

Petratherm Limited

ABN 17 106 806 884

Annual Report

For the Year Ended 30 June 2016

Petratherm Limited

ABN 17 106 806 884

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Petratherm Limited

ABN 17 106 806 884

Contents

For the Year Ended 30 June 2016

Corporate Information

Directors

Simon O'Loughlin (Chairman, Non-Executive Director)

Andrew Haythorpe (Executive Director)

Donald Stephens (Non-Executive Director)

Company Secretary

Donald Stephens

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd

169 Fullarton Road

DULWICH SA 5065

Principal place of business

C/- HLB Mann Judd (SA) Pty Ltd

169 Fullarton Road

DULWICH SA 5065

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 Audit Pty Ltd

Chartered Accountants

Level 1

67 Greenhill Road

WAYVILLE SA 5034

Petratherm Limited

ABN 17 106 806 884

Directors' Report

30 June 2016

The directors present their report, together with the financial statements of the Group, being Petratherm Limited (the Group) and its controlled entities, for the financial year ended 30 June 2016.

Directors

The names of the directors in office at any time during, or since the end of, the year are:

| Names | Position | Appointed/Resigned |
|------------------|--|----------------------|
| Simon O'Loughlin | Non-executive Chairman | Appointed 24/10/2003 |
| Andrew Haythorpe | Managing Director | Appointed 22/08/2016 |
| Donald Stephens | Non-executive Director/Company Secretary | Appointed 24/10/2003 |
| Terry Kallis | Managing Director | Retired 22/08/2016 |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

| | |
|---|--|
| Simon O'Loughlin | Non-Executive Chairman (BA(Acc)) |
| Experience | Mr O'Loughlin is the founder of O'Loughlins Lawyers, and Adelaide based, specialist commercial law firm. He has extensive experience in the corporate and commercial law fields while practising in Sydney and Adelaide, and also holds accounting qualifications. |
| Interest in shares and options | 13,689,246 ordinary shares |
| Other current directorships in listed entities | Chairman of Lawson Gold Ltd; non-executive director of Chesser Resources Ltd and WCP Resources Ltd |
| Other directorships in listed entities held in the previous three years | Oncosil Ltd, Aura Energy Ltd, Goldminex Resources Ltd, Kibaran Resources Ltd and Reproductive Health Science Ltd |

Petratherm Limited

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Directors' Report

30 June 2016

Andrew Haythorpe

Managing Director (BSc(Hons), FAUSIMM, MAICD)

Experience

Mr Haythorpe is a highly experienced director and investor and has been successful as an entrepreneur, investor and analyst. Mr Haythorpe started his career as a geologist and then specialised as an energy and resources analyst and global equities fund manager.

Since 1999, Mr Haythorpe has been involved in over A\$300m of mergers and acquisitions, and capital raisings in mining and technology. He has served as Managing Director of three companies, Chairman of six ASX listed companies, and Non-Executive Director on several boards.

Interest in shares and options

Nil

Other current directorships in listed entities

Wangle Technologies Ltd

Other directorships in listed entities held in the previous three years

Liberty Resources Limited

Donald Stephens

Non-Executive Director/Company Secretary (BA(Acc), FCA)

Experience

Donald Stephens is a Chartered Accountant and corporate adviser with over 30 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd (SA), a firm of Chartered Accountants.

Interest in shares and options

6,654,660 ordinary shares

Other current directorships in listed entities

Non-Executive Director of Lawson Gold Ltd and Mithril Resources Ltd; Company Secretary to Highfield Resources Ltd, Duxton Water Ltd and Lawson Gold Ltd

Other directorships in listed entities held in the previous three years

Paprus Australia Limited and Reproductive Health Science Ltd

Terry Kallis

Managing Director (retired) (BE(Elec), MBA)

Experience

Mr 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 privatisation.

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 the former 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.

Interest in shares and options

14,498,860 ordinary shares; 500,000 options over ordinary shares

Directors' Report

30 June 2016

Principal activities and significant changes in nature of activities

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

- To carry out exploration of mineral tenements, both on a joint venture basis and by the Group in its own right;
- To continue to seek extensions of areas held and to seek out new areas with mineral potential; and
- To evaluate results achieved through surface sampling, drilling and geophysical surveys carried out during the year.

There were no significant changes in the nature of the Group's principal activities during the financial year.

Operating results

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$ (608,924) (2015: \$495,014 loss)

Operations overview

Corporate Activities

Petratherm Limited (Petratherm / the Company) continues the minimisation of ongoing expenditure whilst the board assess new business opportunities with high growth potential. In December 2015, the Company announced a share placement and a fully underwritten rights issue, at a price of \$0.003 per share, to be undertaken by Taylor Collison to raise a total sum of \$773,633 before costs. The rights issue was successfully completed in January 2016. The monies raised have been applied to working capital and new projects and/or joint ventures.

In May 2016 the Company announced it had entered into a conditional deal to acquire MSGooroo (Gooroo) Pty Ltd a human resource technology company. In July, post reporting period, the Company announced that the deal had been terminated at the request of Gooroo and that all costs incurred by Petratherm in relation to the deal would be reimbursed by Gooroo.

Paralana Geothermal Project - South Australia (79% Petratherm)

Petratherm's Paralana Geothermal Energy Project (GEL 156) is located 600 kilometres north of the city of Adelaide, South Australia. Petratherm's partner in the project, Beach Energy, holds a 21% interest. The project aims to test for viable engineered geothermal resources for electricity generation. The project has achieved important technical milestones with the drilling of a deep well to 4 km where rock temperature is 190°C, development of a sub-surface heat exchanger to allow circulation of geothermal waters through the hot rock at depth, and has undertaken production flow testing.

The next stage of works aimed to complete a geothermal well doublet and the establishment of a 3.5 MWe power plant. Despite the Company's best efforts, the necessary funding required to continue has not been secured.

In September 2015, surface rehabilitation works at the Paralana 2 drill site was undertaken. The drilling sump and water storage ponds were rehabilitated. The drill casing stockpile, a mobile office and other site equipment associated with the drilling and fracture stimulation works were removed from site.

The JV partners resolved in June 2016 to plugging and abandoning the Paralana 2 geothermal well and completing final surface rehabilitation works before a formal surrender of the geothermal licence will occur.

Kempton Petroleum Licence (EL3/2013) – Tasmania (100% Petratherm)

Directors' Report

30 June 2016

In January 2016, the Company made a partial surrender of the less prospective land on its sole Tasmanian oil and gas tenement. The remaining licence area which was still substantial, 2100 km², comprised the area most prospective for hydrocarbon accumulation. Geochemical assessment during the period from drill core samples determined that hydrocarbons have partially migrated from source rocks and therefore there is potential for conventional oil and gas accumulations in addition to unconventional shale oil and gas plays.

The Tasmanian State Governments recent placement of a 5 year moratorium on hydraulic fracturing however created uncertainty with regards to being able to explore for unconventional oil and gas resources and ended any potential JV any interest the Company was seeking to initiate to advance the project further. The Company consequently applied to surrender the licence in June and this was formally accepted just after the reporting period, in August 2016.

Tenerife Geothermal Project – Spain (93.023% Petratherm)

The Company completed during the year the programmed shutdown of its Spanish Operations. All tenements have been surrendered and in June Petratherm Espana SL was formally liquidated.

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 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 stakeholder's 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 state of affairs

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

- i) On 29 December 2015, the Company announced it had completed a share placement. 50,000,000 shares were issued at \$0.003 per share, raising a total of \$150,000.
- ii) On 25 January 2016, the Company announced it had completed a non-renounceable rights issue. 207,877,560 shares were issued at \$0.003 per share, raising a total of \$623,633.
- iii) On 31 March 2016, the Board resolved to close its subsidiaries, PTR Holdings B.V. and Petratherm Espana S.L.
- iv) On 17 June 2016, the Group submitted an application to surrender its tenement in Tasmania (EL3/2013).
- v) On 4 April 2016, the Company announced that it had entered into an agreement to acquire 100% of the shares in MSGooroo Pty Ltd. The agreement was subject to a number of conditions precedent.

Directors' Report

30 June 2016

Events after the reporting date

- i) On 18 July 2016, the Company announced the termination of the Share Purchase Agreement between Petratherm Limited and MSGooroo Pty Ltd, due to issues arising out of the proposed rehabilitation of Petratherm's well at Paralana and taking into consideration the ASX Listing Rules to be implemented in September 2016.
- ii) On 18 August 2016, the Group received confirmation from the Mineral Resources Tasmanian that the surrender of its tenement (EL3/2013) was approved.
- iii) On 26 August 2016, the Company received expense reimbursement of \$134,870 from MSGooroo Pty Ltd for transaction costs incurred pertaining to the acquisition of MSGooroo Pty Ltd.
- iv) On 23 August 2016, the Company announced that it had appointed Mr Andrew Haythorpe as its Managing Director. Andrew is a highly experience director and investor and his role was to actively identifying new projects for the Company.
- v) On 23 August 2016, the Company announced it would undertake a share placement to raise approximately \$600,000. The Placement is to be undertaken in two tranches, comprising approximately 200,000,000 fully paid ordinary shares at \$0.003 per share. The first tranche would be conducted within the Company's placement capacity pursuant to Listing Rule 7.1 and 7.1A. The second tranche would be conducted with Shareholder approval following a general meeting of the Company. Subsequently on 31 August 2016, the Company announced it had completed the first tranche placement of 130,000,000 shares.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments and results

The Group is actively identifying for new projects with an emphasis on energy and resource projects. Provision of any further information may result in unreasonable prejudice to the Group.

Environmental issues

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 year under review, the majority of work carried out was in South Australia and Tasmania and the Group followed procedures and pursued objectives in line with guidelines published by the South Australian and Tasmanian Governments.

These guidelines are quite detailed and encompass the impact on owners and land users, heritage, health and safety and proper restoration practices. The Group supports this approach and is confident that it properly monitors and adheres to these objectives, and any local conditions applicable wherever it explores.

The Group is committed to minimising environmental impacts during all phases of exploration, development and production through a best practice environmental approach. The Group shares responsibility for protecting the environment for the present and the future. It believes that carefully managed exploration programs should have little or no long-lasting impact on the environment and the Company has formed a best practice policy for the management of its exploration programs. The Group properly monitors and adheres to this approach and there were no environmental incidents to report for the year under review. Furthermore, the Group is in compliance with the state and/or Commonwealth environmental laws for the jurisdictions in which it operates.

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Directors' Report

30 June 2016

Meetings of directors

During the financial year, 6 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| | Directors' Meetings | | Audit Committee | |
|------------------|---------------------------|-----------------|---------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Simon O'Loughlin | 4 | 4 | 2 | 2 |
| Andrew Haythorpe | - | - | - | - |
| Donald Stephens | 4 | 4 | 2 | 2 |
| Terry Kallis | 4 | 4 | 2 | 2 |

Members acting on the audit committee of the board are:

| | |
|------------------|--|
| Simon O'Loughlin | Non-executive Director |
| Donald Stephens | Non-executive Director / Company Secretary |
| Andrew Haythorpe | Executive Director (appointed on 22/08/2016) |
| Terry Kallis | Executive Director (retired on 22/08/2016) |

Indemnification and insurance of officers and auditors

To the extent permitted by law, the Group has indemnified (fully insured) each director and the secretary of the Group for a premium of \$13,968. 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 Group or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

Unlisted Options

At the date of this report, the unissued ordinary shares of Petratherm Limited under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|----------------|----------------|----------------|---------------------|
| 3 March 2012 | 2 March 2017 | \$0.13 | 500,000 |
| 9 January 2012 | 8 January 2017 | \$0.14 | 350,000 |
| | | | <hr/> 850,000 <hr/> |

Option holders do not have any rights to participate in any issues of shares or other interests in the Group or any other entity.

For details of options issued to directors and other key management personnel as remuneration, refer to the remuneration report.

Directors' Report

30 June 2016

Cancellation of Options

During the financial year, 900,000 options lapsed due to not being exercised within the given exercise period.

New options Issued

No options were issued under the Company's Employee Share Option Plan (ESOP) during the financial year.

Remuneration report (audited)

This report outlines the remuneration arrangements in place for Directors and other 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 contract of employment. Mr Kallis commenced employment on 1 May 2006 and has subsequently signed a consultancy agreement dated 10 January 2012 with Kallis & Co Pty Ltd. The agreement is based on an annual base of \$330,000 in equal monthly instalments in arrears. The agreement includes flexibility that has allowed the Company to source services on an as need basis. 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 Director, Mr Peter Reid, are formalised in a contract of employment. Mr Reid commenced employment on 27 July 2006 and his base salary, inclusive of superannuation, is \$186,832 per annum. The agreement includes flexibility that has allowed the Company to source services on an as need basis. 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.

Voting and comments made at the company's 2015 Annual General Meeting

Petratherm Ltd received more than 97.84% of 'yes' votes on its remuneration report for the 2015 financial year. The Company did not receive any 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.

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.

Directors' Report

30 June 2016

The non-executive Directors and other executives receive a superannuation guarantee contribution required by the government, which is currently 9.25%, 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's 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.

Remuneration details for the year ended 30 June 2016

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group.

Table of benefits and payments

| | Short term Salaries and Fees | Post employment Superannuation | Share based payments Options | Total |
|------------------|---------------------------------|--------------------------------------|------------------------------------|----------------|
| | \$ | \$ | \$ | \$ |
| 2016 | | | | |
| Directors | | | | |
| Simon O'Loughlin | 30,000 | 2,850 | - | 32,850 |
| Donald Stephens | 36,417 | - | - | 36,417 |
| Terry Kallis | 27,312 | - | - | 27,312 |
| KMP | | | | |
| Peter Reid | 10,534 | - | - | 10,534 |
| | 104,263 | 2,850 | - | 107,113 |

| | Short term cash salary fees | Post employment pension and superannuation | Share based payments Options | |
|------------------|--------------------------------|---|------------------------------------|----------------|
| | \$ | \$ | \$ | \$ |
| 2015 | | | | |
| Directors | | | | |
| Simon O'Loughlin | 32,500 | 3,088 | - | 35,588 |
| Donald Stephens | 30,044 | - | - | 30,044 |
| Terry Kallis | 30,044 | - | - | 30,044 |
| KMP | | | | |
| Peter Reid | 19,581 | - | - | 19,581 |
| | 112,169 | 3,088 | - | 115,257 |

Key Management Personnel in the above table include Directors and specified executives.

1. Terry Kallis ceased as the Managing Director on 22 August 2016.
2. Andrew Haythorpe was appointed as the Managing Director on 22 August 2016.
3. O'Loughlins Lawyers of which Simon O'Loughlin is a partner received legal fees of \$14,994 (2015: \$20,112) during the year. At 30 June 2016, the Group owed NIL to O'Loughlins Lawyers.

Directors' Report

30 June 2016

Options granted as remuneration

No options were issued to Directors or other Key Management Personnel during the year or previous year.

Key management personnel options holdings

| 30 June 2016 | Balance at beginning of year | Granted as remuneration | Exercised | Options lapsed | Balance at end of period | Exercise Price | First exercise date | Last exercise date |
|------------------|------------------------------|-------------------------|-----------|------------------|--------------------------|----------------|---------------------|--------------------|
| Directors | | | | | | | | |
| Terry Kallis | 500,000 | - | - | - | 500,000 | 0.13 | 03/03/2012 | 02/03/2017 |
| Donald Stephens | 300,000 | - | - | (300,000) | - | 0.15 | 31/01/2011 | 30/01/2016 |
| Other KMP | | | | | | | | |
| Peter Reid | 400,000 | - | - | (400,000) | - | 0.14 | 05/07/2010 | 04/07/2015 |
| Peter Reid | 500,000 | - | - | (500,000) | - | 0.14 | 31/01/2011 | 30/01/2016 |
| Peter Reid | 200,000 | - | - | - | 200,000 | 0.14 | 09/01/2012 | 08/01/2017 |
| | <u>1,900,000</u> | <u>-</u> | <u>-</u> | <u>1,200,000</u> | <u>700,000</u> | | | |

Key management personnel shareholdings

The number of ordinary shares in Petratherm Limited held by each key management person of the Group during the financial year is as follows:

| 30 June 2016 | Balance at beginning of year | Other changes during the year | Balance at end of year |
|------------------|------------------------------|-------------------------------|------------------------|
| Directors | | | |
| Simon O'Loughlin | 6,475,002 | 7,214,244 | 13,689,246 |
| Donald Stephens | 1,200,000 | 5,454,660 | 6,654,660 |
| Terry Kallis | 6,803,200 | 7,695,660 | 14,498,860 |
| Other KMP | | | |
| Peter Reid | 1,362,007 | - | 1,362,007 |
| | <u>15,840,209</u> | <u>20,364,564</u> | <u>36,204,773</u> |

End of Audited Remuneration Report

Non-audit services

Grant Thornton Audit Pty Ltd, in its capacity as auditor for Petratherm Resources Ltd, has not provided any non-audit services throughout the reporting year. Details of the auditor's remuneration can be found in note 21 to the financial statements.

Petratherm Limited

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Directors' Report

30 June 2016

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 30 June 2016 has been received and can be found on page 11 of the financial report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Director: 
.....
Simon O'Loughlin
Chairman

Dated this26th..... day ofSeptember.... 2016

Level 1,
67 Greenhill Rd
Wayville SA 5034

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W www.granthornton.com.au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF PETRATHERM LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Petratherm Limited for the year ended 30 June 2016, 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 AUDIT PTY LTD
Chartered Accountants

Sheenagh Edwards

Sheenagh Edwards
Partner - Audit & Assurance

Adelaide, 26 September 2016

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Petratherm Limited

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Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 30 June 2016

| | | Consolidated | |
|---|------|------------------|------------------|
| | | 2016 | 2015 |
| | Note | \$ | \$ |
| Revenue | 5(a) | 9,465 | 10,104 |
| Other income | 5(a) | - | 1,861 |
| Impairment of exploration assets | 5(b) | (182,120) | (115,426) |
| Employee benefits expense | 5(b) | (107,317) | (105,717) |
| Foreign exchange gains/(losses) | 5(b) | 15,458 | 37,460 |
| Other expenses | 5(b) | (342,469) | (360,447) |
| Loss before income tax expense | | (606,983) | (532,165) |
| Income tax (expense)/benefit | 6 | (1,941) | 37,151 |
| Total loss for the year attributable to members of the parent entity | | (608,924) | (495,014) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year attributable to members of the parent entity | | (608,924) | (495,014) |
| Earnings per share | | | |
| Basic earnings per share (cents) | 7 | (0.10) | (0.15) |
| Diluted earnings per share (cents) | 7 | (0.10) | (0.15) |

The accompanying notes form part of these financial statements.

Petratherm Limited

ABN 17 106 806 884

**Consolidated Statement of Financial Position
As At 30 June 2016**

| | | Consolidated | |
|--------------------------------------|-------------|---------------------|--------------|
| | | 2016 | 2015 |
| | Note | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 663,592 | 475,898 |
| Trade and other receivables | 9 | 49,992 | 10,823 |
| Other assets | 10 | - | 1,987 |
| TOTAL CURRENT ASSETS | | 713,584 | 488,708 |
| NON-CURRENT ASSETS | | | |
| Exploration and evaluation assets | 11 | - | 90,705 |
| TOTAL NON-CURRENT ASSETS | | - | 90,705 |
| TOTAL ASSETS | | 713,584 | 579,413 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 63,857 | 41,162 |
| Short-term provisions | 14 | 225,000 | - |
| TOTAL CURRENT LIABILITIES | | 288,857 | 41,162 |
| NON-CURRENT LIABILITIES | | | |
| Long-term provisions | 14 | - | 193,076 |
| TOTAL NON-CURRENT LIABILITIES | | - | 193,076 |
| TOTAL LIABILITIES | | 288,857 | 234,238 |
| NET ASSETS | | 424,727 | 345,175 |
| EQUITY | | | |
| Issued capital | 15 | 34,118,371 | 33,429,895 |
| Reserves | 16 | 45,100 | 154,386 |
| Accumulated losses | 17 | (33,738,744) | (33,239,106) |
| TOTAL EQUITY | | 424,727 | 345,175 |

The accompanying notes form part of these financial statements.

Petratherm Limited

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Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2016

| | Note | Issued Capital | Accumulated Losses | Foreign Currency Translation Reserve | Share Option Reserve | Total |
|---|------------|-------------------|---------------------|--------------------------------------|----------------------|----------------|
| | | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2015 | 15, 16, 17 | 33,429,895 | (33,239,106) | - | 154,386 | 345,175 |
| Profit attributable to members of the parent entity | 17 | - | (608,924) | - | - | (608,924) |
| Total other comprehensive income for the year | 16 | - | - | - | - | - |
| Transactions with owners in their capacity as owners | | | | | | |
| Shares issued via rights issue | 15 | 773,633 | - | - | - | 773,633 |
| Issue of shares | 15 | - | - | - | - | - |
| Transaction costs | 15 | (105,350) | - | - | - | (105,350) |
| Tax portion of capital raising costs | 15 | 20,193 | - | - | - | 20,193 |
| Transfer to retained earnings from share option reserve upon cancellation of vested options | 16, 17 | - | 109,286 | - | (109,286) | - |
| Balance at 30 June 2016 | 15, 16, 17 | 34,118,371 | (33,738,744) | - | 45,100 | 424,727 |
| Balance at 1 July 2014 | 15, 16, 17 | 32,806,049 | (33,224,992) | - | 635,286 | 216,343 |
| Profit attributable to members of the parent entity | 17 | - | (495,014) | - | - | (495,014) |
| Total other comprehensive income for the year | 16 | - | - | - | - | - |
| Transactions with owners in their capacity as owners | | | | | | |
| Shares issued via rights issue | 15 | 534,830 | - | - | - | 534,830 |
| Issue of shares | 15 | 151,499 | - | - | - | 151,499 |
| Transaction costs | 15 | (76,287) | - | - | - | (76,287) |
| Tax portion of capital raising costs | 15 | 13,804 | - | - | - | 13,804 |
| Transfer to retained earnings from share option reserve upon cancellation of vested options | 16, 17 | - | 480,900 | - | (480,900) | - |
| Balance at 30 June 2015 | 15, 16, 17 | 33,429,895 | (33,239,106) | - | 154,386 | 345,175 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2016

| Note | Consolidated | |
|--|---------------------|------------------|
| | 2016 \$ | 2015 \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Payments to suppliers and employees | (398,638) | (506,184) |
| Interest received | 9,464 | 7,965 |
| Research & Development Tax offset received | - | 50,955 |
| Net cash provided by (used in) operating activities | 18 (389,174) | (447,264) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of plant and equipment | - | (2,310) |
| Payments for exploration activities | (91,415) | (64,430) |
| Joint Venture receipts | - | 905 |
| Net cash used by investing activities | (91,415) | (65,835) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issue of shares | 735,591 | 504,556 |
| Payment of transaction costs | (67,308) | (42,760) |
| Net cash provided by financing activities | 668,283 | 461,796 |
| Net increase (decrease) in cash and cash equivalents held | 187,694 | (51,303) |
| Cash and cash equivalents at beginning of year | 475,898 | 527,201 |
| Cash and cash equivalents at end of financial year | 8(a) 663,592 | 475,898 |

Notes to the Financial Statements

For the Year Ended 30 June 2016

This financial report covers the consolidated financial statements and notes of Petratherm Limited ('the Company') as an individual entity and the consolidated Group comprising Petratherm Limited and its Controlled Entities ('the Group'). Petratherm Limited is a listed public Group incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, Petratherm Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity summary is included in Note 28.

The financial report was authorised for issue by the Directors on 26 September 2016.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

These financial statements and associated notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Except for the cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are presented below and are consistent with prior reporting periods unless otherwise stated.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 22 to the financial statements.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(a) Principles of Consolidation (continued)

Joint Arrangements

AASB 11 *Joint Arrangements* defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

Petratherm Limited has determined that it has only joint operations.

Joint operations:

In relation to its joint venture operations, where the venturer has the rights to the individual assets and obligations arising from the arrangement, Petratherm Limited has recognised:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation;
- Its expenses, including its share of any expenses incurred jointly.

These figures are incorporated into the relevant line item in the primary statements.

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 Joint Ventures, as well as the parties involved, can be found in Note 27.

(b) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Group and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

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

Sale of goods

Revenue is recognised on transfer of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(b) Revenue and other income (continued)

Rendering of services

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be estimated reliably. If the outcome can be estimated reliably then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably estimated then revenue is recognised to the extent of expenses recognised that are recoverable.

Interest revenue

Interest is recognised using the effective interest method.

(c) 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 or sale.

All other finance costs are recognised in income in the period in which they are incurred.

(d) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

(e) 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.

(f) Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

Initial recognition and measurement (continued)

Classification and subsequent measurement

Financial Assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

The Group's trade and other receivables fall into this category of financial instruments.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired.

The Group's financial liabilities include borrowings, trade and other payables, which are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

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 Group 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.

(g) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(g) Income Tax (continued)

Deferred tax is not provided for the following:

- 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 accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

Tax consolidation

Petratherm Limited and its wholly-owned Australian controlled entities have decided not to implement the tax consolidation legislation.

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 the Group's financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(h) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

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

Cash flows in the consolidated statement of cash flows are included 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 is classified as operating cash flows.

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

(i) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

Plant and equipment is depreciated on a reducing balance basis over the assets useful life to the Group, commencing when the asset is ready for use.

The depreciation rates used for each class of depreciable asset are shown below:

| Fixed asset class | Depreciation rate |
|--------------------------|--------------------------|
| Plant and Equipment | 10 - 50% |

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated statement of profit or loss and other comprehensive income.

(j) Impairment of non-financial assets

At the end of each reporting period the Group determines whether there is any evidence of impairment for its non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(j) Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(k) 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 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. As the asset is not available for use it is not depreciated or amortised.

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

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

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense which is recognised in finance costs. 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 discounted to their present value.

Any changes in the estimates for the costs are accounted on a prospective basis in the consolidated statement of profit or loss and other comprehensive income. In determining the costs of site restoration, there is an uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site.

(l) Trade and other payables

Trade 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.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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 consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

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

(n) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The lease is not recognised in the consolidated statement of financial position.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(o) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

Employee benefits are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date regardless of the classification of the liability for measurement purposes under AASB 119.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(p) Equity-settled compensation

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 were 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 consolidated statement of profit or loss and other comprehensive income, together with a corresponding increase in the share option reserve, when the options are issued. However, where options have vesting terms attached, the cost of the transaction is amortised over the vesting period.

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

(q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

(r) Earnings per share

The Group presents basic and diluted earnings per share information for its ordinary shares.

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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 2016 and 2015.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(s) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(s) Foreign currency transactions and balances (continued)

Foreign operations

The translation of foreign operations with different functional currency from Australian dollars is performed as follows:

- Assets and liabilities (including goodwill and fair value adjustments on acquisition) for each consolidated statement of financial position presented are translated at the closing rate at the date of the statement;
- Income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at the rate at the date of the transaction (or an average rate if that rate approximates the rate at the date of transaction);
- All resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange difference related to that foreign operation recognised in other comprehensive income is reclassified from equity to profit or loss.

(t) Research and development tax incentive refund

Refund amounts received or receivable under the Federal Government's Research and Development Tax Incentive are recognised on an accrual basis. The corporate tax rate component is recognised as a tax expense credit. Any additional component, being the incentive component, is recognised as a government grant.

(u) Adoption of new and revised accounting standards

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2015. Information on the more significant standard(s) is presented below.

AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

AASB 2015-4 amends AASB 128 *Investments in Associates and Joint Ventures* to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 *Consolidated Financial Statements* for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

The adoption of this amendment has not had a material impact on the Group.

(v) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(v) New Accounting Standards and Interpretations (continued)

| Standard Name | Effective date for entity | Requirements | Impact |
|--|---|--|---|
| B 1057 Application of Australian Accounting Standards | Annual reporting periods beginning on or after 1 January 2016 | In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 Application of Australian Accounting Standards. | When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements. |
| AASB 16 Leases | Annual reporting periods beginning on or after 1 January 2019 | AASB 16: - replaces AASB 117 Leases and some lease-related Interpretations - requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases - provides new guidance on the application of the definition of lease and on sale and lease back accounting - largely retains the existing lessor accounting requirements in AASB 117 - requires new and different disclosures about leases | The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes: - there will be a significant increase in lease assets and financial liabilities recognised on the statement of financial position - the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities - EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses - operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities. |

Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Summary of Significant Accounting Policies (continued)

(v) New Accounting Standards and Interpretations (continued)

| Standard Name | Effective date for entity | Requirements | Impact |
|--|---|--|---|
| AASB 2014-1 Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14) | Annual reporting periods beginning on or after 1 January 2016 | Part D of AASB 2014-1 makes consequential amendments arising from the issuance of AASB 14. | When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact on the Group. |
| AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle | Annual reporting periods beginning on or after 1 January 2016 | These amendments arise from the issuance of Annual Improvements to IFRSs 2012-2014 Cycle in September 2014 by the IASB. Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5. | When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements. |
| AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | Annual reporting periods beginning on or after 1 January 2016 | The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments: - clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information - clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated - add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position - clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order - remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy | When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements. |

Notes to the Financial Statements

For the Year Ended 30 June 2016

3 Critical Accounting Estimates and Judgements

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

Key estimates - provisions

As described in the accounting policies, provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. These estimates are made taking into account a range of possible outcomes and will vary as further information is obtained.

Key judgements - capitalisation of exploration and evaluation expenditure

The Group's policy for exploration and evaluation, as well as rehabilitation provision is discussed in Note 2(k). 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 consolidated statement of profit or loss and other comprehensive income. Refer to Note 11 for further details and a reconciliation of the capitalised expenditure written off during the year.

4 Operating Segments

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief allocating resources and has concluded at this time that there are no separately identifiable segments.

5 Revenue and expenses

(a) Revenue and other income

| | Consolidated | |
|--------------------------------------|---------------------|-------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Revenue | | |
| Management fees | - | 740 |
| Bank interest received or receivable | 9,465 | 9,364 |
| Total revenue | 9,465 | 10,104 |
| Other income | | |
| Other income | - | 1,861 |
| Total other income | - | 1,861 |

Notes to the Financial Statements

For the Year Ended 30 June 2016

5 Revenue and expenses (continued)

(b) Expenses

| | Consolidated | |
|---|--------------|----------|
| | 2016 | 2015 |
| | \$ | \$ |
| Impairment of Non-Current Assets | | |
| Capitalised tenement costs written off | 182,120 | 115,426 |
| Employee Benefits Expense | | |
| Wages, salaries, directors fees and other remuneration expenses | 104,467 | 99,708 |
| Superannuation | 2,850 | 6,009 |
| Total employee benefits expense | 107,317 | 105,717 |
| Foreign exchange (gain)/loss | (15,458) | (37,460) |
| Other Expenses from Ordinary Activities | | |
| Secretarial, professional and consultancy | 152,090 | 104,402 |
| Travel expenses | 2,386 | 21,716 |
| Promotion and advertising | - | 138 |
| Occupancy costs | 5,172 | 5,290 |
| Share register maintenance | 28,633 | 51,882 |
| Insurance costs | 15,154 | 22,740 |
| Entertainment | - | 1,192 |
| AGM expenses | 2,095 | 14,357 |
| Audit fees | 26,750 | 24,850 |
| Listing fees | 17,201 | 19,735 |
| Subscriptions, publications & memberships | - | 382 |
| Legal fees | 5,269 | 6,014 |
| Bank charges | 3,738 | 4,716 |
| Communication & computer expenses | 10,085 | 22,632 |
| Office expenses | 4,994 | 4,722 |
| Loss on disposal of assets | - | 34,577 |
| Other expenses | 68,902 | 21,102 |
| Total other expenses from ordinary activities | 342,469 | 360,447 |

Notes to the Financial Statements

For the Year Ended 30 June 2016

6 Income Tax Expense

(a) The major components of tax expense (benefit) comprise:

| | Consolidated | |
|---|--------------|-----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Current tax expense | | |
| Current income tax charge/(benefit) | 20,193 | 13,804 |
| Research & development tax offset | (18,252) | (50,955) |
| Total income tax expense/(benefit) | 1,941 | (37,151) |

(b) Reconciliation of income tax to accounting profit/(loss):

| | | |
|-----------------------------------|------------------|------------------|
| Accounting loss before income tax | (606,983) | (532,165) |
| Group's statutory income tax rate | 30 % | 30 % |
| | (182,095) | (159,650) |

Add:

Tax effect of:

- expenditure not allowable for income tax purposes
- other deductible items
- tax portion of share issue costs

| | |
|------------------|------------------|
| 627 | 44 |
| 32,133 | 18,176 |
| 20,193 | 13,804 |
| (129,142) | (127,626) |

Less:

Tax effect of:

- tax losses not recognised due to not meeting recognition criteria
- Research & development tax offset

| | |
|-----------|-----------|
| (149,335) | (141,430) |
| 18,252 | 50,955 |

Income tax expense/(benefit)

| | |
|--------------|-----------------|
| 1,941 | (37,151) |
|--------------|-----------------|

The Group has tax losses arising in Australia of \$29,902,798 (2015: \$29,149,581) that may be available and may be offset against future taxable profits of the companies in which the losses arose.

No deferred tax asset has been recognised due to not meeting the recognition criteria under AASB 112 Income Taxes.

(c) Tax Consolidation

Petratherm Limited and its wholly-owned Australian controlled entities have decided not to implement the tax consolidation legislation. The accounting policy relating to the possible implementation of the tax consolidation legislation is set out in Note 2(g), together with the impact on the income tax expense for the year.

Notes to the Financial Statements

For the Year Ended 30 June 2016

7 Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Group 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 income and share data used in the basic and diluted earnings per share computations:

(a) Reconciliation of earnings to profit or loss from continuing operations

| | Consolidated | |
|--|---------------------|-------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Net loss attributable to ordinary equity holders of the parent | (608,924) | (495,014) |
| Earnings used to calculate basic EPS from continuing operations | (608,924) | (495,014) |
| Earnings used in the calculation of dilutive EPS from continuing operations | (608,924) | (495,014) |

(b) Earnings used to calculate overall earnings per share

| | | |
|---|------------------|-----------|
| Earnings used to calculate overall earnings per share | (608,924) | (495,014) |
|---|------------------|-----------|

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

| | Consolidated | |
|--|---------------------|-------------|
| | 2016 | 2015 |
| | No. | No. |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 636,710,288 | 333,444,733 |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 636,710,288 | 333,444,733 |

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 2016 or 2015.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2016

8 Cash and cash equivalents

| | Note | Consolidated | |
|--|------|----------------|----------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| Cash at bank and in hand | | 463,592 | 275,898 |
| Short-term bank deposits | | 200,000 | 200,000 |
| Total cash and cash equivalents | 8(a) | 663,592 | 475,898 |

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.

(a) Reconciliation of cash

Cash and Cash equivalents reported in the consolidated statement of cash flows are reconciled to the equivalent items in the consolidated statement of financial position as follows:

| | | | |
|--|---|----------------|----------------|
| Cash and cash equivalents | 8 | 663,592 | 475,898 |
| Balance as per consolidated statement of cash flows | | 663,592 | 475,898 |

9 Trade and other receivables

| | | | |
|--|------|---------------|---------------|
| CURRENT | | | |
| Trade receivables | 9(a) | 33,766 | 172 |
| GST receivable | | 16,226 | 10,651 |
| Total current trade and other receivables | | 49,992 | 10,823 |

(a) Trade receivables

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 2016 or 2015 and no receivables are past due at reporting date.

10 Other assets

| | | | |
|-----------------------------------|--|----------|--------------|
| CURRENT | | | |
| Prepayments | | - | 1,987 |
| Total current other assets | | - | 1,987 |

Notes to the Financial Statements

For the Year Ended 30 June 2016

11 Exploration and evaluation assets

| | Consolidated | |
|--|--------------|--------|
| | 2016 | 2015 |
| | \$ | \$ |
| Exploration and evaluation costs carried forward in respect of Geothermal areas of interest | | |
| Exploration and evaluation phases | - | 90,705 |
| Total exploration and evaluation assets | - | 90,705 |

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. The Group has surrendered all of its tenement licences during the reporting period.

Capitalised tenement expenditure movement reconciliation

| | Exploration and Evaluation Phases |
|---|-----------------------------------|
| Consolidated | \$ |
| 2016 | |
| Balance at beginning of the year | 90,705 |
| Additions through expenditure capitalised | 15,550 |
| Joint venture contributions | 75,865 |
| Write off of tenements relinquished | (182,120) |
| Balance at end of the year | - |
| 2015 | |
| Balance at beginning of the year | 71,833 |
| Additions through expenditure capitalised | 133,393 |
| Joint venture contributions | 905 |
| Write off of tenements relinquished | (115,426) |
| Balance at end of the year | 90,705 |

The impairment expense of \$182,120 (2015: \$115,426) 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

(i) Employee Share Option Plan

The Group 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.

Notes to the Financial Statements

For the Year Ended 30 June 2016

12 Share-based Payments (continued)

- 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 the Group for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 6 months from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options issued under the plan.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The Board may amend the Plan Rules subject to the requirements of the Listing Rules.

The expense recognised in the consolidated statement of profit or loss and other comprehensive income in relation to share-based payments is disclosed in Note 5(b).

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

A summary of the Group options issued is as follows:

| 2016 | | | | | | Vested and |
|----------------|--------------|------------|------------|------------|----------------|----------------|
| Exercise price | Start of the | Granted | Exercised | Cancelled | Balance at the | exercisable at |
| WAEP | year | during the | during the | during the | end of the | the end of the |
| | No. | year | year | year | year | year |
| | No. | No. | No. | No. | No. | No. |
| 0.16 | 1,750,000 | - | - | - | 1,750,000 | 1,750,000 |
| - | - | - | - | (900,000) | (900,000) | (900,000) |
| | 1,750,000 | - | - | (900,000) | 850,000 | 850,000 |

The WAEP of issued options that are exercisable as at 30 June 2016 is \$0.13.

Notes to the Financial Statements

For the Year Ended 30 June 2016

12 Share-based Payments (continued)

| 2015 | | | | | | Vested and |
|----------------|--------------|------------|------------|------------|----------------|----------------|
| Exercise Price | Start of the | Granted | Exercised | Cancelled | Balance at the | exercisable at |
| WAEP | year | during the | during the | during the | end of the | the end of the |
| | No. | No. | No. | No. | No. | No. |
| 0.31 | 2,100,000 | - | - | - | 2,100,000 | 2,100,000 |
| - | - | - | - | (350,000) | (350,000) | (350,000) |
| | 2,100,000 | - | - | (350,000) | 1,750,000 | 1,750,000 |

The WAEP of issued options that are exercisable as at 30 June 2015 is \$0.16.

The outstanding balance as at 30 June 2016 is represented by:

- A total of 350,000 options exercisable any time until 8 January 2017 with a strike price of \$0.14.
- A total of 500,000 options exercisable any time until 2 March 2017 with a strike price of \$0.13

The weighted average remaining contractual life of options outstanding at year end was NIL years (2015: NIL years).

The range of exercise prices for options outstanding at the end of the year was \$0.13 - \$0.14 (2015: \$0.13 - \$0.20).

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

There were no employee options granted in the years ended 30 June 2016 and 30 June 2015.

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.

No options were issued during the financial year (2015: NIL). Full details of option holdings of Directors and company secretary are disclosed in the Remuneration Report contained in the Directors' Report.

Notes to the Financial Statements

For the Year Ended 30 June 2016

13 Trade and other payables

| | Note | Consolidated | |
|---|-------|---------------|---------------|
| | | 2016 \$ | 2015 \$ |
| CURRENT | | | |
| Unsecured liabilities | | | |
| Trade payables | 13(a) | 46,853 | 28,230 |
| Other payables | | 17,004 | 12,932 |
| Total current trade and other payables | | 63,857 | 41,162 |

(a) Trade payables

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

14 Provisions

| | | | |
|-------------------------------------|--|---|----------------|
| CURRENT | | | |
| Environmental rehabilitation | | 225,000 | - |
| Total current provisions | | 225,000 | - |
| NON-CURRENT | | | |
| Environmental rehabilitation* | | - | 193,076 |
| Total non-current provisions | | - | 193,076 |
| Consolidated | | | |
| | | Environmental rehabilitation | Total |
| | | \$ | \$ |
| Current | | | |
| Opening balance at 1 July 2015 | | - | - |
| Reclassification | | 193,076 | 193,076 |
| Additional provisions | | 31,924 | 31,924 |
| Balance at 30 June 2016 | | 225,000 | 225,000 |
| Non-current | | | |
| Opening balance at 1 July 2015 | | 193,076 | 193,076 |
| Reclassification | | (193,076) | (193,076) |
| Balance at 30 June 2016 | | - | - |

* Provision for Environmental Rehabilitation at the Paralana Project as agreed by the Group and the JV Partner.

Notes to the Financial Statements

For the Year Ended 30 June 2016

15 Issued Capital

| | Consolidated | |
|---|---------------------|-------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| 777,570,139 (2015: 519,692,579) Ordinary shares | 34,118,371 | 33,429,895 |
| Total issued capital | 34,118,371 | 33,429,895 |

(a) Ordinary shares

| | Consolidated | |
|---|---------------------|--------------------|
| | 2016 | 2015 |
| | No. | No. |
| At the beginning of the reporting period | 519,692,579 | 242,177,951 |
| Shares issued during the year | | |
| - Shares issued via rights issue | 207,877,560 | 252,277,951 |
| - Shares issued in lieu of broker fee | - | 15,136,677 |
| - Shares issued via share placement | 50,000,000 | 10,100,000 |
| At the end of the reporting period | 777,570,139 | 519,692,579 |

The holders of ordinary shares are entitled to participate in dividends (in the event when a dividend is declared) and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

In the event of winding up the Company, ordinary shareholders rank after all creditors and are fully entitled to any net proceeds of liquidation.

(b) Capital 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 15, 16 and 17 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 2016

16 Reserves

| Note | Consolidated | |
|--|--------------|------------|
| | 2016 \$ | 2015 \$ |
| Share option reserve | | |
| Balance at beginning of financial year | 154,386 | 635,286 |
| Cancellation of vested options | (109,286) | (480,900) |
| Balance at end of the year | 16(a) 45,100 | 154,386 |
| Total reserves | 45,100 | 154,386 |

(a) Share option reserve

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

17 Accumulated losses

| | | |
|--|--------------|--------------|
| Accumulated losses at the beginning of the financial year | (33,239,106) | (33,224,992) |
| Net loss attributable to members of the parent entity | (608,924) | (495,014) |
| Transfer from share option reserve on cancellation of vested options | 109,286 | 480,900 |
| Accumulated losses at end of the financial year | (33,738,744) | (33,239,106) |

18 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

| | | |
|--|-----------|-----------|
| Net loss | (608,924) | (495,014) |
| Non-cash flows in profit: | | |
| - impairment of non-current assets | 182,120 | 115,426 |
| - non-cash income tax expense | 20,193 | 37,151 |
| - share based payments | - | 151,499 |
| - gain on exchange differences | (15,458) | (37,460) |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in trade and other receivables | (18,136) | 2,313 |
| - (increase)/decrease in prepayments | 1,987 | 8,549 |
| - (increase)/decrease in net GST receivable | (5,575) | 43,882 |
| - increase/(decrease) in trade and other payables | 22,695 | (256,433) |
| - increase/(decrease) in provisions | 31,924 | - |
| - increase/(decrease) in employee benefits | - | (17,177) |
| Net cash (used in)/provided by operating activities | (389,174) | (447,264) |

Notes to the Financial Statements

For the Year Ended 30 June 2016

19 Capital and Leasing Commitments

Exploration leases

The Group currently does not have any commitments in respect of tenement lease rentals or minimum expenditure requirements (2015: \$200,000).

20 Contingencies

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 Group has entered into various bank guarantees with a number of State Governments in Australia, totalling \$100,000 at 30 June 2016 (2015: \$100,000). 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.

21 Remuneration of Auditors

Remuneration of the auditor of the Company, Grant Thornton Audit Pty Ltd, for:

- auditing or reviewing the financial report

Total remuneration of auditors

| Consolidated | |
|---------------------|-------------|
| 2016 | 2015 |
| \$ | \$ |
| 26,750 | 24,850 |
| 26,750 | 24,850 |

No non-audit services have been provided.

22 Interests in Subsidiaries

| | Principal place of business / Country of Incorporation | Percentage Owned (%)* | Percentage Owned (%)* |
|--|---|----------------------------------|----------------------------------|
| | | 2016 | 2015 |
| Subsidiaries: | | | |
| MNGI Pty Ltd | Australia | 100 | 100 |
| PetraGas Ltd (formerly Heliotherm Ltd) | Australia | 100 | 100 |

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

Notes to the Financial Statements

For the Year Ended 30 June 2016

23 Financial Risk Management

Categories of financial instruments

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | | Consolidated | |
|---|-------------|---------------------|-------------|
| | | 2016 | 2015 |
| | Note | \$ | \$ |
| Financial Assets | | | |
| Cash and cash equivalents | 8 | 663,592 | 475,898 |
| Loans and receivables | 9 | 49,992 | 10,823 |
| Total financial assets | | 713,584 | 486,721 |
| Financial Liabilities | | | |
| Financial liabilities at amortised cost | | | |
| - Trade and other payables | 13 | 63,857 | 41,162 |
| Total financial liabilities | | 63,857 | 41,162 |

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a 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 company 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.

Market risk

(i) Cash flow interest rate sensitivity

The Group is exposed to interest rate risk as it holds some bank deposits at floating rates.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term deposits are therefore usually at fixed rates. At the reporting date, the Group is exposed to changes in market interest rates through its bank deposits, which are subject to variable interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +0.50% and -0.50% (2015: +0.50%/-0.50%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions.

Notes to the Financial Statements

For the Year Ended 30 June 2016

23 Financial Risk Management (continued)

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

| | 2016 | | 2015 | |
|----------------------------------|--------|---------|--------|---------|
| | +0.50% | -0.50% | +0.50% | -0.50% |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | | | | |
| Net results | 2,379 | (2,379) | 2,901 | (2,901) |
| Equity | 2,379 | (2,379) | 2,901 | (2,901) |

(ii) Financial instrument composition and maturity analysis

The following table details the Group's expected maturity and remaining contractual maturity for its non-derivative financial assets and liabilities respectively.

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

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Maturing within 1 Year | | Non-interest Bearing | | Total | |
|------------------------------------|--|------|------------------------|----------------|------------------------|----------------|----------------------|---------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial Assets: | | | | | | | | | | |
| Cash and cash equivalents | 2.48 | 2.39 | 463,592 | 275,898 | 200,000 | 200,000 | - | - | 663,592 | 475,898 |
| Trade and other receivables | - | - | - | - | - | - | 49,992 | 10,823 | 49,992 | 10,823 |
| Total Financial Assets | | | 463,592 | 275,898 | 200,000 | 200,000 | 49,992 | 10,823 | 713,584 | 486,721 |
| Financial Liabilities: | | | | | | | | | | |
| Trade and other payables | - | - | - | - | - | - | 63,857 | 41,162 | 63,857 | 41,162 |
| Total Financial Liabilities | | | - | - | - | - | 63,857 | 41,162 | 63,857 | 41,162 |

The Group is not materially exposed to any effects on changes in interest rates.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, whom 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.

Notes to the Financial Statements

For the Year Ended 30 June 2016

24 Related Parties

(a) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

- O'Loughlins Lawyers, of which Simon O'Loughlin is a partner, received legal fees of \$14,994 (2015: \$20,112) during the year.

(b) Wholly owned group transactions

Loans

The wholly owned Group consists of Petratherm Limited and its wholly owned controlled entities MNGI Pty Limited, PetraGas Limited (Formally Heliotherm Limited), PTR Holdings BV and majority owned Petratherm Espana SL. Ownership interests in the controlled entity are set out in Note 22.

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 consolidated statement of financial position under current assets. Intercompany and cash movements throughout the year are detailed within the body of the consolidated statement of cash flows under 'Loans to wholly-owned subsidiary'.

(c) Interests of Key Management Personnel (KMP)

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

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

Terry Kallis (Ex-Managing Director)

Andrew Haythorpe (Managing Director)

Simon O'Loughlin (Non-Executive Director)

Donald Stephens (Company Secretary and Non-Executive Director)

Peter Reid (Exploration Manager)

For details of Key Management Personnel's interests in shares and options of the Group, refer to Note 25: Key Management Personnel Disclosures.

Notes to the Financial Statements

For the Year Ended 30 June 2016

25 Key Management Personnel Disclosures

Key management personnel remuneration included within employee expenses for the year is shown below:

| | 2016 | 2015 |
|--|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 104,263 | 112,169 |
| Post-employment benefits | 2,850 | 3,088 |
| Share-based payments | - | - |
| Total remuneration paid to key management personnel | 107,113 | 115,257 |

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2016.

Other key management personnel transactions

For details of other transactions with key management personnel, refer to Note 24: Related Party Transactions.

26 Events Occurring After the Reporting Date

The financial report was authorised for issue on 28 September 2016 by the Board of Directors.

- i) On 18 July 2016, the Company announced the termination of the Share Purchase Agreement between Petratherm Limited and MSGooroo Pty Ltd, due to issues arising out of the proposed rehabilitation of Petratherm's well at Paralana and taking into consideration the ASX Listing Rules to be implemented in September 2016.
- ii) On 18 August 2016, the Group received confirmation from the Mineral Resources Tasmanian that the surrender of its tenement (EL3/2013) was approved.
- iii) On 26 August 2016, the Company received expense reimbursement of \$134,870 from MSGooroo Pty Ltd for transaction costs incurred pertaining to the acquisition of MSGooroo Pty Ltd.
- iv) On 23 August 2016, the Company announced that it had appointed Mr Andrew Haythorpe as its Managing Director. Andrew is a highly experience director and investor and his role was to actively identifying new projects for the Company.
- v) On 23 August 2016, the Company announced it would undertake a share placement to raise approximately \$600,000. The Placement is to be undertaken in two tranches, comprising approximately 200,000,000 fully paid ordinary shares at \$0.003 per share. The first tranche would be conducted within the Company's placement capacity pursuant to Listing Rule 7.1 and 7.1A. The second tranche would be conducted with Shareholder approval following a general meeting of the Company. Subsequently on 31 August 2016, the Company announced it had completed the first tranche placement of 130,000,000 shares.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Petratherm Limited

ABN 17 106 806 884

Notes to the Financial Statements

For the Year Ended 30 June 2016

27 Additional information

Joint Ventures

Beach Energy Limited is an oil & gas company that farmed-in to the Paralana Project in January 2007. Beach currently have 21%.

28 Parent entity

The following information has been extracted from the books and records of the parent, Petratherm Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Petratherm Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Petratherm Limited and its wholly-owned Australian subsidiaries have decided not to implement the tax consolidation legislation.

Petratherm Limited

ABN 17 106 806 884

Notes to the Financial Statements For the Year Ended 30 June 2016

28 Parent entity (continued)

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| Statement of Financial Position | | |
| Assets | | |
| Current assets | 675,971 | 458,079 |
| Non-current assets | - | - |
| Total Assets | 675,971 | 458,079 |
| Liabilities | | |
| Current liabilities | 63,892 | 112,907 |
| Non-current liabilities | - | - |
| Total Liabilities | 63,892 | 112,907 |
| Equity | | |
| Issued capital | 34,118,371 | 33,429,895 |
| Accumulated losses | (33,551,392) | (33,239,109) |
| Reserves | 45,100 | 154,386 |
| Total Equity | 612,079 | 345,172 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | | |
| (Loss) for the year | (372,274) | (450,968) |
| Other comprehensive income | - | - |
| Total comprehensive income | (372,274) | (450,968) |

Contingent liabilities

Contingent liabilities of the parent entity have been incorporated into the Group information in Note 20. 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 19. The contractual commitments of the parent are consistent with that of the Group.

Petratherm Limited


ABN 17 106 806 884

Directors' Declaration

The directors of the Group declare that:

1. the financial statements and notes for the year ended 30 June 2016 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position and performance of the consolidated group;
2. the Managing Director and Company Secretary have given the declarations required by Section 295A that:
 - a. the financial records of the Group 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 Group 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.

Director 
Simon O'Loughlin
Chairman

Dated this 26th day of September 2016

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRATHERM LIMITED

Report on the financial report

We have audited the accompanying financial report of Petratherm Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other 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. The Directors' responsibility also includes such internal control as the Directors determine 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

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 Limited 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 2016 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.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. 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.

Petratherm Limited

ASX Additional Information

30 June 2016

ASX Additional Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 21 October 2016.

Substantial shareholders

The number of substantial shareholders and their associates are set out below:

| Ordinary Shareholders | Number of shares | Percentage |
|-----------------------------|------------------|------------|
| Greenslade Holdings Pty Ltd | 54,792,751 | 6.04% |
| Calama Holdings Pty Ltd | 53,328,827 | 5.88% |

Voting rights

Ordinary Shares

The Company has 907,570,139 listed fully paid ordinary shares held by 3,146 individual shareholders.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

The Company has 850,000 unlisted options on issue. The options have no voting rights.

Distribution of equity security holders

| Holding | Ordinary shares | |
|------------------|-----------------|------------------|
| | Shares | Unquoted Options |
| 1 - 1,000 | 256 | - |
| 1,001 - 5,000 | 660 | - |
| 5,001 - 10,000 | 420 | - |
| 10,001 - 100,000 | 1,278 | 1 |
| 100,000 and over | 556 | 3 |
| | <hr/> | <hr/> |
| | 3,170 | 4 |

There were 2,753 holders of less than a marketable parcel of ordinary shares.

ASX Additional Information

30 June 2016

Twenty largest shareholders

| | Fully Paid Ordinary Shares | |
|--|----------------------------|---------------|
| | Number | Percentage |
| GREENSLADE HOLDINGS PTY LTD | 54,792,751 | 6.04% |
| CALAMA HOLDINGS PTY LTD <MAMBAT SUPER FUND A/C> | 53,328,827 | 5.88% |
| MR CRAIG PETER BALL + MRS SUZANNE KATHERINE BALL <CPB SUPER FUND A/C> | 31,303,626 | 3.45% |
| CPO SUPERANNUATION FUND PTY LTD <C & P O'CONNOR S/F A/C> | 30,000,000 | 3.31% |
| MR MICHAEL ANDREW WHITING + MRS TRACEY ANNE WHITING <WHITING FAMILY S/F A/C> | 28,377,888 | 3.13% |
| CORPORATE PROPERTY SERVICES PTY LTD <K W SHARE A/C> | 26,795,952 | 2.95% |
| MR MARC FERGUSON ROWE | 26,642,448 | 2.94% |
| MINOTAUR RESOURCES INVESTMENTS PTY LTD | 21,700,000 | 2.39% |
| ARREDO PTY LTD | 20,000,000 | 2.20% |
| LEDGER HOLDINGS PTY LTD <MOCHKIN FAMILY NO#2 A/C> | 20,000,000 | 2.20% |
| DEJUL TRADING PTY LTD <EDDINGTON TRADING A/C> | 19,632,492 | 2.16% |
| TAYCOL NOMINEES PTY LTD <211 A/C> | 18,161,621 | 2.00% |
| MR TERRY KALLIS + MRS ELENI KALLIS <THE KALLIS FAMILY A/C> | 14,498,860 | 1.60% |
| MRS WENDY WHITING | 11,230,847 | 1.24% |
| WOOTOONA INVESTMENTS PTY LIMITED | 11,219,265 | 1.24% |
| WOBBLY INVESTMENTS PTY LTD | 11,113,266 | 1.22% |
| MISS JORDAN HAMRA WHITING | 11,029,128 | 1.22% |
| DORICA NOMINEES PTY LTD | 10,000,000 | 1.10% |
| JIMBZAL PTY LTD <TAYLOR FAMILY A/C> | 10,000,000 | 1.10% |
| SAPPHIRE CHIP PTY LTD | 10,000,000 | 1.10% |
| | 439,826,971 | 48.47% |

ASX Additional Information

30 June 2016

List of geothermal tenements

AUSTRALIA

| Project | Tenement | Area (km ²) | Registered holder/ Applicant | Company interest |
|------------------------|----------|-------------------------|---------------------------------|------------------|
| South Australia | | | | |
| Paralana | GEL 156 | 998 | MNGI Pty Ltd | 79% |