



**Rheochem Plc
("Rheochem" or the "Company")**

**Half-yearly financial report for the six months ended
31 December 2008**

Rheochem plc, the oil and gas business with oil services, production, development and exploration assets today announces its interim results for the period ended 31 December 2008.

Record financial results for the services division

- Oil & gas operations revenue up 68% to A\$21.3m (2007: A\$12.7m)
- Profit before taxation up 113% to A\$4.7m (2007: A\$2.2m)
- Continued cash generation and visibility of earnings

Write down of oilfield assets held on the Group's Balance Sheet

- Write down of holding value in Zeus of A\$18,199,721
- Write down of Blackwell lease of A\$2,312,725
- Write down in value of Schuster Flats lease of A\$703,180

Consolidated Results

- Following write downs, loss before taxation of A\$10.8m (2007: Profit of A\$3.3m)

Commenting on the interim results Haydn Gardner, Chief Executive, said:

"The first six months of the financial year has produced mixed results for Rheochem. In this period the Company continued to strengthen its traditional drilling fluids business through strong organic growth and this division has posted its highest interim revenue and profit to date. This success has been tempered by the substantial write down of its oil and gas assets, triggered by a large and sustained fall in the oil price. This has led to our first interim net loss as a public company which, whilst disappointing, does not affect the Company's healthy cash generation and financial position."

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AUSTRALIAN SECURITIES EXCHANGE - APPENDIX 4D

Results for announcement to the Market

			Half Year Ended 31 Dec 08	Half Year Ended 31 Dec 07
		% Change	\$A	\$A
Revenue from ordinary activities	down	79%	3,294,887	15,514,487
(Loss)/profit from ordinary activities after tax attributable to members	down	512%	(9,119,142)	2,213,067
Net (loss)/profit for the period attributable to members	down	512%	(9,119,142)	2,213,067
Rheochem will not be declaring an interim dividend				
Net tangible assets per ordinary share (cents)			<u>Cents</u> 26	<u>Cents</u> 30

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CHIEF EXECUTIVE'S OVERVIEW

The drilling fluids business has recorded its highest interim earnings and profits to date, however the continued fall in the oil price, and therefore the carrying value of the Group's investment in Zeus Petroleum, has resulted in a significant write down resulting in the Company's first interim loss as a public company. This loss was mitigated somewhat by significant foreign exchange gains across all divisions of the Company.

The Board believes the write down was necessary due to the current and sustained, low oil price and hence was unavoidable in the current economic climate due to the way that the Company holds these assets on the balance sheet.

Rheochem's current investments are held in two trading divisions with different underlying investment strategies. Both of these divisions are managed by our 100% owned subsidiary; Lochard Energy Ltd.

The first of these divisions, Lochard Energy Inc, holds assets where the Company has a direct interest in an oilfield through a share of a license or a working interest in an oilfield lease where the emphasis is on technical development with an aim to deriving ongoing revenue through oil and gas production. The Company could also benefit from trialling new technologies on its own properties with the potential to further commercialise the technologies.

The second division, Lochard Energy Ltd, holds an investment Zeus Petroleum Ltd, an oil exploration and production company. Rheochem intends to utilise its technical resources to identify opportunities that require technical and/or financial support to realise greater value within a short to medium term period. This investment is accounted for as a venture capital investment and the Company is therefore required to assign a fair market value for this asset at each reporting period.

The Company intends to use its internal expertise in conjunction with its wide range of industry contacts to identify suitable new projects in which to invest. Further appraisal of these new projects will then be carried out to evaluate the maximum economic potential of the investments prior to a sale or further development of the asset.

As at 31 December 2008 the Company had cash on deposit of \$20,382,074 and borrowings of \$12,997,328 leaving a net cash position of \$7,384,746. In addition to this, the Company is owed \$15,339,814 by Zeus Petroleum Limited ("Zeus") and \$9,495,615 by Pacific International Management which is the other 50% shareholder in Zeus. These loans are secured by a charge over the shares in Zeus.

OILFIELD SERVICES

Australia

Rheochem's wholly owned Australian subsidiary, Rheochem Limited, continued to be a major supplier of drilling fluid chemicals and services for onshore and offshore oil and gas drilling campaigns. Rheochem's largest customer is Santos, which is the second largest oil and gas producer in Australia and is listed on the Australian Stock Exchange.

During the period, Rheochem renewed its offshore drilling fluid services contract with Santos until December 2009. Revenue for the first half increased due to an increase in the number of offshore rigs that the Company was servicing.

During the first half of the year, Rheochem was awarded drilling fluid services contracts with Latent Petroleum and ARC Energy for onshore drilling operations in Western Australia. Revenues for these projects are expected during the second half of the current financial year.

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New Zealand

In December 2004 Rheochem's wholly owned New Zealand subsidiary, Rheochem Pacific Limited, was awarded its first contract with Mighty River Power to supply drilling fluids and engineering services and this commenced in April 2005. In March 2005, a second contract with Contact Energy Limited was awarded which also commenced in April 2005 and is still current.

The contract with Mighty River Power was extended in December 2008 and Rheochem Pacific Limited will continue to bid on tenders to supply drilling fluids and engineering services to geothermal, and oil and gas projects in New Zealand.

India

Rheochem India Private Limited ("RIPL") was incorporated on 10 May 2005. This entity is jointly owned by Rheochem Plc (70%) and Prabhu Marketing Services ("PMS") (30%) and is accounted for as a subsidiary on consolidation. PMS is the agent in India for Weatherford Completion Products and is actively involved in the oil and gas industry.

RIPL has progressed well and has two existing contracts for the supply of drilling fluids and related engineering services. RIPL will continue marketing into the Indian oil industry in order to grow the business. So far to date, 18 local staff have been employed and training of drilling fluid engineers within India has begun. A drilling fluids laboratory has been established in Mumbai.

RIPL has been deemed technically competent to supply drilling fluids and engineering services by several oil companies operating in India. This builds on our philosophy of having local partners who can facilitate easier entry into the country of operation.

The Directors believe that this Indian venture has large growth potential for Rheochem, due to the current Indian drilling activity of 140 operating rigs including 43 offshore.

In addition, we believe the country has excellent export potential for oilfield products, which can be manufactured cost effectively in India.

Indonesia

The Company established an 80% owned subsidiary in Indonesia in 2008. Rheochem's Indonesian company is marketing drilling fluids, chemicals and related engineering services to the oil and gas exploration and geothermal industries. The Company is 80% owned by Rheochem Plc and 20% owned by PT Bunga Mas Nusantara (BMN). BMN's associated companies have significant operations in the oil and gas, mining and maritime industries in Indonesia, and are well positioned to support Rheochem's entry into the region. As with India, Indonesia presents several opportunities to export oilfield chemicals to the rest of the world.

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OIL & GAS ASSETS

America

Blackwell Project

Rheochem, through its 100% owned subsidiary Lochard Energy USA Inc. ("Lochard") has a 65% working interest (48.75% revenue interest) in 31 wells on the Blackwell lease in Caldwell County Texas, USA.

This is a combined technology and potential oil recovery project, to evaluate the potential recovery from depleted oil wells in the Austin Chalk. Historical recoveries from these wells have been quite low; at around 10% due to the lack of porosity in the chalk itself. Oil typically exists in fractures within the chalk and these fractures are not well drained by vertical well bores. Added to this is the high paraffin content in the oil which tends to solidify in the well bores and reduce production.

Conventional horizontal drilling technology is uneconomic as the wells have very low flow rates. The aim of this project was to determine if radial drilling from existing well bores with high pressure water could improve the interconnectivity of the fractures within the chalk and therefore allow oil to be drained from previously undrained areas.

The second part of the project is to evaluate technology known as Thermal Pulse, to heat well bores above the temperature that the paraffin solidifies, thereby increasing the recovery from each well between wellbore interventions.

Once these two technologies have been evaluated and have proven that oil could be produced economically from these depleted wells, Lochard would seek to market the technology and, if appropriate, invest in the technology directly as there are numerous applications for this technology both in the USA and internationally wherever you have low deliverability gas as in coal bed methane or heavy crude oil.

There is also significant potential to utilise this technology once proven over the Company' own leases should it decide to take more acreage.

The initial project was for 12 wells and this began in September 2006. The project suffered delays due to disputes between contractors on site over other non-related projects. This caused delays until January 2007 when the dispute was resolved and Lochard was granted an interest in another 19 wells on the same lease as compensation for delays. Further delays have been experienced due to exceptionally wet weather hampering access to the site by heavy equipment. Lochard subsequently purchased a further 10% working interest in the lease for US\$ 50,000.

A detailed engineering review was undertaken to establish the effectiveness of the radial jet drilling as it was suspected that some of the initial drilling may not have penetrated the casing as expected, but drilled down into a lower water bearing formation.

The original drilling contractors have been replaced and initial tests confirm that the casing is being perforated and jet drilling is occurring however no significant lateral distance has been achieved. Further tests have shown that the current equipment being trialled will require upgrading to allow deeper lateral holes to be drilled.

Although initially higher flows of approximately 3 bbl per day were seen after casing perforation, they were not sustainable and the well reverted back to its original ½ barrel per day.

The Company has decided to write down the value of this investment completely, incurring an impairment of A\$2,312,725, however it still expects to work with the drilling contractors to prove up the technology. Future expenditure is expected to be minimal and will be expensed.

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Schuster Flats

On the 23 September 2008, Lochard signed an agreement to acquire an 18.75% working interest in natural gas and oil leases in the Schuster Flats prospect from First City Oil and Gas for a consideration of US\$557,215 in cash. This prospect is located in the central portion of the Big Horn Basin in the state of Wyoming, USA.

Lochard paid 25% of drilling costs on the first well whilst First City Oil and Gas retained a 6.25% working interest. Exco Resources Inc. ("Exco") retained its 75% working interest.

The acquisition includes an 18.75% interest in approximately 29,700 acres of leasehold interests in Schuster Flats and a 12 month option to acquire an 18.75% interest in approximately 4,586 acres of leasehold interests in the Chabot prospect. Chabot is an oil and gas prospect located in the south eastern portion of the Big Horn Basin and the option is on similar pro-rata terms.

The Schuster Flats prospect is a shallow gas play targeting the Upper-Lance sands. If successful, this trap is large enough to accommodate 240 development wells and has a recoverable resource potential of 500 BCFE.

Exco is a New York Stock Exchange listed company based in Dallas, Texas. Exco holds a 75% working interest in the leases and acts as the operator for the field. The first test well, Sundance #2-22, was drilled to a target depth of 8,200 feet and was unsuccessful.

Based upon the recent fall in oil and gas prices the Company has written down the value of the acreage to A\$234,393 thus suffering an impairment charge of A\$703,180.

Bearcat Prospect

In December 2008, the Company bought a 13.75% working interest (10.31% net revenue interest) in 960 acres of natural gas and oil leases, in a portion of the Bearcat field from First City Oil and Gas for US\$145,506 in cash. This sum includes Lochard's share of completion costs for the first well which was recently drilled.

The Bearcat field is located in Park County at the north end of the Big Horn Basin in the state of Wyoming, USA. Well Two Dot #12-42 was drilled in early December 2008 and logs indicated multiple gas zones including a significant gas show in the targeted Frontier formation. Qualmay Development LLC, a private company, as the operator has completed the well and expects to flow test the well by early March 2009.

The well will be brought onto production as soon as possible through a tie back to nearby existing production infrastructure. It is estimated that up to 6 additional wells can be drilled on the acquired acreage. Estimated resource potential is 2 BCF per well.

The Bearcat field has produced hydrocarbons since 1955. Qualmay Development acquired the field in 2002 and currently operates 3 oil wells and 4 gas wells in this field.

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United Kingdom - Zeus

In September 2006 Rheochem Plc, through its 100% owned subsidiary Lochard Energy, purchased a 33.3% stake in Zeus Petroleum Ltd (“Zeus”) based in London, UK. This stake was increased to 50% in January 2008.

Zeus has a 100% interest in 5 blocks and a 10% interest in 2 part blocks in the Outer Moray Firth area of the North Sea. One of these 10% blocks (14/18b) contains the “Athena” oil discovery which is currently being appraised to determine the economic viability of a development project.

In addition Zeus was provisionally awarded part block 14/26b in December 2008 and is waiting for formal award. This block contains the Thunderball discovery which was tested at 34mmscf per day in 1997. No value has yet been attributed to this block.

During the period, Rheochem loaned PIM A\$5,255,541 to meet the cash call contributions due to Zeus.

Zeus continues to be accounted for as a venture capital investment and saw an increase in its fair value of A\$6,594,857 in 2008 and A\$7,400,000 in 2007. These amounts were recognised in previous income statements. Due to the current low oil price, Rheochem has written the value of its stake in Zeus down by A\$18,199,721.

Zeus Licence interests as at 31 December 2008

Licence	Blocks	Zeus Interest %
P 1393	12/15, 13/11,13/12, 13/13	100
P 1289	14/11	100
P 1293	14/18b (Athena)	10
P 1401	13/16b	10
P 1611*	14/26b	90

* This Licence was provisionally awarded in November 2008. Zeus is still waiting for confirmation of this licence.

LICENCE P1293 (Block 14/18b) Athena, Zeus 10%

A competent persons report by Sproule International issued to Ithaca Energy assigned 2P recoverable reserves of 29.67 million barrels and 3P recoverable reserves of 43.88 million barrels of oil to the Athena discovery which equates to 2.97 million barrels and 4.39 million barrels respectively to Zeus.

Since this report was published a further two wells have been drilled on the block. Well 14/18-17 was drilled as a deviated well from the main core prospect area to evaluate a possible southern extension to the known oil pool. The leek sands were oil bearing at this location but the well was abandoned due to technical difficulties.

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On 21 July 2008, Ithaca announced that it had successfully tested 28 degree API sweet oil at a stable rate of 2,330 bopd from its third well (14/18b-18). The well has been completed for future production. Based on this and the success of the earlier 14/18b-15 and 14/18b-16 wells, Ithaca submitted its Field Development Plan application and Environmental Impact assessment statement with the United Kingdom's DECC, with final approval expected early in 2009.

A development start date has not been established due to the current oil price.

Athena (Block 14/18b) Reserves

Reserve Category	Athena Reserves (Gross 100%) MMstb	Athena Reserves (Net to Zeus) MMstb
Proved + Probable (2P)	29.67	2.97
Proved + Probable + Possible (3P)	43.88	4.39

LICENCE P1289 (Block 14/11) Zeus 100%

Zeus shot its first long offset 2D seismic survey over its 100% owned block 14/11 in April 2007. Previous seismic results identified a lead on this block which looks very similar to the Athena discovery and could contain unrisks prospective resources of 55 million barrels of oil on a best estimate basis.

After processing of the latest seismic data, a new report was published by RPS Energy which gave unrisks recoverable prospective resources of 93 million barrels of oil on a best estimate basis and 392 million barrels on a high estimate. Zeus is currently looking for farm in partners to drill a well on block 14/11 in 2009 and has conducted a site survey in preparation for drilling.

Zeus Prospective resources Block 14/11 UK North Sea

Block 14/11 UK North Sea	Prospective STOIP (mmbbls)		
	Low Estimate	Best Estimate	High Estimate
Prospect			
Metis	90	356	1400
Block 14/11 UK North Sea	Recoverable Prospective Resources (mmbbls)		
	Low Estimate	Best Estimate	High Estimate
Prospect			
Metis	20	93	392

LICENCE P1393 (Blocks 12/15, 13/11, 13/12 and 13/13) Zeus 100%

This licence covers 4 North Sea blocks. Although a previous report by RPS Energy assigned unrisks mid case prospective resources of 200 million barrels over 4 leads on these blocks, it was felt that further seismic was warranted to reduce the drilling risk and increase the potential of attracting a farm in partner on acceptable terms. Zeus shot approximately 1900 km of 2D seismic which was processed as a synthetic 3D Geocube of approximately 350km². This Seismic has been processed and is currently under review.

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Zeus is required to drill a well on this license if the seismic identifies suitable traps of sufficient size and risk or shows evidence of any direct hydrocarbon indicators. If drilling is warranted, a farm in partner would be sought for this licence.

LICENCE P1401 (Block 13/16b) Zeus 10%

Zeus has a carried interest in this block which may be diluted on a farm out. A competent person report by RPS Energy assigned 109 million barrels of unrisks recoverable prospective resources to this block on a best estimate basis.

Total unrisks recoverable Prospective Resources for Primary and Secondary Reservoir Intervals of Identified Leads and Prospects

Estimate	Net to Zeus		Net to Rheochem	
	Prospective STOIP MMstb	Prospective Resources MMstb	Prospective STOIP MMstb	Prospective Resources MMstb
Low	246.1	67.2	123.1	38.6
Best	1023.3	303.9	511.7	151.9
High	3293.8	1167.5	1646.9	583.8

Outlook

The first half of the year has again seen the services divisions produce the highest interim revenues in the Company's history. We have continued to renew existing contracts and increase our client base.

In our oilfield investments business, US based Lochard Energy will test its Bearcat gas well to determine commercial rates and investigate other appraisal and development opportunities. A final test of radial drilling technology will be conducted on the Blackwell lease as we believe this technology still has merit.

In the United Kingdom, Zeus will actively seek farm in partners to drill exploration licences due to expire at the end of the calendar year and work with its partners in the Athena field to determine the timing of development sanction subject to an acceptable oil price.

The Company will conduct a strategic review of its oil and gas assets in light of the current low oil price with a view to possible consolidation and/or asset disposals through a trade sale. In addition, at the Company's annual general meeting on 16 January 2009, shareholder approval was granted to allow the Company to buy back its own shares. The Company intends to utilise this authority when deemed appropriate to realise value for shareholders.

Our strong cash generation and visible earnings from our oil services division coupled with cash on deposit places us in a good position to capitalise on any opportunities that emerge from this current period of economic uncertainty.

Haydn Gardner

Chief Executive

27 February 2009

The directors of the Company at any time during or since the end of the interim period are:

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H.L. Gardner
C.R. McGuckin
L.C. McCrabb
P.R. Lundie
M. Rose

All directors held office during and since the end of the half-year.

Financial Results

The Group recorded turnover for the six months ended 31 December 2008 of A\$3,294,887 compared with A\$15,514,487 for the same period of the prior year, a decrease of 79 per cent.

Earnings before interest and tax decreased to a loss of A\$10,797,707 (2007 profit of A\$3,316,746) and net assets decreased to A\$59,798,610 (2007 A\$67,603,010).

Dividend

Rheochem will not be declaring an interim dividend.

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Consolidated Income Statement, for the half year ended 31 December 2008

	Six Months Ended 31-Dec-08 Unaudited A\$	Six Months Ended 31-Dec-07 Unaudited A\$	Year ended 30-Jun-08 Audited A\$
Continuing operations			
Revenue on trading operations	21,494,608	12,965,343	23,784,549
(Loss)/profit on revaluation of venture capital investment	(18,199,721)	2,549,144	6,594,857
Revenue	<u>3,294,887</u>	<u>15,514,487</u>	<u>30,379,406</u>
Cost of sale on trading operations	(12,814,738)	(5,742,827)	(13,346,690)
Foreign exchange gain/(loss) on venture capital investment	3,624,398	(50,361)	(2,478,773)
Impairment loss oil & gas assets	(3,015,905)	-	-
Cost of sales	<u>(12,206,245)</u>	<u>(5,793,188)</u>	<u>(15,825,463)</u>
Gross (loss)/profit	(8,911,358)	9,721,299	14,553,943
Other income	-	9,310	7,410
Administrative expenses	(4,961,239)	(6,512,955)	(9,613,037)
Operating (loss)/profit	<u>(13,872,597)</u>	<u>3,217,654</u>	<u>4,948,316</u>
Finance income	3,501,909	284,269	1,331,782
Finance costs	(427,019)	(185,177)	(416,565)
(Loss)/profit before tax	<u>(10,797,707)</u>	<u>3,316,746</u>	<u>5,863,533</u>
Income tax (benefit)/expense	1,675,605	(1,106,706)	(1,927,340)
(Loss)/profit for the year	<u>(9,122,102)</u>	<u>2,210,040</u>	<u>3,936,193</u>
Attributable to:			
Equity holders of the parent	(9,119,142)	2,213,067	3,894,397
Minority interests	(2,960)	(3,027)	41,796
	<u>(9,122,102)</u>	<u>2,210,040</u>	<u>3,936,193</u>
	Note		
Basic (loss)/earnings per share (cents per share)	5	(4.2)	1.7
Diluted (loss)/earnings per share (cents per share)	5	(4.2)	1.7

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Consolidated Balance Sheet, as at 31 December 2008

	As at 31-Dec-08 Unaudited A\$	As at 31-Dec-07 Unaudited A\$	As at 30-Jun-08 Audited A\$
ASSETS			
Current Assets			
Cash and cash equivalents	20,382,074	33,071,011	15,009,494
Trade and other receivables	4,844,731	4,835,494	4,920,373
Inventories	6,729,080	6,761,090	10,487,046
Investments	9,424,001	15,536,945	27,623,722
Other financial assets	114,617	95,733	58,221
Non-interest bearing loans	15,339,814	4,833,604	6,759,070
Interest bearing loans	9,495,615	-	1,740,477
Current tax assets	-	161,290	-
Prepayments	159,232	202,429	514,419
Total Current Assets	<u>66,489,164</u>	<u>65,497,596</u>	<u>67,112,822</u>
Non-current Assets			
Property, plant and equipment	9,935,760	10,460,986	10,365,568
Oil and gas assets	444,420	1,817,441	1,664,509
Deferred tax assets	2,409,967	1,434,784	1,221,003
Prepayments	44,660	-	53,481
Intangible assets and goodwill	3,037,270	3,128,489	3,071,556
Total Non-current Assets	<u>15,872,077</u>	<u>16,841,700</u>	<u>16,376,117</u>
TOTAL ASSETS	<u>82,361,241</u>	<u>82,339,296</u>	<u>83,488,939</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	6,207,440	5,116,156	4,931,248
Interest-bearing loans and borrowings	10,630,180	1,647,374	4,707,132
Income tax payable	229,144	762,351	187,111
Provisions	410,791	283,076	337,775
Total Current Liabilities	<u>17,477,555</u>	<u>7,808,957</u>	<u>10,163,266</u>
Non-current Liabilities			
Interest-bearing loans and borrowings	2,367,148	3,763,828	265,755
Provisions	332,446	168,888	317,907
Deferred tax liabilities	2,385,482	2,994,613	3,250,595
Total Non-current Liabilities	<u>5,085,076</u>	<u>6,927,329</u>	<u>3,834,257</u>
TOTAL LIABILITIES	<u>22,562,631</u>	<u>14,736,286</u>	<u>13,997,523</u>
NET ASSETS	<u>59,798,610</u>	<u>67,603,010</u>	<u>69,491,416</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	26,439,073	26,439,073	26,439,073
Share premium	32,035,213	31,933,877	32,035,213
Other capital reserves	(726,339)	357,692	(62,720)
Retained earnings	1,875,044	8,892,458	10,901,271
	<u>59,622,991</u>	<u>67,623,100</u>	<u>69,312,837</u>
Minority interests	175,619	(20,090)	178,579
TOTAL EQUITY	<u>59,798,610</u>	<u>67,603,010</u>	<u>69,491,416</u>

Signed on behalf of the Board of Directors
Haydn Gardner
27th February 2008

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Consolidated statement of changes in equity

	Issued capital	Share premium account	Share based payment reserve	Convertible loan notes	Translation reserve	Retained earnings	Minority Interests	Total
Unaudited	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$
1 July 2007	14,679,901	11,690,082	-	96,263	25,312	6,815,925	(17,063)	33,290,420
Shares issued	11,759,172	23,337,092	-	(96,263)	-	-	153,846	35,153,847
Share issue costs	-	(2,991,961)	-	-	-	-	-	(2,991,961)
Options granted	-	-	-	-	-	190,949	-	190,949
Share based payments	-	-	411,300	-	-	-	-	411,300
Retained profit for the period	-	-	-	-	-	3,894,397	41,796	3,936,193
Translation adjustment for the period	-	-	-	-	(499,332)	-	-	(499,332)
30 June 2008	26,439,073	32,035,213	411,300	-	(474,020)	10,901,271	178,579	69,491,416
1 July 2008	26,439,073	32,035,213	411,300	-	(474,020)	10,901,271	178,579	69,491,416
Share based payments	-	-	-	-	-	92,915	-	92,915
Loss for the period	-	-	-	-	-	(9,119,142)	(2,960)	(9,122,102)
Translation adjustment for the period	-	-	-	-	(663,619)	-	-	(663,619)
31 December 2008	26,439,073	32,035,213	411,300	-	(1,137,639)	1,875,044	175,619	59,798,610

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Consolidated Cash Flow Statement, for the half year ended 31 December 2008

	Six Months Ended 31-Dec-08 Unaudited A\$	Six Months Ended 31-Dec-07 Unaudited A\$	Year Ended 30-Jun-08 Audited A\$
Net (loss)/profit	(9,122,102)	2,210,040	3,936,193
Adjustments for:			
Depreciation of non-current assets	452,147	376,928	827,000
Amortisation of development and abandonment costs	375,125	66,818	117,781
Impairment loss oil & gas assets	3,015,905	-	-
Net unrealised foreign exchange (Gain)/loss	(7,951,588)	161,869	3,119,792
Net profit on disposal of property, plant and equipment	-	(7,410)	-
Loss/(gain) on revaluation of investment	18,199,721	(2,193,626)	(6,594,857)
Employee share option costs	92,915	-	190,949
Net finance income	(583,574)	(99,092)	(915,217)
Income tax (benefit)/expense	(1,675,605)	1,106,706	1,927,340
	<u>2,802,944</u>	<u>1,622,233</u>	<u>2,608,981</u>
Changes in assets and liabilities			
Increase/decrease in receivables	69,238	861,437	1,074,305
Decrease/(increase) in inventory	3,757,966	(653,009)	(4,378,965)
Decrease in other financial assets	-	-	5,135
Decrease/(increase) in prepayments	364,008	48,922	(316,549)
Increase /(decrease) in payables	1,523,092	(2,585,593)	(3,935,696)
Increase/(Decrease) in provisions	87,555	(11,071)	192,647
Increase/(decrease) in current tax liability	42,033	-	(432,204)
	<u>8,646,836</u>	<u>(717,081)</u>	<u>(5,182,346)</u>
Interest paid	(427,019)	(185,177)	(416,565)
Income tax paid	(378,473)	(138,381)	(470,998)
	<u>7,841,344</u>	<u>(1,040,639)</u>	<u>(6,069,909)</u>
Net cash flows from/(used in) operating activities			
Cash flows from investing activities			
Interest received	372,641	284,269	1,026,385
Proceeds from sale of property, plant and Equipment	-	9,500	-
Payment of bonds	(59,396)	(32,377)	-
Loans to PIM	(5,017,576)	-	(1,715,103)
Interest free loans and associated investment in Zeus petroleum Ltd	(5,069,857)	(2,938,028)	(5,453,084)
Purchase of property, plant and equipment	(22,339)	(945,804)	(1,298,368)
Purchase of oil & gas assets	(2,136,655)	(56,715)	(9,433,136)
	<u>(11,933,182)</u>	<u>(3,679,155)</u>	<u>(16,873,306)</u>
Net cash flows used in investing activities			

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Consolidated Cash Flow Statement, for the half year ended 31 December 2008 *(continued)*

	As at 31-Dec-08 Unaudited A\$	As at 31-Dec-07 Unaudited A\$	As at 30-Jun-08 Audited A\$
Cash flows from financing activities			
Issue of shares (net of issue costs)	-	32,002,967	32,449,340
Proceeds from issue of shares minority interest	-	-	153,846
Proceeds from borrowings	10,000,000	1,247,423	1,638,601
Repayment of borrowings	(1,801,094)	(133,419)	(790,000)
Payment of capital element of finance lease liabilities	(174,465)	(94,339)	(267,251)
Net cash flows from financing activities	8,024,441	33,022,632	33,184,536
Effects of exchange rate change on cash and cash equivalents	1,439,977	-	-
Net increase in cash and cash equivalents	5,372,580	28,302,838	10,241,321
Cash and cash equivalents at beginning of the period	15,009,494	4,768,173	4,768,173
Cash and cash equivalents at end of the period	20,382,074	33,071,011	15,009,494

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EXPLANATORY NOTES

1. Reporting entity

Rheochem Plc is a public limited company incorporated in England and Wales. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2008 relates to the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2008 is available upon request from the Company's Australian office, 11 Alacrity Place Henderson, Western Australia or from our web site, www.rheochem.com.au.

2. Basis of preparation

The Group financial statements as at and for the year ended 30 June were prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS) which are available on request from the Company's registered office or from the website at www.rheochem.com.au.

The interim set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 30 June 2008. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2007 as well as any public announcements made by the Company during the interim period.

The comparative information for the year ended, and as at 30 June 2008 is derived from Rheochem Plc's Annual Report and Accounts for the year ended 30 June 2008, on which the auditors gave an unqualified audit report.

The Company's functional and reporting currency is the Australian dollar.

The interim report has been approved by a duly appointed committee of the Board of Directors.

The Directors of the Company approved the financial information included in this interim result on 27th February 2009.

The condensed set of interim statements for the period ended 30 June 2008 is unaudited but has been reviewed by the auditors, the Independent Review Report is set out on page 20.

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008.

4. Related parties

Arrangements with related parties continue to be in place. For details on these arrangements refer to the annual financial report for the year ended 30 June 2008

RHEOCHEM PLC

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

EXPLANATORY NOTES

5. Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element. No. of average weighted shares in issue 217,026,002.

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HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

EXPLANATORY NOTES (Continued)

6. Segment analysis

Business segment	Oil & gas operations			Oil & gas trading & venture capital investments			Corporate services			Total		
	31-Dec-08	31-Dec-07	30-Jun-08	31-Dec-08	31-Dec-07	30-Jun-08	31-Dec-08	31-Dec-07	30-Jun-08	31-Dec-08	31-Dec-07	30-Jun-08
	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$	A\$
Revenue												
Sales to customers	22,007,913	13,987,366	25,564,056	22,568	-	21,096	-	-	-	22,030,481	13,987,366	25,585,152
Unrealised (loss)/profit on revaluation of investments	-	-	-	(18,199,721)	2,549,144	6,594,857	-	-	-	(18,199,721)	2,549,144	6,594,857
Management fees	-	-	-	218,103	238,777	446,628	20,000	-	-	238,103	238,777	446,628
Realised profit on investments												
Inter segment sales	(753,976)	(1,260,800)	(942,312)	-	-	(1,304,919)	(20,000)	-	-	(773,976)	(1,260,800)	(2,247,231)
Total segment revenues	21,253,937	12,726,566	24,621,744	(17,959,050)	2,787,921	5,757,662	-	-	-	3,294,887	15,514,487	30,379,406
Results												
Segment results continuing operations	3,416,484	2,537,449	4,638,814	(21,659,533)	2,408,642	6,122,476	(1,411,345)	(1,298,736)	(2,693,182)	(19,654,394)	3,647,355	8,068,108
Foreign exchange gains/(losses) recognised within operating activities	1,301,556	(379,340)	(529,604)	3,624,398	(50,361)	(2,478,773)	855,843	-	(111,415)	5,781,797	(429,701)	(3,119,792)
Finance income	4,718,040	2,158,109	4,109,210	(18,035,135)	2,358,281	3,643,703	(555,502)	(1,298,736)	(2,804,597)	(13,872,597)	3,217,654	4,948,316
Finance expense										3,501,909	284,269	1,331,782
(Loss)/profit on ordinary operations before income tax expense										(427,019)	(185,177)	(416,565)
										(10,797,707)	3,316,746	5,863,533
Income tax expense										1,675,605	(1,106,706)	(1,927,340)
Net (loss)/profit after income tax										(9,122,102)	2,210,040	3,936,193

RHEOCHEM PLC**HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2008****EXPLANATORY NOTES (Continued)****7. Equity**

The total number of shares in issue on 31 December 2008 were 217,026,002 (30 June 2008 217,026,002)

8. Loans and borrowings

The following loans and borrowings (non-current and current) were issued and repaid during the six months ended 31 December 2008.

Loans

	Currency	Interest rate	Carrying amount	Year of maturity
Balance at 1 July 2008			8,499,547	
New loans				
Non-interest bearing loan	USD	0%	8,580,744	2009
Interest bearing loan	USD	12%	<u>7,755,138</u>	2009
Balance at 31 December 2008			<u>24,835,429</u>	

Borrowings

	Currency	Interest rate	Carrying amount	Year of maturity
Balance at 1 July 2008			4,972,887	
New borrowings				
Secured bank borrowings	AUD	30day BBSY+1.75%	10,000,000	2013*
Repayments				
Secured bank borrowings	AUD	30day BBSY+1.75%	(1,650,000)	
Unsecured borrowings	AUD	3.42%	(151,094)	
Hire purchase liabilities	AUD	8.10%	<u>(174,465)</u>	
Balance at 31 December 2008			<u>12,997,328</u>	

*ANZ retain the right to review the facility on an annual basis. The first renewal is due in November 2009.

RHEOCHEM PLC

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

INDEPENDENT REVIEW REPORT TO RHEOCHEM PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 December 2008 which comprises the consolidated income statement, consolidated balance sheet, consolidated cash flow and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information 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 International Standards on Auditing (UK and Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 December 2008 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

KPMG Audit Plc

Chartered Accountants

London

UK

27 February 2009