

FOR PERIOD
ENDING
30 SEPT 2008

Quarterly Report



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Quarter One Highlights

- A \$57 million Farm-In Agreement was announced with TRUenergy, enabling them to earn up to 30% of the Paralana Geothermal Energy JV Project
- Drilling Rig contract with Weatherford Drilling International was secured with spudding of Paralana 2 Deep Well expected to commence in May 2009. This satisfies the key condition of the TRUenergy Farmin.
- Re-entry inspection tests carried out on two existing wells at the Geo-Madrid 8 MW (thermal) district heating project site confirmed that capital cost savings of up to 30%, thus significantly improving project economics
- An Expression of Interest has been lodged for up to \$7 million from the Commonwealth Government's \$50 million drilling fund
- Managing Director, Terry Kallis was appointed as AGEA's representative to the Australian Energy Market Commission (AEMC) Advisory Committee

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Inside – Project Economics for Paralana and Geo-Madrid



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 has been enhanced with an additional JV partner, TRUenergy and the securing of a 2,000HP drilling rig.

The Geo-Madrid District Heating Project, following a recent well re-entry program, exhibits excellent prospects for high internal rates of return with revenues as early as 2010.

A work program for exploration in Tenerife and Gran Canaria has been agreed with Sinclair Knight Merz – specialist conventional geothermal consultants. Activities are planned to commence in November 2008.

The economics of the Company's most developed projects - Paralana and Geo-Madrid - are detailed in later sections

Exploration and evaluation expenditures amounted to \$2,835,000 during the quarter primarily reflecting increased activity at Paralana and the part payment of drilling rig mobilization costs. Of that expenditure \$2,473,000 or 87% was funded by Beach Petroleum under the Paralana JV.

Ongoing administration costs of \$847,000 during the quarter reflect the further expansion of staff and increased level of activity arising from new geothermal projects across the Company's growing portfolio, in particular our Spanish projects. This figure includes a number of annual and one-off payments relating to computer system and office upgrades.

At the end of the quarter the Company held \$3,689,000 in cash and has joint ventures with Beach Petroleum and TRUenergy to part fund (refer later sections) the Paralana Geothermal Energy Project

Review of Operations – Corporate, Industry & Regulatory

\$57 million TRUenergy 'Farm-In' for up to 30% of Paralana Geothermal Energy JV Project

During the quarter Petratherm concluded an agreement with TRUenergy to farm-in to the Paralana Geothermal Energy Project being developed by Petratherm and joint venture partner, Beach Petroleum.

The farm-in enables TRUenergy to earn up to 30% of the Paralana Project for an investment of A\$57 million (plus their equity share of project costs) over time, in line with the achievement of specific project milestones.

Expression of Interest lodged for up to \$7 million Geothermal Drilling Grant

Petratherm, on the behalf of the JV partners, has lodged a formal Expression of Interest (EOI) with the Commonwealth Government under its \$50 million Geothermal Drilling Program (GDP). The maximum grant available for a 'proof of concept' GDP project is \$7 million, of which 65% is to be paid 'upfront' on successful application.

The EOI closed on 29 September 2008 and full applications are expected to be sought under the GDP in December 2008. It is expected that successful applicants will be notified in first quarter 2009.

MD appointed as Geothermal Industry Representative to Energy Market Review's Advisory Committee

Terry Kallis has been appointed to the Stakeholder Advisory Committee of the Australian Energy Market Commission's (AEMC) Review of Australia's Energy Markets as the geothermal energy industry representative. The committee will conduct a comprehensive review of the Federal Government's Energy Market Framework following new policies developed to combat the effects of climate change.

As a former CFO of ETSA Corporation and an architect of the original design of the National Electricity Market he will provide valuable and balanced input to the design of future market frameworks to deliver renewable energy to meet the nation's future energy demands and climate change challenges.

Recruitment

Petratherm's internal skill base was expanded with the appointments of John King (Project Manager, Paralana), Caroline Jasper (Public & Investor Relations Manager) and Wendy Blackeby (Administrative Assistant).

Resignation of Dr Lloyd Taylor

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

Public relations, promotion and investor relations

Petratherm was one of two Gold Sponsors of the inaugural, industry-run Australian Geothermal Energy Conference held in Melbourne from 19-22 August. Various presentations were made on Petratherm's Australian and overseas projects and can be found on our website or on the ASX website.

A Corporate DVD was produced to showcase Petratherm's business strategy, exploration model and unique HEWI model. The DVD will become available on our website in November and is also available upon request from our office.

Review of Operations - Australia

Parlana Joint Venture Project

TRUenergy \$57 M Farmin

The terms of the TRUenergy farm-in are:

Proof of HEWI Concept Stage - TRUenergy may earn a 10% equity interest by contributing \$6 million as follows:

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

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

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

TRUenergy has obtained Foreign Investment Review Board (FIRB) approval from the Commonwealth Government, which satisfies a major condition of the proposed TRUenergy farm-in agreement over the Paralana project.

The TRUenergy farm-in requires modifications to the existing joint venture documentation. Those modifications are underway and finalization of the farm-in is expected shortly.

TRUenergy has experience in energy industry capabilities, in particular developing and operating generation, and marketing of power to business and residential customers in the National Electricity Market. These capabilities complement the specialist subsurface expertise of Beach Petroleum and the geological expertise of Petratherm. This combination of capabilities considerably enhances the commercialization prospects of the Paralana Geothermal Energy JV Project in both the short and long terms.

TRUenergy is a wholly owned subsidiary of the Hong Kong based CLP group, one of the largest, publicly listed power businesses in Asia Pacific (www.truenergy.com.au and www.clpgroup.com)

Beach Petroleum (ASX: BPT), an oil & gas company headquartered in Adelaide, farmed-in to the Paralana Project in January 2007. Beach can earn up to 36% of the project for \$30 million plus their equity share of project costs. (www.beachpetroleum.com.au).

The terms of the Beach Petroleum farm-In are:

- Beach may earn a 21% equity for a contribution of \$10 million by
 - contributing the initial \$5 million in drilling and stimulating the first well, and;
 - contributing the initial \$5 million in drilling and stimulating the second well and circulation tests between the wells;
- Beach may withdraw without equity after the completion of the first well;
- Beach may earn an additional 15% equity by contributing a further \$20 million following completion of drilling and stimulation of the second well and circulation tests between the wells.

Drilling Rig contract with Weatherford Drilling International

A 2,000 HP Drilling Rig from Weatherford Drilling International Pty Ltd is under contract for Paralana thereby satisfying a major condition of the TRUenergy farm-in deal.

Rig # 828, a 2,000 HP LeTourneau "Lightning" Drilling Rig, which is being manufactured by Le Tourneau Technologies Inc. in Houston, USA, is capable of drilling very deep wells, and will be suitable for other geothermal energy developers thus enabling an acceleration of development across the sector.

Damage caused by Hurricane Ike in Houston has affected the arrival date of the rig with the well now due to spud in May 2009.

Orders have been placed for key long lead time plant items.

Two water wells successfully completed at Paralana site

Two water wells drilled to approximately 115metres at the Paralana 2 well site were cased and screened and exhibited good flow rates (4 to 5 litres per second) and reasonable water quality; appropriate for use during drilling operations. Water samples have been taken for further analysis.



Paralana water well drilling undertaken late in September 2008

Basin and reservoir modeling

Preliminary work on basin modeling in preparation for developing a reservoir model was undertaken by a specialist software developer, and work on evaluating suitable reservoir modeling software continued.

The passive seismic array installation progressed, with post hole sensors deployed and data collection and conditioning underway.

Assessment of global EGS developments

During the quarter, the Chief Geologist and Project Manager - Paralana contributed to the International Partnership on Geothermal Technology Workshop in Reykjavik, Iceland, that focused on EGS developments.

Meetings were held with specialist EGS consultants, Geothermal Explorers, in Basel, Switzerland to continue development work on Paralana well logging, testing and stimulation programs.

Sites visits were also made to EGS operations at Landau, Germany and Soultz, France to gain first-hand understanding of the experience and challenges of such projects.

Paralana Project –key parameters and assumptions

Paralana has positive features:

- Temperature and flow rate
- Close to market for the initial 7.5MW plant with an off-grid customer
- Complementary suite of subsurface and above surface expertise
- Potentially fully funded to initial commercial scale plant through two high quality JV partners and \$5 million Federal REDI Grant
- Ability to scale-up in commercially viable increments (7.5MW, 30MW, 260MW and 520MW) in order to reduce risks.

The project parameters and economics are tabulated below:

Parameter	Units	PTR assumption
Temperature	°C	200
Depth	km	3.6
Flow	lps	75
Net output per well	MW/well	3.8
Total capex (for 30MW)	\$m	190
Price	\$/MWh	125
Capacity – Stage 1 (2011)	MW	7.5
Capacity – Stage 2 (2013)	MW	30

Project costs and wind comparison

Stage 1	HEWI model	\$25M to \$30M
Stage 2	7.5MW pilot plant additional costs	\$40M to \$45M
Stage 3	30MW demo plant additional costs	\$125M to \$130M
	TOTAL 30M project estimate*	\$190M to \$200M

(*total current cost estimates and includes all transmission/substation costs)

Paralana Cost Competitive with Wind Farm Technology

The following comparison is based on a 30 MW development that would deliver power to the local market at the Beverley Uranium Mine.

- Paralana Project cost per MW of installed capacity is around \$6M for a 30 MW base-load project operating 24/7 – capacity factor of around 95% would produce about 250 GWh of electricity annually
- A typical wind Project cost per MW of installed capacity is around \$2M for a project size of greater than 30 MW and typically only operates for 1/3rd of the time – capacity factor of 33% and producing around 87 GWh of electricity annually
- For a comparable annual output of 250 GWh a wind farm would need to be almost 90 MW (3 times larger than Paralana 30 MW) and hence overall capital costs to produce would be very similar at around \$180M
- Off grid pricing for Paralana enhances the overall project economics.

Review of Operations – Spain

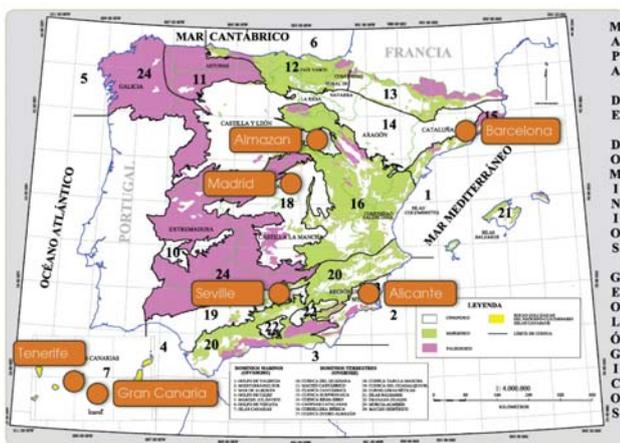
Geo-Madrid District Heating Project

Results from inspection tests on existing wells shows 30% saving in capital expenditure

Results from the recent re-entry inspection of the two existing wells at the Geo-Madrid district heating project site have revealed major cost savings.

The inspection program confirmed the structural integrity of one of the wells and its capability to be used as an injector well as part of a doublet system – resulting in the need to only drill one new well and a 30% saving in total capital costs (€4 million or AUD\$7.7 million).

Together with confirmation of the original project parameters as conservative, the need for only one new drill hole, has resulted in the project economics being re-assessed with an expectation now of an internal rate of return of around 20% and a payback period of six years – demonstrating a robust and high return geothermal energy project.



Location of the seven Spanish project areas

Key Project Parameters and Assumptions

The latest project key parameters and assumptions for Geo-Madrid are summarized below:

- Reservoir depth at 2 kilometres and reservoir thicknesses of between 200 and 800 metres
- Temperatures at depth of at least 75°C
- Flow rate of 200 cubic metres per hour
- Drilling capital expenditure of €4.8 million or AUD\$9.3 million

- Plant – heat exchanger - capital expenditure of €1.8 million or AUD\$3.5 million
- Reticulation and substation capital expenditure of €3.1 million or AUD\$6.0 million
- Total capital expenditure of €9.7 million or AUD\$18.8 million
- Annual heat energy production of at least 45,000 MWh
- Heat energy sale price (minimum) per MWh – €45 or AUD\$90

Upside potential for 8 MW Geo-Madrid Project

There is significant potential for further upside in the Geo-Madrid project through the following opportunities:

- Increased demand with the development of two new building complexes – expanding the annual production and sales to 54,000 MWh from the doublet system
- Reduction in reticulation costs per MWh delivered with larger demand and no retro-fitting costs for new buildings
- Increased sale price per MWh due to the increased cost of alternate heating sources – potential to perhaps almost double the sale price; and
- Potential for energy efficiency subsidies associated with improved energy use in buildings



Location of Geo-Madrid wells in relation to existing infrastructure

District Heating capacity across Madrid Tenement is estimated at 150 MW

The application of similar projects across the Madrid tenement (20kms by 20kms) is being assessed. The Company estimates that the potential district heating resource across the tenement to be equivalent to 150 MW in capacity or almost 20 times the Geo-Madrid project size.

Feasibility Assessment is well underway with the final report due in first quarter 2009. The next steps in the Geo-Madrid GDH project to be undertaken over a period of five months include:

- Application for a change of the existing license from exploration to investigation to allow for drilling operations;
- Development of an environmental impact study (EIS) to cover the expected drilling operations;
- Securing a rig to drill any required deep (up to 2,000 metre) wells;
- Development of an EIS to cover the above ground geothermal plant and heating distribution grid to the building complexes;
- Confirmation of final demand and GDH system design (plant and distribution system);
- Detailed costing and contracting for above ground equipment and heat distribution system; and
- Sale of product to customers (sales agreements).

The Company currently estimates that construction of the Geo-Madrid GDH project could commence by November 2009 with geothermal heat production, and project revenues flowing by July 2010.

The Company has received a very favourable initial reaction from relevant Regional and Federal Government departments and is confident of continued support from this sector.

The Company is evaluating potential partners for this project, in particular their expertise and financial capabilities.

Project Economics Geo-Madrid – key parameters⁽¹⁾

Parameter	Units	PTR assumption
Temperature	°C	75
Depth	km	2
Flow	M ³ /hour	200
Annual production	MWh/annum	45,000
Drilling capex	€	4.8
Plant capex	€	1.8
Transmission capex	€	3.1
Total capex	€	9.7
Price	€/MWh	45
Capacity (2010)	MW	8
IRR (ungeared/geared)	%	13/19 ⁽²⁾

⁽¹⁾ Based on the pre-feasibility report (by GPC-IP) and the well assessment report.

⁽²⁾ Based on only one additional well (for production)

Tenerife and Gran Canaria

An exploration work program developed by Sinclair Knight Merz, expert conventional geothermal consultants, has been agreed and will commence in November 2008.



Review of Operations - China

China Exploration Program

During the period, further data was gained and processed to identify quality projects in China. Plans are underway for securing projects in the coming months and for obtaining joint venture partners for these projects.



Geothermal springs in China

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 is 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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Stock Exchange Listing

Australian Stock Exchange (ASX code PTR)

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Legal Advisors

O'Loughlins Lawyers
Level 2, 99 Frome Street
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
Tenement & Compliance Officer	Brett Meredith
Office Manager	Elena McRae
Business Accountant	Hayley Weaver
Public & Investor Relations	Caroline Jasper
Admin Assistant	Wendy Blackeby
Spanish team	
Manager – Spain	Raul Hidalgo
Project Geologist	Victor Guerrero

Upcoming Events

Annual General Meeting

Petratherm's Annual General Meeting is scheduled for 2pm, Thursday 27 November 2008 at the Victoria Room, Hilton Adelaide, 233 Victoria Square, Adelaide.

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>