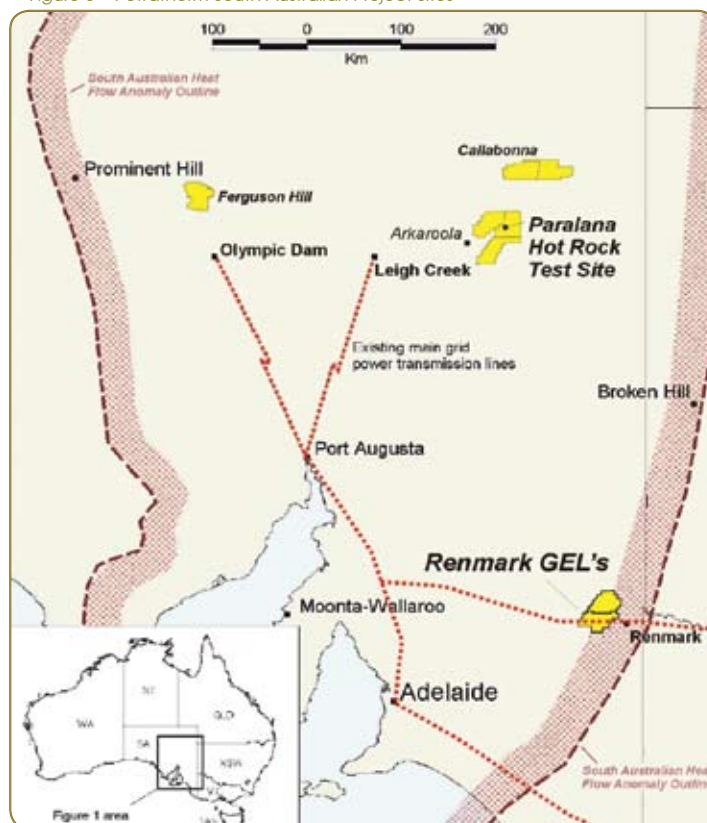
Paralana Project (GELs 156, 178, 180, 254, 336)

The Paralana Project has now assembled all the key 'ingredients for success' including:

- An excellent thermal resource at shallow depth – estimated at 200°C at 3.6 kilometres – exhibiting a very high heat flow of 128 mW/m²
- A stable geological formation with expected good drilling conditions
- Close proximity to a willing potential customer that currently pays higher 'off-grid' prices – Beverley Uranium Mine with a potential demand of up to 30 MW
- A joint venture with a leading Australian oil and gas explorer and producer, Beach Petroleum Limited, for up to \$30 million in which Beach will take the lead role in the drilling operations required to create the underground heat exchanger
- A joint venture with a leading Australian gas and electricity generator/retailer, TRUenergy, for up to \$57 million bringing key skills in electricity generation, transmission, marketing and sales
- A \$5 million Renewable Energy Development Initiative (REDI) Grant from the Federal Government to assist in the creation of the underground heat exchanger
- Secured key specialist EGS skills with an exclusive agreement with Swiss-based expert consultants Geothermal Explorers Limited
- Secured a 2000HP drilling rig through a drilling services contract with Weatherford Drilling International to drill the deep Paralana 2 well in 2009.

Calendar 2009 represents a watershed year for the Company and its JV partners as major drilling activity will be under way at the Paralana Geothermal Energy Project site.

Figure 5 – Petratherm South Australian Project Sites



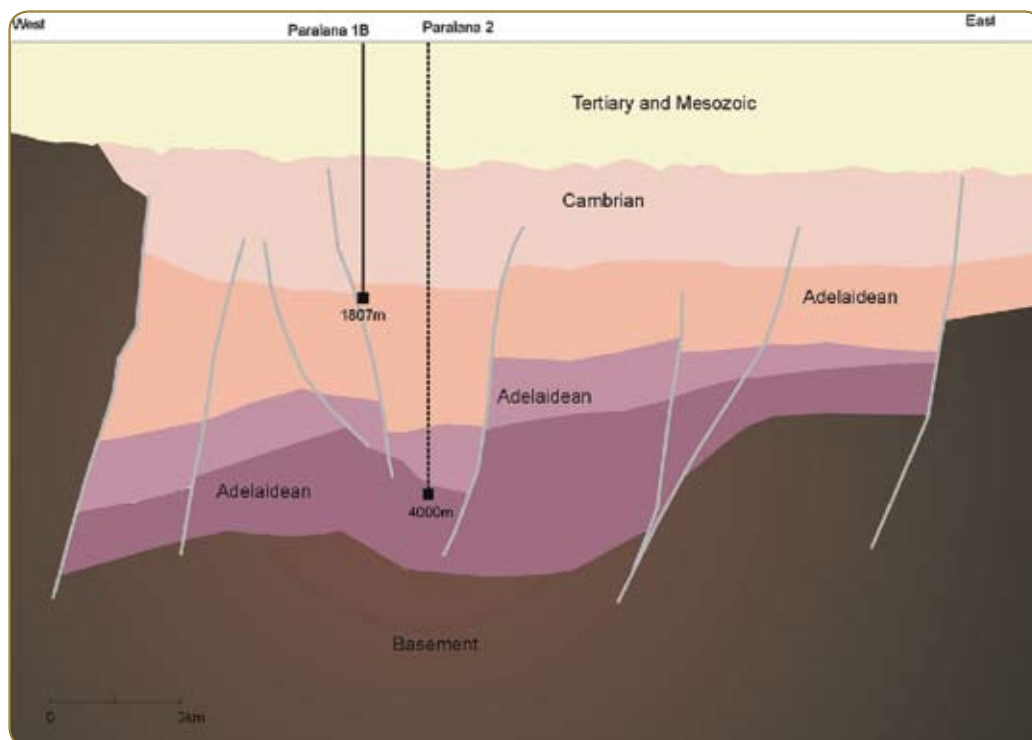


Figure 6 – summarizes the current interpretation of the Poontana Basin

Paralana Project – Next Phases

The next phase of major works at Paralana involves the drilling of an injector and a producer well in the Poontana Basin (Refer Figure 6) and the subsequent development of a fluid circulation cell (the sub-surface heat exchanger) between the two wells.

The drilling and circulation work will be a precursor to constructing an electricity generation plant (of around 7.5 MW) to meet local power needs at the neighbouring Beverley Uranium Mine.

The first (injector) well will be drilled to between 3.5 and 4 kilometres in depth where bottom-hole temperatures are expected to exceed 200°C. The program will then move to characterizing fluid circulation systems within the underground heat exchanger.

Depending on these findings mechanical or chemical enhancement of the sub-surface fluid circulation cell may need to be undertaken prior to drilling of the second (producer) well and completion of the circulation system.

A review of operating geothermal energy plants and technology development in California's Imperial Valley has confirmed that advances in conventional (double flash) steam generating plant have greatly improved operating efficiencies to the extent that they are capable of commercially exploiting thermal resources with 23% lower temperature grades than at Paralana. This technology development, in commercial application for several years in the USA, has the potential to simplify surface facility design and operation, lower capital and operating cost, and improve overall thermal conversion efficiency thus reducing risk.

Interpretation of the reflection seismic and magneto-telluric surveys is complete, further adding to the Company's understanding of the geology and structure of the Poontana Basin and thus aiding well site evaluation.

Processing of the 162 kilometres of reflection seismic data was undertaken by Velseis Processing Pty Ltd in conjunction with the re-processing of previous seismic surveys conducted in 1984.

Preliminary interpretation of the 1984 surveys suggested that a complex suite of faults is responsible for the subsurface morphology of the Poontana Basin. The recent seismic survey confirmed this to be the case and delineated further structural trends and the continuation of the Poontana Fracture Zone into the Paralana project area. This survey also revealed complex patterns of deposition across the basin with localized depocentres and unconformity surfaces.

The Paralana 1B well penetrated the upper units of one such depocentre and provides seismic and geological control in that locality. The depocentre accommodating Paralana 1B is bound to the east and west by normal faults and represents a graben structure within the Poontana Basin. This evidence was influential in the siting of Paralana 2.

Magneto–telluric is the study of the electrical and magnetic substructure of the earth and is particularly useful for resolving conductive features such as faults, saline aquifers and clay dominated lithology.

Acquisition, processing and interpretation of the Paralana magneto–telluric (MT) survey was conducted by Quantec Geoscience and completed in May 2008. Excellent MT results were obtained with good correlation evident between geological and structural features observed in both the Poontana seismic data and the Paralana 1B well.

Highly conductive Tertiary and Mesozoic sediments blanket the graben with increasing thickness eastwards, a trend that was also observed in the seismic data. Localized depocentres, as noted in the seismic data, are also imaged in the MT data as thickened areas of conductive sediments to a depth of approximately 1400 metres, coinciding with the top of the Adelaidean cover. Further conductive structures are imaged deeper in the section and are interpreted to represent deep thrust faulting within the basement.

Paralana 2 Well Location

Evaluation of the proposed well location was primarily based on interpretation of the Poontana reflection seismic and magneto–telluric surveys.

The complex nature of the basin focused the appraisal of the Paralana 2 site to areas of greater geological confidence, and as a result, to areas close to Paralana 1B. As discussed earlier, seismic data revealed that Paralana 1B is located between two normal faults in a NNW–SSE trending graben, and thus Paralana 2 is to be drilled within the same graben, approximately 1.5 kilometres to the east.

The locality chosen for Paralana 2 is geologically ‘well constrained’ from existing information and the graben wide enough to facilitate development of a large scale geothermal project (Refer Figure 7).

Based on thermal modelling by Associate Professor, Dr. Martin Hand, Paralana 2 is expected to show the same thermal gradient as Paralana 1B.

In preparation for drilling, the well site and development zone were cleared by the Adnyamathanha people during a heritage survey performed in July 2008.

Passive Seismic Monitoring

In response to the siting of Paralana 2, a passive seismic array has been deployed around the well site. The array consists of one deep station deployed to a depth of 1400 metres, four shallow posthole stations, and four surface stations, at increasing distances from Paralana 2.

Currently the array is monitoring background seismic activity, creating a database of events which will be used to construct a velocity model of the basin geology.



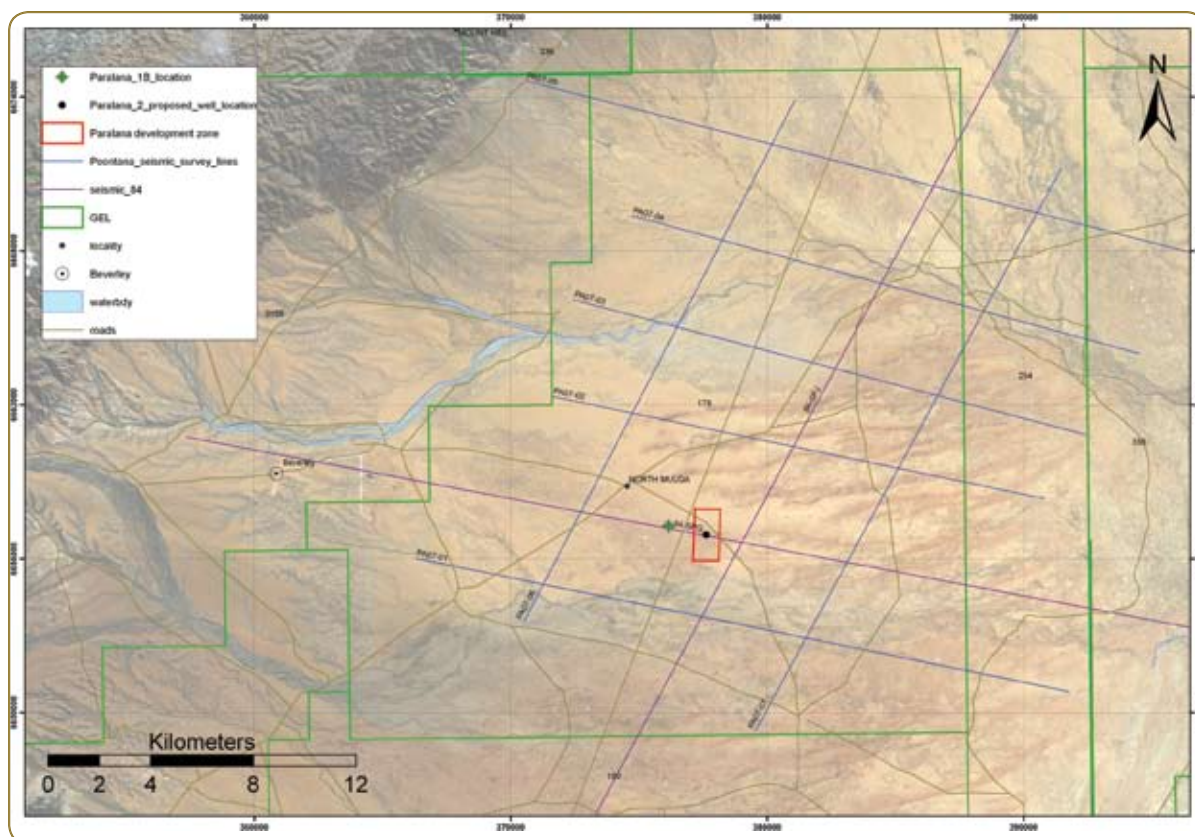


Figure 7 – Paralana project area, showing future development zone and location of Paralana 2

Prior to fracture stimulation of the reservoir the array will be up-graded to a greater density array around the injection site at Paralana 2. During fracture stimulation the array will detect micro-earthquakes, which results from the shear failure of the reservoir rock. These micro-earthquakes, when plotted will map the subsurface network of fractures through which the geothermal fluid will flow.

Paralana Energy Joint Ventures – Beach Petroleum and TRUenergy



Beach Petroleum JV – up to \$30 million for up to 36%

The Beach Petroleum joint venture announced in January 2007, enables Beach to earn up to 36% of the Paralana Project for an investment of \$30 million (plus their equity share of project costs) over time, in line with achievement of specific milestones.

The terms of the Beach joint venture are:

Proof of HEWI Concept Stage – Beach may earn a 21% equity interest by contributing \$10 million as follows:

- \$5 million for drilling and stimulating the first well, and
- \$5 million for drilling and stimulating the second well and circulation tests between the wells.

Beach may withdraw without earning equity after the completion of the first well.

Beyond HEWI Stage – Beach has an option to earn a further 15% equity by contributing \$20 million towards the development of the pilot plant stage and future demonstration stages that would be capable of providing power to the Beverley Uranium Mine – just 11 kilometres away.



TRUenergy JV – up to \$57 million for up to 30%

After this reporting period, a joint venture between the Company and TRUenergy was announced. TRUenergy may earn up to 30% of the Paralana Project for an investment of \$57 million (plus their equity share of project costs) over time, in line with the achievement of specific project milestones.

The terms of the TRUenergy farm-in are compatible with the Beach JV and are as follows:

Proof of HEWI Concept Stage – TRUenergy may earn a 10% equity interest by contributing \$6 million as follows:

- \$3 million for drilling and stimulating the first well, and
- \$3 million for drilling and stimulating the second well and circulation tests between the wells.

TRUenergy may withdraw without earning equity after the completion of the first well.

7.5 MW Pilot Plant Stage – TRUenergy has an option to earn a further 5% equity by contributing \$7 million towards the development of the pilot plant stage.

30 MW Demonstration Plant Stage – TRUenergy has an option to earn a further 15% equity by contributing \$44 million towards the development of the 30 MW demonstration plant stage capable of meeting the growing needs of the Beverley mine and the proposed mine development at the nearby Four Mile deposit.

The farm-in agreement between TRUenergy and Petrathern contains conditions subsequent (including Foreign Investment Review Board approval, modifications to existing JV documents and securing a drilling rig) that need to be satisfied by the end of October 2008. At the time of writing, both the FIRB and rig conditions had been satisfied with other matters considered procedural.

In addition to the JV funding arrangements Petrathern's \$5 million REDI Grant is to be applied to the Stage 1 of the project – Proof of HEWI Concept Stage – to assist in funding the two well program of work.

This means that the first \$10.5 million of funding toward each well would be provided by Beach Petroleum (\$5 million), TRUenergy (\$3 million) and REDI Grant (\$2.5 million). Additional funding would be met by the JV partners on an equity share basis – Petrathern 69%, Beach 21% and TRUenergy 10%.

The JV partners will also have the opportunity to apply for a Geothermal Drilling Program Grant of up to \$7 million of which 65%, or \$4.5 million, would be available, if successful by early 2009.

TRUenergy brings a wealth of experience in energy industry capabilities, in particular developing and operating generation, and marketing of power to business and residential customers in the National Electricity Market. These capabilities complement the specialist subsurface expertise of Beach Petroleum and the geological expertise of Petrathern. This combination of capabilities considerably enhances the commercialization prospects of the Paralana Geothermal Energy JV Project in both the short and long terms.



Paralana Commercialization Plans – viable at all stages of development

The Paralana Project is considered uniquely positioned to enable commercial viability at small scale (7.5 MW building over time to 30 MW), an important factor in the development, expansion and subsequent ‘bedding down process’ of any new technology. This is a direct result of the close proximity of the Beverley Uranium Mine and their current ‘off-grid’ prices.

Large-scale development of the Paralana site – following the development and ‘bedding down process’ – also provides the Paralana Project with flexibility and significant cost benefits associated with potential large-scale transmission network solutions to competitively access the NEM at Port Augusta and/or Olympic Dam (Refer Figure 8).

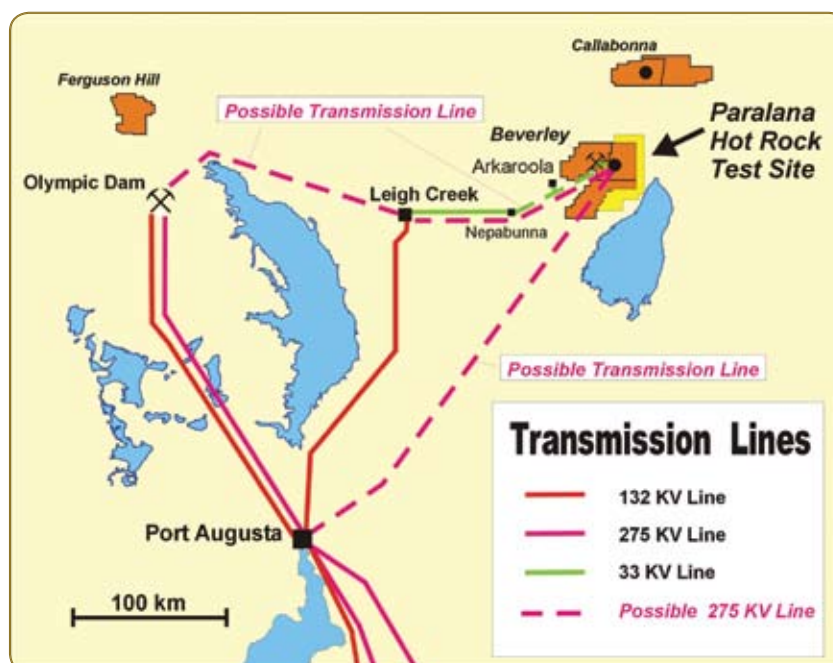
The planned delivery of large-scale power (up to 520 MW) has taken into account the capacity of the market to digest large increments of generation competition from other geothermal and indeed traditional sources of power generation and the cost of delivery (transmission network) of electricity to the ‘on-grid’ market (NEM).

Petratherm’s two basic network solutions include:

- A double circuit 275 kV transmission line from Paralana to Port Augusta capable of delivering 520 MW into the NEM at Port Augusta (‘Radial network solution’).
- A single circuit 275 kV transmission line from Paralana to Port Augusta and a single circuit 275 kV transmission line from Paralana to Olympic Dam, each capable of delivering 260 MW to those entry points (‘Meshed network solution’).

The latter network arrangement would create a ‘meshed’ transmission network in the north of the State and provide a backbone of electricity infrastructure for the remote community, but in particular to the State’s growing resources sector. Importantly, the ‘meshed’ network solution has the potential to provide substantial broader community benefits and hence has the potential for the inclusion of a proportion of assets (and costs) into the regulated asset base of a registered transmission owner under the Australian National Electricity Rules (NER). Accordingly, there is a unique opportunity for substantially reducing the overall project network connection costs.

Figure 8 – Petratherm’s geothermal licence areas and possible transmission connection routes for the Paralana Geothermal Energy Project site



Similar opportunities exist for the radial network connection where the prime cost reduction occurs through the utilization of a single electricity tower carrying both 275 kV electricity circuits.

Callabonna (GELs 157,179)

The Callabonna geothermal body spans an area of approximately 1200 square kilometres immediately north-northeast of the outcropping high heat producing granites of the Mt Painter and Mt Babbage Ranges (Refer Figures 5 & 8). Petratherm holds two licences covering 1000 square kilometres over the centre of this body. Geothermal test well, Yerila-1, determined a temperature gradient of 68°C per kilometre indicating temperatures in excess of 200°C are possible at a depth of 3.5 – 4 kilometres.

In October 2007 a magneto-telluric ground survey over Callabonna was undertaken to map the surface of the granite body at depth. This data along with the temperature gradient data are now being used to better constrain the thermal and economic models for Callabonna.

Ferguson Hill (GEL 158)

Ferguson Hill represents the informally termed Radiogenic Iron Oxide (RIO) model for hot rock geothermal energy. This exploration model has its focus on areas where ancient

volcanic and granitic rocks have released hot sub-surface fluids that have permeated through the surrounding rocks and consequently altered their composition. The Cu-Au-U-REE deposit at Olympic Dam is an example of this phenomenon. The low-level radiogenic decay that occurs naturally in this environment results in extremely high heat production rates, with the measured heat production rates in RIO bodies being as much as 50 times greater than those from average granite. Under favorable conditions, temperatures as high as 200°C may be generated at depths of around 3 kilometres. A magneto-telluric survey clearly identified the top of RIO body at a depth of 2 kilometres.

Renmark (GELs 241 & 242)

In February 2007 the Company acquired two Geothermal Exploration Licences (GELs), located 26 kilometres northwest of Renmark, in South Australia's Riverland Region. The Renmark project is situated in very close proximity to two major transmission lines capable of carrying in excess of 220 MW of power. The tenements span a deep sediment filled basin, which geophysical studies indicate is approximately 3.5 kilometres thick.



Spanish Projects

The entry into Spain has secured first mover advantage for Petratherm, in conventional and EGS, in one of the best renewable energy sectors in the world.

The European continent in an overall sense is highly prospective for geothermal energy – both conventional and EGS. Considerable work is now under way in Europe to explore for, and develop new geothermal energy projects.

Petratherm's examination of Europe's geology identified Spain as an excellent target for exploration because it has geological features capable of supporting geothermal energy from both EGS and traditional volcanic sources, and district heating.

Spanish Regulatory Environment

The European Union (EU) member countries have enabling legislation that underpins a very favourable commercial framework for renewable energy, including geothermal energy. Spain is a signatory to the Kyoto Protocol, a member of the EU and has demonstrated a strong commitment to the growth of renewable energy.

Spain is second only to Germany in terms of installed wind generation capacity. The Spanish Renewable Energy regulatory arrangements provide for long term (i.e. 20 years) 'in feed' electricity tariffs for renewable projects with prices typically in excess of €85/MWh or AUD\$140/MWh. This compares very favourably to the market in Australia where prices for renewable energy projects are typically in the range of \$80/MWh to \$90/MWh (inclusive of renewable energy certificates).

Spain is identified by an independent study undertaken by Ernst & Young, a leading international consulting firm, as the country with the highest attractiveness for developing renewable energy projects (Refer Figure 9). The study ranked several countries and reviewed such factors as tariffs (pricing), resource potential, growth and grid capacity.

Petratherm expanded its Spanish project portfolio from two to seven. The Company's initial projects are adjacent to Spain's two largest cities, Madrid and Barcelona. Early in the financial year the Company added two new conventional volcanic geothermal projects on the Islands of Tenerife and Gran Canaria on Spain's Canary Islands. In addition, three new EGS based projects in the Almazan, Alicante and Seville areas were added to the project portfolio (Refer Figure 10).

During the year the Company established a Spanish office in Madrid and expanded its skills base to service its growing project portfolio.

Petratherm's strategy is to continue its geothermal evaluation program in the EU initially with a focus on Spain. This comes at a time when, across the world, there is a renewed focus on geothermal energy (conventional and EGS) as a key part of the solution of the challenge of climate change.

Ranking	Country	All Renewables Index	Renewables Infrastructure Index
1	Spain	69	80
2	USA	67	70
3	Germany	62	56
4	India	61	66
5	UK	60	61
6	Italy	58	63
7	France	57	55
8	Portugal	56	63
9	China	56	59
10	Canada	55	63
11	Netherlands	54	56
12	Ireland	54	61
13	Greece	53	56
14	Sweden	52	53
15	Australia	50	51
16	Denmark	49	58
17	Norway	49	56
18	Belgium	48	53
19	Finland	38	39
20	Austria	33	49

Figure 9 – Ranking of Renewable Energy Country Attractiveness
(Source: Ernst and Young, 2006)

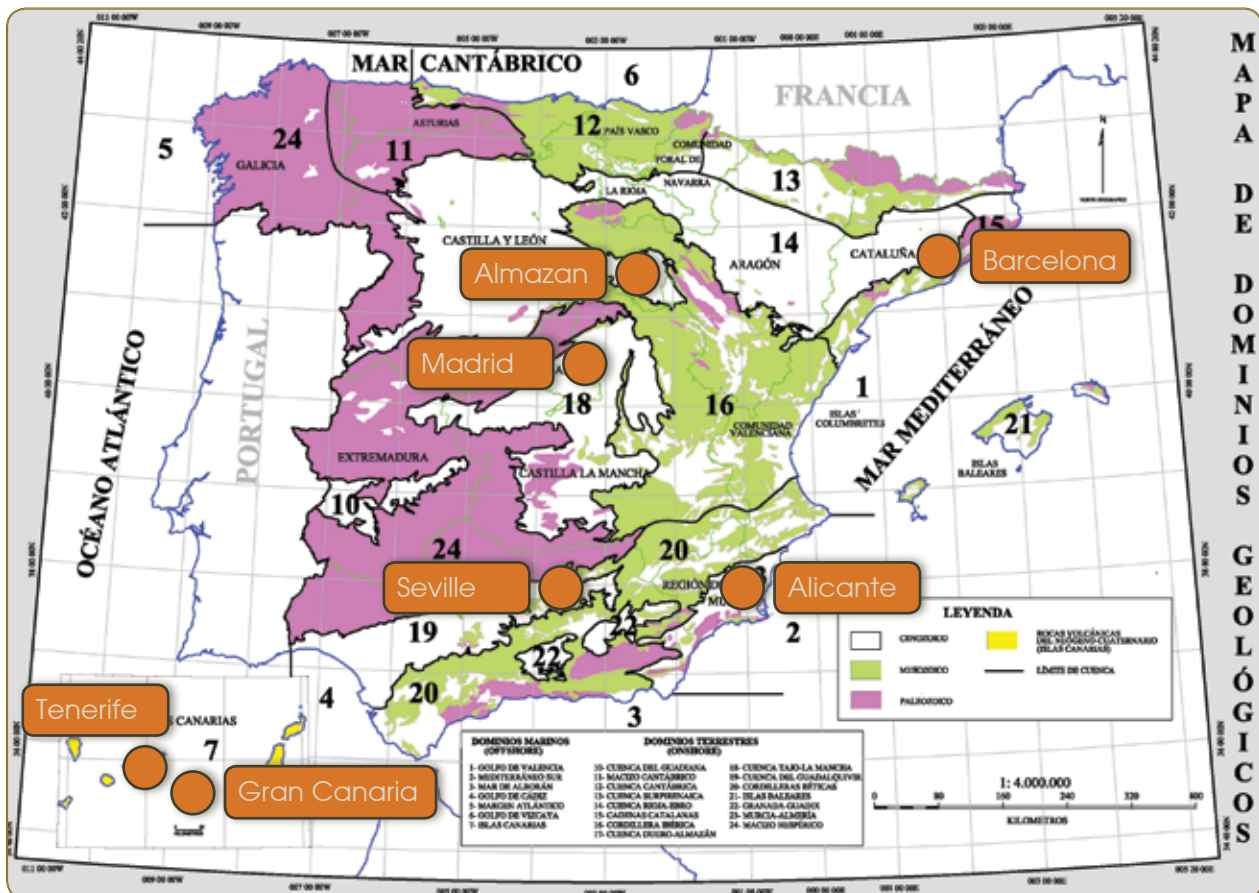


Figure 10 – Location of the Company's seven Spanish project areas

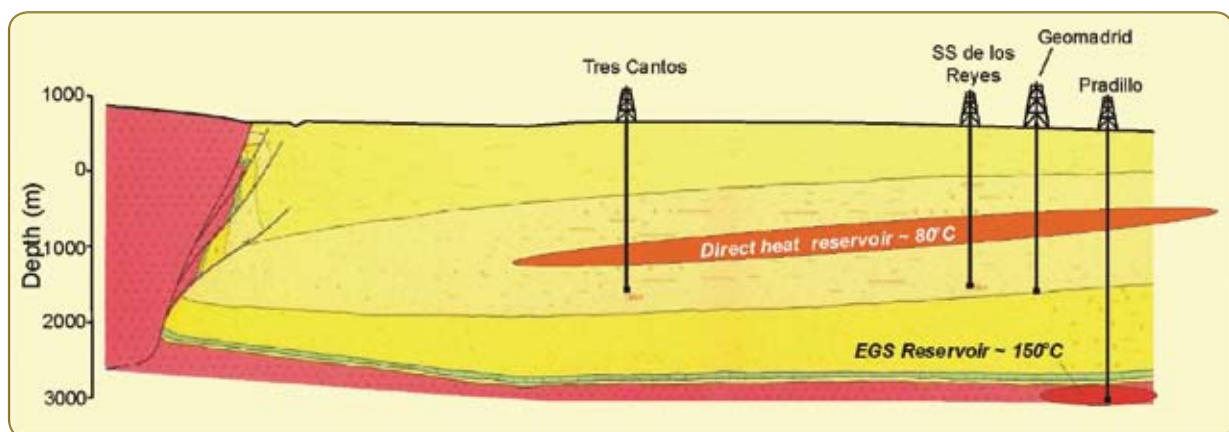


Figure 11 – Cross-section of Madrid tenement

Geo-Madrid Geothermal District Heating (GDH) Project

The Company's Madrid GEL tenement area is located 25 kilometres north of Madrid and covers an area of 330 square kilometres. There

are five existing wells – two at Geo-Madrid – that provide a wealth of information on the potential geothermal resource including the existence of large aquifers at depths of around 1,800 to 2,000 metres and around 3,000 to 3,400 metres (Refer Figure 11).

During the year a pre-feasibility study of the 8 MW Geo-Madrid GDH project and of the broader resource across the tenement was undertaken, yielding very encouraging results. A full feasibility study has commenced with the clearing of the site and the completion of a re-entry program of the two existing deep wells. The well re-entry confirmed the structural integrity of one of the wells and its suitability for use as an injector well in an 8 MW doublet system.

Key project parameters that underpin the pre-feasibility assessment of the overall Madrid tenement area include:

- Reservoir depths ranging between 1,550 and 1,600 metres
- Reservoir thicknesses of between 200 and 800 metres
- Temperatures at depth ranging between 70°C and 90°C
- Flow rates ranging between 200 and 250 cubic metres per hour.

In the case of the Geo-Madrid site, the pre-feasibility assessment concluded, under conservative assumptions, that a well doublet could produce 8 MW of thermal energy capacity with an annual thermal production in excess of 45,000 MWh (to meet the needs of 7 nearby building complexes) and would result in an economic project with attractive returns (Refer Figure 12 – demand areas highlighted in red).

Recent discussions with the nearby Autonomous University located on the Geo-Madrid site confirmed plans to build two new 'green' building complexes further enhancing the economics of the Geo-Madrid GDH project.

Figure 12 – Location of Geo-Madrid wells in relation to existing infrastructure.



The next steps in the Geo-Madrid GDH project include:

- Application for a change of the existing licence from exploration to investigation to allow for drilling operations
- Development of an environmental impact study (EIS) to cover the expected drilling operations
- Securing a rig to drill any required deep (up to 2,000 metre) wells
- Development of an EIS to cover the above ground geothermal plant and heating distribution grid to the building complexes
- Confirmation of final demand and GDH system design (plant and distribution system)
- Detailed costing and contracting for above ground equipment and heat distribution system
- Sale of product to customers (sales agreements).

The Company currently estimates that construction of the Geo-Madrid GDH project could commence by November 2009 with geothermal heat production, and project revenues flowing by July 2010.

A very favourable initial reaction has been received from relevant Regional and Federal Government departments and the Company is confident of continued support from this sector.

Other Projects

Several additional tenement applications have been made in Spain, with targets varying from EGS to direct heating (Refer Figure 10). These areas, in particular Barcelona, will be progressed in 2009.

Tenerife Project and Gran Canaria, Canary Islands – Conventional Geothermal Projects

The Canary Islands, known for their volcanism, are considered excellent sites for exploiting conventional geothermal technology.

Conventional geothermal projects are commercially established in many parts of the world accounting for more than 10,000 MW of installed power generation capacity.

Very high temperatures (over 300°C) at relatively shallow depths of around 2 kilometres are often found in active volcanic geological settings analogous to those of the newly acquired project area.

Tenerife Volcanic Based Project

Tenerife has a permanent population in excess of 1 million. During the peak tourist season the population can exceed 1.5 million placing a large demand on peak power generation, in excess of 800 MW. The island has substantial transmission infrastructure within close proximity of Petratherm's Geothermal Exploration Licence (GEL).

Petratherm's Tenerife Project provides a major opportunity to develop a conventional geothermal power project with minimal associated technical project risk with an attractive market that is focused on the development of sustainable energy alternatives to imported fossil fuel sources.

Lower costs and risks of this project arise from three key factors, namely:

- The process for extraction and conversion of the heat is known and understood, with considerable project development, drilling and plant operation experience and technology readily available around the world
- Such thermal resources are of very high quality, with naturally formed reservoirs and very high temperatures, greater than 300°C, at depths of around 2 kilometres
- The Petratherm licence area has been carefully selected to be positioned over the location of the most attractive geology for geothermal power generation in proximity to transmission infrastructure.



Gran Canaria Volcanic Based Project

Gran Canaria also supports a large local and tourist population of approximately 1 million people placing a demand on peak power generation in excess of 800 MW. The island has substantial transmission infrastructure within close proximity of Petratherm's GEL. Power consumption on the island has grown three times over the last 20 years, due to the large population growth. Existing power generation is 94% dependent on expensive fossil fuels from fuel-oil and gas-oil which have very high carbon dioxide emissions.

Gran Canaria, an active volcanic island, is the central island of the Canarian Archipelago, and is located 200 kilometres west of the North African coastline. Three main volcanic-magmatic stages have been defined on the island which was formed approximately 14 million years ago. Recent volcanic activity to the east of the island is thought to relate to a mantle hotspot over which the oceanic crust is slowly moving.

The tenement spans an area of 277 square kilometres over the region of most recent volcanism, and where historical geothermal research undertaken by the Spanish geological survey identified high geothermal temperature gradients in excess of 70°C per kilometre.

China – Geothermal Exploration Program

In November 2007, the Company established a landmark, exclusive agreement with four key Chinese Government Institutions to undertake a co-operative project to identify high quality geothermal energy projects in China.

The agreement uniquely positions Petratherm in the Chinese market, thus enabling the Company to, on an exclusive basis, exploit the very large geothermal resource potential available in China to provide base-load, large-scale, emission free sources of heat and electricity in the world's largest growing energy market.

The agreement will involve Petratherm working on the co-operative project over the next twelve months with the following four Chinese Government Institutions:

- China Geothermal Energy Society
- Chinese Geological Survey
- Chinese Academy of Sciences
- China Institute of Geo-Environment Monitoring

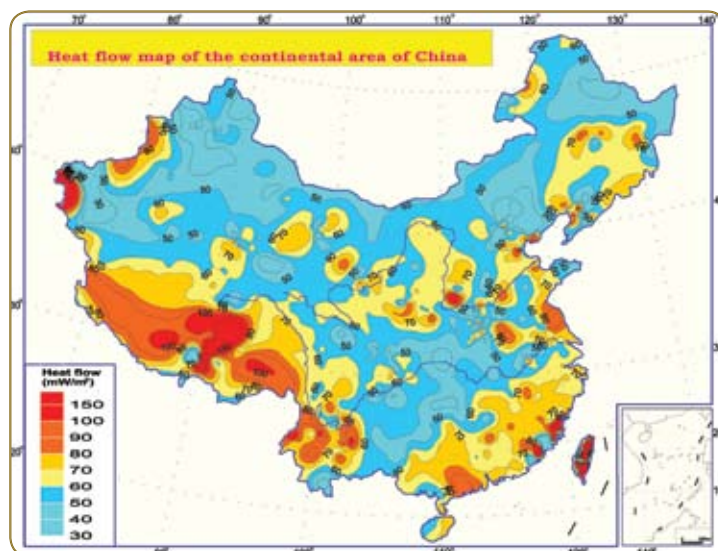
Under the agreement, the Chinese Institutions will provide Petratherm with key geological and geophysical data and Petratherm will process the data.

During the year Petratherm's activities increased substantially with a number of meetings between the Company's representatives (Peter Reid, Associate Professor, Martin Hand and Dr Wenlong Zang) and various Chinese provincial representatives and Central Government geological/geothermal institutions.

Petratherm's Exploration Manager, Peter Reid, led a specialist geothermal session at this year's China Power and Alternative Energy Summit held in Beijing in June 2008. The Summit attracted industry and power investment leaders from China's rapidly growing power market. It was the first time that geothermal power has been showcased at this event and highlights the rapid rise in interest in geothermal power investment in China stemming, in part, from the ongoing collaborative work Petratherm has been undertaking as part of its Asia Pacific Partnership (APP) program to identify new high value geothermal sites in China. The Company was awarded a \$75,000 Grant under the APP program.

The Company's activities have created significant interest in EGS in China at both the government (central and provincial) and corporate levels. Preliminary discussions regarding potential joint ventures are proceeding concurrently with project identification focused on high heat flow areas (Refer Figure 13).

Figure 13 – From Hu Shengbiao, He Lijuan and Wang Jiyang, 2000, 'Heat flow in the continental area of China: a new dataset', *Earth and Planetary Science Letters*, Vol. 179, No. 2, pp 407–419



TENEMENT SUMMARY

AUSTRALIA				
Project	Tenement	Area (km²)	Registered holder/ Applicant	Company Interest
South Australia				
Paralana	GEL 156	497	MNGI Pty Ltd	100%
	GEL 178	498	MNGI Pty Ltd	100%
	GEL 180	498	MNGI Pty Ltd	100%
	GEL 254	498	MNGI Pty Ltd	100%
	GEL 336	408	MNGI Pty Ltd	100%
Callabonna	GEL 157	496	MNGI Pty Ltd	100%
	GEL 179	500	MNGI Pty Ltd	100%
Renmark	GEL 241	497	MNGI Pty Ltd	100%
	GEL 242	499	MNGI Pty Ltd	100%
Ferguson Hill	GEL 158	500	MNGI Pty Ltd	100%

SPAIN				
Project	Tenement	Area (km²)	Registered holder/ Applicant	Company Interest
Canary Islands				
Tenerife	2053	242	Petratherm Espana SL	93.023%
	2054	121	Petratherm Espana SL	93.023%
	2052	181	Petratherm Espana SL	93.023%
Gran Canaria	151	277	Petratherm Espana SL	93.023%
Madrid				
Cayena	3450/100	290.5	Petratherm Espana SL	93.023%
Castilla Leon				
Almazan Basin	1347	144	Petratherm Espana SL	93.023%
	1346	144	Petratherm Espana SL	93.023%
	1345	144	Petratherm Espana SL	93.023%



DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2008.

Directors

Derek Carter	Chairman
Terry Kallis	Managing Director
Lloyd Taylor	Non-Executive Director (resigned 31/08/08)
Richard Bonython	Non-Executive Director
Richard Hillis	Non-Executive Director
Simon O'Loughlin	Non-Executive Director

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

Names, Qualifications, Experience and Special Responsibilities

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

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

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

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

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

Lloyd Taylor joined the board of directors on 22 March 2004. He holds a doctorate in Geology and Geophysics from the University of Sydney. He has 30 years international oil exploration and production experience with Woodside Petroleum, Shell International, Santos and Fletcher Challenge Energy. In 2003 he retired as chairman and CEO of Shell New Zealand. During his career, he held general management and leadership responsibilities for oil and gas business operations in ten countries. He has been a company director for fifteen years. He is a former director of Visean Information Services Limited. Lloyd resigned as a non-executive director of Petratherm Limited on the 31 August 2008.

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

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

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

Richard Hillis joined the board of directors on 1 March 2004. He is the State of South Australia Professor of Petroleum Geology and Head of the Australian School of Petroleum at the University of Adelaide. His research expertise is in sedimentary basin tectonics and petroleum geomechanics with reference to their applications to petroleum and geothermal exploration and development and carbon dioxide geosequestration. He has undertaken approximately 40 consulting projects for oil companies, primarily in the area of petroleum geomechanics and has taught a professional short courses on the subject in Australia, Japan, Vietnam, Brunei and the United Kingdom. Richard, who has authored or co-authored over 100 scientific papers and edited two books, heads a research Group at the University of Adelaide, which includes post-doctoral researchers and PhD students, researching basin tectonics and petroleum geomechanics.

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

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

Professor Richard Hillis and Columbian PhD student Ella Maria Llanos in the lab with some rock samples at Australian School of Petroleum at Adelaide University.



Company Secretary

Donald Stephens, BA (Acc), FCA

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Limited and Papyrus Australia Limited and is company secretary to Mithril Resources Limited, Ferraus Limited, Chesser Resources Limited, Innovance Limited and Arasor International Limited all of which are listed on the ASX except Innovance Limited which is listed on the NSX. 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 Petrathern Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Derek Carter	66,250	1,200,000
Terry Kallis	100,000	1,400,000
Lloyd Taylor	300,000	400,000
Richard Bonython	532,500	500,000
Richard Hillis	20,000	500,000
Simon O'Loughlin	125,000	200,000

Dividends

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

Principal Activities

The principal activities of the Company and consolidated entities (Group) during the financial year were:

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

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

Operating Results

The consolidated loss of the Group (after accounting for minority interests) for the financial year after providing for income tax amounted to \$2,129,322 (2007: \$1,334,179).

Geothermal springs in China



Risk Management

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

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

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

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

Significant Changes in the State of Affairs

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

The Company expanded its Spanish project portfolio considerably during the year such that its Spanish activities are now a material and a key aspect of its business activities.

Significant Events After the Balance Date

The Company entered into a \$57 million farm-in with TRUenergy for up to 30% of the Paralana Geothermal Energy Joint Venture Project. The farm-in contains conditions subsequent including, FIRB approval, securing a suitable Rig and modifications to the existing JV.

A 2,000HP drilling rig was secured for the Paralana Project under a drilling services contract with Weatherford Drilling International Pty Ltd. This satisfies the major condition subsequent of the TRUenergy farm-in Agreement.

Likely Developments and Expected Results

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

Environmental Regulation and Performance

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



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 2007	Net Issued/ (Exercised)	Balance at 30 June 2008
25/03/2004	24/03/2009	\$0.20	5,000,000	–	5,000,000
05/04/2004	04/04/2009	\$0.20	2,600,000	–	2,600,000
27/07/2004	26/07/2009	\$0.20	2,000,000	–	2,000,000
28/07/2004	27/07/2009	\$0.20	650,000	–	650,000
24/09/2004	23/09/2009	\$0.32	40,000	–	40,000
16/12/2004	15/12/2009	\$0.32	50,000	–	50,000
01/01/2006	31/12/2010	\$0.40	30,000	–	30,000
22/05/2006	21/05/2011	\$0.32	200,000	–	200,000
22/05/2006	21/05/2011	\$0.37	200,000	–	200,000
30/05/2006	29/05/2011	\$0.32	30,000	–	30,000
30/06/2006	30/04/2012	\$0.32	750,000	(100,000)	750,000
30/06/2006	30/04/2013	\$0.37	750,000	–	750,000
01/01/2007	01/01/2012	\$0.53	100,000	–	100,000
02/01/2007	01/01/2012	\$0.53	100,000	–	100,000
04/03/2007	04/03/2012	\$0.91	40,000	–	40,000
21/03/2007	21/03/2012	\$0.91	20,000	–	20,000
31/05/2007	31/05/2012	\$0.90	40,000	–	40,000
31/05/2007	31/05/2013	\$0.90	400,000	–	400,000
25/06/2007	25/06/2013	\$0.93	20,000	–	20,000
26/06/2007	25/06/2012	\$0.97	–	200,000	200,000
07/01/2008	06/01/2013	\$1.20	–	50,000	50,000
07/01/2008	06/01/2013	\$1.20	–	60,000	60,000
07/01/2008	06/01/2013	\$1.20	–	30,000	30,000
07/01/2008	06/01/2013	\$1.20	–	30,000	30,000
Balance at 30 June 2008			13,020,000	270,000	13,290,000

Shares Issued as a Result of the Exercise of Options

Since the end of the financial year, 90,000 options have been exercised at a price of \$0.32 cents, raising a total of \$28,800.

New Options Issued

During the financial year 170,000 options were issued under the Company's ESOP to various employees. In addition, 200,000 options were issued to Dr Richard Hillis in accordance with a resolution passed at the Company's Extraordinary General Meeting held on 11 September 2007.

Indemnification and Insurance of Directors and Officers

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$20,699. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

Remuneration Report – Audited

This report outlines the remuneration arrangements in place for directors and key management personnel of Petratherm Ltd.

Remuneration Philosophy

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

Employment Contracts

The employment conditions of the managing director, Mr Terry Kallis, are formalised in a contract of employment. Mr Kallis commenced employment on 1 May 2006 and his base salary, inclusive of superannuation, is \$280,000 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the exploration manager, Mr Peter Reid, are formalised in a contract of employment. Mr Reid commenced employment on 27 July 2004 and his base salary, inclusive of superannuation, is \$175,700 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the business development manager, Mr Jonathan Teubner, are formalised in a contract of employment. Mr Teubner commenced employment on 1 June 2007 and his base salary, inclusive of superannuation, is \$171,200 per annum. The Company may terminate the employment contract without cause by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Table 1: Directors' remuneration for the year ended 30 June 2008 & 2007

	Short-term Employee Benefits	Post Employment Benefits	Share Based Payment	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2008	50,000	4,500	–	54,500
2007	30,000	2,700	–	32,700
Terry Kallis				
2008	275,230	24,771	–	300,001
2007	189,603	17,064	42,334	249,001
Richard Bonython				
2008	35,425	–	–	35,425
2007	27,250	–	–	27,250
Simon O'Loughlin				
2008	35,000	3,150	–	38,150
2007	25,000	2,250	–	27,250
Lloyd Taylor				
2008	–	38,150	–	38,150
2007	–	27,250	–	27,250
Richard Hillis				
2008	35,000	3,150	214,800	252,950
2007	25,000	2,250	–	27,250

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2008 & 2007

	Short-term Employee Benefits	Post Employment Benefits	Share Based Payment	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2008	118,350	50,000	–	168,350
2007	113,115	42,385	11,500	167,000
Jonathan Teubner				
2008	152,062	13,539	63,334	228,935
2007	12,232	1,101	5,466	18,800

HLB Mann Judd (SA) Pty Limited has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$95,322 (2007: 81,421). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited. A total of \$16,031 was outstanding at 30 June 2008.

Share-based payments remuneration for Jonathon Teubner relates to amortisation of fair value of options granted during the 2007 financial year.

Table 3: Options granted as part of remuneration

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

	Grant Date	Grant Number	Vesting Date	Exercise Price	Value Per Option at Grant Date	Exercised Number	Total Fair Value	% of Remuneration
Richard Hillis	25/06/07	200,000	–	0.97	1.074	–	214,800	84.92%

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



Table 4: Options holdings of Key Management Personnel

30 June 2008	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at End of Period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Terry Kallis	750,000	-	(100,000)	-	650,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	-	-	-	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	-	-	-	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	-	-	-	400,000	04/04/09	05/04/04	04/04/09
Richard Hillis	300,000	-	-	-	300,000	04/04/09	05/04/04	04/04/09
Simon O'Loughlin	200,000	-	-	-	200,000	04/04/09	05/04/04	04/04/09
Richard Hillis	-	-	-	200,000	200,000	25/06/12	26/06/07	26/06/12
Executives								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
	5,650,000	-	(100,000)	200,000	5,750,000			

Continued next page.

30 June 2007	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at End of Period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Terry Kallis	750,000	-	-	-	750,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	-	-	-	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	-	-	-	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	-	-	-	400,000	04/04/09	05/04/04	04/04/09
Richard Hillis	300,000	-	-	-	300,000	04/04/09	05/04/04	04/04/09
Simon O'Loughlin	200,000	-	-	-	200,000	04/04/09	05/04/04	04/04/09
Executives								
Donald Stephens	250,000	-	-	-	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	-	-	-	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Jonathan Teubner	-	400,000	-	-	400,000	31/05/13	01/06/08	31/05/13
	5,250,000	400,000	-	-	5,650,000			

Table 5: Shareholdings of Key Management Personnel

30 June 2008	Balance at 1 July 07	On Exercise of Options	Net Change Other	Balance at 30 June 08
Directors				
Terry Kallis	–	100,000	–	100,000
Derek Carter	66,250	–	–	66,250
Richard Bonython	532,500	–	–	532,500
Lloyd Taylor	300,000	–	–	300,000
Richard Hillis	20,000	–	–	20,000
Simon O’Loughlin	125,000	–	–	125,000
Executives				
Peter Reid	34,918	–	–	34,918
Jonathan Teubner	–	–	–	–

Directors’ Meetings

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

	Directors’ Meetings	Audit
Number of meetings held:		
	9	2
Number of meetings attended:		
Derek Carter	9	–
Terry Kallis	9	–
Lloyd Taylor	8	–
Richard Bonython	9	2
Richard Hillis	8	–
Simon O’Loughlin	8	2

Members acting on the audit committee of the board are:

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

Proceedings on Behalf of the Company

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

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

Auditor Independence and Non-Audit Services

Grant Thornton South Australian Partnership, in its capacity as auditor for Petratherm Limited, has not provided any nonaudit services throughout the reporting period. Details of the auditor's remuneration can be found in note 23 to the financial statements. The auditor's independence declaration for the year ended 30 June 2008 as required under section 307C of the Corporations Act 2001 has been received and can be found on the following page.

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



Mr Terry Kallis
Managing Director

Dated this 30 day of September 2008

Imperial Valley, California, USA.



AUDITOR'S INDEPENDENCE DECLARATION



**Grant Thornton South Australian
Partnership**
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF PETRATHERM LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Ltd for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

A handwritten signature in blue ink, appearing to read "S J Gray".

S J Gray
Partner

Signed at Wayville on this 30th day of September 2008

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CORPORATE GOVERNANCE STATEMENT

Introduction

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

The Company details below the corporate government practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated.

Principle 1: Lay Solid Foundations for Management and Oversight

Board Responsibilities

The Board are accountable to the Shareholders for the performance of the Group and have overall responsibility for its operations. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives, are formally delegated by the Board to the Managing Director and ultimately to senior executives.

The key responsibilities of the board include:

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

For the purposes of the proper performance of their duties, the Directors are entitled to seek independent professional advice at Petratherm Limited expense, unless the Board determines otherwise. The Board schedules meetings on a regular basis and other meetings as and when required.

The board has not publicly disclosed a statement of matters reserved for the board, or the board charter and therefore the Company has not complied with recommendation 1.3 of the Corporate Governance Council. Given the skills and experience of each director the Company has not formulated a board charter.

Principle 2: Structure the Board to Add Value

Size and Composition of the Board

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

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

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 qualifications and experience are set out in the Directors' Report of this Annual Report.



Independence

The Board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the Board. Those Directors who have interests in specific transactions or potential transactions do not receive Board papers related to those transactions or potential transactions, do not participate in any part of a Directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other Directors.

At the date of this statement the board consists of four non-executive directors, Mr D Carter, who is also chairman of the board, Mr R Bonython, Mr R Hillis, Mr S O'Loughlin and an executive director, Mr T Kallis. Mr Carter and Mr Bonython are directors of Minotaur Exploration Limited which is the beneficial holder of 31.81% of the issued capital of Petratherm Limited. The Company therefore has two independent directors as that relationship is currently defined.

The board does not consist of a majority of independent directors and therefore the Company has not complied with recommendation 2.1 of the Corporate Governance council. The board considers the current structure to be an appropriate composition given the experience and skills of each director.

Nomination, Retirement and Appointment of Director's

The board has not established a nomination committee and therefore the Group has not complied with recommendation 2.4 of the Corporate Governance Council. Given the size of the Group the board does not consider a separate committee appropriate. The board takes ultimate responsibility for these matters.

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.

Evaluation of Board performance

The Board continues to review performance and identify ways to improve performance. The Chairman is responsible for reviewing the Board performance on an Annual basis.

Board Committee's

It is the role of the Board to oversee the management of the Group and it may establish appropriate committees to assist in this role.

The Board has established an audit, risk and compliance committee. At the present time no other committees have been established because of the size of the Group and the involvement of the Board in the operations of the Group. The Board takes ultimate responsibility for the operations of the Group including remuneration of Directors and executives and nominations to the Board.

The board has not publicly disclosed the process for evaluating the performance of the board, its committees and individual directors. Therefore, the Group has not complied with recommendation 2.5 of the Corporate Governance Council. Given the size of the Group and board, does not consider disclosure of the performance evaluation process necessary. The board takes ultimate responsibility for these matters.

Principle 3: Promote Ethical and Responsible Decision Making

Code of Conduct

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. Petratherm intends to maintain a reputation for integrity. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The Board has adopted a formal code of conduct applying to the Board and all Employees. However, the Group not publicly disclosed the code of conduct and therefore has not complied with recommendation 3.1 of the Corporate Governance Council. Given the size of the Group, the board does not consider disclosure of the code of conduct to be necessary. The board takes ultimate responsibility for these matters.

Securities Trading Policy

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

- Any major announcements;
- The release of the Group's quarterly, half yearly and annual financial results to the Australian 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.

The Company has not established and publicly disclosed a policy concerning trading in company securities by directors, senior executives and employees and therefore has not complied with recommendation 3.2 of the Corporate Governance Council. Given the size of the Company and board, does not consider establishment or disclosure of a trading policy to be appropriate. The board takes ultimate responsibility for these matters.

Principle 4: Safeguard Integrity in Financial Reporting

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

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

Audit Committee

The audit, risk and compliance committee comprises Mr S O'Loughlin who is the non-executive director and independent of senior management and operating executives of the Company, Mr R Bonython a non-executive director and Mr Donald Stephens as the Company Secretary. The Board will annually confirm the membership of the committee.

The committee's primary responsibilities are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- oversee the management of risk within the Group;
- oversee the financial reporting process;
- review the annual and half-year financial reports and recommend them for approval by the Board of Directors;

- nominate external auditors;
- review the performance of the external auditors and existing audit arrangements; and
- ensure compliance with laws, regulations and other statutory or professional requirements, and the Company's governance policies.

The Company has not complied with recommendation 4.2 of the Corporate Governance Council. Due to the size of the board it is not possible to meet the recommendation of having at least three directors as members, the majority of which are independent.

Given the relative skills and experience of the members of the audit committee the board has not documented a formal committee charter and therefore has not complied with recommendation 4.3 of the Corporate Governance Council.

The board continues to monitor the composition of the committee and the roles and responsibilities of the members.

Principle 5: Make Timely and Balanced Disclosure

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

The Group has not publicly disclosed a formal disclosure policy and therefore has not complied with recommendation 5.1 of the Corporate Governance Council. Given the size of the Group, the board does not consider a public disclosure policy to be appropriate. The board takes ultimate responsibility for these matters.

Principle 6: Respect the Rights of Shareholders

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

Information is communicated to Shareholders through:

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

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

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

The Group has not designed or publicly disclosed a communications policy and therefore has not complied with recommendation 6.1 of the Corporate Governance Council. Given the size of the Group, the board does not consider disclosure of a communications policy to be appropriate. The board takes ultimate responsibility for these matters.



Principle 7: Recognise and Manage Risk

The Board has identified the significant areas of potential business and legal risk of Petratherm. The identification, monitoring and, where appropriate, the reduction of significant risk to Petratherm is the responsibility of the Managing Director and the Board. The Board has also established the audit, risk and compliance committee which addresses the risk of the Company.

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

Managing Director and Company Secretary Declaration to the Board of Director's

The Managing Director and the Company Secretary will be required to state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results are in accordance with relevant accounting standards. Included in this statement will be confirmation that the Group's risk management and internal controls are operating efficiently and effectively.

The Group has not established or publicly disclosed a policy for the oversight and management of material business risks and therefore has not complied with recommendation 7.1 of the Corporate Governance Council. Given the size of the Group, the board does not consider establishment or disclosure of a risk management policy to be appropriate. The board takes ultimate responsibility for these matters.

Principle 8: Remunerate Fairly and Responsibly

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

The board has not established a remuneration committee or disclosed a remuneration committee charter and therefore the Group has not complied with recommendation 8.1 and 8.3 respectively of the Corporate Governance Council. Given the size of the Group the board does not consider a separate committee appropriate. The board takes ultimate responsibility for these matters.

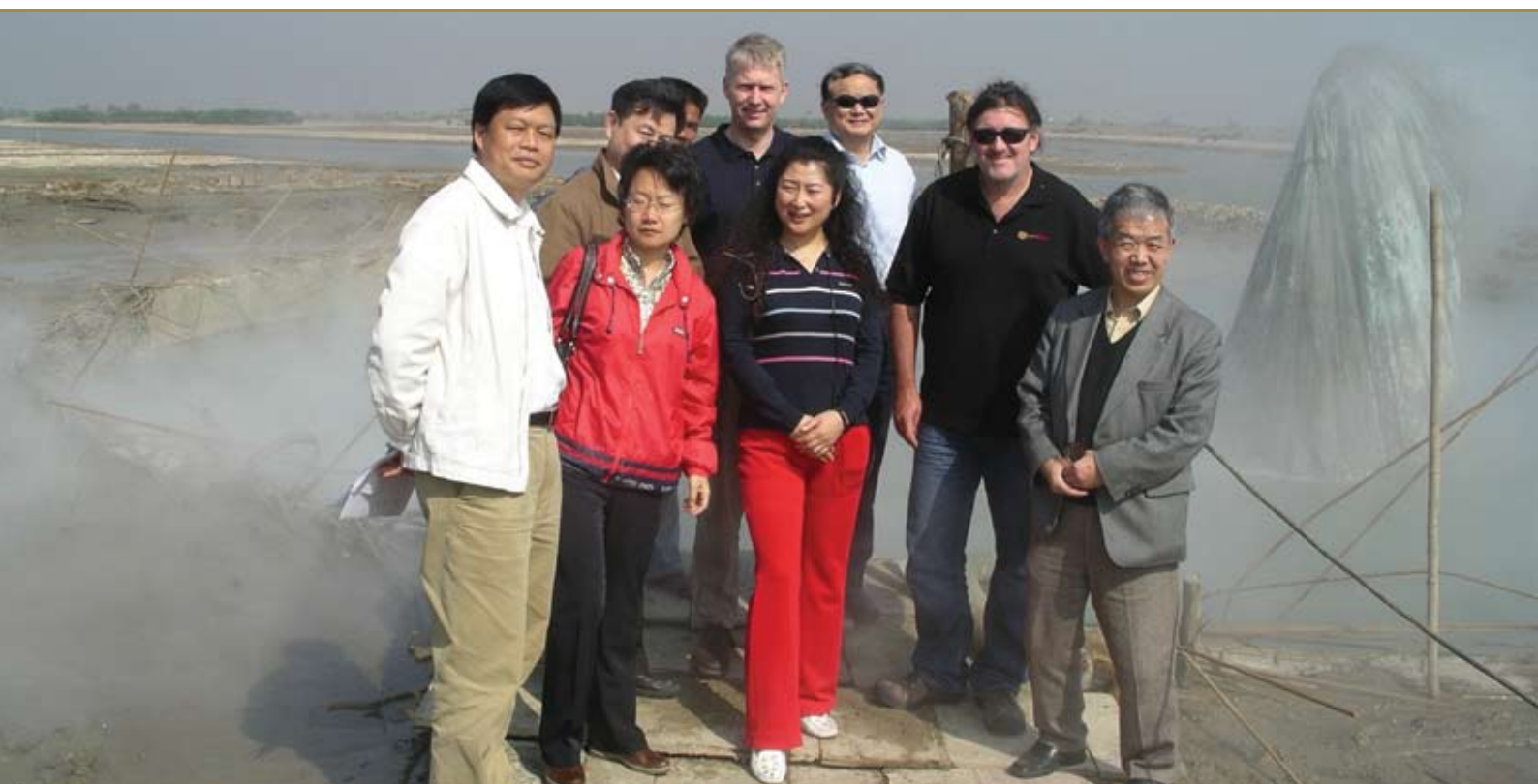


INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	4 (a)	428,632	173,178	428,433	170,950
Impairment of non-current assets	4 (b)	–	(44,275)	(319,496)	(1,041,991)
Employee benefits expense	4 (c)	(1,269,206)	(493,726)	(1,269,206)	(207,128)
Depreciation expense	4 (b)	(30,257)	(15,948)	(30,257)	–
Other expenses	4 (d)	(1,250,236)	(955,776)	(937,643)	(137,028)
Loss before income tax expense		(2,121,067)	(1,336,547)	(2,128,169)	(1,215,197)
Income tax (expense)/benefit	5	(8,255)	2,024	(8,255)	(119,299)
Loss for the year		(2,129,322)	(1,334,523)	(2,136,424)	(1,334,496)
Loss attributable to minority interest	20	–	344	–	–
Loss attributable to members of the parent entity		(2,129,322)	(1,334,179)	(2,136,424)	(1,334,496)

Earnings per share:		Cents	Cents
Basic earnings per share	6	(3.68)	(2.77)
Diluted earnings per share	6	(3.68)	(2.77)



BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	7	4,587,015	8,189,083	4,264,357	8,056,273
Trade and other receivables	8	283,589	58,231	5,484,019	3,294,425
Other current assets	9	46,457	21,371	33,626	6,732
TOTAL CURRENT ASSETS		4,917,061	8,268,685	9,782,002	11,357,430
NON-CURRENT ASSETS					
Financial assets	10	–	–	304,590	304,590
Property, plant and equipment	11	135,425	92,091	110,939	–
Exploration and evaluation assets	12	5,301,400	3,604,611	–	–
TOTAL NON-CURRENT ASSETS		5,436,825	3,696,702	415,529	304,590
TOTAL ASSETS		10,353,886	11,965,387	10,197,531	11,662,020
CURRENT LIABILITIES					
Trade and other payables	14	291,711	240,069	135,356	64,833
Other current liabilities	15	–	28,366	–	–
Short term provisions	16	121,000	52,061	121,000	–
TOTAL CURRENT LIABILITIES		412,711	320,496	256,356	64,833
NON-CURRENT LIABILITIES					
Long term provisions	16	9,529	47,704	9,529	–
TOTAL NON-CURRENT LIABILITIES		9,529	47,704	9,529	–
TOTAL LIABILITIES		422,240	368,200	265,885	64,833
NET ASSETS		9,931,646	11,597,187	9,931,646	11,597,187
EQUITY					
Issued capital	17	14,228,516	14,184,561	14,228,516	14,184,561
Reserves	18	580,316	160,490	587,735	160,807
Retained earnings	19	(4,877,186)	(2,747,864)	(4,884,605)	(2,748,181)
Parent interests		9,931,646	11,597,187	9,931,646	11,597,187
Minority interests	20	–	–	–	–
TOTAL EQUITY		9,931,646	11,597,187	9,931,646	11,597,187



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated					Company			
	Issued Capital	Retained Earnings	Reserves	Minority Interests	Total	Issued Capital	Retained Earnings	Reserves	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2006	6,089,542	(1,415,525)	93,982	–	4,767,999	6,089,542	(1,415,525)	93,982	4,767,999
Profit attributable to members of the Company	–	(1,334,179)	–	–	(1,334,179)	–	(1,334,496)	–	(1,334,496)
Shares issued via placement	5,680,000	–	–	–	5,680,000	5,680,000	–	–	5,680,000
Issued pursuant to share purchase plan	2,719,700	–	–	–	2,719,700	2,719,700	–	–	2,719,700
Issue of share options under employee share option plan	–	–	68,664	–	68,664	–	–	68,665	68,665
Capital contribution from minority interest holder	–	–	–	344	344	–	–	–	–
Minority interest share of loss	–	–	–	(344)	(344)	–	–	–	–
Transaction costs (net of tax)	(304,681)	–	–	–	(304,681)	(304,681)	–	–	(304,681)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	–	1,840	(1,840)	–	–	–	1,840	(1,840)	–
Foreign exchange translations	–	–	(316)	–	(316)	–	–	–	–
Balance at 30 June 2007	14,184,561	(2,747,864)	160,490	–	11,597,187	14,184,561	(2,748,181)	160,807	11,597,187
Balance at 1 July 2007	14,184,561	(2,747,864)	160,490	–	11,597,187	14,184,561	(2,748,181)	160,807	11,597,187
Profit attributable to members of the parent entity	–	(2,129,322)	–	–	(2,129,322)	–	(2,136,424)	–	(2,136,424)
Issue of share options under employee share option plan	–	–	431,828	–	431,828	–	–	431,828	431,828
Exercise of options under employee share options plan	32,000	–	–	–	32,000	32,000	–	–	32,000
Transaction costs (net of tax)	(1,200)	–	–	–	(1,200)	(1,200)	–	–	(1,200)
Tax portion of IPO costs	8,255	–	–	–	8,255	8,255	–	–	8,255
Foreign exchange translations	–	–	(7,102)	–	(7,102)	–	–	–	–
Transfer from employee equity-settled benefits reserve upon exercise of vested options	4,900	–	(4,900)	–	–	4,900	–	(4,900)	–
Balance at 30 June 2008	14,228,516	(4,877,186)	580,316	–	9,931,646	14,228,516	(4,884,605)	587,735	9,931,646

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(2,278,211)	(1,299,928)	(1,566,737)	(246,610)
Interest received		431,081	168,678	430,882	166,450
NET CASH USED IN OPERATING ACTIVITIES	7	(1,847,130)	(1,131,250)	(1,135,855)	(80,160)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(105,123)	(75,719)	(75,730)	–
Loans from related parties		–	218	–	–
Loans to wholly– owned subsidiary		–	–	(2,616,031)	(2,336,724)
REDI Grant proceeds		60,441	49,775	–	–
R&D Tax offset received		–	121,323	–	–
Joint Venture receipts		635,367	–	–	–
Payments for exploration activities		(2,381,323)	(1,305,230)	–	–
NET CASH USED IN INVESTING ACTIVITIES		(1,790,638)	(1,209,633)	(2,691,761)	(2,336,724)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		36,900	8,399,700	36,900	8,399,700
Transaction costs of issue of shares		(1,200)	(423,980)	(1,200)	(423,980)
NET CASH PROVIDED BY FINANCING ACTIVITIES		35,700	7,975,720	35,700	7,975,720
Net increase/(decrease) in cash and cash equivalents		(3,602,068)	5,634,837	(3,791,916)	5,558,836
Cash at the beginning of the year		8,189,083	2,554,246	8,056,273	2,497,437
CASH AT THE END OF THE YEAR	7	4,587,015	8,189,083	4,264,357	8,056,273

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1. Corporate Information

The financial report of Petratherm Ltd (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 28 September 2008. Petratherm Ltd is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

2. Summary of Significant Accounting Policies

This financial report includes the consolidated financial statements and notes of Petratherm Ltd and controlled entities ('Group'), and the separate financial statements and notes of Petratherm Ltd as an individual parent entity ('Company').

a. Basis of Preparation

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

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

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

b. Principles of Consolidation

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

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

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

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

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

c. Revenue Recognition

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

Rendering of services

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

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

Interest income

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

d. Government Grants

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

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

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

e. Finance Costs

Finance costs are recognised as an expense when incurred.

f. Cash and Cash Equivalents

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

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

g. Trade and Other Receivables

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

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

h. Financial Instruments

Recognition

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

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

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

Impairment

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

i. Income Tax

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

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

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

Tax consolidation

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

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

amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime.

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

j. Goods and Services Tax (GST)

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

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

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

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

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

k. Property, Plant and Equipment

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

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

Major depreciation rates used for each class of depreciable asset are: Plant and equipment 10 – 40%

Impairment

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

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

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

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

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

l. Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's

recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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

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

m. Exploration Expenditure

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

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

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

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

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

n. Trade and Other Payables

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



o. Provisions

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

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

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

p. Employee Benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share-based payment transactions

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

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

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

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

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

q. Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

r. Earnings per Share

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

s. New Accounting Standards and Interpretations

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The following standards and amendments are available for early adoption but have not been applied by the consolidated entity in these financial statements:

AASB 8 Operating Segments (effective from 1 January 2009)

This standard will require the entity to adopt the "management approach" to disclosing information about its reportable segments. Generally, the financial information will be reported on the same basis as it is used internally by the chief decision maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. Such information may be prepared using different measures that have used in preparing the income statement and balance sheet in which case reconciliations of certain items will be required.

Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments (effective from 1 January 2009)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable to annual reporting periods commencing on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the

financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being at the beginning of the comparative period. The group intends to apply the revised standard from 1 July 2009.

The application of these standards will not affect the amounts recognised in the financial statements.

t. Critical Accounting Estimates and Judgments

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

Key Estimates – Exploration and evaluation

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

u. Foreign Currency Translation

Functional and presentation currency

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



Transactions and balances

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

Group companies

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

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

v. Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.



3. Segment Information

Industry & Geographical Segment

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

2008	Australia	Spain	Total	Inter-segment eliminations/ unallocated	Consolidated
	\$	\$	\$	\$	\$
Result					
Segment result	(2,472,597)	(77,102)	(2,549,699)	–	(2,549,699)
Net interest income					428,632
Profit before income tax benefit					(2,121,067)
Income tax expense					(8,255)
Minority interest					–
Net profit after tax					(2,129,322)

2007	Australia	Spain	Total	Inter-segment eliminations/ unallocated	Consolidated
	\$	\$	\$	\$	\$
Result					
Segment result	(1,497,085)	(12,640)	(1,509,725)	–	(1,509,725)
Net interest income					173,178
Profit before income tax benefit					(1,336,547)
Income tax benefit					2,024
Minority interest					344
Net profit after tax					(1,334,179)

2008	Australia	Spain	Total	Inter-segment eliminations	Consolidated
	\$	\$	\$	\$	\$
Assets and liabilities					
Segment assets	9,445,919	907,967	10,353,886	–	10,353,886
Iner-segment assets	1,007,835	–	1,007,835	(1,007,835)	–
Unallocated assets					–
Total assets					10,353,886
Segment liabilities	414,943	7,297	422,240	–	422,240
Inter-segment liabilities	–	1,007,835	1,007,835	(1,007,835)	–
Unallocated liabilities					–
Total liabilities					422,240
Other segment information					
Acquisition of property, plant and equipment	78,498	–	78,498	–	78,498
Depreciation expense	30,257	–	30,257	–	30,257

2007	Australia	Spain	Total	Inter-segment eliminations	Consolidated
	\$	\$	\$	\$	\$
Assets and liabilities					
Segment assets	11,831,337	134,050	11,965,387	–	11,965,387
Iner-segment assets	138,116	–	138,116	(138,116)	–
Unallocated assets					–
Total assets					11,965,387
Segment liabilities	410,724	11,516	422,240	–	422,240
Inter-segment liabilities	–	138,116	138,116	(138,116)	–
Unallocated liabilities					–
Total liabilities					422,240
Other segment information					
Acquisition of property, plant and equipment	75,276	–	75,276	–	75,276
Depreciation expense	15,948	–	15,948	–	15,948

4. Revenue and Expenses

(a) Revenue and Other Income

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Bank interest received or receivable	428,632	173,178	428,433	170,950
	428,632	173,178	428,433	170,950

(b) Expenses

Impairment of non-current assets				
Capitalised tenement costs written off	–	44,275	–	–
Other	–	–	319,496	1,041,991
Total impairment of non-current assets	–	44,275	319,496	1,041,991

Depreciation of non-current assets				
Plant and equipment	30,257	15,948	30,257	–
Total depreciation	30,257	15,948	30,257	–

(c) Employees Benefits Expense

Wages, salaries, directors fees and other remuneration expenses	710,223	704,068	710,223	138,326
Superannuation	90,041	47,410	90,041	–
Transfer to/(from) annual leave provision	21,713	13,575	21,713	–
Transfer to/(from) long service leave provision	15,401	9,595	15,401	–
Share-based payments expense	431,828	68,802	431,828	68,802
Transfer to capitalised tenements	–	(349,724)	–	–
	1,269,206	493,726	1,269,206	207,128

(d) Other Expenses from Ordinary Activities

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Secretarial, professional and consultancy	178,613	149,605	178,613	11,725
Travel expenses	65,131	70,808	65,122	70
Recruitment expenses	69,277	61,475	69,277	–
Promotion and advertising	102,671	60,433	102,671	–
Occupancy costs	61,891	51,790	61,891	–
Share register maintenance	27,242	44,578	27,242	44,578
Insurance costs	41,079	42,739	34,676	34,525
Payroll tax	45,692	33,325	45,692	–
Conference & seminars	18,018	30,250	18,018	–
Entertainment	44,023	29,984	44,023	–
AGM expenses	55,383	23,690	55,383	23,690
Audit fees	27,000	18,091	24,000	–
Listing Fees	19,089	11,646	18,877	11,646
Subscriptions and publications	53,787	10,628	53,787	551
Legal	8,839	8,929	8,839	–
Stock exchange fees	8,008	7,878	8,008	7,878
Bank Charges	5,493	–	4,397	–
Communication & computer expenses	40,616	–	40,616	–
Office expenses	38,521	–	38,521	–
Other expenses	339,862	299,927	37,991	2,366
	1,250,236	955,776	937,643	137,028

5. Income Tax

Accounting loss before income tax	(2,121,067)	(1,336,547)	(2,128,169)	(1,215,197)
At the Group's statutory income tax rate of 30% (2007: 30%)	(636,320)	(400,964)	(638,451)	(364,559)
Expenditure not allowable for income tax purposes	142,591	51,458	238,440	312,597
Other deductible items	(566,692)	(316,061)	(57,655)	(57,655)
R&D Tax Offset	–	121,323	–	–
Deferred tax Asset not realised as recognition criteria of AASB 112 not met	1,068,676	542,220	465,920	228,916
Tax portion of IPO costs written off	8,255	(2,024)	8,254	119,299

The Group has tax losses arising in Australia of \$8,085,546 (2007: \$5,709,842) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.



Income Tax Losses

Deferred Tax Asset (DTA) arising from tax losses not recognised at reporting date as realisation of the benefit is not regarded as probable.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Timing Difference at 30%	(1,317,014)	(759,552)	153,737	172,233
Tax losses at 30%	2,425,664	1,712,953	399,349	261,944
	1,108,650	953,401	553,086	434,177

This (DTA) will only be obtained if

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

average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

Tax Consolidation

Petratherm Limited and its wholly-owned Australian controlled entity (MNGI Pty Limited) have not yet decided to implement the tax consolidation legislation as of 1 July 2007. 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.

	Consolidated	
	2008	2007
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(2,129,322)	(1,334,523)
	2008	2007
Weighted average number of ordinary shares for basic earnings per share	57,871,074	48,148,933
Effect of dilution	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	57,871,074	48,148,933

6. Earnings per Share

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

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

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taking into account in 2007 and 2008.

A total of 90,000 options have been exercised subsequent to the reporting date. The impact of these shares have not been taken into account in the above calculation.

7. Cash and Cash Equivalents

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank and in hand	1,454,565	7,150,688	1,131,907	7,017,878
Short-term deposits	3,132,450	1,038,395	3,132,450	1,038,395
	4,587,015	8,189,083	4,264,357	8,056,273

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

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

Reconciliation to Cash Flow Statement

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

Cash at banks and in hand	1,454,565	7,150,688	1,131,907	7,017,878
Short-term deposits	3,132,450	1,038,395	3,132,450	1,038,395
	4,587,015	8,189,083	4,264,357	8,056,273

Reconciliation of Net Profit After Tax to Net Cash Flows from Operations

Net loss	(2,129,322)	(1,334,523)	(2,136,424)	(1,334,496)
Adjustments for non-cash items				
Depreciation	30,257	15,948	30,257	–
Impairment of non-current assets and held-for-sale assets	–	44,275	319,496	1,041,991
Non cash income tax expense	8,255	(2,024)	8,255	119,299
Share options expensed	431,828	68,663	431,828	68,663
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(225,358)	(4,500)	(531)	(4,500)
(Increase)/decrease in prepayments	(25,086)	(14,386)	–	8,966
(Decrease)/increase in trade and other payables	31,532	–	78,779	33,967
(Decrease)/increase in employee entitlements	30,764	28,467	130,529	(2,464)
(Decrease)/increase in net goods and service tax receivable	–	66,830	1,956	(11,586)
Net cash from operating activities	(1,847,130)	(1,131,250)	(1,135,855)	(80,160)



8. Trade and Other Receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade receivables (i)	173,418	9,969	531	–
Goods & Services Tax receivable	110,171	48,262	22,444	20,488
Related party receivables (ii)				
Controlled entities	–	–	7,615,964	5,109,360
Less: Provision for Impairment	–	–	(2,154,919)	(1,835,423)
	283,589	58,231	5,484,019	3,294,425

i). Trade receivables are non-interest bearing and are generally on 30–90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No impairment was recognised in 2007 or 2008 and no receivables are past due at balance date.

ii). Loans to wholly-owned subsidiaries are at call loans, with no fixed repayment schedule and are non-interest bearing.

9. Other Current Assets

Prepayments	44,048	16,514	31,217	1,874
Accrued income	2,409	4,857	2,409	4,858
	46,457	21,371	33,626	6,732

10. Financial Assets

At cost:				
Shares in controlled entity (MNGI Pty Ltd)	–	–	300,000	300,000
Shares in controlled entity (Petratherm Espana SL)	–	–	4,590	4,590
	–	–	304,590	304,590

11. Property, Plant and Equipment

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Plant and equipment				
Cost				
Balance at 1 July 2007	108,901	38,532	–	–
Additions	78,498	75,276	–	–
Transfer of assets	–	–	167,821	–
Balance at 30 June 2008	187,399	113,808	167,821	–
Accumulated Depreciation				
Balance at 1 July 2007	21,717	6,211	–	–
Depreciation for the year	30,257	15,506	–	–
Transfer of assets	–	–	56,882	–
	51,974	21,717	56,882	–
Total net book value as at 30 June 2008	135,425	92,091	110,939	–

Impairment of Property, Plant and Equipment

No material impairment loss was recognised or reversed for the year ended 30 June 2007 and 2008 with respect to plant and equipment.

The depreciation rate of the assets was estimated as follows both for 2007 and 2008:
Plant and equipment 10 – 40%.

12. Exploration and Evaluation Assets

Exploration and evaluation costs carried forward in respect of Geothermal areas of interest				
Exploration and evaluation phases	5,301,400	3,604,611	–	–
	5,301,400	3,604,611	–	–

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

Consolidated Entity	Total
Capitalised tenement expenditure movement reconciliation	
Balance at the beginning of the year	3,604,611
Additions through expenditure capitalised	1,696,789
Write off of tenements relinquished	–
Balance at end of year	5,301,400



13. Share-Based Payments

Employee Share Option Plan

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

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

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

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

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

	2008	2008	2007	2007
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	1,630,000	0.52	1,010,000	0.28
Granted during the year	170,000	0.79	680,000	0.79
Forfeited during the year	–	–	(60,000)	0.37
Outstanding at the end of the year	1,800,000	0.60	1,630,000	0.52
Exercisable at the end of the year	1,800,000	0.60	1,630,000	0.52

The outstanding balance as at 30 June 2008 is represented by:

- A total of 400,000 options exercisable any time until 27 July 2009 with a strike price of \$0.20.
- A total of 40,000 options exercisable any time until 23 August 2009 with a strike price of \$0.32.
- A total of 50,000 options exercisable any time until 15 December 2009 with a strike price of \$0.32.
- A total of 30,000 options exercisable any time until 31 December 2010 with a strike price of \$0.40
- A total of 400,000 options exercisable any time until 21 May 2011 with a strike price of \$0.32
- A total of 30,000 options exercisable any time until 29 May 2011 with a strike price of \$0.32
- A total of 100,000 options exercisable any time until 1 January 2012 with a strike price of \$0.53
- A total of 100,000 options exercisable any time until 1 January 2012 with a strike price of \$0.53
- A total of 40,000 options exercisable any time until 4 March 2012 with a strike price of \$0.91
- A total of 20,000 options exercisable any time until 21 March 2012 with a strike price of \$0.91
- A total of 400,000 options exercisable any time until 31 May 2012 with a strike price of \$0.90.
- A total of 20,000 options exercisable any time until 25 June 2012 with a strike price of \$0.93.
- A total of 200,000 options exercisable any time until 25 June 2012 with a strike price of \$0.93.
- A total of 50,000 options exercisable any time until 7 January 2013 with a strike price of \$1.20.
- A total of 60,000 options exercisable any time until 7 January 2013 with a strike price of \$1.20.
- A total of 30,000 options exercisable any time until 7 January 2013 with a strike price of \$1.20.
- A total of 30,000 options exercisable any time until 7 January 2013 with a strike price of \$1.20.

Contractual Life of Options

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is 3.22 (2007: 3.99 years).

Exercise Price of Options

The range of exercise prices for options outstanding at the end of the year was \$0.20–\$1.20 (2007: \$0.20–\$0.93).

Fair Value of Options

The weighted average fair value of options granted during the year was \$0.85 (2007: \$0.185).

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

The following table lists the inputs to the model used for the years ended 30 June 2007 and 30 June 2008:

	2008	2007
Historical volatility (%)	69.780%	16.84%
Risk-free interest rate (%)	6.35%	6%
Expected life of option (years)	5	5

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

14. Trade and Other Payables (Current)

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables (i)	291,711	240,069	135,356	64,833
	291,711	240,069	135,356	64,833

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

15. Other Non Current Liabilities

Income received in advance	–	28,366	–	–
	–	28,366	–	–

16. Provisions

Current				
Annual leave provision:				
Balance at 1 July	52,061	33,189	–	–
Transfer to/ (from) provision	68,939	18,872	121,000	–
Closing Balance 30 June	121,000	52,061	121,000	–

Non-current				
Long service leave:				
Balance at 1 July	47,704	38,109	–	–
Transfer to/ (from) provision	(38,175)	9,595	9,529	–
Closing Balance 30 June	9,529	47,704	9,529	–

Provision for Long-Term Employee Benefits

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

17. Issued Capital

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
57,874,626 fully paid ordinary shares (2007: 57,774,626)	14,228,516	14,184,561	14,228,516	14,184,561
	14,228,516	14,184,561	14,228,516	14,184,561

	2008		2007	
	Number	\$	Number	\$
Balance at beginning of financial year	57,774,626	14,184,561	43,375,001	6,089,542
Ordinary shares participating in dividends	–	–	11,000,000	5,680,000
Issue of shares under employee share option plan	100,000	32,000	–	–
Issued pursuant to sale and purchase agreement	–	–	3,399,625	2,719,700
Transaction costs on share issue	–	(1,200)	–	(304,681)
Tax portion of IPO costs	–	8,255	–	–
Transfer from share option reserve	–	4,900	–	–
Balance at end of financial year	57,874,626	14,228,516	57,774,626	14,184,561

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

18. Reserves

Share Option Reserve

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

Foreign Currency Translation Reserve

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

Reserves				
Foreign currency translation	(7,419)	(317)	–	–
Share option reserve	587,735	160,807	587,735	160,807
	580,316	160,490	587,735	160,807



	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Foreign currency translation				
Balance at beginning of financial year	(317)	–	–	–
Foreign exchange translations	(7,102)	(317)	–	–
Balance at end of financial year	(7,419)	(317)	–	–

Share option reserve				
Balance at beginning of financial year	160,807	93,982	160,807	93,982
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	–	(1,840)	–	(1,840)
Issued to employees and officers under Employee Share Option Plan	431,828	68,665	431,828	68,665
Transfer to share capital upon conversion of options	(4,900)	–	(4,900)	–
Balance at end of financial year	587,735	160,807	587,735	160,807

19. Retained Earnings

Balance at beginning of financial year	(2,747,864)	(1,415,525)	(2,748,181)	(1,415,525)
Net profit attributable to members of the parent entity	(2,129,322)	(1,334,179)	(2,136,424)	(1,334,496)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	–	1,840	–	1,840
Balance at end of financial year	(4,877,186)	(2,747,864)	(4,884,605)	(2,748,181)

20. Minority Interest

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

21. Commitments for Expenditure

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating leases				
Not longer than 1 year	70,268	73,208	70,268	73,208
Longer than 1 year and not longer than 5 years	19,403	87,223	19,403	87,223
Longer than 5 years	–	–	–	–
	89,671	160,431	89,671	160,431

Terms of Lease Arrangements

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

Exploration Leases

In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay in the year ending 30 June 2009 amounts of approximately \$2,050,000 net of joint venture contributions received pursuant to various joint venture agreements in respect of tenement lease rentals and to meet minimum expenditure requirements.

22. Contingent Assets and Liabilities

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

23. Auditor's Remuneration

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Audit or review of financial report	27,000	18,090	24,000	–
	27,000	18,090	24,000	–

24. Subsidiaries

	Country of incorporation	Ownership interest	
		2008	2007
		%*	%*
Name of entity			
Parent entity			
Petratherm Ltd	Australia		
Subsidiary			
MNGI Pty Ltd	Australia	100	100
Subsidiary			
Petratherm Espana SL	Spain	93	93

* Percentage of voting power is in proportion to ownership

25. Financial Risk Management Objectives, Policies and Financial Instruments

Capital Risk Management

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 17, 18 and 19 respectively.

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

Categories of Financial Instruments

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	4,587,015	8,189,083	4,264,357	8,056,273
Trade and other receivables	283,589	58,231	5,484,019	3,294,425
Financial Liabilities				
Trade and other payables	291,711	240,069	135,356	64,833

Credit Risk Management

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

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

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

Liquidity Risk Management

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

Liquidity and Interest Risk Tables

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

Consolidated		
	Weighted average effective interest rate %	Less than 1 year \$
2008		
Non-interest bearing	–	291,711
2007		
Non-interest bearing	–	240,069

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period.

Consolidated		
	Weighted average effective interest rate %	Less than 1 year \$
2008		
Variable interest rate	6.83	4,587,015
2007		
Variable interest rate	5.94	8,189,083

26. Related Party Disclosure and Key Management Personnel Remuneration

Payments to Related Parties

HLB Mann Judd (SA) Pty Limited has received professional fees for accounting, taxation and secretarial services provided during the year amounting to \$95,322 (2007: 81,421). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited. A total of \$16,031 was outstanding at 30 June 2008.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of \$16,328 (2007:\$8,895) during the year. A total of \$7,838 was outstanding at 30 June 2008.

JRS Petroleum of which Richard Hillis is a director received \$nil (2007: 15,180) for drilling during the year.

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

Associates

Throughout the year, Petratherm Ltd was invoiced by its associate Minotaur Exploration Ltd, for the provision technical staff and equipment, as well as reimbursements for expenditure jointly incurred. These transactions were undertaken on arms length basis and in aggregate for the year ended 30 June 2008 totalled \$19,753.

Key Management Personnel Remuneration and Equity Holdings

The board currently determines the nature and amount of remuneration for board members and senior executives of the Group. The policy

is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results.

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

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

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

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

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

The remuneration details of the above personnel can be found in the body of the director's report.



Option holdings of Key Management Personnel

30 June 2008	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	750,000	–	(100,000)	–	650,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	–	–	–	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	–	–	–	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	–	–	–	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	–	–	–	400,000	04/04/09	05/04/04	04/04/09
Richard Hillis	300,000	–	–	–	300,000	04/04/09	05/04/04	04/04/09
Simon O'Loughlin	200,000	–	–	–	200,000	04/04/09	05/04/04	04/04/09
Richard Hillis	–	–	–	200,000	200,000	25/06/12	26/06/07	26/06/12
Executives								
Donald Stephens	250,000	–	–	–	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	–	–	–	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	–	–	–	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	–	–	–	100,000	01/01/12	01/01/07	01/01/12
Jonathan Teubner	400,000	–	–	–	400,000	31/05/13	01/06/08	31/05/13
	5,650,000	–	(100,000)	200,000	5,750,000			

30 June 2007	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	750,000	–	–	–	750,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	–	–	–	750,000	30/04/13	01/05/08	30/04/13
Derek Carter	1,200,000	–	–	–	1,200,000	04/04/09	05/04/04	04/04/09
Richard Bonython	500,000	–	–	–	500,000	04/04/09	05/04/04	04/04/09
Lloyd Taylor	400,000	–	–	–	400,000	00/01/00	00/01/00	00/01/00
Richard Hillis	300,000	–	–	–	300,000	00/01/00	00/01/00	00/01/00
Simon O'Loughlin	200,000	–	–	–	200,000	04/04/09	05/04/04	04/04/09
Executives								
Donald Stephens	250,000	–	–	–	250,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	–	–	–	400,000	27/07/09	28/07/05	27/07/09
Peter Reid	400,000	–	–	–	400,000	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	–	–	–	100,000	01/01/12	01/01/07	01/01/12
Jonathan Teubner	–	400,000	–	–	400,000	31/05/13	01/06/08	31/05/13
	5,250,000	400,000	–	–	5,650,000			

Share holdings of Key Management Personnel

30 June 2008	Balance at 1 July 07	On Exercise of Options	Net Change Other	Balance 30 June 08
Directors				
Terry Kallis	–	100,000		100,000
Derek Carter	66,250	–	–	66,250
Richard Bonython	532,500	–	–	532,500
Lloyd Taylor	300,000	–	–	300,000
Richard Hillis	20,000	–	–	20,000
Simon O’Loughlin	125,000	–	–	125,000
Executives				
Peter Reid	34,918	–	–	34,918
Jonathan Teubner	–	–	–	–

Wholly Owned Group Transactions

Loans

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

27. Subsequent Events After the Balance Date

The Company entered into a \$57 million farm-in with TRUenergy for up to 30% of the Paralana Geothermal Energy Joint Venture Project. The farm-in contains conditions subsequent including, FIRB approval, securing a suitable rig and modifications to the existing JV.

A 2,000HP drilling rig was secured for the Paralana Project under a drilling services contract with Weatherford Drilling International Pty Ltd. This satisfies the major condition subsequent of the TRUenergy farm-in agreement.



DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

- a. the financial statements and notes of the Company and of the Group are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements ; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- c. the audited remuneration disclosures set out in the Remuneration Report of the directors' report comply with Accounting Standard AASB 124 'Related Party Disclosures'.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

On behalf of the board



Terry Kallis
Managing Director

Dated 30 September 2008



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PETRATHERM LTD



**Grant Thornton South Australian
Partnership**
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRATHERM LTD

Report on the Financial Report

We have audited the accompanying financial report of Petratherm Ltd (the company) which comprises the balance sheet as at 30 June 2008, 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 controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

Auditor's Responsibility Cont

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

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

Independence

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

Auditor's Opinion

In our opinion:

- a the financial report of Petratherm Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their 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 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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

Auditor's Opinion

In our opinion the Remuneration Report of Petratherm Ltd for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville on this 30th day of September 2008



ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 30 September 2008.

Distribution of Equity Securities

Options

- 13,710,000 options are held by 20 individual option holders.

Ordinary Share Capital

- 57,964,626 fully paid ordinary shares are held by 2,911 individual shareholders.

All issued ordinary shares carry one vote per share.

The number of shareholders, by size of holding, in each class are:

	Fully Paid Ordinary Shares	Unquoted Options
1 – 1,000	386	–
1,001 – 5,000	1,141	–
5,001 – 10,000	597	–
10,001 – 100,000	745	5
100,001 and over	42	13
	2,911	18
Holding less than a marketable parcel	411	–

Substantial Shareholders		
Ordinary Shareholders	Fully Paid	
	Number	Percentage
Minotaur Resources Investments Pty Ltd	18,437,501	31.81%
	18,437,501	31.81%

Twenty Largest Holders of Quoted Equity Securities

	Fully Paid Ordinary Shares	
	Number	Percentage
MINOTAUR RESOURCES INVESTMENTS PTY LTD	18,437,501	31.81%
NATIONAL NOMINEES LIMITED	1,129,886	1.95%
ROMADAK PTY LTD ROMADAK SUPER FUND A/C	756,250	1.30%
EURO PACIFIC HOLDINGS PTY LTD	750,000	1.29%
YARRAANDOO PTY LTD YARRAANDOO SUPER FUND A/C	714,601	1.23%
YARRAANDOO PTY LTD YARRAANDOO SUPER FUND A/C	625,000	1.08%
ANZ NOMINEES LIMITED	612,546	1.06%
ROMADAK PTY LTD ROMADAK SUPER FUND A/C	541,250	0.93%
DORICA NOMINEES PTY LTD	506,250	0.87%
MR JEFF MARTIN MRS IRENA MARTIN THE J & I MARTIN S/F A/C	407,785	0.70%
SYDNEY EQUITIES PTY LIMITED	400,000	0.69%
DAGRES PTY LTD DAGRES DISCRETIONARY A/C	320,000	0.55%
J ARONOV COMPUTER SERVICES PTY LTD	306,250	0.53%
GRYPHON PARTNERS PTY LTD	270,000	0.47%
MR GLENN MARTIN COURTIS	262,000	0.45%
BOB BLESING BLESING DEVELOPMENT A/C	250,000	0.43%
HOLLEY SUPERANNUATION PTY LTD HOLLEY SUPERANNUATION A/C	250,000	0.43%
EURO-PACIFIC HOLDINGS PTY LTD	229,000	0.40%
BOND STREET CUSTODIANS LIMITED	207,960	0.36%
TRUSTMONT PTY LTD PHOENIX PISTON RINGS S/F A/C	200,000	0.35%
	27,176,279	46.88%

Seismic survey trucks at Paralana.



Highlights for 2007/2008

During the 2007/2008 year Petratherm Ltd made significant progress in its Australian and Spanish projects and also commenced exploration activities in China – establishing itself as a leading Australian explorer with an international reach with geothermal projects across a spectrum of technologies including EGS, district heating and conventional, volcanic based systems.

September 2007 – strengthened the skill base with key experts for Paralana and overseas projects with the appointments of Professor Richard Hillis and Associate Professor Martin Hand as expert consultants for our exploration and development activities.

October 2007 – expanded its Spanish portfolio by successfully acquiring a geothermal exploration license (GEL) on Gran Canaria – an island of the Spanish-owned Canary Islands. The Gran Canaria project is the Company's second volcanic based, conventional geothermal project in Spain.

November 2007 – secured an exclusive geothermal agreement with four Chinese government institutions to undertake a co-operative project to identify high quality geothermal energy projects in China.

November 2007 – expanded the Spanish project portfolio with three new GELs in the Almazan Basin in northern Spain, focusing on the development of EGS and direct-use heat geothermal opportunities.

November 2007 – the Paralana Geothermal Energy Project was acknowledged by the Liberal Coalition under a \$50 million election commitment as representing Australia's best geothermal energy project.

November 2007 – secured an extensive GEL in Madrid covering an area of 330km², located approximately 40km north-east of Madrid. The Madrid project, includes five previously drilled geothermal and oil wells and aims to develop geothermal district heating and EGS power production.

December 2007 – completed the Paralana reflection seismic and magneto-telluric (MT) surveys. The information gained by the seismic and MT surveys, together with previous seismic data, provided critical information on the geometry of the reservoir horizons and faults that will assist in the long-term development of the Paralana reservoir.

February 2008 – established the Petratherm Espana Office in Madrid and appointed a project geologist – Victor Guerrero – to support the company's growing Spanish portfolio.

February 2008 – awarded a \$100,000 PACE Grant for the Paralana Project to trial a new method of resource mapping – shear wave splitting – an exploration tool to help characterize engineered geothermal reservoirs.

February 2008 – awarded two additional GELs for the Tenerife volcanic-based project in Spain's Canary Islands. The company's three GELs now cover the most prospective areas of the island for the development of conventional, volcanic, geothermal power production.

May 2008 – pre-feasibility assessment of the Madrid Basin geothermal district heating project confirms the potential exploitation of the known geothermal resource in GEL area is economically viable. Petratherm decides to undertake a full feasibility assessment with the aim of producing project revenues in mid 2010.

June 2007 – Awarded Australian Government grants of \$75,000 to assist Petratherm's China project under the Asia Pacific Partnership (AAP).

July 2008 – appointed as Project Manager for the Paralana Project – Mr John King – former principal consultant with international engineering company GHD.

August 2008 – \$57 million TRUenergy farm-in for up to 30% of Paralana Geothermal Energy JV Project. The farm-in enables TRUenergy to earn up to 30% of the Paralana Project for an investment of \$57 million (plus their equity share of project costs) over time, in line with the achievement of specific project milestones.

September 2008 – Drilling rig secured for the Paralana Project through a Rig Services Contract with Weatherford Drilling International Pty Ltd. The drilling contract has secured Rig # 828 which is a 2000HP LeTourneau "Lightning" Drilling Rig and the Paralana 2 well spud date is scheduled for 2009.



Petratherm Ltd

ACN 106 806 884

ASX code: PTR

105–106 Greenhill Road
Unley 5061
Adelaide
South Australia
Australia

t (61 8) 8274 5000
f (61 8) 8272 8141

admin@petratherm.com.au
www.petratherm.com.au

design: info@ronakdesign.com
print: jeff@smithimpress.com.au



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