

Toro Energy Ltd

ABN 48 117 127 590

Financial Report

for the year ended 30 June 2007

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Corporate Information

This financial report covers both Toro Energy Ltd (ABN 48 117 127 590) as an individual entity and the consolidated entity comprising Toro Energy Ltd and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report.

Directors

Dr Ian Gould (Chairman)
Mr Greg Hall (Managing Director)
Mr Owen Hegarty
Mr Derek Carter

Company Secretary

Mr Donald Stephens

Registered Office

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

Principal Place of Business

3 Boskenna Avenue
NORWOOD SA 5067

Share Registry

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

Legal Advisors

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

Bankers

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

Auditors

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

Directors' Report

Your directors submit their report for the year ended 30 June 2007.

DIRECTORS

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

Dr Ian Gould	Chairman	Appointed 14 November 2005
Mr Greg Hall	Managing Director	Appointed 29 March 2006
Mr Owen Hegarty	Non Executive Director	Appointed 14 November 2005
Mr Derek Carter	Non Executive Director	Appointed 14 November 2005

Names, qualifications, experience and special responsibilities

Dr Ian Gould, BSc (Hons), PhD (Geology), FAusIMM (Non-Executive Chairman)

Dr Gould has over 37 years experience in senior executive positions in the minerals industry, including 17 years in the CRA/Rio Tinto Group, where he was Managing Director of Comalco's bauxite and alumina interests and subsequently Group Executive responsible for exploration, before his appointment as the first Managing Director - Australia for Rio Tinto. Dr Gould was subsequently Managing Director of the Normandy Mining Group until 2000, and non-executive director of Western Metals Ltd from 2000 (Chairman from 2002). He was also President of the Australasian Institute of Mining and Metallurgy in 2004 and 2005. Dr Gould is currently Chairman of the Australian Institute of Marine Science, St. Andrew's Hospital in Adelaide, the CSIRO's Minerals Sector Advisory Committee, and the South Australian Minerals and Petroleum Experts Group (SAMPEG). He is a member of the Royal Flying Doctor Service (Central Operations) Board, and is a member of the South Australian Resources Industry Development Board.

Greg Hall, BEng (Managing Director)

Greg Hall is a Mining Engineer with 28 years experience in the resources industry, including 17 years in the uranium industry in engineering, senior marketing and operational management roles. Mr Hall was Marketing Manager (North America) for ERA Ltd from 2000 to 2004, including a period of one year managing business improvement processes at its Ranger project. Prior to this, he was Manager - Mining of ERA Ltd's Ranger and Jabiluka operations. Mr Hall has also held a variety of senior technical and operational management roles at WMC Resources Ltd at its nickel operations and the Olympic Dam project, where he was Underground Manager then Mining Manager from 1987 to 1992. He undertook a secondment to LKAB's iron ore mining operations in Sweden in 1992/93. Mr Hall's most recent position was Director Sales - Bauxite and Alumina with Comalco, a member of the Rio Tinto group, which he joined in 2004.

Directors' Report

Owen Hegarty, BEc (Hons), FAusIMM (Non-Executive Director)

Mr Hegarty has over 33 years direct experience in the mining industry including 25 years with the Rio Tinto Group. He became Managing Director of Oxiana in 1995.

Mr Hegarty is a Director of the Minerals Council of Australia, and Range River Gold Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Hegarty was awarded the 2005 AusIMM Institute Medal for his leadership and achievements in the mining industry. He is a member of the Company's audit committee.

Derek Carter, MSc, FAusIMM (CP) (Managing Director)

Derek Carter is a geologist with over 32 years experience in corporate management, exploration and mining. He worked in Australia and overseas for Billiton (Shell Group of Companies) for 16 years. For 5 years he was General Manager-Exploration for Burmine Ltd before establishing Minotaur Gold NL in 1993. He formed Minotaur Resources Ltd in 2000 and Minotaur Exploration Ltd in 2005, and he was Managing Director of all these groups at their inceptions. He is currently the Managing Director of Minotaur Exploration Ltd. He is a member of the boards of Mithril Resources Ltd, Petrathem Ltd (Chairman) and the Resources Industry Development Board, and is a member of the South Australian Experts Group (Resources). He is a Councilor of the South Australian Chamber of Mines & Energy. In 2003 he became the Prospector of the Year (jointly awarded) and was awarded a Centenary Medal. In July 2007, he was also appointed Chairman of the Minerals Exploration Advisory Group.

COMPANY SECRETARY

Donald Stephens, BA (Acc), FCA

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd (SA), a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Ltd and Papyrus Australia Ltd and is company secretary to Minotaur Exploration Ltd, Mithril Resources Ltd, Petrathem Ltd, FerrAus Ltd, Arasor International Ltd, Chesser Resources Ltd and Innovance Ltd. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations. He is a member of the Company's audit committee.

Directors' Report

DIVIDENDS

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

PRINCIPAL ACTIVITIES

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

- To continue exploration of areas held and to seek out new areas with potential for uranium development; and
- Maintaining a watching brief over the uranium sector in Australia and overseas and pursuing uranium development and acquisition opportunities (via both direct and indirect project equity investment as appropriate).

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

OPERATING RESULTS FOR THE YEAR

The Group's net loss after income tax was \$1,698,212 (2006: \$622,890 Loss).

OPERATIONS REVIEW

During the financial year ended 30 June 2007, Toro Energy Ltd ('Toro Energy') was focused on building the Exploration and Business Development teams, commencing initial exploration programs, reviewing data history of tenements, and undertaking tenement expansion. Toro Energy has progressed its Board approved strategy of targeted exploration for, or acquisition of, developable uranium projects which can add value to our enterprise, and with the intention to take those projects through resource definition, development and into production.

The Exploration team was boosted during the financial year ended 2007 by the recruitment of Dr Geoff Hudson as Exploration Manager along with senior and project geologists, and now comprises seven full and part-time geological staff, supported by significant consulting expertise where required. Mr Simon Mitchell was recruited to head the Business Development team, which also retained a full-time Senior Mining Engineer to assist with project evaluation and acquisition opportunities. The Business Development team is assisted by consulting expertise in the business advisory and geological consulting area.

Toro Energy established its initial safety, environmental and radiation monitoring systems. This involves monitoring and reporting of safety incidents, an initial employee induction program, an exploration radiation management plan, and established drill site rehabilitation practices. For the financial year ended 30 June 2007 no lost time injuries or significant incidents were reported.

Directors' Report

Toro Energy continued and expanded its exploration activity during the financial year, with an airborne EM survey over prospective South Australian tenement regions to assist targeted exploration. Main exploration activities were focused on the Warrior, Yaninee, Ealbara and Mt Woods project regions. In particular the Warrior Project was expanded with Toro Energy entering into a JV agreement with Stellar Resources Ltd. This agreement, along with the existing JV with Range River Gold Ltd, has provided Toro with access to the full Warrior palaeochannel system. Exploration work has now started to re-confirm the uranium grades that were identified during exploration in the 70's.

Exploration drilling programs were undertaken at the Warrior and Yaninee projects, and down-hole probing was completed on old drill holes in the Mt Woods project area. Historical data review and planning of further airborne EM surveys was undertaken over other project areas. Subsequent to year end, an initial drilling program was completed on the Ealbara Project area.

In February 2007, Toro Energy announced an agreement with Deep Yellow Ltd to enter into a Purchase Option Agreement for the Napperby Uranium Deposit 150km NW of Alice Springs in the Northern Territory. This project was explored by Uranerz during the 1970's and 80's, and additional work by Deep Yellow Ltd has resulted in an initial resource of 670t U₃O₈ under the JORC code announced in Dec 2006. By the end of June, all conditions for the Agreement were finalised and Toro retained the rights to evaluate and, if desired, to acquire 100% of the Napperby Project over a three year period. Toro's initial resource expansion work is planned to commence in September 2007.

Toro Energy signed a Memorandum of Understanding with The National Office of Hydrocarbons and Minerals (ONHYM) of Morocco for exclusive exploration evaluation rights over three uranium prospective areas within Morocco. Based on data research and field visits, it was confirmed that the three regions contain historical uranium occurrences in a variety of settings, with individual drill results in the range 0.1% to 1% U₃O₈ being historically reported. Toro Energy retains the exclusive right to negotiate exploration JV's over these areas.

Subsequent to the end of the financial year, Toro Energy and Nova Energy Ltd announced their intention to merge by way of a takeover of Nova by Toro. This will create a significant uranium exploration and development company with the aim to be an emerging uranium producer. Successful completion of the merger, which is subject to a higher offer, is expected in late October 2007.

Upon successful merger, the Wiluna Project (Lake Way / Centipede) will be the most advanced project within the new Toro Energy, with an existing resource of 19.8 Mlbs U₃O₈ in situ in accordance with the JORC code, and a pre-feasibility and resource upgrade underway. The Napperby Project will be the next most advanced, with these two forming the head of an existing and planned pipeline of projects. Along with an Exploration and Business Development team, the expanded Toro Energy will establish a Project Development team as these projects advance.

Directors' Report

RISK MANAGEMENT

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

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the Company occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Board of Toro Energy Limited announced on the 6th August 2007 that it has agreed with Nova Energy Limited (ASX: NEL) (Nova) to merge the two companies. The merger will take place by way of a scrip offer (the Offer) by Toro for all the issued shares in Nova. The consideration to be offered is 5.5 Toro shares for each Nova share which values Nova at A\$276 million.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

Directors' Report

Environmental and Social Policy

Toro Energy is an active explorer for uranium and an acquirer of uranium resources, with an aim to develop and operate uranium mining production facilities. It has access to existing tenements within South Australia and is actively seeking opportunities within Australia and potentially overseas.

Sustainable exploration, development and mining are attainable by carefully managed activities and processes which have little or no lasting impact on the environment. Toro Energy is committed to minimising environmental and social impacts of its activities.

Toro Energy's Environment and Social Policy is to:

- Understand that a commitment to best environmental and social practice is crucial to the growth and sustainability of our business
- Comply with all applicable legislation and legal requirements in all states where we operate
- Involve affected communities by discussing the development of work programs and communicating activities
- Monitor and improve our environmental and social performance

To support this policy we will adopt the following practices:

Environment

- Minimise clearing of local vegetation prior to exploration activity
- Implement adequate controls on fuels and other chemicals used in drilling
- Cap and make safe drill holes
- Construct the minimum number of access tracks
- Eliminate the transport of weeds or other exotic species between regions
- Apply best practical methods known and available to the company during exploration, particularly with respect to uranium
- Rehabilitate land affected by exploration with the aim of returning it to its previous use
- Train employees and assist contractors to achieve the above environmental aims

Social

- Recognise that local people have significant environmental knowledge of areas to be explored
- Communicate with relevant local residents, farm or pastoral property owners and occupiers, Aboriginal groups and local authorities regarding access and work programs
- Respect the rights, cultural beliefs, and relevant concerns of all parties having a legitimate interest in land proposed for exploration
- Minimise the impacts of exploration activities wherever possible
- Consult with land users, owners, lessees and with government authorities to ensure that statutory and other requirements are known

Directors' Report

SHARE OPTIONS

Unissued Shares

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

Issue Date	Expiry Date	Exercise Price	Balance at 1 July 2006	Net Issued/ (Exercised) during Year	Balance at 30 June 2007
24/03/2006	23/03/2011	\$0.40	4,000,000	-	4,000,000
01/04/2006	31/03/2011	\$0.35	2,000,000	-	2,000,000
01/04/2006	31/03/2011	\$0.45	1,000,000	-	1,000,000
27/09/2006	26/09/2011	\$0.65	-	500,000	500,000
12/12/2006	11/12/2011	\$0.88	-	440,000	440,000
19/03/2007	18/03/2012	\$1.15	-	500,000	500,000
			<u>7,000,000</u>	<u>1,440,000</u>	<u>8,440,000</u>

Shares issued as a result of the exercise of options

No shares have been issued as a result of the exercise of options throughout the period ended 30 June 2007 or after the balance date at the time of signing this report.

New Options Issued

During the financial year, the following options were issued to company employees and officeholders:

- 500,000 options issued to the Business Development Manager.
- 500,000 options issued to the Exploration Manager.
- 200,000 options issued to the Company Secretary.
- 240,000 options issued to other employees of Toro Energy Ltd.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of \$38,507. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

Directors' Report

REMUNERATION REPORT - Audited

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

Remuneration philosophy

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

Employment contracts

The employment conditions of the Managing Director, Mr Greg Hall, are formalised in a contract of employment. Mr Hall commenced employment on 29 March 2006 and his gross salary, inclusive of the 9% superannuation guarantee, is \$286,800 per annum. The Company may terminate the employment contract without cause by providing six (6) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the Exploration Manager, Mr Geoff Hudson, are formalised in a contract of employment. Mr Hudson commenced employment on 14 February 2007 and his gross salary, inclusive of the 9% superannuation guarantee, is \$185,300 per annum. The Company may terminate the employment contract without cause by providing six (6) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

The employment conditions of the Business Development Manager, Mr Simon Mitchell, are formalised in a contract of employment. Mr Mitchell commenced employment on 26 September 2006 and his gross salary, inclusive of the 9% superannuation guarantee, is \$166,770 per annum. The Company may terminate the employment contract without cause by providing six (6) months written notice or making payment in lieu of notice, based on the annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

Key management personnel remuneration and equity holdings

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

Directors' Report

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

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

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

Remuneration Report

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

	Short Term	Post Employment	Share-based payments	Total
	Salary & Fees	Superannuation	Value of options	\$
Ian Gould				
2007	68,807	6,193	-	75,000
2006	22,936	2,064	47,400	72,400
Gregory Hall				
2007	268,128	22,331	-	290,459
2006	63,544	5,719	89,700	158,963
Owen Hegarty				
2007	48,165	4,335	-	52,500
2006	16,055	1,445	23,700	41,200
Derek Carter				
2007	48,165	4,335	-	52,500
2006	16,055	1,445	23,700	41,200

Directors' Report

Table 2: Remuneration of the specified executives for the year ended 30 June 2007

	Short Term	Post Employment	Share-based payments	Total
	Salary & Fees	Superannuation	Value of options	\$
Geoff Hudson				
2007	49,039	4,413	35,415	88,867
2006	-	-	-	-
Simon Mitchell				
2007	115,728	10,416	55,400	181,544
2006	-	-	-	-
Donald Stephens				
2007	-	-	12,115	12,115
2006	-	-	-	-

The fair value of options issued to the directors and executives have been valued using the Black-Scholes methodology. Further information regarding this valuation is contained within note 14 of the financial statements.

HLB Mann Judd (SA) Pty Ltd ("HLB") has received professional fees for accounting, taxation and secretarial services provided during the year. Donald Stephens, the Company Secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd. A total of \$79,853 has been paid or is to be paid to HLB Mann Judd (SA) Pty Ltd for services rendered in 2007 (2006: \$11,447).

Table 3: Options issued as part of remuneration

30 June 2007	Grant Number	Grant Date	Value per option at grant date (\$)	Exercise price per option	Expiry Date	First Exercise Date	Last Exercise Date	% of Remuneration
Directors								
None issued								
Executives								
Geoff Hudson	500,000	19/03/07	0.251	1.15	18/03/12	18/03/08	18/03/12	40%
Simon Mitchell	500,000	27/09/06	0.146	0.65	26/09/11	27/09/07	26/09/11	31%
Donald Stephens	200,000	12/12/06	0.11	0.88	11/12/11	10/12/07	11/12/11	100%

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

Directors' Report

Table 4: Option holdings of key management personnel

30 June 2007	Balance at beginning of period	Granted as remuneration	Options Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Ian Gould	2,000,000	-	-	-	2,000,000	23/03/11	24/03/06	23/03/11
Greg Hall	2,000,000	-	-	-	2,000,000	31/03/11	01/07/06	31/03/11
Greg Hall	1,000,000	-	-	-	1,000,000	31/03/11	01/04/07	31/03/11
Owen Hegarty	1,000,000	-	-	-	1,000,000	23/03/11	24/03/06	23/03/11
Derek Carter	1,000,000	-	-	-	1,000,000	23/03/11	24/03/06	23/03/11
Executives								
Geoff Hudson	-	500,000	-	-	500,000	18/03/12	18/03/08	18/03/12
Simon Mitchell	-	500,000	-	-	500,000	26/09/11	27/09/07	26/09/11
Donald Stephens	-	200,000	-	-	200,000	11/12/11	10/12/07	11/12/11
	7,000,000	1,200,000	-	-	8,200,000			

In accordance with Toro Energy Ltd's listing arrangement, the 7,000,000 options issued to the directors have been escrowed for a period of 2 years from listing, until 23 March 2008.

30 June 2006	Balance at beginning of period	Granted as remuneration	Options Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Ian Gould	-	2,000,000	-	-	2,000,000	23/03/11	24/03/06	23/03/11
Greg Hall	-	2,000,000	-	-	2,000,000	31/03/11	01/07/06	31/03/11
Greg Hall	-	1,000,000	-	-	1,000,000	31/03/11	01/04/07	31/03/11
Owen Hegarty	-	1,000,000	-	-	1,000,000	23/03/11	24/03/06	23/03/11
Derek Carter	-	1,000,000	-	-	1,000,000	23/03/11	24/03/06	23/03/11
	-	7,000,000	-	-	7,000,000			

Directors' Report

Table 5: Shareholdings of key management personnel

	30 June 07	Balance at 1 July 2006	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors					
Dr Ian Gould		-	-	-	-
Mr Greg Hall		-	-	-	-
Mr Owen Hegarty		80,000	-	-	80,000
Mr Derek Carter		80,000	-	-	80,000
		<u>160,000</u>	-	-	<u>160,000</u>
Executives					
Donald Stephens		35,000	-	-	35,000
Geoff Hudson		-	-	4,000	4,000
Simon Mitchell		-	-	-	-
		<u>35,000</u>	-	4,000	<u>39,000</u>

Mr Hegarty and Mr Carter are directors of Oxiana Ltd and Minotaur Exploration Ltd respectively. Both companies are the beneficial owner of 36,001,000 (24.74%) ordinary shares in the issued capital of Toro Energy Ltd.

	30 June 06	Balance at Incorporation	On Exercise of Options	Net Change Other	Balance 30 June 2006
Directors					
Dr Ian Gould		-	-	-	-
Mr Greg Hall		-	-	-	-
Mr Owen Hegarty		-	-	80,000	80,000
Mr Derek Carter		-	-	80,000	80,000
		-	-	<u>160,000</u>	<u>160,000</u>
Executives					
Donald Stephens		-	-	35,000	35,000
		-	-	<u>35,000</u>	<u>35,000</u>

Directors' Report

DIRECTORS' MEETINGS

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

Number of meetings held	Directors' Meetings		Audit Committee	
	Eligible	Attended	Eligible	Attended
Number of meetings held	8		1	1
Number of meetings attended:	<u>Eligible</u>	<u>Attended</u>	<u>Eligible</u>	<u>Attended</u>
Dr Ian Gould	8	8	-	-
Mr Greg Hall	8	8	-	-
Mr Owen Hegarty	8	8	1	1
Mr Derek Carter	8	7	-	-

Members acting on the audit committee of the board are:

Owen Hegarty Non-executive director
Donald Stephens Company secretary

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Grant Thornton, in its capacity as auditor for Toro Energy Ltd, has not provided any non-audit services throughout the reporting period. The auditor's independence declaration for the year ended 30 June 2007 as required under section 307C of the Corporations Act 2001 has been received and can be found on page 17.

Signed in accordance with a resolution of the directors.



Mr Greg Hall
Managing Director

24 September 2007

Chartered Accountants and Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF TORO ENERGY LTD**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Toro Energy Ltd for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Wayville this 24 day of September 2007

Corporate Governance Statement

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

Board Responsibilities

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

The key responsibilities of the board include:

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

Managing Director and Company Secretary Declaration to the Board of Directors

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

Board Composition

At the date of this statement the board consists of three non-executive directors, Dr Gould, who is also chairman of the board, Mr Carter and Mr Hegarty. Dr Gould has no other material relationship or association with the Company or its subsidiaries other than his directorship. Mr Hegarty and Mr Carter are directors of Oxiana Ltd and Minotaur Exploration Ltd respectively. Both companies are the beneficial owner of 24.74% of the issued capital in Toro Energy Ltd. The company therefore has one independent director as that relationship is currently defined.

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

Corporate Governance Statement

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

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

Board Remuneration

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

Remuneration of the managing director is reviewed and approved on an annual basis by the non-executive directors.

Conflicts of Interest

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

Director and Senior Management Dealings in Company Securities

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

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

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

Corporate Governance Statement

Board Committees

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

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

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

The board has an audit committee comprising one director of the company, Mr Owen Hegarty and the company secretary. The committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

External Auditor Attendance at Annual General Meeting

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

Continuous Disclosure

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

Code of Ethics

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

Corporate Governance Statement

The Role of Shareholders

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

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

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

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

In a number of instances the Company has departed from the various recommendations. This is primarily due to the size of the Company and the nature and scope of its operations and the cost benefit of adopting such recommendations. These departures and reasons for departure are as follows:

- There have been no formal disclosures of policies or processes. However, the Group has provided details of its environmental and social policy in the Directors' report and will be forming an environment committee.

The board has formed an audit committee which has formulated the objectives and responsibilities for that committee. No other committees were formed prior to the year end. As previously noted this is because of the size of the Company and board. The board takes ultimate responsibility for these matters.

Income Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	4 (a)	809,080	495,786	809,080	495,786
Employee benefits expense	4 (c)	(849,126)	(312,357)	(849,126)	(312,357)
Depreciation expense	4 (b)	(58,908)	(3,738)	(58,908)	(3,738)
Other expenses	4 (d)	(1,599,258)	(359,113)	(1,599,258)	(359,113)
(Loss) before income tax expense		(1,698,212)	(179,422)	(1,698,212)	(179,422)
Income tax expense	5	-	(443,468)	-	(443,468)
(Loss) for the year		(1,698,212)	(622,890)	(1,698,212)	(622,890)
(Loss) attributable to members of the parent entity		(1,698,212)	(622,890)	(1,698,212)	(622,890)
Earnings per share:					
			<i>Cents</i>		
Basic earnings per share	6	(1.17)	(0.43)		
Diluted earnings per share	6	(1.17)	(0.43)		

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT ASSETS					
Cash and cash equivalents	7	11,713,471	15,910,691	11,713,471	15,910,691
Trade and other receivables	8	91,582	38,113	63,630	38,113
Other current assets	9	274,023	186,771	274,023	186,771
TOTAL CURRENT ASSETS		12,079,076	16,135,575	12,051,124	16,135,575
NON-CURRENT ASSETS					
Property, plant and equipment	10	281,556	119,739	281,556	119,739
Other receivables	11	-	-	2,329,017	386,845
Other financial assets	12	-	-	17,661,832	17,661,832
Exploration and evaluation assets	13	21,342,080	19,121,679	1,379,183	1,073,002
TOTAL NON-CURRENT ASSETS		21,623,636	19,241,418	21,651,588	19,241,418
TOTAL ASSETS		33,702,712	35,376,993	33,702,712	35,376,993
CURRENT LIABILITIES					
Trade and other payables	15	306,026	466,115	306,026	466,115
Borrowings	16	11,850	-	11,850	-
Short-term provisions	17	21,354	7,026	21,354	7,026
TOTAL CURRENT LIABILITIES		339,230	473,141	339,230	473,141
NON-CURRENT LIABILITIES					
Borrowings	16	35,760	-	35,760	-
Long-term provisions	17	4,614	-	4,614	-
TOTAL NON-CURRENT LIABILITIES		40,374	-	40,374	-
TOTAL LIABILITIES		379,604	473,141	379,604	473,141
NET ASSETS		33,323,108	34,903,852	33,323,108	34,903,852
EQUITY					
Issued Capital	18	35,342,242	35,342,242	35,342,242	35,342,242
Reserves	19	301,968	184,500	301,968	184,500
Retained earnings	20	(2,321,102)	(622,890)	(2,321,102)	(622,890)
TOTAL EQUITY		33,323,108	34,903,852	33,323,108	34,903,852

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated				Parent			
		Issued Capital Ordinary	Retained Earnings	Reserves	Total	Issued Capital Ordinary	Retained Earnings	Reserves	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Balance at incorporation		-	-	-	-	-	-	-	-
Shares issued upon incorporation of company	18	2,000	-	-	2,000	2,000	-	-	2,000
Shares issued pursuant to Initial Public Offering	18	18,000,000	-	-	18,000,000	18,000,000	-	-	18,000,000
Issued pursuant to sale and purchase agreement	18	17,661,832	-	-	17,661,832	17,661,832	-	-	17,661,832
Issued pursuant to Tripartite agreements	18	713,168	-	-	713,168	713,168	-	-	713,168
Transaction costs (net of tax)	18	(1,034,758)	-	-	(1,034,758)	(1,034,758)	-	-	(1,034,758)
(Loss) attributable to members of the parent entity	20	-	(622,890)	-	(622,890)	-	(622,890)	-	(622,890)
Cost of share based payment	19	-	-	184,500	184,500	-	-	184,500	184,500
Balance at 30 June 2006		35,342,242	(622,890)	184,500	34,903,852	35,342,242	(622,890)	184,500	34,903,852
Balance at 1 July 2006		35,342,242	(622,890)	184,500	34,903,852	35,342,242	(622,890)	184,500	34,903,852
(Loss) attributable to members of the parent entity	20	-	(1,698,212)	-	(1,698,212)	-	(1,698,212)	-	(1,698,212)
Cost of share based payment	19	-	-	117,468	117,468	-	-	117,468	117,468
Balance at 30 June 2007		35,342,242	(2,321,102)	301,968	33,323,108	35,342,242	(2,321,102)	301,968	33,323,108

The accompanying notes form part of these financial statements.

Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(2,437,700)	(353,683)	(2,414,476)	(353,683)
Interest received		772,663	348,164	772,663	348,164
NET CASH USED IN OPERATING ACTIVITIES	7	(1,665,037)	(5,519)	(1,641,813)	(5,519)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(218,649)	(119,870)	(218,649)	(119,870)
Loans to wholly-owned subsidiaries		-	-	(1,942,532)	(386,845)
Proceeds from loans from related parties		-	553,115	-	553,115
Repayment of loans from related parties		-	(553,115)	-	(553,115)
Payments for exploration activities		(2,357,178)	(487,694)	(437,870)	(100,849)
NET CASH USED IN INVESTING ACTIVITIES		(2,575,827)	(607,564)	(2,599,051)	(607,564)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		43,644	-	43,644	-
Proceeds from issue of shares		-	18,002,000	-	18,002,000
Transaction costs of issue of shares		-	(1,478,226)	-	(1,478,226)
NET CASH PROVIDED BY FINANCING ACTIVITIES		43,644	16,523,774	43,644	16,523,774
Net increase/(decrease) in cash and cash equivalents		(4,197,220)	15,910,691	(4,197,220)	15,910,691
Cash at the beginning of the financial year		15,910,691	-	15,910,691	-
CASH AT THE END OF THE FINANCIAL YEAR	7	11,713,471	15,910,691	11,713,471	15,910,691

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

1. CORPORATE INFORMATION

The financial report of Toro Energy Ltd (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 24 September 2007. Toro Energy Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accrual basis and is based on historical costs, modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

b. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Toro Energy Ltd comply with International Financial Reporting Standards (IFRS).

c. Principle of consolidation

The consolidated financial statements comprise the financial statements of Toro Energy Ltd and its subsidiaries as at 30 June (the Group). A list of controlled entities is contained in Note 24 to the financial statements. All controlled entities have a June financial year-end.

The financial statements of the subsidiaries are prepared for the same reporting period and using consistent accounting policies as those of the parent.

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

d. Revenue Recognition

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

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

Interest income

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

e. Government grants

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

f. Finance costs

Finance costs are recognised as an expense when incurred.

g. Leases

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

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

h. Cash and cash equivalents

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

i. Trade and other receivables

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

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

j. Financial Instruments

Recognition

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

Financial liabilities

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

Fair value

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

Impairment

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

k. Income tax

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

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

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

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

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

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

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

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

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Tax consolidation

The parent entity and its Australian wholly-owned entities are part of a tax-consolidated group under Australian taxation law. The head entity within the tax-consolidation group for the purposes of the tax consolidation system is Toro Energy Ltd.

Toro Energy Ltd and each of its own wholly-owned subsidiaries recognise the current and deferred tax assets and deferred tax liabilities applicable to the transactions undertaken by it, after elimination of intra-group transactions. Toro Energy Ltd recognises the entire tax-consolidated group's retained tax losses.

I. Goods and Service Tax

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

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

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

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

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

m. Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated on a straight-line and diminishing value basis over the estimated useful life of the assets. The useful life of the assets for 2007 is as follows:

Plant and equipment - 2.5 - 20 years
Motor vehicles - 8 years

Impairment

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

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

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the income statement.

n. Impairment of assets

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

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

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

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

o. Exploration and Evaluation Expenditure

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

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

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

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

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

p. Trade and other payables

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

q. Provisions

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

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

r. **Employee benefits**

Wages, salaries, annual leave and sick leave

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

Long service leave

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

s. **Share-based payment transactions**

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

The company has established the Employee Share Option Plan which provides benefits to employees.

The cost of these equity-settled transactions with employees are measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model using the assumptions detailed in note 14.

The cost of equity-settled transactions is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued. However, where options have vesting terms attached, the cost of the transaction is amortised over the vesting period.

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

t. **Contributed equity**

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

u. New accounting and UIG interpretations

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. None of the standards have been adopted in the preparation of the financial statements at reporting date.

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
7	Financial Instruments: Disclosure	Aug 2005	1 Jan 2007
8	Operating Segments	Feb 2007	1 Jan 2009
101	Presentation of Financial Statements (Amended)	Oct 2006	1 Jan 2007
123	Borrowing Costs (Amended)	June 2007	1 Jan 2009
2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, &1038]	April 2007	1 July 2007

v. Earnings per share

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

Diluted earnings per share is calculated as net profit attributable to members of the parent divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

w. Critical Accounting Estimates and Judgments

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

Key Estimates — Exploration and evaluation

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

3. SEGMENT INFORMATION

Industry and Geographical Segment

The entity operates primary in the mining exploration sector solely within Australia.

4. REVENUE AND EXPENSES

(a) Revenue

Bank interest received or receivable	809,080	495,786	809,080	495,786
	809,080	495,786	809,080	495,786

(b) Expenses

Depreciation of non-current assets

Plant and equipment	58,908	3,738	58,908	3,738
Total depreciation	58,908	3,738	58,908	3,738

(c) Employees benefits expense

Wages, salaries, directors fees and other remuneration expenses	883,157	144,639	883,157	144,639
Workers' compensation costs	41,259	-	41,259	-
Defined contribution plan expense	98,167	12,323	98,167	12,323
Other Benefits provided	36,675	-	36,675	-
Transfer to annual leave provision	14,328	7,026	14,328	7,026
Transfer to long service leave provision	4,614	-	4,614	-
Share-based payments expense	117,468	184,500	117,468	184,500
Transfer to capitalised tenements	(346,542)	(36,131)	(346,542)	(36,131)
	849,126	312,357	849,126	312,357

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
(d) Other expenses from ordinary activities				
Listing costs expensed	-	135,338	-	135,338
Promotion and advertising	90,911	28,823	90,911	28,823
Recruitment expenses	237,501	27,000	237,501	27,000
Travelling expenses	119,052	26,026	119,052	26,026
Stock exchange fees	43,249	25,184	43,056	25,184
Share registry fees	64,916	18,419	64,916	18,419
Audit fees	23,500	12,000	23,500	12,000
Professional fees	79,853	11,447	79,853	11,447
Conference expenses	54,677	10,517	54,677	10,517
Insurance costs	53,387	11,278	53,387	11,278
Consulting Fees	69,946	8,061	69,946	8,061
Legal Fees	5,199	336	5,199	336
Other expenses	757,067	44,684	757,260	44,684
	1,599,258	359,113	1,599,258	359,113

5. INCOME TAX

The major components of income tax expense are:

Income Statement

Current income tax

Current income tax charge/(benefit)	(1,252,631)	(352,894)	(678,365)	(236,840)
Tax portion of capital raising costs	-	443,468	-	443,468

Deferred income tax

Relating to origination and reversal of temporary differences	120,739	(26,658)	(51,542)	(61,475)
Net future income tax benefit not realised as recognition criteria of AASB 112 not met	1,131,892	379,552	729,907	298,315
Income tax expense/(benefit) reported in the income statement	-	443,468	-	443,468

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	(1,698,212)	(179,422)	(1,698,212)	(179,422)
-------------------------------------	-------------	-----------	-------------	-----------

At the Group's statutory income tax rate of 30% (2006: 30%)

Immediate write off of capital expenditure	(621,121)	(312,697)	(46,854)	(196,643)
Expenditure not allowable for income tax purposes	44,294	57,917	44,294	57,917
Other	(166,340)	(44,287)	(166,341)	(44,287)
	(1,252,631)	(352,894)	(678,365)	(236,840)

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Income tax losses				
Deferred tax asset arising from carried forward tax losses and temporary differences not recognised at reporting date as the asset is not regarded as meeting the probable criteria				
- timing differences at 30%	(120,739)	26,658	51,542	61,475
- tax losses at 30%	1,252,631	352,894	678,365	236,840
	1,131,892	379,552	729,907	298,315

The Group has future net income tax benefits arising in Australia of \$1,605,525 (2006: \$352,894) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Tax consolidation

Toro Energy Ltd and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 16 March 2006. Toro Energy Ltd is the head entity of the tax consolidated group. Members of the group have not yet entered into a tax sharing arrangement.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

6. EARNINGS PER SHARE

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

	Consolidated	
	2007	2006
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(1,698,212)	(622,890)
	2007	2006
Weighted average number of ordinary shares for basic earnings per share	145,502,000	145,502,000
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	145,502,000	145,502,000

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

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
7. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	713,471	2,410,691	713,471	2,410,691
Short-term deposits	11,000,000	13,500,000	11,000,000	13,500,000
	11,713,471	15,910,691	11,713,471	15,910,691

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

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

Reconciliation to Cash Flow Statement

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

Cash at banks and in hand	713,471	2,410,691	713,471	2,410,691
Short-term deposits	11,000,000	13,500,000	11,000,000	13,500,000
	11,713,471	15,910,691	11,713,471	15,910,691

Reconciliation of net profit after tax to net cash flows from operations

Net profit	(1,698,212)	(622,890)	(1,698,212)	(622,890)
<i>Adjustments for non-cash items:</i>				
Depreciation	58,908	3,738	58,908	3,738
Non-cash income tax expense	-	443,468	-	443,468
Share based payments	117,468	184,500	117,468	184,500
<i>Changes in assets and liabilities</i>				
(Increase) in trade and other receivables	(52,957)	(185,736)	(25,158)	(185,736)
(Increase) in prepayments	(50,836)	(39,148)	(50,836)	(39,148)
(Decrease)/increase in trade and other payables	(66,121)	173,325	(70,696)	173,325
Increase in withholding tax	7,771	30,198	7,771	30,198
Increase in employee provisions	18,942	7,026	18,942	7,026
Net cash from operating activities	(1,665,037)	(5,519)	(1,641,813)	(5,519)

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
8. TRADE AND OTHER RECEIVABLES				
Sundry receivables (i)	320	4,948	320	4,948
Goods and services tax receivable	91,262	33,165	63,310	33,165
	<u>91,582</u>	<u>38,113</u>	<u>63,630</u>	<u>38,113</u>

- (i). Sundry receivables are non-interest bearing and generally have 30-90 day payment terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

Information regarding the credit risk of current receivables is set out in note 25.

9. OTHER CURRENT ASSETS

Prepayments	89,984	39,148	89,984	39,148
Accrued income	184,039	147,623	184,039	147,623
	<u>274,023</u>	<u>186,771</u>	<u>274,023</u>	<u>186,771</u>

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated			Parent		
	Plant & equipment \$	Motor Vehicles \$	Total \$	Plant & equipment \$	Motor Vehicles \$	Total \$
Year ended 30 June 2007						
At 1 July 2006, net of accumulated depreciation and impairment	119,739	-	119,739	119,739	-	119,739
Additions	170,489	50,236	220,725	170,489	50,236	220,725
Depreciation charge for the year	(49,644)	(9,264)	(58,908)	(49,644)	(9,264)	(58,908)
At 30 June 2007, net of accumulated depreciation and impairment	240,584	40,972	281,556	240,584	40,972	281,556
At 1 July 2006						
Cost	123,477	-	123,477	123,477	-	123,477
Accumulated depreciation and impairment	(3,738)	-	(3,738)	(3,738)	-	(3,738)
Net carrying amount	119,739	-	119,739	119,739	-	119,739
At 30 June 2007						
Cost	293,966	50,236	344,202	293,966	50,236	344,202
Accumulated depreciation and impairment	(53,382)	(9,264)	(62,646)	(53,382)	(9,264)	(62,646)
Net carrying amount	240,584	40,972	281,556	240,584	40,972	281,556
Year ended 30 June 2006						
At incorporation	-	-	-	-	-	-
Additions	123,477	-	123,477	123,477	-	123,477
Depreciation charge for the year	(3,738)	-	(3,738)	(3,738)	-	(3,738)
At 30 June 2006, net of accumulated depreciation and impairment	119,739	-	119,739	119,739	-	119,739
At 30 June 2006						
Cost	123,477	-	123,477	123,477	-	123,477
Accumulated depreciation and impairment	(3,738)	-	(3,738)	(3,738)	-	(3,738)
Net carrying amount	119,739	-	119,739	119,739	-	119,739

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

11. OTHER RECEIVABLES (NON CURRENT)

Related party receivables:

Loans to wholly-owned subsidiaries (i)	-	-	2,329,017	386,845
	-	-	2,329,017	386,845

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

12. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investment in wholly-owned subsidiaries	-	-	17,661,832	17,661,832
	-	-	17,661,832	17,661,832

Details of wholly-owned subsidiaries can be found at note 24.

13. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs carried forward in respect of mining areas of interest	21,342,080	19,121,679	1,379,183	1,073,002
	21,342,080	19,121,679	1,379,183	1,073,002

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

Consolidated entity

Capitalised tenement expenditure movement reconciliation:

Balance at 1 July 2006	19,121,679
Additions through expenditure capitalised	2,220,401
Balance at end of year	21,342,080

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

14. SHARE-BASED PAYMENTS

Employee Share Option Plan

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

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

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

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

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding at the beginning of the year	7,000,000	0.39	-	-
Granted during the year	1,440,000	0.89	7,000,000	0.39
Outstanding at the end of the year	8,440,000	0.48	7,000,000	0.39
Exercisable at the end of the year	-	-	-	-

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

The outstanding balance as at 30 June 2007 is represented by:

- A total of 4,000,000 options exercisable from escrow release date on 23 March 2008 until 23 March 2011 with a strike price of \$0.40.
- A total of 2,000,000 options exercisable from escrow release date on 23 March 2008 until 31 March 2011 with a strike price of \$0.35.
- A total of 1,000,000 options exercisable from escrow release date on 23 March 2008 until 31 March 2012 with a strike price of \$0.45.
- A total of 440,000 options, vesting 10 December 2007 and exercisable until 11 December 2011 with a strike price of \$0.88.
- A total of 500,000 options, vesting 27 September 2007 and exercisable until 26 September 2011 with a strike price of \$0.65.
- A total of 500,000 options, vesting 18 March 2008 and exercisable until 18 March 2012 with a strike price of \$1.15.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 3.87 years (2006: 4.75 years).

The range of exercise prices for options outstanding at the end of the year was \$0.35-\$1.15 (2006: \$0.35-\$0.45).

The weighted average fair value of options granted during the year was \$0.17 (2006: \$0.04).

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

The following table lists the weighted average of inputs to the model used for the years ended 30 June 2006 and 30 June 2007:

	2007	2006
Volatility (%)	18.47%	18.70%
Risk-free interest rate (%)	6.00%	5.32%
Expected life of option (years)	5.00	5.00

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
15. TRADE AND OTHER PAYABLES (CURRENT)				
Trade payables (i)	225,156	355,195	225,156	355,195
Other payables (ii)	80,870	110,920	80,870	110,920
	<u>306,026</u>	<u>466,115</u>	<u>306,026</u>	<u>466,115</u>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

(ii) Other payables are non-interest bearing and are normally settled within 30 - 90 days.

Information regarding the credit risk of current payables is set out in note 25.

Included in trade payables is the amount of \$35,809 payable to Minotaur Operations Pty Ltd, a wholly-owned subsidiary of Minotaur Exploration Ltd. Mr Derek Carter is the Managing Director of Minotaur Exploration Ltd ("Minotaur"). Information regarding transactions between Minotaur and the Toro Energy Group are set out in note 26.

16. BORROWINGS

Current

Hire purchase contracts	11,850	-	11,850	-
	<u>11,850</u>	<u>-</u>	<u>11,850</u>	<u>-</u>

Non-current

Hire purchase contracts	35,760	-	35,760	-
	<u>35,760</u>	<u>-</u>	<u>35,760</u>	<u>-</u>

17. PROVISIONS

Current

Annual leave provision				
Opening Balance	7,026	-	7,026	-
Movement during year	14,328	7,026	14,328	7,026
Closing Balance 30 June	<u>21,354</u>	<u>7,026</u>	<u>21,354</u>	<u>7,026</u>

Non-current

Long Service Leave:				
Opening Balance	-	-	-	-
Movement during year	4,614	-	4,614	-
Closing Balance 30 June	<u>4,614</u>	<u>-</u>	<u>4,614</u>	<u>-</u>

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
18. ISSUED CAPITAL				
145,502,000 fully paid ordinary shares	35,342,242	35,342,242	35,342,242	35,342,242
	35,342,242	35,342,242	35,342,242	35,342,242
	2007		2006	
	Number	\$	Number	\$
Ordinary shares				
Balance at beginning of financial year	145,502,000	35,342,242		
Issued upon incorporation of company	-	-	2,000	2,000
Issued pursuant to initial public offer	-	-	72,000,000	18,000,000
Issued to the following entities pursuant to their respective share sale and purchase agreements:				
Oxiana Ltd	-	-	36,000,000	9,000,000
Minotaur Resources Investments Pty Ltd	-	-	34,647,326	8,661,832
Issue of Shares to Minotaur Resources Investments Pty Ltd pursuant to the following Tripartite Agreements:				
Lake Eyre	-	-	565,789	141,447
Mutooroo	-	-	786,885	196,721
Issue of Shares to Billiton Exploration Australia Pty Ltd pursuant to the following Tripartite Agreements:				
Lake Eyre	-	-	750,000	187,500
Mutooroo	-	-	750,000	187,500
Transaction costs (net of tax)	-	-	-	(1,034,758)
Balance at end of 30 June 2007	145,502,000	35,342,242	145,502,000	35,342,242

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

19. RESERVES

Reserves

Share-option reserve (a)	301,968	184,500	301,968	184,500
	<u>301,968</u>	<u>184,500</u>	<u>301,968</u>	<u>184,500</u>

(a) Share-option reserve

Opening Balance	184,500	-	184,500	-
Share-based payments expensed during the year	117,468	-	117,468	-
Issue of options to directors pursuant to an employment agreement	-	184,500	-	184,500
Balance at 30 June 2007	<u>301,968</u>	<u>184,500</u>	<u>301,968</u>	<u>184,500</u>

Nature and purpose of reserves

Share-option reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 14 for further details of these plans.

20. RETAINED EARNINGS

Balance at beginning of financial year	(622,890)	-	(622,890)	-
Net loss attributable to members of the parent entity	(1,698,212)	(622,890)	(1,698,212)	(622,890)
Balance at end of financial year	<u>(2,321,102)</u>	<u>(622,890)</u>	<u>(2,321,102)</u>	<u>(622,890)</u>

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

21. COMMITMENTS FOR EXPENDITURE

Operating leases

Not longer than 1 year	99,993	68,154	99,993	68,154
Longer than 1 year and not longer than 5 years	60,472	136,312	60,472	136,312
	<u>160,465</u>	<u>204,466</u>	<u>160,465</u>	<u>204,466</u>

Hire purchase commitments

Not longer than 1 year	15,290	15,416	15,290	15,416
Longer than 1 year and not longer than 5 years	38,354	53,897	38,354	53,897
	<u>53,644</u>	<u>69,313</u>	<u>53,644</u>	<u>69,313</u>
Less: future finance charges	(6,034)	(10,000)	(6,034)	(10,000)
	<u>47,610</u>	<u>59,313</u>	<u>47,610</u>	<u>59,313</u>

Terms of lease arrangements

The Group has operating leases in place for its principal place of business which expires within 1 year. The terms of renewal have an escalation clause linked to the CPI. Other operating leases in place for residential premises are negotiated annually.

Exploration leases

Pursuant to the Tenement Access Agreement made between Minotaur Operations Pty Ltd (a wholly-owned subsidiary of Minotaur Exploration Ltd) and Minotaur Uranium Pty Ltd (a wholly-owned subsidiary of Toro Energy Ltd), the Toro Energy Group is expected to meet approximately 50% of the expenditure requirement on Minotaur Operations tenements under the Access Agreement. For the year ended 30 June 2008, \$2,050,000 is expected to be incurred by the Toro Energy Group. This obligation to the Toro Energy Group is expected to be fulfilled in the normal course of operations.

22. CONTINGENT ASSETS AND LIABILITIES

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

23. AUDITORS REMUNERATION

Audit or review of the financial report	23,500	12,000	23,500	12,000
Preparation of an independent accountants report for the prospectus	-	9,500	-	9,500
	<u>23,500</u>	<u>21,500</u>	<u>23,500</u>	<u>21,500</u>

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

24. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2007 %	2006 %
<u>Parent entity</u>			
Toro Energy Ltd (i)	Australia		
<u>Subsidiaries</u>			
Minotaur Uranium Pty Ltd (ii)	Australia	100	100
Oxiana Energy Pty Ltd (ii)	Australia	100	100

(i) Toro Energy Ltd is the head entity within the tax-consolidated group.

(ii) These companies are members of the tax-consolidated group.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

Credit risk

The Group trades only with recognised, creditworthy third parties.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Interest rate risk

CONSOLIDATED

	< 1year \$	> 1 - < 2 years \$	> 2 - < 3 years \$	Total \$
Year ended 30 June 2007				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Term Deposits	11,000,000	-	-	11,000,000
Weighted average effective interest rate	6.58%			
<i>Floating rate</i>				
Cash assets	713,471	-	-	713,471
Weighted average effective interest rate	5.18%			
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Interest bearing liabilities	11,850	35,760	-	47,610
Weighted average effective interest rate	8.14%			

PARENT

	< 1year \$	> 1 - < 2 years \$	> 2 - < 3 years \$	Total \$
Year ended 30 June 2007				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Term Deposits	11,000,000	-	-	11,000,000
Weighted average effective interest rate	6.58%			
<i>Floating rate</i>				
Cash assets	713,471	-	-	713,471
Weighted average effective interest rate	5.18%			
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Interest bearing liabilities	11,850	35,760	-	47,610
Weighted average effective interest rate	8.14%			

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

CONSOLIDATED

	< 1year \$	> 1 - < 2 years \$	> 2 - < 3 years \$	Total \$
Year ended 30 June 2006				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Term Deposits	13,500,000	-	-	13,500,000
Weighted average effective interest rate	5.77%			
<i>Floating rate</i>				
Cash assets	2,410,691	-	-	2,410,691
Weighted average effective interest rate	4.76%			
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Obligations under hire purchase contracts	-	-	-	-
Weighted average effective interest rate	0.00%			

PARENT

	< 1year \$	> 1 - < 2 years \$	> 2 - < 3 years \$	Total \$
Year ended 30 June 2006				
<i>FINANCIAL ASSETS</i>				
<i>Fixed rate</i>				
Term Deposits	13,500,000	-	-	13,500,000
Weighted average effective interest rate	5.77%			
<i>Floating rate</i>				
Cash assets	2,410,691	-	-	2,410,691
Weighted average effective interest rate	4.76%			
<i>FINANCIAL LIABILITIES</i>				
<i>Fixed rate</i>				
Obligations under hire purchase contracts	-	-	-	-
Weighted average effective interest rate	0.00%			

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

26. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

Details of key management personnel's interests in shares and options of the Company and their remuneration can be found under remuneration in the directors' report. This information is marked as audited.

Wholly owned group transactions

Loans

The wholly owned Group consists of Toro Energy Ltd and its wholly owned controlled entities Minotaur Uranium Pty Ltd and Oxiana Energy Pty Ltd. Ownership interests in these controlled entities are set out in note 24. Transactions between Toro Energy Ltd and other entities in the wholly owned Group during the year consisted of loans advanced by Toro Energy Ltd to fund exploration and investment activities. The closing value of all loan amounts to wholly owned members of the group is contained within the balance sheet under other receivables and cash movements throughout the year are detailed within the body of the cash flow statement under loans to wholly owned subsidiaries.

Other related party transactions

Throughout the year ended 30 June 2007, Minotaur Operations Pty Ltd (a wholly-owned subsidiary of Minotaur Exploration Ltd, of which Mr Derek Carter is a director provided the Toro Energy Group with access to exploration personnel, motor vehicles and equipment to enable Toro to begin exploration of its uranium rights. In exchange for these services, Minotaur Operations Pty Ltd has received income in the form of service charges. In addition to these services charges, Minotaur Operations Pty Ltd also paid for joint costs on behalf Toro Energy Ltd and has sought direct reimbursement of these costs from the Toro Energy Group. All transactions were conducted on commercial terms and were arms length transactions. The total amount paid or to be paid to Minotaur Operations Pty Ltd through the period ended 30 June 2007 was \$165,762 (net of GST) (30 June 2006: \$334,868).

HLB Mann Judd (SA) Pty Ltd ("HLB") has received professional fees for accounting, taxation and secretarial services provided during the year. Donald Stephens, the Company Secretary, is a consultant with HLB Mann Judd (SA) Pty Ltd. A total of \$79,853 has been paid or is to be paid to HLB Mann Judd (SA) Pty Ltd for services rendered in 2007 (2006: \$11,447).

27. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Toro Energy Limited announced on the 6th August 2007 that it has agreed with Nova Energy Limited (ASX: NEL) (Nova) to merge the two companies. The merger will take place by way of a scrip offer (the Offer) by Toro for all the issued shares in Nova. The consideration to be offered is 5.5 Toro shares for each Nova share which values Nova at A\$276 million.

Directors' Declaration

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

1. In the opinion of the directors:
 - a. the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the period ended on that date; and
 - ii. complying with Accounting Standards and Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
 - c. the audited remuneration disclosures set out in the remuneration report of the directors' report comply with Accounting Standard AASB 124 Related Party disclosures.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

On behalf of the board



Mr Greg Hall
Managing Director

24 September 2007

Chartered Accountants and Business Advisers

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TORO ENERGY LTD AND CONTROLLED ENTITIES

Report on the financial report

We have audited the accompanying financial report of Toro Energy Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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Chartered Accountants and Business Advisers

Auditor's opinion

In our opinion:

- (a) The financial report of Toro Energy Ltd is in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and
- (c) The remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Wayville this 24 day of September 2007