

Petratherm Ltd

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Report for the Quarter Ending 30 SEPTEMBER 2005

SUMMARY

CORPORATE

- The Company initiated discussion with third parties regarding potential geothermal exploration joint venture opportunities following the successful drilling results, which confirmed Petratherm's hot rock exploration model.
- The Company held \$1,937,000 cash reserves at 30 September 2005.

EXPLORATION

- The Paralana geothermal evaluation well (Paralana-1B) records a temperature gradient of 81.5°C per kilometre which may be the highest recorded in geothermal exploration in Australia.
- Temperature results from the Yerila-1 well (Callabonna Project) are also highly encouraging returning a gradient of 68.5°C per kilometre.
- Both temperature gradients are in line to meet the company objective of locating hot rock resources in excess of 200°C at 3.5 kilometres depth.
- Preparations to extend the Paralana hole are well advanced and scheduled to begin early next year.

REVIEW OF OPERATIONS

CORPORATE

The main focus for the company during the September period was the successful completion of both the Paralana and Callabonna Geothermal exploration wells. The Company is highly encouraged by the exceptionally high temperature gradient encountered at Paralana, and earlier at Callabonna. The results to date have validated the company's hot rock exploration business model and increase the likelihood of proving commercially viable hot rock reserves at relatively shallow depths, close to infrastructure. The Company's success with its first two geothermal wells gives it confidence that the approach adopted to find and test commercially viable geothermal hot rock targets is well founded. This opens the way for application of the companies intellectual property in other areas. As a result, the Company is discussing possible cooperation in these programs with a number of third parties.

The interest in hot rock geothermal energy is expanding, and we are well positioned to take advantage of the opening market for this form of power generation, as drilling costs at our target depths are relatively low compared to targets beyond 4 kilometres and our targets are within close proximity of infrastructure. Because the generation of energy from geothermal sources can provide base load electricity at a competitive cost with fossil fuel alternatives, it is the Company's belief that government should be supporting this industry in its efforts, particularly given geothermal energy's low environmental impact and the absence of any greenhouse emissions.

As at the 30th September 2005 the Company held \$1,937,000 in cash.

EXPLORATION

Mt Painter Hot Rock Province

The Mt Painter and Mt Babbage Inliers lie within the South Australian Heat Flow Anomaly (SAHFA), where heat flow measurements from the nearby Parabarana area are amongst the highest recorded in Australia (Figure 1). Estimates from outcropping granites in the Mt Painter Inlier indicate their average heat production is eight times (and locally up to twenty five times) that of average granite, and at least twice that of other radiogenic granites used to successfully generate geothermal power elsewhere in the world.

Petratherm has recognized these granites as having potential to produce geothermal energy under the Thermally Anomalous Granite (TAG) model and has acquired five geothermal exploration licences covering around 2,500 square kilometres over two key areas, Paralana and Callabonna (Figure 1).

Whilst Paralana has potential for conventional hot rock TAG energy production, the Paralana hot springs, located along the western side of the project area, also supports the presence of an active Enhanced Natural Thermal System (ENTS outlined in the Petratherm prospectus). The Company believes there is potential to encounter a natural hot water system in fractures at depth in Paralana, with significantly more elevated temperatures than straight projection of the geothermal gradient would indicate. Such an occurrence could result in commercially viable temperatures at shallower depths than previously proposed. This potential will be assessed during the next stage of exploration.

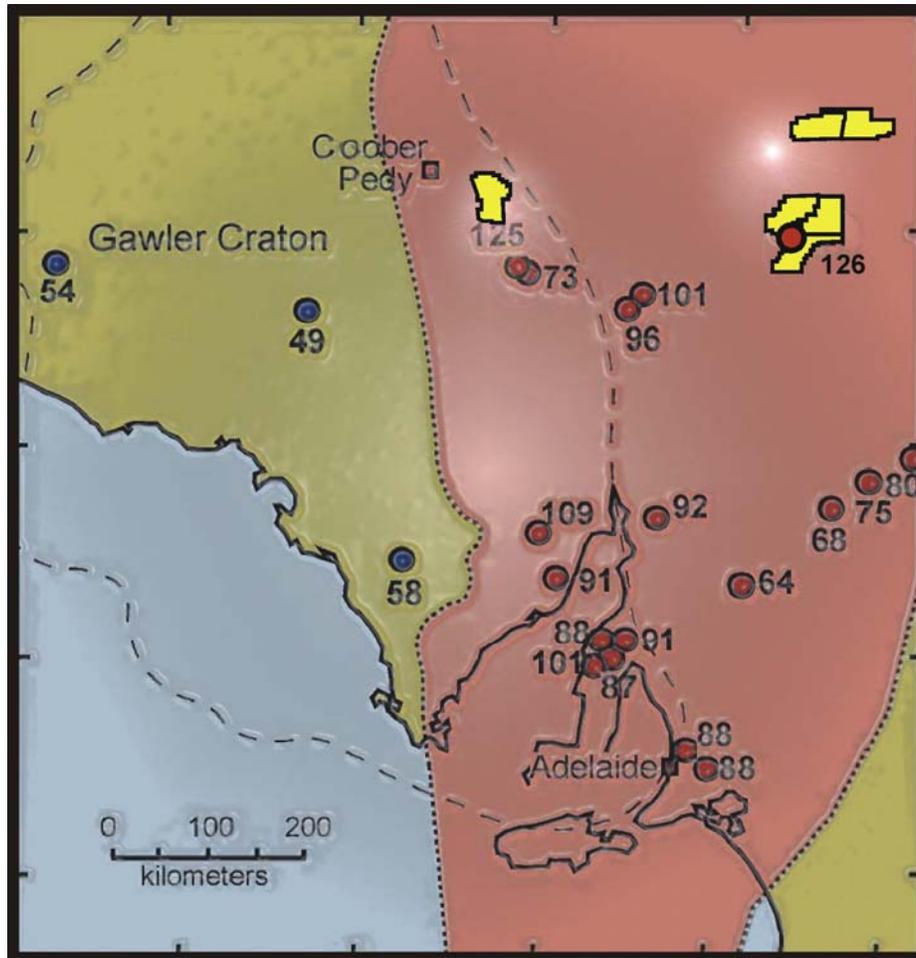


Figure 1 South Australian Heat Flow Anomaly and Petratherm's Licence Areas

Paralana Project (GELs 156,178,180)

The Paralana Project is centred 130 kilometres east of the main grid connection at Leigh Creek. The tenements (GELs 156, 178, 180) cover 1500 square kilometres over the most prospective portion of the informally termed Poontana Basin, but also include an area to the west covering the natural radiogenic hot springs at Paralana, along the eastern margin of the Mt Painter Range (Figure 2).

Paralana-1B Geothermal Evaluation Well.

In September 2005 the phase-1 drilling program at Paralana was successfully completed. Paralana-1B was drilled to a depth of 491 metres, into the sedimentary section below the artesian aquifer. Bottom hole temperature at 491m is 58 degrees Celsius. The resultant temperature gradient exceeded Petratherm's highest target expectations, recording an average gradient of 81.5 degrees per kilometre (Figure 3). To the best of knowledge Paralana-1B records the highest temperature gradient recorded in geothermal exploration in Australia, over distances of consequence. The gradient average and trend is consistent with our interpretation of the Paralana area being located above an extensive area of thermally anomalous granite with temperatures ranging between 220-250°C and at our preferred maximum target depth of 3.5 kilometres.

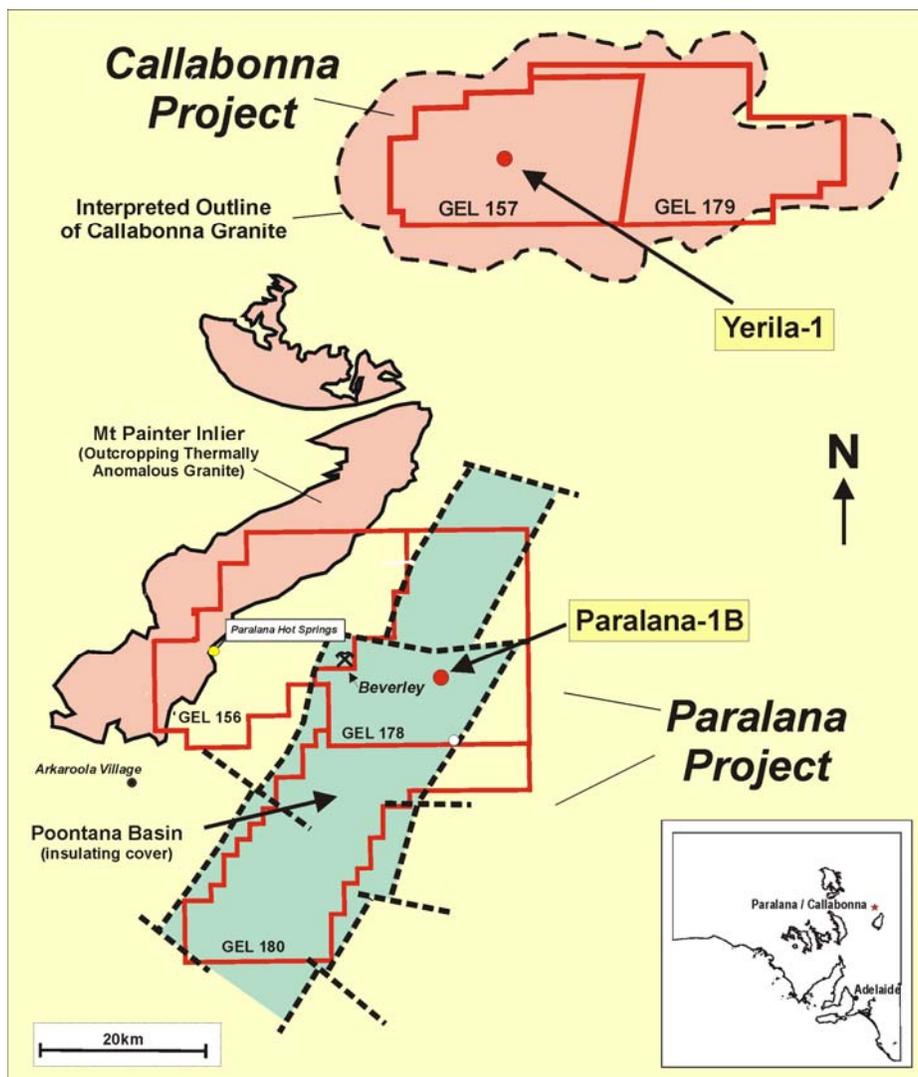


Figure 2 Callabonna and Paralana Project Areas

The results are also consistent with the modelling outcomes developed by Petratherm and the University of Adelaide, verifying our exploration methodology and giving us confidence in now extending the well to greater depth. Ultimately, the confirmation of such temperatures at this depth will lead to a significant reduction of the cost of drilling high temperature geothermal energy extraction wells, which represent the major capital cost component of a geothermal project.

Petratherm will now deepen Paralana-1B to a depth of approximately 1,500 metres using a diamond drilling rig. Deepening the well will enable a study of the thermal and rock properties at intermediate depths, prior to a decision to begin a pilot power plant development. In this respect Paralana marks a breakthrough in the evolution of the hot rock industry towards a business model based on the identification and evaluation of economically advantaged prospective thermal regimes, close to markets and infrastructure, with attendant reduction in project risk and improved total energy supply economics.

This drilling program is likely to commence in February 2006, subject to rig availability. This second phase of drilling will establish thermal and rock properties at intermediate depths, prior to a decision to drill at Paralana to an ultimate depth of 3.5 kilometres, using an oil exploration drilling rig. The results at Paralana, establishes that thermal anomalies can be identified and evaluated using the intellectual property which is the basis of the Petratherm business model.

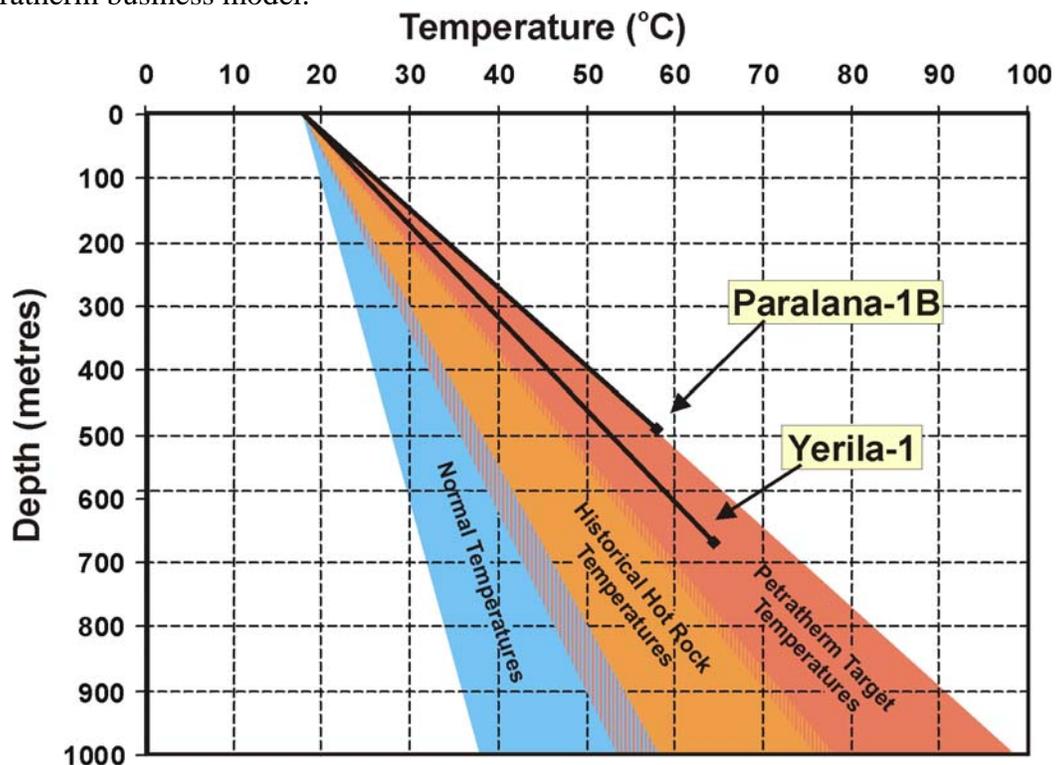


Figure 3 Temperature vs. Depth Graph – Testing for Thermal Anomalism. Paralana-1B and Yerila-1 temperature profiles record exceptionally high temperature gradients in line with Petratherm’s target.

The Callabonna Geothermal Project (GEL 157, GEL 179)

The Callabonna geothermal body, defined by the regional gravity low that clearly marks its boundary, spans an area of approximately 1200 square kilometres (Figure 4). Petratherm holds two licences covering 1000 square kilometres over the centre of this body. Callabonna is 90 kilometres northeast of Arkaroola which in turn is about a similar distance east of Leigh Creek, the terminal of existing main grid power transmission lines.

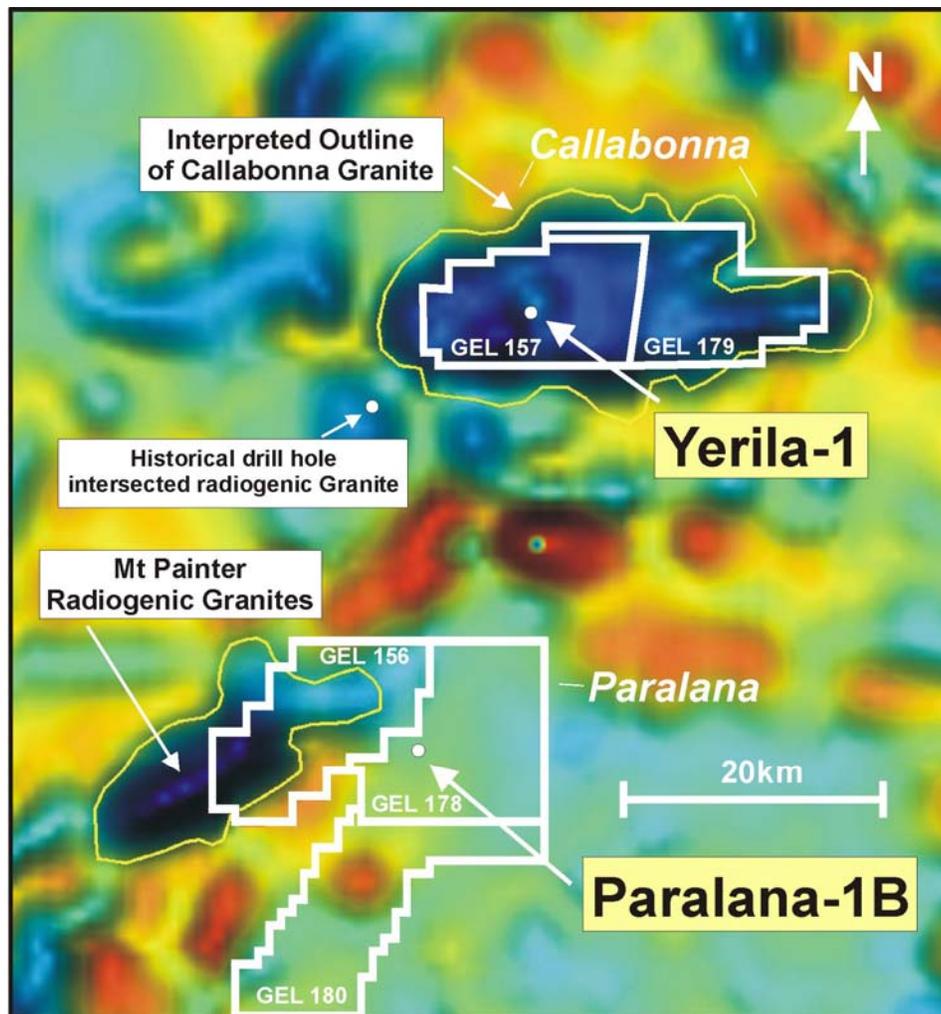


Figure 4 Regional 1VD Gravity image, highlighting spatial and geophysical connection of Callabonna Gravity Low with the outcropping Mt Painter radiogenic granites.

Phase-1 of Yerila-1 was drilled to 693.5 metres to evaluate the geothermal potential of the Callabonna Gravity Low in August 2005. Temperature logging of Yerila-1 established a temperature of 64 degrees Celsius at a depth of 675 metres. Correcting for near surface thermal effects in the well bore, the overall thermal gradient determined from the data is at least 68 degrees/kilometre; one of the highest gradients recorded in Australia.

This thermal gradient is consistent with Yerila-1 being located above thermally anomalous, radiogenic granite at a depth of several kilometres. This is consistent with the interpretation of the Callabonna geophysical anomaly, presented in the Petratherm Prospectus. The significance of the temperature result is summarised in Figure 3.

Based on the Yerila-1 temperature gradient, temperatures in the range 220-250 degrees Celsius are possible at a depth of 3.5 kilometres. This is consistent with Petratherm's business model which targets temperatures in excess of 220 degrees Celsius at depths no greater than 3.5 kilometres.

Consistent with the staged technical and commercial risk reduction strategy that was outlined at the time of its IPO in July 2004, and subject to the outcome of complete technical evaluation of the results of its recent drilling program, Petratherm intends to deepen Yerila-1 to a depth of 1500 metres using a diamond drilling rig, in order to establish thermal and rock properties at intermediate depths, prior to a decision to drill a well to over 3.5 kilometres using an oil exploration drilling rig.

Ferguson Hill (GEL 158)

No work was undertaken during the quarter.

Generative Program

Ongoing geological and geophysical studies have identified a number of potentially favourable terrains for hot rock power generation in areas close to regional mining centres and other infrastructure sites in Australia. Using Petratherm's predictive model, international areas of potential hot rock prospectivity have been screened and a number of favourable terrains and targets identified. The Company will report on these new project initiatives once they have been finalised.

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APPENDIX 5B
Mining exploration entity quarterly report

PETRATHERM LTD

ABN 17 106 806 884

Quarter ended 30 September 2005

Consolidated statement of cash flows

	Current quarter	Year to date (3 months)
	\$A'000	\$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(632)	(632)
(b) development		
(c) production		
(d) administration	(132)	(132)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	35	35
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST on investing activities		
Net Operating Cash Flows	(729)	(729)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	(4)	(4)
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net Investing cash flows	(4)	(4)
1.13 Total operating and investing cash flows (carried forward)	(733)	(733)

1.13 Total operating and investing cash flows (brought forward)	(733)	(733)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc	-	-
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other (Share issue costs)	-	-
Net financing cash flows	0	0
Net increase (decrease) in cash held	(733)	(733)
1.20 Cash at beginning of quarter / year to date	2,670	2,670
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	1,937	1,937
Payments to directors of the entity and associates of the directors		
Payments to related entities of the entity and associates of the related entities	Current quarter \$A'000	
1.23 Aggregate amount of payments to the parties included in item 1.2	37	
1.24 Aggregate amount of loans to the parties included in item 1.10	-	
1.25 Explanation necessary for an understanding of the transactions		
Directors' fees, superannuation and contract services		
Non-cash financing and investing activities		
2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows		
NIL		
2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest		
NIL		

Financing facilities available

- 3.1 Loan facilities
- 3.2 Credit standby arrangements

Amount available \$A'000	Amount used \$A'000
-	-
-	-

Estimated cash outflows for next quarter

- 4.1 Exploration and evaluation
- 4.2 Development

Total

\$A'000
490
-
490

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

- 5.1 Cash on hand and at bank
- 5.2 Deposits at call
- 5.3 Bank overdraft
- 5.4 Other (provide details) - 30 and 60 day term deposits

Total: cash at end of quarter (item 1.22)

Current quarter \$A'000	Previous quarter \$A'000
607	570
1,330	2,100
-	-
-	-
1,937	2,670

Changes in interests in mining tenements

- 6.1 Interests in mining tenements relinquished, reduced or lapsed

- 6.2 Interests in mining tenements acquired or increased

Tenement reference	Nature of interest (note 2)	Interest at beginning of quarter	Interest at end of quarter
NIL		-	-
NIL		-	-

Issued and quoted securities at end of current quarter

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 Ordinary securities	35,000,001	20,000,001	Fully paid	Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>			<u>Exercise price</u>	<u>Expiry date</u>
	7,500,000	-	20 cents each	24 Mar 2009
	2,600,000	-	20 cents each	4 Apr 2009
	2,000,000	-	20 cents each	26 Jul 2009
	650,000	-	20 cents each	27 Jul 2009
	40,000	-	32 cents each	23 Sep 2009
	50,000	-	32 cents each	15 Dec 2009
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Cancelled during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1.0 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2.0 This statement does give a true and fair view of the matters disclosed.

Sign here:..... Date: 28 October 2005.
 Company Secretary

Print name: DONALD STEPHENS

Notes

- 1.0 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2.0 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3.0 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4.0 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5.0 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.