Petratherm Ltd

ACN 106 806 884

Half Year Report

for the half year ended 31 December 2011

Contents to Half Year Report

Directors' Report

The directors of Petratherm Ltd ('Petratherm') present their Report together with the financial statements of the consolidated entity, being Petratherm ('the Company') and its controlled entities ('the Group') for the half year ended 31 December 2011 and the Independent Review Report thereon.

Director Details

The following persons were directors of Petratherm during or since the end of the financial year.

Mr Derek Carter, Chairman
Mr Terry Kallis, Managing Director
Mr Richard Hillis, Non-Executive Director
Mr Richard Bonython, Non-Executive Director
Mr Simon O'Loughlin, Non-Executive Director
Mr Lew Owens, Non-Executive Director

Operating Result

The group's loss for the half year ended 31 December 2011 after providing for income tax amounted to $897,662 (2010: $1,105,490)

PRINCIPAL ACTIVITIES

The principal activities of the Company & Group during the financial year were:

- to test hot rocks, with high temperatures;
- establishing an economically viable, emission free, renewable source for power generation.

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

Review of Operations

SUMMARY

During the six months to 31 December 2011, Petratherm achieved two major project milestones at its flagship Paralana Project, namely a highly successful fracture stimulation to construct the sub-surface heat exchanger and flow testing of the Paralana 2 well.

An updated Independent Resource Statement prepared by experts in geothermal assessment, Hot Dry Rocks Pty Ltd for the Paralana resource was released in November (full report is available on the Company's website). The total estimated recoverable resource is 38,000 PJ_{th}. This could not all be developed in one single stage, however to put it into a realistic context:

- The initial stimulated volume of rock at the Paralana 2 well site provides a Measured Resource Estimate of 41 PJ_{th}, which has the potential to sustain 5.4 MWe of power production for 30 years.

- At the 3,500 to 4,000 metres depth interval, which is the target zone for initial development, total estimated Inferred and Indicated Resources are 9,300 PJ_{th}. This has the potential to support up to 1300 MWe of geothermal power generation.

In addition to the Company's geothermal works in the region, Petratherm unveiled its exciting new Clean Energy Precinct in December, which plans to deliver 600 MWe of power (through a combination of gas, wind, solar and geothermal) to the large growth market in electricity driven by mining developments in the north-west of South Australia.

In Spain, the Company was successful in a joint bid with several Spanish research Institutions to secure $1.07 million in Spanish Federal government subsidies for geothermal exploration programs on the Canary Islands. This money will be used primarily to fund ongoing surface geophysical and geochemical studies to determine optimum sites for later deep drill testing on the active volcanic Island of Tenerife.

At the beginning of the period the Company held $1.928 million in cash. During the period the Company expended $1.402 million on exploration and evaluation activities. Of that expenditure $0.359 million was funded by our joint venture partners. A total of $2.758 million was raised and the Company holds $2.402 million in cash at the end of the reporting period.

CORPORATE HIGHLIGHTS

In September, a gross sum of $2.3 million was raised in a placement of shares undertaken by Patersons Securities Ltd and was supported by substantial shareholder Australian Ethical Limited. Funds were raised at a price of $0.125. A subsequent Share Purchase Plan (SPP) which closed on 14 October 2011 raised $458,500 before costs at a price of $0.125 per share. The monies raised in the Placement and SPP are being applied to fund ongoing working capital and exploration and development of the Company's projects, in particular, the Company's flagship Paralana Project in South Australia.

Carbon pricing legislation passed through the lower house of Federal Parliament. The legislation includes a package of carbon pricing initiatives that are aimed at commencing in July 2012.
The key points from those carbon pricing initiatives are summarised as follows:

- The introduction of a price on carbon creates the investment framework and certainty needed to enable significant renewable energy development;
- The $13 billion investment through the new Clean Energy Finance Corporation and the Australian Renewable Energy Agency will provide funding to the development of renewable energy projects, and
- The carbon pricing initiatives will commence from July 2012 at a price of $23 per tonne of CO_2 and will be replaced with a market based Emissions Trading Scheme by July 2015.

OPERATIONS HIGHLIGHTS

PARALANA PROJECT

In July 2011 fracture stimulation works were successfully completed. Over a five day period, 3.1 million litres of fracturing fluid were pumped into the Paralana 2 well at pressures up to 9,000 psi. The fracture stimulation works resulted in over 11,000 micro-seismic events being detected as part of the reservoir formation process.

The primary aim of the fracture stimulation, to create fractures in the subsurface at least 500 metres from the Paralana 2 well, was achieved with the stimulated zone extending approximately 900 metres to the northeast and east of the Paralana 2 well and at depths ranging between 3,500 to 4,100 metres.

Paralana 2 well flow testing was completed successfully in October. Approximately 1.3 million litres of fluid was produced over a seven day period with natural flow rates of up to 6 litres per second. The flow test was designed to assess the extent of the naturally over-pressured zone and to collect brine samples for geotechnical analysis. An understanding of the brine chemistry is critical to the management of future production flows and design of the next stage of the project.

After flowing for seven days, the bottom hole flowing fluid temperature at the perforated interval 3679-85 metres was recorded as 171 degrees Celsius, which is in line with expectations. The flow test confirmed the existence of a natural geothermal system at Paralana which may aid future energy recovery from the hot rocks at depth.

Paralana Independent Resource Statement

The work undertaken during 2011 enabled an updated Independent Resource Statement (IRS) to be prepared by experts in geothermal assessment, Hot Dry Rocks Pty Ltd for the Paralana resource (Refer table below). *(The full report is available on the Company's website)*

Paralana Geothermal Resources

(Estimated Recoverable Thermal Energy expressed in Petajoules (PJ_{th}))

Depth Interval (metres)	Inferred (PJ_{th})	Indicated (PJ_{th})	Measured (PJ_{th})	Total (PJ_{th})
<3,500	2,400	1,100		3,500
3,500 - 4,000	**4,900**	**4,400**	**41**	**9,300**
4,000 - 4,500	5,900	5,700		12,000
4,500 - 5,000	6,900	6,700		14,000
Total (PJ_{th})	20,000	18,000	41	38,000

**Paralana Joint Venture: Petratherm 79%, Beach Energy 21%.*

The IRS was released during the reporting period and has further validated and quantified the very large recoverable energy resources available at Paralana, as follows:

- Increased resource confidence with close to half of the initial Inferred Resource improving to "Indicated" and a smaller portion to "Measured" status;
- The initial stimulated volume of rock at the Paralana 2 well site provides a Measured Resource estimate of 41 PJ_{th}, which has the potential to sustain 5.4 MWe of power production for 30 years, and
- At the 3,500 to 4,000 metres depth interval, which is the target zone for initial development, total estimated Resources are 9,300 PJ_{th}. This is sufficient to generate 1,300 MWe of power generation for 30 years.

Paralana JV Project – Completion of Milestone 1 and JV decisions

The Paralana JV project completed Milestone 1 of the project (i.e. the drilling and stimulation of the Paralana 2 deep injector well) on 15 September 2011. The Paralana Joint Venture arrangements require the JV partners, within a period of ninety days after the completion of Milestone 1, to elect to exit or to remain in the farm-in and/or JV project.

Following their respective internal reviews of the Paralana project, Beach Energy has elected to remain in the farm-in and JV project and TRUenergy has elected to exit from the farm-in and JV project. The project equities of Petratherm and Beach Energy remain unchanged at 79% and 21%, respectively.

The Company has advised that it has commenced discussions with parties interested in participating in the Paralana Joint venture.

CLEAN ENERGY PRECINCT

In December, the Company unveiled its exciting new Clean Energy Precinct which is aimed at clearly differentiating Petratherm in the renewables and energy market through its unique offering of combinations of gas, wind, solar and geothermal.

Importantly, the Precinct project is aimed at ensuring that the large geothermal resource at Paralana can be monetized in the future by enabling large scale electricty transmission connection to the growing market driven by mining developments (Olympic Dam, Prominent Hill and Carapeteena) in the northwest of South Australia.

The Precinct project is to initially comprise a mix of gas, wind and solar generation and later geothermal power connection and will be tailored to meet the needs of mining customers in the north-western part of South Australia. The Precinct project will aim to provide a competitive solution in terms of price, reliability and availability for both the power and carbon related aspects of customers' needs.

The Precinct project location has been selected because it is the nearest point to the "on grid" market where there is a "convergence" of all four future strategic resources - gas, wind, solar and geothermal. This enables a unique offering to the market where the different energy sources can be combined in a variety of ways to deliver attractive hybrid products that lower costs - and improve energy security/reliability - of electricity supply while reducing CO_2 emissions.

It is planned to develop a 600 MWe power generation facility to meet the demand expected to be created over the next 5 to 6 years from large mining developments in the region. The transmission network proposed would comprise two, 300 MWe capacity connections. The initial generating capacity is expected to come from a combination of gas and wind with geothermal being introduced later as economic scale up is achieved. One option for the two 300 MWe connection to the “on-grid” market is via Olympic Dam. Other alternatives are also being considered.

The project is estimated at having a capital cost of around $1.5 billion and is expected to be a major contributor to the reduction of the national and state CO_2 emissions.The Company is encouraged by the interest already received from large international and domestic renewable energy companies in the Precinct project.

SPAIN

The Company continued to develop its Spanish project portfolio and in the first quarter announced that it led a consortium in a successful application for around $1 million in subsidies to characterize geothermal resources across the Canary Islands, notably on the island of Tenerife.

Work continues on the Tenerife power generation and Geo-Madrid district heating projects with interest shown from additional potential joint venture partners. That interest has heightened with the recent announcement of Spain’s renewable energy development plan, which, for the first time, highlights geothermal energy as a separate renewable category and importantly allocates up to €100 million in subsidies and financing to facilitate the development of geothermal energy power production.

Auditor’s independence declaration

The auditor’s independence declaration is set out on page 8 and forms part of the directors’ report for the half year ended 31 December 2011.

Signed in accordance with a resolution of the directors.

Mr Terry Kallis
Managing Director

8 March 2012

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AUDITOR'S INDEPENDENCE DECLARATION
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 2011, 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

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Partner

Adelaide, 8 March 2012

Interim consolidated statement of comprehensive income
For the half-year ended 31 December 2011

	Consolidated Group Half-year ended 31 Dec 2011 $	Consolidated Group Half-year ended 31 Dec 2010 $
Revenue from ordinary activities	80,425	53,026
Loss on sale of Non-Current Assets	(4,295)	-
Impairment of exploration assets	-	(3,267)
Employee benefits expense	(378,279)	(462,856)
Depreciation expense	(35,124)	(30,751)
Finance costs	(1,471)	(1,356)
Other expenses	(495,839)	(626,719)
Loss before income tax expense	(834,583)	(1,071,923)
Income tax benefit/(expense)	(63,079)	(33,567)
Loss from continuing operations	(897,662)	(1,105,490)
Loss attributable to members of the parent entity	(897,662)	(1,105,490)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(154,736)	(208,404)
Total comprehensive loss for the period	(1,052,398)	(1,313,894)
Earnings per share:	*Cents*	*Cents*
Basic earnings per share	(0.66)	(0.99)
Diluted earnings per share	(0.66)	(0.99)

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

Interim consolidated statement of financial position
As at 31 December 2011

	Note	Consolidated Group 31 December 2011 $	30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents		2,412,472	1,928,996
Trade and other receivables		111,199	121,333
Other current assets		73,642	66,058
TOTAL CURRENT ASSETS		2,597,313	2,116,387
NON-CURRENT ASSETS			
Property, plant and equipment		83,914	142,920
Exploration and evaluation assets	4	18,568,398	17,804,547
TOTAL NON-CURRENT ASSETS		18,652,312	17,947,467
TOTAL ASSETS		21,249,625	20,063,854
CURRENT LIABILITIES			
Trade and other payables		319,575	603,490
Short-term borrowings		-	7,163
Short-term provisions		117,495	138,915
TOTAL CURRENT LIABILITIES		437,070	749,568
NON-CURRENT LIABILITIES			
Long-term borrowings		-	19,735
Long-term provisions		8,751	38,664
Other non-current liabilities		2,898,000	2,898,000
TOTAL NON-CURRENT LIABILITIES		2,906,751	2,956,399
TOTAL LIABILITIES		3,343,821	3,705,967
NET ASSETS		17,905,804	16,357,887
EQUITY			
Issued capital	5	31,450,493	28,850,178
Reserves		165,897	507,093
Retained earnings		(13,710,586)	(12,999,384)
TOTAL EQUITY		17,905,804	16,357,887

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

Interim consolidated statement of changes in equity
For the half-year ended 31 December 2011

	Note	Consolidated Group					
		Issued Capital Ordinary $	Share Option Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Non-Controlling Interests $	Total Equity $
Balance at 1 July 2010		27,434,757	1,217,180	(563,413)	(11,199,342)	-	16,889,182
Profit/(Loss) for the period		-	-	(208,404)	(1,105,490)	-	(1,313,894)
Issue of shares		1,504,000	-	-	-	-	1,504,000
Issue of options under employee share option plan		-	110,520	-	-	-	110,520
Transfer from employee equity-settled benefits reserve upon cancellation of vested options		-	(140,780)	-	140,780	-	-
Transaction costs (net of tax)		(78,324)	-	-	-	-	(78,324)
Balance at 31 December 2010		28,860,433	1,186,920	(771,817)	(12,164,052)	-	17,111,484
Balance at 1 July 2011		28,850,178	1,219,166	(712,073)	(12,999,384)	-	16,357,887
Profit/(Loss) for the period		-	-	(154,736)	(897,662)	-	(1,052,398)
Issue of shares by way of private placement		2,289,000	-	-	-	-	2,289,000
Issue of shares by way Security Purchase Plan		458,500	-	-	-	-	458,500
Transaction costs (net of tax)		(147,185)	-	-	-	-	(147,185)
Transfer from share based payment reserve upon lapse of options		-	(186,460)	-	186,460	-	-
Balance at 31 December 2011		31,450,493	1,032,706	(866,809)	(13,710,586)	-	17,905,804

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

Interim consolidated statement of cash flows
For the half-year ended 31 December 2011

	Consolidated Group	
	Half year ended 31 Dec 2011 $	Half year ended 31 Dec 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(852,890)	(884,596)
Management Fee	4,971	9,194
Interest received	47,822	38,933
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	(800,097)	(836,469)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,084)	(1,646)
Joint Venture receipts	352,502	3,441,000
Payments for exploration activities	(1,573,168)	(3,872,000)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(1,224,750)	(432,646)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,747,500	1,504,000
Payment of transaction costs for issue of shares	(210,264)	(111,891)
Repayment of borrowings	(26,898)	(3,506)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	2,510,338	1,388,603
Net increase/(decrease) in cash and cash equivalents	485,491	119,488
Net foreign exchange differences	(2,015)	(3,473)
Cash at the beginning of the period	1,928,996	2,716,750
CASH AT THE END OF THE PERIOD	2,412,472	2,832,765

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

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

1. Corporate information

The interim consolidated financial statements of the Group for the six months ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 8 March 2012.

Petratherm Ltd is a limited company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under the symbol PTR.

2. Basis of preparation and change to the Group's accounting policies

Basis of preparation

The interim consolidated financial statements for the six months ended 31 December have been prepared in accordance with AASB 134 Interim Financial Reporting.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2011,together with any public announcements made during the half-year.

New standards, interpretations and amendments adopted by the Group

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2011, except for the adoption of Improvements to AASBs 2010 (2010 Improvements) as of 1 January 2011. The 2010 Improvements made several minor amendments to AASBs. The relevant amendments and their effects on the current period or prior periods are described below.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

Amendments to AASB 134 Interim Financial Reporting

The amendments clarified certain disclosures relating to events and transactions that are significant to an understanding of changes in the Group's circumstances since the last annual financial statements. The Group's interim financial statements as of 31 December 2011 reflect these amended disclosure requirements, where applicable.

Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2011. The only exception is the estimate of the provision for income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

Significant events and transactions

There are no significant events or transaction for the period.

3. Segment reporting

Management identifies its operating segments based on the types of business segments encountered by the Group. The Group's four main operating segments are:

- Exploration activities - Australia (Other)
- Exploration activities - Paralana Project
- The Clean Energy Precinct; and
- Exploration activities - Spain.

During the six month period to 31 December 2011, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

	Segment Revenue		Segment Result	
	Half Year ended		Half Year ended	
	31-Dec 2011 $	31-Dec 2010 $	31-Dec 2011 $	31-Dec 2010 $
Continuing Operations				
Australia (ex Paralana)	-	-	-	(3,267)
Paralana Project	3,595	9,194	-	-
Spain	-	-	-	-
Clean Energy Precinct	-	-	-	-
	3,595	9,194	-	(3,267)
Finance costs	-	-	(1,471)	
Administration/Corporate	76,830	43,832	(797,988)	(1,037,905)
Depreciation	-	-	(35,124)	(30,751)
Consolidated revenue	80,425	53,026		
Loss before income tax			(834,583)	(1,071,923)
Income tax expense			(63,079)	(33,567)
Loss from continuing operations			(897,662)	(1,105,490)

The revenue reported above represents revenue generated from financial institutions, investments revenues and management fees earned from joint venture partners. There were no intersegment sales during the period.

Segment profit/(loss) represents the profit or (loss) earned/(incurred) by each segment without allocation of central administration costs, finance costs, depreciation and income tax (expense)/benefit. This is the measure reported to the Managing Director for the purposes of resource allocation and assessment of segment performance.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

Segment Assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location. The following is an analysis of the Group's assets by reportable operating segment.

	Opening Balance 1/07/2011 $	Capital Expenditure/ Investment $	Revaluations /Translations $	Closing Balance 31/12/2011 $
Continuing Operations				
Australia (ex Paralana)	133,188	3,181	-	136,369
Paralana Project	15,231,226	805,400	-	16,036,626
Spain	2,440,134	23,656	(108,011)	2,355,779
Clean Energy Precinct	-	39,624	-	39,624
Total segment assets	17,804,548	871,861	(108,011)	18,568,398
Other				
Administration/Corporate	2,259,306			2,681,227
Total Assets	20,063,854			21,249,625

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

4. Exploration and evaluation assets

	Consolidated	
	As at 31 Dec 11 $	As at 30 Jun 11 $
EXPLORATION AND EVALUATION ASSETS		
Exploration and evaluation costs carried forward in respect of Geothermal areas of interest		
Exploration and evaluation phases	18,568,398	17,804,547
	18,568,398	17,804,547

Consolidated entity	Total
Capitalised tenement expenditure movement reconciliation	
Balance at the beginning of the period	17,804,547
Additions through expenditure	1,224,364
Joint venture contributions	(352,502)
Translation movement	(108,011)
Balance at end of year	18,568,398

5. Issued capital

	Consolidated Group	
	As at 31 Dec 11 $	As at 30 Jun 11 $
Fully paid ordinary shares	31,450,493	28,850,178
	31,450,493	28,850,178

	Number	$
Ordinary shares		
Balance at beginning of financial period	126,751,583	28,850,178
Issue of shares by way of private placement	18,312,000	2,289,000
Issue of shares by way of Security Purchase Plan	3,668,000	458,500
Transaction costs (net of tax)		(147,185)
Balance at end of the financial period	148,731,583	31,450,493

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

6. Subsequent events

On the 2 March 2012 the Company convened a general meeting as announced to the ASX on the 31 January 2012 to approve options to the Managing Director. The resolution was passed as an ordinary resolution.

7. Contingent liabilities

There has been no change in contingent liabilities since the last reporting date. It is however noted that the Group has various bank guarantees totaling $177,403 at 31 December 2011 which act as collateral over tenements which Petratherm Ltd operate.

8. Going concern basis of accounting

The financial report has been prepared on the basis of a going concern.

The cash flow projections of the Group indicate that Group is reliant on the completion of a capital raising for continued operations. The Group will be seeking to raise equity to fund operations, including exploration and working capital.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the annual financial report.

Directors' Declaration

In the opinion of the directors of Petratherm Ltd:

(a) the consolidated financial statements and notes of Petratherm Ltd are in accordance with the Corporations Act 2001, including:

   (i) give a true and fair view of its financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

   (ii) comply with Accounting Standard AASB 134 Interim Financial Reporting; 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 Terry Kallis
Managing Director

8 March 2012

Grant Thornton

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

We have reviewed the accompanying half-year financial report of Petratherm Ltd ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the 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 controls 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 the Auditing Standard on Review Engagements ASRE 2410: Review of a 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 2011 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.

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 2011 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.

Significant uncertainty regarding continuation as a going concern

Without qualifying our review conclusion, attention is drawn to the financial report which indicates that the consolidated entity incurred a net cash outflow from operating and investing activities of $2,024,847 for the half-year ended 31 December 2011. These conditions, along with other matters as set fourth in Note 8, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

J L Humphrey
Partner

Adelaide, 8 March 2012