

Petratherm Ltd

ABN 106 806 884

Half Year Report

for the half year ended 31 December 2006

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Directors' Report

The directors of Petratherm Ltd submit their report for the half-year ended 31 December 2006.

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

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

Review of Operations

SUMMARY

During the six months to 31 December 2006, the Company made substantial progress in the development of its flagship Paralana Geothermal Energy Project. This included the successful Phase-2 drilling of 1807 metres and confirmation of expectation of commercial temperatures of around 200°C at a target depth of 3600 metres.

Concurrently the Company critically examined the economics of the project, identifying a clear and comprehensive path to commercialization from small to very large scale generation development. A key component of that commercialization path was achieved with the Memorandum of Understanding for the supply of electricity to Heathgate Resources' Beverley Uranium Mine.

Joint Venture discussions and negotiations for the Paralana Project were undertaken during the period and a \$30 million deal was struck with Beach Petroleum Limited at the end of January 2007.

The Company continued to examine new opportunities to expand its portfolio of projects through the judicious application of its exploration model both in Australia and overseas. This resulted in the Federal Government endorsed project in China to assess several geothermal energy prospects and the securing of tenements in Spain announced after the reporting period.

Post the reporting period, the Company also announced a \$5 million Federal Government grant to commercialize its HEWI model at the Paralana Project.

CORPORATE HIGHLIGHTS

- The Company completed the independent and comprehensive pre-feasibility study and economic model for the Paralana Geothermal Energy Project in South Australia. Concurrently, the Company revised its Strategic Business Plan, conducted a detailed competitor analysis and developed a clear commercialisation path for the Paralana Project

- A landmark Memorandum of Understanding for the supply of power to Heathgate Resources' Beverley Uranium Mine was established on 1 November 2006 at a signing ceremony witnessed by SA Mineral Resources Minister, the Honourable Paul Holloway.
- Petratherm announced, also on 1 November 2006, that it was successful in obtaining Project endorsement from the Asia Pacific Partnership on Climate and Clean Development (AP6) to undertake a study to "Identify high prospect geothermal energy projects in China".
- Joint Venture opportunities for geothermal exploration and development at Paralana were pursued during the period resulting in the \$30 million Joint Venture deal with Beach Petroleum that was announced subsequent to the reporting period.
- The Company successfully completed a placement of 6,500,000 fully paid ordinary shares at 32 cents, in November 2006, raising \$2,080,000 before expenses. The funds are being applied to engineering and well design for the deep well at the Paralana geothermal, plus procurement of associated long lead-time drilling resources and materials, and ongoing working capital.
- Petratherm relocated to at 105-106 Greenhill Road, Unley in Adelaide SA, to accommodate the growing needs of the Company.
- At the end of the half year the Company held \$3,071,000 in cash.

OPERATIONS HIGHLIGHTS

- Following the very successful phase 2 drilling campaign at Paralana geothermal, temperature measurements taken from the well at the end of August confirmed the Paralana Thermal Province as one of Australia's leading geothermal resources.
- Independent economic modelling studies indicate the Paralana resource could potentially support both small scale (7.5 MW to 30 MW) and large-scale base-load power (260 to 520 MW) generation, in the short and long term, respectively.
- Planning and preparatory work is under way for the drilling of the first deep - around 3.5 to 4.0 kilometres - production well at Paralana. This is the first step to establishing the underground heat exchanger within the insulating rock, i.e. Petratherm's HEWI Model.
- An exceptionally high heat flow of 129 milliwatts per square metre (mW/m^2) was established in December 2006 at the Paralana Geothermal Site, providing further confidence in the economic viability of the thermal resource.
- The Company secured a new geothermal exploration licence (GEL 254) to cover the full extent of the thermal resource at Paralana. This new tenement brings the Company's tenure position at Paralana to approximately 2000 square kilometres.

Auditor's independence declaration

The auditors' independence declaration is set out on page 6 and forms part of the directors' report for the half-year ended 31 December 2006.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Terry Kallis', with a small flourish at the end.

Mr Terry Kallis
Managing Director

6 March 2007

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PETRATHERM LIMITED & CONTROLLED ENTITY**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Petratherm Limited for the half-year ended 31 December 2006, 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 *Adelaide* this *6* day of *March* 2007

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Consolidated Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated	
		Half year ended 31 Dec 2006 \$	Half year ended 31 Dec 2005 \$
Revenue from ordinary activities		48,714	56,066
Impairment of non-current assets		-	(7,560)
Employee benefits expense		(386,721)	(110,580)
Depreciation expense		(5,623)	(2,326)
Other expenses		(313,835)	(192,016)
Loss before income tax expense		(657,465)	(256,416)
Income tax expense		(36,023)	-
Loss for the period		(693,488)	(256,416)
Loss attributable to members of the parent entity		(693,488)	(256,416)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share		(1.57)	(0.73)
Diluted earnings per share		(1.57)	(0.73)

The income statement is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2006

	Note	Consolidated	
		31 December 2006 \$	30 June 2006 \$
CURRENT ASSETS			
Cash and cash equivalents		3,060,301	2,554,246
Trade and other receivables		38,129	125,249
Other current assets		19,490	11,452
TOTAL CURRENT ASSETS		3,117,920	2,690,947
NON-CURRENT ASSETS			
Property, plant and equipment		49,921	32,321
Exploration and evaluation assets		3,240,581	3,012,967
TOTAL NON-CURRENT ASSETS		3,290,502	3,045,288
TOTAL ASSETS		6,408,422	5,736,235
CURRENT LIABILITIES			
Trade and other payables		87,730	756,938
Short-term provisions		37,515	33,189
TOTAL CURRENT LIABILITIES		125,245	790,127
NON-CURRENT LIABILITIES			
Long-term provisions		43,068	38,109
Other non-current liabilities		140,000	140,000
TOTAL NON-CURRENT LIABILITIES		183,068	178,109
TOTAL LIABILITIES		308,313	968,236
NET ASSETS		6,100,109	4,767,999
EQUITY			
Issued Capital	2	8,085,487	6,089,542
Retained earnings		(2,109,013)	(1,415,525)
Reserves		123,635	93,982
TOTAL EQUITY		6,100,109	4,767,999

The balance sheet is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated			
		Share Capital Ordinary \$	Retained Earnings \$	Reserves \$	Total \$
Balance at 1 July 2005		3,986,786	(579,914)	64,755	3,471,627
Loss attributable to members of the parent entity		-	(256,416)	-	(256,416)
Balance at 31 December 2005		3,986,786	(836,330)	64,755	3,215,211
Balance at 1 July 2006		6,089,542	(1,415,525)	93,982	4,767,999
Loss attributable to members of the parent entity			(693,488)		(693,488)
Shares issued via placement		2,080,000			2,080,000
Transaction costs (net of tax)		(84,055)			(84,055)
Cost of share based payment				29,653	29,653
Balance at 31 December 2006		8,085,487	(2,109,013)	123,635	6,100,109

The statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Cash Flow Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Consolidated	
	Half year ended 31 Dec 2006 \$	Half year ended 31 Dec 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		
Payments to suppliers and employees	(701,411)	(337,485)
Interest received	54,791	69,032
NET CASH USED IN OPERATING ACTIVITIES	(646,620)	(268,453)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	2,362	-
Purchase of property, plant and equipment	(24,788)	(5,340)
Government exploration related grants	-	148,544
Payments for exploration activities	(784,821)	(1,113,532)
NET CASH USED IN INVESTING ACTIVITIES	(807,247)	(970,328)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,080,000	-
Transaction costs of issue of shares	(120,078)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,959,922	-
Net increase/(decrease) in cash and cash equivalents	506,055	(1,238,781)
Net foreign exchange differences	-	-
Cash at the beginning of the reporting period	2,554,246	2,670,150
CASH AT THE END OF THE REPORTING PERIOD	3,060,301	1,431,369

The cash flow statement is to be read in conjunction with the notes to the consolidated interim financial report.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

Petratherm Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (the "consolidated entity").

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

c. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

2. ISSUED CAPITAL

	Consolidated	
	As at 31 Dec 06 \$	As at 30 Jun 06 \$
Fully paid ordinary shares	8,085,487	6,089,542
	8,085,487	6,089,542
	Half year ended 31 Dec 06	
	Number	\$
Ordinary shares		
Balance at beginning of financial year	43,375,001	6,089,542
Share Placement issued on 6 December 2006	6,500,000	2,080,000
Transaction costs on shares issued		(84,055)
Balance at end of financial year	49,875,001	8,085,487

3. SEGMENT INFORMATION

Industry & Geographical Segment

The Group operates in the mining exploration sector solely within Australia.

4. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

5. SUBSEQUENT EVENTS

On the 30th January 2007 Petratherm announced a new geothermal joint venture with Beach Petroleum Limited.

Petratherm Ltd on the 20th February 2007 announced that it has been offered a \$5 million Renewable Energy Development Initiative (REDI) Grant by the Commonwealth Government to help accelerate the development of South Australia's Paralana "Hot Rock" or Geothermal Energy Project.

Directors' Declaration

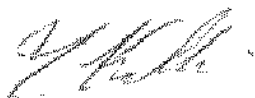
In accordance with a resolution of the directors of Petratherm Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; 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.

Signed in accordance with a resolution of directors.



Mr Terry Kallis
Managing Director

6 March 2007

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF PETRATHERM LIMITED & CONTROLLED ENTITY****Scope****Report on the financial report**

We have reviewed the accompanying interim financial report of Petratherm Limited and Controlled Entity, which comprises the consolidated interim balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the Financial Report

The directors' of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim 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.

Auditors' responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. As auditor of Petratherm Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Petratherm Limited is not in accordance with the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S. J. GRAY
Partner

Signed at *Adelaide* this *6* day of *March* 2007