

Petratherm Ltd

105 Tusmore Avenue, Tusmore, 5065, South Australia
Tel: +61 8 8304 8200 Fax: +61 8 8304 8201
Website www.petratherm.com.au
Email admin@petratherm.com.au
A.C.N. 106 806 884

30 May 2006

Dear Shareholder

GENERAL MEETING OF SHAREHOLDERS

I am pleased to invite you to attend a General Meeting of Petratherm Ltd to be held at the Grevillea Room, Hyatt Regency Adelaide, North Terrace, Adelaide, South Australia on Friday 30 June 2006 at 10.30 am.

If you are unable to attend the meeting in person, I encourage you to return the enclosed Proxy Form. The Proxy Form should be returned by post or faxed to the Company's Office or Share Registry so that it may be received by 10.30 am on Wednesday 28 June 2006.

Yours sincerely,



DEREK CARTER
CHAIRMAN

Encl.

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NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Shareholders of Petratherm Ltd will be held at the Grevillea Room, Hyatt Regency Adelaide, North Terrace, Adelaide, South Australia on Friday 30 June 2006 at 10:30 am.

AGENDA

1. RESOLUTION 1 – Ratification of Previous Issue of Shares

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

That, for the purpose of ASX Listing Rule 7.4 and all other purposes, the ordinary shareholders of the company approve and ratify the allotment and issue by the company of fully paid shares in the capital of the company at a price of \$0.28 per share to the persons, on the date and on the terms and conditions set out in the Explanatory Memorandum that accompanies this Notice of Meeting.

Voting Exclusion

For the purposes of ASX Listing Rule 7.4, the company will disregard any votes cast on this resolution by a person who participated in the issue and any associate of such person. However, the company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. RESOLUTION 2 – Approval of Issue of Options

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

That, for the purpose of ASX Listing Rule 10.11 and all other purposes, the ordinary shareholders of the company approve and ratify the allotment and issue by the company of options to acquire fully paid ordinary shares in the capital of the company for the purposes, on the terms and conditions set out in the Explanatory Memorandum that accompanies this Notice of Meeting.

Voting Exclusion

For the purposes of ASX Listing Rule 10.11, the company will disregard any votes cast on this resolution by Mr Terry Kallis and any associate of Mr Terry Kallis. However, the company need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated this 30th day May 2006

BY ORDER OF THE BOARD
PETRATHERM LTD

DONALD STEPHENS
COMPANY SECRETARY

NOTES:

Definitions

Terms used in this Notice which are defined in the Explanatory Memorandum which is attached to and forms part of this Notice have the meanings ascribed to them therein.

Voting Restrictions

In accordance with section 224 of the Corporations Act a vote in respect of this resolution will be disregarded by the Company if it is cast by or on behalf of a person who is named in the resolution or an associate of that named person.

However the Company need not disregard a vote if:

- it is cast by a person who is appointed by writing as proxy for a person who is entitled to vote and the written appointment specifies how the proxy is to vote; and
- the vote is not cast on behalf of the named person or an associate of the named person.

Proxies

A member entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the member at the Meeting. A proxy need not be a member. If the member is entitled to cast two or more votes at the Meeting the member may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise. A form of proxy accompanies this Notice.

Voting Entitlement

The Company (as convenor of the Meeting) has determined that a person's entitlement to vote at the Meeting will be the entitlement of that person set out in the register of members as at 5.30 pm Adelaide time on 28 June 2006

This means that any Shareholder registered at 5.30 pm Adelaide time on 28 June 2006 is entitled to attend and vote at the Meeting.

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EXPLANATORY STATEMENT

This Explanatory Statement accompanies a Notice of General Meeting of Shareholders proposed to be held at the Grevillea Room, Hyatt Regency Adelaide, North Terrace, Adelaide, South Australia on Friday 30 June 2006 at 10:30 am.

The purpose of the meeting is to consider and, if thought fit, approve 2 ordinary resolutions. The Directors recommend that the Shareholders read in full this Explanatory Memorandum in conjunction with the accompanying Notice of General Meeting of which this Memorandum forms a part.

1. Introduction

1.1 ASX Listing Rule Requirements

ASX Listing Rule 7.1 provides that prior approval of Shareholders is required for an issue of equity securities if the equity securities will, when aggregated with the equity securities issued by the company during the previous 12 months, exceed 15% of the number of equity securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 states that an issue by a company of securities made without prior approval under Rule 7.1 is treated as having been made with approval for the purpose of Rule 7.1 if the issue did not breach Rule 7.1 and the company's members subsequently approve it.

The information required by ASX Listing Rules 7.1 and 7.4 to be provided to Shareholders is contained within this Explanatory statement and the Notice of General Meeting.

ASX Listing Rule 10.11 relevantly provides that the prior approval of shareholders of the company is required for the issue of equity securities to a related party. ASX Listing Rule 10.13 sets out the information to be provided to shareholders in the notice of meeting. The Company is seeking Shareholder approval to the proposed allotment to related parties pursuant to Resolution 2.

1.2 Corporations Act 2001 (Cth) Requirements

Chapter 2E of the Corporations Act 2001 (Cth) ("**Act**") prohibits, subject to certain exceptions, a company from giving a financial benefit to a related party of the company without prior shareholder approval.

(a) Resolution 2

Mr. Terry Kallis is considered a "related party" for the purpose of Chapter 2E of the Act, whilst the issue of Options to him constitute "financial benefits" for this purpose.

Section 195 of the Act provides, in essence, that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

2. Resolution 1 – Ratification of Previous Issue of Shares

2.1 Approvals Required

As announced on 17 January 2006, the company agreed to place 5,250,000 Shares with each Share subscribed for and issued to clients of Taylor Collison Ltd and Lands Kirwan Tong Stockbrokers Pty Ltd subject to necessary Shareholder approval. The Company has placed 5,250,000 Shares to clients of Taylor Collison Ltd and Lands Kirwan Tong Stockbrokers Pty Ltd for which prior Shareholder approval was not necessary.

Under Resolution 1, the Company seeks from Shareholders approval for, and ratification of, the issues of equity securities set out below so as to limit the restrictive effect of ASX Listing Rule 7.1 on any further issues of equity securities in the next 12 months, and restore the Company's ability to issue equity securities within that 15% annual limit, to the extent of 5,250,000 Shares issued.

2.2 Further Information

ASX Listing Rule 7.5 requires the following information to be given to Shareholders:

- (a) Number of Securities Allotted

5,250,000

- (b) Price at which the securities were issued

\$0.28

- (c) Terms of the Securities

The issued shares are fully paid ordinary shares and are on the same terms as existing fully paid ordinary shares in the Company.

- (d) Names of allottees or the basis on which allottees were determined

Clients of Taylor Collison Ltd and Lands Kirwan Tong Stockbrokers Pty Ltd

- (e) Use (or intended to use) of the funds raised

The funds raised by issue of 5,250,000 shares issued at \$0.28 per share were used for the development of Petratherm's hot rock geothermal projects.

2.3 Directors Recommendation

The Board believes that the ratification of the above securities issues is beneficial for the Company.

The Board recommends Shareholders vote in favour of Resolution 1 as it allows the Company to ratify the above issues of securities and retain the flexibility to issue further securities representing upto 15% of the Company's share capital during the next 12 months.

3. Resolution 2 – Approval of Issue of Options

- 3.1 The proposed options are to be granted to Mr. Terry Kallis as an incentive.

The resolution seeks shareholder authorisation pursuant to Chapter 2E of the Corporations Act for the issue of a total of 1.5 million incentive options to Mr Terry Kallis (or his nominee). Shareholder approval is required under section 208 of the Corporations Act because Mr Terry Kallis is a related party of the Company.

Exception 14 of the ASX Listing Rule 7.2 states that if there is an approval under Listing Rule 10.11, approval is not required under Listing Rule 7.1

The resolution is an ordinary resolution.

3.2 For the purposes of section 219 of the Corporations Act information regarding the options issue is provided as follows:

(a) The Company is a geothermal exploration and development company. The Company was established on 24 October 2003 with the aim of obtaining tenements suitable for production of economically viable hot rock energy, together with methodology and research data to assess the potential of such tenements. As a result, it was considered appropriate to issue incentive options to Mr Kallis as a key component of his remuneration in order to attract and retain his services as Managing Director and to provide incentive linked to the performance of the Company. There are no additional performance criteria on the options as, given the speculative nature of the Company's proposed activities and the small management team responsible for its running, it is considered the performance of Mr Kallis and the performance and value of the Company will be closely related. As such, the incentive options to be issued will only be of benefit if Mr Kallis performs to the level whereby the value of the Company increases sufficiently to warrant exercising the incentive options. It is considered that any additional performance criteria are not warranted.

(b) The break down of the options that Mr Kallis will receive in accordance with the resolution is highlighted in the following table:

No. of Options	Exercise Price	Exercise Period	Value per Option	Total Value
750,000 ("First Tranche")	32 cents	1 May 2007 – 30 April 2012	\$0.062	\$46,500
750,000 ("Second Tranche")	37 cents	1 May 2008 – 30 April 2013	\$0.045	\$33,750

(c) Mr Kallis has a very successful and highly regarded career in the Australian Electricity Industry both as a consultant and senior executive. His role was primarily as Chief Financial Officer and latterly as Executive Manager Network – ElectraNet SA. During his time at ETSA, he was intimately involved with major reforms implemented in the late 1990's. Those reforms included commercialisation, corporatisation, involvement in the new National Electricity Market (NEM) and the ETSA sale.

(d) In addition to the options proposed to be issued, Mr Kallis remuneration package with the Company (reviewable annually by mutual agreement) is \$200,000 per annum, inclusive of superannuation contributions to be made by the Company.

(e) The incentive options are to be issued for nil consideration.

(f) None of the options will be quoted on ASX.

(g) Each First Tranche option entitles the holder to subscribe for one Share in the Company at an exercise price of 32 cents per Share exercisable during the relevant Exercise Period referred to in paragraph (b) above. Further terms and conditions of these options are set out in Part A of the Schedule appearing at the end of this Explanatory Memorandum.

- (h) Each Second Tranche option entitles the holder to subscribe for one Share in the Company at an exercise price of 37 cents per Share exercisable during the relevant Exercise Period referred to in paragraph (b) above. Further terms and conditions of these options are set out in Part B of the Schedule appearing at the end of this Explanatory Memorandum.
- (i) The options will be issued not more than one month after the date of the meeting.
- (j) Each of the directors of the Company recommends that the shareholders of the Company vote in favour of the resolution because they consider that Mr Kallis will provide an invaluable contribution to the growth of the Company.
- (k) A valuation of the options has been calculated using software provided by an independent expert and these values are included in paragraph (b) above.
- (l) The valuation imputes a total value of the options to be issued to Mr Kallis at \$80,250. The value may increase or decrease after the date of the valuation as it will depend upon the future price of Shares in the Company. The independent expert has applied the Black-Scholes valuation methodology together with the following assumptions:
 - (i) We have elected to use a volatility index of 20%
 - (ii) A market value of 27 cents, being the market price on May 1, 2006 the date on which Mr Kallis signed his service agreement with Petratherm Ltd has been used.
 - (iii) For the purposes of the valuation it is assumed that the options will not be exercised any earlier than the expiration date; and
 - (iv) A risk free rate of 5.75% has been used.
- (m) The following table demonstrates the dilution of all other shareholdings in the Company, upon exercise of the options issued to Mr Terry Kallis assuming the Shareholders approve the proposed grant of the these options.

Approximate number of Shares on Issue	43,375,001
Total Shares issued assuming exercise of all the options issued	53,785,001
Shares issued assuming exercise of all options by Mr Kallis	1,500,000
Total Shares issued assuming exercise of all options including Mr Kallis	55,285,001
Dilution effect	2.71%

- (n) The market price of shares in the Company would normally determine whether Mr Kallis will exercise the options or not. If the options are exercised at a price that is lower than the price at which Shares are trading on ASX, there may be a perceived cost to the Company.
- (o) No funds will be raised by the issue of the options as they are being issued for nil consideration.
- (p) Other than the information set out in this Explanatory Memorandum the directors believe that there is no other information that could reasonably be required by Shareholders to consider these two resolutions at the General Meeting.

SCHEDULE

Part A - Terms and Conditions of First Tranche of 750,000 Options

These terms and conditions are set out below:

- the exercise price is 32 cents per option;
- the Vesting date is May 1, 2007;
- the right to exercise options is conditional that it will not be available if he leaves Petratherm before 1 May 2007.

Part B – Terms and Conditions of Second Tranche of 750,000 Options

These terms and conditions are the same as set out in Part A above of this Schedule except that:

- the exercise price is 37 cents per option;
- the Vesting date is May 1, 2008;
- the right to exercise options is conditional that it will not be available if he leaves Petratherm before 1 May 2008.