Petratherm Limited

ABN 17 106 806 884

Financial Report

for the year ended 30 June 2012

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Corporate Information

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

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

Directors
Derek Carter (Chairman)
Terry Kallis (Managing Director)
Richard Bonython
Richard Hillis
Simon O'Loughlin
Lewis Owens

Company Secretary
Donald Stephens

Registered Office
C/- HLB Mann Judd (SA) Pty Ltd
169 Fullarton Road
DULWICH SA 5065

Principal place of business
Level 1, 129 Greenhill Road
UNLEY SA 5061

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

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

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

Auditors
Grant Thornton South Australian Partnership
Chartered Accountants
Level 1, 67 Greenhill Road
WAYVILLE SA 5034

Directors' report

Your directors submit their report for the year ended 30 June 2012.

DIRECTORS

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

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

Names, qualifications, experience and special responsibilities

Derek Carter, MSc, FAusIMM (CP) (Chairman, Non- Executive Director)
Derek Carter has over 40 years experience in exploration and mine geology, including 17 years in management of ASX-listed exploration and development companies. He held senior positions in the Shell Group of Companies and Burmine Ltd before founding Minotaur in 1993. He was Managing Director of Minotaur from its inception until early 2010 when he became Chairman of that company. He is a Director of Blackthorn Resources Ltd, Mithril Resources Ltd and Toro Energy Ltd, all of which are listed on the ASX and is a Director of the AusIMM. He was Vice President and later President, of the South Australian Chamber of Mines and Energy, was a Director of the Australian Gold Council and Chairman of the Federal Government's Minerals Exploration Advisory Group. He is a member of the South Australian Resources Development Board, and the South Australian Minerals and Petroleum Experts Group.

He received AMEC's Prospector of the Year Award (2003), the AusIMM's President's Award (2010) and is a Centenary Medalist.

Terry Kallis,BE (Elec) MBA (Managing Director)
Terry Kallis has more than 30 years experience in the Australian energy sector. Terry holds degrees in Electrical Engineering and a Masters of Business Administration. He held senior executive positions in ETSA Corporation and was instrumental in the development of the National Electricity Market (NEM) and the reforms to ETSA and ElectraNet and their privatization.

Prior to joining Petratherm, Terry consulted to the energy sector and developed SA's first wind farm and first underground DC interconnection between South Australia and Victoria. Terry is Chairman of the Australian Geothermal Energy Association (AGEA) and is also a Member of the Council of the South Australian Chamber of Mines & Energy representing geothermal and renewables.

Directors' report

Richard Bonython, B Ag Sc (Non- Executive Director)
Richard Bonython was a director of Minotaur Gold Ltd for six years, Minotaur Resources Ltd for 5 years and retired as chairman of Hindmarsh Resources Ltd following the takeover of that company in early 2006. He retired as chairman of Diamin Resources NL in 1999 having been a director of that company for 15 years. He was executive director of Pioneer Property Group Ltd for over 15 years and has experience of over 40 years in the building, rural and minerals industries. He is a director of Mithril Resources Ltd (ASX listed) and Minotaur Exploration (ASX listed), and is a member of the Company's audit committee.

Richard Hillis, BSc, ARSM, PhD (Non-Executive Director)
Richard Hillis is CEO of the Deep Exploration Technologies Cooperative Research Centre (DET CRC). The DET CRC is an industry and government funded company established to deliver research programs in mineral exploration technologies. Richard graduated BSc (Hons) from Imperial College (London, 1985) and PhD from the University of Edinburgh (1989) and was previously Mawson Professor of Geology and Head of the Australian School of Petroleum (University of Adelaide). He has published ~200 papers in the areas of petroleum geomechanics and basin tectonics and has consulted extensively to, and run short courses for, the petroleum industry on these topics. Richard is a non-executive director of AuScope, the geosciences facility in the National Collaborative Research Infrastructure Scheme.

Simon O'Loughlin, BA (Acc) (Non-Executive Director)
Simon O'Loughlin is the founding member of O'Loughlins Lawyers, an Adelaide based medium sized specialist commercial law firm. He has obtained extensive experience in the corporate and commercial law fields while practicing in Sydney and Adelaide. Simon also holds accounting qualifications. More recently, he has been focusing on the resources sector. He is currently chairman of Kibaran Resources Ltd, and a non-executive director of Neurodiscovery Ltd, Australia Oriental Minerals Ltd, Goldminex Ltd, director of Aura Energy Ltd, Chesser Resources Ltd and WCP Resources Ltd. In the last 3 years he has also been a director of World Titanium Resources Ltd, Living Cell Technologies Ltd, Avenue Resources Ltd and Strzelecki Metals Ltd.

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

Lewis Owens, MSc,BE(Hons),BA (Non-Executive Director)
Lewis Owens is currently the Chairman of SA Water Corporation and Country Arts SA, a Director of Regional Arts Australia, member of the City of Marion Audit Committee and Chair of the University of Adelaide Business School Advisory Board. He was previously the CEO and Director of ETSA Utilities, the South Australian electricity distribution business. Prior to that role, he was Chairman of the Essential Services Commission of South Australia, responsible for independent regulation of the electricity, gas, water, ports and railway industries. He has worked in the oil, gas and electricity industries, and in various roles within government including as Chief Executive of WorkCover Corporation and Funds SA.

Directors' report

COMPANY SECRETARY

Donald Stephens, BA (Acc), FCA
Donald Stephens is a chartered accountant and corporate advisor with over 25 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd, a firm of chartered accountants. He is non-executive director of Mithril Resources Ltd, Papyrus Australia Ltd and TW Holdings Ltd and currently holds a number of company secretarial positions with listed Public Companies including Toro Energy Ltd, Mithril Resources Ltd and Minotaur Exploration Ltd. He is a member of the Company's audit committee.

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

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Derek Carter	1,448,750	600,000
Terry Kallis	270,480	2,250,000
Richard Bonython	1,274,292	450,000
Richard Hillis	302,500	650,000
Simon O'Loughlin	358,333	450,000
Lewis Owens	192,500	450,000

DIVIDENDS

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

Directors' report

PRINCIPAL ACTIVITIES

The principal activities of the Company & Group during the financial year were:

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

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

OPERATING RESULTS

The consolidated loss of the Group for the financial year after providing for income tax amounted to $1,808,315 [2011: $1,996,322].

OPERATIONS OVERVIEW

Petratherm continued to distinguish itself as a leader in the geothermal sector, achieving important milestones despite a challenging and uncertain market and political environment. International sovereign debt concerns continued to weigh on global markets resulting in another challenging year but the Company has been able to continue to navigate a steady course that has enabled it to weather those issues while continuing with its planned work program.

The Company's flagship Paralana geothermal energy project continued to take centre stage as the Company prepared for the creation of an underground reservoir. The project, which remains one of only two active geothermal projects in Australia, is amongst the most advanced engineered geothermal projects in the world.

In July 2011, the fracture stimulation of the Paralana 2 well was successfully completed representing another major milestone achievement in the Company's and Paralana JV's development and a significant de-risking of the Paralana geothermal energy project.

That fracture stimulation work program saw 3.1 million litres of water injected into the bottom of the Paralana 2 well at pressures of up to 9,000 psi over a period of five days. This created over 7,000 clearly observable micro-seismic events, detected by an extensive passive seismic array, and showed that a fracture cloud had extended well beyond the target distance of 500 metres from the Paralana 2 well.

The fracture cloud created exceeded expectations with dimensions measuring 500 metres in depth, 350 metres in width and around 900 metres in length. Importantly, there is evidence that the fractures connected to existing natural fractures in an over-pressured zone encountered during the drilling of the Paralana 2 well. The successful fracture stimulation of the Paralana 2 well not only achieved a key technical milestone for the project but also a major achievement in the history of the Company, confirming that a subsurface reservoir can be created and existing fractures can be enhanced.

Directors' report

In October 2011, a flow test of the Paralana 2 well was successfully undertaken to gain further data on temperature, permeability, flow and geochemistry to assist the design of the next stage of work. The flow test, which produced 1.28 million litres of fluid, was designed to assess the extent of the naturally over-pressured zone and to collect brine samples for geotechnical analysis. An understanding of the brine chemistry is critical to the management of future production flows and design of the next stage of the project.

The work undertaken at Paralana has enabled an independent geothermal resource assessment to be made resulting in a Measured Resource of 41 PJ (thermal) being assessed by expert consultants Hot Dry Rocks Limited.

The project has now utilized $4.2 million of the $7.0 million of the Federal government Geothermal Drilling Program (GDP) grant with the remaining $2.8 million available for the drilling of the Paralana 3 deep well. Following the demonstration of flows between the two deep Paralana wells, the project will be able to draw upon the $62.8 million Federal government Renewable Energy Demonstration Program (REDP) grant. With its joint venture partner Beach Energy and government grants, the Paralana project continues to enjoy strong third party endorsement.

In December 2011, the Company announced its new Clean Energy Precinct project which is aimed at facilitating a long term path to market and the commercialization of the large geothermal resource at Paralana through supplying a combination of gas, wind, solar and geothermal power generation to mining developments in the northwest of SA.

The Company continued to develop its Spanish project portfolio and is continuing to characterize geothermal resources across the Canary Islands, notably on the island of Tenerife with the assistance of Spanish government subsidies of up to $1million. Work continues on the Tenerife and GeoMadrid projects with interest shown from potential joint venture partners.

The successful work completed to date on the Paralana project reinforces the Company's leadership position and our shareholders showed their support in two capital raisings during the year. The first, a placement that raised $2.289 million at a price of 12.5 cents in July 2011 and the second, in an SPP that raised a further $0.458 million at the same price. Petratherm is encouraged by the level of support it has received from its shareholders and brokers in raising the overall amount of $2.748 million to fund ongoing exploration and development of the Company's projects.

During the reporting period the Company invested considerably on exploration and development of its projects. A total of $2,257,956 was spent on exploration, mostly at Paralana, of which $449,246 was funded by the JV partners. A total of $2,747,500 was raised from the equity markets and the Company ended the year with a cash position of $1,314,578.

Directors' report

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:

On 27 July 2011 the Group announced it had completed a $2.289 million capital raise through the placement of 18,312,000 shares at $0.125 per share. It also announced that all eligible shareholders would be able to participate in a Share Purchase Plan. The issue price for each share under the offer would be $0.125. The Group raised a further $458,500 from Share Purchase Plan.

Other than the matter noted, there were no other material significant events.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 5 September 2012 the Group announced that it had been invited to submit a Project Funding Application under the Australian Renewable Energy Agency (ARENA) $126 million Emerging Renewables Program for the next stage of works for the Paralana geothermal JV Project.

On 19 September 2012 the company announced a capital raising by way of one for three pro-rata non-renounceable rights issue, with one free attaching option (with the options to be quoted on ASX) being issued for every one new share issued. Each attaching option will have an exercise price of $0.03 and an expiry date two years after the date of grant.

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

Directors' report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

Directors' report

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 2011	Net Issued/ Exercised	Lapsed/ Cancelled	Balance at 30 June 2012
22/03/2007	21/03/2012	$0.91	20,000	-	(20,000)	-
30/06/2006	30/04/2012	$0.32	650,000	-	(650,000)	-
30/06/2006	30/04/2013	$0.37	750,000	-	-	750,000
02/01/2007	01/01/2012	$0.53	100,000	-	(100,000)	-
31/05/2007	31/05/2012	$0.90	40,000	-	(40,000)	-
31/05/2007	31/05/2012	$0.90	400,000	-	(400,000)	-
26/06/2007	25/06/2012	$0.97	200,000	-	(200,000)	-
07/01/2008	06/01/2013	$1.20	30,000	-	-	30,000
28/11/2008	27/11/2013	$0.42	150,000	-	-	150,000
01/09/2008	31/08/2013	$0.67	15,000	-	(15,000)	-
07/10/2008	06/10/2013	$0.56	50,000	-	-	50,000
30/06/2009	29/06/2014	$0.50	75,000	-	(75,000)	-
24/11/2009	23/11/2014	$0.50	60,000	-	(60,000)	-
24/12/2009	23/12/2014	$0.50	550,000	-	(200,000)	350,000
04/01/2010	03/01/2015	$0.53	300,000	-	-	300,000
05/06/2010	04/01/2015	$0.24	3,100,000	-	-	3,100,000
05/06/2010	04/01/2015	$0.29	500,000	-	-	500,000
20/04/2010	19/04/2015	$0.38	75,000	-	(75,000)	-
06/07/2010	05/07/2015	$0.20	1,335,000	-	(735,000)	600,000
31/01/2011	30/01/2016	$0.15	1,460,000	-	(360,000)	1,100,000
09/01/2012	08/01/2017	$0.14	-	400,000	(50,000)	350,000
03/03/2012	02/03/2017	$0.13	-	500,000	-	500,000
			9,860,000	900,000	(2,980,000)	7,780,000

SHARE OPTIONS

Cancellation of Options

During the financial year 2,980,000 options lapsed due to not being exercised within the given exercise period.

New options issued

During the financial year 900,000 options were issued under the Company's Employee Share Option Plan (ESOP) to various employees.

Directors' report

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 $18,820. 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 Limited.

Remuneration philosophy

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

Employment contracts

The employment conditions of the Managing Director, Mr Terry Kallis, are formalised in a consultancy agreement. Mr Kallis commenced employment on 1 May 2006 and has subsequent signed a consultancy agreement dated 10 January 2012. The Company will pay Mr Kallis an annual retainer of $330,000 in equal monthly instalments in arrears. The Company may terminate the consultancy agreement 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 $181,000 per annum. The Company may terminate the employment contract by providing three (3) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Key management personnel remuneration and equity holdings

The board currently determines the nature and amount of remuneration for board members and senior executives of the Group. The policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives.

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

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

Voting and comments made at the company's 2011 Annual General Meeting

Petratherm Ltd received more than 94.96% of 'yes' votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Use of remuneration consultants

During the financial year there were no remuneration consultants engaged by the Group.

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Table 1: Directors' remuneration for the year ended 30 June 2011 & 2012

	Short-term employee benefits	Post employment benefits	Share based payments	Total
	Salary & Fees	Superannuation	Options	
Derek Carter				
2012	56,000	5,040	-	**61,040**
2011	55,500	4,995	-	**60,495**
Terry Kallis				
2012	332,112	12,217	25,500	**369,829**
2011	273,963	23,080	-	**297,043**
Richard Bonython				
2012	42,783	-	-	**42,783**
2011	42,347	-	-	**42,347**
Simon O'Loughlin **				
2012	39,250	3,533	-	**42,783**
2011	38,850	3,497	-	**42,347**
Lewis Owens				
2012	39,250	3,533	-	**42,783**
2011	38,850	3,497	-	**42,347**
Richard Hillis				
2012	39,250	3,533	-	**42,783**
2011	38,850	3,497	-	**42,347**

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2011 & 2012

	Short-term employee benefits	Post employment benefits	Share based payments	Total
	Salary & Fees	Superannuation	Options	
Peter Reid				
2012	170,183	15,316	11,200	**196,699**
2011	159,420	15,865	56,800	**232,085**
Jonathan Teubner				
2012	-	-	-	-
2011	73,224	5,663	28,800	**107,687**
Donald Stephens*				
2012	-	-	-	**-**
2011	-	-	-	**-**

* HLB Mann Judd (SA) Pty Limited has received professional fees for accounting, taxation and secretarial services provided during the year amounting to $145,435 (2011: $141,426). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited.

** O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of $34,955 (2011:$30,779) during the year.

Share-based payments remuneration relates to the fair value of options granted during the 2011 & 2012 financial years.

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Table 3: Options granted as part of remuneration

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

30 June 2012	Grant date	Grant number	Vesting date	Exercise price	Value per option at grant date	Exercised number	Total Fair value	% of Remun-eration
Directors								
Terry Kallis	03/03/12	500,000	03/03/12	0.13	0.051	-	25,500	6.90%
Executives								
Peter Reid	09/01/12	200,000	09/01/12	0.14	0.056	-	11,200	5.69%

30 June 2011	Grant date	Grant number	Vesting date	Exercise price	Value per option at grant date	Exercised number	Total Fair value	% of Remun-eration
Executives								
Donald Stephens	31/01/11	300,000	31/01/11	0.15	0.056	-	16,800	100%
Peter Reid	06/07/10	400,000	06/07/10	0.20	0.072	-	28,800	24.47%
Peter Reid	31/01/11	500,000	31/01/11	0.15	0.056	-	28,000	24.47%
Jonathan Teubner	06/07/10	400,000	06/07/10	0.20	0.072	-	28,800	26.74%

No portion of remuneration paid or payable to any Key Management Personnel employed by Petratherm was performance based in 2011 or 2012.

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Table 4: Options holdings of Key Management Personnel

30 June 2012	Balance at beginning of period	Granted as remuner-ation	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise	Last exercise
Directors								
Terry Kallis	650,000	-	-	(650,000)	-	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Terry Kallis	1,000,000	-	-	-	1,000,000	04/01/15	03/06/10	04/01/15
Terry Kallis	-	500,000			500,000	02/03/17	03/03/12	02/03/17
Derek Carter	600,000	-	-	-	600,000	04/01/15	03/06/10	04/01/15
Richard Bonython	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Lewis Owens	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Richard Hillis	650,000	-	-	-	650,000	04/01/15	03/06/10	04/01/15
Richard Hillis	200,000	-	-	(200,000)	-	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Executives								
Peter Reid	150,000	-	-	-	150,000	23/12/14	24/12/09	23/12/14
Peter Reid	100,000	-	-	(100,000)	-	01/01/12	01/01/07	01/01/12
Peter Reid	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
Peter Reid	400,000	-	-	-	400,000	05/07/15	06/07/10	05/07/15
Peter Reid	500,000	-	-	-	500,000	30/01/16	31/01/11	30/01/16
Peter Reid	-	200,000	-	-	200,000	08/01/17	09/01/12	08/01/17
Jonathan Teubner	400,000	-	-	(400,000)	-	31/05/13	01/06/08	31/05/13
Donald Stephens	300,000	-	-	-	300,000	03/01/15	05/01/10	03/01/15
Donald Stephens	300,000	-	-	-	300,000	30/01/16	31/01/11	30/01/16
	7,450,000	700,000	-	(1,350,000)	6,800,000			

Directors' report

REMUNERATION REPORT - AUDITED (continued)

30 June 2011	Balance at beginning of period	Granted as remuner-ation	Options exercised	Net change other	Balance at end of period	Expiry date	First exercise date	Last exercise date
Directors								
Terry Kallis	650,000	-	-	-	650,000	30/04/12	01/05/07	30/04/12
Terry Kallis	750,000	-	-	-	750,000	30/04/13	01/05/08	30/04/13
Terry Kallis	1,000,000	-	-	-	1,000,000	04/01/15	03/06/10	04/01/15
Derek Carter	600,000	-	-	-	600,000	04/01/15	03/06/10	04/01/15
Richard Bonython	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Lewis Owens	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Richard Hillis	650,000	-	-	-	650,000	04/01/15	03/06/10	04/01/15
Richard Hillis	200,000	-	-	-	200,000	25/06/12	26/06/07	26/06/12
Simon O'Loughlin	450,000	-	-	-	450,000	04/01/15	03/06/10	04/01/15
Executives								
Peter Reid	150,000	-	-	-	150,000	23/12/14	24/12/09	23/12/14
Peter Reid	400,000	-	-	(400,000)	-	21/05/11	22/05/06	21/05/11
Peter Reid	100,000	-	-	-	100,000	01/01/12	01/01/07	01/01/12
Peter Reid	100,000	-	-	-	100,000	27/11/13	28/11/08	27/11/13
Peter Reid	-	400,000	-	-	400,000	05/07/15	06/07/10	05/07/15
Peter Reid	-	500,000	-	-	500,000	30/01/16	31/01/11	30/01/16
Jonathan Teubner	300,000	-	-	(300,000)	-	23/12/14	24/12/09	23/12/14
Jonathan Teubner	400,000	-	-	-	400,000	31/05/13	01/06/08	31/05/13
Jonathan Teubner	100,000	-	-	(100,000)	-	27/11/13	28/11/08	27/11/13
Donald Stephens	300,000	-	-	-	300,000	03/01/15	05/01/10	03/01/15
Donald Stephens	-	300,000	-	-	300,000	30/01/16	31/01/11	30/01/16
	7,050,000	1,200,000	-	(800,000)	7,450,000			

Directors' report

REMUNERATION REPORT - AUDITED (continued)

Table 5: Shareholdings of Key Management Personnel

30 June 2012	Balance at 1 July 11	On Exercise of Options	Net Change Other	Balance 30 June 12
Directors				
Terry Kallis	150,480	-	120,000	270,480
Derek Carter	1,328,750	-	120,000	1,448,750
Richard Bonython	1,231,438	-	42,854	1,274,292
Lew Owens	72,500	-	120,000	192,500
Richard Hillis	182,500	-	120,000	302,500
Simon O'Loughlin	358,333	-	-	358,333
Executives				
Peter Reid	-	-	-	-
Donald Stephens	-	-	-	-

30 June 2011	Balance at 1 July 10	On Exercise of Options	Net Change Other	Balance 30 June 11
Directors				
Terry Kallis	150,480	-	-	150,480
Derek Carter	1,328,750	-	-	1,328,750
Richard Bonython	1,231,438	-	-	1,231,438
Lew Owens	72,500	-	-	72,500
Richard Hillis	182,500	-	-	182,500
Simon O'Loughlin	358,333	-	-	358,333
Executives				
Peter Reid	-	-	-	-
Jonathan Teubner	-	-	-	-
Donald Stephens	-	-	-	-

Directors' report

REMUNERATION REPORT - AUDITED (continued)

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 Committee
Number of meetings held	11	2
Number of meetings attended:		
Derek Carter	9	-
Terry Kallis	11	-
Richard Bonython	10	2
Richard Hillis	10	-
Simon O'Loughlin	10	2
Lewis Owens	11	-

Members acting on the audit committee of the board are:

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

Directors' report

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Grant Thornton South Australian Partnership, in its capacity as auditor for Petratherm Limited, has not provided any non-audit services throughout the year. 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 2012 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 27th day of September 2012

Grant Thornton

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PETRATHERM LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Ltd for the year ended 30 June 2012, 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

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Partner

Adelaide, 27 September 2012

Corporate Governance Statement

Introduction

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

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

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

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: Role of the Board and Management

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

The key functions reserved to the board include:

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

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

Corporate Governance Statement

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

Principle 2: Structure the board to add value

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

- Mr Derek Carter — Non-Executive Chairman
- Mr Terry Kallis — Managing Director
- Mr Simon O'Loughlin — Non-Executive
- Mr Richard Bonython — Non-Executive
- Dr Richard Hillis — Non-Executive
- Mr Lewis Owens — Non-Executive
- Mr Donald Stephens — Company Secretary

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

Recommendation 2.1: Independence
The board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the board. Those directors who have interests in specific transactions or potential transactions do not receive board papers related to those transactions or potential transactions, do not participate in any part of a directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other directors. Each director is required by the Company to declare on an annual basis the details of any financial or other relevant interests that they may have in the Company.

At the date of this statement the board consists of five non-executive directors, Mr Carter, who is also chairman of the board, Mr O'Loughlin, Mr Bonython, Mr Hillis, Mr Owens and an executive director, Mr Kallis. Mr O'Loughlin, Mr Hillis and Mr Owens have no other material relationship with the Group or its subsidiary other than their directorships. Mr Carter and Mr Bonython are directors of Minotaur Exploration Ltd which is the beneficial holder of 15.27% of the issued capital of Petratherm Ltd. The Group therefore has three independent directors as that relationship is currently defined.

Corporate Governance Statement

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

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

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

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

Principle 3: Promote ethical and responsible decision making

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

Securities Trading Policy

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

Corporate Governance Statement

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

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

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

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

Recommendations 3.2, 3.3, 3.4: Diversity
The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background. The board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

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

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

Principle 4: Safeguard integrity in financial reporting

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

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

Corporate Governance Statement

Recommendations 4.1, 4.2, 4.3: Audit Committee

The audit, risk and compliance committee comprises Mr O'Loughlin (Audit Committee Chairman) who is also a non-executive director, Mr Richard Bonython a non-executive director and Mr Donald Stephens the Company Secretary. Mr O'Loughlin and Mr Stephens are both considered independent thereby does not representing a majority. The board will annually confirm the membership of the committee.

The committee's primary responsibilities are to:

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

The Group does not comply with recommendation 4.2 of the Corporate Governance Council because the majority does not consist of independents. Given the skills and experience of the audit committee, the board believes the structure and process to be adequate. The board continues to monitor the composition of the committee and the roles and responsibilities of the members.

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

Principle 5: Make timely and balanced disclosure

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

Recommendations 5.1: Disclosure policy

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

Principle 6: Respect the rights of shareholders

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

Corporate Governance Statement

Recommendations 6.1: Communications policy
Information is communicated to Shareholders through:

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

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

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

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

Principle 7: Recognise and manage risk

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

Recommendations 7.1, 7.2: Risk management policy
The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the board. The board has also established the audit, risk and compliance committee which addresses the risks of the Group.

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

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

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

Recommendations 7.3: Declaration from Managing Director and Company Secretary
The Managing Director and the Company Secretary will be required to state in writing to the board that the Group’s financial reports present a true and fair view, in all material respects, of the Group’s financial condition and operational results are in

Corporate Governance Statement

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

Principle 8: Remunerate fairly and responsibly

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

Recommendation 8.1: Remuneration Committee

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

Statement of Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Revenue	4 (a)	121,932	111,151
Impairment of non-current assets	4 (b)	(449,511)	(3,267)
Employee benefits expense	4 (c)	(722,294)	(1,096,545)
Depreciation expense	4 (b)	(35,124)	(58,818)
Borrowing costs	4 (b)	-	(697)
Other expenses	4 (d)	(886,980)	(910,183)
Loss before income tax expense		(1,971,977)	(1,958,359)
Income tax (expense)/benefit	5	163,662	(37,963)
Loss for the period		(1,808,315)	(1,996,322)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(219,327)	(148,660)
Total comprehensive income for the year		(2,027,642)	(2,144,982)
Total comprehensive income attributable to:			
Non-controlling interest	20	-	-
Loss attributable to members of the parent entity		(2,027,642)	(2,144,982)
Earnings per share:		*Cents*	*Cents*
Basic earnings per share	6	(1.24)	(1.67)
Diluted earnings per share	6	(1.24)	(1.67)

The accompanying notes form part of these financial statements

Statement of Financial Position
AS AT 30 JUNE 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
CURRENT ASSETS			
Cash and cash equivalents	7	1,314,578	1,928,996
Trade and other receivables	8	59,975	121,333
Other current assets	9	43,618	66,058
TOTAL CURRENT ASSETS		1,418,171	2,116,387
NON-CURRENT ASSETS			
Property, plant and equipment	10	83,977	142,920
Exploration and evaluation assets	11	18,583,124	17,804,547
TOTAL NON-CURRENT ASSETS		18,667,101	17,947,467
TOTAL ASSETS		20,085,272	20,063,854
CURRENT LIABILITIES			
Trade and other payables	13	156,098	603,490
Borrowings	14	-	7,163
Short term provisions	15	44,090	138,915
TOTAL CURRENT LIABILITIES		200,188	749,568
NON-CURRENT LIABILITIES			
Borrowings	14	-	19,735
Long term provisions	15	8,624	38,664
Other	16	2,898,000	2,898,000
TOTAL NON-CURRENT LIABILITIES		2,906,624	2,956,399
TOTAL LIABILITIES		3,106,812	3,705,967
NET ASSETS		16,978,460	16,357,887
EQUITY			
Issued capital	17	31,450,493	28,850,178
Reserves	18	(211,414)	507,093
Retained earnings	19	(14,260,619)	(12,999,384)
Parent interests		16,978,460	16,357,887
Non-controlling interests	20	-	-
TOTAL EQUITY		16,978,460	16,357,887

The accompanying notes form part of these financial statements

Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated					
	Issued Capital Ordinary $	Retained Earnings $	Share Option Reserve $	Foreign Currency Translation Reserve $	Minority Interest $	Total $
Balance at 1 July 2010	27,434,758	(11,199,342)	1,217,180	(563,413)	-	16,889,183
Total comprehensive income for the year	-	(1,996,322)	-	-	-	(1,996,322)
Shares issued via placement	1,504,000	-	-	-	-	1,504,000
Issue of share options	-	-	198,266	-	-	198,266
Transaction costs	(126,542)	-	-	-	-	(126,542)
Transfer to retained earnings from share option reserve		(28,800)	28,800			-
Tax portion of capitial raising costs	37,963	-	-	-	-	37,963
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	-	225,080	(225,080)	-	-	-
Foreign exchange translations	-	-	-	(148,660)	-	(148,660)
Balance at 30 June 2011	28,850,178	(12,999,384)	1,219,166	(712,073)	-	16,357,887
Balance at 1 July 2011	28,850,178	(12,999,384)	1,219,166	(712,073)	-	16,357,887
Total comprehensive income for the year	-	(1,808,315)	-	-	-	(1,808,315)
Shares issued via share purchase plan	458,500	-	-	-	-	458,500
Shares issued via placement	2,289,000	-	-	-	-	2,289,000
Issue of share options	-	-	47,900	-	-	47,900
Transaction costs	(210,264)	-	-	-	-	(210,264)
Tax portion of capitial raising costs	63,079	-	-	-	-	63,079
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	-	547,080	(547,080)	-	-	-
Foreign exchange translations	-	-	-	(219,327)	-	(219,327)
Balance at 30 June 2012	31,450,493	(14,260,619)	719,986	(931,400)	-	16,978,460

The accompanying notes form part of these financial statements

Statement of Cash Flows
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,666,505)	(1,753,282)
Finance Costs		-	(697)
Research & Development Tax offset received		226,741	-
Management Fee		5,205	5,660
Interest received		120,310	103,738
NET CASH USED IN OPERATING ACTIVITIES	7	(1,314,249)	(1,644,581)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,797)	(5,231)
Joint Venture receipts		449,246	4,486,337
Payments for exploration activities		(2,257,956)	(4,996,498)
NET CASH PROVIDED/(USED IN) INVESTING ACTIVITIES		(1,810,507)	(515,392)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,747,500	1,504,000
Transaction costs of issue of shares		(210,264)	(125,196)
Repayment of borrowings		(26,898)	(6,585)
NET CASH PROVIDED BY FINANCING ACTIVITIES		2,510,338	1,372,219
Net increase/(decrease) in cash and cash equivalents		(614,418)	(787,754)
Cash at the beginning of the year		1,928,996	2,716,750
CASH AT THE END OF THE YEAR	7	1,314,578	1,928,996

The accompanying notes form part of these financial statements

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The financial report of Petratherm Limited (the Company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 27 September 2012. Petratherm Limited is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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.

Two comparative periods are presented for the statement of financial position when the Company:
i Applies an accounting policy retrospectively;
ii Makes a retrospective restatement of items in its financial statements; or
iii Reclassifies items in the financial statements.

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

a. Principles of consolidation

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 subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra Group transactions have been eliminated in full.

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

b. Revenue recognition

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

Interest income

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

Sale of Goods

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

Provision of services

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

c. Government grants

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

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.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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

d. Finance costs

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

e. Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

f. Trade and other receivables

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

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

g. Financial instruments

Initial recognition and measurement

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

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

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

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

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FOR THE YEAR ENDED 30 JUNE 2012

Classification and subsequent measurement

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

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

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

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

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

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

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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

h. Income tax

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

Deferred income tax is provided on all temporary differences at the balance 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.

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

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

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

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

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

Tax consolidation
Petratherm Limited and its wholly-owned Australian controlled entity have not yet decided to implement the tax consolidation legislation as of 1 July 2007. The Australian Taxation Office has not yet been notified of any decision.

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

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

i. Goods and Services Tax (GST)

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

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

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

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

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

j. Property, plant and equipment

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

Depreciation is calculated on a reducing balance basis on all plant and equipment.

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

Plant and equipment 10 – 50%.

Impairment

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

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

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

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

k. Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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

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

l. Exploration expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful 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.

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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 a discounted basis.

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

m. Trade and other payables

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

n. Provisions

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

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

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

o. Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are

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apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of comprehensive income.

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

p. Employee benefits

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

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

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

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

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

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

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

Notes to the Financial Statements
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q. Issued Capital

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

r. Earnings per share

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

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account in 2011 and 2012.

s. Foreign Currency Translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

Notes to the Financial Statements
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t. Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation. The Group has entered into a number of Joint Ventures with various parties to explore certain tenements that the Group has beneficial interest in. A full list of these JV's, as well as the parties involved, can be found in note 28.

u. Critical Accounting Estimates and Judgments

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

Key Estimates — Exploration and evaluation

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

v. New and Revised Accounting Standards

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Notes to the Financial Statements
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AASB 9 *Financial Instruments* (effective from 1 January 2013)
The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards
A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

AASB 10 Consolidated Financial Statements (AASB 10)
AASB 10 supersedes the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

AASB 11 Joint Arrangements (AASB 11)
AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. It introduces two accounting categories (joint operations and joint ventures) whose applicability is determined based on the substance of the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method for joint ventures, which is currently used for investments in associates.

AASB 12 Disclosure of Interests in Other Entities (AASB 12)
AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to AASB 127 Separate Financial Statements (AASB 127) and AASB 128 Investments in Associates and Joint Ventures (AASB 128)
AASB 127 Consolidated and Separate Financial Statements was amended to AASB 127 Separate Financial Statements which now deals only with separate financial statements. AASB 128 brings investments in joint ventures into its

Notes to the Financial Statements
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scope. However, AASB 128's equity accounting methodology remains unchanged.

AASB 13 Fair Value Measurement (AASB 13)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

AASB 2011-9 Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income s (AASB 101 Amendments)

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)

AASB 2011-4 makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements, to achieve consistency with the international equivalent (which includes requirements to disclose aggregate (rather than individual) amounts of KMP compensation), and remove duplication with the Corporations Act 2001. The amendments are applicable for annual periods beginning on or after 1 July 2013. The Group's management have yet to assess the impact of these amendments.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

3. OPERATING SEGMENTS

The Group has adopted AASB 8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the board in order to allocate resources to the segments and to assess its performance.

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

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

Information regarding these segments is presented below. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

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

	Segment Revenue		Segment Result	
	Year ended		Year ended	
	2012	2011	2012	2011
	$	$	$	$
Continuing Operations				
Paralana Project	5,205	5,660	-	-
Australia (Other)	-	-	(341,710)	(3,267)
Spain	-	-	(107,801)	-
	5,205	5,660	(449,512)	(3,267)
Administration/Corporate	116,727	105,491	(1,487,342)	(1,895,577)
Finance Costs	-	-	-	(697)
Depreciation	-	-	(35,124)	(58,818)
Consolidated revenue	121,932	111,151		
Profit/(Loss) before income tax			(1,971,977)	(1,958,359)
Income tax benefit/(expense)			163,662	(37,963)
Profit/(Loss) for year			(1,808,315)	(1,996,322)

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

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs, depreciation and income tax

Notes to the Financial Statements
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(expense)/benefit. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

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

	Opening Balance 1/07/2011 $	Exploration Expenditure $	Impairment $	Closing Balance 30/06/2012 $
Paralana Project	15,231,226	1,019,237	-	16,250,463
Australia (ex Paralana)	133,188	208,522	(341,710)	-
Spain	2,440,134	328	(107,801)	2,332,661
Total segment assets	17,804,548	1,228,087	(449,511)	18,583,124
Other				
Administration/Corporate (i)	2,259,306			1,502,148
	20,063,854			20,085,272

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

	Opening Balance 1/07/2010 $	Exploration Expenditure $	Impairment $	Closing Balance 30/06/2011 $
Australia (ex Paralana)	15,008,936	222,290	-	15,231,226
Paralana Project	125,755	10,700	(3,267)	133,188
Spain	2,548,575	(108,441)	-	2,440,134
Total segment assets	17,683,266	124,549	(3,267)	17,804,548
Other				
Administration/Corporate (i)	4,615,478			2,259,306
	22,298,744			20,063,854

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

Notes to the Financial Statements
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4. REVENUE AND EXPENSES

	Consolidated 2012 $	Consolidated 2011 $
(a) Revenue and other income		
Bank interest received or receivable	116,483	105,491
Other income	244	-
Management Fees	5,205	5,660
	121,932	111,151
(b) Expenses		
Impairment of non-current assets		
Capitalised tenement costs written off	449,511	3,267
Total impairment of non-current assets	449,511	3,267
Depreciation of non-current assets		
Plant and equipment	35,124	58,818
Total depreciation	35,124	58,818
Borrowing Costs		
Hire-Purchase Interest	-	697
Total borrowing costs	-	697
(c) Employees benefits expense		
Wages, salaries, directors fees and other remuneration expenses	735,943	847,340
Superannuation	63,316	80,281
Transfer to/(from) annual leave provision	(64,702)	(9,669)
Transfer to/(from) long service leave	(60,163)	(19,673)
Share-based payments expense	47,900	198,266
	722,294	1,096,545

The accompanying notes form part of these financial statements

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	Consolidated	
	2012	2011
	$	$
(d) Other expenses from ordinary activities		
Secretarial, professional and consultancy	150,320	144,269
Travel expenses	61,172	99,851
Promotion and advertising	21,623	21,925
Occupancy costs	165,507	119,722
Share register maintenance	35,978	28,929
Insurance costs	35,787	40,886
Conference & seminars	47,431	68,387
Entertainment	19,766	14,306
AGM expenses	44,160	45,577
Audit fees	28,750	31,600
Listing fees	20,675	21,699
Subscriptions, publications &	60,762	56,507
Legal fees	10,141	38,372
ASX	6,795	4,801
Bank Charges	5,592	5,321
Communication & computer expenses	31,650	31,033
Office expenses	40,075	49,070
Other expenses	100,796	59,335
	886,980	910,183

Notes to the Financial Statements
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5. INCOME TAX

	Consolidated 2012 $	Consolidated 2011 $
The major components of income tax expense are:		
Current income tax		
Current income tax charge/(benefit)	63,079	37,963
Rearch & Development Tax offset	(226,741)	-
Income tax expense/(benefit) reported in the statement of comprehensive income	(163,662)	37,963
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before income tax	(1,971,977)	(1,958,359)
At the Group's statutory income tax rate of 30% (2011: 30%)	(591,593)	(587,508)
Expenditure not allowable for income tax purposes	114,405	52,862
Other deductible items	455,181	121,906
Tax losses not recognised due to not meeting recognition criteria	22,007	412,740
Tax portion of share issue costs	63,079	37,963
Rearch & Development Tax offset	(226,741)	-
	(163,662)	37,963

The Group has tax losses arising in Australia of $28,810,302 (2011: $25,524,591) that may be available and may be offset against future taxable profits of the companies in which the losses arose.

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

Tax consolidation

Petratherm Limited and its group have not yet decided to implement the tax consolidation legislation as of 1 July 2008. The Australian Taxation Office has not yet been notified of any decision. The accounting policy relating to the possible implementation of the tax consolidation legislation is set out in note 2(h), together with the impact on the income tax expense for the year.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit or loss 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 or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Consolidated	
	2012	2011
	$	$
Net loss from continued operations	(1,808,315)	(1,996,322)
	2012	**2011**
Weighted average number of ordinary shares for basic earnings per share	145,938,009	119,499,419
Effect of dilution	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	145,938,009	119,499,419

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account in 2011 and 2012.

7. CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	2011
	$	$
Cash at bank and in hand	189,100	545,090
Short-term deposits	1,125,478	1,383,906
	1,314,578	1,928,996

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.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated 2012 $	2011 $
Reconciliation to Statement of Cash Flows		
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:		
Cash at banks and in hand	189,100	545,090
Short-term deposits	1,125,478	1,383,906
	1,314,578	1,928,996

	2012 $	2011 $
Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net loss	(1,808,315)	(1,996,322)
Adjustments for non-cash items:		
Depreciation	35,124	58,818
Impairment of non-current assets	449,511	3,267
Non-cash income tax expense	(163,662)	37,963
Share options expensed	47,900	198,266
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	436,699	1,514,085
(Increase)/decrease in prepayments	(22,440)	5,374
(Decrease)/increase in trade and other payables	(197,454)	(1,692,373)
(Decrease)/increase in employee entitlements	(74,865)	(673,903)
(Decrease)/increase in net goods and service tax receivable	(16,747)	900,244
Net cash from operating activities	(1,314,249)	(1,644,581)

8. TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
Trade receivables (i)	17,925	4,036
Goods & Services Tax receivable	36,952	103,698
JV Contributions receivable(ii)	5,098	13,599
	59,975	121,333

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 2011 or 2012 and no receivables are past due at balance date.

ii). Contributions receivable relate to amounts due from joint venture parties.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $
9. OTHER CURRENT ASSETS		
Prepayments	38,612	55,872
Accrued income	5,006	10,186
	43,618	66,058

10. PROPERTY, PLANT AND EQUIPMENT

	2012 $	2011 $
Plant and equipment		
Cost		
Balance at 1 July	384,274	385,163
Additions	1,797	-
Disposals	(39,608)	(889)
Balance at 30 June	346,463	384,274
Accumulated Depreciation		
Balance at 1 July	241,354	182,536
Depreciation for the year	35,124	58,818
Disposals	(13,992)	-
Balance at 30 June	262,486	241,354
Total net book value as at 30 June	83,977	142,920

Impairment of property, plant and equipment

No material impairment loss was recognised or reversed for the year ended 30 June 2011 and 2012 with respect to plant and equipment.

The depreciation rate of the assets was estimated as follows both for 2011 and 2012: Plant and equipment 10 – 50%.

11. EXPLORATION AND EVALUATION ASSETS

	2012 $	2011 $
Exploration and evaluation costs carried forward in respect of Geothermal areas of interest		
Exploration and evaluation phases	18,583,124	17,804,547
	18,583,124	17,804,547

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

Consolidated entity	Total
Capitalised tenement expenditure movement reconciliation	
Balance at the beginning of the year	17,804,547
Additions through expenditure capitalised	998,169
Joint venture contributions	449,246
Forex Movement	(219,327)
Write off of tenements relinquished	(449,511)
Balance at end of year	18,583,124

The impairment expense of $449,511 arose from a review of the Group's capitalised costs and the relevant tenements to which the costs related. Costs written off related to tenements relinquished during the year.

12. SHARE-BASED PAYMENTS

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

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	4,060,000	0.35	2,715,000	0.56
Granted during the year	400,000	0.04	2,695,000	0.37
Forfeited during the year	(2,130,000)	0.44	(1,350,000)	0.44
Exercised during the year	-	-	-	-
Outstanding at the end of the year	2,330,000	0.26	4,060,000	0.35
Exercisable at the end of the year	2,330,000	0.26	4,060,000	0.35

The outstanding balance as at 30 June 2012 is represented by:

- A total of 30,000 options exercisable any time until 7 January 2013 with a strike price of $1.20
- A total of 50,000 options exercisable any time until 6 October 2013 with a strike price of $0.56
- A total of 150,000 options exercisable any time until 27 November 2013 with a strike price of $0.42
- A total of 350,000 options exercisable any time until 23 December 2014 with a strike price of $0.50
- A total of 600,000 options exercisable any time until 5 July 2015 with a strike price of $0.20.
- A total of 800,000 options exercisable any time until 30 January 2016 with a strike price of $0.15
- A total of 350,000 options exercisable any time until 8 January 2017 with a strike price of $0.14

Contractual life of options
The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 2.74 years (2011: 3.53 years).

Exercise price of options
The range of exercise prices for options outstanding at the end of the year was $0.14-$1.20 (2011: $0.15-$1.20).

Fair value of options
The weighted average fair value of options granted during the year was $0.04 (2011: $0.35).

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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 2011 and 30 June 2012:

	2012	2011
Historical volatility (%)	74.63%	73.53%
Risk-free interest rate (%)	3.52%	5.21%
Expected life of option (years)	5	5

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

Director Options

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

During the year, the Group issued a total of 500,000 options to the Managing Director. Full details of option holdings of directors and company secretary are disclosed in the remuneration report. The fair value of the equity-settled share options granted to directors is calculated using the method detailed above. The following table lists the inputs to the model used for the year ended 30 June 2012:

	2012	2011
Historical volatility (%)	74.63%	73.53%
Risk-free interest rate (%)	3.52%	5.21%
Expected life of option (years)	5	5

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

13. TRADE AND OTHER PAYABLES

	Consolidated 2012 $	2011 $
Trade payables (i)	62,460	258,799
Other Payables	93,638	344,691
	156,098	603,490

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

14. BORROWINGS

	2012 $	2011 $
Current		
Hire purchase contracts	-	7,163
	-	7,163
Non-current		
Hire purchase contracts	-	19,735
	-	19,735

15. PROVISIONS

	2012 $	2011 $
Current		
Annual leave/Long Service Leave provision		
Balance at 1 July	138,915	118,461
Transfer to/ (from) provision	(94,825)	20,454
Closing Balance 30 June	44,090	138,915
Non-current		
Long Service Leave:		
Balance at 1 July	38,664	88,461
Transfer to/ (from) provision	(30,040)	(49,797)
Closing Balance 30 June	8,624	38,664

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 2(p) to this report.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

16. OTHER NON-CURRENT LIABILITIES

	Consolidated	
	2012	2011
	$	$
Deferred Government Grants	2,898,000	2,898,000
	2,898,000	2,898,000

17. ISSUED CAPITAL

Issued capital

148,731,583 fully paid ordinary shares (2011: 126,751,583)	31,450,493	28,850,178
	31,450,493	28,850,178

	2012		2011	
	Number	$	Number	$
Balance at beginning of financial year	126,751,583	28,850,178	111,711,583	27,434,757
Shares issued via placement @ 10 cents per share	-	-	15,040,000	1,504,000
Issued pursuant to share purchase plan @ $0.125 cents per share	3,668,000	458,500	-	-
Shares issued via placement @ $0.125 cents per share	18,312,000	2,289,000	-	-
Transaction costs on share issue	-	(210,264)	-	(126,542)
Tax portion of capital raising costs	-	63,079	-	37,963
Balance at end of financial year	148,731,583	31,450,493	126,751,583	28,850,178

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.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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 2(s).

	Consolidated 2012 $	Consolidated 2011 $
Reserves		
Foreign currency translation	(931,400)	(712,073)
Share option reserve	719,986	1,219,166
	(211,414)	358,433
Foreign currency translation		
Balance at beginning of financial year	(712,073)	(563,413)
Foreign exchange translations	(219,327)	(148,660)
Balance at end of financial year	(931,400)	(712,073)
Share option reserve		
Balance at beginning of financial year	1,219,166	1,217,180
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	(547,080)	(225,080)
Issue of Share Options	47,900	198,266
Transfer to retained earnings from share option reserve	-	28,800
Balance at end of financial year	719,986	1,219,166

19. RETAINED EARNINGS

	2012	2011
Balance at beginning of financial year	(12,999,384)	(11,199,342)
Net profit attributable to members of the parent entity	(1,808,315)	(1,996,322)
Transfer from employee equity-settled benefits reserve upon cancellation of vested options	547,080	225,080
Transfer to retained earnings from share option reserve	-	(28,800)
Balance at end of financial year	(14,260,619)	(12,999,384)

20. MINORITY INTEREST

	2012	2011
Contributed capital	1,299	344
Opening share of losses	(1,299)	(344)
Balance at end of financial year	-	-

The accompanying notes form part of these financial statements

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

21. COMMITMENTS FOR EXPENDITURE

	Consolidated	
	2012	2011
	$	$
Operating leases		
Not longer than 1 year	113,460	113,460
Longer than 1 year and not longer than 5 years	18,910	132,370
Longer than 5 years	-	-
	132,370	245,830
Hire purchase commitments		
Not longer than 1 year	-	16,419
Longer than 1 year and not longer than 5 years	-	6,655
Longer than 5 years	-	-
	-	23,074

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

Exploration leases
In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay $476,648 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. It is however noted that the Company has entered into various bank guarantees with a number of State Governments in Australia, totalling $177,403 at 30 June 2012. These guarantees are designed to act as collateral over the tenements which Petratherm explores on and can be used by the relevant Government authorities in the event that Petratherm does not sufficiently rehabilitate the land it explores. It is noted that the bank guarantees have as at the date of signing this report have not been utilised by any State Government.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

23. AUDITOR'S REMUNERATION

	Consolidated 2012 $	Consolidated 2011 $
Audit or review of financial report	28,750	31,600
	28,750	31,600

No other services have been provided

24. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest 2012 %*	Ownership interest 2011 %*
Parent entity			
Petratherm Ltd	Australia		
Subsidiary			
MNGI Pty Ltd	Australia	100	100
Subsidiary			
Heliotherm Ltd	Australia	100	100
Subsidiary			
PTR Holdings BV	Netherlands	100	100
Subsidiary			
Petratherm Espana SL	Spain	93	93

* Percentage of voting power is in proportion to ownership

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

Capital risk management

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

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

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

There are no externally imposed capital requirements.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

Categories of financial instruments

	2012 $	2011 $
Financial Assets		
Cash and cash equivalents	1,314,578	1,928,996
Trade and other receivables	59,975	121,333
Financial Liabilities		
Trade and other payables	156,098	603,490
Borrowings	-	26,898

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

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

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

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

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

	< 1year $	> 1 - <5 years $	Non-Interest Bearing $	Total $
Year ended 30 June 2012				
FINANCIAL LIABILITIES				
Fixed rate				
Trade and Other Payables	-	-	156,098	156,098
Borrowings	-	-	-	-
Weighted average effective interest rate	-	0.00%	-	-
Year ended 30 June 2011				
FINANCIAL LIABILITIES				
Fixed rate				
Trade and Other Payables	-	-	603,490	603,490
Borrowings	-	26,898	-	26,898
Weighted average effective interest rate	-	6.98%	-	-

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 Group anticipates that the cash flow will occur in a different period.

	< 1year $	> 1 - <5 years $	Non-Interest Bearing $	Total $
Year ended 30 June 2012				
FINANCIAL ASSETS				
Fixed rate				
Cash assets	1,125,478	-	-	1,125,478
Receivables	-	-	59,975	59,975
Weighted average effective interest rate	**4.27%**	-	-	-
Floating rate				
Cash assets	189,100	-	-	189,100
Weighted average effective interest rate	**3.50%**	-	-	-
Year ended 30 June 2011				
FINANCIAL ASSETS				
Fixed rate				
Term Deposits	1,383,906	-	-	1,383,906
Receivables	-	-	121,333	121,333
Weighted average effective interest rate	**5.70%**	-	-	-
Floating rate				
Cash assets	545,090	-	-	545,090
Weighted average effective interest rate	**4.75%**	-	-	-

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

Notes to the Financial Statements
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- net loss would increase or decrease by $6,573 which is mainly attributable to the Group's exposure to interest rates on its variable bank deposits.

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 $145,435 (2011: $141,426). Donald Stephens, the company secretary, is a consultant with HLB Mann Judd (SA) Pty Limited.

O'Loughlins lawyers of which Simon O'Loughlin is a partner received legal fees of $34,955 (2011:$30,779) during the year.

Professor Richard Hillis has a consultancy agreement with the Company and received no geological consulting fees in 2011 or 2012.

Throughout the year, Petratherm Limited was invoiced by a director related entity Minotaur Exploration Limited, for the provision of technical staff and equipment, as well as reimbursements for expenditure jointly incurred, Mr Carter & Mr Bonython are directors of Minotaur Exploration Ltd. These transactions were undertaken on arms length basis and in aggregate for the year ended 30 June 2012 totalled $NIL (2011:$3,637).

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

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

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

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

	2012 $	2011 $
Consolidated group		
Short-term employee benefits	718,827	721,004
Post employment benefits	43,171	60,092
Share-based payments	36,700	85,600
	798,698	866,696

The accompanying notes form part of these financial statements

Notes to the Financial Statements
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Wholly owned Group transactions

Loans
The wholly owned Group consists of Petratherm Limited and its wholly owned controlled entity MNGI Pty Limited, Heliotherm Limited, PTR Holdings BV and majority owned Petratherm Espana SL. Ownership interests in the controlled entity are set out in note 24. Transactions between Petratherm Limited and its subsidiaries during the year consisted of loans advanced by Petratherm Limited to fund exploration and investment activities. The closing value of the loan to its wholly owned subsidiary is contained within the statement of financial position under current assets. Intercompany and cash movements throughout the year are detailed within the body of the statement of cash flows under 'Loans to wholly-owned subsidiary'.

27. SUBSEQUENT EVENTS AFTER THE BALANCE DATE

On 5 September 2012 the Group announced that it had been invited to submit a Project Funding Application under the Australian Renewable Energy Agency (ARENA) $126 million Emerging Renewables Program for the next stage of works for the Paralana geothermal JV Project.

On 19 September 2012 the company announced a capital raising by way of one for three pro-rata non-renounceable rights issue, with one free attaching option (with the options to be quoted on ASX) being issued for every one new share issued. Each attaching option will have an exercise price of $0.03 and an expiry date two years after the date of grant.

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

28. ADDITIONAL INFORMATION (JOINT VENTURES)

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

Notes to the Financial Statements
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29. PARENT ENTITY INFORMATION

	Parent	
	2012	2011
	$	$
Financial Position		
Assets		
Current Assets	1,306,648	1,904,003
Non-current Assets	16,405,262	14,839,105
	17,711,910	16,743,108
Liabilities		
Current Liabilities	144,304	326,823
Non-current Liabilities	8,624	58,399
	152,928	385,222
Equity		
Issued Capital	31,450,493	28,850,178
Reserves	719,986	1,219,166
Retained Earnings	(14,611,497)	(13,711,457)
	17,558,982	16,357,887
Financial Position		
(Loss) for the year	(1,439,512)	(2,144,981)
Other comprehensive income	-	-
	(1,439,512)	(2,144,981)

Contingent Liabilities
Contingent liabilities of the parent entity have been incorporated into the Group information in note 22. The contingent liabilities of the parent are consistent with that of the Group.

Contractual Commitments
Contractual Commitments of the parent entity have been incorporated into the Group information in note 21.

30. GOING CONCERN BASIS OF ACCOUNTING

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

The consolidated entity incurred a net loss before tax of $1,971,977 during the year ended 30 June 2012, and had a net cash outflow of $3,124,756 from operating and investing activities. The consolidated entity continues to be reliant upon the completion of capital raising for continued operations and the provision of working capital.

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

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 30 to 68, are in accordance with the Corporations Act 2001 and:

    a. comply with Australian Accounting Standards;

    b. give a true and fair view of the financial position as at 30 June 2012 and the performance for the year ended on that date of the Company and consolidated Group; and

    c. comply with International Financial Report Standards as disclosed in Note 2.

2. the Managing Director and Company Secretary have each declared that:

    a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

    b. the financial statements and notes for the financial year comply with the Accounting Standards; and

    c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Terry Kallis
Managing Director

Dated 27th September 2012

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRATHERM LTD

Report on the financial report

We have audited the accompanying financial report of Petratherm Ltd (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply 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. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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 Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

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

Auditor's opinion
In our opinion:

a the financial report of Petratherm Ltd is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Significant uncertainty regarding continuation as a going concern
The consolidated entity incurred a net loss before tax of $1,971,977 during the year ended 30 June 2012, and had a net cash outflow of $3,124,756 from operating and investing activities. The consolidated entity continues to be reliant upon the completion of capital raising for continued operations and the provision of working capital.

Without qualifying our opinion attention is drawn to Note 30 - Going Concern Basis of Accounting in the financial report. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report
We have audited the remuneration report included in pages 12 to 20 of the directors' report for the year ended 30 June 2012. 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.

Grant Thornton

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Petratherm Ltd for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Partner

Adelaide, 27 September 2012