

CLEAN ENERGY FOR FUTURE GENERATIONS

Quarterly Report
31 December 2010

Quarter two highlights

Paralana

- > Perforation and injectivity test of the Paralana 2 well was completed with the target zone successfully broken down (fractured)

Spain

- > Madrid district heating project moves closer to full feasibility with potential JV partner
- > Tenerife project makes progress toward a drilling target and determination of drilling costs

Corporate

- > The Company raised \$1.5 million via a placement of shares in December 2010
- > As at 31 December, the Company held \$2.76 million in cash

Review of Operations

Petratherm continued to work on its forward plans during the quarter with the completion of the Perforation and Injectivity Test at Paralana and raising further funds in a \$1.5 million placement.

The Paralana injectivity test was successfully completed after several delays due to severe flooding in the region.

The next stage of work, main fracture stimulation, is now scheduled for March 2011.

Work also continued during the quarter on advancing Petratherm's Spanish interests with the Madrid project nearing full feasibility assessment and the Tenerife project entering the drilling design/costing stage.

Petratherm is also holding JV discussions with a major European utility company for its Madrid project.

Quarterly exploration and evaluation expenditure amounted to \$0.51 million.

That expenditure was funded by our Joint Venture partners (Beach Energy and TRUenergy Geothermal) under the Paralana JV.

The company had ongoing administration costs of \$0.38 million during the quarter.

At the end of the quarter, the company held \$2.76 million in cash.

Corporate and Regulatory

\$1.5 million in funds raised in placement

During the quarter, the Company completed a \$1.5 million capital raising through the placement of 15 million new shares at a price of \$0.10 per share. The funds will primarily be used for ongoing exploration works at the Company's Paralana Project and the Tenerife Conventional Geothermal Project.

Annual General Meeting

Petratherm held its Annual General Meeting in November 2010 in Adelaide. The AGM was well attended with 70 persons in attendance. There was considerable shareholder interest, in particular in relation to the next stages of the Paralana project.

National Geothermal Conference

Adelaide hosted a successful Australian Geothermal Energy Association conference during November.

Petratherm was well represented, with the company Managing Director Terry Kallis delivering an address in his role as Chairman of the Australian Geothermal Energy Association of Australia.

Mr Kallis has since retired from his two-year role as Chairman, but continues in a supporting role as Deputy Chairman.

The company also presented an assessment of its work to date along with a more specialised discussion of work at the flagship Paralana geothermal energy project.



Our Projects

Paralana

Petratherm and its JV partners achieved a key project milestone during the period with a successful perforation and injectivity test of the Paralana 2 well.

After considerable delays inhibited access to the site due to one in twenty year flooding of the north eastern part of the state of South Australia, the work was finally able to commence late in December 2010 and was completed in early January 2011.

During October 2010, the Paralana 2 well was given the all clear from any apparent blockages and it was decided as precursor to the perforation and injectivity test that the well be cleaned.

The Paralana 2 well was cleaned using a coil tubing unit in a process where the heavy brine solution used during the cementing of casing was replaced with less saline bore water from the existing nearby water well.

Following the cleaning of the Paralana 2 well, the steel casing was perforated over the interval 3,679-3,685 metres (refer diagram).

The zone was subsequently successfully broken down (fractured) during an injectivity test where water was injected under pressure into the formation.

The data collected from the injectivity test operation is to be analyzed and used to design the main fracture stimulation program.

The next stage of the fracture stimulation program will be the Main Fracture Stimulation stage, planned for March 2011, and will involve injecting a larger volume of water at higher rates, the volumes and rates to be dependent on the micro-seismic response measured by the installed micro-seismic array.

The aim of the Main Fracture Stimulation work is to create a fracture network and to connect to and enhance the existing natural fracture network that contained over-pressured brines found during drilling of Paralana 2.

The work will assist in determining the location of the Paralana 3 well and it seeks to further de-risk the Paralana geothermal energy project.

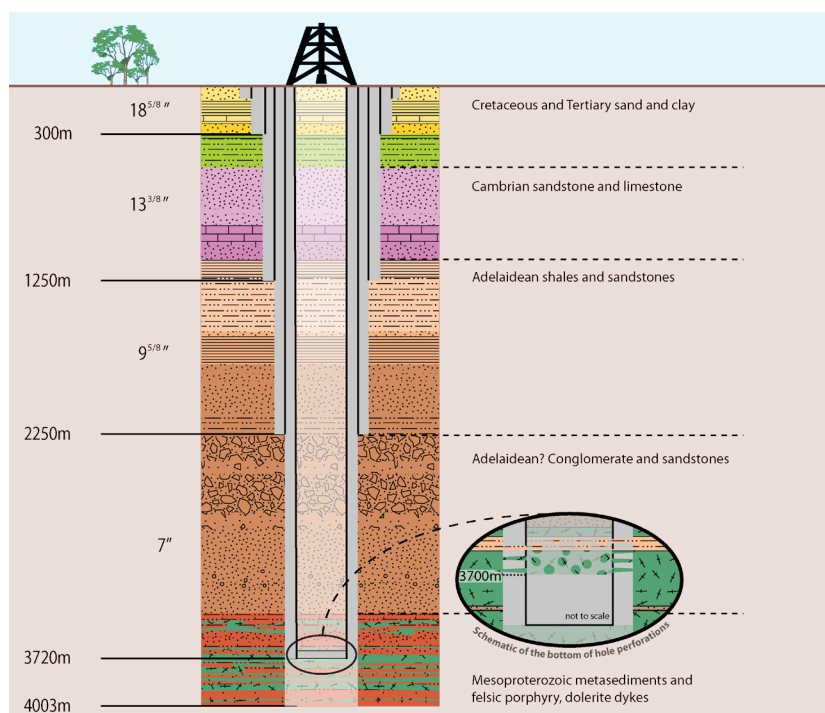


Figure 1 - Paralana 2 well, simplified geology and schematic of perforation zone

Competent Persons Statement

The information in this report relating to geothermal exploration results and geothermal resources is based on information compiled by P.W. Reid, a full time Petratherm employee. Mr Reid has sufficient experience in the style of geothermal play under consideration to qualify as a Competent Person under the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008) edition. Mr Reid consents to the inclusion of the material herein in the form and context in which it appears.

Madrid District Heating Project

Petratherm España is advancing its 8 MW (thermal) Madrid Geothermal District Heating project (GDH) under the Cooperative Agreement with the Spanish and Madrid regional governments. Through that Agreement, a sum of €98,000 (AUD \$140,000) is being provided by the Spanish government to assist the feasibility stage of the project, which is now almost complete.

The Madrid GDH project has been highlighted as one of six renewable energy projects of interest within the Madrid Regional Government’s Renewable Energy Cluster, which is seeking to advance renewable energy projects in the Madrid region.

Petratherm España is concurrently engaged in discussions with a major European utility to assess joint venture arrangements and to optimize the final project design for the GDH project. The optimal commercial project structure is also being reviewed to ensure that participation within the project best reflects the risk position of the parties, as well as the skills and capabilities each party brings to the project.

It is planned that the final project design be jointly (with the JV partner) presented to the Spanish Government to secure federal government grant support required to make the project commercially attractive.

The Spanish Federal and Madrid Regional governments have acknowledged that the project offers the best opportunity to demonstrate Spain’s first deep geothermal energy development. Discussions with all parties are continuing with a resolution expected during the quarter.

Discussions are also progressing with the Madrid Regional Government in respect of obtaining all necessary permits and approvals to allow the project to proceed.

Tenerife Volcanic Geothermal Project

Petratherm España in conjunction with its 50% exploration partner, Enel Green Power, continued to develop the Tenerife volcanic geothermal project.

A prospective drilling target was highlighted during the quarter and assessment of drilling design, well costs and permitting requirements for a slim-hole exploratory well is underway. Concurrently, a preliminary design and cost for a deep production grade well is being assessed.

The slim-hole well is designed to allow testing of temperature pressure, flow and brine chemistry to characterise the potential geothermal energy resource.

If the well is successful, Enel Green Power under the terms of the memorandum of understanding agreement with Petratherm, has the option to fully fund the first production grade well in exchange for 50% equity in the project.

Tenerife provides a major opportunity to build a conventional geothermal project. The island has a permanent population in excess of 1 million that can increase to 1.5 million during peak tourist season - placing a large demand on peak power generation, in excess of 800 MW. The island also has substantial transmission infrastructure close to Petratherm España’s exploration licences.

Importantly, the island’s current primary source of power generation is based on imported diesel resulting in very high priced electricity (above AUD \$140/MWh and potentially as high as \$240/MWh) with a significant carbon signature. The Tenerife project is aimed at displacing and/or avoiding the island’s reliance on imported fuel sources while concurrently reducing the island’s carbon footprint.

The potential for a high temperature hydrothermal source in excess of 240°C coupled with high electricity prices makes the Tenerife project commercially attractive.

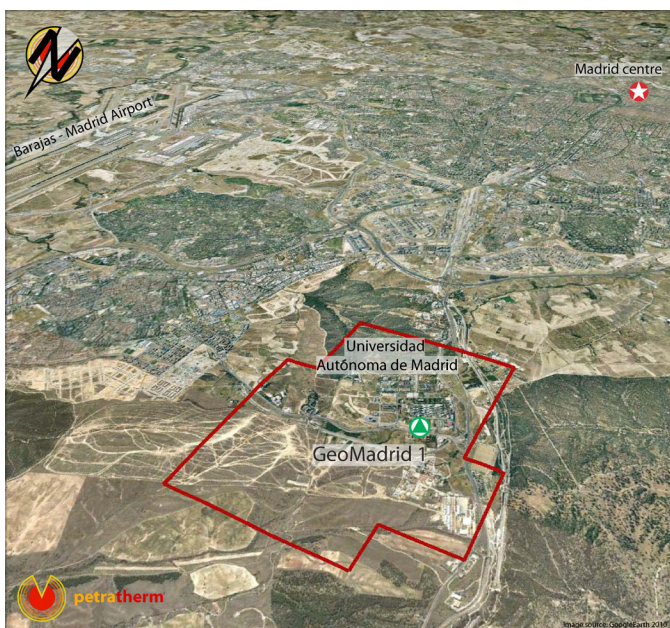


Figure 2 - GeoMadrid GDH project showing investigation permit boundary

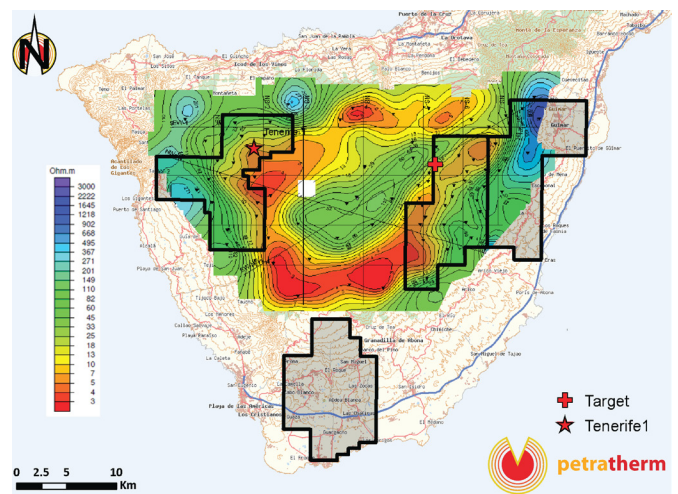


Figure 3 - Tenerife MT results and target exploration well location

Corporate information

Corporate office

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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
Lewis Owens-
Non executive director
Company secretary
Donald Stephens
HLB Mann Judd (SA) Pty Ltd

Stock exchange listing

Australian Stock Exchange
(ASX code PTR)

Share registry

Computershare Investor
Services Pty Ltd
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Legal advisors

O’Loughlins Lawyers
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Auditors

Grant Thornton
South Australian Partnership
67 Greenhill Road
Wayville, South Australia 5034

Inside the Petratherm team-

Managing director

Terry Kallis

Exploration manager

Peter Reid

Project manager – Paralana

Paul Jepsen

Tenement & compliance officer

Mathieu Messeiller

Business accountant

Paul Smith

Public & investor relations

Belinda Willis

Office Manager

Elena McRae

Spanish team

Manager – Spain

Raul Hidalgo

Upcoming events

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>

Website

Petratherm’s website delivers regular information updates to shareholders and stakeholders.

www.petratherm.com.au

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