

Petratherm Ltd

ABN 106 806 884

Half Year Report

for the half year ended 31 December 2008

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Directors' Report

The directors of Petratherm Ltd submit their report for the half-year ended 31 December 2008.

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 Richard Hills
Mr Richard Bonython
Mr Simon O'Loughlin
Dr Lloyd Taylor (resigned 31/08/09)

Review of Operations

SUMMARY

During the six months to 31 December 2008, the Company continued developing a balanced portfolio of quality geothermal energy projects in Australia, Spain and China, particularly focusing on its more advanced projects at Paralana, Madrid, Tenerife and Gran Canaria.

The Company's flagship Paralana project made considerable progress during the period with the addition of TRUenergy as a joint venture partner (in a \$57 million deal for up to 30% project equity), the securing of 2000 HP rig, the completion of various geophysical studies and an application for a \$7 million geothermal drilling grant.

Concurrently, the Company advanced its Geo-Madrid geothermal district heating project completing a pre-feasibility assessment, completing a successful well re-entry program and commencing a full feasibility assessment of the 8 MW project. A work program for Tenerife and Gran Canaria was prepared during the period with the assistance of specialist conventional geothermal consultant, Sinclair Knight Merz.

The Company was awarded a 9000 km² geothermal exploration permit in Victoria's Gippsland basin to develop a hot sedimentary aquifer (HSA) project.

Non-executive director, Dr. Lloyd Taylor retired from his duties with the Company as of 31 August 2008. The Company expresses its thanks for his valuable contribution.

At the end of the period the Company held \$3.386 million in cash and has access to a \$5 million REDI grant and joint ventures with Beach Petroleum and TRUenergy.

CORPORATE HIGHLIGHTS

A \$57 million farm-in agreement was announced in August 2008 with TRUenergy, enabling them to earn up to 30% of the Paralana Geothermal Energy Joint Venture Project. The TRUenergy farm-in is additional to the existing \$30 million joint venture with Beach Petroleum for up to 36% of the project established in January 2007.

All conditions of the farm-in agreement were fully satisfied and final documents were executed in January 2009. The terms of the TRUenergy farm-in are:

- \$3 million for drilling and stimulating the first well, and
- \$3 million for drilling and stimulating the second well and circulation tests between the wells, and
- TRUenergy may withdraw without earning equity after the completion of the first well.

7.5MW Pilot Plant Stage - TRUenergy has an option to earn a further 5% equity by contributing \$7 million towards the development of the pilot plant stage that will be capable of providing power to the Beverley Uranium Mine - just 11 kilometres away.

30MW Demonstration Plant Stage - TRUenergy has an option to earn a further 15% equity by contributing \$44 million towards the development of the 30MW demonstration plant stage capable of meeting the growing needs of Heathgate Resources' Beverley mine and their proposed mine development at the nearby Four Mile deposit.

A drilling rig contract with Weatherford Drilling International was secured for the Paralana 2 deep well, now expected spud on 15 June 2009. Rig # 828 a 2,000 HP LeTourneau 'Lightning' Drilling Rig, which is being manufactured by LeTourneau Technologies Inc. in Dubai is capable of drilling very deep wells, and will be suitable for other geothermal energy developers thus enabling an acceleration of development across the sector.

The Company, on the behalf of the Paralana JV Project, lodged in December 2008, an application under the Commonwealth Government's \$50 million Geothermal Drilling Program (GDP) for a maximum amount of \$7 million. The Paralana JV Project has been advised that its application has met all eligibility criteria for funding under the GDP and if successful funds would be received prior to the commencement of drilling the Paralana 2 deep well in June 2009. The GDP provides for an upfront payment to successful candidates of 60% of the funding prior to drilling (i.e. \$4.2 million maximum).

Petratherm continued its leadership within the geothermal energy industry with its MD, Mr Terry Kallis, being appointed Chairman of the Australian Geothermal Energy Association and its representative to the Stakeholder Committee of the Australian Energy Market Commission's review of Energy markets in light of Climate Change Policies. In addition, Petratherm's Spanish Manager, Mr Raul Hidalgo, was appointed President of the geothermal chapter of Spain's Renewable Energy Generators' Association.

During the period, the Commonwealth Government outlined its Carbon Pollution Reduction Scheme (CPRS) and its 20% by 2020 Renewable Energy Target (RET) which together will provide a sound long-term commercial trading framework for renewable energy investment and give greater investor confidence in geothermal energy projects. Concurrently, the Commonwealth announced the bringing forward of its \$435 million Renewable Energy Demonstration Program aimed at facilitating the demonstration of emerging/developing renewable technologies. The Company has since registered its interest in the program and intends to make a full application by 15 April 2009.

OPERATIONS HIGHLIGHTS

Preparatory work for the drilling of the Paralana 2 deep well was undertaken during the period. That preparatory work included:

- The installation of a passive seismic array that has commenced gathering data of the background seismicity of the project site. The passive seismic array will provide valuable information on microseismic events created during the stimulation phase of the Paralana reservoir enabling a better understanding of reservoir characteristics and an increased confidence in the location of the Paralana 3 deep production well.
- The results of a magneto-telluric study and a reflection seismic survey were processed during the period, further enhancing the JV's understanding of the characteristics of the geological formation at the Paralana site.
- Two water wells were drilled to approximately 115 metres at the Paralana 2 well site and were cased and screened. The wells exhibited good flow rates (4-5 litres per second) and reasonable water quality, appropriate for the use during drilling operations.

An updated estimate of key project parameters was undertaken and a revised cost estimate and economic assessment was completed. A summary was presented in the first quarter 2009 report and reconfirmed the expectation that the Paralana 30 MW demonstration project would be commercially viable and competitive with wind farm technology producing the same level of power output.

The Victorian Gippsland permit covers the onshore component of Gippsland basin and targets potential permeable reservoir sequences which may contain brine fluid of 150 °C at economically viable drill depths of 3.5 to 4.0 kilometres. Geothermal target areas are within the tenement area and are located close to power station and transmission infrastructure.

The Geo-Madrid geothermal district heating project showed very positive signs following the well re-entry program and confirmation that one of the two existing wells was structurally sound and would result in a 30% capital cost saving. The outcomes of a pre-feasibility assessment were presented in the first quarter 2009 report and confirmed an expectation of attractive returns. Work has now been completed on a detailed energy demand study by independent consultants Energisis Geotermia and is a key input into the feasibility study. The Company is working closely with local authorities and key customers to progress other aspects of the feasibility study that is to be completed in early April 2009.

A detailed work program was prepared for the volcanic conventional based geothermal projects on the islands of Tenerife and Gran Canaria and applications for tenements in the Vallés basin near Barcelona progressed through the final community consultation process. The first of three tenements was awarded shortly after the reporting period.

The Company's China exploration team completed its third and most important field trip during the period with assistance of four Chinese government institutions, with which the Company has an exclusive agreement for the provision of geological and geothermal data. A work program for priority project areas is under development and will form a basis for potential joint venture discussions with interested parties.

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 2008.

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', written in a cursive style.

Mr Terry Kallis
Managing Director

13 March 2009



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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF PETRATHERM LIMITED

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 2008, 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 at Wayville on this 13th day of March 2009

Consolidated Income Statement FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated	
		Half year ended 31 Dec 2008 \$	Half year ended 31 Dec 2007 \$
Revenue		740,032	241,899
Impairment of non-current assets		(1,044,648)	-
Employee benefits expense		(656,414)	(769,751)
Depreciation expense		(22,633)	(12,877)
Other expenses		(979,459)	(438,370)
Loss before income tax expense		(1,963,122)	(979,099)
Income tax expense		(360)	(360)
Loss for the period		(1,963,482)	(979,459)
Loss attributable to members of the parent entity		(1,963,482)	(979,459)
Earnings per share:		<i>Cents</i>	<i>Cents</i>
Basic earnings per share		(3.39)	(1.69)
Diluted earnings per share		(3.39)	(1.69)

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 2008

	Note	Consolidated	
		31 December 2008 \$	30 June 2008 \$
CURRENT ASSETS			
Cash and cash equivalents		3,386,161	4,587,015
Trade and other receivables		756,120	283,589
Other current assets		46,708	46,457
TOTAL CURRENT ASSETS		4,188,989	4,917,061
NON-CURRENT ASSETS			
Property, plant and equipment		170,642	135,425
Exploration and evaluation assets		5,078,051	5,301,400
TOTAL NON-CURRENT ASSETS		5,248,693	5,436,825
TOTAL ASSETS		9,437,682	10,353,886
CURRENT LIABILITIES			
Trade and other payables		577,237	291,711
Short-term provisions		132,031	-
Other current liabilities		314,550	121,000
TOTAL CURRENT LIABILITIES		1,023,818	412,711
NON-CURRENT LIABILITIES			
Long-term provisions		13,668	9,529
TOTAL NON-CURRENT LIABILITIES		13,668	9,529
TOTAL LIABILITIES		1,037,486	422,240
NET ASSETS		8,400,196	9,931,646
EQUITY			
Issued capital	2	14,262,016	14,228,516
Retained earnings		(6,840,668)	(4,877,186)
Reserves		978,848	580,316
TOTAL EQUITY		8,400,196	9,931,646

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 2008

	Consolidated			
	Issued Capital Ordinary \$	Retained Earnings \$	Reserves \$	Total \$
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
Balance at 1 July 2008	14,228,516	(4,877,186)	580,316	9,931,646
Loss attributable to members of the parent entity	-	(1,963,482)	-	(1,963,482)
Issue of shares upon exercise of employee options	28,800	-	-	28,800
Issue of share options under employee share option plan	-	-	224,446	224,446
Transaction costs (net of tax)	(840)	-	-	(840)
Foreign exchange translations	-	-	179,626	179,626
Transfer from share option reserve	5,540	-	(5,540)	-
Balance at 31 December 2008	14,262,016	(6,840,668)	978,848	8,400,196

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 2008

	Consolidated	
	Half year ended 31 Dec 2008 \$	Half year ended 31 Dec 2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	929	-
Payments to suppliers and employees	(1,089,507)	(971,428)
Interest received	115,439	245,294
R & D Tax offset	256,472	-
Receipt of government grant	-	33,219
NET CASH USED IN OPERATING ACTIVITIES	(716,667)	(692,915)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(57,849)	(4,760)
Government exploration related grants	543,459	74,560
Joint venture receipts	2,551,975	500,204
Payments for exploration activities	(3,511,517)	(1,758,522)
NET CASH USED IN INVESTING ACTIVITIES	(473,932)	(1,188,518)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	28,800	32,000
Transaction costs of issue of shares	(840)	(1,200)
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,960	30,800
Net increase/(decrease) in cash and cash equivalents	(1,162,639)	(1,850,633)
Net foreign exchange differences	(38,215)	-
Cash at the beginning of the reporting period	4,587,015	8,189,083
CASH AT THE END OF THE REPORTING PERIOD	3,386,161	6,338,450

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 2008

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 2008 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 2008 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 2008 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 2008.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2008

2. ISSUED CAPITAL

	Consolidated	
	As at	As at
	31 Dec 08	30 Jun 08
	\$	\$
Fully paid ordinary shares	14,262,016	14,228,516
	<u>14,262,016</u>	<u>14,228,516</u>
	Half year ended	
	31 Dec 08	
	Number	\$
Ordinary shares		
Balance at beginning of financial year	57,874,626	14,228,516
Issue of shares upon exercise of employee options	-	28,800
Transfer from share option reserve	-	5,540
Transaction costs on shares issued	-	(840)
Exercise of employee options	90,000	-
Balance at end of financial year	<u>57,964,626</u>	<u>14,262,016</u>

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 all 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 2008. In the December 2008 half year further grants on similar terms were made to employees

Notes to the Financial Statements FOR THE HALF YEAR ENDED 31 DECEMBER 2008

The terms and conditions of the grants made during the six months ended 31 December 2008 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Options granted:			
5-Jul-08	400,000	1 year	5 years
30-Aug-08	15,000	N/A	5 years
6-Oct-08	50,000	N/A	5 years
27-Nov-08	550,000	N/A	5 years

Fair value of share options and assumptions for the six months ended 31 December 2008.

Fair value at grant date	\$0.325
Share price	\$0.52
Exercise price	\$0.60
Expected volatility	74.94%
Option life	5 years
Risk-free interest rate	5.29%

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 2008.

7. ECONOMIC DEPENDENCY

The financial report has been prepared on the basis of a going concern. The company will require additional capital for the continued development of its existing projects and working capital. The directors are in consultation with the company's advisers and are evaluating the possible means to raise the required equity.

The Company's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

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 2008 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

13 March 2008

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Petratherm Ltd (the Company) and consolidated entity, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both the Company and the entities it controlled at the half-year's end or from time to time during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company 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 consolidated 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 and Other Financial Reports 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 2008 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.



Grant Thornton

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 Petratherm Ltd's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our review conclusion attention is drawn to Note 7 – Economic Dependency to the Interim Financial Report. The financial report has been prepared on the basis of a going concern. The company will require additional capital for the continued development of its existing projects and working capital.

The Company's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the interim financial report. No allowance for such circumstances has been made in the financial report.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville on this 13th day of March 2009