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**REPORT FOR THE QUARTER
ENDING 31 DECEMBER 2007**

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HIGHLIGHTS

- During the quarter the Company expanded its Spanish project portfolio from three to five with the addition of the Almazan and Gran Canaria projects to the existing Madrid, Barcelona and Tenerife projects. Geothermal Exploration Licenses (GELs) have been issued for all projects with only the Barcelona GELs pending.
- Petratherm entered into a landmark, exclusive Agreement in early November 2007, with four key Chinese Geological/Geothermal institutions to undertake a cooperative assessment of highly prospective projects in China.
- During the quarter Petratherm and its joint venture partner Beach Petroleum completed major reflective seismic and magneto-telluric surveys across the Paralana tenements. This preparatory work will provide valuable information and important guidance on the location of the two deep wells to be drilled at the Paralana project site – and the future development of the geothermal field.
- A Letter of Intent was signed, in late November 2007, with Ensign International Energy Services, to secure a suitable rig and drilling at the Paralana site is planned to commence in the second half of calendar 2008. The Letter of Intent with Ensign is subject to confirmation of well design parameters and negotiation of commercial arrangements.
- The Company's projects in Australia, Spain and China are moving ahead to plan and schedule and Petratherm expects to achieve major progress during 2008 in all areas of its activities - notably with the Company's deep well drilling program at the flagship Paralana Project
- The Federal Coalition announced a \$50 million election commitment to accelerate the commercialization of the Paralana Geothermal Energy Project and assessed that Paralana as the most commercially advanced geothermal project in Australia.
- The new Labor Federal Government announced a number of commitments in its *"Clean Energy Plan"* in the lead up to the recent election that confirms their very strong support for the Australian Geothermal Energy Industry.
- At the end of the quarter the Company held \$ 6,108,000 in cash.

REVIEW OF OPERATIONS

The focus for the Company during the quarter has been one of further consolidation, with the careful planning and preparation of the Paralana deep geothermal wells, the strengthening of the Company's growing Spanish project portfolio and the strategic entry into China through an exclusive Agreement with key Chinese government institutions.

The Company has sought the best local and international expertise to develop a drilling, evaluation, and sub-surface heat exchanger development plan for Paralana. The plan contains many innovations which differentiate it from other competitors. Underpinning this plan is the Company's key desire to lower risk, lower costs, and maximise returns. The Paralana project has the potential to be commercially viable at all stages of development thus earning it recognition by the Federal Coalition as the most commercially advanced geothermal energy project in Australia.

In Spain the Company has continued, as planned, to expand its project portfolio to five projects, that now comprises two conventional geothermal exploration areas in the Canary Islands and three engineered geothermal system (EGS) project areas on mainland Spain (Madrid, Barcelona and Almazan, Figure 3). Having first mover advantage in Spain, the Company has attracted significant corporate, government and public interest. The Company is actively developing its project areas and corporate business strategies for Spain.

Total expenditure during the quarter amounted to \$ 1,672,000 and at the end of the quarter the Company held \$ 6,108,000 in cash.

Exploration and evaluation expenditures amounted to \$1,224,000 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 Project) and the Company's project portfolio expansion in Spain.

Ongoing administration costs of \$ 448,000 during the quarter reflect the recent expansion of staff and increased level of activity arising from new geothermal projects.

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 arrangements, together with the Company's strong cash position have provided 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. The JV provided a sum of \$187,000 toward operating activities while interest received from cash invested amounted to \$ 117,000.

Paralana Project Update (GELs 156, 178, 180, 254)

Reflection Seismic Survey

During the quarter the Company in conjunction with its joint venture partner Beach Petroleum, successfully completed to schedule and within budget, a major reflection seismic survey over the interpreted high temperature zone of the Paralana Geothermal Project. A total of 162 line kilometres of survey data was captured in a seven line grid (Refer Figures 1 and 2). The raw data quality has been assessed as good, and this data is currently being processed in preparation for geological interpretation. In addition two seismic lines shot over the area in 1984 will be reprocessed to current specifications.

The reconnaissance 1984 seismic data over the Paralana region indicate that numerous faults occur within potential deep reservoir horizons. These structures may greatly improve local permeability and fluid circulation. The newly acquired seismic survey will more accurately constrain the geometry of these reservoir horizons and the faults. This will enable optimal placement of the scheduled deep geothermal production well.

Magneto-telluric Survey

In support of the seismic reservoir characterization work, a magneto-telluric survey was completed during December. The results of the magneto-telluric survey will provide further information on the geometry of potential reservoir zones, and may also define naturally occurring fluid pathways.

These important pre-drill surveys greatly increase the probability of a successful first production well.



Figure 1. Vibroseis trucks in operation at Paralana

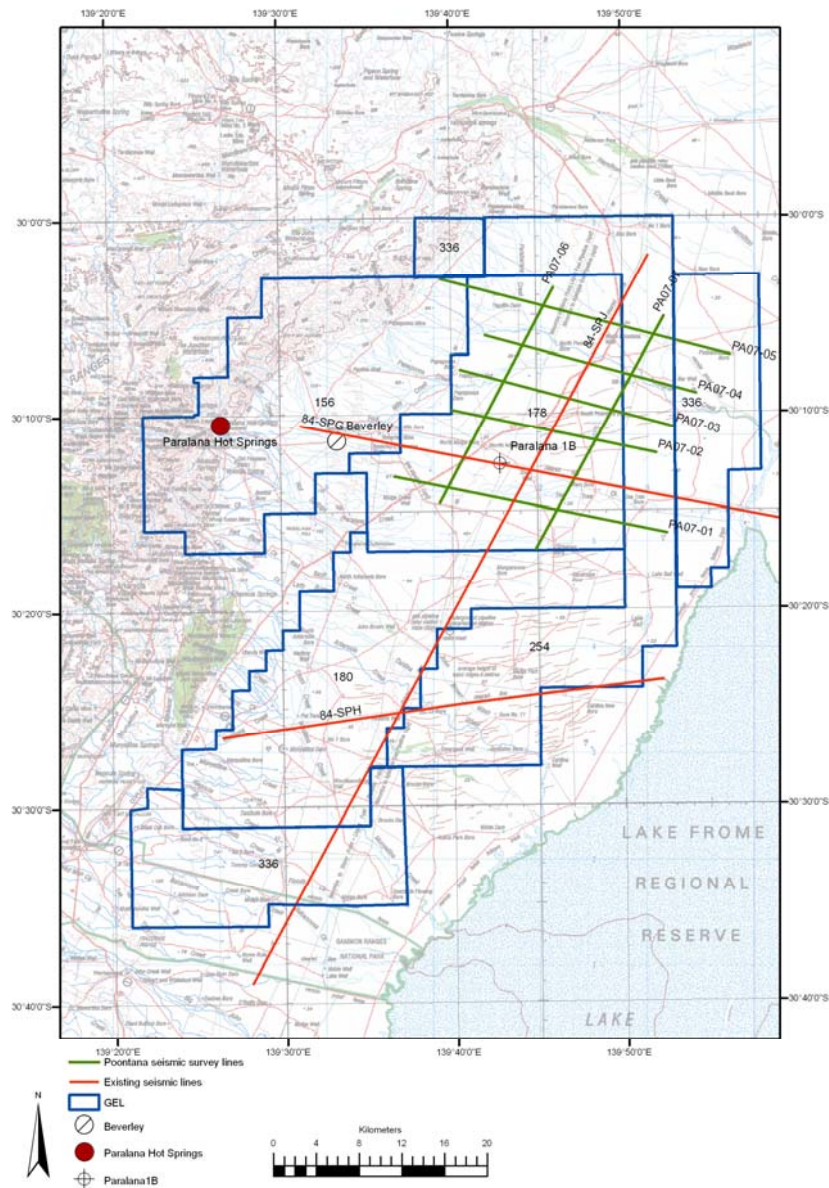


Figure 2 Seismic Survey Location Map

Drilling of First Deep Well – second half of 2008

Petratherm and its joint venture partner – Beach Petroleum - are now nearing completion of the well design and rig selection process for the Parolana Geothermal Energy Project.

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Spanish Projects Update

Two Conventional and Three EGS Projects – with more planned in Spain

The Company has now secured two conventional geothermal projects in the Canary Islands – Tenerife and Gran Canaria - and three EGS projects areas on mainland Spain - Madrid, Barcelona (GELs pending approval) and Almazan (Refer Figure 3). Each of the three mainland projects also has the potential for direct use heat applications due to the presence of shallow hot aquifers in all project areas.

The Company's entry into the Spanish energy market is a strategic move that is consistent with the Company's stated objective of pursuing opportunities in areas where the geology, energy market and regulatory environment are conducive to commercially viable geothermal energy projects. The Company plans to secure around seven or eight geothermal energy projects across Spain covering both EGS and conventional geothermal technologies and is targeting both direct use hot water and electricity as the two key products for sale to local markets.

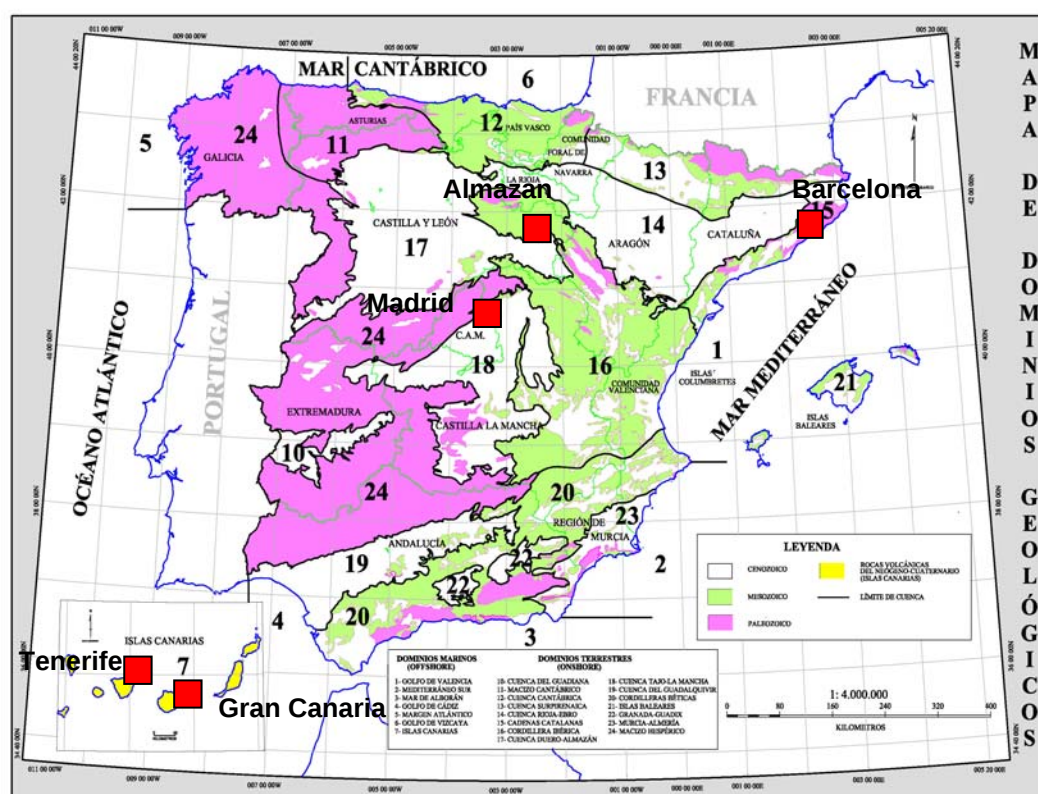


Figure 3 Petratherm's Five Spanish Geothermal Energy Projects

Spanish Project portfolio attracts interest from European energy industry

The portfolio of project opportunities is being built, with a small initial financial exposure, utilizing the Company's intellectual property (IP) developed in Australia, plus its energy industry contacts in Europe. The opportunities secured to date have attracted inquiry and interest from a number of European energy industry participants. Once the Spanish geothermal portfolio is completely established, the company will seek to further leverage its IP in Europe via a number of options to spread risk and financial exposure in the project development stage, including consideration of expanded co-operative arrangements with industry participants.

The Company's Spanish projects are moving ahead to plan and schedule and significant progress is expected – notably with the Tenerife and Madrid projects that offer early development opportunities.

Gran Canaria Project – Conventional Geothermal Energy Project

The tenement acquisition on Gran Canaria has targeted a conventional geothermal energy resource, similar to that secured by the Company on the nearby island of Tenerife.

Gran Canaria supports a large local and tourist population of approximately 1 million people placing a large demand on peak power generation, in excess of 800 MW. The island has substantial transmission infrastructure within close proximity of Petratherm's Geothermal Exploration Licence. Power consumption on the island has tripled over the last 20 years, due to the large population growth. Existing power generation is 94% dependent on expensive fossil fuels from fuel-oil and gas-oil which have very high carbon dioxide emissions.

Initial exploration work on both Tenerife and Gran Canaria will involve geochemical assessment of thermal waters to ascertain fluid temperatures at depth. This will be followed with magneto-telluric surveys that will map out subterranean hot aquifers and identify any shallow magma sources prior to test drilling.

Almazan Project – Engineered Geothermal System & Direct Use Heat Opportunities

The Almazan Project is an engineered geothermal system project (EGS) with the additional potential for exploiting direct use heating from naturally occurring hot aquifers – similar to the Company's Madrid and Barcelona Projects.

The Almazan Basin is one of the deepest Mesozoic-Tertiary Basins within the Iberian Peninsula, and the GELs have been located over the area of the Basin which combines the thickest section of sediments together with a significant

gravity anomaly (see Figure 4) – in order to target the best commercial EGS prospect in the region.

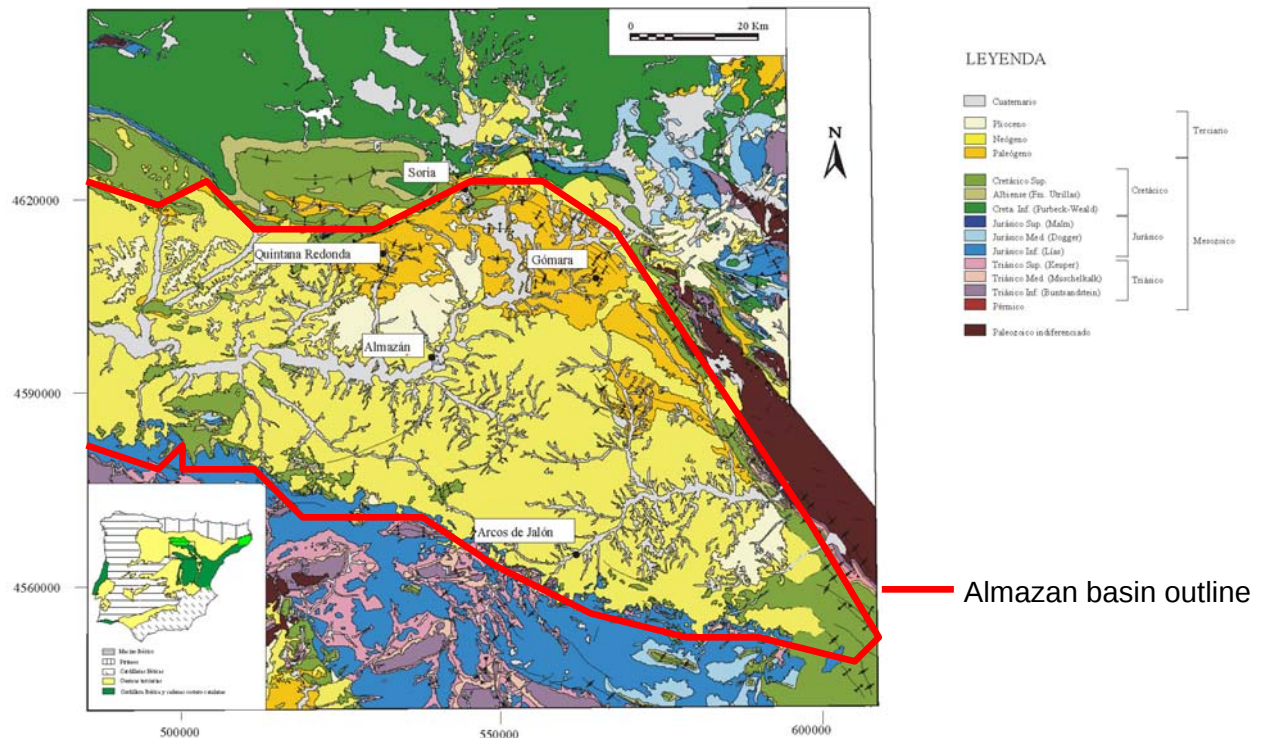


Figure 4: Geological map of the Almazan Basin and the adjacent Iberian Range to the east. The margins of the Basin are indicated in red.

Madrid Project

In late November 2007, the Company was awarded an extensive Geothermal Exploration License (GEL), covering an area of 330 square kilometres, located approximately 40 kilometres NNE of Madrid.

The awarding of the GEL provides the Company with a major opportunity to quickly commercialize the Madrid Project, because;

- There is proven geothermal potential from information available from five deep wells (three wells are around 3.5 kms deep) that demonstrate the presence of high temperature water in large aquifers suitable for geothermal energy exploitation
- Two reservoirs are known to exist, shallow reservoir at 1.5 kms and deep reservoir at 3.5 kms – enabling early exploitation for direct heating uses (Refer figure 5).
- Existing information provides the opportunity to avoid major drilling exploration costs and attendant risks.

The immediate work plan is centred on using existing seismic data and most likely magneto-telluric and gravity surveys as a low cost way of determining the best drilling targets. That work is expected to be completed in early 2008.

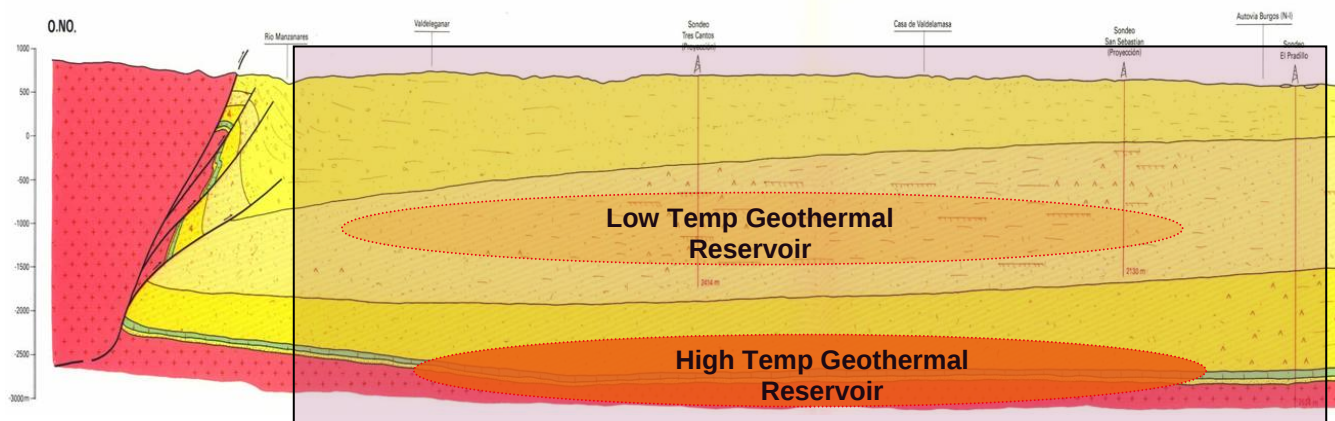


Figure 5 Geological cross-section of Madrid Basin showing the boundaries of GEL

The prospect of commercial EGS and/or Direct Use Heat projects is further enhanced by the following;

- A recorded bottom-hole temperature of 156°C at the existing 3.4 kilometre deep Pradillo Well (one of the wells on the GEL area)
- A known, hot aquifer of 85°C at a shallow depth of 1,500 metres that has very high flow rates
- Proximity to large electricity market and access to relatively low cost per MW connection
- High renewable energy prices – around double those available in Australia

China – Geothermal Exploration Program

In early November 2007, the Company established a landmark, exclusive Agreement with four key Chinese Government Institutions to undertake a Cooperative Project to identify high quality geothermal energy projects in China.

The Agreement uniquely positions Petratherm in the Chinese market, thus enabling the Company to, on an exclusive basis, exploit the very large geothermal resource potential available in China to provide base load, large scale, emission free sources of heat and electricity in the world's largest growing energy market.

The Agreement will involve Petratherm working on the cooperative Project over the next twelve months with the following four Chinese Government Institutions:

- China Geothermal Energy Society;
- Chinese Geological Survey;
- Chinese Academy of Sciences; and
- China Institute of Geo-Environment Monitoring

Under the exclusive Agreement, the Chinese Institutions will provide Petratherm with key geological and geophysical data and Petratherm will process the data utilizing its unique exploration and thermal modelling methods. Petratherm's expertise will be used, together with the consultancy services of Dr Martin Hand – an expert in heat flow modelling - from the University of Adelaide. (Refer Figure 6 – Chinese Heat Flow Map developed by the Chinese Academy of Sciences).

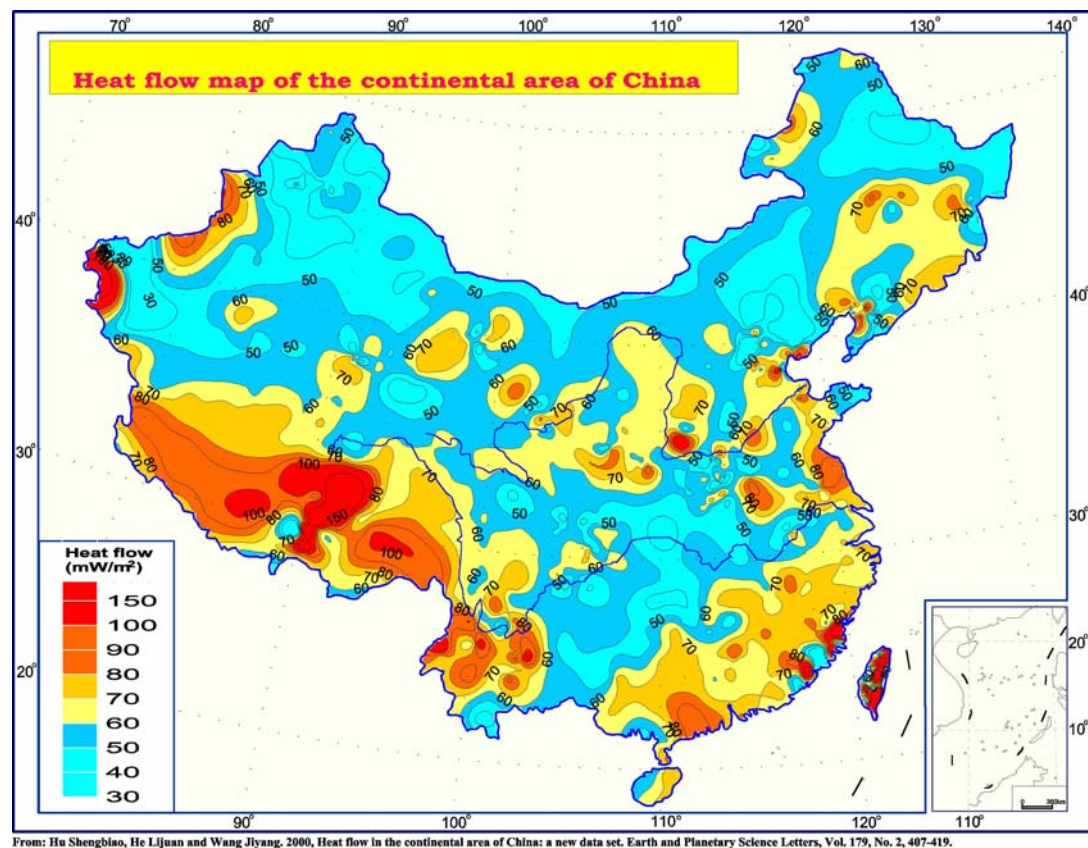


Figure 6 - Heat Flow Map of China (source: Professors Hu Shengbiao, He Lijuan and Wang Jiyang. 2000 – Chinese Academy of Sciences – Institute of Geology and Geophysics)

New Federal Government Policies and Geothermal Energy Industry Leadership

Very Strong Support for Geothermal Energy is expected from the new Labor Federal Government

The new Labor Federal Government has announced a number of commitments in its "*Clean Energy Plan*" in the lead up to the recent election that demonstrates very strong support for the Australian Geothermal Energy Industry. Those commitments, amongst other things, include;

- Ratification of the Kyoto Protocol

- Introduction of an emission trading scheme by 2010
- A Renewable Energy Target of 20% by 2020.
- A \$500 million Renewable Energy Fund – to develop, commercialize and deploy renewable energy in Australia
- A \$150 million Energy Innovation Fund – to support Australia's world leading scientists and researchers and their programs
- A \$50 million Geothermal Energy Drilling Initiative – nominally for up to five projects

The above commitments are expected to provide a robust long term policy and regulatory framework – similar to those currently operating in Europe - that should encourage a clear and supportive environment within which Petratherm can confidently conduct its Australian business.

Petratherm is very well positioned for the future policy environment and expects major progress during calendar 2008.

In addition to the above commitments a number of other interrelated geothermal energy industry initiatives are underway, including,

- the formation of the Australian Geothermal Energy Association (AGEA) to advocate on policy matters with Governments (Federal & State),
- the Australian Geothermal Energy Group (AGEG), a collaborative working group of companies, researchers/academics and government departments and;
- the Australian Geothermal Energy Industry Development Framework (AGIDF) process that aims to facilitate the growth of the Industry.

Petratherm has a key leadership role on AGEA, AGEG and the AGIDF. This together with the recent assessment of Petratherm's Paralana Project by the previous Federal Government as being the most commercially advanced project in Australia places the Company in a strong position in the Industry as it commences the 2008 year.

Specifically, Petratherm plans to apply for funding available under the Geothermal Energy Drilling Initiative (around \$10 million) and for funding available under the Renewable Energy Fund to commercialize and deploy a 30 MW power project at Paralana (nominally \$50 million).

Petratherm also plans to use its leadership role in the industry to advocate for the design of the new Government's policy commitments for a 20% renewable energy target and a national emissions trading scheme that will benefit the geothermal energy industry as it develops.