

Quarterly Report

FOR PERIOD
ENDING
31 DEC 2008



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Quarter Two Highlights

Paralana

- The Weatherford 2000 HP drilling rig is on track for a May 2009 spud of the four kilometre deep Paralana 2 well.
- A Passive Seismic Array has been installed and is monitoring background seismicity at the Paralana site.
- Geothermal Drilling Program (GDP) application has been lodged for up to \$7 million grant.
- Government support continues with \$50 million GDP, emissions trading, renewable energy target and the bringing forward of the \$435 million Renewable Energy Demonstration Program.

New Tenement

- The Company has been awarded a 9,000 km² Geothermal Exploration Permit (GEP) in Victoria's East Gippsland Basin to develop a Hot Sedimentary Aquifer (HAS) geothermal project.

Spain

- Madrid Geothermal exploitable energy potential estimated at 170 petajoules (PJ).
- GeoMadrid Project Demand study completed and feasibility assessment on track for completion in March 2009.

Inside – Drilling of Paralana 2 deep well on track for May 2009

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Review of Operations – In brief

The Company, during the quarter, continued developing a balanced portfolio of quality geothermal projects in Australia, Spain and China, particularly focusing on its more advanced projects at Paralana, Madrid, Tenerife and Gran Canaria.

The Paralana Geothermal Energy JV Project remains on track for a May 2009 Spud of the 4km deep Paralana 2 Well. A Passive Seismic Array has now been installed and has commenced monitoring background seismicity and an application for \$7 million has been lodged under the Commonwealth Government's Geothermal Drilling Program.

In November 2009, Petratherm was awarded a 9,000 km² Geothermal Exploration Permit (GEP) in Victoria's East Gippsland Basin to develop a Hot Sedimentary Aquifer (HSA) geothermal project.

The Geo-Madrid District Heating Project feasibility study is well advanced with the completion of the energy demand study that forms a key part of the feasibility assessment.

Exploration and evaluation expenditures amounted to \$2,852,000 during the quarter primarily reflecting increased activity at Paralana and the part payment of long lead plant items. Of that expenditure \$2,330,000 or 82% was funded by Beach Petroleum under the Paralana JV.

Ongoing administration costs of \$343,000 during the quarter reflected effective utilization of technical staff on tenements and prudent management of administrative costs during the quarter. This figure includes a number of annual and one-off payments relating to the website and office upgrades.

At the end of the quarter the Company held \$3,386,000 in cash and has joint ventures with Beach Petroleum and TRUenergy to part fund the Paralana Geothermal Energy Project.

Under the JV, Beach Petroleum pay the first \$5 million toward the Paralana 2 well and TRUenergy pay \$3 million toward the well costs. Petratherm has a \$5 million Commonwealth REDI grant that forms part of the Company's contribution toward the Paralana 'proof of concept' phase of work. To date, a sum of \$608,000 has been drawn down from the REDI grant funds.

Review of Operations – Corporate, Industry & Regulatory

\$7 million grant application under the Geothermal Drilling Program

Petratherm on behalf of the Paralana JV Project has lodged an application under the Commonwealth Government's \$50 million Geothermal Drilling Program (GDP) for a maximum amount of \$7 million.

The Paralana JV Project has been advised that its application has met all eligibility criteria for funding under the GDP and if successful funds would be received prior to the commencement of drilling the Paralana 2 deep well in May 2009.

A key aspect of that eligibility relates to the Paralana JV Project having demonstrated that it has secured a suitable drilling rig and is capable of commencing deep drilling, for 'proof of concept' during the 2008/09 financial year.

The GDP provides for an up front payment to successful candidates of 60% (or \$4.2 million maximum) of the funding prior to deep drilling with the balance provided subject to achievement of agreed milestones and prior to the drilling of the second deep well of the 'proof of concept' project.

Climate Change and Renewable Energy Target

During the period the Commonwealth Government outlined its Carbon Pollution Reduction Scheme (involving an Emission Trading Scheme (ETS)) and its proposed approach to achieving a 45,000 GWh Renewable Energy Target (RET).

The combination of the ETS and the RET provides a sound, long term commercial trading framework for renewable energy investment that will provide greater investor confidence in geothermal energy projects.

Renewable Energy Demonstration Program

The Commonwealth announced the bringing forward of its \$435 million Renewable Energy Demonstration Program (REDP) that is aimed at facilitating the demonstration of emerging/developing renewable technologies such as geothermal, solar thermal, wave and tidal. Details of the REDP are expected by early February 2009.

Review of Operations - Australia

Paralana Joint Venture Project

Drilling of Paralana 2 deep well on track for May 2009

Weatherford Drilling International has advised the Paralana JV partners that Rig #828, a 2000HP LeTourneau 'Lighting Rig' is on track for delivery to enable the 'spud-in' of the Paralana 2 well in May 2009.

The timeline for the construction and delivery of the Rig is as follows:

- Construction of the Rig will be completed by end January/early February 2009.
- A compliance period of approximately seven weeks will be undertaken through to end of March 2009.
- Delivery of Rig to South Australia (Port Pirie) by end of April 2009.
- Delivery of rig to site and preparation for 'spud-in' of well completed by third week of May 2009.

Passive Seismic Array installed and monitoring commenced

The Paralana passive seismic array has now been fully installed and has commenced gathering data on the background seismicity of the project site.

The passive seismic array will enable accurate monitoring of micro-seismic events, before, during and after fracture stimulation of the four kilometer deep Paralana 2 well.

Figure 1 below identifies the location of the Paralana 2 deep well (shown in the white within the red project area) and the sites where seismic monitoring stations have been installed. Three types of seismic monitoring stations make up the seismic array:

- Post hole monitoring stations – shown in yellow
- Surface stations – shown in red
- Deep monitoring station located at 1770 metres depth within the Paralana 1B well – shown in blue

Monitoring of background seismicity has commenced and this will provide valuable information against which the micro-seismic events created during stimulation can be calibrated and located. Ultimately, this will enable a clear understanding of the Paralana reservoir characteristics and increase confidence in the location of the Paralana 3 deep production well.

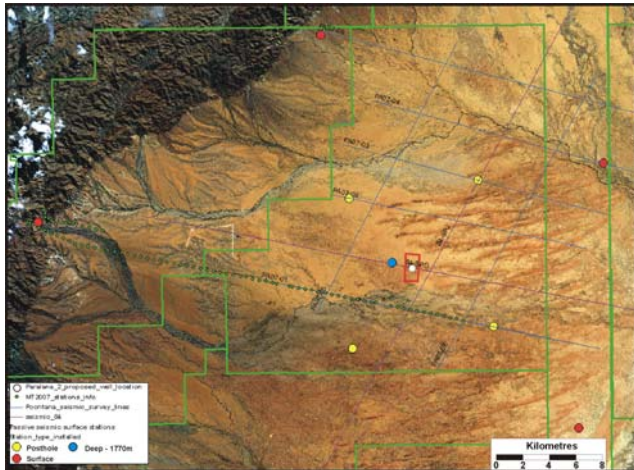


Figure 1 – Aerial photograph of the Paralana project license areas (green) outlining Paralana 2 well location and passive seismic monitoring stations.

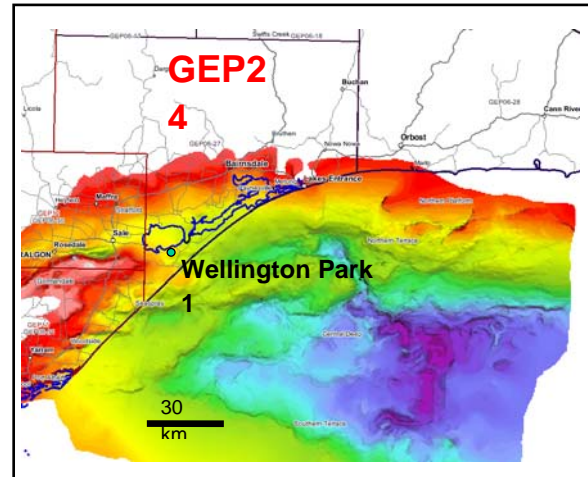


Figure 2 – Extent of Gippsland Basin (pseudo-colour image), GEP24 license area and location of the Wellington Park 1 Well.

Victorian Project – East Gippsland

Hot Sedimentary Aquifer Geothermal Project

In late November 2008 the Company was awarded the grant of Geothermal Exploration Permit 24, by the State Government of Victoria.

The Permit covers an area of 9,000km², which covers the onshore component of the Gippsland Basin (Bairnsdale – Lakes Entrance area) which is prospective for Hot Sedimentary Aquifer (HSA) geothermal resources for power generation (Refer Figure 2 below).

The exploration model targets potential permeable reservoir sequences which may contain brine fluid in excess of 150°C at economically viable drill depths (3.5-4.0 kilometres). Geothermal target areas within the tenement area are well located close to significant power station and transmission infrastructure.

The Company understands that the highly prospective East Gippsland Tenement was strongly contested by a number of competitor companies.

Preliminary economic analysis indicates that the project is capable of producing commercially viable, large scale base load, power generation.

The Victorian Government has established a \$72 million fund for large scale renewable demonstration projects and will make a call for application in late 2008.

The Company plans a phased exploration program over the next 5 years commencing with magneto-telluric and seismic work, followed by production well drilling, reservoir development and closed loop circulation testing.

Review of Operations – Spain

Madrid District Heating Project

Madrid energy potential estimate of 170 PJ comparable to the Cooper Basin gas production

An assessment undertaken by GPC-IP (specialist geothermal consultants based in France that manage most of the Paris Basin 260 MW of district heating projects) and detailed in a paper recently presented at the Inaugural Madrid Geothermal Energy Conference, indicates that:

- The broader Madrid Basin area has an exploitable energy potential of 730 PJ and the Company's north-eastern Madrid license area has an exploitable energy potential of 170 PJ (a little more than the annual gas production from SA's Cooper Basin).
- The Company's license area is considered the most prospective area having the hottest known zones with knowledge drawn from five existing deep wells and previous seismic and other geological studies.
- The assessment was made for a 75 year period (demonstrating the expected longevity of the energy potential) and considers heat at shallow, medium, deep and ultra-deep geothermal environments.

GPC-IP Principal Consultant – Mr Pierre Ungemach who presented the findings confirmed the excellent energy potential for both district heating and electricity production.

Geo-Madrid Project market demand study completed

Energesis Geotermia, a large Spanish engineering group, has been engaged by Petratherm Espana to undertake a heating and cooling demand study to accurately quantify the local market demand for the Geo-Madrid project. The 8MW Geo-Madrid demand study commenced in early November and has been completed. Work is now underway, as part of the feasibility study to determine the optimum design of the Geo-Madrid project.

The 8MW Geo-Madrid district heating project aims to service the heating and cooling needs of the nearby University and a number of large government buildings owned by the Madrid Regional Government (refer Figure 3).

The Energesis Geotermia demand study was undertaken with the co-operation of the project's two key customers – the Autonomous University and the Madrid Regional Government.

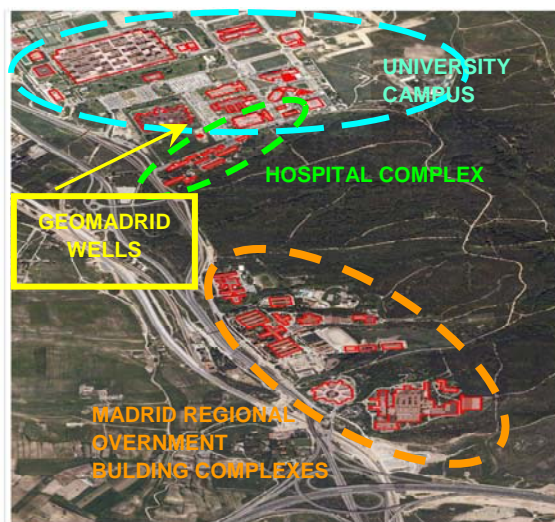


Figure 3 – Geo-Madrid project site located in the south-western part of the Madrid GEL

Other Spanish Projects

A work program for exploration of the Tenerife and Gran Canaria projects has been developed with Sinclair Knight Merz (SKM), specialist conventional geothermal energy consultants.

Applications for tenements across the Valles Basin, near Barcelona are in the final stages of community consultation and decisions on those applications are expected within the next four to six weeks.

Review of Operations - China

China Exploration Program

China Exploration Team field trip completed in November 2008

The Company's China exploration team has completed its third and most important field trip during November 2008 with the assistance of four Chinese government institutions, with which the Company has an exclusive agreement for the provision of geological and geothermal data.

The team, led by Mr Peter Reid, Petratherm's Exploration Manager, met with provincial representatives in three target provinces to progress the development of geothermal projects on mainland China.

Recently completed desktop analyses have highlighted good quality geothermal target areas and the focus of the field trip was to gather further information to make a final assessment of project selections.

A work program for the priority project areas is under development and will form a key basis for potential joint venture discussions with interested parties.

The Company has received great interest in its China ventures from both potential joint venture partners and government (both Chinese and Australia) under the Asia-Pacific Partnership program where the Company has been awarded a \$75,000 grant.



Safety, Environment & Community

Petratherm is currently upgrading and enhancing its overall Safety, Health, Environment & Quality Management System to meet the needs of the Company's growing business operations. To ensure a suitable and practical system in designed and implemented for geothermal operations, Petratherm is working with Industry, safety and environmental specialists. Company safety objectives and targets will also be established to ensure a consistent approach across all projects and to facilitate continuous improvement.

Corporate Information

Board of Directors

Derek Carter	Chair
Terry Kallis	Managing Director
Richard Hillis	Non executive Director
Richard Bonython	Non executive Director
Simon O'Loughlin	Non executive Director

Company Secretary

Donald Stephens	HLB Mann Judd (SA) Pty Ltd
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O'Loughlins Lawyers
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Adelaide, South Australia, 5000

Auditors

Grant Thornton South Australian Partnership
67 Greenhill Road
Wayville, South Australia, 5034

Inside the PTR team

Title	Position
Managing Director	Terry Kallis
Exploration Manager	Peter Reid
Business Development Manager	Jonathan Teubner
Project Manager – Paralana	John King
Chief Geologist	Betina Bendall
Project Geologist	Louise McAllister
Project Geologist	Mathieu Messeiller
Business Accountant	Hayley Weaver
Office Manager	Elena McRae
Tenement & Compliance Officer	Brett Meredith
Admin Assistant	Wendy Blackeby
Spanish team	
Manager – Spain	Raul Hidalgo
Project Geologist	Victor Guerrero

Shareholder Information

Due to legislative changes introduced by the Australian Government in 2007, the default option for receiving annual reports is via a Company's website. Petratherm's annual report can be viewed at www.petratherm.com.au or via the ASX at www.asx.com.au.

The company has also enabled online voting through www.investorvote.com.au. In order to use this facility, shareholders need to enter a Control Number, SRN/HIN and postcode which are available on the first page of the Proxy Form.

Industry Events

For further information on forthcoming events in the geothermal sector visit the PIRSA website at <http://geothermal.pir.sa.gov.au/news/events>

