CLEAN ENERGY FOR FUTURE GENERATIONS

Quarterly Report
30 June 2011

petratherm

Quarter four highlights

Paralana

- Successfully completed the main fracture stimulation of the Paralana 2 well – exceeding target expectations, further de-risking the Paralana project and achieving a major mile-stone for the Company and the Paralana JV

Heliotherm

- Awarded a $750,000 Australian Research Council Grant to facilitate the Heliotherm solar hybrid project

Corporate & Regulatory

- Carbon pricing initiatives announced by Prime Minister Julia Gillard provide major impetus to renewable energy
- In the post reporting period the Company announced a successful capital raising of $2.3 million and a Share Purchase Plan offer, both priced at 12.5 cents

Review of Operations

The primary activity during the period related to the preparation for, and the conduct of, the main fracture stimulation works at the Paralana project site. This involved the creation of water holding ponds, filled from nearby water wells and the mobilization of pumping equipment of some 8,500 horsepower.

Water was pumped under high pressures, up to 9000psi, and with increasing rates over time into the Paralana 2 well. The operation resulted in a successful fracture stimulation that exceeded its planned target.

A flow test of the Paralana 2 well is planned to be undertaken during the third quarter of calendar 2011.

Quarterly exploration and evaluation expenditure amounted to $xxxxx million. Funding by our JV partners (Beach Energy and TRUenergy Geothermal) under the Paralana JV amounted to $xxxxx million.

The Company had ongoing administration costs of $xxxxx million during the quarter.

At the end of the quarter, the Company held $xxxxx million in cash.

Corporate and Regulatory

New carbon pricing initiatives announced

In the post reporting period the Prime Minister Julia Gillard announced the Federal Government's proposed new carbon pricing initiatives.

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 pricing initiatives will commence from July next year at a price of $23 per tonne of CO_2 and will be replaced with a market based Emissions Trading Scheme by July 2015.

The carbon pricing and clean energy funding initiatives represent the single most significant government assistance package for renewable energy in general and potentially for the geothermal energy sector.

The economics of Petratherm's Paralana project are not dependent on those new carbon initiatives because the existing renewable energy target scheme combined with joint venture arrangements and government grants provide the underlying financial framework to take the project forward. However, the new carbon initiatives do provide significant potential upside for the project through both expected increases in revenue (arising from higher power prices) and the potential for new capital grants.

Projects

Paralana

Paralana Fracture Stimulation

In the post reporting period Petratherm and its JV partners Beach Energy and TRUenergy advised that the fracture stimulation undertaken on the Paralana 2 well was successfully completed.

The primary aim of the fracture stimulation, which was to create fractures in the subsurface at least 500 metres from the Paralana 2 well, was achieved and preliminary analysis suggests that the stimulated zone extends approximately 900 metres to the east of the Paralana 2 well at a depth from 3,500 to 4,000 metres (Refer Figure 1).

The successful fracture stimulation of the Paralana 2 deep well represents another major milestone achievement in the Company's and JV's development and a significant further de-risking of the Paralana geothermal energy project.

Over a five day period from 11 to 15 July 2011, a total of 3.1 million litres of water were pumped into the Paralana 2 well at pressures up to 9,000 psi and with sustained pump rates of up to 1600 litres per minute (Refer photograph overleaf).

The creation of fractures in the subsurface due to the injection of high pressure water creates mirco-seismic events that can be detected and located using a seismic monitoring array.

Figure 1 shows a preliminary analysis of the location of the induced micro-seismic events based on approximately 750 of the more than 7,000 events detected by the extensive passive seismic array installed across the Paralana site.

Two key preliminary observations from the fracture stimulation are:

- the stimulated zone extends beyond the injected depth of approximately 3,700 metres down to around 4,000 metres depth; and
- there is strong directionality to the stimulated zone which will greatly assist the JV's understanding of the sub-surface geothermal reservoir for geothermal power production, notably to determine the optimum site for the drilling of Paralana 3, the planned deep geothermal production well, which constitutes the next stage of the project.

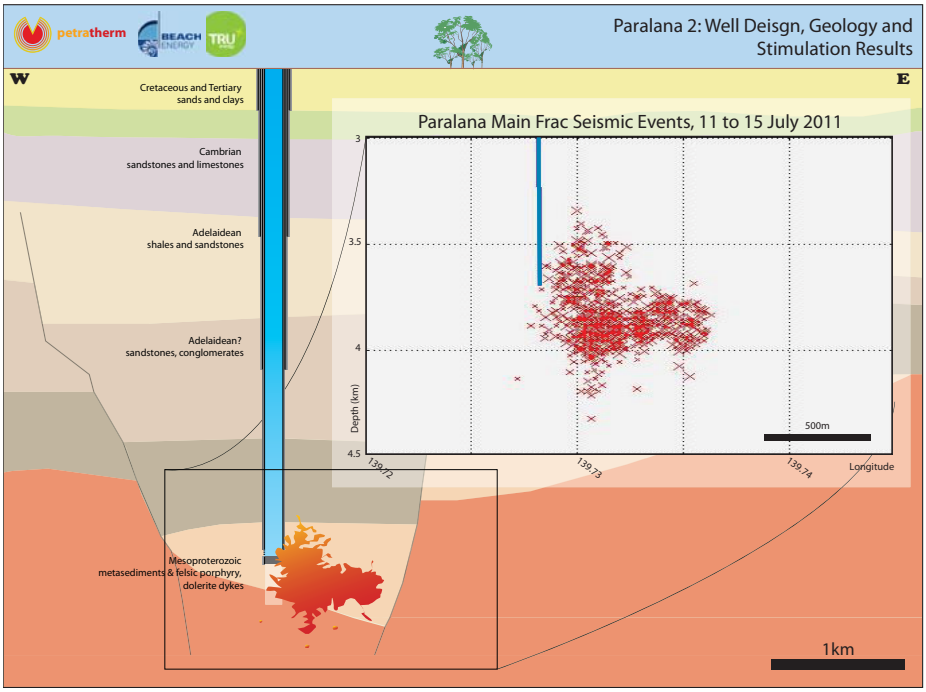


Figure 1 - Paralana 2 well, geological cross section and MEQ events diagram

Projects cont'd

Paralana cont'd

Paralana Flow Test

› A flow test of the Paralana 2 well is planned to be undertaken during the third quarter of calendar 2011. The test will provide valuable information on the natural and enhanced fracture network and this will assist in characterizing the geothermal reservoir.

Heliotherm

During the quarter the University of Adelaide was awarded a $750,000 grant by the Federal Government under the Australian Research Council Linkage projects for work on the Heliotherm project being developed in conjunction with Petratherm.

This innovative project is being pursued with the University's highly regarded Centre for Energy Technology (CET) led by Professor Gus Nathan. It aims to reduce the cost of solar thermal technology by up to 40 per cent through the integration of solar thermal, geothermal and combustion technologies.

The key innovation is using an integrated boiler that exploits all of the energy sources in a way to reduce capital costs and achieve a critical breakthrough in cost and efficiency in solar thermal technology.

Petratherm and the University of Adelaide now plan to apply for further grant monies for up to $5 million under the Federal Governments' $100 million Australian Solar Institute Program (Round 3) and the two newly announced, Australian Centre for Renewable Energy Programs:

› $100 milion Emerging Renewables; and

› $100 million Renewable Energy Venture Capital Fund.

Heliotherm is a 100% owned subsidiary of Petratherm Ltd.

Some of the 8500 horsepower of pumping equipment used during the fracture stimulation

Projects cont'd

Spain

Grants for Geothermal Projects

Submissions are now being sought by the Spanish federal government for grants for geothermal energy projects.

Both the Tenerife and Madrid projects are eligible and represent the two most advanced geothermal projects in Spain.

Tenerife conventional volcanic project

Work is underway to finalize the drilling target and costs for a slim-hole exploratory well. Concurrently, a preliminary design and cost for a deep production well is being assessed.

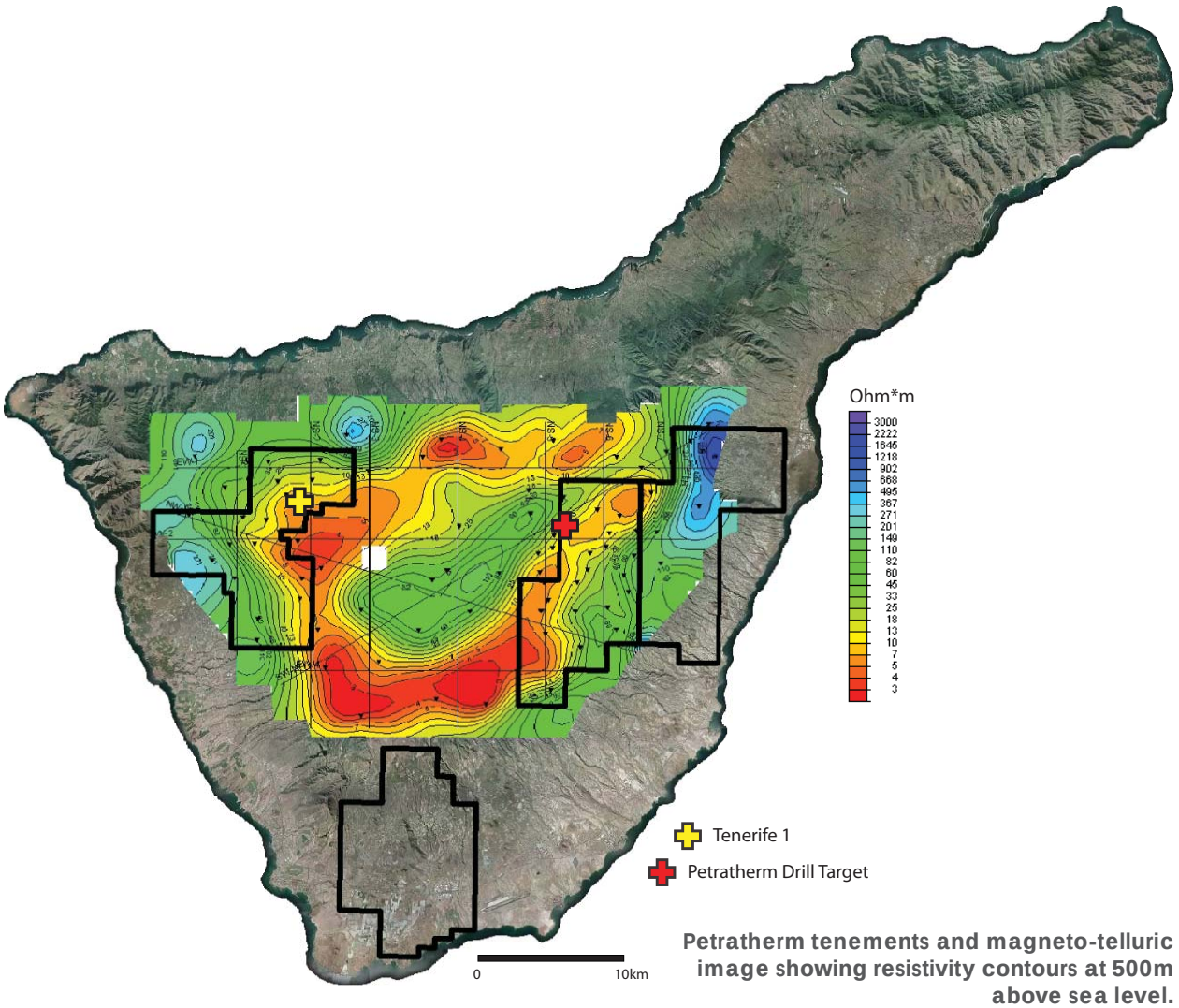
Tenerife provides a major opportunity to build a conventional geothermal project. The island has a permanent population in excess of one million that can increase to 1.5 million during the peak tourist season - placing a large demand on peak power generation, in excess of 800 MW.

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

Madrid District Heating Project

Petratherm España has progressed its Madrid Geothermal District Heating project (GDH) under the Cooperative Agreement with the Spanish and Madrid regional governments.

Petratherm España has completed the final design of the GDH project and is engaged in discussions with a major European utility to assess joint venture arrangements.



Petratherm tenements and magneto-telluric image showing resistivity contours at 500m above sea level.

Corporate information

Corporate Office

Level 1, 129 Greenhill Road
Unley, South Australia 5061
t. +61 8 8274 5000
f. +61 8 8272 8141
e. admin@petratherm.com.au
www.petratherm.com.au
ABN 17 106 806 884

Board of Directors

Chair
Derek Carter

Managing Director
Terry Kallis

Non Executive Directors
Richard Bonython
Richard Hillis
Simon O'Loughlin
Lewis Owens

Company Secretary
Donald Stephens
HLB Mann Judd (SA) Pty Ltd

Stock Exchange Listing

Australian Securities Exchange
(ASX code: PTR)

Share Registry

Computershare Investor
Services Pty Ltd
Level 5, 115 Grenfell Street
Adelaide, South Australia 5000

Legal Advisors

O'Loughlin Lawyers
Level 2, 99 Frome Street
Adelaide, South Australia 5000

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

Reservoir Engineer
Ella-Maria Llanos

Project Geologist
Mathieu Messeiller

Business Accountant
Paul Smith

Office Manager
Elena McRae

Spanish team

Manager – Spain
Raul Hidalgo

Upcoming events

Industry events

For further information on forth-coming 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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CENTRAL OPERATIONS

Competent Person Statement

The information in this report that relates to Exploration Results, Geothermal Resources or Geothermal Reserves is based on information compiled by Peter Reid, who appears on the Register of Practicing 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.