hotrock annual report 2012

Hot Rock Limited's vision is to become a world leader in clean base-load energy through the exploration, development and operation of sustainable, profitable geothermal projects.

summary

- Australian Stock Exchange (ASX) listed geothermal development company with the ASX code HRL;
- Offers investors exposure to socially responsible and ethical investment choices through the development of sustainable, clean, base-load, emission-free, power generation;
- Focused on commercially proven Volcanic Geothermal and Hot Sedimentary Aquifer projects in attractive political and commercial regions;
- Experienced geothermal exploration and development management team;
- Hot Rock is the leading project holder in Chile and Peru, premier emerging geothermal user nations. Thirteen exploration tenements granted in Chile covering seven projects and four exploration tenements/projects granted in Peru;
- Vigorous community and landowner consultation programs building widespread support for geothermal projects in Chile and Peru;
- Significant geothermal resources announced at two projects in Chile;
- Holding an active Joint Venture with Energy Development Corporation at the Quellaapacheta project in Peru - a high quality, tier one prospect at which EDC has commenced detailed surface exploration.
- In discussion with potential additional partners to fund projects in Chile to fast track drilling and feasibility studies;
- Ongoing discussions with government and potential partners to fund drilling and testing the Koroit Geothermal Project in the Otway Basin, south-west Victoria;

contents

Chairman's Report

Mark Elliott

Hot Rock (HRL) has secured a significant portfolio of high quality conventional volcanic geothermal projects in the global exploration hotspots of Chile and Peru.

Previous governments in both countries had largely ignored the outstanding geothermal potential available for providing clean, base-load and renewable energy. This attitude has recently changed because of climate change and environmental conflicts associated with hydropower and fossil fuel projects, coupled with increased energy demand. These countries having recognised the importance of geothermal for their energy mix and energy security have now created a suitable government policy environment to encourage the development of their significant geothermal resources.

Chile and Peru are the first and second largest copper producing countries in the world and further developments will be essential in meeting projected increased copper demand. Meeting this demand will require substantial new power capacity, which geothermal energy is ideally suited.

Chile's Non-Renewable Energy Law 20.257 enforces all electrity utilities that withdraw electric energy from interconnected electrical systems with an installed capacity of over 200MW to guarantee a pre-set percentage of energy coming from non-conventional renewable energy sources, currently set at 5%. After 2014, the 5% target will increase by 0.5% annually to 10% by 2024. In 2011, Chile had the highest power costs in South America, averaging US$185MWh over the past 6 months. This provides an exceptional commercial setting for Hot Rock's geothermal projects and we have already been approached by large generators to discuss opportunities for geothermal developments that will meet the requirements of the renewable energy legislation.

The geothermal potential in South America is now gaining international recognition and this vindicates Hot Rocks "early mover" foray in securing large land positions with exceptional geothermal features. ENEL Green Power (Italy), Ormat Technologies (USA), Alterra Power Corp (Canada), Origin Energy (Australia), GeoGlobal Energy (USA) and Energy Development Corporation (Philippines) are all looking to develop geothermal projects in Chile and Peru, HRL is well placed to attract partners on our major projects.

Geothermal drilling programs by large operators in Chile have led to six resource discoveries from which the two most advanced projects are expected to provide South America's first geothermal power production as early as 2014. This will further validate the sector's potential and viability and continue to generate strong interest in HRL's projects.

As with Chile the Peruvian government also now recognises the value of renewable energy and has enacted the Renewable Energy Law 1002. This includes a reverse auction procedure which effectively provides for a 20 year, inflation indexed, government guaranteed feed-in tariff, together with a Renewable Portfolio Standard which is currently set at 5% of total electricity consumption, tax incentives and priority connection to transmission lines.

At HRL our high quality portfolio puts us in a strong position to take advantage of the increasing interest in the geothermal sector in South America and to attract joint venture partners to help explore and develop our assets. HRL entered Chile and Peru when the sector was in its infancy and now with development projects in the pipeline and energy majors looking for a foothold we see our projects becoming more and more valuable as time goes on. Our technical team has classified six Tier 1 projects in our portfolio based on stringent technical criteria which have identified the presence of volcanic heat sources associated with fumaroles, mud pools, steam vents and hot springs. The right combinations of these geothermal features are rare and often only present in top tier geothermal developments and yet HRL has six such projects in the portfolio. It is very unusual for a junior company of our size to have such a large number of high quality projects and we hope to drive significant value from these quality projects through joint venture arrangements with major companies.

We are moving ahead with a joint venture agreement over one of these Tier 1 projects, which is at Quellaapacheta in Peru, where our partner Energy Development Corporation (EDC) commenced field work, including a magneto-telluric (MT) geophysical survey, in late September. We expect in the coming year to be able to partner with a number of larger companies to help develop our projects.

We also retain our Hot Sedimentary Aquifer (HSA) projects in the Otway Basin in Australia which we believe have significant potential. These have naturally fractured sedimentary reservoirs full of hot water that are located near transmission lines and large power markets in Victoria. Interpretation of existing petroleum wells and seismic data has enabled HRL to estimate resources suitable for drilling. We are working towards attracting government and private sector funding to be able to drill and test these projects which have the hallmarks of similar projects worldwide that have been producing power over the past 25 years.

In closing, I wish to thank our directors, managers and staff for their dedicated work during the year and to our shareholders who, without their support, we would not be able to continue to build our Company.

M Elliott

Mark Elliott
Executive Chairman

Review of Activities - Chile

Highlights

Regulatory

A long term National Energy Strategy for Chile was released by the Ministry of Energy in February 2012 for the period 2012 to 2030. This contained three key points:

- A clear statement by the government on the need to install at least 8,000MW of new generation capacity by 2020.
- Recognition of the considerable potential for NCRE (Non-Conventional Renewable Energy Resources) in Chile (comprised of geothermal, solar and wind) and that only 3% of the current energy mix comes from these sources, with the balance of 34% coming from hydropower and 63% from thermal generation fuelled almost entirely by imported fossil fuels.
- Recognition by government that it needs to provide further support to the renewable energy sector in order to reduce the countries high level of dependency and reliance on imported fossil fuels.

The new strategy aims to accelerate the incorporation of NCRE, promote geothermal development and reduce the reliance of thermal generation in the energy mix. Overall, the strategy provides strong impetus and support for the development of geothermal power in Chile and provides HRL with considerable confidence for its future activities in Chile.

The locations of HRL's tenements in South America (both granted and in application) are shown in Figure 1.

Figure 1: Summary map of HRL tenements in South America.

Calerias Project

Calerias is located 100km south-east of Santiago and covers three tenements (Galo, San Carlos and Calerias). The project lies immediately to the east of the El Teniente copper mine owned by CODELCO which is the largest underground copper mine in the world. El Teniente uses approximately 230MWe (megaWatts electrical) of continuous power per hour. In a similar manner, Escondida in northern Chile, one of the largest open pit copper mines in Chile, uses approximately 700MWe of power per hour, showing that the mining industry is a huge private user of continuous power. These large industrial users all fall under the government's requirement to source 5% of their electricity needs from renewable energy sources.

Calerias has six groups of thermal springs with discharge temperatures averaging 50°C to 60°C and ranging up to 75°C. The temperature of the deep geothermal reservoir at Calerias is assessed on present geochemical data to range between 180°C and 220°C.

A magneto-telluric (MT) geophysical survey, carried out by HRL in early 2011, defined part of a large geothermal system and provides the basis for a geothermal resource estimate published in mid 2011. The Calerias resource is currently estimated to be sufficient to allow for at least 185MWe of electrical power generation for 30 years.*

A potential joint venture partner, EDC undertook a geoscientific field survey at Calerias in February and March 2012 to enable the Calerias concession to qualify for renewal and formalise a joint venture project company with HRL. However, EDC notified HRL in late April that it was not proceeding with the Calerias joint venture.

Rather than being a classic high temperature volcanic geothermal system, Calerias appears to be an active fracture controlled medium-temperature geothermal system of the type that has been extensively developed over the past 25 years in areas such as the "Basin and Range" geologic province in the western USA. These developments represent a modern approach to commercial exploitation of geothermal heat based on the use of medium temperature geothermal fluids coupled to binary cycle power plants, rather than to steam cycle power plants which necessarily require the high temperatures usually found in young volcanic systems. We believe Calerias still has the potential for a medium temperature project and with close proximity to the major copper mine at El Teniente, and the current regulatory environment favouring renewable, there is still potentially significant development potential at Calerias.

**Key assumptions underpinning the current resource estimate for Calerias, including reservoir recovery factor, power plant thermal to electrical conversion efficiency and power plant operating capacity factor, are detailed in the section below titled "Reporting of Geothermal Resources and Reserves".*

Longavi Project

The Longavi project consists of four contiguous tenements, located 300km south of Santiago, on the southern and south-eastern slopes of a large volcano named Nevado de Longavi. During the year the exploration concession for Sta Sonia was renewed for a further two years. Renewal applications for exploration concessions at Sta Alejandra and Sta Edita have been submitted to also extend these permits for a further two years.

A number of large flows of near boiling springs in the Banos Longavi area occur in the centre of the project with temperatures ranging from 70°C to 81°C. The springs have deposited silica sinter, an excellent indication of high subsurface geothermal temperatures. Based on present geochemical data, the "most likely" estimate of deep reservoir temperature is 180°C, with a "possible maximum" of 220°C. The presence of these impressive thermal features over a large surface area and their close alignment with surface faults, indicate that the geothermal system at Longavi may be substantial in size.

An MT geophysical survey was completed over the project in early 2011 and identified a geothermal resource "upstream" from the Banos Longavi springs. A detailed resource assessment study indicates the Longavi resource is sufficiently large to allow for about 135MWe of electrical power generation over a period of 30 year*.

EDC undertook a reconnaissance scale field survey at Longavi in March and April 2012, but did not conduct an MT survey and notified HRL in late June that it was not proceeding with the project.

**Key assumptions underpinning the current resource estimate for Longavi, including reservoir recovery factor, power plant thermal to electrical conversion efficiency and power plant operating capacity factor, are detailed in the section below titled "Reporting of Geothermal Resources and Reserves".*

Copahue Project

This project is 500km south of Santiago, associated with the Copahue-Callaqui volcanic complex, located on the Chile - Argentina border. It represents a classic high temperature volcanic geothermal system which is partly covered by the Company's San Guillermo and Sta Antonia tenements. The project area contains a wide caldera and a long line of nine craters, a number of which have lakes formed from condensed geothermal steam. The company's tenements in the Copahue projects are considered to be highly prospective for future geothermal development.

The Cophaue volcanic complex also occurs on the Argentina side of the border where geothermal exploration and evaluation work has been ongoing for the past 20 years, a commercial geothermal resource has been identified and drilled and a small 0.5MWe pilot scale geothermal power plant commissioned. Development plans are being prepared for a future 30MWe commercial scale geothermal plant in this area.

In spite of the high geothermal development potential on the Chile side of the Copahue volcano, HRL has not been unable to obtain agreement from the local indigenous communities to access the area to allow geoscientific exploration surveys to be undertaken. HRL's work program at the Copahue project over the past year has therefore been focused on substantial interaction and dialogue with the indigenous groups in association with a Chilean environmental management consulting company with considerable experience in engaging with indigenous communities in Chile. This process is still ongoing and HRL is hopeful that through a process of open, honest and transparent community engagement, which underpins all of HRL's activities in South America, access to the Copahue Project will eventually be obtained, allowing for detailed geoscientific surveys to be commenced at this high quality geothermal prospect.

San Cristobal Project

The San Cristobal tenement is located in the Lakes District of southern Chile on the lower southern flank of the Villarica volcano. This is a large mid-Pleistocene to Holocene aged composite volcano, which has been active in recent times.

The San Cristobal project has a range of surface thermal springs with temperatures up to 60°C. HRL considers it to have excellent prospects for geothermal development. Currently, detailed consultation and information programs with local indigenous communities and landowners are underway in seeking to obtain land access agreement for surface exploration studies including MT resistivity surveys in a similar manner to the work ongoing at Copahue.

Review of Activities - Peru

Highlights

- EDC is proceeding with HRL in a Joint Venture at the Quellaapacheta project and commenced detailed surface exploration surveys in late September. We believe Quellaapacheta to be a tier one prospect with all the hallmarks of a high temperature, exploitable, volcanic geothermal system.
- HRL holds four granted exploration authorisations in Peru with a further six applications being processed by government authorities. Four of these are Tier 1 prospects.
- The company's work over the past 12 months has been focused on securing community and landowner agreements to gain access to the four granted concession areas. Community agreements have been obtained to commence surface exploration surveys at the Quellaapacheta and Chocopata Projects and dialogue is continuing with communities resident in the Turu project area.

Granted Projects

HRL holds four granted exploration authorizations in Peru at Quellaapacheta, Chocopata, Turu and Rupha. Each authorization is valid for three years and can be extended for a further two years, if required.

Over the past year, work activities have been focused on detailed community information programs and land access negotiations (Figure 2). These programs have been successfully completed at both the Quellaapacheta and Chocopata Projects and are ongoing at the Turu Project.

The Peru General Directorate of Environmental Affairs (DGAAE) issued a ruling in March 2012 confirming that environmental permits and/or approvals are not required for undertaking surface exploration at geothermal exploration authorizations. This ruling is significant in that it allows for the geothermal industry in Peru to now commence surface exploration studies after waiting on this ruling since the first quarter of 2011 when the first geothermal exploration concessions were awarded in Peru. Since this ruling, HRL has received specific environmental clearance from the DGAAE to proceed with field exploration studies at each of the Quellaapacheta, Chocopata and Turu projects.

Quellaapacheta Project

The Quellaapacheta tenement covers 125km^2 and is located 100km south-east of Arequipa and 60km north-east of the city of Moquegua. Geologically, this prospect is in the Andean volcanic belt on the northwest flank of the Ticsani volcano.

The southeast boundary of the tenement is adjacent to a 220kV transmission line while a separate 138kV transmission line passes through the tenement. Additionally, the tenement is located close to three major copper mines: Cuajones (30km distance), Quellaveco (40km) and Toquepala (50km), providing the opportunity for future direct sales of electricity to these large mining companies.

At least four fumaroles are located close to the top of the Ticsani volcano. The cover photo on this report shows one of the solfataras (an active surface steam vent) near the summit of the Ticsani volcano, in the centre of the Quellaapacheta area. These features confirm the presence of an active geothermal system associated with the volcano.

Thermal features around the basal periphery of the Ticsani volcano up to 10-15 km from the summit consist of at least 12 chloride bicarbonate springs with discharge temperatures between 54°C to 89°C and with some of them actively depositing silica sinter. The mixing of shallow and deep chloride waters makes the estimation of reservoir fluid temperatures difficult but nominal estimates of 240°C are reasonable based on current data.

Figure 2: HRL leading in a community consultation meeting in Southern Peru.

Chocopata Project

The Chocopata tenement is in Lampa Province in Southern Peru, some 120km north-east of the city of Arequipa and 90km north-west of Puno, with a land area of 170km^2.

Geologically the area lies between the Andean Volcanic Belt and the Altiplano plateau. The volcanic complexes of Sollipaca and Turputa are located inside the tenement area. The main thermal area at Pinaya is located close to the southern edge of the Chocopata tenement and is characterized by numerous surface hot springs with temperatures ranging between 40°C and 90°C.

Two further thermal areas have so far been identified within the tenement area, at Quebrada Jarpana and Chupahuito further to the north. The Quebrada Jarpana springs have measured temperatures above 50°C with active deposition of silica which indicates high fluid temperatures in a liquid dominated geothermal reservoir at depth. Chupahuito has hot springs with measured temperatures exceeding 60°C.

The tenement is flanked to the north, east and west by three 138kV electricity transmission lines. The geological setting, the quality of the surface thermal activity and the proximity to the national electricity grid, all highlight the excellent potential of this tenement both from a technical and commercial perspective.

Figure 3: HRL team sampling a boiling spring at the Chocopata project in Peru.

Turu Project

The Turu geothermal tenement is located in Southern Peru, 130km north of Arequipa, covering a land area of 170km^2. Geologically, the tenement is located in the Andean volcanic belt, within the Caylloma Caldera on the northern flank of the Cosana volcanic center. Within the tenement there are a number of thermal springs with temperatures ranging from 36°C to 56°C, with mature chloride chemistry. These include hot springs located around the margins of the Caylloma Caldera and several areas further to the northwest showing sulphate-rich precipitates and clay alteration products at surface.

The geological setting, impressive surface thermal activity and spring chemistries indicative of a high temperature geothermal resource at depth highlight the prospectivity of the Turu Project.

The project has good access to power markets for the sale of future geothermal electricity via:

- an existing 138kV electrical transmission line within 30km of the project and a planned future 220kV transmission line that will run within 20km of the tenement boundary
- close proximity (within 40km) of a substantial local mining industry comprised of at least 5 mine sites, either in production or under development, with estimated copper metal reserves in excess of 10 million tonnes.

Rupha Project

The Rupha geothermal prospect is located 350km north of Lima in the Ancash region. All of HRL's other projects are located in Southern Peru. Rupha is contained within the Coastal Batholith (CB), a regionally extensive, massive rock body that has been intruded into the rifted western continental margin of Peru. The last intrusive phase of the CB formed the Cordillera Blanca around 3 million years ago. The active geothermal system at Rupha appears to be associated with relatively young intrusive rocks in area of Nevados Champiro mountain and probably underlying deeper magmatism.

Rupha is a well-known thermal area in Peru and considerable use is made of the hot geothermal waters discharging at surface for bathing purposes. There are four major groups of geothermal spring discharging over the greater prospect area, with the most impressive being mixed chloride-sulphate-bicarbonate springs in the Pacatqui and Aquilina areas issuing at 89°C and 66°C respectively.

The geological setting of the Rupha project and the impressive surface thermal activity are excellent indicators for this prospect to have good potential for a medium temperature geothermal system that may prove suitable for electricity generation with binary cycle power plant.

Review of Activities - Australia

Highlights

- A proof of concept program for the Koroit Project is ready for well drilling and testing to commence with casings and wellheads on site, pending availability of funding from partners and/or government sources.
- The Commonwealth government's "Clean Energy" legislation passed 1 July looks likely to assist the development of the geothermal industry in Australia.
- HRL is optimistic that opportunities for new funding may enable the company to resume its planned Stage 1 drilling and testing program at the Koroit Project.

Recent Commonwealth Government initiatives supporting geothermal

On the 1st July the government passed through parliament its "Clean Energy" legislation and established two key initiatives. These are expected to impact positively on the ongoing development of the fledgling geothermal industry in Australia, through:

- A carbon tax of $23 per tonne of CO_2 emissions from industrial plant, including that used for electrical generation, which will be incorporated into a market based Emission Trading Scheme by July 2015.
- The establishment of two independent bodies to assist in the development of emerging renewable energy projects in Australia – Australian Renewable Energy Agency (ARENA) and Clean Energy Finance Corporation (CEFC).

This latter initiative gives HRL's geothermal project at Koroit potential for near term development if it can attract government funding. ARENA will manage the disbursement of $3.2 billion that has been made available by the government to be spent over the next 9 years. The CEFC has been allocated $10 billion to spend over 5 years from 2013/14 on loans, loan guarantees and equity in emerging technologies including geothermal.

Otway Basin

HRL holds five geothermal exploration permits in Victoria (GEP-6, 7, 8, 9, 23) which cover a large area of some 27,500km^2. This includes around 16,500km^2 of the prospective onshore portion of the Otway Basin comprised of naturally fractured sediments containing hot water at temperatures of 120°C to 200°C at depths of 2,500m to 4,000m. These permits are highly prospective for the development of hot sedimentary aquifer (HSA) geothermal resources of a similar style and type that have been developed elsewhere in the world, particularly in Southern California, Germany and Turkey.

HRL's HSA projects relative to other types of geothermal project being explored in Australia are shallower to drill and are located close to transmission lines and the electricity market thus making them potentially some of the cheapest projects to explore and develop in Australia for geothermal energy.

HRL tenements GEP 6, 7, 8 and 9 reached the end of the 5 year exploration terms on 13 May 2012. In order to further advance the geothermal industry in Victoria, the Department of Primary Industries in Victoria extended these 4 tenements for a further 12 months and is currently discussing a new policy to extend the term of these beyond the current grant dates.

HRL has identified geothermal resources in the Koroit (GEP-8), Penola (GEP23 and 6) and Tantanoola (GEP-6) tenements. The most promising of these is located near the town of Koroit within GEP-8 (Geothermal Exploration Permit). The results of geothermal resource estimates and that have been made and published by HRL for resources that it has delineated in the Koroit, Penola and Tantanoola basins are detailed in Table 1. These estimates are for more than 2000MWe of power generation being continuously available for 30 years, equivalent to some 7% of Australia current electricity consumption. These HSA geothermal resources therefore represent very large stores of shallow geothermal heat, simply waiting to be recovered and utilised once proof of concept drilling and resource confirmation has be completed.

The Koroit Geothermal Project, GEP-8

The Koroit Project is a conventional HSA geothermal project located near Warrnambool in SW Victoria, with the potential to become one of the first commercial geothermal electricity generation projects in Australia. It is ideally situated, being near to existing power lines and within a regional population base of 5 million. An indicated and inferred geothermal resource has been identified by HRL at Koroit with sufficient capacity to power 100,000 homes, with scope to increase this to 1 million (Figure 4 and Table 1).

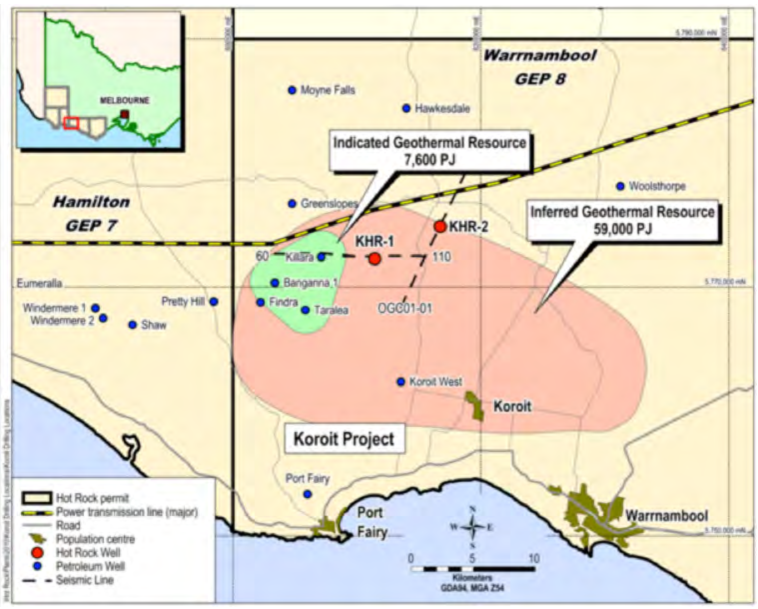


Figure 4: The Koroit HSA Geothermal Project.

As a first step in unlocking the very large energy potential in its HSA geothermal resources in the Otway Basin, the Company is ready to drill and test two deep exploration wells at Koroit to prove the generation potential, provided funding can be secured. These two wells have been designed to intersect an optimum combination of primary and secondary permeability in the geothermal resource. It is anticipated that the results of geological evaluation and flow testing of these wells will confirm the characteristics of the Koroit geothermal resource with sufficient certainty to allow for the procurement and installation of a small pilot power plant (of about 1-5MWe capacity) at Koroit.

HRL continues to maintain the Koroit project in a state of readiness for drilling. Well head valves and well head assemblies for the two proof of concept wells, and steel casings for the first of these, have been procured, delivered and are in storage at Koroit (Figure 5). This means the project is ready for well drilling and testing operations to commence immediately as and when funding allows. Additionally, HRL is maintaining a program of continuing dialogue with key stake holders in the greater Koroit area on project activities so that the project can be recommenced at short notice.

Figure 5: Well casings and wellhead valves at Koroit ready for Proof of Concept drilling and testing program.

Reporting of Geothermal Resources and Reserves

Since late 2009, HRL has assessed, declared and reported five geothermal resources – three of these are in the Otway Basin in Australia and two are in Chile. These assessments all followed the First Edition (2008) of the Australian Code for Reporting of Exploration Results, Geothermal Resource and Geothermal Reserves (the "Code").

The Code was subsequently modified and a second edition released in 2010, for implementation in 2011, in which reporting requirements were changed from reporting "in-place stored heat" to instead reporting "recoverable heat" energy. This revision means that geothermal resource estimates can now include only heat for which there is a "reasonable prospect" for eventual economic extraction.

These changes were implemented because the first edition of the code allowed for very large estimates of in-place stored heat to be reported. Only a small fraction of in-place stored heat can actually be recovered for power generation through the action of water passing through fractures and pores in hot rock and transporting ("sweeping") heat to surface (typically only 5% to 20% of the heat in the rock can be recovered). Additionally, resource estimates made under the First Edition of the Code tended to include large blocks of hot resource at depths well beyond practical drilling reach.

The large resource estimates produced under the First Edition of the reporting code by most of the Australian geothermal industry were generally not understood by non-technical people and it was perceived that they diminished the credibility of the geothermal industry in Australia. The Second Edition of the geothermal resource code is a more robust means for providing investors with a sense of geothermal resource potential, based on:

- the delineation of a "reasonably" accessible resource volume
- consideration of the fraction of stored heat contained in the accessible geothermal resecure volume that can be "reasonably" recovered via:
  - naturally occurring fractures and porosity (as in HRL's HSA geothermal projects in the Otway Basin and its high temperature, naturally permeable volcanic systems in Chile and Peru), or
  - "engineered" fracture systems, created by pumping water from surface at high pressure to hydraulically fracture hot rock at depth – "EGS" systems)

The geothermal resource code now requires members of the Australian Geothermal Energy Association (AGEA) to report geothermal resources in accordance with the Second Edition of the Code. This has invariably resulted in a substantial reduction in the size of resource assessments now being reported by geothermal companies in Australia.

In HRL's case, all of its resource assessments have been undertaken internally and with a detailed understanding of the need for reporting only recoverable heat from accessible resource volumes. HRL's resource assessments have therefore been fully consistent with the objectives of the Second Edition of the code well in advance of its publication. In particular, the resource volumes previously published by HRL stand as reported as they are in each case limited to geothermal resource contained between an upper surface defined by a minimum production temperature (resource "cut off “temperature) and a lower surface limited by drilling reach. In the HSA environment in the Otway Basin Australia, the geothermal resource volume is also limited to only the Pretty Hill Formation – the known geothermal reservoir rock unit in the Otway Basin.

The requirement for updating HRL resource assessments to conform to the Second Edition of the geothermal resource reporting code is then to simply re-present existing resource assessment data in terms of recoverable heat, as opposed to in-place heat. This is readily achieved by using the resource recovery factors that HRL had already established at the time of its original resource reports in converting in-place heat estimates to potential power generation capacity. The revised calculations are shown in Table 1 below with further supporting data on “Modifying Factors” given in Table 2.

The resource recovery factors applied by HRL have been consistently conservative, particularly for the case of assessing HSA geothermal resources where HRL has used values of 5% and 10%. For comparison, the Geothermal Lexicon which accompanies the Second Edition of the Code recommends default values of Recovery Factors as follows:

“In HSA reservoirs or porous volcanic-hosted reservoirs, of ‘moderate’ porosity, adopt a Recovery Factor of 17.5%, or a range of from 10 to 25% when used in probabilistic estimates”

Country	State / Region	Resource	Tenements	Resource Area	Resource Volume	Estimated Resource Recovery Factor	P50 estimates of Recoverable Heat from			Estimated rate of electrical generation over 30 years
							Indicated Resource	Inferred Resource	Total Resource	
				km^2	km^3		PJ	PJ	PJ	MWe
Australia	Victoria	Koroit	GEP-8	50	47	10%	760			140
Australia	Victoria	Koroit	GEP-8	400	340	10%		5,900		1,100
Australia	Victoria	Koroit	GEP-8	450	390		760	5,900	6,700	1,240
Australia	Victoria	Penola	GEP-23	20	24	10%	500			40
Australia	Victoria	Penola	GEP-23	120	150	10%		2,900		230
Australia	Victoria	Penola	GEP-6	8	9	10%	170			10
Australia	Victoria	Penola	GEP-6	290	306	10%		5,500		470
Australia	Victoria	Penola	GEP-6 & 23	440	489		670	8,400	9,100	750
Australia	Victoria	Tantanoola	GEP-6	180	130	5%		1,100	1,100	180
Chile	Region VI	Calerias	Calerias	15	44	15%		1,110	1,100	185
Chile	Region VIII	Longavi	Sta Alejandra & Sta Edita	33	25	15%		810	800	135
		TOTALS		1,120	1,080		1,430	18,000	19,000	2,490

Notes

[1] AGEA and AGEG, (2010). The Geothermal Reporting Code – Australian Code for Reporting of Exploration Results, Geothermal Resource and Geothermal Reserves. Second Edition 2010. Prepared by the Australian Geothermal Code Committee, AGEA and AGEG.

[2] PJ = peta Joules of heat energy = 10^{15} Joules

Table 1: Summary of HRL geothermal resource assessments to September 2012 (revised in accordance with the Second Edition of the Australian Geothermal Resource Reporting Code, 2010).

Tenements	Resource volume defined by	Resource top defined by	Resource Base defined by	Reservoir lithology	Porosity	Assessed resource recovery factor	Resource Cut off Temp	Base Temp	Conversion efficiency (assuming use of ORC power plant)	Plant load factor	Estimated rate of electrical generation over 30 years at P50
		(°C)	m		%	%	(°C)	(°C)	%	%	MWe
GEP-8	Seismic and MT	140C in Laira or Pretty Hill Fmn	-3900m RL fixed	Limited to Laira and Pretty Hill Fmns only with min thickness of 500m	Variable with depth, 17% declining to 9%	10	140	80	12	90	1100 – inferred resource 140 – indicated resource
GEP-6 & 23	Seismic and MT	130C in Laira or Pretty Hill Fmn	-4500m RL fixed	Limited to Pretty Hill Formation only, with min thickness of 500m	10	10	130	70	12	90	700 – inferred resource 50 – indicated resource
GEP-6	Seismic and MT	130C in Laira or Pretty Hill Fmn	-4500m RL fixed	Limited to Laira and Pretty Hill Fmns only with min thickness of 500m	10	5	130	70	12	90	180
Calerias	MT	Base of clay cap in MT model	Variable, -600 to +600m RL	Quaternary & Tertiary vol and sed basement rocks	15	15	120	70	14	90	185
Sta Alejandra & Sta Edita	MT	Base of clay cap in MT model	Variable, +400 to +1500m	Quaternary & Tertiary vol and sed basement rocks	15	15	120	70	14	90	135
											2490

Table 2: Modifying Factors to Accompany Table 1.

A Review of Activities – Corporate

Joint Venture

On the 29 November 2011, HRL announced that it had entered into a Heads of Terms with EDC on four of its projects in Chile and Peru, subject to finalisation of farm-in/joint venture documentation and confirmatory due diligence. Subsequent announcements were made by HRL as follows;

- 3 February 2012, HRL announced the signing of joint venture agreements with EDC on four projects, two in Chile and two in Peru (Figure 6).
- 30 April 2012, HRL announced that EDC was not proceeding with the Calerias Project.
- 3 May 2012, EDC and HRL signed detailed individual project agreements for the incorporation of joint venture companies for the Longavi, Quellaapacheta and Chocopata Projects.
- 5 July 2012, HRL announced that EDC was not proceeding with the Longavi Project.
- 6 September 2012, HRL announced that EDC was not proceeding with the Chocopata Project but was in fact proceeding with the joint venture agreement for the Quellaapacheta geothermal project in Peru.

EDC is the world's largest geothermal company with over 35 years' experience in geothermal exploration, development and power generation, and currently supplies the Philippines with 1,130MWe of geothermal power from integrated steam field and power plants at five project locations. EDC is listed on the Philippines Stock Exchange (PH:EDC) and has a market capitalisation of US$2.4 billion.

Figure 6: Richard Tantoco, President and COO of EDC and Mark Elliott, Executive Chairman of HRL at a signing ceremony for Joint Venture Agreements

The joint venture program at Quellaapacheta is divided into an exploration stage and a resource development stage. The exploration stage of the joint venture program requires EDC to fund 100% of the first US$12 million expenditure, which includes geological, geochemical, geophysical surveys and at least one production appraisal well. Following the successful completion of the exploration stage, the resource development stage will commence, which involves completing five further production wells and all studies necessary to bring the project to financial close, where project finance documents for a first stage 50MW plant are ready to execute. This program would normally cover definitive feasibility study, environmental impact study, permitting, power contract(s) and negotiating finance. This stage is estimated to cost US$38 million and take up to a further 2 years to complete.

Under the agreements HRL will receive from EDC an initial payment of US$0.4 million once the exploration tenement has been transferred into the newly incorporated JV company. If EDC withdraws from the project within 6 months of the tenement being transferred into the JV company, the $0.4m is refundable. A further payment of US$0.6 million will be made to HRL providing EDC continues to be involved in the project beyond 15 months from the date of the tenement transfer.

Capital raising

HRL announced a Share Purchase Plan on the 31 October 2011 and raised $1.9 million through the issue of 77.8 million shares at a price of 2.5 cents per share.

Due to the lack of cash inflows that had been anticipated from EDC because of their withdrawal from two joint venture projects in Chile and one in Peru, HRL announced on 10 August 2012 a non-renounceable Rights Offer on the basis of 1 new share at 1.5 cents per share for every 2 shares held. This raised $1.46 million through the issue of 97.6 million shares.

Compliance Statement

The information in this Statement that relates to Geothermal Resources has been compiled by Peter Barnett, an employee of Hot Rock Limited. He qualifies as a Competent Person as defined by the Australian Code of Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2nd Edition, 2010).

He has over 30 years' experience in the determination of crustal temperatures and stored heat for the style relevant to the style of geothermal play outlined in this release. He is a member of the Geothermal Resources Council and the International Geothermal Association, a current board member of the New Zealand Geothermal Association, a past board member of the Auckland University Geothermal Institute Board of Studies and a current member of both the Geothermal Resource Code and Geothermal Economics sub committees of the Australian Geothermal Association.

Mr Barnett consents to the public release of this report in the form and context in which it appears. Neither Mr Barnett nor Hot Rock Limited takes any responsibility for selective quotation of this Statement or if quotations are made out of context.

Directors and Management

Dr Mark Elliott
Executive Chairman
Hot Rock Limited

Dip App Geol, PhD,
FAICD, FAusIMM(CP), FSEG, FAIG

Mark has Chartered Professional (CP) accreditation in Geology with over 35 years' experience in economic geology, exploration, mining, project development and corporate management. He has extensive experience in managing companies and in exploration/mining operations in a wide range of commodities including energy.

He has a diploma in Applied Geology from the Ballarat School of Mines and a Doctor of Philosophy degree from the University of New South Wales. He is a Fellow of the Australian Institute of Company Directors, Australasian Institute of Mining and Metallurgy, Society of Economic Geologists and Australian Institute of Geoscientists. He is a Non-executive director of Hemisphere Resources Ltd.

Mr Peter Barnett
Managing Director
Hot Rock Limited

BSc, MSc, MAICD

Peter is a career geothermalist with 35 years experience in the geothermal industry, involved in 40 geothermal projects in 24 countries which aggregate today to some 40% of the world's installed geothermal power capacity.

He is a current board member of the New Zealand Geothermal Association, a member of the Geothermal Resource Reporting Code and Geothermal Economics committees within the Australian Geothermal Energy Association and a member of the International Geothermal Association.

Mr Michael Sandy
Non-Executive Director
Hot Rock Limited

BSc (Hons), MPESA, MAICD

Mike has worked for 35 years in Australia and internationally in the resources industry with companies such as Oil Search, Novus Petroleum and as a consultant, as well as a brief stint as an energy analyst (for BZW). He worked initially in minerals exploration and as a research scientist with CSIRO before moving into petroleum exploration in 1983.

He helped establish Novus Petroleum in 1994 and remained with this company until it was taken over in 2004, holding various senior executive roles including asset management (Australia, SE Asia, Middle East, USA) and business development. He is the Managing Director of Burleson Energy Ltd and a Non-Executive director of Tap Oil Ltd and Caspian Oil and Gas Ltd.

Mr Stephen Bizzell
Non-Executive Director
Hot Rock Limited

BCom, ACA, MAICD.

Stephen is Chairman of boutique corporate advisory and funds management group, Bizzell Capital Partners Pty Ltd. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its takeover for $3.5 billion by Royal Dutch Shell and PetroChina in August 2010. Early in his career Stephen Bizzell was employed in the corporate finance division of Ernst & Young and the tax division of Coopers & Lybrand and qualified as a Chartered Accountant.

Stephen is currently the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd, Renaissance Uranium Ltd and Renison Consolidated Mines NL. He is an Executive Director of Dart Energy Ltd and a Non-Executive Director of Stanmore Coal Ltd, Diversa Ltd and Titan Energy Services Ltd.

Directors and Management

Paul Marshall
Company Secretary and
Chief Financial Officer
Hot Rock Limited

LLB, ACA

Paul Marshall holds a Bachelor of Law degree, a post Graduate Diploma in Accounting and is a Chartered Accountant.

He has more than 25 years experience initially with Ernst & Young and subsequently fifteen years in commercial roles as Company Secretary and CFO for a number of listed and unlisted companies, mainly in the resources sector.

He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

Corporate Information

DIRECTORS

Mark Elliott (Executive Chairman)
Peter Barnett (Managing Director)
Michael Sandy (Non-executive Director)
Stephen Bizzell (Non-executive Director)

COMPANY SECRETARY

Paul Marshall

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

Level 5
Santos House
60 Edward Street
Brisbane QLD 4000

Phone: +61 7 3303 0653

SOLICITORS

HopgoodGanim Lawyers
1 Eagle Street
Brisbane QLD 4000

Phone: +61 7 3024 0000

SHARE REGISTRY

Link Market Services Limited
Level 12
300 Queen Street
Brisbane QLD 4000

Phone: 1300 554 474

AUDITORS

WHK Horwath
Level 16
120 Edward Street
Brisbane QLD 4000

Phone: +617 3233 3555

COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Stock Exchange Limited

ASX Code: HRL

WEBSITE ADDRESS

www.hotrockltd.com

AUSTRALIAN BUSINESS NUMBER

ABN 99 120 896 371

DIRECTORS' REPORT INCLUDING REMUNERATION REPORT

Your Directors present their report on the Consolidated Entity consisting of Hot Rock Limited (the Company or HRL) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

DIRECTORS

The following persons were directors of Hot Rock Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Dr Mark Elliott – Executive Chairman

Dip App Geol., PhD, FAICD, (CP) FAusIMM, FSEG, FAIG

Dr Elliott is a Chartered Professional (CP) geologist with over 35 years experience in economic geology, exploration, mining, project development and corporate management. He has extensive experience in managing companies and exploration/mining operations in a wide range of commodities including energy.

He has a diploma in Applied Geology from the Ballarat School of Mines and a Doctor of Philosophy degree from the University of New South Wales. He is a Fellow of the Australian Institute of Company Directors, Australasian Institute of Mining and Metallurgy, Society of Economic Geologists and Australian Institute of Geoscientists.

Dr Elliott is currently a director of the following other ASX listed company:

- Hemisphere Resources Ltd (Oct 2006 – present)

In the past three years Dr Elliott has been a director of the following other ASX listed company:

- Chinalco Yunnan Copper Resources Limited (May 2006 – Nov 2009)

Mr Peter Barnett - Managing Director

BSc, MSc, MAICD

Peter was previously Geothermal Manager and Principal with global technology consulting company Sinclair Knight Merz (acknowledged as one of the world's leading geothermal consultants). Peter has more than 30 years experience in the geothermal industry gained in New Zealand, the Philippines, Indonesia, Japan, East Africa, Iran, El Salvador, New Guinea and Chile. He has been involved in a wide variety of geothermal projects which in aggregate amount to some 40% of the world's installed geothermal power capacity.

His skills areas include geothermal exploration and development, geothermal risk, geothermal reservoir monitoring and management, power plant process issues, project costing and financial analysis, project valuations and assessment, geothermal business and market development, institutional strengthening of geothermal capability and geothermal regulatory issues. Over the past five years Peter has had a significant involvement in Australia's emerging geothermal industry. He has worked on a variety of Australian geothermal projects ranging from a feasibility study on the expansion of the Birdsville geothermal power plant, the only geothermal power plant yet operating in Australia, to studies for large scale geothermal developments of up to 500 MWe in the Cooper Basin and for the development of large Hot Sedimentary Aquifer (HSA) geothermal systems in the Otway Basin of Victoria.

Peter holds a Bachelor of Science degree and a Master of Science degree from the University of Auckland. He is currently a board member of the New Zealand Geothermal Association and a member of the International Geothermal Association.

Mr Michael Sandy - Non-Executive Director

BSc (Hons), MPESA, AICD

For over 35 years Mike Sandy has worked in Australia and internationally in the resources industry with companies such as Oil Search, Novus Petroleum and as a consultant, as well as a brief stint as an energy analyst (for BZW). He worked initially in minerals exploration and as a research scientist with CSIRO before moving into petroleum exploration in 1983. Sandy helped establish Novus Petroleum in 1994 and remained until the company was taken over in 2004, along the way holding various senior executive roles including asset management (Australia, SE Asia, Middle East, USA) and business development.

Mike Sandy is currently a director of the following other ASX listed companies:

- Burleson Energy Ltd (May 2006 – present)
- Caspian Oil and Gas Ltd (Sept 2005 – present)
- Tap Oil Ltd (Jun 2006 – present)

Mr Stephen Bizzell - Non-Executive Director

BCom, MAICD.

Stephen is Chairman of boutique corporate advisory and funds management group, Bizzell Capital Partners Pty Ltd. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies. Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its takeover for $3.5 billion by Royal Dutch Shell and PetroChina in August 2010. Early in his career Stephen Bizzell was employed in the corporate finance division of Ernst & Young and the tax division of Coopers & Lybrand and qualified as a Chartered Accountant.

Stephen Bizzell is currently a director of the following other ASX listed companies:

- Dart Energy Ltd (Jul 2010 – present)
- Diversa Ltd (Aug 2010 – present)
- Renison Consolidated Mines NL (Jun 1996 – present)
- Stanmore Coal Ltd (Dec 2009 – present)
- Renaissance Uranium Ltd (Dec 2010 – present)
- Titan Energy Services Ltd (Dec 2011 – present)
- Armour Energy Ltd (Mar 2012- present)

In the past three years Stephen Bizzell has been a director of the following other ASX listed companies:

- Arrow Energy Ltd (Jun 1999 – Aug 2010)
- Liquefied Natural Gas Ltd (Dec 2007 – Mar 2010)
- Apollo Gas Ltd (Dec 2009 – January 2011)
- Bow Energy Ltd (Dec 2004 – Jan 2012)

COMPANY SECRETARY

Paul Marshall has been the Secretary of Hot Rock Ltd, and the entities it controlled, throughout the year and until the date of this report.

Paul Marshall - Company Secretary and Chief Financial Officer

LLB, ACA

Paul Marshall holds a Bachelor of Law degree, a post Graduate Diploma in Accounting and is a Chartered Accountant. He has more than 25 years experience initially with Ernst and Young and subsequently fifteen years spent in commercial roles as Company Secretary and CFO for a number of listed and unlisted companies mainly in the resources sector. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

Interests in the shares and options of the Consolidated Entity

As at the date of this report, the interests of the Directors in the shares and options of Hot Rock Limited are shown in the table below:

Director	Fully Paid Ordinary Shares	Unlisted Options
Mark Elliott	20,250,000	5,500,000
Peter Barnett	8,100,000	5,500,000
Michael Sandy	6,300,000	1,000,000
Stephen Bizzell	17,643,750	3,338,985

PRINCIPAL ACTIVITY

The principal activity of the Consolidated Entity during the financial year was the prospective exploration of geothermal energy prospects.

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

OPERATING RESULTS

For the year ended 30 June 2012, the loss for the Consolidated Entity after providing for income tax was $2,084,118 (2011: $1,546,402).

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended during the financial period (2011:$nil).

REVIEW OF OPERATIONS

During the 2012 financial year the Company continued with exploration work on the Company's Volcanic Geothermal projects in Chile and Peru as well as its Hot Sedimentary Aquifer (HSA) Victorian Geothermal projects.

Joint Ventures

Energy Development Corporation (EDC) has advised that it has completed the incorporation of the Quellaapacheta joint venture company in Peru and is proceeding with the next steps to transfer the exploration tenement from HRL into the joint venture company at which point HRL will receive an initial payment from EDC of US$0.4m.
EDC completed technical assessments of the Chocopata, Calerias and Longavi geothermal prospects before incorporation of the joint venture companies and subsequently advised that it would not be proceeding with further involvement in these projects.

HRL is in discussion with other potential joint venture partners on its projects in Chile, Peru and Australia.

Peru

Preliminary resource evaluation reports have been completed by HRL for the Quellapacheta, Chocopata, Turu and Rupha projects, indicating geothermal potential exists in all tenements.

HRL applications for a further five high quality geothermal tenements in Peru remain in process.

Chile

Applications to extend two exploration concessions for a further two years at the 100% held Calerias and Longavi projects have been approved by the Chile Ministry of Energy. A reconnaissance field investigation program has been completed at HRL's Tuyajto and Santa Macarena projects.

Australia

Four of HSA tenements (GEP6, 7, 8 & 9) in the Otway Basin, Victoria have been extended to May 2013 and tenement GEP 23 expires in November 2013. HRL will be applying for renewals for the tenements and is seeking funding from the newly established ARENA funding agency for proof of concept well drilling and testing at its flagship Koroit geothermal project.

REVIEW OF FINANCIAL CONDITION

Capital structure

During the 2012 financial year, a total of $1,894,140 was received and 75,765,600 ordinary shares issued in relation to a placement of shares and a share purchase plan.

At 30 June 2012 the Company had 232,035,215 ordinary shares and 23,788,985 unlisted options on issue.

Subsequent to year end the Company issued 97,578,418 ordinary shares through a rights issue and at the date of this report had 329,613,633 ordinary shares on issue.

Treasury policy

The Consolidated Entity does not have a formally established treasury function. The Board is responsible for managing the Consolidated Entity's currency risks and finance facilities. The Consolidated Entity does not currently undertake hedging of any kind.

Liquidity and funding

The Consolidated Entity had negative working capital of $(168,851) at 30 June 2012.

The Consolidated Entity has recently completed a rights issue which raised $1.46M.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs that occurred in the financial period.

AFTER BALANCE DATE EVENTS

On 10 August 2012, the Company announced a 1 for 2 non-renounceable rights issue at an issue price of 1.5 cents per share.

The rights issue and shortfall placement closed on 24 September 2012. The Company raised $1.46M through the issue of 97,578,418 new ordinary shares.

There have been no other events since 30 June 2012 that impact upon this financial report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Consolidated Entity intends to continue its geothermal exploration activities. There are no further developments of which the Directors are aware which could be expected to affect the results of the Consolidated Entity's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Consolidated Entity.

ENVIRONMENTAL ISSUES

The Consolidated Entity is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings	
	A	B
Mark Elliott	4	4
Peter Barnett	4	4
Michael Sandy	4	4
Stephen Bizzell	4	4

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

OPTIONS

As at 30 June 2012 there were 23,788,985 unissued ordinary shares under option. No options were issued during the period.

During the year ended 30 June 2012 no shares were issued following the exercise of options.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for Directors and Key Management Personnel of the Company.

Remuneration Policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

Remuneration Committee

The Board does not have a Remuneration and Nomination Committee. The full Board is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

Such officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the company.

Remuneration structure

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and other Key Management Personnel fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the Board considers the nature and amount of Executive Directors' and Officers' emoluments alongside the company's financial and operational performance. The expected outcomes of the remuneration structure are the retention and motivation of key Executives, the attraction of quality management to the Company and performance incentives which allow Executives to share the rewards of the success of the company.

In accordance with best practice corporate governance, the structure of Executive and Non-Executive Director remuneration is separate and distinct.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest caliber, whilst incurring a cost which is acceptable to shareholders.

The Constitution of Hot Rock Limited and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently approved by shareholders for Directors' fees is for a total of $250,000 per annum.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. Non-Executive Directors are entitled to be paid travel and other expenses properly incurred by them in attending Director's or General Meetings of the company or otherwise in connection with the business of the Company.

The remuneration of Non-Executive Directors for the year ending 30 June 2012 is detailed in this Remuneration Report.

Executive Directors and Senior Management Remuneration

The Company aims to reward Executive Directors and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Directors and Senior Management may from time to time be fixed by the Board. As noted above, the Board's policy is to align Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives. The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board, and the process consists of a review of company -wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the year.

The remuneration of the Executive Directors and Senior Management for the period ending 30 June 2012 is detailed in this Remuneration Report.

Employment contracts

It is the Board's policy that employment agreements are entered into with all Directors, Executives and employees. The current employment agreements with the Executive Chairman, the Managing Director and the CFO have a three month notice period. All other employment agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have contracts of employment.

The Company has entered into an employment contract with Dr Mark Elliott as Executive Chairman of the Company. The contract was renewed on 1 March 2012 and is for a 3 year term. The Company is entitled to terminate the Agreement upon giving 3 months written notice and Dr Elliott may do so upon not less than 3 months written notice. Further, the Company is entitled to terminate the Agreement immediately upon the happening of various events in respect of Dr Elliott's solvency or other conduct.

The current cost to the Company of the contract is a base fee of $325,000 per annum inclusive of 9% superannuation. The Company also provides a car park space. Bonus payments and option issues are at the discretion of the board.

The Company has entered into an Employment Agreement with Peter Barnett, a Director of the Company which was renewed on 1 March 2012 under which Peter Barnett is engaged as the Managing Director of the Company. The Company is entitled to terminate the Agreement upon giving 3 months written notice and Mr Barnett may do so upon not less than 3 months written notice. Further, the Company is entitled to terminate the Agreement immediately upon the happening of various events in respect of Mr Barnett's solvency or other conduct.

The current cost to the Company of the contract is a base fee of $285,000 per annum. Bonus payments and option issues are at the discretion of the board.

The Company Secretary and CFO Mr Paul Marshall is engaged on an on-going consultancy style agreement for the provision of services as company secretary and chief financial officer. Services are invoiced monthly based on services provided. The contract provides for a three month notice period.

(a) Details of Directors and other Key Management

Directors

- Mark Elliott Executive Chairman
- Peter Barnett Managing Director
- Michael Sandy Non-Executive Director
- Stephen Bizzell Non-Executive Director

Key Management Personnel

- Paul Marshall Company Secretary and CFO

(b) Remuneration of Directors and other Key Management Personnel

The Key Management Personnel are also the five most highly paid Executive Officers of the Consolidated Entity for the year ended 30 June 2012:

		Short-term		Post Employment		Equity			
2012	Salary & fees	Cash bonus	Non-cash benefits	Superan-nuation	Retirement benefits	Options	**Total**	Performance Related %	% consisting of options
Directors									
Mark Elliott	280,169	-	16,039	25,215	-	-	321,423	-	-
Peter Barnett	260,000	-	-	-	-	-	260,000	-	-
Michael Sandy	35,000	-	-	-	-	-	35,000	-	-
Stephen Bizzell	35,000	-	-	-	-	-	35,000	-	-
Key Management Personnel									
Paul Marshall	52,000	-	-	-	-	-	52,000	-	-
	662,169	**-**	**16,039**	**25,215**	**-**	**-**	**703,423**		

		Short-term		Post Employment		Equity			
2011	Salary & fees	Cash bonus	Non-cash benefits	Superan-nuation	Retirement benefits	Options	**Total**	Performance Related %	% consisting of options
Directors									
Mark Elliott	270,642	-	13,320	24,358	-	29,112	337,432	-	8.63%
Peter Barnett	250,000	-	-	-	-	40,270	290,270	-	13.87%
Michael Sandy	35,000	-	-	-	-	3,773	38,773	-	9.73%
Stephen Bizzell	35,000	-	-	-	-	3,773	38,773	-	9.73%
Key Management Personnel									
Paul Marshall	52,000	-	-	-	-	3,773	55,773	-	6.76%
	642,642	**-**	**13,320**	**24,358**	**-**	**80,701**	**761,021**		

(c) Options granted and vested during the year ended 30 June 2012

No options over ordinary shares in the Company were granted as compensation to directors and key management personnel during the reporting period. No options vested during the reporting period.

(d) Shares issued on exercise of remuneration options

There were no shares issued on the exercise of remuneration options during the 2012 or 2011 financial years.

(e) Relationship between remuneration and Company performance

The factors that are considered to affect shareholder return since the Consolidated Entity's listing on the ASX are summarised below:

Measures	2012 $	2011 $	2010 $	2009 $	2008 $
Share price at end of financial year	0.033	0.04	0.07	0.10	0.12
Market capitalisation at end of financial year ($M)	7.66	6.25	6.47	7.00	7.34
Profit/(loss) for the financial year	(2,084,118)	(1,610,352)	(1,642,254)	(2,199,265)	(806,233)
Cash spend on exploration programs	756,436	1,764,645	1,629,356	884,728	438,643
Director and Key Management Personnel remuneration	703,423	761,021	960,162	981,558	606,849

Given that the remuneration is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a geothermal company. Share prices are subject to the influence of international energy prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration.

The Company may issue options to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

End of Remuneration Report

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each Director and the Secretary of the Consolidated Entity has the right of access to all relevant information. The Consolidated Entity has insured all of the Directors and Officers of Hot Rock Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

The Consolidated Entity has not indemnified its auditor.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party for the purposes of taking responsibility on behalf of the Consolidated Entity for all or any part of those proceedings. The Consolidated Entity was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

During the year Crowe Horwath the Consolidated Entity's current auditor has performed non-audit services as set out below. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Crowe Horwath received the following amounts for the provision of non-audit services:

Tax services $13,547

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Hot Rock Limited support and have adhered to the principles of corporate governance. The Consolidated Entity's Corporate Governance Statement is included in this report.

Signed in accordance with a resolution of the directors.

M Elliott

Mark Elliott
Executive Chairman
Brisbane 26 September 2012

Crowe Horwath Brisbane
ABN 79 981 227 862
Member Crowe Horwath International

Level 16, 120 Edward Street
Brisbane QLD 4000 Australia
GPO Box 736
Brisbane QLD 4001 Australia
Tel: +61 7 3233 3555
Fax: +61 7 3233 3567
www.crowehorwath.com.au

A WHK Group Firm

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Hot Rock Limited:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements of the corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath Brisbane

Crowe Horwath Brisbane

BRENDAN WORRALL
Partner

Signed at Brisbane 26 September 2012.

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 24 September 2012.

(a) **Distribution of equity securities**

HRL – Ordinary Fully Paid Shares

Number of Securities Held	**No's of holders**
1 to 1,000	32
1,001 to 5,000	69
5,001 to 10,000	211
10,001 to 100,000	458
100,001 and over	474
Total	**1,244**
Number of shareholders holding less than a marketable parcel of shares	567

(b) Twenty largest holders

HRL – Ordinary Fully Paid Shares

No.	Name of Shareholder	Holding	% Held
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,972,820	6.67
2	ELLIOTT NOMINEES P/L	18,150,000	5.51
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C2	17,683,803	5.37
4	LORRAINE JEAN ZILLMAN	11,100,000	3.37
5	DR BARRY JOHN BARKER & MRS JAYE ABBYE BARKER	10,376,220	3.15
6	MR ANDREW MURRAY GREGOR	8,800,000	2.67
7	MR RUSSELL NEIL CREAGH	8,500,000	2.58
8	LEET INVESTMENTS PTY LIMITED	8,000,000	2.43
9	NORMAN JOSEPH ZILLMAN & LORRAINE JEAN ZILLMAN BANNERBLOCK SUPER FUND	7,933,333	2.41
10	PETER RODNEY BARNETT	7,500,000	2.28
11	DOWNSHIRE INVESTMENTS PTY LTD	7,117,878	2.16
12	ALBIANO HOLDINGS PTY LTD	6,447,049	1.96
13	CITICORP NOMINEES PTY LIMITED	6,396,000	1.94
14	MR DOUGAL MALCOLM HENDERSON	6,090,000	1.85
15	MR MICHAEL JOHN SANDY & DR PENELOPE LYNN BURNS <M J SANDY & ASSOC PL SF>	5,300,000	1.61
16	MR JOSE LEVISTE JNR	5,000,000	1.52
17	MR IAN LINDSAY CAMPBELL	5,000,000	1.52
18	LIMITS PTY LIMITED <DUNCAN GAMBLE FAMILY A/C>	4,233,333	1.28
19	DURAK INVESTMENT CORPORATION PTY LTD	3,892,830	1.18
20	SCINTILLA STRATEGIC INVESTMENTS LIMITED	3,333,333	1.01
		172,826,599	**52.43**

(c) Voting Rights

All fully paid ordinary shares carry one vote per share without restriction.

INTERESTS IN EXPLORATION TENEMENTS

Hot Rock Limited held the following interests in exploration tenements as at 26 September 2012:

VICTORIA

Type	Location	Status	Grant	Expiry Date	HRL Interest
GEP 6	Portland	Granted	14/05/2007	13/05/2013	100%
GEP 7	Hamilton	Granted	14/05/2007	13/05/2013	100%
GEP 8	Warrnambool	Granted	14/05/2007	13/05/2013	100%
GEP 9	Colac	Granted	14/05/2007	13/05/2013	100%
GEP 23	Mundi	Granted	28/11/2008	27/11/2013	100%

CHILE

Name	Chile Location	Status	Grant Date	Expiry Date *	HRL Interest
Galo	Central	Granted	1/04/2010	31/03/2012	100%
Calerias	Central	Granted	1/12/2010	30/11/2012	100%
San Carlos	Central	Granted	31/01/2011	30/01/2013	100%
San Jorge	Northern	Granted	1/02/2011	31/01/2013	100%
Tuyajto	Northern	Granted	1/12/2010	30/11/2012	100%
Santa Antonia	South Central	Granted	1/04/2010	31/03/2012	100%
Longavi	South Central	Granted	29/01/2011	28/01/2013	100%
Santa Sonia	South Central	Granted	1/04/2010	31/03/2012	100%
Santa Alejandra	South Central	Granted	1/02/2011	31/01/2013	100%
Santa Edita	South Central	Granted	2/02/2011	1/02/2013	100%
San Roman	South Central	Granted	3/02/2011	2/02/2013	100%
San Cristobal	South Central	Granted	4/02/2011	3/02/2013	100%
Santa Macarena	South Central	Granted	7/05/2011	6/05/2013	100%

* The above expiry dates apply to all the geothermal exploration concessions. Chile legislation grants the holders of exploration concessions the right to carry out exploration work to determine geothermal potential and an exclusive right for up to 2 years after its expiry date to apply for an exploitation concession. An exploitation concession gives the holder the right to carry out all the activities required to develop a geothermal reservoir, build and operate a geothermal energy plant for an indefinite period. Hot Rock Limited intends to exercise its right to an exploitation concession on each of the above concessions if required.

PERU

Type	Peru Location	Status	Grant Date	Expiry Date	HRL Interest
Rupha	Northern	Granted	12/02/2011	11/02/2014	100%
Chocopata	Southern	Granted	18/03/2011	17/03/2014	100%
Quellaapacheta	Southern	Granted	6/04/2011	5/04/2014	100%[1]

[1] Energy Development Corporation (EDC) will acquire a 70% interest when the tenement is transferred into the Quellaapacheta joint venture company and Hot Rock will reduce to 30% interest.

CORPORATE GOVERNANCE STATEMENT

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

Hot Rock Limited's Corporate Governance Statement is structured with reference to the Australian Securities Exchange ("ASX") Corporate Governance Council's (the "Council") "Corporate Governance Principles and Recommendations, 2nd Edition", which are as follows:

Principle 1. Lay solid foundations for management and oversight
Principle 2. Structure the Board to add value
Principle 3. Promote ethical and responsible decision making
Principle 4. Safeguard integrity in financial reporting
Principle 5. Make timely and balanced disclosure
Principle 6. Respect the rights of shareholders
Principle 7. Recognise and manage risk
Principle 8. Remunerate fairly and responsibly

A copy of the eight Corporate Governance Principles and Recommendations can be found on the ASX's website at www.asx.com.au.

The Board endorses the ASX Principles of Good Corporate Governance and Best Practice Recommendations, and has adopted corporate governance charters and policies reflecting those recommendations to the extent appropriate having regard to the size and circumstances of the Company.

The Company is committed to ensuring that its corporate governance systems maintain the Company's focus on transparency, responsibility and accountability. For further information on corporate governance policies adopted by Hot Rock Limited, refer to our website: www.hotrockltd.com

ASX Principles and Recommendations not followed by the Company and the reasons for non-compliance are as follows.

Recommendation Reference	Notification of Departure	Explanation for Departure
2.1	A majority of the board is not independent	The current board has one independent director and three directors who are considered to be not independent. The position of each director and as to whether or not they are considered to be independent is set out below. The Board believe that the individuals on the board can and do make quality and independent judgements in the best interest of the Company and other stakeholders notwithstanding that they are not independent directors in accordance with the criteria set out in the recommendations.
2.2	The Chairman is not independent	The Chairman of the company is not considered to be independent as he is an executive officer of the Company. The Board believe that the current Chairman can and does make quality and independent judgements in the best interest of the Company and other stakeholders notwithstanding that he is not an independent director in accordance with the criteria set out in the recommendations.
2.4	A separate Nomination Committee has not been formed	The Board considers that the Company is not currently of a size to justify the formation of a separate nomination committee. The board as a whole will undertake the process of reviewing the skill base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate, independent consultants may be engaged to identify possible new candidates for the board.
3.2, 3.3	Measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them have not been implemented	The Board has established a Diversity Policy. There are some aspects of the recommendations that are difficult to comply with due to the Company's size. The Board at this juncture has not set measurable objectives. This policy will be reviewed as part of the annual compliance review to ensure that the Diversity Policy is being progressed as required and to set measurable objectives when appropriate for the Company.
4.1, 4.2, 4.3	A separate Audit Committee has not been formed	The Board considers that the Company is not of a size, nor is its financial affairs of such complexity, to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.
7.2	Management has not reported to the board as to the effectiveness of the company's management of its material business risks.	While the design and implementation of a basic risk management and internal control system is in place, a formal report as to the effectiveness of the management of the Company's material business risks has not been provided to the Board, and is not considered necessary at this stage for the size and nature of the Company's current activities.
8.1	There is no separate Remuneration committee	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation for the remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and any executives of the Company.

Structure of the Board
The Board has adopted a formal board charter that outlines the roles and responsibilities of directors and senior executives. The Board Charter has been made publicly available on the Company's website.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is included in the Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board should be independent Directors. The Corporate Governance Council defines an independent director as a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

Factors that may impact on a director's independence are considered each time the Board meets. In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are considered not to be independent:

Name	Position	Reason for not being Independent
Mark Elliott	Executive Chairman	Dr Elliott is a substantial shareholder of the Company and is employed in an executive capacity
Peter Barnett	Managing Director	Mr Barnett is employed in an executive capacity
Mike Sandy	Non-Executive Director	Mr Sandy is independent
Stephen Bizzell	Non-Executive Director	Mr Bizzell and his associated entities are in aggregate a substantial shareholder (greater than 5%) in the Company

Hot Rock Limited considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board of Hot Rock Limited due to their considerable industry and corporate experience. There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in Office
Mark Elliott	6 years 1 month
Peter Barnett	4 years 9 months
Mike Sandy	5 years 3 months
Stephen Bizzell	3 years

Trading Policy
The Board has adopted a policy and procedure on dealing in the company's securities by Directors, officers and employees which prohibits dealing in the company's securities when those persons possess inside information. Trading is also only permitted during certain pre-determined windows.

Company Code of Conduct
The Company is committed to operating ethically, honestly, responsibly and legally in all its business dealings. Accordingly, the Company requires employees to act in the Company's best interests in a professional, honest and ethical manner, and in full compliance with the law, both within and on behalf of the Company.

The Company has an established Code of Conduct (Code) which outlines the behaviour that is expected of employees. The Code governs all the Company's operations and the conduct of Directors, management and employees when they represent the Company.

The Code clearly sets out the process for dealing with complaints of breaches. The Board, senior executives, management and all employees of the Company are committed to implementing this Code and each individual is accountable for such compliance.

A copy of the Code is given to all employees, contractors and relevant personnel, including Directors and senior executives. Appropriate training is provided for Directors, senior executives and employees on a regular basis, where applicable.

Recruitment and Selection Processes
The recruitment and selection processes adopted by the Company ensure that staff and management are selected in a non-discriminatory manner based on merit.

Diversity
As the context permits, the Company is committed to workplace diversity. The Company recognises the benefits arising from employee and board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent.

The Company values diversity in all aspects of its business and is committed to creating an environment where the contribution of all its personnel is received fairly and equitably.

The Company has a number of objectives in place to continually work towards its vision. These objectives include:

- a diverse and skilled workforce, leading to continuous improvement in service delivery and achievement of corporate goals;
- workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- improved employment and career development opportunities for women;
- a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity and successful management of diversity;
- Awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity.

The Company seeks to achieve these objectives by:

- recruiting and managing on the basis of competence and performance regardless of age, ethnicity, gender or cultural background;
- providing equal opportunities based on merit;

- fostering a culture that empowers people to act in accordance with this policy;
- fostering an inclusive, supportive and respectful culture to enable all personnel to reach their full potential;
- respecting the unique attributes that each individual brings to the workplace; and
- establishing and reviewing measurable objectives, particularly on gender diversity.

The proportion of women employees in the whole organisation, women in senior management positions and women on the board are as follows:

Measure	Female proportion
Organisation	31%
Senior management	20%
Board	Nil

Board committees
The board's charter allows it to establish committees if and when required to assist in the execution of the duties of the board. As at the date of this report, no committees have been established as the structure of the board, the size of the Company and the scale of its activities, allows all directors to participate fully in all decision making. When the circumstances require it, the committees will be instituted with each having its own charter approved by the board that will set the standards for the operation of the committees. All matters that would be considered by committee are dealt with by the board.

Remuneration and Nomination
The full Board is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

Audit and Risk Management
The responsibilities of Audit and Risk Management Committee are undertaken by the full Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The Company has developed a basic framework for risk management and internal compliance and control systems which cover organisational, financial and operational aspects of the Company's affairs. Further detail of the Company's Risk Management policies can be found within the Audit and Risk Management Committee Charter available on the Company's website.

Recommendation 7.2 requires that the Board disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. Business risks are considered regularly by the Board and management.

While the design and implementation of a basic risk management and internal control system is in place a formal report as to the effectiveness of the management of the Company's material business risks has not been provided to the Board and is not considered necessary at this stage for the size and nature of the Company's current activities.

As required by Recommendation 7.3, the Board has received written assurances from the Managing Director and Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that they system is operating effectively in all material respects in relation to financial reporting risks.

Performance
The Board considers remuneration and nomination issues annually and otherwise as required in conjunction with the regular meetings of the Board. The performance of the individual members of the Board is reviewed on an on-going basis as required in conjunction with the regular meetings of the Board.

No formal performance evaluation of the directors was undertaken during the year ended 30 June 2012.

Remuneration
It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and other Key Management Personnel fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board links the nature and amount of Executive Director's and Officer's emoluments to the company's financial and operations performance.

The expected outcomes of the remuneration structure are:

- retention and motivation of Key Management Personnel
- attraction of quality management to the company
- performance incentives which allow Executives to share the rewards of the success of Hot Rock Limited

For details on the amount of remuneration and all monetary and non-monetary components for each of the highest paid (Non-Director) Executives during the year, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Hot Rock Limited and the performance of the individual during the year.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors. The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, subject to the company's constitution and prior shareholder approvals, and the Executive team.

Continuous Disclosure Policy
Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. A copy of the Continuous Disclosure Policy can be found within the Company's Corporate Governance Statement on the Company's website.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	2012 $	2011 $
Revenue	2	34,244	404,144
Employment and consultancy expenses		(1,018,218)	(829,912)
Depreciation and amortisation expenses	11	(64,753)	(50,151)
Exploration costs expensed		(65,123)	(530,813)
Finance costs		(3,730)	(4,771)
Exchange loss		-	(21,980)
Impairment of exploration expenditure	12	(108,927)	-
Other expenses		(1,021,611)	(847,607)
Loss before income tax		(2,248,118)	(1,881,090)
Income tax benefit/(expense)	3	164,000	334,688
Loss after income tax expense attributable to members of the parent entity		(2,084,118)	(1,546,402)
Other comprehensive income			
Foreign currency translation differences for foreign operations		(48,710)	(63,950)
Income tax		-	-
		(48,710)	(63,950)
Total comprehensive income attributable to members of the parent entity		(2,132,828)	(1,610,352)

		Cents	Cents
Earnings per share			
Basic earnings per share	6	(1.03)	(1.21)
Diluted earnings per share	6	(1.03)	(1.21)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Consolidated Balance Sheet
As at 30 June 2012

	Note	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	7	59,807	888,812
Trade and other receivables	8	35,926	14,252
Other current assets	9	24,678	30,174
TOTAL CURRENT ASSETS		120,411	933,238
NON-CURRENT ASSETS			
Trade and other receivables	8	75,136	73,056
Financial assets	10	1	1
Plant and equipment	11	62,542	92,689
Exploration expenditure	12	5,299,777	4,652,268
TOTAL NON-CURRENT ASSETS		5,437,456	4,818,014
TOTAL ASSETS		5,557,867	5,751,252
CURRENT LIABILITIES			
Trade and other payables	13	132,735	33,453
Interest bearing liabilities	14	5,509	7,335
Short-term provisions	15	151,018	98,867
TOTAL CURRENT LIABILITIES		289,262	139,655
TOTAL LIABILITIES		289,262	139,655
NET ASSETS		5,268,605	5,611,597
EQUITY			
Issued capital	16	12,700,722	10,910,886
Reserves	17	890,326	939,036
Accumulated losses		(8,322,443)	(6,238,325)
TOTAL EQUITY		5,268,605	5,611,597

The Consolidated Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2012

	Share Capital	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Reserve	Total
	$	$	$	$	$
Balance at 1 July 2010	7,872,242	(4,691,923)	864,733	(29,842)	4,015,210
Transactions with owners in their capacity as owners					
Issue of share capital	3,579,416	-	-	-	3,579,416
Share issue costs	(540,772)	-	-	-	(540,772)
Share-based payment expense	-	-	168,095	-	168,095
Comprehensive income					
Loss after income tax	-	(1,546,402)	-	-	(1,546,402)
Other comprehensive income	-	-	-	(63,950)	(63,950)
Balance at 30 June 2011	10,910,886	(6,238,325)	1,032,828	(93,792)	5,611,597
Balance at 1 July 2011	10,910,886	(6,238,325)	1,032,828	(93,792)	5,611,597
Transactions with owners in their capacity as owners					
Issue of share capital	1,894,140	-	-	-	1,894,140
Share issue costs	(104,304)	-	-	-	(104,304)
Comprehensive income					
Loss after income tax	-	(2,084,118)	-	-	(2,084,118)
Other comprehensive income	-	-	-	(48,710)	(48,710)
Balance at 30 June 2012	12,700,722	(8,322,443)	1,032,828	(142,502)	5,268,605

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2012

	Note	2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Government grant monies received		-	385,000
Payments to suppliers and employees		(1,942,451)	(2,532,440)
Interest received		32,164	52,215
Finance costs		(3,730)	(4,771)
Income tax benefit received		164,000	692,980
Net cash used in operating activities	18	(1,750,017)	(1,407,016)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant & equipment		(31,518)	(48,762)
Payments for exploration and evaluation assets		(756,436)	(1,764,645)
Net cash used in investing activities		(787,954)	(1,813,407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,894,140	3,579,416
Capital raising expenses		(104,304)	(348,272)
Proceeds from borrowings		25,000	69,630
Repayment of borrowings		(54,073)	(62,295)
Net cash provided by financing activities		1,760,763	3,238,479
Net increase/(decrease) in cash and cash equivalents held		(777,208)	18,056
Net foreign exchange differences		(51,797)	(63,950)
Cash and cash equivalents at the beginning of the financial year		888,812	934,706
Cash and cash equivalents at the end of the financial year		59,807	888,812

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

This financial report covers the Consolidated Entity of Hot Rock Limited (the "Company") and its controlled entities (together referred to as the "Consolidated Entity"). Hot Rock Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Operations and principal activities
The principal activity of the Consolidated Entity is geothermal exploration.

Currency
The financial report is presented in Australian dollars, rounded to the nearest dollar, which is the functional currency of the Consolidated Entity.

Authorisation of financial report
The financial report was authorised for issue on 26 September 2012.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial statements of the Consolidated Entity also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention
The financial statements have been prepared under the historical convention, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Consolidated Entity. These estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period or in the period and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required estimates and/or judgements.

Key estimates – impairment
The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Key judgements – exploration & evaluation expenditure
The Consolidated Entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

Included in the balance of the capitalised exploration expenditure is an amount of $3,775,860 that relates to four tenements in Victoria that on 23 February 2012 were granted a twelve month extension by the Victorian Department of Primary Industries to 13 May 2013. This extension was granted to Hot Rock Limited as an interim measure whilst the Government formulated a strategy for the future management of all geothermal exploration permits.

The strategy will focus on the renewal of exploration permits and the Department of Primary Industries will liaise with permit holders prior to the strategy's inception to explore options for the renewal of permits. Based on discussions with the Victorian Government the Company believes, once the Government finalises its strategy for the future management of geothermal permits in Victoria, it is likely that these tenements will be renewed.

Accounting policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Hot Rock Limited at the end of the reporting period. A controlled entity is any entity over which Hot Rock Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 25 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations
Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of Consolidation

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(b) Investments in Associates

Associates are companies in which the Consolidated Entity has significant influence through holding, directly or indirectly, 20% or more of the voting power of the Group. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Consolidated Entity's share of net assets of the associate company. In addition, the Consolidated Entity's share of the profit or loss of the associate company is included in the Consolidated Entity's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any discount on acquisition whereby the Consolidated Entity's share of the net fair value of the associate exceeds the cost of investment is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Consolidated Entity and the associate are eliminated to the extent of the Consolidated Entity's interest in the associate.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, the Consolidated Entity discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Consolidated Entity will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Consolidated Entity's investments in associates are provided in Note 10.

(c) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).
Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

(d) Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(h) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Plant and Equipment

The cost of fixed assets constructed within the Consolidated Entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation
The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of asset is:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%
Computers and Office Equipment	20 - 33%
Motor Vehicles	12.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(e) Exploration Evaluation and Development Expenditure

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

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

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

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

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

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

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the Consolidated Entity, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

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

(g) Financial Instruments

Recognition and initial measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Consolidated Entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

(g) Financial Instruments

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Consolidated Entity of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Consolidated Entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment
At the end of each reporting period, the Consolidated Entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Financial guarantees
Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

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

(h) Impairment of Assets

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee Benefits

Provision is made for the Consolidated Entity'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 settled within 1 year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 1 year 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 wages increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Contributions to defined contribution plans are expensed when incurred.

Equity-settled compensation
Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Binomial pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(k) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest rate method.

Government grants are recognised at fair value when there is a reasonable assurance that the Consolidated Entity will comply with the conditions attaching to them and the grants will be received.

(l) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(m) Share Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(o) Comparative figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year. Comparative figures have also been changed where classifications of income and expenditure items have been altered from the prior year as a result of a review by directors. The new classifications have been made to reflect a more accurate view of the Consolidated Entity's operations.

(p) Foreign Exchange

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Subsidiary companies
The financial results and position of foreign operations whose functional currency is different from the Consolidated Entity'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; 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 Consolidated Entity's foreign currency translation reserve in the balance sheet. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New Accounting Standards and Interpretations

The Consolidated Entity adopted the following new Accounting Standard and Interpretations during the year:

- AASB 2009-12 Amendments to Australian Accounting
- AASB 2010-5 Amendments to Australian Accounting Standards
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 124 Related Party Disclosures (December 2009)
- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

There were no material impacts on the financial statements or performance of the Consolidated Entity.

(r) New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Consolidated Entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the Consolidated Entity.

AASB 2010-8 Amendments to Australian Accounting Standards-Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The Consolidated Entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the Consolidated Entity's presentation of its statement of comprehensive income.

AASB 10: 'Consolidated Financial Statements'

This standard replaces the part of IAS 27: 'Consolidated and Separated Financial Statements' and is applicable for the annual period beginning 1 January 2013. This new standard introduces a new definition of control that determines which entities are consolidated. This new definition of control may potentially lead to the consolidation of entities that were not previously included in the Consolidated Entity resulting in more assets and liabilities on the books. The Consolidated Entity is currently assessing the impact of this standard.

AASB 11: 'Joints Arrangements'

This standard replaces IAS 31: 'Interest in Joint Ventures' and is applicable for annual periods beginning on or after 1 January 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Consolidated Entity will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and therefore the potential impacts of a change on the presentation of the Financial Statements. The Consolidated Entity is currently assessing the impact of this standard.

AASB 12: ' Disclosure of interest in other Entities'

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the Consolidated Entity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) New Standards and Interpretations Not Yet Adopted

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the Consolidated Entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the Consolidated Entity.

	2012	2011
	$	$
NOTE 2 REVENUE		
Government grant income	-	350,000
Interest income	34,244	54,144
	34,244	404,144

NOTE 3 INCOME TAX EXPENSE

A reconciliation of income tax expense (benefit) applicable to accounting profit/(loss) before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2012 and 2011 is as follows:

Loss before income tax	(2,248,118)	(1,881,090)
At income tax rate of 30% (2011: 30%)	(674,436)	(564,327)
Non-deductible expenses	-	32,185
Deferred tax assets not bought to account	674,436	532,142
R&D tax concession	(164,000)	(334,688)
Income tax expense/(benefit)	(164,000)	(334,688)

Unrecognised temporary differences and tax losses

Temporary differences	368,283	(878,509)
Tax losses	2,010,359	2,480,309
	2,378,642	1,601,800

The deductable temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise these benefits.

NOTE 4 AUDITORS' REMUNERATION

Remuneration for the auditor of the Parent Entity for:		
- audit and review of the financial report	28,900	27,650
- taxation services	13,547	11,355
	42,447	39,005

NOTE 5 DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the financial year (2011: Nil). There were no franking credits available to the shareholders of the Consolidated Entity.

NOTE 6 EARNINGS PER SHARE

Earnings used to calculate basic and dilutive EPS	(2,084,118)	(1,546,402)

	2012	2011
	Number	Number
Weighted average number of shares outstanding during the year used in calculating EPS and dilutive EPS	201,431,785	128,126,008

The 23,788,985 options outstanding at 30 June 2012 (2011: 27,788,985) are not included in the calculation of diluted earnings per share as they are anti-dilutive.

	2012 $	2011 $
NOTE 7 CASH AND CASH EQUIVALENTS		
Cash on hand and at bank	59,807	888,812

	2012 $	2011 $
NOTE 8 TRADE AND OTHER RECEIVABLES		
CURRENT		
Other receivables	35,926	14,252
	35,926	14,252
NON-CURRENT		
Security bonds	75,136	73,056

	2012 $	2011 $
NOTE 9 OTHER ASSETS		
Prepaid expenses	24,678	30,174

	2012 $	2011 $
NOTE 10 FINANCIAL ASSETS		
Equity accounted investments	1	1

The Consolidated Entity holds a 50% interest in Casrock Pty Ltd. Casrock Pty Ltd holds the lease of an office occupied by Hot Rock Ltd. All costs incurred by Casrock Pty Ltd are reimbursed by Hot Rock and by the other shareholder and it does not make a profit or a loss. The net assets of Casrock Pty Ltd are $2.

	2012 $	2011 $
NOTE 11 PLANT AND EQUIPMENT		
Office equipment – at cost	182,183	175,479
Accumulated depreciation	(135,407)	(104,848)
	46,776	70,631
Motor vehicles – at cost	25,101	25,101
Accumulated depreciation	(9,335)	(3,043)
	15,766	22,058
Total plant and equipment	62,542	92,689

Movements during the year

	Office Equipment	Motor Vehicles	Total
Balance at 1 July 2010	94,078	-	94,078
Additions	23,661	25,101	48,762
Depreciation	(47,108)	(3,043)	(50,151)
Balance at 30 June 2011	70,631	22,058	92,689
Balance at 1 July 2011	70,631	22,058	92,689
Additions	34,606	-	34,606
Depreciation	(58,461)	(6,292)	(64,753)
Balance at 30 June 2012	46,776	15,766	62,542

	2012 $	2011 $
NOTE 12 EXPLORATION EXPENDITURE		
Capitalised exploration expenditure	5,299,777	4,652,268
Movements during the year		
Balance at beginning of year	4,652,268	2,887,623
Exploration activities capitalised	756,436	1,764,645
Impairment	(108,927)	-
Balance at end of year	5,299,777	4,652,268
NOTE 13 TRADE AND OTHER PAYABLES		
Trade payables	50,118	18,560
Other payables and accrued expenses	34,700	9,059
Payable to directors	47,917	5,834
	132,735	33,453
NOTE 14 INTEREST BEARING LIABILITIES		
Insurance financing	5,509	7,335
NOTE 15 PROVISIONS		
Employee benefits	151,018	98,867
NOTE 16 ISSUED CAPTIAL		
232,035,215 fully paid ordinary shares (2011: 156,269,615)	12,700,722	10,910,886

	2012 Number	2011 Number	2012 $	2011 $
Movements during the year				
Balance at beginning of year	156,269,615	92,450,006	10,910,886	7,872,242
Share placement ($0.025 per share)	33,600,000	-	840,000	-
Share purchase plan ($0.025 per share)	42,165,600	-	1,054,140	-
Share placement ($0.06 per share)	-	13,867,500	-	832,050
Rights issue ($0.055 per share)	-	49,952,109	-	2,747,366
Issue costs	-	-	(104,304)	(540,772)
Balance at end of year	232,035,215	156,269,615	12,700,722	10,910,886

Ordinary shares participate in dividends and the proceeds on winding up of the Consolidated Entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

As at 30 June 2012 there were 23,788,985 unissued ordinary shares under option (2011: 23,788,985). No options were issued during the year.

During the year ended 30 June 2012 no shares were issued following the exercise of options.

	2012 $	2011 $
NOTE 17 RESERVES		
Share based payment reserve	1,032,828	1,032,828
Foreign currency translation reserve	(142,502)	(93,792)
	890,326	939,036

Share based payment reserve movements during the year

Balance at beginning of year	1,032,828	864,733
Share based payments	-	168,095
Balance at end of year	1,032,828	1,032,828

Foreign currency translation reserve movements during the year

Balance at beginning of year	(93,792)	(29,842)
Foreign exchange differences	(48,710)	(63,950)
Balance at end of year	(142,502)	(93,792)

Nature and purpose of reserves

Share based payment reserve
The share based payments reserve is used to record the value of share based payments provided to directors and employees as part of their remuneration.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	2012 $	2011 $
NOTE 18 CASH FLOW INFORMATION		
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(2,084,118)	(1,546,402)
Non-cash items in loss after income tax		
Depreciation	64,753	50,151
Share based payments expense	-	168,095
Impairment of exploration expenditure	108,927	-
Accrued interest revenue	(2,080)	(1,929)
Movements in assets and liabilities		
Trade and other receivables	(21,675)	454,202
Other assets	5,496	1,214
Trade payables and accruals	126,529	(559,451)
Provisions	52,151	27,104
Cash flow from operations	(1,750,017)	(1,407,016)

NOTE 19 SHARE BASED PAYMENTS

The following share based payment arrangements were in place at 30 June 2012:

	Grant date	Grant #	Option Fair value at grant date $	Exercise price per option $	Expiry date	First exercise date
Issued during 2011						
Underwriting Fee	17/12/2010	2,338,985	0.0260	0.25	4/11/2013	17/12/2010
Employees – Tranche 3	7/2/2011	700,000	0.0245	0.20	31/01/2014	7/2/2011
Issued during 2010						
Directors and Employees – Tranche 1	1/12/2009	8,750,000	0.0120	0.25	1/12/2012	1/12/2009
Directors and Employees – Tranche 2	1/12/2009	6,750,000	0.0180	0.25	1/12/2013	1/12/2010
Issued during 2009						
Executives – Tranche 1	4/9/2008	1,000,000	0.1250	0.30	31/7/2012	4/9/2008
Executives – Tranche 2	4/9/2008	1,000,000	0.1230	0.35	31/7/2012	4/9/2009
Executives – Tranche 3	4/9/2008	1,000,000	0.1210	0.40	31/7/2012	4/9/2010
Executives – Tranche 4	1/3/2009	1,000,000	0.1160	0.30	31/7/2013	1/3/2009
Executives – Tranche 5	1/3/2009	1,000,000	0.1147	0.35	31/7/2013	1/3/2010
Executives – Tranche 6	1/3/2009	1,000,000	0.1130	0.40	31/7/2013	1/3/2011

No options were exercised during the year ended 30 June 2012 (2011: Nil).

The options outstanding at 30 June 2012 have an average exercise price of $0.27 and average remaining life of 0.84 years.

Included under Employee Benefits Expense in the Statement of comprehensive income is $Nil (2011: $107,282), that relates, in full, to equity-settled share-based payment transactions.

Included in share issue costs is $Nil (2011: $60,814) equity-settled share-based payments relating to options issued in part consideration for professional fees incurred as part of the capital raising during the year.

NOTE 20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL

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

Key management personnel compensation

Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity.

Summary	2012	2011
	$	$
Short-term employee benefits	678,208	655,962
Post-employment benefits	25,215	24,358
Share-based payments	-	80,701
	703,423	761,021

NOTE 20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Key management personnel shareholdings

2012	Balance 1 July 2011	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2012
Director					
Mark Elliott	9,500,000	-	-	4,000,000	13,500,000
Peter Barnett	3,400,000	-	-	2,000,000	5,400,000
Michael Sandy	3,000,000	-	-	1,200,000	4,200,000
Stephen Bizzell	8,712,500	-	-	3,050,000	11,762,500
Key Management Personnel					
Paul Marshall	2,087,090	-	-	2,000,000	4,087,090
	26,699,590	-	-	12,250,000	38,949,590

2011	Balance 1 July 2010	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2011
Director					
Mark Elliott	7,500,000	-	-	2,000,000	9,500,000
Peter Barnett	2,000,000	-	-	1,400,000	3,400,000
Michael Sandy	3,000,000	-	-	-	3,000,000
Stephen Bizzell	5,587,500	-	-	3,125,000	8,712,500
Key Management Personnel					
Paul Marshall	1,170,000	-	-	917,090	2,087,090
	19,257,500	-	-	7,442,090	26,699,590

Key management personnel option holdings

2012	Balance 1 July 2011	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2012
Director					
Mark Elliott	7,000,000	-	-	-	7,000,000
Peter Barnett	7,000,000	-	-	-	7,000,000
Michael Sandy	1,000,000	-	-	-	1,000,000
Stephen Bizzell	7,338,985	-	-	(4,000,000)	3,338,985
Key Management Personnel					
Paul Marshall	1,000,000	-	-	-	1,000,000
	23,338,985	-	-	(4,000,000)	19,338,985

2011	Balance 1 July 2010	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2011
Director					
Mark Elliott	7,000,000	-	-	-	7,000,000
Peter Barnett	7,000,000	-	-	-	7,000,000
Michael Sandy	1,000,000	-	-	-	1,000,000
Stephen Bizzell	5,000,000	-	-	2,338,985	7,338,985
Key Management Personnel					
Paul Marshall	1,000,000	-	-	-	1,000,000
	21,000,000	-	-	2,338,985	23,338,985

NOTE 20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Transactions with Director related parties

2012: The Consolidated Entity paid $8,460 in fees for investor relation services provided by Bizzell Capital Partners, an entity related to Stephen Bizzell.

2011: The Consolidated Entity incurred the following fees in relation to professional services provided by Bizzell Capital Partners, an entity related to Stephen Bizzell, as part of the capital raisings:

- 2,338,985 options with a calculated value of $60,814 (refer Note 19)
- $389,503 for fees settled in cash, of which $192,500 was paid in the prior period.

Amounts owed to Key Management Personnel

$22,917 is owed to Directors for unpaid director fees (2011: $5,834).

$25,000 is owed to Peter Barnett for an interest free loan provided during the period. The loan is unsecured and is repayable when the Consolidated Entity has sufficient working capital to do so.

NOTE 21 FINANCIAL RISK MANAGEMENT

The Consolidated Entity's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The main risk arising from the financial instruments is cash flow interest rate risk.

There have been no substantive changes in the Consolidated Entity's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Consolidated Entity's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for day to day management of these risks to the Managing Director and the Chief Financial Officer. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Consolidated Entity's competitiveness and flexibility. Further details regarding these policies are set out below:

(a) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Consolidated Entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Consolidated Entity. It arises from exposure to customers as well as through deposits with financial institutions.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no collateral held as security at 30 June 2012. Credit risk is reviewed regularly by the Board.

The Consolidated Entity does not have any material credit risk exposure to any counterparty.

Maximum exposure to credit risk

	2012	2011
Summary exposure	$	$
Cash and cash equivalents	59,807	888,812
Other receivables	35,926	14,252
Security bonds	75,136	73,056
	170,869	976,120
Ageing of receivables		
Not past due	35,926	14,252
Past due 0-90 days	-	-
Past due >90 days	-	-
	35,926	14,252

None of the past due receivables at 30 June 2012 were impaired because it is expected that these amounts will be received in full in the normal course of business (2011: Nil).

NOTE 21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk - Cash and cash equivalents

The credit quality of financial assets that are neither past due nor impaired is considered strong. The counterparty to these financial assets are large financial institutions with strong credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity may encounter difficulties raising funds to meet financial obligations as they fall due.

Liquidity risk is reviewed regularly by the Board.

The Consolidated Entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained. The Consolidated Entity did not have any financing facilities available at balance date.

The table below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2012	2011
Trade and other payables	$	$
Less than one year	132,735	33,453
One to five years	-	-
Greater than five years	-	-
	132,735	33,453

Interest bearing liabilities		
Less than one year	5,509	7,335
One to five years	-	-
Greater than five years	-	-
	5,509	7,335

(c) Market Risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates. The Consolidated Entity's interest rate exposure under financial instruments is minimal as it does not currently have any variable rate interest bearing financial liabilities.

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Impact on profit and equity	2012	2011
	$	$
+1.00% (100 basis points)	598	8,888
-1.00% (100 basis points)	(598)	(8,888)

NOTE 21 FINANCIAL RISK MANAGEMENT (continued)

Credit risk - Cash and cash equivalents

The credit quality of financial assets that are neither past due nor impaired is considered strong. The counterparty to these financial assets are large financial institutions with strong credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity may encounter difficulties raising funds to meet financial obligations as they fall due.

Liquidity risk is reviewed regularly by the Board.

The Consolidated Entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained. The Consolidated Entity did not have any financing facilities available at balance date.

The table below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2012	2011
Trade and other payables	**$**	**$**
Less than one year	132,735	33,453
One to five years	-	-
Greater than five years	-	-
	132,735	33,453

Interest bearing liabilities		
Less than one year	5,509	7,335
One to five years	-	-
Greater than five years	-	-
	5,509	7,335

(c) Market Risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates. The Consolidated Entity's interest rate exposure under financial instruments is minimal as it does not currently have any variable rate interest bearing financial liabilities.

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Impact on profit and equity	2012	2011
	$	**$**
+1.00% (100 basis points)	598	8,888
-1.00% (100 basis points)	(598)	(8,888)

NOTE 21 FINANCIAL RISK MANAGEMENT (continued)

Foreign Currency Risk

Foreign currency risk arises as a result of having assets/cash flows denominated in a currency other than the home currency in which they are reported. At 30 June 2012, the Consolidated Entity had the following exposure to foreign currency:

	2012	2011
Financial Assets	**$**	**$**
Cash and cash equivalents (USD)	18,506	19,997
Cash and cash equivalents (Chilean Peso)	14,039	157,823
Cash and cash equivalents (Peruvian Nevo Soles)	11,123	33,233
Trade and other receivables (Chilean Peso)	9,826	10,002
Trade and other receivables (Peruvian Nevo Soles)	2,420	-
	55,914	221,055
Financial Liabilities		
Trade and other payables (Chilean Peso)	34,937	4,725
Trade and other payables (Peruvian Nevo Soles)	20,922	-
	55,859	4,725

Exchange rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the exchange rates at reporting date had been 10% basis higher or lower, with all other variables held constant. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

Impact on profit and equity	2012	2011
	$	$
+10.00%	6	21,633
-10.00%	(6)	(21,633)

(d) Capital Risk Management

When managing capital, the directors objective is to ensure that the entity continues as a going concern and to maintain a structure that ensures the lowest cost of capital available and to ensure adequate capital is available for exploration and evaluation of tenements. In order to maintain or adjust the capital structure, the Consolidated Entity may seek to issue new shares.

Consistent with other exploration companies, the Consolidated Entity monitors capital on the basis of forecast exploration and development expenditure required to reach a stage which permits a reasonable assessment of the existence or otherwise of an economically recoverable reserve. The Consolidated Entity has no minimum capital requirements, and capital is calculated as shown in the balance sheet.

The Consolidated Entity has yet to establish a formal policy for raising capital through debt instruments. The directors will introduce such a policy when it becomes prudent for the Consolidated Entity to consider raising funds through debt.

(e) Net Fair Values

The net fair values of financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form. The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and in the notes to the financial statements.

NOTE 22 SEGMENT REPORTING

Reportable Segments

The principal geographical areas of operation of the Consolidated Entity are South America and Australia.

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

Segment Revenues and Results

The following is an analysis of the Consolidated Entity's revenue and results by reportable operating segment for the year under review. Results shown below are prepared under the same basis as described in Note 1.

30 June 2012	South America $	Australia $	Consolidated $
Revenue:			
Revenue from outside the Consolidated Entity	9,384	24,860	32,244
Other unallocated revenue	-	-	-
Revenue from Ordinary Activities			32,244
Segment result	(823,279)	(1,424,839)	(2,248,118)
Income tax	-	-	164,000
Net Loss			2,084,117
Non-cash items included in loss above:			
Depreciation and amortisation	31,067	33,686	64,753
Impairment of exploration expenditure	80,188	28,739	108,927
Assets:			
Segment assets	920,264	4,637,603	5,557,867
Unallocated corporate assets	-	-	-
Consolidated Total Assets			5,557,867
Liabilities:			
Segment liabilities	58,036	231,226	289,262
Unallocated corporate liabilities	-	-	-
Consolidated Total Liabilities			289,262
Segment acquisitions:			
Acquisition of property, plant and equipment	33,032	1,574	34,606
Capitalised exploration expenditure	337,929	418,507	756,436

NOTE 22 SEGMENT REPORTING (continued)

30 June 2011	South America $	Australia $	Consolidated $
Revenue:			
Revenue from outside the Consolidated Entity	-	404,144	404,144
Other unallocated revenue	-	-	-
Revenue from Ordinary Activities			404,144
Segment result	(990,859)	(890,231)	(1,881,090)
Income tax	-	-	334,688
Net Loss			(1,546,402)
Non-cash items included in loss above:			
Depreciation and amortisation	18,217	31,934	50,151
Share based payments	-	168,095	168,095
Assets:			
Segment assets	826,452	4,924,800	5,751,252
Unallocated corporate assets	-	-	-
Consolidated Total Assets			5,751,252
Liabilities:			
Segment liabilities	4,725	134,930	139,655
Unallocated corporate liabilities	-	-	-
Consolidated Total Liabilities			139,655
Segment acquisitions:			
Acquisition of property, plant and equipment	19,312	29,450	48,762
Capitalised exploration expenditure	548,456	1,216,189	1,764,645

NOTE 23 COMMITMENTS

Operating leases

	2012 $	2011 $
Minimum lease payments payable:		
Within one year	29,516	69,567
Between one and five years	-	29,516
	29,516	99,083

Hot Rock Limited has entered into a lease for an office in Brisbane. It is for a period of four years and it has no renewal option. The minimum future payments under this non-cancellable operating lease are shown above.

Future Exploration

The Consolidated Entity has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Consolidated Entity.

The exploration obligations to be undertaken are as follows:

	2012 $	2011 $
Within one year	285,805	17,374,518
Between one and five years	21,768,000	48,270,316
	22,053,805	65,644,834

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Consolidated Entity has the option to negotiate new terms or relinquish the tenements. The Consolidated Entity also has the ability to meet expenditure requirements by joint venture or farm in agreements.

NOTE 24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Consolidated Entity has given bank guarantees of $30,000 to the Victorian Government as security over the granted geothermal tenements (2011: $30,000). No liability has been recognised by the Consolidated Entity as bank deposits totaling $30,000 are in place to satisfy any obligation to the bank. Upon relinquishment of the tenements, the Victorian Government will release the security.

There are no other contingent liabilities or contingent assets at 30 June 2012 (2011: Nil).

NOTE 25 PARENT ENTITY INFORMATION

The Parent Entity of the Consolidated Entity is Hot Rock Limited.

	2012 $	2011 $
Parent Entity Financial Information		
Current assets	65,250	712,182
Non-current assets	5,330,999	4,971,013
Total assets	5,396,249	5,683,195
Current liabilities	231,226	134,930
Non-current liabilities	-	-
Total liabilities	231,226	134,930
Net assets	5,165,023	5,548,265
Issued Capital	12,700,722	10,910,886
Share based payment reserve	1,032,828	1,032,828
Accumulated losses	(8,568,527)	(6,395,449)
Total Equity	5,165,023	5,548,265
Loss after income tax	(2,173,328)	(1,973,385)
Other comprehensive income	-	-
Total comprehensive income	(2,173,328)	(1,973,385)

Controlled Entities of the Parent Entity

	Percentage Owned		Parent Entity Investment	
	2012 %	2011 %	2012 $	2011 $
Hot Rock Chile S.A. (Chile)	100%	100%	446,843	446,843
Hot Rock Peru S.A. (Peru)	100%	100%	311,550	311,550
Hot Rock International Holding Ltd (Canada)	100%	100%	1	1
Hot Rock Holding Ltd (BVI)	100%	100%	1	1
Hot Rock Chile Ltd (BVI)	100%	100%	1	1
Hot Rock Peru Ltd (BVI)	100%	100%	1	1

	2012	2011
	$	$

NOTE 26 EXPENSES

Loss before income tax includes the following specific expenses:		
Superannuation expense	29,451	16,389
Rental expense from operating leases	76,336	102,858

NOTE 27 EVENTS AFTER BALANCE DATE

On 10 August 2012, the Company announced a 1 for 2 non-renounceable rights issue at an issue price of 1.5 cents per share.

The rights issue and shortfall placement closed on 24 September 2012. The Company raised $1.46M through the issue of 97,578,418 new ordinary shares.

There have been no other events since 30 June 2012 that impact upon this financial report.

NOTE 28 GOING CONCERN

The Consolidated Entity incurred a net loss of $2,084,118 (2011: $1,546 402) for the year ended 30 June 2012 and as is typical of exploration companies which need to raise funding on an ongoing basis, has a requirement to raise additional funds within the short term to meet overhead costs and continue exploration activities.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Consolidated Entity's ability to continue as a going concern and therefore, the Consolidated Entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The ability of the Consolidated Entity to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent on its the ability to successfully raise additional capital, receive further grant funding and/or successful exploration and subsequent exploitation of areas of interest through sale or development (including by way of joint venture funding).

Based on one or more of the following:

1. The success of prior capital raisings, including those in Note 27;
2. The potential for the successful application for further grant funds;
3. The potential to attract a farm-in partner to the projects; and
4. The current portfolio of exploration assets held.

The directors have prepared the financial report on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

The Directors are confident of securing funds as and when necessary to meet the Consolidated Entity's obligations as and when they fall due.

No adjustments have been made to the financial statements relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

DIRECTORS' DECLARATION

In the opinion of the Directors

(a) the attached financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of directors.

M Elliott

Mark Elliott
Executive Chairman

Brisbane
26 September 2012

Crowe Horwath Brisbane
ABN 79 981 227 862
Member Crowe Horwath International

Level 16, 120 Edward Street
Brisbane QLD 4000 Australia
GPO Box 736
Brisbane QLD 4001 Australia
Tel: +61 7 3233 3555
Fax: +61 7 3233 3567
www.crowehorwath.com.au

A WHK Group Firm

Independent Auditor's Report

To the members of Hot Rock Limited

Report on the Financial Report

We have audited the accompanying financial report of Hot Rock Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that 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 that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

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

Opinion
In our opinion:

(a) the financial report of Hot Rock 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 2012 and of its performance for the year ended on that date; and

   (ii)) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the consolidated financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter – Going Concern
Without modifying our opinion, we draw attention to Note 28 in the financial report, which indicates that the consolidated entity incurred a net loss of $2,084,118 (2011: $1,546,402) for the year ended 30 June 2012 and needs to raise additional funds within the short term to meet overheads and to continue exploration activities.

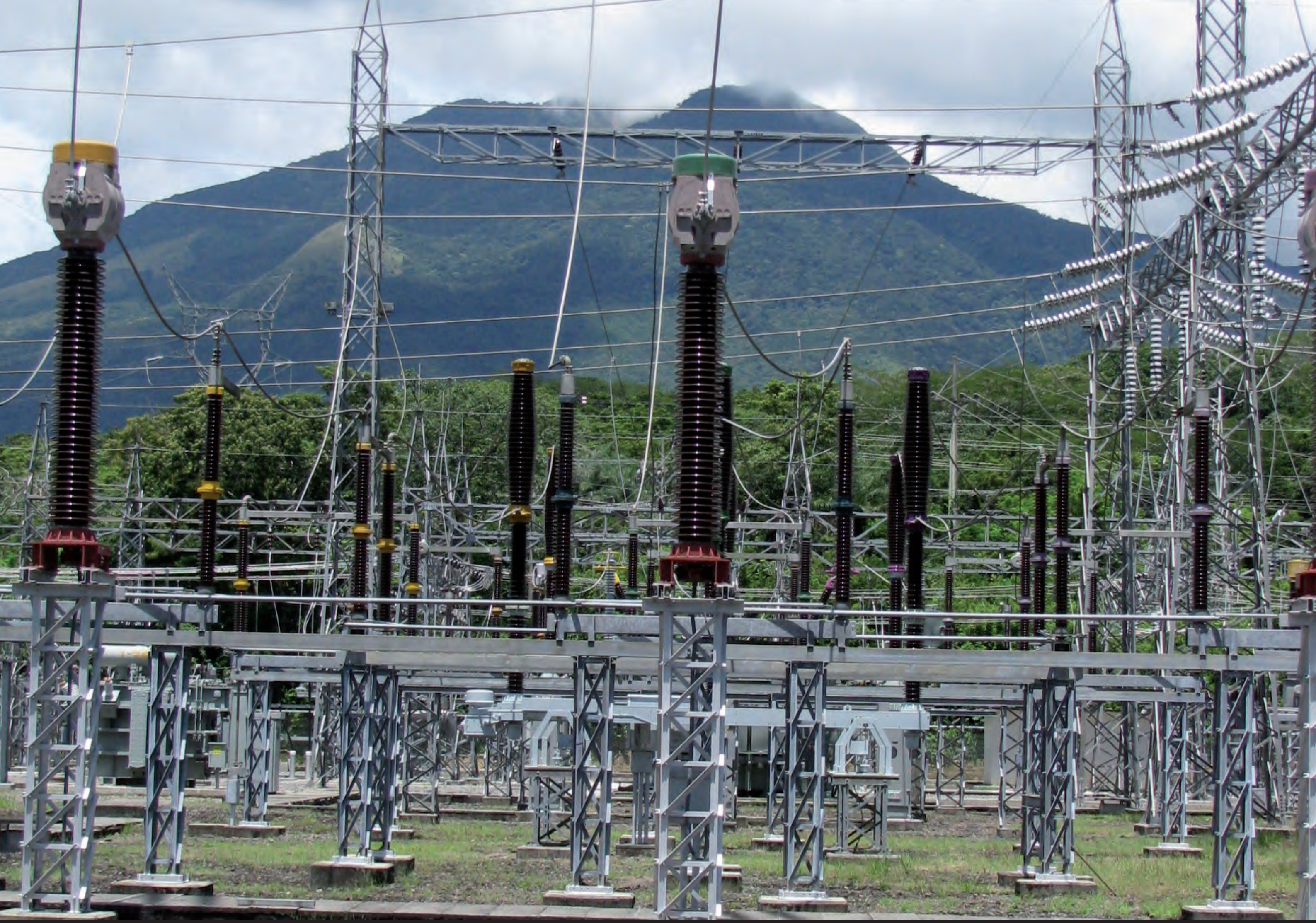
These conditions indicate the existence of a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion
In our opinion, the Remuneration Report of Hot Rock Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001.*

Crowe Horwath Brisbane

Brendan Worrall
Partner
Signed at Brisbane, 26 September 2012



Level 5, 10 Market Street, Brisbane Queensland 4000 Australia
Phone +61 7 3212 6200

hotrockltd.com

The information in this Statement that relates to Geothermal Resources has been compiled by Peter Barnett, an employee of Hot Rock Limited. Mr Barnett qualifies as a Competent Person as defined by the Australian Code of Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition). He has over 30 years' experience in the determination of crustal temperatures and stored heat for the style relevant to the style of geothermal play outlined in this release. He is a member of the Geothermal Resources Council and the International Geothermal Association, a current board member of the New Zealand Geothermal Association, a past board member of the Auckland University Geothermal Institute Board of Studies and a current member of the Economics Sub Committee of the Australian Geothermal Association.

In this work Mr Barnett has drawn freely from reports on the geothermal resources, prepared under his supervision, by both staff of Hot Rock Limited and by external consultants. The estimation of in-place and recoverable heat energy has been undertaken directly by Mr Barnett.

Mr Barnett consents to the public release of this report in the form and context in which it appears. Neither Mr Barnett nor Hot Rock Limited takes any responsibility for selective quotation of this Statement or if quotations are made out of context.