



ABN 82 010 975 612

**Half-year Financial Report
31 December 2006**

ASX HALF-YEAR INFORMATION – 31 DECEMBER 2006

Lodged with the ASX under Listing Rule 4.2A. This report should be read in conjunction with Progen Industries Limited's 30 June 2006 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

<p><i>Appendix 4D item 2.1</i> The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.</p>	<p>Down 10.8% to \$1,294,000.</p>
<p><i>Appendix 4D item 2.2</i> The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.</p>	<p>Loss up 280.6% to \$10,950,000.</p>
<p><i>Appendix 4D item 2.3</i> The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.</p>	<p>Loss up 280.6% to \$10,950,000.</p>
<p><i>Appendix 4D item 2.4 and 2.5</i> The amount per security and franked amount per security of final and interim dividends.</p>	<p>No dividends have been paid or declared during the period and the Directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2006. Dividends are not expected to be paid or declared in the immediate term.</p>
<p><i>Appendix 4D item 2.6</i> A brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.</p>	<p>See attached Directors' Report for an explanation of items 2.1, 2.2 and 2.3.</p>
<p><i>Appendix 4D item 3</i> Net tangible assets per security.</p>	<p>2006: 58.9 cents 2005: 55.5 cents</p>

Appendix 4D items 4, 5, 6 and 7 are not applicable.

DIRECTORS' REPORT

The Board of Directors of Progen Industries Limited present their report on the Company for the half-year ended 31 December 2006.

DIRECTORS

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 Stephen Chang	(Executive Chairman, Director)
Mr Justus Homburg	(Managing Director)
Prof John Zalcborg	(Non-Executive Director)
Patrick Burns	(Non-Executive Director)
Dr Mal Eutick	(Non-Executive Director)
Dr Stanley Chang	(Non-Executive Director resigned 16 January 2007)
Eugene Cheng	(Alternate Director to Dr S.S.C. Chang until 16 January 2007)

Mr Linton Burns was the Company Secretary during the entire half-year and up to the date of this report.

PRINCIPAL ACTIVITY

The principal activities of the Company during the half-year were:

- Discovery, development and commercialisation of pharmaceutical therapeutics for the treatment of cancer and other serious diseases; and
- The provision of contracting services related to the process development, manufacture and quality assurance of biological products.

The Company's objective is to build a sustainable biotechnology business through the discovery, development and commercialisation of pharmaceutical therapeutics for cancer and other serious diseases.

There were no significant changes in the nature of the above activities during the period.

Review of Operations

The loss for the six months ended 31 December 2006 was \$10,950,000 compared to a loss of \$2,877,000 in the previous corresponding period.

The results for the half-year ended 31 December 2006 include the financial impact of the following transactions in relation to the termination of the Agreement for Strategic Alliance with Medigen Biotechnology Corporation that was executed on 16 January 2007 (see Note 5):

Income Statement Impact:	\$'000
Impairment loss: Return of 15,176,525 Medigen shares as part compensation for Medigen forgoing PI-88 royalty stream	(1,769)
Re-imburement of Medigen's contribution to the PI-88 Phase II Melanoma clinical trial	(300)
To be Issued 500,000 Progen ordinary shares to Medigen	(2,970)
Total financial impact recorded in Income Statement	<u>(5,039)</u>

Further, the results included expenditures totalling \$1,530,000 on the planned Phase III trial of PI-88 in post resection liver cancer (\$nil expenditure in the previous corresponding reporting period).

On a like for like basis, excluding the financial impact in relation to the termination of the Agreement for Strategic Alliance with Medigen and the Phase III trial expenditure, the loss for this reporting period amounted to \$4,381,000 compared with \$2,877,000 for the previous corresponding reporting period.

DIRECTORS' REPORT (continued)

Our two operating divisions are Research and Development, and Manufacturing. An analysis by business segment follows:

	%	2006	2005
	Change	\$'000	\$'000
Revenue from Operating Activities			
Research and Development	73.1	580	335
Manufacturing	(35.4)	254	393
Other, including Interest	(36.3)	460	722
Total Revenue from Operating Activities	(10.8)	1,294	1,450
Segment Result			
Research and Development	(145.5)	(3,626)	(1,477)
Manufacturing	(71.2)	(798)	(466)
Corporate and Administration	(91.3)	(1,787)	(934)
Other, including Medigen	N/A	(4,739)	-
Operating loss	(280.6)	(10,950)	(2,877)

Research and Development

The primary activities of this division continue to be:

1. the clinical development of the Company's anti-cancer drug candidates PI-88 and PI-166; and
2. the drug discovery program aimed at the discovery of small molecule drug candidates that modulate the interaction between carbohydrates (sugars) and disease related protein targets as potential therapeutics for cancer.

In line with the Company planning to progress the development of PI-88 to Phase III in post-resection liver cancer, the loss incurred by this division for the six months ended 31 December 2006 increased 145.5% from the previous corresponding reporting period to \$3,626,000.

Expenditures incurred this reporting period in relation to the planned Phase III trial of PI-88 included:

- long-term animal toxicity studies required due to the potential treatment duration of PI-88 in post-resection liver cancer. Total costs incurred this reporting period amounted to \$1,070,000;
- transfer of the last steps in the manufacturing process to a US FDA cGMP approved manufacturing facility in readiness for the manufacture of PI-88 API for Phase III. Total costs incurred this reporting period amounted to \$355,000; and
- fees paid to regulatory and clinical consultants. Total fees incurred this reporting period amounted to \$105,000.

Further, Medigen did not contribute to our Melanoma Phase II trial of PI-88 this reporting period as negotiations were taking place on the termination of the Agreement for Strategic Alliance. The reimbursement of \$300,000 to Medigen for the contribution it had made to the trial costs incurred has been included in the results of this division.

Costs incurred on our PI-88 Phase II trial of patients with advance prostate cancer increased \$63,000 in line with increased patient recruitment.

Manufacturing

During the reporting period the Manufacturing division's priority was producing sufficient quantities of PI-88 starting material for our upcoming Phase III clinical trial and overseeing the transfer of the manufacturing process as it relates to the sulfation of PI-88.

Consistent with this focus the revenues derived from external contracts decreased 35.4% to \$254,000.

DIRECTORS' REPORT (continued)

Corporate and Administration

Corporate and Administration expenses increased \$593,000 from the previous corresponding reporting period, an increase of 36.0%. The increase was due to \$185,000 being expensed in relation to share-based payments (\$24,000 being expensed in the previous corresponding reporting period) and \$116,000 being incurred on consultants including consultants engaged by the Company to assist it with US Sarbanes Oxley Act Compliance.

Interest revenue decreased \$169,000, or 27.8%, from the previous corresponding reporting period in line with reduced cash available for investment for most of the current reporting period.

Liquidity and Cash Resources

At 31 December 2006 cash assets amounted to \$30,030,000 compared to \$15,872,000 at 30 June 2006.

In late December 2006 the Company raised \$20,000,000 through an underwritten private placement of 3,690,037 shares and commenced a Share Purchase Plan (SPP) to existing shareholders. The SPP closed after the balance date of these half-year accounts. The Company raised an additional \$5,358,000 from the SPP.

The funds raised will be used to fund time critical aspects of the imminent Phase III trial of PI-88 for the treatment of patients with liver cancer who have undergone surgery including engaging an international contract research organisation, expanding our clinical development team, manufacture of Phase III material, activating our Phase III clinical advisory team, submitting Phase III protocols for regulatory approvals and recruiting trial sites.

The Company currently anticipates that additional funds will be required to fully fund the Phase III trial in post-resection liver cancer.

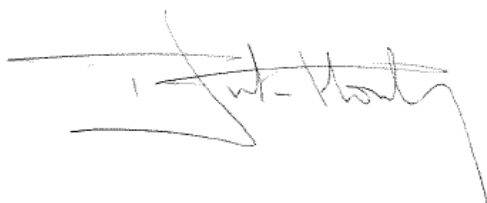
Rounding of Amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest A\$1,000 (where rounding is applicable) under the option available to the Company under Australian Securities and Investments Commission Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditor Independence

The independence declaration of the Company's auditors is on page 6 and forms part of this report.

This report has been made in accordance with a resolution of directors.

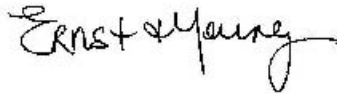


Justus Homburg
Managing Director

Brisbane, 21 February 2007

Independence Declaration to the Directors of Progen Industries Limited

In relation to our review of the financial report of Progen Industries Limited for the financial half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Brown
Partner
21 February 2007

INCOME STATEMENT

For the half-year ended 31 December 2006

	Note	31 December 2006 \$'000	31 December 2005 \$'000
REVENUE FROM CONTINUING OPERATIONS			
Sales revenue	4a	254	393
Cost of sales		(26)	(24)
GROSS PROFIT			
		228	369
Other income from ordinary activities	4b	1,040	1,057
Research and development expenses		4,206	1,812
Manufacturing expenses		1,026	835
Administrative and corporate expenses		2,239	1,646
Finance costs		8	10
Impairment loss	5	1,769	-
Other expenses	4d	2,970	-
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE		(10,950)	(2,877)
INCOME TAX EXPENSE RELATING TO CONTINUING OPERATIONS		-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF PROGEN INDUSTRIES LIMITED		(10,950)	(2,877)
Basic and diluted loss per share (cents per share)		(27.0)	(7.1)
Weighted average number of shares outstanding during the period used in the calculation of the basic and diluted earnings per share		40,675,257	40,556,793

The accompanying notes form an integral part of this Income Statement.

BALANCE SHEET

As at 31 December 2006

	Note	31 December 2006 \$'000	30 June 2006 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	13	30,030	15,872
Trade and other receivables		176	156
Short-term deposits		87	87
Prepayments		361	449
Non-current assets classified as held-for-sale	5	-	-
Total Current Assets		30,654	16,564
Non-current Assets			
Available-for-sale financial assets	5	-	1,769
Property, plant and equipment		1,328	1,460
Total Non-current Assets		1,328	3,229
TOTAL ASSETS		31,982	19,793
LIABILITIES			
Current liabilities			
Trade and other payables	6	5,237	1,265
Interest-bearing liabilities		173	-
Provisions		225	265
Unearned government grants		10	74
Total Current Liabilities		5,645	1,604
Non-current liabilities			
Provisions		232	217
Unearned government grants		18	52
Total Non-current Liabilities		250	269
TOTAL LIABILITIES		5,895	1,873
NET ASSETS		26,087	17,920
EQUITY			
Issued capital	10a	107,408	88,476
Other reserves		287	102
Accumulated losses		(81,608)	(70,658)
TOTAL EQUITY		26,087	17,920

The accompanying notes form an integral part of this Balance Sheet.

STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2006

	Number of ordinary shares	Amount \$'000	Accumulated losses \$'000	Other reserves \$'000	Total \$'000
At 1 July 2005	40,556,793	88,376	(63,049)	56	25,383
Loss of the period	-	-	(2,877)	-	(2,877)
Total income/expense for the period	-	-	(2,877)	-	(2,877)
Share-based payment	-	-	-	24	24
At 31 December 2005	40,556,793	88,376	(65,926)	80	22,530
At 1 January 2006	40,556,793	88,376	(65,926)	80	22,530
Loss of the period	-	-	(4,732)	-	(4,732)
Total income/expense for the period	-	-	(4,732)	-	(4,732)
Exercise of options	33,000	100	-	-	100
Share-based payment	-	-	-	22	22
At 30 June 2006	40,589,793	88,476	(70,658)	102	17,920
At 1 July 2006	40,589,793	88,476	(70,658)	102	17,920
Loss of the period	-	-	(10,950)	-	(10,950)
Total income/expense for the period	-	-	(10,950)	-	(10,950)
Share issued	3,690,037	20,000	-	-	20,000
Transaction costs on share issue	-	(1,208)	-	-	(1,208)
Exercise of options	41,998	140	-	-	140
Share-based payment	-	-	-	185	185
At 31 December 2006	44,321,828	107,408	(81,608)	287	26,087

The accompanying notes form an integral part of this Statement of Changes in Equity.

STATEMENT OF CASH FLOWS

		31 December 2006	31 December 2005
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		402	797
Payments to suppliers, employees and others		(5,848)	(4,369)
Receipt of government grants		483	373
Interest received		332	583
Finance costs		(8)	(10)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES		(4,639)	(2,626)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for short-term deposits		-	(74)
Purchase of property, plant, equipment and other assets		(135)	(187)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		(135)	(261)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of options	10b	140	
Share placement	10b	20,000	-
Transaction costs of issue of shares	10b	(1,208)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		18,932	-
Net (decrease)/increase in cash held		14,158	(2,887)
Cash and cash equivalents at the beginning of period		15,872	23,428
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13	30,030	20,541

The accompanying notes form an integral part of this Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2006

1. CORPORATE INFORMATION

The half-year financial report for Progen Industries Limited (the Company) for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 21 February 2007.

Progen Industries Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange and the NASDAQ under the ticker symbols PGL and PGLA respectively.

The nature of the operations and principal activities of the Company are described in Note 03.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the annual Financial Report of the Company as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

Basis of Preparation

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards including AASB 134 'Interim Financial Reporting' and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value and non-current assets held-for-sale that have been measured at the lower of their carrying amount and fair value less cost to sell.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest A\$1,000 unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, which had no impact on the half-year report.

3. SEGMENT INFORMATION

The Company operates predominantly in the biotechnology industry. The Company's primary segment reporting format is business segments as the Company's risks and rates of return are affected predominantly by differences in the products and services produced. The Company's activities comprise the research, development and manufacture of biopharmaceuticals.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Company operates predominantly in Australia, however does import and export some products.

Business Segment	Research & Development		Manufacturing		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Operating revenue						
Sales to customers	-	-	254	393	254	393
Other revenues	580	335	-	-	580	335
Unallocated revenue	-	-	-	-	460	722
Total revenue	580	335	254	393	1,294	1,450
Segment result	(3,626)	(1,477)	(798)	(466)	(4,424)	(1,943)
Unallocated expenses					(6,526)	(934)
Operating loss					(10,950)	(2,877)

4. REVENUE AND EXPENSES

The following revenue and expense disclosure is relevant in explaining the performance of the entity:

	31 December 2006 \$'000	31 December 2005 \$'000
(a) Revenue		
Revenue from services	254	393
	254	393
(b) Other income		
Interest	438	607
Government grants	580	335
Other revenue	22	115
	1,040	1,057
(c) Expenses		
Depreciation	268	247
Employee benefits (excluding share-based payments)	1,954	1,816
Expense of share-based payments	185	24
(d) Other Expenses		
Issue of 500,000 Progen ordinary shares to Medigen	2,970	-

5. NON-CURRENT ASSETS HELD FOR SALE

Medigen Biotechnology Corporation – unlisted shares	\$'000
Balance as at 1 July 2006	1,769
Impairment	(1,769)
Balance as at 31 December 2006	<u> -</u>

Non-current assets held for sale consists of an investment in Medigen Biotechnology Corporation (MBC) unlisted ordinary shares which were previously classified as non-current available-for-sale financial assets, and therefore have no fixed maturity date or coupon rate.

On 31 May 2000, Progen entered into an agreement with MBC, a company incorporated in Taiwan, in relation to the co-development of PI-88 (the 'Alliance Agreement'). Under the Alliance Agreement, MBC was to fund and conduct, at no cost to Progen, several Phase II clinical trials in respect of PI-88. These trials were in addition to those undertaken by Progen. In return MBC was entitled to receive a 15% royalty on PI-88 proceeds of commercialisation received by Progen.

On 28 April 2005, Progen, and MBC agreed to amend the terms of the Alliance Agreement in that Progen agreed to waive the requirement for MBC to conduct one of the Phase II trials outlined in the Alliance Agreement. In return, MBC agreed to fund 50% of the Company's Phase II melanoma clinical trial (PI-88 in combination with Dacarbazine) up to \$A1 million.

Under the Alliance Agreement, Progen was issued 19.9% of MBC's issued ordinary equity with certain anti-dilution rights. As at 30 June 2006, Progen held 15,176,525 ordinary shares in MBC.

On 16 January 2007, the Company announced that it had agreed terms with MBC to conclude the Alliance Agreement. In consideration for MBC agreeing to end the Alliance Agreement, and foregoing their entitlement to the 15% royalty, and to compensate MBC for their contribution to the development of PI-88, Progen agreed to:

- Return the 15,176,525 MBC ordinary shares to MBC.
- Issue 500,000 Progen shares to MBC on execution of the termination agreement;
- Reimburse to MBC \$300,000 being the funds they contributed to the costs of the PI-88 Phase II Melanoma clinical trial on execution of the agreement;
- Issue a further 732,600 Progen shares and pay \$2,000,000 in cash or shares, at Progen's discretion, to MBC on MBC completing two clinical milestones in relation to the current PI-88 Phase II HCC Trial;
- Pay MBC up to \$4,000,000 on PI-88 achieving specified clinical and commercial milestones; and
- Issue 1,000,000 options to MBC upon MBC providing to Progen the HCC Phase II Trial Final Study Report.

As the terms of the agreement to conclude the Alliance Agreement were substantially complete at 31 December 2006 the financial statements for the period ended 31 December 2006 include the financial impact of the return of the 15,176,525 MBC shares to MBC, that being an impairment loss of \$1,769,000, the reimbursement of the \$300,000 and the value of the 500,000 Progen shares (having a value of \$2,970,000 at 31 December 2006). The total financial impact is an increase in the operating loss from continuing operations of \$5,039,000. The 15% royalty stream being bought back by Progen has been valued at nil in accordance with the Accounting Standard AASB 138 *Intangible Assets* as we are unable to reliably estimate the future cash flows in relation to PI-88 as it is still in development.

The financial impact of the remaining transactions will be booked in future reporting periods as and when incurred.

6. TRADE AND OTHER PAYABLES

	31 December 2006 \$'000	30 June 2006 \$'000
Trade creditors (i)	692	394
Other creditors (ii)	1,275	871
Payable in relation to Medigen (iii)	3,270	-
Trade and other Payables	5,237	1,265

Terms and conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 days terms.
- (ii) Other creditors are non-interest bearing and have a term between 30 days and 12 months.
- (iii) Comprising the reimbursement of costs and the value of 500,000 Progen shares. Refer to Note 5.

7. DIVIDENDS PAID AND PROPOSED

	31 December 2006 \$'000	31 December 2005 \$'000
Dividends paid during the half-year	-	-
Dividends proposed	-	-

8. NON-CASH FINANCING AND INVESTING TRANSACTIONS

In July 2006 the Company signed an agreement to fund the Company's insurance premium for the year ended 30 June 2007. The terms of the agreement state that the amount funded is to be repaid in twelve equal monthly instalments of \$36,232 including finance charges which is disclosed in the cash flow statement as cash flow from operating activities (2005: nine equal instalments of \$59,666).

9. SHARE-BASED PAYMENT PLANS

During the half year 647,000 share options were granted to employees and senior executives under the terms of an employee and non-executive director share incentive scheme. The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006 and 2005:

	2006	2005
Expected volatility (%)	38%	56%
Risk-free interest rate average (%)	5.83%	5.21%
Expected life (years)	4.30	1.80
Option exercise price average (dollars)	4.08*	3.09
Weighted average share price (dollars)	3.39*	2.92
Average fair value of options	1.08*	0.78

*This figure includes estimates for options with future share/exercise prices.

10. ISSUED CAPITAL

	31 December 2006	30 June 2006
a) Issued and paid up capital	\$'000	\$'000
Ordinary shares fully paid	107,408	88,476
b) Movements in shares on issue	Number of Shares	\$'000
At 1 July 2006	40,589,793	88,476
Exercise of options	41,998	140
Share placement	3,690,037	20,000
Transaction costs of issue of shares		(1,208)
At 31 December 2006	44,321,828	107,408

11. CONTINGENT LIABILITIES

Other than the payments, share and option issues contingently payable to MBC on achievement of specific milestones and deliverables as discussed in Note 5 no contingent liabilities exist at balance sheet date. There have been no changes in contingent liabilities since 30 June 2006.

12. SUBSEQUENT EVENTS

On 16 January 2007, the Company announced that it had agreed terms with Medigen Biotechnology Corporation to conclude the Alliance Agreement as discussed in Note 5.

On 5 February 2007 the Company announced that it had raised an additional \$5,358,000 through the issue of 989,156 shares at \$5.42 under the Share Purchase Plan the Company announced on 18 December 2006.

13. ADDITIONAL INFORMATION

Reconciliation of Cash

For the purpose of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following:

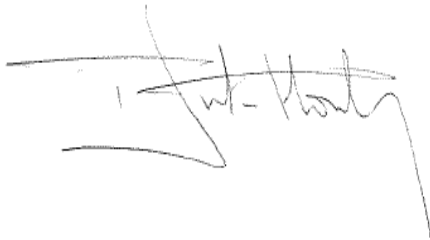
	31 December 2006	31 December 2005
	\$'000	\$'000
Cash at bank and in hand	605	372
Short-term deposits	29,425	20,169
Cash and cash equivalents	30,030	20,541

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Progen Industries Limited, I state that:

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2006 and the performance for the half year ended on that date; and
 - (ii) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board.

A handwritten signature in black ink, appearing to read 'Justus Homburg', is written over a horizontal line. The signature is stylized and somewhat cursive.

Justus Homburg
Managing Director

Brisbane
21 February 2007

To the members of Progen Industries Limited

Report on the Half-Year Condensed Financial Report

We have reviewed the accompanying half-year financial report of Progen Industries Limited, which comprises the balance sheet as at 31 December 2006, 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.

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), the *Corporations Act 2001*. This responsibility includes designing, implementing 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 half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 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*, other mandatory financial reporting requirements in Australia. As the auditor of Progen Industries Limited during the half-year, 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.

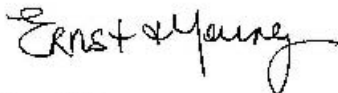
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

Conclusion

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

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Winna Brown
Partner
Brisbane
21 February 2007