

MANAGING DIRECTOR'S REVIEW



A Watershed Year

The 2008/09 financial year has been a significant one for Geodynamics, characterised by achievement, consolidation, and being forced by circumstances to rethink our immediate work program with a view to bringing our considerable energy resource to market.

The mixed picture is demonstrated by the achievement of 'Proof of Concept' on the one hand, while having to pause to digest the lessons of the Habanero 3 well incident on the other. The Company has learned a lot about itself and the balance between haste and risk. As a result, the Company is recalibrating its approach to developing the resource.

We have seen a significant year in the evolution of Geodynamics and the geothermal operating environment. Geodynamics has worked through a number of difficult situations with all stakeholders and believe we are a stronger company for having done so. We also retain the strong support of our partners and shareholders.

As 2009 ends we are waiting for an announcement from the Federal Government that Geodynamics will be awarded \$90 million from the Renewable Energy Demonstration Program. This will be an important recognition of the work we are doing, building on 'Proof of Concept' and leading to the development of a commercial demonstration plant (CDP). It will also reflect an important Government commitment to our vision for developing large scale zero-emission energy generation.

A Maturing Company

The Company has developed considerable learning throughout the year in all aspects of the business including drilling, reservoir testing, remote power plant construction and well control that are of significant value and will be much sought after by the industry worldwide. The intellectual property of the Company lies predominantly in its people and is of enormous long-term value to Geodynamics.

The Habanero 3 well incident in April caused an unforeseen delay to operations as the Company took time to bring the well under control and identify the cause of the incident. However, out of adversity comes the shoots of the future. The Company has used the hiatus in operations towards the end of the year to catch its breath, embed the learning from the incident and ensuing review, and strengthen the internal control environment and systems and procedures by which the Company operates. This has been leveraged by increasing the skills and experience base of our workforce which has grown from 40 to over 75 in the last 12 months.

In some ways the timing of the Habanero incident was both good and bad. Whilst it is regrettable that it occurred at all, and so close to the commissioning of the 1 MW power plant, it is fortunate that it didn't occur later in our drilling program with all wells designed to the same specifications. The incident also proved the robust and productive relationship we have with Primary Industries and Resources of South Australia (PIRSA).

The Company has learned a lot from Habanero 3. Information gained around its production history, flow potential, geo-seismic monitoring data, the incident itself and the well-dynamics during the control and cementing operations will all be useful to the Company going forward. Areas where the information gained will have a direct impact include the material selection, well design, operability of production wells (and injection wells), production enhancement, rig specifications, well-cost reduction, temperature optimization, thermal efficiency and hydraulic optimisation of the Enhanced Geothermal System.

The Company faces a continual challenge to balance competing objectives around appropriately managed risk and the pace of development. The Company and all of its stakeholders have a desire to see the resource developed in the shortest possible time. However this needs to be balanced against the risk of undue haste and running parallel work streams to resolve multiple technical issues.

Geodynamics in 2009 is a very different company to the junior explorer it was in 2006 when Habanero 3 was designed. With the assistance of our Joint Venture partner Origin Energy, Geodynamics is developing methodologies and systems to further develop the resource and grow the company into to a project developer with a focus on improving execution. A focus of the Joint Venture is on addressing risks and technical issues in a systematic way.

Health and Safety

I am pleased to report that Geodynamics has also shown a marked improvement in the health and safety arena. Significant progress has been made with a number of health and safety initiatives including the design and implementation of a safety management system and the establishment of a health and safety committee. This improvement was demonstrated during the Habanero 3 well incident and subsequent investigation where there were no safety incidents. These developments were achieved due to the recruitment of number of experienced personnel in the field of health and safety management.

Capacity to Deliver

Over the past 12 months, the Company has continued to grow its workforce and has been fortunate to attract some of the leading experts in their field to join the Geodynamics team. In the sub-surface area in particular, significant expertise has been brought on board to help address the technical challenges faced by the Company.

This is epitomised by the recruitment of Andre Mol, Wells Delivery Manager and Robert Hogarth, Reservoir Development Manager. Both are experts in their field with Andre joining Geodynamics from overseas with a wealth of drilling experience having previously been the mastermind behind rolling out 'Drill the Limit', a world renowned drilling cost improvement program, for Shell around the world. Robert was previously responsible for managing the reservoirs of BHP's oil business. The level of skill and experience that these individuals, and others, bring to the organisation is invaluable.

Experienced and senior staff have also been recruited into the procurement, project management and health and safety areas.

As a result of this increase in skills and experience base, the Company has increased its capacity to deliver the work program objectives and deliver this vast resource to market.

Behind the Scenes

As well as the obvious focus on drilling activities and the construction of the 1 MW power plant, the Company has been extremely busy behind the scenes with activities to support the ultimate commercialisation of the Company's geothermal resources.

In relation to the Cooper Basin resource, a significant amount of activity has gone into the basis of design of the commercial sized generation units and associated plant including heat exchangers and re-injection pumps. Work has also been progressing on the approvals process for the ultimate power station development and services base that will be required.

A number of transmission studies were completed during the year to determine, among other things, the optimum connection point into the existing transmission network. This work will enable the Company to start the transmission planning process. In addition to planning long term large scale transmission links, the Company has also been investigating the potential uses of power from the commercial demonstration plant in the short term, including the feasibility of co-locating a Data Centre with the plant.

Work has also been undertaken to determine the requirements of the lending community to enable Geodynamics to access debt financing for commercial expansion of generation plant to exploit the resource. This work has confirmed that the Company will be in a position to obtain debt financing for a significant proportion of the commercial expansion, following the successful operation of a commercial sized demonstration plant.

In addition to the above initiatives, Geodynamics committed \$5 million over a five year period to accelerate the development of geothermal technology as part of the international Geothermal Technology Plan (GTP). The GTP is designed to leverage private and public sector funding and the Company believes it is important to strengthen its longer-term technology relationships and to work with institutions to help build the capability the Company needs to meet the technology challenges it faces.

Forward Program

Whilst Geodynamics and its joint venture partner Origin Energy remain committed to bringing the vast Cooper Basin geothermal resource to market, the Habanero 3 incident and the global financial environment has brought into sharp focus the need to re-evaluate the forward work program. Both parties have been working hard together to determine the next steps in the forward work program on this journey to commercialisation.

Geodynamics is acutely aware of the need to reach a position where access to the debt markets is possible. As discussed above, this means successfully operating a commercial demonstration plant. Both joint venture parties are working toward this goal in the medium term. The key driver of the work program over the next 18 to 24 months is to get the joint venture to a position where it can take the investment decision to procure and construct a commercial sized demonstration power plant.

There are four key points that still need to be addressed in relation to getting to that decision point and they are summarised as follows:

- **Proving up resources/reserves in the Cooper Basin** – demonstrating the granite formation conditions are consistent across the tenement area;
- **Demonstrating heat extraction at commercial volumes** – producing the required flow rates from wells;
- **Demonstrating a pathway to long term economics** – reducing costs;
- **Proving execution capability** – delivering on key milestones.

The work program over the next 18 to 24 months is designed to specifically address these points and can be summarized as follows:

- Complete Jolokia 1, undertake fracture stimulation, demonstrate injectivity rates;
- Drill Jolokia 2, undertake stimulation, establish connection with Jolokia 1, commence long term doublet flow testing;
- Drill the first well of a second doublet (location yet to be determined), undertake fracturing at multiple levels, flow test;
- Drill the second well of the second doublet, demonstrate multi-fracture drilling, establish connection, undertake flow testing.

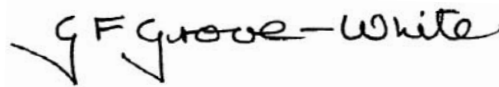
Each of these steps will be subject to decision gates and satisfactorily meeting objectives of the steps.

The Company is firmly of the opinion that this gated approach and the robust objectives being set for each of the gates will enable the joint venture parties to take the correct decisions at the right time about the development and commercialisation of the resource.

There is some immediate work to be done on well designs to complete both Jolokia 1 and Savina 1 that were designed to the same specification as Habanero 3. This work is in hand and is being undertaken with the assistance of well design specialists from around the world.

The design of the future wells in the forward program in light of the Habanero 3 incident findings is also in hand.

Geodynamics is grateful for the continued support of all of its stakeholders, including the people of Innamincka, Government, Joint Venture parties and shareholders for their continued support.



Gerry Grove-White, **Managing Director and CEO**