

DIRECTORS' REPORT

DIRECTOR PROFILES

Your Directors submit their report for the period ended 30 June 2009. The names and details of the Directors of Geodynamics Limited in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.



Martin Albrecht AC | Non-executive Chairman

Age 70

B.Tech (Civil), FTSE, FIE Aust, FAICD, FAIM, DUniv (QUT)

Mr Martin Albrecht AC was Managing Director of Thiess Pty. Ltd. (one of Australia's largest engineering and construction companies) a position he held for more than 15 years (1985 – 2000). He was also Chairman of Thiess from 2001 to 2008.

During the past three years, Mr Albrecht has also served as a director of the listed company Leighton Holdings Limited (2001 – 2008).

He received a Companion of the Order of Australia (AC) in 2002 for service to the construction industry, to the engineering profession, and to the community in the areas of education, corporate social responsibility and industrial safety. A Centenary Medal was also awarded to him in 2003. Mr Albrecht maintains an active interest in a wide range of government, community, education and cultural activities.



Gerry Grove-White | Managing Director and CEO

Age 59

B.Sc (Hons), M I Mech E, C.Eng, C Dip A F

Mr Gerry Grove-White has a Mechanical Engineering background, and was, up to joining Geodynamics as Managing Director, Chief Operations Officer for Tata Power, India's largest private power company. Prior to that, he was Eraring Energy's Managing Director for 5 years.

He gained a B.Sc. (Hons) in Mechanical Engineering from City University, London. He is a Member of the Institution of Mechanical Engineers and a Chartered Engineer. He also gained a Certified Diploma in Accountancy and Finance.

He has over 38 years experience in the power industry, having worked on both conventional and nuclear power stations, in the UK and internationally. He has experience in the development and financing of power station projects on a limited recourse basis, and the project management of their subsequent construction and operation.



Banmali Agrawala | Non-executive Director

Age 46

B.Eng (Mech) | Appointed 20/11/2008

Mr Agrawala graduated with a BE Mechanical Engineering with distinction from Mangalore University in 1984. His professional experience includes working from 1984 – 1987 with Bajaj Auto in the R&D department and from 1987-2008 in Wartsila where he was finally the Managing Director of Wartsila India and a Member of the Global Power Plant Management Board.

He is currently the Executive Director (Strategy & Business Development) of Tata Power and also a member of the Board.

He has held various positions in Confederation of Indian Industry a Premier Industry body including Chairman of the Western Region and member of the National Council.

He is currently a member of the National Infrastructure council as well as the National Power Committee of CII.



Pieter Britz | Non-executive Director

Age 42

B Eng (Industrial), Pr Eng, MBA

Mr Pieter Britz is a registered professional engineer with a wealth of experience in the resources industry since the early 1990s. He began his career at Iscor Mining in South Africa where he worked on capital expenditure programs and investments at the Sishen iron ore mine managing throughput, capacity and expansion projects. He joined the Sishen Executive Team in 1997 to oversee investment decisions and later that year set up Iscor's corporate strategy and business consulting unit where he managed various strategic initiatives. His experience also includes coal, base metals, heavy minerals, and industrial minerals. Pieter co-managed the de-merger and separate listing of Kumba Resources Limited in 2001 where he continued with strategy and corporate development. In early 2004 Pieter moved to Australia to set up Royal Bank of Canada's investment banking division, initially focusing on equity capital markets before expanding into corporate advisory work. Pieter joined The Sentient Group in early 2007 as investment professional.



Prame Chopra | Non-executive Director

Age 56

B.Sc. (Hons), Ph.D, FAICD, MAGU, MASEG, MIGA, MASC

Dr Prame Chopra was a Reader in Geophysics at The Australian National University in Canberra from 1996 - 2006. He obtained his Ph.D in rock physics at the ANU in 1980 and has held research appointments at ANU, Cornell University in New York and at the Bureau of Mineral Resources, Geology & Geophysics and the Australian Geological Survey Organisation. He is an internationally recognised researcher of more than 21 years standing with strong collaborative links with key overseas HFR geothermal energy research groups.

He was a Principal Investigator of the Energy Research & Development Corporation funded project into HFR and Tight Gas in the Cooper Basin, SA and the ANU - Pacific Power geothermal research project in the Hunter Valley, NSW. In 2000, he was an invited guest of the Japanese New Energy Development Organisation and lectured on HFR geothermal resources in a number of Japanese cities. He is a member of the Australian Science Communicators and was an ABC Science Media Fellow in 2000.



Robert Davies | Non-executive Director

Age 59

CMA (Canada) | Appointed 28/11/2008

Mr Robert Davies is a Certified Management Accountant (Canada) and has extensive senior finance experience with global mining and resource companies. He was formerly the Chief Executive Officer and a Director of Australian Energy Company Limited, an unlisted public company. Prior to that he was Executive Vice President and Chief Financial Officer for Inco Ltd, the western world's largest nickel producer. Prior to that, he was Chief Financial Officer for Alumina Ltd., and General Manager Treasury Tax and Investor Relations for WMC Ltd. He has previously held senior finance positions with BHP in Canada, the US, Chile and Australia, acquiring significant operational and corporate finance experience. He was also previously a director of PT Inco and Alcoa of Australia.



Robert Flew | Non-executive Director

Age 67

B.Ec (Hons), FAusIMM, FAICD | Retired 7/5/2009

Mr Robert Flew has extensive Board, corporate, financial and general management experience in the national and international resource sector. For fifteen years he held senior management responsibilities at BHP, including business division accountability and financial and other responsibilities. Before his retirement at the end of 1999, he was Company Secretary and Vice President Investor Relations. In the years prior to that he was Group General Manager International and Group General Manager BHP Australia Coal. He is widely experienced in project development and in negotiations with Governments, financial institutions and unions.

Mr Flew is also a Director of the listed company Astron Ltd. He was formerly a Director of Thiess Pty Ltd and Tubemakers Australia Ltd and in the past three years the listed companies, Leviathan Resources Limited (2005 - 2007), Bass Strait Oil Company Ltd (2002 - 2006) and Perserverance Resources Limited (2007 - 2008). He was the inaugural President of the Queensland Mining Council and past Chairman of CQCA and Gregory Joint Ventures, BHP Mitsui Pty Ltd and The World Coal Institute.



Jack Hamilton | Non-executive Director

Age 53

B.Eng. (Chem), Ph.D, FAICD

Dr. Jack Hamilton is currently CEO of Exergen Pty Ltd, a low emission coal resource development Company and formerly, Director of NWS Ventures with Woodside Energy. Dr. Hamilton graduated from Melbourne University with a Bachelor of Chemical Engineering and Doctorate of Philosophy in 1981. He has over 26 years experience both locally and internationally in Operations management, in refining, petrochemicals and gas production, Marketing, Strategy and LNG Project Management. During his time at Woodside, he held the role of Managing Director, Metasource Pty. Ltd. a company focused on investing in sustainable and renewable energy businesses.



Neil Galwey OAM | Non-executive Director

Age 78

BE, FIE Aust | Retired 20/11/2008

Mr Neil Galwey has an electrical engineering background. He has been Queensland Electricity Commissioner, Chairman of the Snowy Mountain Engineering Corporation, and Director of the Energy Research and Development Corporation and Stanwell Corporation. He is currently Chairman of CVC REEF Ltd, a venture capital fund established to increase investment in renewable energy technologies. In 1997 he was awarded an OAM for services to Australia's electricity industry, particularly with respect to research and development.



Keith Spence | Non-executive Director

Age 55

B.Sc (Hons), FAIM | Appointed 10 July 2008

Mr Keith Spence was most recently Executive Vice President Enterprise Capability for Woodside and was responsible for ensuring the business operated with the best people, technology and processes. He was also responsible for building a skilled and technologically advanced workforce through targeted recruiting and enhanced training and played a key role in representing Woodside's interests to the government and the public. In addition, he was responsible for Woodside's Western Australian gas supply interests.

Mr Spence has held many roles during his time with Woodside, including Chief Operating Officer, Acting Chief Executive Officer, Director – Oil Business Unit, Director – Northern Business Unit and Exploration Manager – North West Shelf. Mr Spence has gained a broad knowledge across the industry having over 30 years of experience in the oil and gas industry including 18 years with Shell.

Mr Spence is a Non-Executive Director of Clough, Chairman of the State Training Board of Western Australia and the Industry Advisory Board of the Australian Centre for Energy and Process Training. He is a member of the board of Skills Australia, the Australian Institute of Management (WA) and the Curtin University of Technology Council.



Andrew Stock | Non-executive Director

Age 57

B.Eng. (Chem) (Hons), FIE Aust

Mr Andrew Stock is the Executive General Manager, Major Development Projects for Origin Energy, where he is responsible for Origin's major capital investments in upstream petroleum, power generation, and low emissions technology businesses.

With over 30 years of experience, he previously held senior management positions in energy marketing, oil and gas and petrochemical industries in Australia and overseas. He is a director of Australia Pacific LNG Limited and The Climate Group, and a member of the Advisory Board of the Faculty of Engineering, Computer and Mathematical Sciences at the University of Adelaide. He has a Chemical Engineering degree (Honours) from the University of Adelaide, is a Fellow of the Institution of Engineers Australia, and a member of the Australian Institute of Company Directors.

**Doone Wyborn** | Executive Director

Age 59

B.Sc. (Hons), Ph.D, FAusIMM, MGSA | Retired 20/11/2008

Dr Doone Wyborn is an internationally known geoscientist specialising in granitic rocks. He obtained his Ph.D on granite research in 1983, and served more than 25 years with the Bureau of Mineral Resources, Geology & Geophysics and the Australian Geological Survey Organisation, including research in Antarctica and other overseas locations.

He has been championing the potential of HFR geothermal energy for the last 13 years and is recognised as a leading Australian expert authority on this subject. He is a member of the Executive Committee of the International Energy Agency Geothermal Implementing Agreement and has studied HFR geothermal projects in Japan, Europe and the USA. He was Project Manager of a joint Pacific Power and ANU deep drilling geothermal research project in the Hunter Valley, NSW, with partial funding from the Australian Greenhouse Office.

With the exception of Banmali Agrawala, Robert Davies, Robert Flew, Neil Galwey, Keith Spence and Doone Wyborn, all of the above named Directors acted as Directors of the Company for the whole of the year under review and up to the date of this report.

COMPANY SECRETARY

**Paul Frederiks**

B.Bus. (Acc), FCPA, FCIS, FAICD

Mr Paul Frederiks has extensive experience in public company financial and secretarial management with more than 27 years experience in the Australian resources sector. He has an extensive knowledge base in listed public company reporting and compliance, financial modelling and forecasting, treasury management, project financing and corporate governance.

He was previously Company Secretary and CFO of Ross Mining NL for over eight years until 2000 and Company Secretary for Billabong International Limited from 2000 until 2004. He is a Non-executive Director of the listed companies Auzex Resources Limited and China Steel Australia Limited.

CORPORATE STRUCTURE

Geodynamics Limited is a company limited by shares, incorporated and domiciled in Australia. It listed on the Australian Securities Exchange on September 2002 under code GDY. Its registered office and principal place of business is Level 2, 23A Graham Street, Milton QLD 4064.

PRINCIPAL ACTIVITIES

Geodynamics Limited was formed in November 2000 to focus on the development of zero emissions, renewable energy generation from Hot Fractured Rocks (HFR) (also known as Enhanced Geothermal Systems (EGS)) in Australia. The Company has HFR geothermal tenements in NSW, QLD and in the north-eastern part of South Australia. This latter area can be classified as the hottest accessible non-volcanic region in the world.

Geodynamics Limited is the largest public company in Australia with a focus on HFR energy. It aims to become the largest renewable energy producer in Australia by developing emission-free, baseload electricity generation from known HFR geothermal resources. In March 2009, it completed Stage One of its three stage business plan based on the development of the known HFR geothermal resource in the Cooper Basin. Stage One was the demonstration of economic heat extraction from a two well circulation test via a developed underground heat exchanger. The Company completed this stage by drilling two deep geothermal wells (Habanero 1 and Habanero 3), successfully developing an underground heat exchanger and then successfully completing an open flow circulation test in March 2008 and a six week closed loop circulation test followed by independent data validation in March 2009.

REVIEW AND RESULTS OF OPERATIONS

The Company realised an operating loss before tax for the financial period as set out below:

| | 2009 \$ | 2008 \$ |
|---|--------------------------|--------------------------|
| Operating loss before income tax expense | (15,307,432) | (7,380,740) |
| Net loss attributable to members of Geodynamics Limited | (15,307,432) | (7,380,740) |
| Earnings per Share | (cents) | (cents) |
| Basic and diluted loss per share | (5.42) | (3.63) |

In the 12 months to June 2009, Geodynamics has made further progress in its quest for the development of zero-emissions, renewable energy generation. The key achievements and progress made during the period were:

Operations

- Completion of Jolokia 1 (fourth well) to a depth of 4,911 m;
- Completion of the closed loop circulation test between Habanero 1 and 3 wells in March 2009;
- Drilling of Savina 1, the Company's 5th well to a depth of 3,700 m. The well was secured with a cement plug at 2,640 m after an unsuccessful program of actions to recover stuck drill pipe during February 2009;
- Redeployment of Rig 100 at Jolokia 1 in preparation for deep stimulation activities;
- Practical completion of the 1 MW Power Plant and Visitor Centre;
- Construction of a powerline from the 1 MW Power Plant to the township of Innamincka;
- Reporting of Habanero 3 well control incident on 24 April. The well was controlled and secured 22 May (day 28) and independent investigation commenced.

People

- Mr Banmali Agrawala and Mr Robert Davies joined the Board of Geodynamics as Non-executive Directors on 20 November 2008 and 28 November 2008 respectively;
- Relocation of Company's Head Office to a new energy efficient building to accommodate the growth in personnel to complete core capabilities including engineering, project management, procurement and logistics, finance, health and safety, information technology and commercial;
- Retirement in November 2008 of Mr Neil Galwey and in May 2009 of Mr Robert Flew, two of the Company's longest serving Directors.

Capital

- A cornerstone investment by Tata Power who subscribed for 11.4% of the Company's then current issued share capital @ \$1.50 per share for an investment of \$44.1m;
- Origin Energy confirming the achievement of the first key milestone in the Joint Venture; completion of the Habanero 3 well and the open circulation test between Habanero 1 and 3 on time and within budget; and consequently committing a further \$9.6 million to the project expenditure;
- A bonus Options rights issue announced 25 February 2009, entitling shareholders to one option for every four shares held;

Business Development

- A contract for a second heavy drilling rig signed with National Oilwell Varco (NOV);
- AGM and shareholder briefings in capital cities during November 2008;
- Commitment of \$5 million over a five-year period to accelerate the development of geothermal technology through the Geothermal Technology Plant (GTP) to support the work of a number of Australian and International institutions;
- Lodged a submission to the Federal Government's Renewable Energy Demonstration Program (REDP);
- Award by the NSW Government of \$10 million in funding for the development of the Hunter Valley Project with funding staged over the life of the project;
- Award and payment by the South Australian Government (Regional Development Infrastructure Fund) of a \$560,000 grant which funded 50% of the cost of the transmission line between the 1 MW Power Plant and the Innamincka township;
- Submission of a funding application to the Geothermal Drilling Program for up to \$7 million for the Hunter Valley project;
- Issuance of Queensland Geothermal Exploration Permits over Nappa Merrie and Tennaperra areas.

Geothermal Sector

- Statement of estimated geothermal resources released on 21 October 2008;
- Participation as an active member of the Australian Geothermal Energy Association (AGEA) and Australian Geothermal Energy Group (AGEG);
- Provided input into the development of WWF-Australia's briefing paper 'Power to Change' Australia's geothermal future that was widely reported on in the media;
- Major sponsor of the 2009 Australian Geothermal Energy Conference in Brisbane in November;
- Speaker roles at more than a dozen energy and climate change conferences in Australia and Internationally.

EMPLOYEES

The Company had 61 equivalent full time employees as at 30 June 2009 (2008: 20 employees).

DIVIDEND

The Directors do not propose to recommend the payment of a dividend in respect of the period ended 30 June 2009.

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares of Geodynamics Limited were:

| Director | Fully paid Ordinary Shares | Listed Options exercisable at \$1.50 and expiring 8/12/09 | Employee Share Plan Options over Ordinary Shares |
|----------------|----------------------------|---|--|
| M. Albrecht | 1,950,635 | 487,660 | - |
| G. Grove-White | 42,296 | 10,575 | 300,000 |
| B. Agrawala | - | - | - |
| P. Britz | - | - | - |
| P. Chopra | 798,414 | 199,604 | - |
| R. Davies | - | - | - |
| J. Hamilton | 79,116 | 19,780 | - |
| K. Spence | - | - | - |
| A. Stock | 13,333 | 3,334 | - |

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial period were as follows:

- Shareholders' contributed equity increased from \$275.4 million to \$319.9 million, an increase of \$44.5 million. The movement was predominantly as a result of the 10% cornerstone share placement in September 2008 to Tata Power raising \$44.1 million.
- Property, Plant and Equipment increased from \$27.5 million to \$69.9 million as a result of the part payment of Rig 200, the Company's second large drilling rig (due for delivery in September 2010) as well as construction of the 1MW Power station near Innamincka, South Australia.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 21 August 2009, the Company announced that it had now obtained technical data relevant to its investigation into the well incident at Habanero 3 on 24 April 2009. This data showed that cracking of the casing material was caused by hydrogen embrittlement which itself was caused by dissolved gases in the reservoir fluid. The Company further advised that in light of these findings, the Joint Venture has taken various steps to ensure the security of existing wells that have come into contact with the reservoir fluid including installing cement plugs in Habanero 2 and Habanero 3. Steps to secure Habanero 1 were also underway.

Following the investigation, the Joint Venture parties were now deliberating on the most appropriate way forward for the project. The implications of the findings for future well design, material selection and any revision of operational procedures were complex, but are within the bounds of general operational experience in the geothermal industry. Available options will be critically examined and assessed resulting in a revised work program for the project.

The Company advised the market that these activities will take at least eight weeks, and may lead to a revision of the previously indicated delay of six to nine months in the commissioning of the 1MW Power Plant. It stated that the revised work program and project delivery timelines will be communicated as they are finalised.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE (Continued)

The Company stated that it believes that the incident will not have a material impact on its long term strategy for large scale geothermal power generation in the Cooper Basin. It reported that it has continued to strengthen its resources with key appointments being made in the well design and engineering, drilling operations, reservoir engineering and geosciences disciplines.

Other than the above, there has not arisen between 30 June 2009 and the date of this report any item, transaction or event of a relevant and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2009/10 financial year will see the advancement of Stage 2 of the Company's business plan as well as the expansion of geothermal reserves by drilling additional deep geothermal wells.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Geodynamics Limited is committed to the effective environmental management of all its exploration, development and operating activities, while at the same time minimising the social impact for the benefit of present and future generations.

The Company recognises that while exploration and resource development is a temporary land use, there are a range of potential environmental impacts. Prior to commencement of operations, planning must identify these potential impacts and lead the development of effective strategies for their management. During operations, the successful implementation of these strategies must be a principal objective of site management. Following decommissioning, the sites must be left in a safe and stable state, with all disturbed land successfully rehabilitated to an agreed standard.

The Company has an Environmental Policy in place that explains the site requirements to achieve these objectives including operating in accordance with a site environmental management plan and identification and management of environmental risk and liability.

In addition, in the last 12 months the Company has been developing and implementing an Environmental Management System (EMS). The EMS is a set of procedures and practices designed to ensure that Geodynamics minimises its environmental impact, meets the commitments of the Environmental Policy, while at the same time ensuring compliance with all regulatory requirements. The aim is to achieve certification of the EMS to ISO 14001:2004 by late 2009.

The key environmental issue that the Company has had to deal with this year has been the impacts caused by the Habanero 3 well incident, following which a considerable amount of formation water was released. The majority of the water drained into a borrow pit adjacent to the well and has since infiltrated into the surrounding soil. Immediately following the incident, Geodynamics prepared a Water Management Plan for submission and approval of the relevant government agencies. This plan detailed the strategy proposed by the Company to deal with the potential impact of the water on the surrounding environment. The key components of the strategy involved a detailed hydrogeological assessment combined with a comprehensive monitoring programme to determine the potential environmental impacts.

The hydrogeological report concluded that "other than via slow horizontal movement in the shallow aquifer there are no possible paths by which contaminated water can reach any other water body either underground or at the surface". However it was recommended that regular monitoring be undertaken and that the Company consider installation of two additional monitoring wells to monitor the extent of the flow. At the time of writing the Company is preparing to undertake installation of these wells.

Both of these reports are currently with the relevant agencies and we are awaiting their comments and agreement on the approach being taken by the Company to deal with this issue.

At the time of writing, the Company was not in breach of any environmental regulations regarding any field work undertaken on its tenements.

REMUNERATION REPORT (Audited)

This remuneration report outlines the remuneration arrangements in place for Directors and Executives of Geodynamics Limited in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly including any director and includes the five executives in the Company receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Managing Director and the executive management team of the Company.

REMUNERATION REPORT (Audited) Continued**Remuneration Philosophy**

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive salaries to attract high calibre executives;
- Link executive rewards to shareholder value creation through the issue of shares and share options;
- Establish appropriate share price performance hurdles under its long term incentive plan to align executive reward with shareholder value creation, the achievement of which will depend on the Company achieving key corporate milestones that are integral to the Company's successful completion of its business plan.

Remuneration Committee

The Remuneration and Nominations Committee has the primary objective of assisting the board in developing and assessing the remuneration policy and practices of the Directors, Chief Executive Officer (CEO) and Senior Executives who report directly to the CEO.

Such assessment will incorporate the development of remuneration policies and practices which will enable the Company to attract and retain executives who will create value for shareholders. Executives will be fairly and responsibly rewarded having regard to the performance of the Company, the performance of the executive and the general market environment. The Committee also assists the board in its own self evaluation by annually reviewing the process for self evaluation. This considers attributes such as the qualitative and quantitative nature of the review, and the mix between total board review and individual Director review.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-executive Director and senior executive remuneration is separate and distinct.

Non-executive Director Remuneration

Objective - The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure - The Constitution of Geodynamics and the ASX Listing Rules specify that the aggregate remuneration of Non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 28 November 2007 when shareholders approved an aggregate remuneration of \$700,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The amounts are set at a level that compensates the Directors for their significant time commitment in overseeing the progression of the Company's business plan.

Each Non-executive Director receives a fee for being a Director of the company. The current fee structure is to pay Non-executive Directors a base annual remuneration of \$64,500 p.a. with the Chairman paid \$118,250 p.a. The Chairman of each committee receives an additional fee of \$16,125 p.a. There are no retirement benefits offered to Non-executive Directors other than statutory superannuation which is in addition to these amounts. In accordance with good corporate governance practice, the Non-executive Directors do not participate in share and share option based remuneration plans of the Company.

The Company notes that Origin Energy Limited, The Tata Power Company Ltd and collectively Sunsuper Pty Ltd & The Sentient Group, as major investors, each have a right to appoint a Non-executive Director to the Company and as such those Directors (where appointed) are not considered by the ASX Corporate Governance Principles to be independent.

The remuneration of Non-executive Directors for the period ending 30 June 2009 is detailed in Table 1 of this report.

Managing Director and Senior Management remuneration

Objective - The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward executives for company, business division and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

REMUNERATION REPORT (Audited) Continued

Structure - The Managing Director's and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary, a short term annual cash based performance related component together with longer term performance incentives through shares and share options which allow executives to align with the success of Geodynamics Limited. The share price based performance incentives are outlined in Note 15 of these accounts.

The Company's Managing Director and Senior Executive remuneration packages are formalised in service agreements, and policies and procedures are documented and approved by the Board covering all employees who participate in the incentive plans of the Company.

Remuneration consists of the following key elements:

- Fixed Remuneration – Base salary and superannuation;
- Variable Remuneration under the Geodynamics Short Term Incentive Plan (STIP) – payable in cash at the end of the financial year;
- Variable Remuneration under the Geodynamics Long Term Incentive Plan (LTIP) – payable in Shares and Share Options.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration of the Managing Director is reviewed annually by the Remuneration and Nominations Committee. Factors considered include Company and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice. The Remuneration and Nominations Committee has access to external advice independent of management.

Senior executives receive their fixed (primary) remuneration in cash. The fixed remuneration component of the most highly remunerated senior managers is detailed in Table 2 of this report.

Variable Remuneration under the Short Term Incentive Plan (STIP)

Objective - The objectives of the Geodynamics STIP are to:

- Reward employees for their contribution in ensuring that Geodynamics achieves the corporate key deliverables;
- Encourage cross divisional and team working;
- Enhance Geodynamics attracting and retaining high calibre and high performing employees; and
- Link remuneration directly to the achievement of key annual organizational objectives.

Structure - In 2008, following a comprehensive review of market practices by the Remuneration and Nominations Committee, the Board resolved to approve the Short Term Incentive Plan to commence operation on 1 July 2008 with first payments under the scheme to be made in July 2009. The Plan establishes a pool of funds up to a maximum of 30% of annualised fixed remuneration, adjusted in size according to the achievement of key Company Business Plan milestones in a year. The distribution of the pool is determined by team achievement in delivering the team business plan milestones.

To participate in the Plan, eligible staff must be employed for at least six months for the financial year in question meaning that for the FY08/09 year, eligible staff must have started by 1 January 2009.

The key business plan milestones for FY08/09 were the completion of proof of concept, commencement of operation of the 1 MW power station, successful completion of the Savina 1 well, submission of the Renewable Energy Fund grant application and drilling a well in NSW.

For FY08/09, the Company's performance against the five key Business Plan milestones resulted in a payment under the STI Plan of 15% of annualised fixed remuneration that is half of the maximum bonus pool. The aggregate of annual STI payments available for staff is subject to the approval of the Remuneration and Nominations Committee. This determination usually occurs within one month after the reporting date. The payments made are recognised as remuneration in the year in which payments are made.

Variable Remuneration under the Long Term Incentive Plan (LTIP)

Objective - The objective of the Geodynamics LTIP is to retain, motivate and reward senior executives and staff in a manner which aligns this element of remuneration with the creation of long term shareholder value.

Structure – The LTIP was established by the Board in 2008 as part of its remuneration review. The LTIP comprises two components: Geodynamics Limited shares, and options to purchase Geodynamics Limited shares at the current price, at a time in the future. The LTIP is designed to provide rewards over a three year term.

The Geodynamics LTIP offers eligible employees and the Managing Director of Geodynamics the opportunity to participate in the growth of Geodynamics through participation in the:

- Geodynamics Limited Deferred Employee Share Plan (DESP); and
- Geodynamics Limited Employee Option Plan (EOP).

REMUNERATION REPORT (Audited) Continued

Shares and Options issued under the DESP and EOP respectively are allocated and issued to participants for no consideration. The issue of options and allocations of shares within the LTIP is also subject to the participants satisfactory performance as judged by their line manager.

To become entitled to the shares and options, participants are required to satisfy certain performance requirements. On satisfying the performance requirements for options, the options can be converted into shares by payment of the exercise price.

The performance requirements for shares issued under the DESP require that for each annual allocation of shares made to participants under the DESP, the participant will be required to remain employed by Geodynamics or a Related Body Corporate for 36 months from the date of allocation of the shares for the shares to vest.

The performance requirements for options issued under the EOP requires that options will only vest should the compound growth in the Geodynamics share price increase by 15% per annum and the participant remains employed by Geodynamics or a Related Body Corporate for:

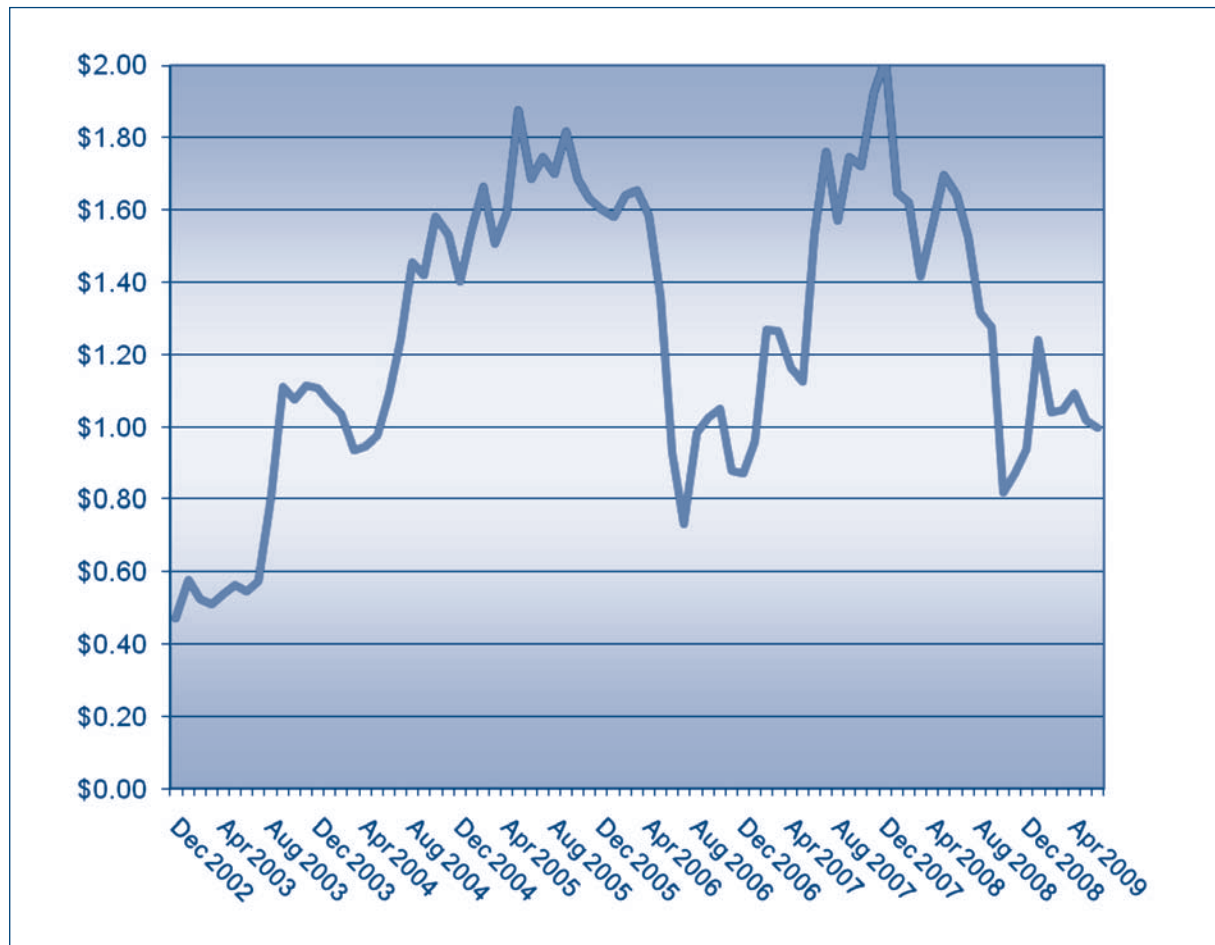
- 12 months from the date of allocation for 30% vesting of the total option grant; and
- 24 months from the date of allocation for 30% vesting of the total option grant; and
- 35 months from the date of allocation for 40% vesting of the total option grant.

The Company uses a Total Shareholder Return (TSR) measure as the performance hurdle for the Geodynamics EOP as outlined below. A TSR based hurdle ensures an alignment between medium term shareholder return and reward for executives. The Board considers at this development stage of the Company's growth, share price increase itself is an adequate measure of TSR.

Relationship of rewards to performance

The graph below shows the performance of the Company as measured by its share price and therefore by definition its TSR.

GEODYNAMICS LIMITED SHARE PRICE 2002 -2009



REMUNERATION REPORT (Audited) Continued

Employment Contracts

Managing Director and Chief Executive Officer

The Managing Director's remuneration package is formalised in a service agreement for a period of three years commencing 27 August 2007. The key terms of Mr Grove-White's contract are as follows:

- He receives a base remuneration including superannuation of \$525,000 per annum;
- He receives an annual short term incentive payment of up to 50% of base remuneration which is only payable on the achievement of certain performance milestones. There were five key milestones for FY08/09 comprising health safety and environment performance, human resource organisational capacity building, share price performance, successful commissioning of the 1 MW power station, and field execution delivery. Based on the Board's assessment of performance against these milestones, the Managing Director was awarded a bonus of 50% of the maximum award. This payment will be recognised as remuneration in the year in which payment is made being FY09/10;
- The Company may terminate the agreement at any time by giving six months notice or by providing payment in lieu of the notice period;
- The Company may terminate the contract at any time without notice if serious misconduct has occurred.

The Directors resolved at a Board meeting held on 25 August 2009 to enable Mr Grove-White to participate in the Company's Long Term Incentive Plan (LTIP) on the same basis as all other employees. As such, it is proposed that he will be issued shares and options under the LTIP to be considered for approval by shareholders at the November 2009 Annual General Meeting. As the review of his long term incentive was effective from 1 July 2009, the Directors have resolved that the calculation for the number of shares to be issued and the exercise price for number of options to be issued should be based on the weighted average share price for the 5 trading days prior to 1 July 2009.

Other Executives

All Executives have rolling contracts that are formalised in service agreements as follows:

The Chief Scientific Officer may terminate his agreement with one month's notice if, amongst other things, the Company becomes subject to a takeover where effective control changes. He may also terminate the agreement if the Managing Director has given notice that the Managing Director reasonably believes that the policies, strategies or future plans of the Board are such that the Managing Director will be unable to implement his strategy or plans for the development of the Company. If that occurs, the Company must pay the Chief Scientific Officer in addition to any payment in lieu of notice, his then current remuneration package for an additional period of 3 months after termination. The Company may terminate the agreement if, amongst other things, 14 days written notice is provided and subject to the Company paying the Chief Scientific Officer the equivalent of one year's base annual remuneration plus other statutory entitlements accrued to that date.

For each of the Sub-Surface Manager, the Information and Communications Technology Manager, the Power Engineering Manager, The Project Manager South Australia and the Commercial Manager, the Executive may terminate their agreement with one month's notice if, amongst other things, the Company becomes subject to a takeover where effective control changes. The Executive may also terminate the agreement by providing three months written notice. The Company may terminate the agreement if, amongst other things, 14 days written notice is provided and subject to the Company paying the Executive the equivalent of 25% of base annual remuneration plus other statutory entitlements accrued to that date. In addition to the above, the Project Manager South Australia is also entitled to four weeks base remuneration for each completed year of service or pro-rata thereof.

For the Human Resources Manager, the Executive may terminate the agreement by providing one month's written notice. The Company may also terminate the agreement by providing one month's written notice or at its election pay the Executive the equivalent of one month's base annual remuneration plus other statutory entitlements accrued to that date in lieu of the notice period.

The Company Secretary and Chief Financial Officer operates a consultancy business providing Company Secretarial and Accounting services (see profile in Director's Report). His consultancy is paid for services on normal commercial terms.

REMUNERATION REPORT (Audited) Continued

Table 1 – Directors' Remuneration for the year ended 30 June 2009 (Audited)

| | | Short-Term | | | Post Employ- ment | Share-based payment | | Total |
|--|-------------|--------------------------------|-------------------|---------------|-------------------------|-------------------------------|--------------------------------|------------------|
| | | Salary & Consulting Fees | Directors fees | Cash Bonus | Super- annuation | Shares (amortised cost) | Options (amortised cost) | |
| M. Albrecht | 2009 | - | 118,250 | - | 10,643 | - | - | 128,893 |
| Chairman | 2008 | - | 110,000 | - | 9,900 | - | - | 119,900 |
| G. Grove-White | 2009 | 460,078 | - | 25,000 | 41,284 | - | 149,450 | 675,812 |
| Managing Director | 2008 | 306,858 | - | 95,000 | 51,154 | - | 79,843 | 532,855 |
| B. Agrawala ¹ | 2009 | - | 39,361 | - | - | - | - | 39,361 |
| Non-executive | 2008 | - | - | - | - | - | - | - |
| P. Britz ² | 2009 | - | 64,500 | - | 2,902 | - | - | 67,402 |
| Non-executive | 2008 | - | 923 | - | 83 | - | - | 1,006 |
| P. Chopra | 2009 | 119,000 | - | - | 70,305 | - | - | 189,305 |
| Non-executive | 2008 | 7,500 | - | - | 65,400 | - | - | 72,900 |
| R. Davies ³ | 2009 | - | 41,484 | - | 3,733 | - | - | 45,217 |
| Non-executive | 2008 | - | - | - | - | - | - | - |
| R. Flew ⁴ | 2009 | - | 68,644 | - | 6,177 | - | - | 74,821 |
| Non-executive | 2008 | - | 75,000 | - | 6,750 | - | - | 81,750 |
| N. Galwey ⁵ | 2009 | - | 26,969 | - | 2,427 | - | - | 29,396 |
| Non-executive | 2008 | - | 75,000 | - | 6,750 | - | - | 81,750 |
| J. Hamilton | 2009 | - | 80,625 | - | 7,256 | - | - | 87,881 |
| Non-executive | 2008 | - | 75,000 | - | 6,750 | - | - | 81,750 |
| K. Spence | 2009 | - | 63,077 | - | 5,677 | - | - | 68,754 |
| Non-executive | 2008 | - | - | - | - | - | - | - |
| A. Stock ⁶ | 2009 | - | 80,625 | - | - | - | - | 80,625 |
| Non-executive | 2008 | - | 75,000 | - | - | - | - | 75,000 |
| D. Wyborn ⁷ | 2009 | 208,090 | - | - | 20,809 | 6,933 | 24,625 | 260,457 |
| Executive Director and Chief Scientific Officer | 2008 | 190,910 | - | - | 19,091 | - | 21,051 | 231,052 |
| Totals | 2009 | 787,168 | 583,535 | 25,000 | 171,213 | 6,933 | 174,075 | 1,747,924 |
| | 2008 | 505,268 | 410,923 | 95,000 | 165,878 | - | 100,894 | 1,277,963 |

1 Appointed 20 November 2008, fees paid to the Director's employer (Tata Power), being the largest shareholder of the Company.

2 Fees paid to the Director's employer (The Sentient Group), being a cornerstone shareholder of the Company.

3 Appointed 28 November 2008.

4 Retired 7 May 2009.

5 Retired 20 November 2008.

6 Fees paid to the Director's employer (Origin Energy), being a cornerstone shareholder of the Company.

7 Retired as a Director 20 November 2008, remains as a full time employee of the Company. Remuneration disclosed is for the full 12 months.

DIRECTORS' REPORT continued

REMUNERATION REPORT (Audited) Continued

Table 2 - Remuneration of key management personnel for the year ended 30 June 2009 (Audited)

| | | Short-Term | | Post Employment | Share-based payment | | Total ⁴ |
|-----------------------------------|-------------|--------------------------|-----------------------|-----------------|-------------------------|--------------------------|--------------------|
| | | Salary & Consulting Fees | Non Monetary Benefits | Super-annuation | Shares (amortised cost) | Options (amortised cost) | |
| D. Anthony ¹ | 2009 | 224,359 | - | 20,192 | 11,667 | 31,907 | 288,125 |
| Sub-Surface Manager | 2008 | - | - | - | - | - | - |
| P. Frederiks | 2009 | 338,714 | - | - | 11,233 | 31,383 | 381,330 |
| Company Secretary and CFO | 2008 | 321,043 | - | - | - | 16,932 | 337,975 |
| M. Manton ² | 2009 | 214,450 | - | 19,300 | 8,400 | 22,973 | 265,123 |
| Information Technology Manager | 2008 | - | - | - | - | - | - |
| P. Schmidt ³ | 2009 | 186,011 | - | 16,741 | 7,633 | 20,876 | 231,261 |
| Power Engineering Manager | 2008 | - | - | - | - | - | - |
| R. Smith | 2009 | 294,495 | - | 26,504 | 9,833 | 26,893 | 357,725 |
| SA Project Manager | 2008 | 74,100 | - | 6,669 | - | 17,196 | 97,965 |
| A. Webb | 2009 | 254,162 | - | 22,860 | 8,100 | 22,153 | 307,275 |
| Commercial Manager | 2008 | 158,438 | - | 13,153 | - | 44,276 | 215,867 |
| B. Richardson | 2009 | - | - | - | - | - | - |
| Drilling Operations Manager | 2008 | 237,355 | 16,114 | 22,812 | - | 58,447 | 334,728 |
| M. Donaghue | 2009 | - | - | - | - | - | - |
| Manager People, Process and Place | 2008 | 158,368 | - | - | - | - | 158,368 |
| Totals | 2009 | 1,512,191 | - | 105,597 | 56,866 | 156,185 | 1,830,839 |
| | 2008 | 949,304 | 16,114 | 42,634 | - | 136,851 | 1,144,903 |

1 Appointed 10 November 2008.

2 Appointed 1 July 2008.

3 Appointed 12 December 2008.

4 In addition to Executive Director Remuneration in Table 1.

Table 3 - Options granted to executives as part of remuneration for the year ended 30 June 2009 (Audited)

During the financial year, options were granted under the Long Term Incentive Plan to certain executives as disclosed below.

The options, issued for nil consideration, are issued in accordance with performance hurdles established by the Directors of the Company under the Employee Option Plan (EOP). The options are issued for a term of 36 months and are exercisable and vest in the holder of the Options in three lots as detailed in Note 15.

| | Grant Date | Granted Number | Value of options granted during the year | % of Remuneration # | Value of options exercised during the year | Value of options lapsed during the year | Value per option at grant date | Weighted average exercise price |
|--------------|------------|----------------|--|---------------------|--|---|--------------------------------|---------------------------------|
| D. Anthony | 5/11/08 | 405,356 | \$128,902 | 15% | - | - | \$0.32 | \$0.75 |
| P. Frederiks | 5/11/08 | 390,297 | \$124,113 | 15% | - | - | \$0.32 | \$0.75 |
| M. Manton | 5/11/08 | 291,856 | \$92,809 | 15% | - | - | \$0.32 | \$0.75 |
| P. Schmidt | 5/11/08 | 265,218 | \$84,338 | 15% | - | - | \$0.32 | \$0.75 |
| R. Smith | 5/11/08 | 341,657 | \$108,646 | 15% | - | - | \$0.32 | \$0.75 |
| A. Webb | 5/11/08 | 281,433 | \$89,495 | 15% | - | - | \$0.32 | \$0.75 |
| D. Wyborn | 5/11/08 | 240,896 | \$76,604 | 15% | - | - | \$0.32 | \$0.75 |

The options fair value was determined at the date of grant. Value per option at grant date is fair value.

Options vest over three years and are considered remuneration for a three year period, this calculation takes 30% of the full valuation for the purposes of calculating the options as a percentage of remuneration. The first exercise date is 12 months after the date of issue and the last exercise date is 35 months after the date of issue. Options expire 36 months after the date of issue.

REMUNERATION REPORT (Audited) Continued

Table 4 – Shares granted to executives as part of remuneration for the year ended 30 June 2009 (Audited)

During the financial year, shares were granted under the Long Term Incentive Plan to certain executives as disclosed below. The shares issued for nil consideration, are issued in accordance with performance hurdles established by the Directors of the Company under the Deferred Employee Share Plan (DESP). The shares vest with the employee after a term of 36 months.

| | Grant Date | Granted Number | Value of shares granted during the year | % of Remuneration # | Value of shares exercised during the year | Value of shares forfeited during the year | Value per share at grant date |
|--------------|------------|----------------|---|---------------------|---|---|-------------------------------|
| D. Anthony | 5/11/08 | 71,918 | \$52,500 | 15% | - | - | \$0.74 |
| P. Frederiks | 5/11/08 | 69,247 | \$50,550 | 15% | - | - | \$0.74 |
| M. Manton | 5/11/08 | 51,781 | \$37,800 | 15% | - | - | \$0.74 |
| P. Schmidt | 5/11/08 | 47,055 | \$34,350 | 15% | - | - | \$0.74 |
| R. Smith | 5/11/08 | 60,616 | \$44,250 | 15% | - | - | \$0.74 |
| A. Webb | 5/11/08 | 49,932 | \$36,450 | 15% | - | - | \$0.74 |
| D. Wyborn | 5/11/08 | 42,740 | \$31,200 | 15% | - | - | \$0.74 |

The shares fair value was determined at the date of grant. Value per share at grant date is fair value.

Shares are considered remuneration for a one year period, this calculation takes the full valuation for the purposes of calculating the shares as a percentage of remuneration. Shares vest with the employee 36 months after the date of issue providing the employee is still employed by the Company at that time.

SHARE OPTIONS

Unissued shares – employee options

As at the date of this report, there were 9,614,392 unissued ordinary shares under employee options (2008 – 4,251,501). Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate. The options are unlisted, issued for nil consideration and have a term of three years. There were 8,493,390 employee options granted during the financial year ended 30 June 2009 (2008 – 2,077,000). The average exercise price of the options granted during the financial year ended 30 June 2009 is \$0.82 cents per share. Refer to Note 15 of the financial statements for further details of the options outstanding.

Shares issued as a result of the exercise of employee options

There were no employee options exercised during the financial year (2008 – 590,500) or since the end of the financial year.

Unissued shares – shareholder options

As at the date of this report, there were 72,273,791 unissued ordinary shares under shareholder options (2008 – 22,638,856). Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate. The options comprise 72,273,791 listed options exercisable at \$1.50 and expiring 8 December 2009. There were 72,342,080 shareholder options granted during the financial year ended 30 June 2009 (2008 – 23,638,56). The average exercise price of the shareholder options granted during the financial year ended 30 June 2009 is \$1.50 per share.

Shares issued as a result of the exercise of shareholder options

There were 130,183 shareholder options exercised during the financial year (2008 – 37,182,493) or since the end of the financial year.

DIRECTORS' MEETINGS

During the period there were twelve directors' meetings held of which five were by telephone conference. The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial period are as follows:

| | Directors' Meetings | | Audit and Risk Management Committee Meetings | | Remuneration and Nominations Committee Meetings | | Technical Committee Meetings | | Health Safety and Environment Committee Meetings | |
|----------------|------------------------------|-----------------|--|-----------------|---|-----------------|------------------------------|-----------------|--|-----------------|
| | Number held whilst in office | Number attended | Number held whilst in office | Number attended | Number held whilst in office | Number attended | Number held whilst in office | Number attended | Number held whilst in office | Number attended |
| M. Albrecht | 12 | 11 | - | - | 3 | 3 | - | - | - | - |
| G. Grove-White | 12 | 12 | - | - | - | - | - | - | - | - |
| B. Agrawala | 6 | 1 | - | - | - | - | - | - | - | - |
| P. Britz | 12 | 11 | - | - | - | - | - | - | 2 | 2 |
| P. Chopra | 12 | 12 | 3 | 3 | - | - | - | - | 2 | 2 |
| B. Davies | 6 | 6 | 1 | 1 | 1 | 1 | - | - | - | - |
| R. Flew | 9 | 9 | 3 | 3 | 2 | 2 | - | - | - | - |
| N. Galwey | 6 | 6 | 2 | 2 | - | - | - | - | - | - |
| J. Hamilton | 12 | 12 | - | - | - | - | 5 | 5 | - | - |
| K. Spence | 11 | 10 | - | - | - | - | 5 | 5 | 2 | 2 |
| A. Stock | 12 | 12 | - | - | 3 | 3 | - | - | 2 | 2 |
| D. Wyborn | 6 | 4 | - | - | - | - | 2 | 2 | - | - |

The Company has four committees with the following membership:

Audit & Risk Management Committee – Membership comprises three Non-executive Directors being Messrs Davies (Chair), Britz, and Chopra. During the year Messrs Flew and Galwey (since retired) were also members of this Committee.

Remuneration & Nominations Committee – Membership comprises three Non-executive Directors being Messrs Stock (Chair), Albrecht and Davies. During the year B. Flew (since retired) was also a member of this Committee.

Technical Committee – Membership comprises two Non-executive Directors being Messrs Hamilton (Chair) and Spence and three external members comprising a recognized expert covering the technical domain areas of well engineering and drilling execution, reservoir development and behaviour, and HFR external developments. Dr Doone Wyborn, the Company's Chief Scientific Officer is also a member of this Committee.

Health, Safety & Environment (HSE) Committee – Membership comprises four Non-executive Directors being Messrs Spence (Chair), Britz, Chopra and Stock with G. Grove-White as an ex-officio member. The Company's Health and Safety Manager (D. Murphy) and Environment & Compliance Manager (H. Coombes) are also ex-officio members of this Committee.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the entity paid premiums in respect of contracts insuring directors, secretaries, and executive officers of the Group and related entities against liabilities incurred as director, secretary or executive officer to the extent permitted by the Corporations Act, 2001, subject to the terms, conditions, limitations and exclusions of the policy.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received a declaration from the auditor of Geodynamics Limited which is listed immediately after this report and forms part of this Directors' report.

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provisions of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provisions of non-audit services:

| | |
|-------------------------|----------|
| Tax compliance services | \$6,300 |
| Assurance | \$11,000 |

CORPORATE GOVERNANCE

The Directors recognise the need for the highest standards of corporate behaviour and accountability and therefore support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is printed immediately following this Directors Report.

Signed in accordance with a resolution of the Directors.



M. Albrecht
Chairman

Brisbane, 26 August 2009