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**REPORT FOR THE QUARTER
ENDING 30 JUNE 2008**

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HIGHLIGHTS

Paralana

The location of the Paralana 2 well has been decided by the JV partners, following interpretation of the recent reflection seismic survey and the magneto-telluric study and consideration of other key technical and commercial parameters.

Spain

Following the very positive results of the pre-feasibility study of the Company's Madrid District Heating project, Petratherm has commissioned a full feasibility assessment expected to be concluded at the end of 2008, with plans to achieve first revenues as early as July 2010.

China

Exploration activities in China have increased substantially with a number of meetings between various Chinese provincial representatives and Central Government geological/geothermal institutions. The Company was awarded a \$75,000 Commonwealth Grant to assist those activities.

Corporate

The Company appointed Mr John King as project manager of its flagship Paralana JV Project. John is a former principal consultant with GHD with over 30 year's experience, primarily in the oil and gas sector.

At the end of the quarter the Company held \$4,586,000 in cash.

REVIEW OF OPERATIONS

The focus for the Company during the quarter has been one of planning for, and determining the location of the Paralana 2 deep geothermal well, the continued development of the Company's growing Spanish project portfolio and the ramp up of exploration activities in China.

The net cash outflow relating to the operating activities of the company during the quarter amounted to \$836,000 and at the end of the quarter the Company held \$4,586,000 in cash.

Exploration and evaluation expenditures amounted to \$417,000 for the quarter primarily reflecting the well design/rig selection work, together with the seismic and magneto-telluric surveys (preparatory work for deep drilling at the Paralana JV Project) and the Company's project portfolio expansion in Spain.

Ongoing administration costs of \$618,000 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 early 2007, the Company established a joint venture with Beach Petroleum for up to \$30M for its Paralana Project. This was closely followed by a \$5M renewable energy development initiative (REDI) grant from the Federal Government to prove the Company's Heat Exchanger Within Insulator (HEWI) model at Paralana. The joint venture and grant to the Company, together with the Company's strong cash position provide the Company with the financial capacity to proceed with the next phase of the Paralana project and to concurrently develop new high value opportunities in Spain and China.

Paralana Joint Venture Project

Paralana Exploration Activities

Interpretation of the Poontana reflection seismic and magneto-telluric surveys is complete, further adding to the Company's understanding of the geology and structure of the Poontana Basin and thus aiding well site evaluation.

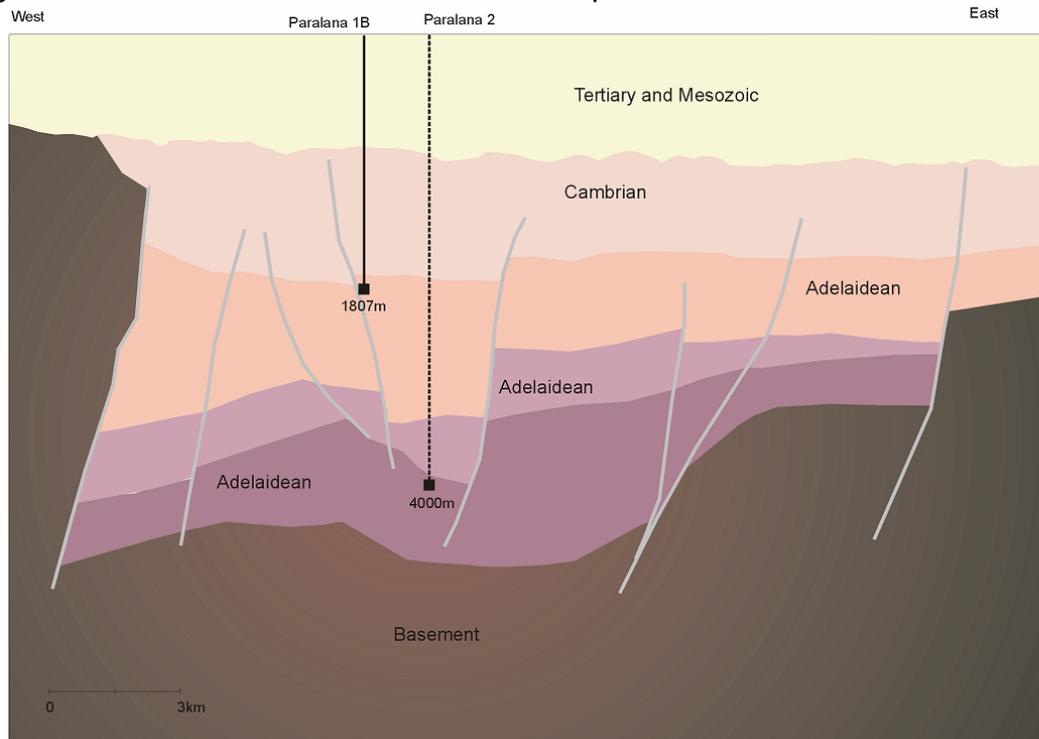
Processing of the 162km of reflection seismic data was undertaken by Velsis Processing Pty Ltd in conjunction with the re-processing of previous seismic surveys conducted in 1984.

Preliminary interpretation of the 1984 surveys suggested that a complex suite of faults is responsible for the subsurface morphology of the Poontana Basin. The Poontana seismic survey confirmed this to be the case and delineated further structural trends and the continuation of the Poontana Fracture Zone into the Paralana project area.

The Poontana seismic survey also revealed complex patterns of deposition across the basin with localized depocentres and unconformity surfaces.

The Paralana 1B well penetrates the upper units of one such depocentre and provides seismic and geological control in that locality. The depocentre accommodating Paralana 1B is bound to the east and west by normal faults and represents a graben structure within the Poontana Basin. This evidence was influential in the original siting of Paralana 2

Figure 1 below summarizes the current interpretation of the Poontana Basin.



Magneto-telluric is the study of the electrical and magnetic substructure of the Earth and is particularly useful for resolving conductive features such as faults, saline aquifers and clay dominated lithology.

Acquisition, processing and interpretation of the Paralana magneto-telluric (MT) survey was conducted by Quantec Geoscience and completed in May 2008. Excellent MT results were obtained with good correlation evident between geological and structural features observed in both the Poontana seismic and Paralana 1B well.

Highly conductive Tertiary and Mesozoic sediments blanket the graben with increasing thickness eastwards, a trend that was also observed in the seismic data. Localized depocentres as noted in the seismic data are also imaged in the MT data as thickened areas of conductive sediments to a depth of approximately 1400m, coinciding with the top of Adelaidean cover. Further conductive structures are imaged deeper in the section and are interpreted to represent deep thrust faulting within the basement.

Paralana 2 Well Location

Evaluation of the proposed well location was primarily based on interpretation of the Poontana reflection seismic and magneto-telluric surveys.

The complex nature of the basin focused the appraisal of the Paralana 2 site to areas of greater geological confidence, and as a result to areas close to Paralana 1B. As discussed earlier, seismic data revealed Paralana 1B to be located between two normal faults in a NNW-SSE trending graben, and thus Paralana 2 is to be drilled within the same graben, approximately 1.5km to the east.

The locality chosen for Paralana 2 is geologically “well constrained” from existing information and the graben wide enough to facilitate development of a large scale geothermal project.

Furthermore, based on additional thermal modelling by Associate Professor, Dr.Martin Hand, Paralana 2 is expected to show the same thermal gradient as Paralana 1B.

The location of Paralana 2 is shown in Figure 2.

In preparation for drilling the well site and development zone were cleared by the Adnyamathanha people during a heritage survey performed in July 2008.

Passive Seismic Monitoring

In response to the siting of Paralana 2, a passive seismic array has been deployed around the well site. The array consists of one deep station deployed to a depth of 1400m, four shallow posthole stations and four surface stations, at increasing distances from Paralana 2.

Currently the array is monitoring background seismic activity, creating a database of events which will be used to construct a velocity model of the basin geology.

Prior to fracture stimulation of the reservoir the array will be up-graded to a greater density array around the injection site, Paralana 2. During fracture stimulation the array will detect micro-earthquakes, which results from the shear failure of the reservoir rock. These micro-earthquakes, when plotted will map the subsurface network of fractures through which the geothermal fluid will flow.

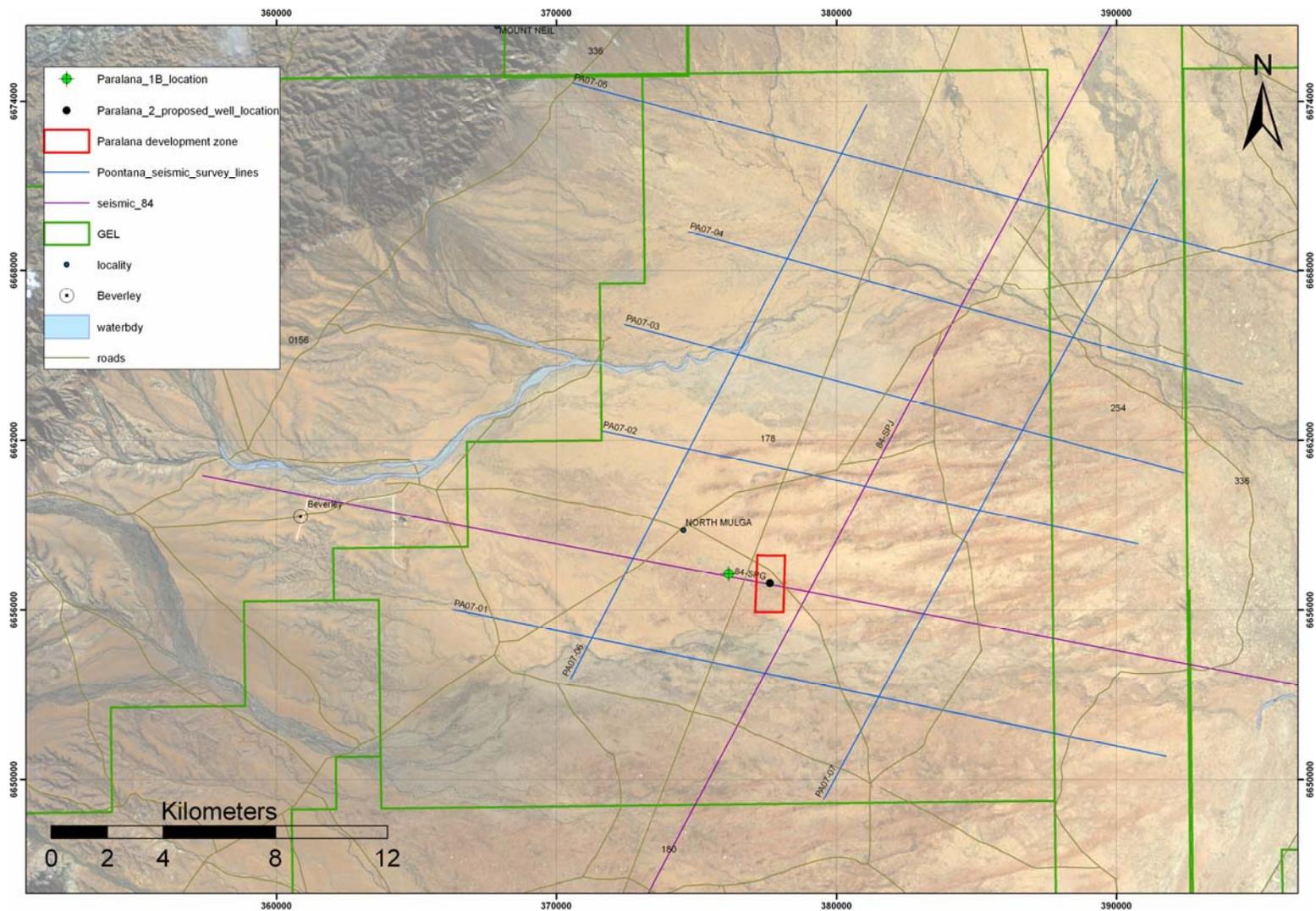


Figure 2 - Paralana project area, showing future development zone and location of Paralana 2.

Madrid District Heating Project

The full feasibility study of the Company's Madrid Basin Geothermal District Heating (GDH) Project (refer to the aerial photograph of Madrid tenement area – Geo-Madrid site is in the left foreground) has commenced with the clearing of the site (photographs 1 and 2) and the pending re-entry of the two existing deep wells.

The preliminary re-entry of the two existing wells confirmed their structural integrity enabling full well inspections to be conducted.

Equipment to undertake the well inspections is en-route to the Geo-Madrid site from France. The full well inspection will provide a detailed assessment of temperature, flow, depth, structural and other technical parameters - critical inputs to the feasibility study.

The key project parameters that underpinned the recently completed pre-feasibility assessment of the overall Madrid tenement area included;

- Reservoir depths ranging between 1550 and 1600 metres;
- Reservoir thicknesses of between 200 and 800 metres;
- Temperatures at depth ranging between 70°C and 90°C; and
- Flow rates ranging between 200 and 250 cubic metres per hour.

In the case of the Geo-Madrid application the pre-feasibility assessment concluded, under conservative assumptions, that a well doublet could produce 8 MW of thermal energy capacity with an annual production in excess of 45,000 MWh (thermal) (to meet the needs of 7 nearby building complexes) and would result in an economic project with attractive returns. Recent discussions with the nearby Autonomous University located on the Geo-Madrid site confirmed plans to build two new "green" building complexes further enhancing the economics of the Geo-Madrid GDH project.

The next steps in the Geo-Madrid GDH project to be undertaken over a period of six months include;

- A detailed inspection (now under way) of the two existing deep wells to confirm previous well logging information and to ascertain their suitability for use in production;
- 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);

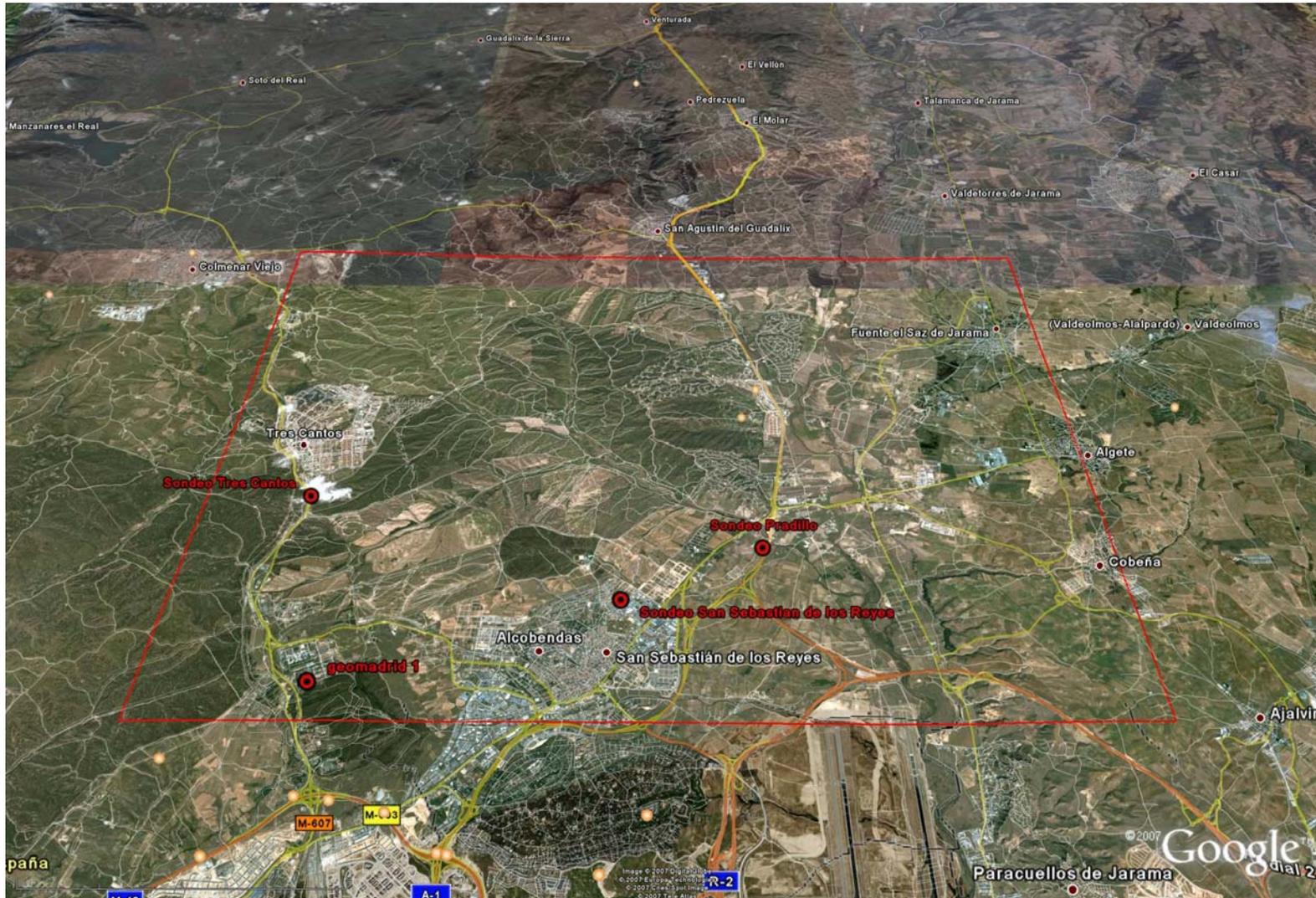


Figure 3 Aerial photo of Madrid GEL (boundaries – red line) showing existing well locations and potential demand areas for district heating. The Geo-Madrid 1 doublet wells are in left foreground and are in close proximity to major building complexes. Other wells are also shown in red.



Site Clearance work underway at the Geo-Madrid doublet well location



Geo-Madrid well cleared for re-entry and well inspection and testing.

- 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.

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

Petratherm is also evaluating potential partners in this project, in particular their expertise and financial capabilities.

China – Exploration Program

Exploration activities in China have increased substantially with a number of meetings between various Chinese provincial representatives and Central Government geological/geothermal institutions.

During the quarter the Company's representatives (Peter Reid, Dr Martin Hand and Wenlong Zang) visited China and Hong Kong twice and have made considerable progress with data collection and assessment provided by the four key Government Institutions under Petratherm's exclusive agreement.

The Company's exploration activities have created significant interest in engineered geothermal systems (EGS) in China at both the Government (Central & Provincial) and corporate levels. Preliminary discussions regarding potential joint ventures are proceeding concurrently with project identification.

Petratherm's exploration manager, Peter Reid, led a specialist geothermal session at this year's China Power and Alternative Energy Summit held in Beijing in June 2008.

The Summit attracted industry and power investment leaders from China's rapidly growing power market. It was the first time that geothermal power has been showcased at this event and highlights the rapid rise in interest in geothermal power investment in China. The new interest in geothermal in China is stemming, in part, from the ongoing collaborative work Petratherm has been undertaking as part of its Asia Pacific Partnership (APP) program to identify new high value geothermal sites in China. (Note: the Company was previously awarded a \$75,000 Grant under the APP program.)