

HIGHLIGHTS OF THE YEAR 2008-2009

It has been a tumultuous year for Geodynamics with many highs tempered by a few lows. Whilst there have been some setbacks, the lessons learned during the year are of significant value to the Company, and indeed to the geothermal industry as a whole.

A summary of the year's significant highlights follows.

Overview of drilling activities

During the period, drilling efforts were focused on Jolokia 1 and Savina 1.

Jolokia 1

During July 2008, the Company revised the target depth for Jolokia 1 from 4,250 m to 5,000 m. The well was completed at 4,911 m, making it the hottest well on mainland Australia. It is 10 degrees hotter than the Habanero wells located 9 km away.

In April 2009, Rig 100 was successfully redeployed at Jolokia 1 and used to clean out the well in preparation for deep stimulation. Successful stimulation of Jolokia 1 will confirm the capacity to create heat exchange reservoirs at locations spread across the resource and satisfy one of the key milestones for proceeding with the commercial demonstration plan. The Joint Venture is currently procuring necessary equipment and materials to undertake the stimulation in light of the findings from the Habanero 3 incident.

Savina 1 – free flowing fractures intersected

During January 2009, Geodynamics intersected free flowing, overpressured fracture whilst drilling the Savina 1 well. This fracture was interpreted to be highly productive and more overpressured than at either Jolokia 1 or Habanero 3. The existence of this fracture is indicative of a saturated and over pressured reservoir comparable to those observed at both the Jolokia and Habanero locations.



Drilling floor on Rig 100 based at Jolokia 1

Savina 1 – stuck drill pipe and the way forward

While efforts saw Savina 1 drilled to 3,700 m, the well was secured with a cement plug at 2,640 m after a program of actions to recover stuck drill pipe was unsuccessful.

The Joint Venture parties are considering the forward work program that may include returning to drill a sidetrack at Savina 1. The well remains a valuable asset and will be completed at a later date.

Closed loop testing and Proof of Concept

Successful circulation of 50,000 tonnes of brine under test conditions marked completion of the closed loop testing on February 25, 2009. The test results were analysed at research laboratories in Germany and Japan and results of the analysis were the subject of an independent external review and validation by GeothermEx Inc of the USA.

On March 31, 2009, GeothermEx confirmed Geodynamics had achieved Proof of Concept; the Company had demonstrated resource definition, the ability to drill and complete wells, hydraulically stimulate fractures and develop a substantial reservoir volume. Proof of Concept also demonstrates well productivity and injectivity, confirms fluid circulation between production and injection wells, mitigation of currently identified operational constraints and the absence of adverse environmental impacts.

This was a major milestone for the Company and was the culmination of six years effort.

The well control incident at Habanero 3

The well control incident at Habanero 3 (and subsequent activities) occupied much of the final quarter of the year.

An overview

Late on the evening of 24 April 2009, a loud noise was heard followed by a rapid release of steam and water found to be escaping from the Habanero 3 well head. This was the first time a geothermal well in Australia had behaved in such a fashion.

Geodynamics received help from Origin Energy, Santos and international experts, Cudd Well Control, to design and implement a program to control the well. Flow was stopped 28 days after the original incident date.

Of utmost importance, nobody was injured during the management of the incident. Since the incident occurred, drilling activities have been in abeyance, and as a precautionary measure, equipment and personnel were demobilised from the Habanero camp.

Independent review

Geodynamics engaged Sinclair Knight Mertz to independently assess the events that caused the flow at Habanero 3. A detailed investigation of the well incident found that the casing material had cracked due to hydrogen embrittlement, which was caused by dissolved gases in the reservoir fluid.

GeothermEx, the independent expert who validated Geodynamics Proof of Concept results earlier in the year, has since confirmed that the Company's Proof of Concept program, the results of the testing and the positive conclusion remain valid.

“ In summary, based on its independent review of all relevant information... GeothermEx concludes that the Cooper Basin project of Geodynamics has successfully completed the Proof-of-Concept. ”

Sabir K. Sanyal, PhD
President, **GeothermEx**
March 26, 2009



Habanero 3 well site during the incident

Moving forward

As Habanero 1 and 2 could also be prone to hydrogen embrittlement, actions have been taken to secure both wells. Habanero 2 and 3 are now secure and the Company is currently planning to secure Habanero 1.

As Jolokia 1 and Savina 1 have not had contact with reservoir fluid, the Company has no concern about the immediate integrity of those wells. However, completion actions are required to both wells to ensure that when utilised in the future, the wells will not be subject to the same hydrogen embrittlement that affected Habanero 3. At the time of writing, your Company was procuring the necessary materials to undertake this completion and preparing for the commencement of deep stimulation at Jolokia 1.

The Joint Venture has undertaken a detailed review of the forward work program. Further detail is contained in the Managing Director's Review. The Company's business plan remains sound and the revised work program will ensure field activities re-commence early in 2010 with the deep stimulation of Jolokia 1 and the drilling of Jolokia 2 to create a working doublet for long term reservoir flow testing, 10 km from the original Habanero site.

1 MW Power Plant and Visitor Centre

Prior to the incident at Habanero 3, your Company was moving ahead with plans to commission the 1 MW Power Plant and Visitor Centre. Hot commissioning of the 1 MW Power Plant had been planned for 27 April 2009.

While there is never a good time for an incident like the one at Habanero 3 to occur, it is Geodynamics firm view that it was far better the incident occurred prior to the

plant becoming operational and before any more wells were drilled to the same design using the same casing.

The 1 MW Power Plant

During the period, despite numerous delays with the pump and heat exchangers, the 1 MW Power Plant was days away from commissioning prior to the Habanero 3 incident occurring. All plant is in place and a transmission line has been erected between the plant and the township of Innamincka. No power has yet been run through the line from the 1 MW Power Plant to the township.

Geodynamics maintains the view that the successful operation of the 1 MW is extremely important for the Company. As well as being symbolic as the first EGS powered electricity generation plant in Australia it will provide the Company with invaluable experience in the long term operation of the production system, brine heat exchangers, injection pumps and the remainder of plant. Obviously without a fuel source currently available the power plant is not operational. The Joint Venture will determine the future location and commissioning timeline for the 1 MW as the work program unfolds and well locations are determined.

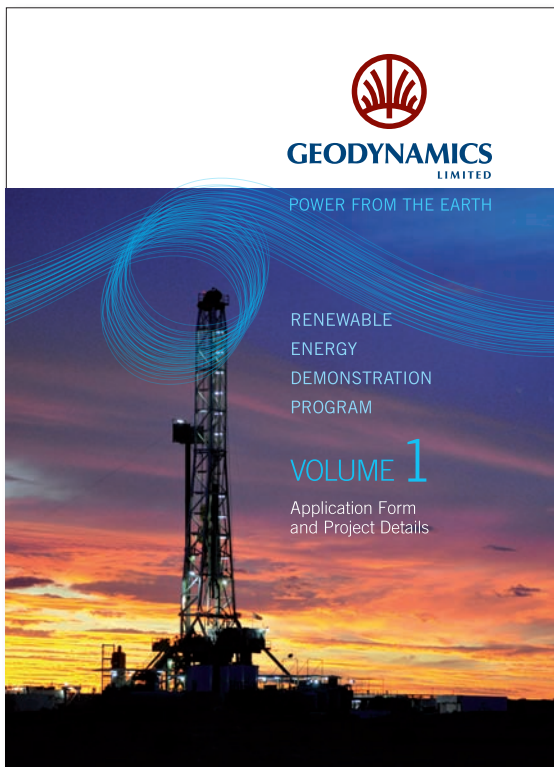
The Visitor Centre

It has been estimated that 50,000 tourists visit Innamincka each year due to its historical significance and interest in Geodynamics operations. A Visitor Centre has been established to educate passing tourists and investors on the concept of geothermal energy and Geodynamics operations.

The Visitor Centre is now open between 10 – 11 am daily and is situated at Geodynamics Habanero camp which is approximately 15 minutes drive towards Moomba from Innamincka down the New Strezlecki Track.



Senate Select Committee on Fuel and Energy visit the 1 MW Power Plant and Visitor Centre September 2009



Government funding overview

During the period, your Company was the successful beneficiary of two grants:

- In November 2008, a \$10 million grant from the NSW government was awarded for the development of the Hunter Valley Geothermal Project under the NSW Climate Change Fund Renewable Energy Development Program following a competitive two stage process.
- During April 2009, a \$560,000 grant was awarded to fund 50% of the cost of the power line from the 1 MW Power Plant to the township of Innamincka, under the Regional Development Infrastructure Fund (RDIF), an initiative of the South Australian government.

During April 2009, Geodynamics submitted an application for \$90 million of funding under the Federal Government's Renewable Energy Demonstration Program (REDP). The application followed the successful achievement of Proof of Concept. Geodynamics satisfied all of the eligibility and merit criteria of the program in relation to the development of a Commercial Demonstration Plant (CDP). At the time of writing, the result of this application was still pending.

Investor activity

During July 2008, Origin Energy confirmed the achievement of the Joint Venture's first milestone - completion of the Habanero 3 well and the open circulation test between Habanero 1 and 3 on time and within budget and consequently committed a further \$9.6 million to the project expenditure.

In September 2008, Tata Power, India's largest private utility, became a cornerstone investor when they subscribed for 11.4% of the Company's then issued share capital at \$1.50 per share for an investment of \$44.1m. The investment by Tata Power also saw Mr Banmali Agrawala appointed to the Board of Geodynamics to represent Tata Power's interest.

Early in 2009, the Company announced a bonus option issue where shareholders were given one option for every four shares held with a conversion price of \$1.50. The options issued under this program expire on 8 December 2009.



Steam flow from Habanero 3 in March 2008