

CLEAN ENERGY FOR FUTURE GENERATIONS

Quarterly Report
31 December 2011

Quarter two highlights

Corporate & Regulatory

- > Share Purchase Plan raised \$458,500 in October 2011 despite challenging market conditions. At the end of the reporting period, the Company held \$2,402,000 in cash.
- > Carbon pricing legislation passes through Federal Parliament in November 2011 and is to commence in July 2012.
- > Independent economic assessment of Carbon pricing policies in November 2011 estimates geothermal to supply 22% of the Australian power market by 2050.

Paralana

- > Paralana 2 well flow testing was completed successfully in October 2011. Over 1.28 million litres of fluid was produced over a seven day period. Economic temperatures were re-confirmed and the existence of a naturally over-pressured geothermal system at Paralana was established.
- > An Independent Resource Statement Report updated resource estimates with a Measured Resource of 41 petajoules (PJ) that has the potential to support a 5.4 MW power station for 30 years.

Clean Energy Precinct

- > In December 2011, Petratherm unveiled its exciting new Clean Energy Precinct which plans to deliver 600 MW of power (combination of gas, wind, solar and geothermal) to the large growth market in the north-west of South Australia.

Spain

- > Spanish federal government announced a new renewable energy plan that includes up to €100 million in subsidies and financing for geothermal energy power production.
- > Encouraging discussions with potential partners in both the Tenerife project and GeoMadrid project continued.

Directors and Staff Appointments/Awards

- > Director, Lew Owens appointed as Chair of SA water.
- > Director, Professor Richard Hillis admitted to the Australian Academy of Technological Sciences and Engineering.
- > Exploration Manager, Peter Reid received the Chairman's Award from the Australian Geothermal Energy Association.

Review of Operations

During the quarter the Company continued with its planned operational work at the Paralana geothermal joint venture project site. The primary activity was the successful flow test operation of the Paralana 2 deep injector well. The Paralana 2 well was flowed continuously over a seven day period and a total of 1.28 million litres of fluid was produced, with flow rates ranging between 1 and 6 litres per second.

Quarterly exploration and evaluation expenditure amounted to \$1,026,000 and included costs associated with the main fracc, flow test and seismic monitoring. Funding under the Paralana JV amounted to \$128,000.

The Company had ongoing administration costs of \$431,000 during the quarter.

At the end of the quarter, the Company held \$2,402,000 in cash.

Corporate and Regulatory

Share Purchase Plan Offer

The Share Purchase Plan that closed on 14 October 2011 raised \$458,500 before costs at a price of \$0.125 per share. The amount raised was encouraging considering the challenging market conditions. The monies raised are to be applied to fund ongoing working capital and exploration and development of the Company's projects, in particular, the Company's flagship Paralana Project in South Australia.



Corporate and Regulatory cont'd

Carbon pricing legislation passes through Federal Parliament

Carbon pricing legislation passed through the lower house of Federal Parliament in November 2011. The legislation includes a package of carbon pricing initiatives that are aimed at commencing in July 2012.

The key points from those carbon pricing initiatives are summarised as follows:

- > The introduction of a price on carbon creates the investment framework and certainty needed to enable significant renewable energy development
- > The \$13 billion investment through the new Clean Energy Finance Corporation and the Australian Renewable Energy Agency will provide funding to the development of renewable energy projects, and
- > The carbon price initiatives will commence from July next year at a price of \$23 per tonne of CO₂ and will be replaced with a market based Emissions Trading Scheme by July 2015.

Independent economic assessment of Carbon pricing policies in November 2011 by SKM/MMA estimates geothermal to supply 22% of the Australian power market by 2050. ***(The information is included in a recent presentation on Carbon pricing by Petratherm's MD and is available on the Company's website).***

Projects

Paralana

Paralana Flow Test Operation

The flow test operation for the Paralana 2 Deep Geothermal Well was successfully completed on Monday 10th October 2011.

Paralana Flow Test Operation cont'd

The flow test was designed to assess the extent of the naturally over-pressured zone and to collect brine samples for geotechnical analysis. An understanding of the brine chemistry is critical to the management of future production flows and design of the next stage of the project.

The naturally overpressured system will, if extensive, assist later circulation of fluids between wells, reducing the amount of pumping that will be required, and may influence the configuration of injector and producer wells during the later planned expansion of the field.

The JV has identified a natural geothermal system at Paralana. Future work will further enhance the development of this system. This may significantly lower development risks of establishing a commercial flow for power production.

Paralana Independent Resource Statement

The work undertaken during 2011 has enabled an updated Independent Resource Statement (IRS) to be prepared by experts in geothermal assessment, Hot Dry Rocks Pty Ltd, for the Paralana resource (refer table below). ***(The full report is available on the Company's website):***

Paralana Geothermal Resources

(Estimated Recoverable Thermal Energy expressed in Petajoules (PJ_{th}))

Depth Interval (metres)	Inferred (PJ _{th})	Indicated (PJ _{th})	Measured (PJ _{th})	Total (PJ _{th})
<3,500	2,400	1,100		3,500
3,500-4,000	4,900	4,400	41	9,300
4,000-4,500	5,900	5,700		12,000
4,500-5,000	6,900	6,700		14,000
Total (PJ_{th})	20,000	18,000	41	38,000

**Paralana Joint Venture: Petratherm 79%, Beach Energy 21%*

The IRS was released during the reporting period and has further validated and quantified the very large recoverable energy resources available at Paralana, as follows:

- > Increased resource confidence with close to half of the initial Inferred Resource improving to "Indicated" and a smaller portion to "Measured" status.



Hot fluids (water and steam) from the Paralana 2 well flowing into a containment pond

Projects cont'd

Paralana cont'd

Paralana Independent Resource Statement cont'd

- > The initial stimulated volume of rock at the Paralana 2 well site provides a Measured Resource estimate of 41 PJ_{th}, which has the potential to sustain **5.4 MWe of power production for 30 years**.
- > At the 3,500 to 4,000 metres depth interval, which is the target zone for initial development, total estimated Resources are 9,300 PJ_{th}. This is sufficient to generate **1300 MW of power generation for 30 years** and easily provides the energy potential for Petratherm's long term ambition of generating 520 MWe into the national electricity market.

This could have a significant impact on reducing Australia's carbon emissions. To put this into context, 1300 MW of black coal power generation for the next 30 years would emit approximately 315 million tonnes of CO₂ into the atmosphere.

Paralana JV Project - Completion of Milestone 1 and JV decisions

The Paralana JV project completed Milestone 1 of the project (i.e. the drilling and stimulation of the Paralana 2 deep injector well) on 15 September 2011. The Paralana Joint Venture arrangements require the JV partners, within a period of ninety days after the completion of Milestone 1, to elect to exit or to remain in the farm-in and/or JV project.

Following their respective internal reviews of the Paralana project, Beach Energy has elected to remain in the farm-in and JV project and TRUenergy has elected to exit from the farm-in and JV project.

The project equities of Petratherm and Beach Energy remain unchanged at 79% and 21%, respectively.

The Company advises that it has commenced discussions with parties interested in participating in the Paralana joint venture.

Clean Energy Precinct

During December 2011, the Company unveiled its exciting new Clean Energy Precinct which is aimed at clearly differentiating Petratherm in the renewables and energy market through its unique offering of combinations of gas, wind, solar and geothermal.

Importantly, the Precinct project is aimed at ensuring that the large geothermal resource (referred to earlier) at Paralana can be monetized in the future by enabling large scale electricity transmission connection to the growing market driven by mining developments (Olympic Dam, Prominent Hill and Carapetena) in the north-west of South Australia.

The Precinct project is to initially comprise a mix of gas, wind and solar generation and later geothermal power connection and will be tailored to meet the needs of mining customers in the north-western part of South Australia. The Precinct project will aim to provide a competitive solution in terms of price, reliability and availability for both the power and carbon related aspects of customers' needs.

The Precinct project location has been selected because it is the nearest point to the "on grid" market where there is a "convergence" of all four future strategic resources - gas, wind, solar and geothermal. This enables a unique offering to the market where the different energy sources can be combined in a variety of ways to deliver attractive hybrid products that lower costs - and improve energy security/reliability - of electricity supply while reducing CO₂ emissions.

Petratherm has commenced the initial phase of the major Clean Energy Precinct just north of its Paralana geothermal energy joint venture project across the Moolawatana pastoral lease, where Petratherm has secured an exclusive position to develop the Precinct project.



Projects cont'd

Clean Energy Precinct cont'd

("Moolawatana", which is a derivative of an Adnyamathanha aboriginal phrase that translates to "Windy Place", has abundant solar and wind resources and is traversed by the Moomba to Adelaide gas pipeline (refer Figure below).)

Specifically this work includes, but is not limited to, the following:

- > electricity transmission connection arrangements with ElectraNet - owner of SA's transmission network.
- > gas pipeline connection arrangements with EPIC Energy - owner of the Moomba to Adelaide pipeline.
- > arrangements to measure both the wind and solar resource across the 1890 square kilometre Moolawatana pastoral lease.
- > discussions with representatives of the local Aboriginal communities, the Adnyamathanha and Kokatha Uwankara people.

It is planned to develop a 600 MW power generation facility to meet the demand expected to be created over the next 5-6 years from large mining developments in the region. One option for connection to the "on-grid" market is via Olympic Dam and Petratherm intends to initiate commercial discussions with BHP Billiton to explore this. Other alternatives will also be considered.

The project is estimated at having a capital cost of around \$1.5 billion and is expected to be a major contributor to the reduction of the national and state CO₂ emissions.

The Company is encouraged by the interest already received from large international and domestic renewable energy companies in the Precinct project. It is the Company's intention to provide regular updates on its new and exciting Clean Energy Precinct.

Heliotherm

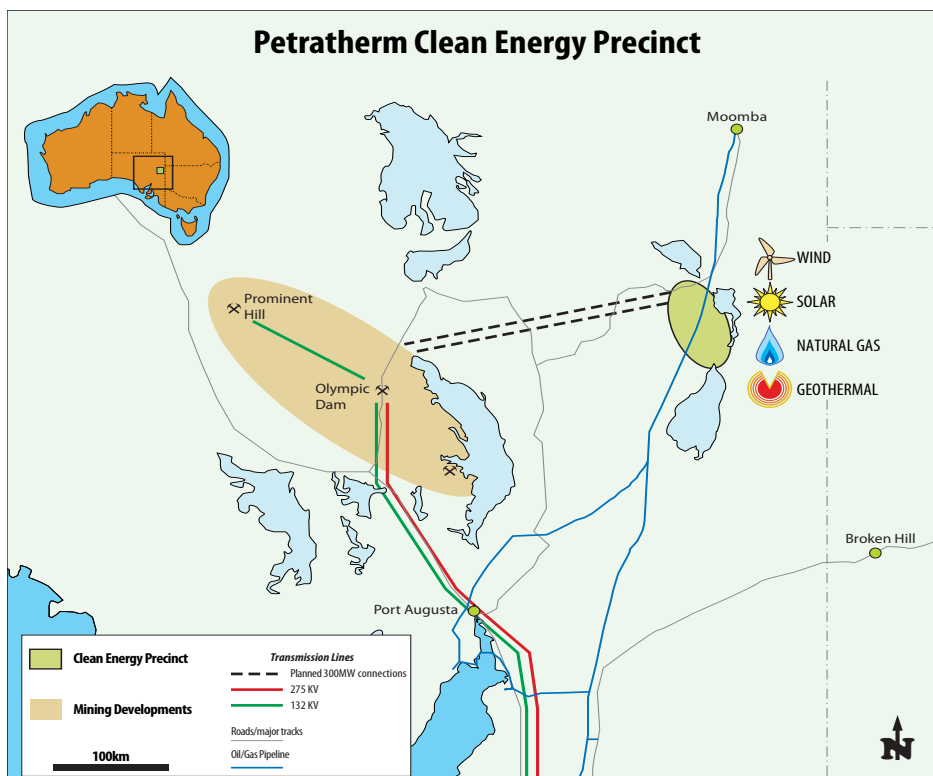
The Company was informed that its application was unsuccessful in the Australian Solar Institute's (ASI) Round three grant funding program. The project is being undertaken in conjunction with The University of Adelaide and has already been awarded a \$750,000 Australian Research Council grant. Alternative Federal government funding programs for the project are to be pursued.

Spain

The Company continued to develop its Spanish project portfolio and in the first quarter of 2011/12 announced that it led a consortium in a successful application for around \$1 million in subsidies to characterize geothermal resources across the Canary Islands, notably on the island of Tenerife.

Work continues on the Tenerife power generation and Geo-Madrid district heating projects with interest shown from additional potential joint venture partners.

That interest has heightened with the recent announcement of Spain's renewable energy development plan, which, for the first time, highlights geothermal energy as a separate renewable category and importantly allocates up to €100 million in subsidies and financing to facilitate the development of geothermal energy power production.



Corporate information

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Inside the Petratherm team

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Competent Person Statements

The information in this report that relates to Exploration Results is based on information compiled by Peter Reid, who appears on the Register of Practising Geothermal Professionals maintained by the Australian Geothermal Energy Group Incorporated at the time of the publication of this report. Peter Reid is a full time employee of the Company. Peter Reid has sufficient experience which is relevant to the style and type of geothermal play under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the Second Edition (2010) of the Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves. Peter Reid has consented in writing to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information that relates to the Geothermal Resources Statement is an extract from a report compiled by Dr Graeme Beardsmore, who appears on the Register of Practising Geothermal Professionals maintained by the Australian Geothermal Energy Group Incorporated at the time of the publication of this report. Dr Beardsmore is employed by Hot Dry Rocks Pty Ltd, an independent consulting group that provides professional services to Petratherm Ltd. Dr Beardsmore has sufficient experience which is relevant to the style and type of geothermal play under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the Second Edition (2010) of the 'Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves'. Dr Beardsmore has consented in writing to the inclusion of the Resources Statement as it appears in this report of the matters based on his information in the form and context in which they appear.

Upcoming events

Industry events

For further information on forthcoming events in the geothermal sector visit the PIRSA website at <http://geothermal.pirsa.gov.au/news/events>

Website

Petratherm's website delivers regular information updates to shareholders and stakeholders

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