

Petratherm Ltd

ABN 106 806 884

Half Year Report

for the half year ended 31 December 2007

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Directors' Report

The directors of Petratherm Ltd submit their report for the half-year ended 31 December 2007.

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 N Carter, Chairman
Mr Terry Kallis, Managing Director
Dr Lloyd Taylor
Dr Richard Hills
Mr Richard Bonython
Mr Simon O'Loughlin

Review of Operations

SUMMARY

During the six months to 31 December 2007, the Company made substantial progress in the development of its flagship Paralana Geothermal Energy Project. This included the design of a deep well and the completion of major seismic and magneto-telluric surveys, together with the signing of a letter of intent with Ensign International to provide a rig to commence drilling in the second half of calendar 2008.

Concurrently the Company expanded its overseas project portfolio in Spain to five, with conventional, direct use heat, and engineered geothermal systems (EGS) featuring in the portfolio. In addition the Company secured an exclusive agreement with Chinese government institutions to identify quality geothermal projects in China.

Post the reporting period, the Company also announced that it had opened an office in Madrid, plans to expand its internal resources and capabilities, received a \$100,000 PACE grant and secured two more GELs on the volcanic island of Tenerife in Spain.

The Company is well positioned to further develop its portfolio of projects during calendar 2008, notably its Paralana EGS project, the Madrid direct use heating project, and the conventional geothermal Tenerife project.

CORPORATE HIGHLIGHTS

Petratherm and its joint venture partner Beach Petroleum completed the deep well design, rig specification and selection process for the Paralana Project using Australian Drilling Associates and US geothermal energy experts Global Power Solutions.

A major reflective seismic and magneto-telluric survey across the Paralana tenement was completed. This preparatory work will provide valuable information and important guidance on the location of the two deep wells to be drilled at the Paralana project site - and the future development of the geothermal field.

A Letter of Intent was signed, in late November 2007, with Ensign International Energy Services, to secure a suitable drill rig. Drilling at the Paralana site is planned to commence in the second half of calendar 2008. The Letter of Intent with Ensign is subject to confirmation of well design parameters and negotiation of commercial arrangements.

The Federal Coalition announced a \$50 million election commitment to accelerate the commercialization of the Paralana Geothermal Energy Project and assessed that Paralana as the most commercially advanced geothermal project in Australia.

The new Labor Federal Government announced a number of commitments in its “Clean Energy Plan” in the lead up to the recent election that confirms their very strong support for the Australian Geothermal Energy Industry.

The Company continued to expand its Spanish project portfolio - from three to five - with the addition of the Almazan and Gran Canaria projects to the existing Madrid, Barcelona and Tenerife projects (refer Figure 3). Geothermal Exploration Licenses (GELs) have been issued for all projects with only the Barcelona GELs pending. This has created a significant first mover advantage in Spain and access to conventional geothermal projects, allowing the Company to have a project portfolio diversified across geothermal technologies as well as across markets.

Petratherm entered into a landmark, exclusive Agreement with four key Chinese Geological/Geothermal institutions to undertake a cooperative assessment of highly prospective projects in China.

At the end of the half year the Company held \$6,338,450 in cash.

OPERATIONS HIGHLIGHTS

The focus for the Company during the first six months has been one of consolidation, with the careful planning and preparation of the Paralana deep geothermal wells, and the strengthening of the Company’s emerging Spanish portfolio and the strategic entry into China through an exclusive Agreement with key Chinese government institutions.

The Company has sought the best local and international expertise to develop a drilling, evaluation, and sub-surface heat exchanger development plan for Paralana. The plan contains many innovations which differentiate it from other competitors. Underpinning this plan is the Company’s key desire to lower risk, lower costs, and maximise returns. The Paralana project has the potential to be commercially viable at all stages of development thus earning it recognition by the Federal Coalition as the most commercially advanced geothermal energy project in Australia..

During the period the Company in conjunction with its joint venture partner Beach Petroleum, successfully completed to schedule and within budget, a major reflection seismic survey over the interpreted high temperature zone of the Paralana Geothermal Project. A total of 162 line kilometres of survey data was captured in a seven line grid.

A magneto-telluric survey was undertaken, the results of which will aid further information on the geometry of potential reservoir zones, and may also define naturally occurring fluid pathways.

In Spain the Company has expanded its project portfolio to five projects, comprising two conventional geothermal exploration areas in the Canary Islands and three engineered geothermal (Hot Dry Rock) project areas on mainland Spain. Having first mover advantage in Spain, the Company has attracted great corporate, government and public interest. The Company is now actively developing its project areas and corporate business strategies for Spain.

The Company's Chinese Cooperative Agreement will operate over the next twelve months with the following four Chinese Government Institutions:

- China Geothermal Energy Society;
- Chinese Geological Survey;
- Chinese Academy of Sciences; and
- China Institute of Geo-Environment Monitoring

Total expenditure during the reporting period amounted to \$2,130,584 and at the end of the half year the Company held \$6,338,450 in cash.

Exploration and evaluation expenditures amounted to \$1,151,485 (net of joint venture and REDI funding) for the six months primarily reflecting the well design/rig selection work, together with the seismic and magneto-telluric surveys (preparatory work for deep drilling at the Paralana Project) and the Company's project portfolio expansion in Spain.

Ongoing administration costs of \$979,099 during the period reflect the recent expansion of staff and increased level of activity arising from new geothermal projects.

In early 2007, the Company established a joint venture with Beach Petroleum for up to \$30M for its Paralana Project. This was closely followed by a \$5M renewable energy development initiative grant from the Federal Government to prove Petratherm's Heat Exchanger Within Insulator (HEWI) model at Paralana. The joint venture and grant arrangements, together with the Company's strong cash position have provided Petratherm with the financial capacity to proceed with the next phase of the Paralana project and to concurrently develop new high value opportunities in Spain and China. During the first six months of the 2007/2008 year the JV and REDI grant provided \$574,764 towards operating activities while interest received from cash invested amounted to \$241,899.

Auditor's independence declaration

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for the half year ended 31 December 2007.

Signed in accordance with a resolution of directors made pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'T. Kallis', with a small flourish at the end.

Mr Terry Kallis
Managing Director

13th March 2008

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TO THE DIRECTORS OF PETRATHERM LTD**

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 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed in Adelaide on this 13th day of March 2008

Consolidated Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated	
		Half year ended 31 Dec 2007 \$	Half year ended 31 Dec 2006 \$
Revenue		241,899	48,714
Employee benefits expense		(769,751)	(386,721)
Depreciation expense		(12,877)	(5,623)
Other expenses		(438,370)	(313,835)
Loss before income tax expense		(979,099)	(657,465)
Income tax expense		(360)	(36,023)
Loss for the period		(979,459)	(693,488)
Loss attributable to members of the parent entity		(979,459)	(693,488)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share		(1.69)	(1.57)
Diluted earnings per share		(1.69)	(1.57)

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 2007

	Note	Consolidated	
		31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		6,338,450	8,189,083
Trade and other receivables		238,281	58,231
Other current assets		30,957	21,371
TOTAL CURRENT ASSETS		6,607,688	8,268,685
NON-CURRENT ASSETS			
Property, plant and equipment		83,974	92,091
Exploration and evaluation assets		4,756,096	3,604,611
TOTAL NON-CURRENT ASSETS		4,840,070	3,696,702
TOTAL ASSETS		11,447,758	11,965,387
CURRENT LIABILITIES			
Trade and other payables		352,572	240,069
Short-term provisions		54,511	52,061
Other current liabilities		-	28,366
TOTAL CURRENT LIABILITIES		407,083	320,496
NON-CURRENT LIABILITIES			
Long-term provisions		52,023	47,704
TOTAL NON-CURRENT LIABILITIES		52,023	47,704
TOTAL LIABILITIES		459,106	368,200
NET ASSETS		10,988,652	11,597,187
EQUITY			
Issued capital	2	14,220,621	14,184,561
Retained earnings		(3,727,323)	(2,747,864)
Reserves		495,354	160,490
TOTAL EQUITY		10,988,652	11,597,187

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 2007

	Consolidated			
	Issued Capital Ordinary \$	Retained Earnings \$	Reserves \$	Total \$
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
Balance at 1 July 2007	14,184,561	(2,747,864)	160,490	11,597,187
Loss attributable to members of the parent entity	-	(979,459)	-	(979,459)
Issue of shares upon exercise of employee options	32,000	-	-	32,000
Issue of share options under employee share option plan	-	-	329,374	329,374
Transaction costs (net of tax)	(840)	-	-	(840)
Foreign exchange translations	-	-	10,390	10,390
Transfer from share option reserve	4,900	-	(4,900)	-
Balance at 31 December 2007	14,220,621	(3,727,323)	495,354	10,988,652

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 2007

	Consolidated	
	Half year ended 31 Dec 2007 \$	Half year ended 31 Dec 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(971,428)	(701,411)
Interest received	245,294	54,791
Receipt of government grant	33,219	-
NET CASH USED IN OPERATING ACTIVITIES	(692,915)	(646,620)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	2,362
Purchase of property, plant and equipment	(4,760)	(24,788)
Government exploration related grants	74,560	-
Joint venture receipts	500,204	-
Payments for exploration activities	(1,758,522)	(784,821)
NET CASH USED IN INVESTING ACTIVITIES	(1,188,518)	(807,247)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	32,000	2,080,000
Transaction costs of issue of shares	(1,200)	(120,078)
NET CASH PROVIDED BY FINANCING ACTIVITIES	30,800	1,959,922
Net increase/(decrease) in cash and cash equivalents	(1,850,633)	506,055
Cash at the beginning of the reporting period	8,189,083	2,554,246
CASH AT THE END OF THE REPORTING PERIOD	6,338,450	3,060,301

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 2007

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 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 2007 is available upon request from the Company's registered office.

b. Statement of compliance

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

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 2007 and any public announcements made by the consolidated entity during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

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 2007.

Notes to the Financial Statements FOR THE HALF YEAR ENDED 31 DECEMBER 2007

2. ISSUED CAPITAL

	Consolidated	
	As at 31 Dec 07	As at 30 Jun 07
	\$	\$
Fully paid ordinary shares	14,220,621	14,184,561
	14,220,621	14,184,561
	Half year ended 31 Dec 07	
	Number	\$
Ordinary shares		
Balance at beginning of financial year	57,774,626	14,184,561
Issue of shares upon exercise of employee options		32,000
Transfer from share option reserve		4,900
Transaction costs on shares issued		(840)
Exercise of employee options	100,000	-
Balance at end of financial year	57,874,626	14,220,621

3. SEGMENT INFORMATION

Industry & Geographical Segment

The Group operates in the geothermal exploration sector in Australia and Spain.

4. CONTINGENT LIABILITIES

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

5. EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material events arising since balance date.

6. SHARE-BASED PAYMENTS

The company has established the Petratherm Ltd Employee Share Option Plan that entitles key management personnel and senior employees to purchase shares in the entity. The terms and conditions of the share option plan are disclosed in the consolidated financial report as at and for the year ended 30 June 2007. In December 2007 a further grant on similar terms was made to a new employee.

Notes to the Financial Statements FOR THE HALF YEAR ENDED 31 DECEMBER 2007

The terms and conditions of the grants made during the six months ended 31 December 2007 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
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Option grant at:

25-Jun-07	200,000	N/A	5 years
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Fair value of share options and assumptions for the six months ended 31 December 2007.

Fair value at grant date	\$0.778
Share price	\$1.48
Exercise price	\$0.97
Expected volatility	72.68%
Option life	5 years
Risk-free interest rate	6.35%

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2007.

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 2007 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 the directors.



Mr Terry Kallis
Managing Director

13th March 2008

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PETRATHERM LTD

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Petratherm Ltd (the Company) and the entities it controlled (the consolidated entity), which comprises the balance sheet as at 31 December 2007, 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, and other selected explanatory notes. The consolidated entity comprises both the Petratherm Ltd (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Petratherm Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF PETRATHERM LTD (cont)**

Auditor's responsibility (cont)

A review of a half-year 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 complied with the independence requirements of the Corporations Act 2001.

Conclusion

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 Ltd is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.
- b complying with Accounting Standard AASB 134: *Interim Financial Reporting* and Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed in Adelaide on this 13th day of March 2008