

PETRATHERM LTD

ACN 106 806 884

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2005

**PETRATHERM LTD ACN 106 806 884
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT - HALF-YEAR ENDED 31 DECEMBER 2005

The directors of Petratherm Ltd submit herewith the financial report for the half year ended 31 December 2005.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are below.

Mr. Derek N Carter, Chairman
Mr. Richard M Bonython, Non-Executive Director
Mr. Lloyd Taylor, Non-Executive Director
Mr Richard Hillis , Non-Executive Director
Mr Simon O'Loughlin , Non-Executive

REVIEW OF OPERATIONS

Petratherm Ltd is actively exploring for new hot rock energy supplies in Australia. Hot rock energy, being renewable, sustainable, and emission free, has the potential to supply large-scale base-load electricity at a cost competitive with the fossil fuels. Through collaborative research with the University of Adelaide, Petratherm has developed methods to locate potential hot rock reserves in a cost effective manner and is well positioned to capitalise on the expansion of the hot rock industry.

The Company is actively exploring three project areas in South Australia, Paralana (GEL's 156,178,180), Callabonna (GEL's 157,179) and Ferguson Hill (GEL 158), and maintains a strong generative focus in the search for new projects Australia wide.

Following successful drilling results during the period the Company has entered into discussions with a number of third parties regarding potential geothermal exploration joint venture opportunities.

Two geothermal evaluation wells were drilled, one at Paralana and the other at Callabonna. Paralana-1B recorded a bottom hole temperature of 58°C at 485 metres, equating to a gradient of 81.5°C per kilometre and Yerila-1 recorded a bottom hole temperature of 64°C at a depth of 675 metres, equating to a gradient of 68°C per kilometre

These results are at the upper level of Company expectations and are consistent with Petratherm's business model which targets temperatures in excess of 220°C at depths no greater than 3.5 kilometres. Ultimately, the confirmation of such temperatures at this depth will lead to a significant reduction in the cost of drilling high temperature geothermal energy extraction wells, which represent the major capital cost component of a geothermal project.

Preparations to extend the Paralana hole are well advanced and scheduled to begin in April 2006. Deepening the well to 1500 metres or more will enable a study of thermal gradients and rock properties at intermediate depths, prior to a decision to take the project to a full circulation feasibility study which will involve drilling injection and production wells to about 3.5 kilometres using an oil exploration drilling rig.

In November the Company announced that, subject to the confirmation by further drilling of favorable geology at the Paralana thermal anomaly, it may be possible to develop a circulating fluid cell and subsurface heat exchanger in the sedimentary strata overlying the thermogenic granite at depth. This approach has the potential to lower the technical risk associated with the development of an underground heat exchanger and reduce overall project capital cost by obviating the need to drill into and fracture stimulate granite. Moreover, this approach is more closely aligned with proven conventional geothermal operations, an established commercial producer of cheap electricity.

**PETRATHERM LTD ACN 106 806 884
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT - HALF-YEAR ENDED 31 DECEMBER 2005

MATTERS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Further to the Company's announcement on the 17 January 2005, 5,250,000 Ordinary Fully Paid Shares were allotted to investors by way of a private placement, raising \$1,470,000. The purpose of the issue was to raise working capital for the exploration and development of Petratherm's Hot Rock Geothermal Projects. In conjunction with this placement, substantial holder Minotaur Exploration Ltd exercised 2,500,000 of its 7.5 Million escrowed options in the Company at an exercise price of \$0.20, raising \$500,000. Upon the allotment of both of the above, Minotaur's holding in Petratherm Ltd was diluted to 40.9% (30 June 2005: 42.9%). Additionally, 30,000 options exercisable at \$0.40, expiring 31 December 2010 were issued on 1 January 2006 to an employee under the employee and officers share option plan as part of an employment agreement.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous Australian GAAP and the Australian equivalents to IFRS have been included in Note 1 of this report.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 4 for the half-year ended 31 December 2005.

Signed in accordance with a resolution of directors.

On behalf of the Directors

MR. DEREK N CARTER
Chairman



Dated this

1st day of March 2006

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Petratherm Ltd for the half year ended 31 December 2005, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
CHARTERED ACCOUNTANTS



S J GRAY
Partner

Signed at *Adelaide* this *1* day of *March* 2006

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**PETRATHERM LTD ACN 106 806 884
AND CONTROLLED ENTITIES**

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<i>Note</i>	Consolidated	
		Half-year ended 31 December 2005 \$	Half-year ended 31 December 2004 \$
Revenue		56,066	80,853
Exploration expenditure		(7,560)	(45,696)
Employee benefits expense		(110,580)	(125,332)
Depreciation expense		(2,326)	(1,943)
Other expenses		(192,016)	(164,998)
Profit/(Loss) before income tax expense		(256,416)	(257,116)
Income tax expense		-	-
Profit/(Loss) for the period		(256,416)	(257,116)
Profit/(Loss) attributable to members of the parent entity		(256,416)	(257,116)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share		(0.73)	(0.60)
Diluted earnings per share		(0.64)	(0.52)

The above consolidated income statement should be read in conjunction with the accompanying notes.

**PETRATHERM LTD ACN 106 806 884
AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Note	Consolidated	
		31 December 2005 \$	30 June 2005 \$
CURRENT ASSETS			
Cash and cash equivalents		1,431,369	2,670,150
Trade and other receivables		49,622	134,041
Other current assets		29,805	26,366
TOTAL CURRENT ASSETS		1,510,796	2,830,557
NON-CURRENT ASSETS			
Property, plant and equipment		17,018	13,984
Exploration and evaluation assets		1,797,469	881,841
TOTAL NON-CURRENT ASSETS		1,814,487	895,825
TOTAL ASSETS		3,325,283	3,726,382
CURRENT LIABILITIES			
Trade and other payables		48,340	207,703
Provisions		25,608	47,052
TOTAL CURRENT LIABILITIES		73,948	254,755
NON-CURRENT LIABILITIES			
Provisions		36,124	-
TOTAL NON-CURRENT LIABILITIES		36,124	-
TOTAL LIABILITIES		110,072	254,755
NET ASSETS		3,215,211	3,471,627
EQUITY			
Issued capital		3,986,786	3,986,786
Share Option Reserve		64,755	64,755
Retained earnings		(836,330)	(579,914)
TOTAL EQUITY		3,215,211	3,471,627

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

**PETRATHERM LTD ACN 106 806 884
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Consolidated	
	Half-year ended 31 December 2005 \$	Half-year ended 31 December 2004 \$
<i>Note</i>		
Cash flows from operating activities		
Payments to suppliers and employees	(337,485)	(216,908)
Interest received	69,032	78,678
Net cash used in operating activities	<u>(268,453)</u>	<u>(138,230)</u>
Cash flows from investing activities		
Payments for exploration activity	(1,113,532)	(201,554)
Government exploration related grants	148,544	-
Payments for property, plant and equipment	(5,340)	(12,081)
Payment for Subsidiary MNGI Pty Ltd, net of cash acquired	-	(27,552)
Net cash used in investing activities	<u>(970,328)</u>	<u>(241,187)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	4,000,000
Share issue expenses	-	(442,345)
Net cash provided by financing activities	<u>-</u>	<u>3,557,655</u>
Net decrease in cash held	(1,238,781)	3,178,238
Cash at the beginning of the reporting period	2,670,150	-
Cash at the end of the reporting period	<u>1,431,369</u>	<u>3,178,238</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**PETRATHERM LTD ACN 106 806 884
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Note	Share Capital Ordinary \$	Retained Earnings \$	Other Reserves \$	Total \$
Balance at 1 July 2004	1(e)	300,001	-	-	300,001
Profit/(Loss) attributable to members of the parent entity		-	(192,361)	-	(192,361)
Share options issued		-	(64,755)	64,755	-
Shares issued		4,000,000	-	-	4,000,000
Share issue costs		(313,215)	(134,235)	-	(447,450)
Balance at 31 December 2004		<u>3,986,786</u>	<u>(391,351)</u>	<u>64,755</u>	<u>3,660,190</u>
Balance at 1 July 2005	1(e)	3,986,786	(579,914)	64,755	3,471,627
Profit attributable to members of the parent entity		-	(256,416)	-	(256,416)
Balance at 31 December 2005		<u>3,986,786</u>	<u>(836,330)</u>	<u>64,755</u>	<u>3,215,211</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Petratherm Ltd as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Petratherm Ltd and its controlled entities during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a). Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

(b). Statement of compliance

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1 (c) below.

(c). Summary of significant accounting policies

(i). Basis of consolidation

The consolidated financial statements comprise the financial statements of Petratherm Ltd and its subsidiaries ('the Group').

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

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are 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.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Petratherm Ltd has control.

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

(ii). Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Plant and equipment – 10 – 40%

(iii). Exploration and Development Expenditure

Exploration, evaluation and development 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.

(iv). Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(v). Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi). 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 estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(vii). Cash and cash equivalents

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

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

(viii). Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(ix). Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees at balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(x). 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 obligations.

Where 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.

(xi). Revenue

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

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Revenue from the rendering of service is recognised upon the delivery of service to the customers.

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

(xii). Income tax

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 where the deferred income tax liability 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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 assets and unused tax losses can be utilised:

- except where 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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.

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 the income statement.

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

(xiii). Other taxes

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

- where 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 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.

(xiv). Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions').

The Employee Share Option Plan (ESOP) provides benefits to directors and employees.

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

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Petratherm Ltd ('market conditions').

The cost of equity-settled transactions is recognised as an expense in the income statement over the vesting period, together with a corresponding increase in the share option reserve.

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

(xv). Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as an offset against capitalised exploration assets over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i). Reconciliation of total equity as presented under AGAAP to that under AIFRS

	<i>CONSOLIDATED</i>		
	<i>30-Jun-05</i>	<i>31-Dec-04</i>	<i>01-Jul-04</i>
Total Equity under AGAAP	3,471,627	3,660,190	300,001
<i>Adjustments to equity:</i>			
No adjustments to total equity	-	-	-
Total equity under AIFRS	<u>3,471,627</u>	<u>3,660,190</u>	<u>300,001</u>

(ii). Reconciliation of profit after tax under AGAAP to that under AIFRS

	<i>CONSOLIDATED</i>	
	<i>Year ended</i>	<i>Half year ended</i>
	<i>30-Jun-05</i>	<i>31-Dec-04</i>
Profit/(Loss) after tax as previously recognised	(380,924)	(192,361)
Recognition of share-based payments expense (A)	(64,755)	(64,755)
Profit/(Loss) after tax under AIFRS	<u>(445,679)</u>	<u>(257,116)</u>

**NOTES TO THE HALF YEAR FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

(e) Impact of adoption of AIFRS (continued)

(iii). Reconciliation of components of equity as presented under AGAAP to that under AIFRS

CONSOLIDATED 30 JUNE 2005

	<i>Share Capital</i>	<i>Share Option</i>	<i>Retained</i>
	<i>\$</i>	<i>Reserve</i>	<i>Earnings</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>
Total under AGAAP	3,852,551	-	(380,924)
<i>Adjustments</i>			
Recognition of share-based payments expense (A)	-	64,755	(64,755)
Income tax adjustment (B)	134,235	-	(134,235)
Total equity under AIFRS	<u>3,986,786</u>	<u>64,755</u>	<u>(579,914)</u>

(A) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

(B) Under AASB 112, temporary deductible differences relating to scheme costs previously recognised directly in equity are recognised as a deferred tax asset. As the directors are of the view that the criteria for recognition of deferred tax assets has not been met, the temporary difference is taken directly to retained earnings.

2. SEGMENT REPORTING

Industry and Geographical Segment

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

3. CONTINGENT LIABILITIES

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

4. EVENTS AFTER BALANCE SHEET DATE

Further to the Company's announcement on the 17 January 2005, 5,250,000 Ordinary Fully Paid Shares were allotted to investors by way of a private placement, raising \$1,470,000. The purpose of the issue was to raise working capital for the exploration and development of Petratherm's Hot Rock Geothermal Projects. In conjunction with this placement, substantial holder Minotaur Exploration Ltd exercised 2,500,000 of its 7.5 Million escrowed options in the Company at an exercise price of \$0.20, raising \$500,000. Upon the allotment of both of the above, Minotaur's holding in Petratherm Ltd was diluted to 40.9% (30 June 2005: 42.9%). Additionally, 30,000 options exercisable at \$0.40, expiring 31 December 2010 were issued on 1 January 2006 to an employee under the employee and officers share option plan as part of an employment agreement.

PETRATHERM LTD
ACN 106 806 884

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:

- (i) give a true and fair view of the financial position as at 31 December 2005 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.

On behalf of the Board

MR. DEREK N CARTER
Chairman



Dated this

1st day of March 2006

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PETRATHERM LIMITED

Scope

The half year financial report and directors' responsibility

The half year financial report comprises comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for the consolidated entity, for the half year ended 31 December 2005. The consolidated entity comprises both Petratherm Limited (the company) and the entities it controlled during that half year.

The directors of the company are responsible for the preparation and true and fair presentation of the half year financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the half year financial report.

Review Approach

We conducted an independent review of the half year financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the half year financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian Professional ethical pronouncements and the Corporations Act 2001.

Statement

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and

- (ii) complying with Australian Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at *Adelaide* this *1* day of *March*

2006