

## CHAIRMAN'S REVIEW

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The last financial year has been a year of many achievements for Geodynamics but also one of reflection and review of our forward program to develop the Company's significant EGS geothermal resources.



At Company level, achieving Proof of Concept in March 2009 and completing construction of the 1 MW Power Plant were significant steps forward. These successes were tempered by the temporary setback of the Habanero 3 well incident which was most unfortunate, at a time when commencement of the commissioning of the 1 MW Power Plant was imminent.

Fortunately, the well incident resulted in no loss of life or injury and the investigation is now complete. The issues identified by the investigation are complex, but are within the bounds of general operational experience in the geothermal industry. We are well positioned to learn from and build on valuable lessons from this experience and we are confident the incident will not have a material impact on the Company's long term strategy for large scale geothermal power generation in the Cooper Basin. Geodynamics is taking prudent and timely stock of our learnings to date and reviewing our forward work program and appropriate adjustments will be made.

The Global Financial Crisis has caused markets to contract and shareholder's investments to diminish in value. However, Geodynamics maintained strong support from shareholders despite the drop in the share price. Shareholder sentiment has been characterised by disappointment and frustration over delays. Despite this, many shareholders remain committed to the long term vision of zero emission base-load power. Our major shareholders Tata Power, Origin Energy, The Sentient Group and Sunsuper remain committed to Geodynamics' vision for the long term.

At Government level we have seen some significant policy focus on emerging technologies and infrastructure as well as progress and increased debate on the Renewable Energy Target (RET) and the Carbon Policy Reduction Scheme (CPRS).

## The Evolving Policy Environment

The Company's long term vision to profitably deliver geothermal power from the Cooper Basin is supported by continued projections for energy demand, growth in interest in both the Australian and International geothermal scene as well as increased, albeit variable, policy focus on climate change issues by Federal and State Governments.

However, there are risks from continued debate about climate change and delays in policy response. Geodynamics continues to strongly support the introduction of the CPRS, while being concerned about the ongoing debate and the impact the delay of introduction may have on the achievement of the Government's 2050 target of a 60% reduction in carbon emissions on 1990 emission levels.

It is pleasing to note, the Federal Government has now introduced the Renewable Energy Target of 20% by 2020; a big jump from the previous 2%. It is also positive to see the Federal and State governments and regulatory bodies focusing on emerging technologies and infrastructure.

The Company is supportive of government efforts to develop their long term energy visions and the prospect of extensions of the transmission infrastructure into remote areas. Going forward, Geodynamics hopes governments build on their early policy initiatives more robustly. Indeed, Government has a significant role to play to support efforts in unlocking the energy from our vast resources.

To that end, the Company will continue to support policy initiatives such as the Carbon Reduction Pollution Scheme (CPRS) to come into play sooner, rather than later. The Company is also supporting a drive for equity in the federal tax arena so that geothermal exploration becomes tax deductible as it is for the hydrocarbon and mineral exploration industries. In addition, customs tariff concessions for imported drilling supplies and diesel fuel excise rebates are not currently available for geothermal drilling as they are for hydrocarbon drilling and it is seeking to redress this inequity as well.

It is pleasing to note the Company was successful in its application for a \$10 million grant from the New South Wales Government's Renewable Energy Fund.

This grant will assist in the development of a small geothermal plant in the Hunter Valley if the results of testing, to be undertaken shortly, are successful. The Company was also successful in its application for a \$560,000 grant from the South Australian Government's Regional Development Infrastructure Fund (RDIF). The grant funded 50% of the cost of transmission line between the 1 MW Power Plant and the Innamincka township. The Company welcomes the continuing support provided by governments in the journey to commercialization of EGS.

Internationally, the geothermal industry also continues to grow with many foreign governments investigating their geothermal resources. The Obama administration is supportive of Enhanced Geothermal Systems (EGS) research and has allocated many tens of millions of dollars to commercialise EGS in the USA.

## Corporate Governance and Capacity to Deliver

As part of the planned succession, there have been a number of changes to the Board of Directors. In November 2008, two of the Company's longest serving directors retired from the Board. Dr Doone Wyborn had served since November 2000 and Mr Neil Galwey OAM since June 2001. In May 2009, Mr Robert Flew retired as a director, having served on the Board since August 2001. Dr Wyborn remains with the Company as its Chief Scientist.

On behalf of the Directors, I wish to acknowledge the invaluable contribution of all three in shaping the strategic direction of the Company. We valued their wise counsel and wealth of experience and wish them all the best for the future.

At the Annual General Meeting in November 2008, Shareholders elected Mr Banmali Agrawala as a Non-Executive Director. Mr Agrawala's appointment was pursuant to the September 2008 placement made to Tata Power, wherein Tata Power has a right to appoint a Director to the Board of Geodynamics. An Engineer, Mr Agrawala brings a wealth of experience to the Company. He is currently Executive Director – Strategy and Business Development at Tata Power and is presently Chairman of CII Western Regional Council.

Mr Robert Davies was also appointed a Non-Executive Director shortly after the Annual General Meeting in 2008. Mr Davies is a Certified Management Accountant (Canada) and has extensive senior finance experience with global mining and resource companies including Inco, WMC, BHP and Alcoa. Mr Davies has succeeded Mr Flew as Chair of the Audit and Risk Committee.

Geodynamics believes that the new Directors' mix of skills complements and strengthens your Board's capability to guide the Company through the next stages of commercial development.

Along with the Board changes, our investment in skilled and experienced staff continues with numbers growing from 40 to over 75 in 12 months, reflecting further maturing of the Company's capacity to deliver.

## Long Term Vision

The Geothermal industry continues to grow nationally. Other players are starting to drill, albeit focusing on shallower, lower temperature geothermal prospects. Geodynamics wishes them well in their ventures and maintains the view that the Company will benefit from a robust successful geothermal industry in Australia.

Geodynamics remains the market leader in the development of EGS power generation focused on the largest resource in Australia. Notwithstanding the timely and prudent opportunity to review lessons from 2009 and take stock, we remain firmly committed to our vision of zero emission base-load power and our first 500 MW geothermal power station.

The Company is firmly of the opinion that it has the opportunity to develop a nation building resource for this century to rival the Snowy Mountains Hydro Scheme of the last century.

In time, the realisation of our ambitious program will require further equity raising. Governments, both state and federal, our cornerstone partners as well as our existing loyal shareholders, will all continue to have a role to play and will have the opportunity to participate in unlocking the energy from our vast resources.

## Conclusion

2009 has been a year of many challenges as well as achievements. It has once again been my privilege to be part of the Geodynamics team. I would like to thank my fellow Directors for their dedicated support, our partners for sharing our vision and our shareholders for their continued faith in the environmental and commercial merits of Geodynamics commitment to zero emission energy generation.



Martin Albrecht AC, **Chairman**