

PETRATHERM LIMITED



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**REPORT FOR THE QUARTER
ENDING 31 MARCH 2008**

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HIGHLIGHTS

Paralana

Preparatory work centred on well design, the development of a passive seismic array and the examination of rig options that meet well design parameters and commercial targets. Drilling remains on track to commence in the second half of calendar 2008.

The Company has entered into an Australian-exclusive agreement with Geothermal Explorers Limited, a world leading, Swiss based, geothermal exploration and development consultancy group that specializes in Engineered Geothermal Systems (EGS).

Spain

Projects experienced considerable progress and attracted interest from a number of European energy companies - highlights include;

- District Heating (direct-use heat Madrid). French expert consultants – GPC Instrumentation Process (GPC IP) – to undertake a major pre-feasibility assessment into the potential for direct-use heating applications which is expected to be completed in early May 2008.
- Conventional Geothermal Project – Tenerife, Canary Islands – two new geothermal energy licenses (GELs) were added during the quarter to cover the island's most prospective areas (refer Map 1).
- Engineered Geothermal Systems (EGS) Projects – Madrid, Barcelona and Almazan – discussions are under way with the Spanish government, the Spanish Renewable Energy Association, potential joint venture partners and key stakeholders to determine the best way to progress EGS across Spain.
- Two new GEL applications were made for EGS projects near Seville and Alicante in Southern Spain (refer Map 2). The Alicante project also has the potential to be a conventional hydrothermal development.

Corporate

During the quarter the Company continued to strengthen its capabilities and resources with the recruitment of new staff (Australia and Overseas), key consultancy support and the establishment of the Company's Madrid Office.

The Company received an Innovation Award from Senator, The Hon Kim Carr Minister for Innovation, Industry, Science and Technology in recognition of its innovative Heat Exchanger within Insulator (HEWI) model for exploiting geothermal energy.

At the end of the quarter the Company held \$5,434,000 in cash.

REVIEW OF OPERATIONS

The focus for the Company during the quarter has been one of planning and preparation for the Paralana deep geothermal wells and the commencement of exploration and pre-feasibility assessments of the Company's growing Spanish project portfolio.

Petratherm's approach to the Paralana Project 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.

The Company continues to ensure it has the best local and international expertise to develop a drilling, evaluation, and sub-surface heat exchanger development plan for Paralana. The engagement of Geothermal Explorers Limited is particularly pleasing with their considerable engineered geothermal system (EGS) experience. Petratherm has signed an exclusive agreement with Swiss-based Geothermal Explorers Limited, to provide high level management and technical consultancy advice for the Paralana Geothermal Energy Project.

Geothermal Explorers Limited bring a wealth of hands on experience with regard to the execution of deep drilling and development of sub-surface reservoir in an EGS environment (sometimes known as Hot Dry Rock).

In Spain the Company has continued, as planned, to expand its project portfolio to seven projects that now comprises two conventional geothermal exploration areas in the Canary Islands and five EGS systems and/or hydrothermal project areas on mainland Spain (Madrid, Barcelona and Almazan – Map 2) and district heating opportunities in Madrid and Barcelona. 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 \$674,000 and at the end of the quarter the Company held \$5,434,000 in cash.

Exploration and evaluation expenditures amounted to \$561,000 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 \$357,000 during the quarter reflect the further expansion of staff and increased level of activity arising from new geothermal projects across the growing portfolio.

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 \$129,000 towards operating activities while interest received from cash invested amounted to \$97,000.

Paralana Joint Venture Project Update

Paralana 2 Deep Well – on track

Planning for the Company's first deep well (Paralana 2) continued during the quarter with preparatory work centred on well design and the development of the passive seismic array. The Company continued to examine rig options that meet its well design parameters and commercial targets, and remains on track to commence drilling in the second half of calendar 2008.

Interpretation of the good quality data from the recent Reflection Seismic and Magneto-telluric surveys is continuing and will more accurately constrain the geometry of the deep reservoir horizons and the faults observed at Paralana. This will enable optimal placement of the scheduled deep geothermal Paralana 2 well.

Passive Seismic Array - installed

The installation of the Passive Seismic Array at Paralana has been completed and monitoring commenced during April 2008 (refer Figure 1) .

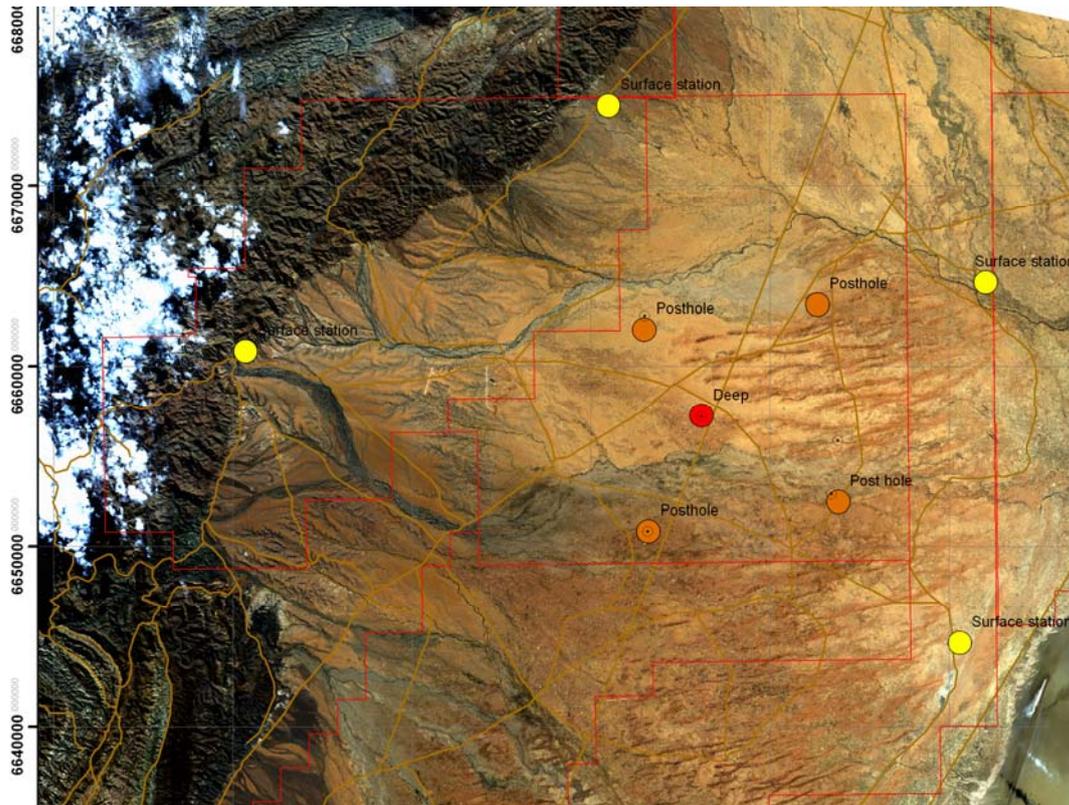


Figure 1 Aerial map of Paralana site showing location of geophones (orange and yellow – surface level and red located deep in existing Paralana 1 B 1.8 kilometre exploration well).

State of the art seismic technology is being utilized to capture data with sensitive geophones positioned around the Paralana Site to monitor the natural seismicity (micro-earthquakes) in the area and measure a phenomenon known as shear wave splitting. Shear wave splitting occurs when a propagated shear wave from a seismic event splits into two, a fast component wave and a slow component wave as it moves through a fractured medium.

By recording where this phenomenon occurs at the depth targeted for heat extraction, possible zones of natural fracturing can be identified. Such fracture zones have the potential to improve the connectivity between production wells and to yield improved fluid flow through geothermal reservoirs in the production stage of the project. Results from this program will complement the information obtained from the recently completed seismic reflection and magneto-telluric surveys and will assist in final targeting of the Paralana 2 deep well.

The results from the program will also assist in establishing an assessment of the background or natural seismicity of the Paralana region.

A \$100,000 PACE Grant from the SA government was awarded to the Paralana JV Project to test the use of shear wave splitting as a tool for characterizing EGS reservoirs.

Spanish Projects Update

District Heating Project in Madrid – pre-feasibility assessment is under way

French expert consultants - GPC Instrumentation Process (GPC IP) - have been engaged to undertake a pre-feasibility assessment of the application of District Heating across the Company's large (330 square kilometres) Madrid GEL area.

GPC IP manage, on the behalf of a number of local councils, several district heating installations across the Paris Basin. There are currently 34 operating doublets delivering over 260 MW of thermal energy across the Paris Basin with some installations having been in operation for over 20 years.

The Madrid Basin exhibits similar temperatures at similar depths to those prevalent across the Paris Basin. Information from previous studies of the Madrid Basin wells confirms the existence of very large aquifers with high flows. The two Geo-Madrid 1 wells (refer Figures 2, 3 and 4) have temperatures of 70°C to 80°C – ideal for district heating applications.

The Madrid Basin District Heating project represents an exciting opportunity for the Company to develop a viable business operation leveraging off the existing geothermal wells.

The pre-feasibility assessment commenced in February 2008 and is expected to be completed in early May 2008.

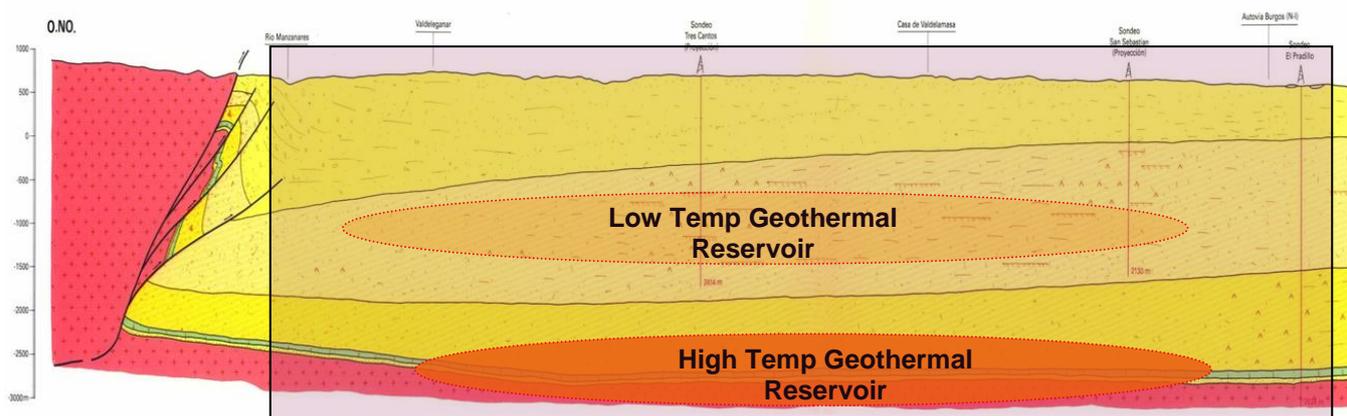


Figure 2 Geological cross-section of Madrid Basin and boundaries of GEL showing existing wells and depths

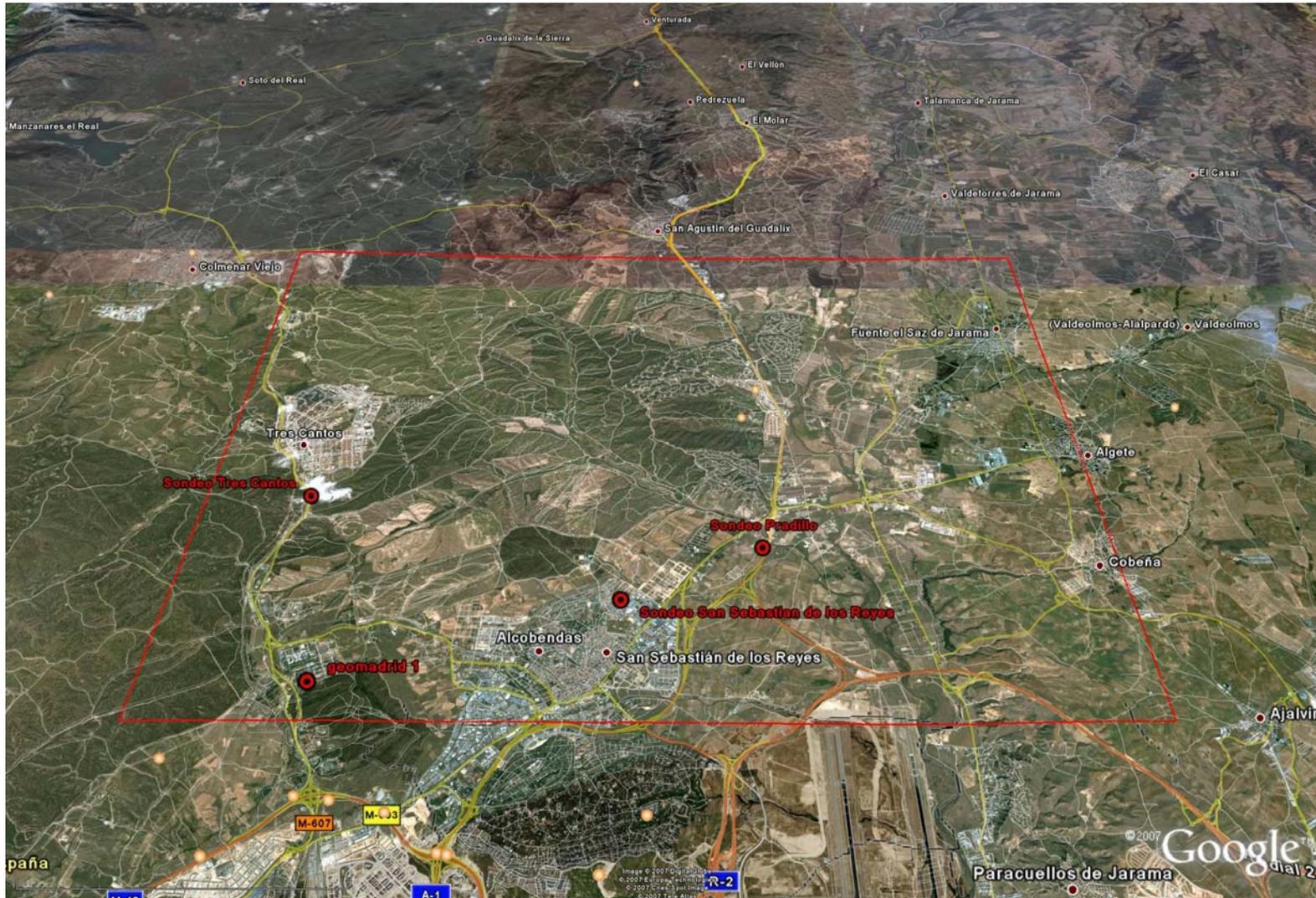


Figure 3 Aerial photo of Madrid GEL (boundaries – red line) showing existing well locations and potential demand areas for district heating. The Geo-Madrid 1 doublet wells are in left foreground and are in close proximity to major building complexes. Other wells are also shown in red.

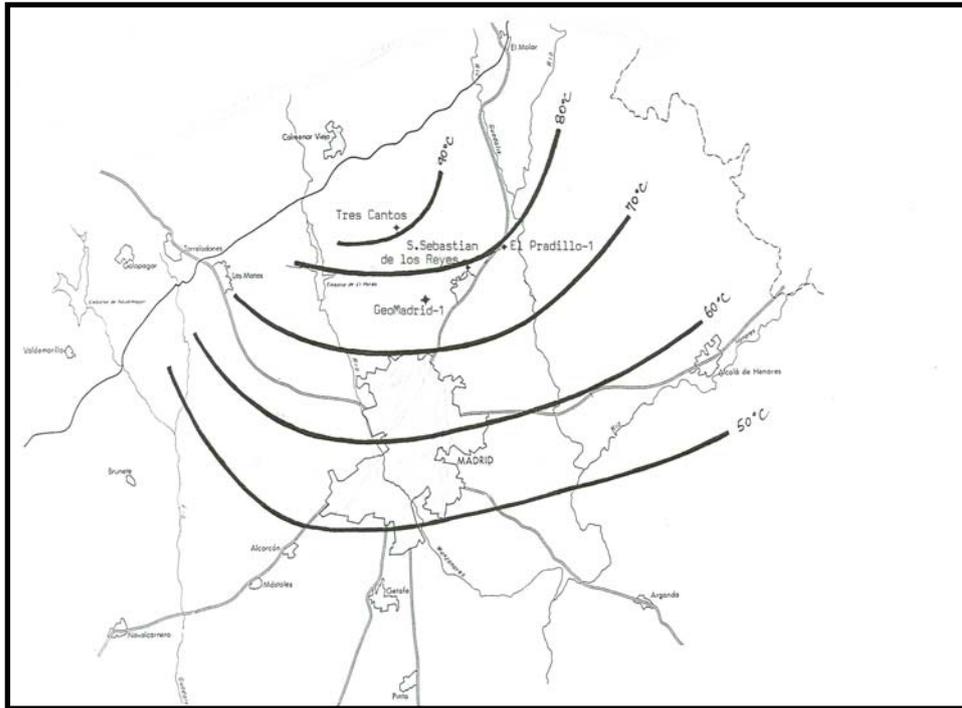
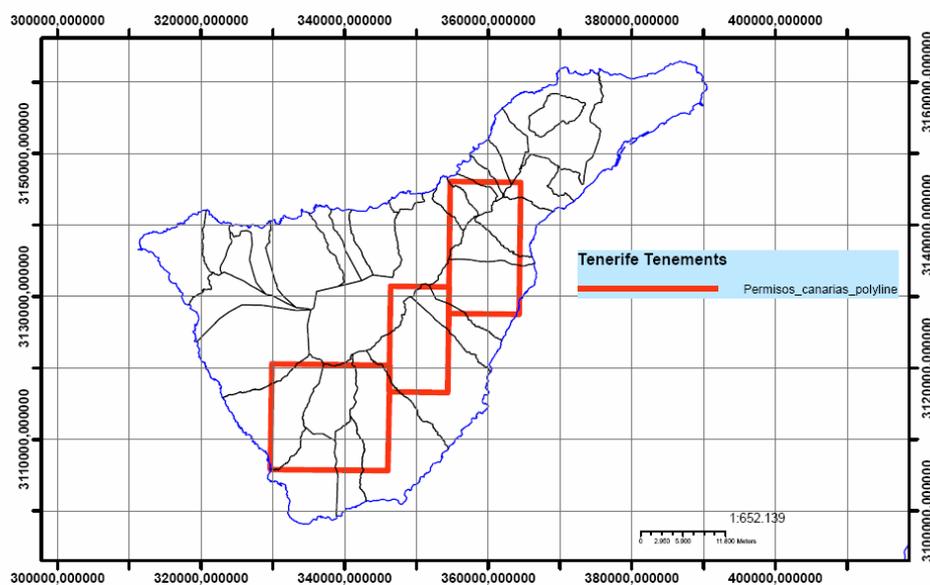


Figure 4 Temperature contours of across the Madrid Basin and location of existing wells.

Conventional Geothermal Project in Tenerife – two new GELs

The Company was granted the two new GELs following an encouraging preliminary assessment of the Tenerife project, which indicated the possibility of a more extensive thermal resource than that originally mapped, capable of supporting a larger project. The Company now has three licences that cover areas on Tenerife that are considered to be the most prospective for development of geothermal power (Refer Map below).



Map 1 - Petratherm GELs – shown in red – two new GELs are southern GELs.

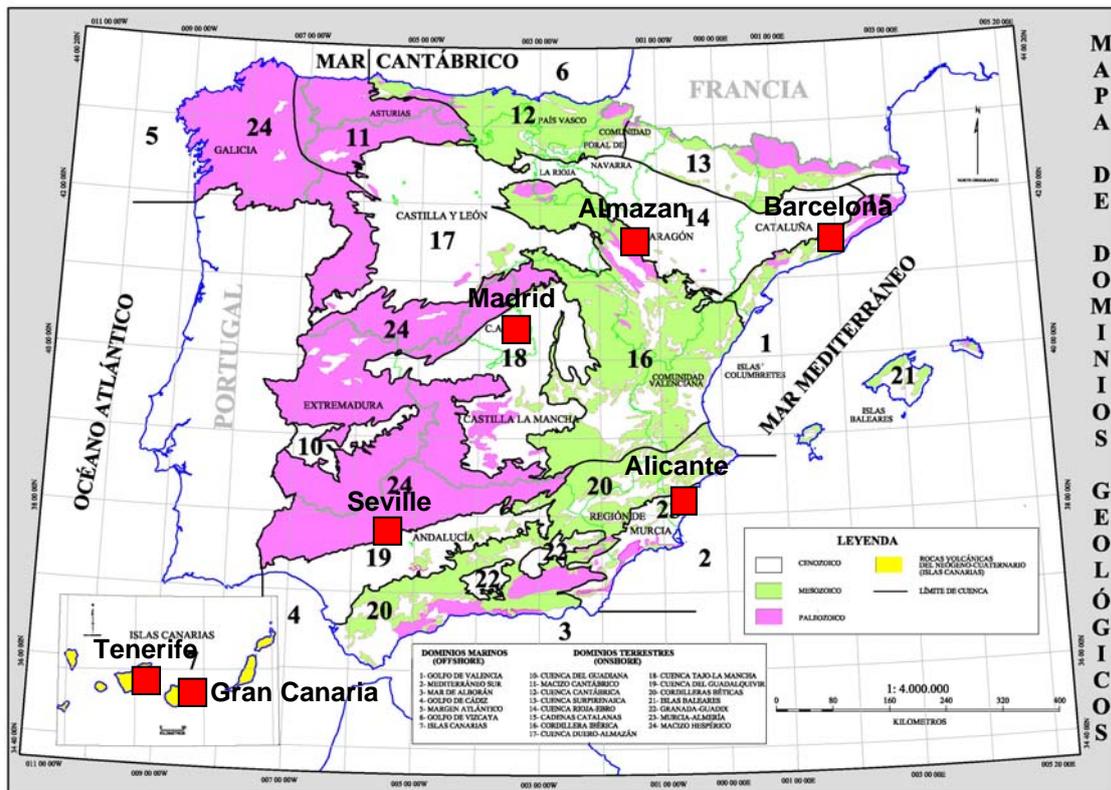
Petratherm's Tenerife Project provides a major opportunity to develop a conventional geothermal power project (rather than an engineered geothermal system (EGS)) with minimal associated technical project risk with an attractive market that is focused on the development of sustainable energy alternatives to imported fossil fuel sources.

Lower costs and risks (compared with EGS projects) of this project arise from two key factors, namely;

- The process for extraction and conversion of the heat is well known and understood, with considerable project development, drilling and plant operation experience and technology readily available around the world.
- Such thermal resources, although typically smaller in overall size than EGS resources, are of very high quality, with naturally formed reservoirs and very high temperatures, greater than 250°C, at depths of around 2 kilometres

Two new GEL applications for Seville and Alicante – EGS projects

Two new GEL applications were made for EGS projects near Seville and Alicante in Southern Spain (refer Map 2).



Map 2 – Petratherm's seven project areas with GELs issued (Madrid, Tenerife, Gran Canaria, and Almazan) and GEL applications (Barcelona, Seville and Alicante)

China – Exploration Program Update

In recognition of the Company's activities in China, it has been invited to lead a specialist geothermal session at this year's China Power and Alternative Energy Summit to be held in Beijing in June 2008.

The Summit attracts industry and power investment leaders from China's rapidly growing power market. This is the first time that geothermal power has been showcased at this event and highlights the rapid rise in interest in geothermal power investment in China, this interest stemming in part from the ongoing collaborative work Petratherm has been undertaking as part of its Asia Pacific Partnership program to identify new high value geothermal sites in China.