

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 – CORPORATE INFORMATION

The financial report of Geodynamics Limited (the Company) for the year ended 30 June 2009 was authorised in accordance with a resolution of the directors on 26 August 2009.

Geodynamics Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Company are described in the Directors' Report.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis except for the valuation of available for sale financial assets which are carried at fair value. The financial report is presented in Australian dollars. The Directors have adopted the going concern assumption in preparing the financial report.

### (B) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Certain Australian Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ended 30 June 2009. The Directors' have assessed the impact of these new or amended standards (to the extent relevant to the Company) and have concluded that these Standards and interpretations will not impact the amounts recognised in the financial statements.

### (C) Basis of Consolidation

The financial statements comprise the financial statements of Geodynamics Limited.

A wholly owned subsidiary was incorporated during the year named Geodynamics Share Plans Pty Ltd. Its issued capital is \$1.00 and its purpose is to act as trustee for the Geodynamics Deferred Employee Share Plan which holds shares on trust for employees. Consolidation was not considered material for the purposes of this subsidiary.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

### (D) Significant Accounting Judgements, Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on judgement, estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model.

#### *Provision for site rehabilitation*

The Company reviews rehabilitation requirements for its geothermal exploration tenements on a six-monthly basis by undertaking an in-house analysis of the costs to rehabilitate the sites including the plugging and abandoning of wells as appropriate.

#### *Capitalisation of Deferred Exploration and Evaluation Expenditure and Impairment*

The Company determines whether Deferred Exploration and Evaluation Costs are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which these asset groups belong.

#### *Classification and valuation of investments*

The Company classifies investments in listed and unlisted securities as 'available for sale' investments and movements in fair value are recognised directly in equity unless impairment has occurred in which case impairment is expensed. The fair value of unlisted securities not traded in an active market is determined by the pricing of those securities when share allotments of those securities are made on or around balance date to independent third parties.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(E) Foreign Currency Translation**

Both the functional and presentation currency of Geodynamics is Australian dollars (\$A). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the financial report are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**(F) Property, Plant & Equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight line basis on all property, plant and equipment. All classes are depreciated over periods ranging from 3 to 10 years (comparable to prior year). The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

**Impairment**

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment exists when the carrying value exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the year the loss is recognised.

**Derecognition and disposal**

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(G) Exploration, Evaluation, Development and Restoration costs****Costs carried forward**

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Grants and subsidies are treated as revenue and an equivalent amount of eligible exploration and evaluation expenditure is written off to offset this revenue. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

**Impairment**

The carrying values of exploration, evaluation, development and restoration costs are reviewed for impairment in accordance with AASB 6 *Exploration and Evaluation of Mineral Resources* when facts and circumstances suggest that the carrying amount of such an asset may exceed its recoverable amount. Any impairment loss identified is recognised as an expense in accordance with AASB 136 *Impairment of Assets*.

**Amortisation**

Costs on productive areas will be amortised over the life of the area of interest to which such costs relate on the production output basis.

**Restoration costs**

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs will be recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, plant closure and other costs associated with the restoration of the site.

**(H) Intangibles**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) Impairment of Assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### (J) Cash and Cash Equivalents

Cash assets on the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

#### (K) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

#### (L) Inventories

Inventories include spare parts and consumable items used in drilling operations and are valued at the lower of cost and net realisable value.

#### (M) Contributed Equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (N) Trade and Other Payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

#### (O) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### (P) Employee Benefits

##### (i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (Q) Share-based Payment Transactions

The Company provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The current plans in place to provide these benefits are the Geodynamics Employee Option Plan and the Geodynamics Deferred Employee Share Plan, which both provide benefits to executive directors and employees. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the use of a Black-Scholes model which is prepared by the Company and independently reviewed.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Geodynamics Limited ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest and (iii) the expired portion of the vesting period. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**(R) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. In the case of interest, revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

**(S) Government Grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

**(T) Earnings per Share**

Basic earnings per share is determined by dividing the operating profit after tax by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial period.

**(U) Income Tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

For Geodynamics Limited, no deferred income tax asset is being recognised in the accounts as the benefit is not considered to be probable of being realised at this stage of the Company's development. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (V) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the Cash Flow Statement on a net basis and the GST component arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (W) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of that entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

#### (X) Available for sale securities

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale. After initial recognition available-for sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

#### (Y) Farmin Arrangement

The Company is a party to a farmin arrangement (called the Innamincka Joint Venture) with Origin Energy Geothermal Pty Ltd (Origin). In the arrangement the Company (the 'transferor') has transferred 30% of its interest in its South Australian geothermal tenements and 30% of its Cooper Basin assets including the drilling rig for an agreement by Origin (the 'transferee') to meet project costs which would otherwise have to be undertaken by the Company. Participants in the Innamincka Joint Venture are:

Geodynamics (Operator) – 70%

Origin Energy Geothermal Pty Ltd\* – 30%

\*A wholly owned subsidiary of Origin Energy Limited (ASX:ORG)

Refer to Note 20 for a status of the payments made to date under this farmin arrangement.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 3 – EXPENSES AND LOSSES/(GAINS)

Operating loss before income tax has been determined after charging/(crediting) the following specific items:

	2009 \$	2008 \$
Depreciation of plant and equipment	827,440	212,244
Amortisation of leasehold improvements	123,051	60,193
Share Option Expense	726,281	313,564
Personnel costs	7,365,909	2,412,026
Interest expense	5,031	2,428
Operating lease rentals paid	551,312	152,201
Foreign exchange loss/(gain)	412,250	(155,077)
(Profit)/loss on disposal of subsidiary	-	23,345
(Profit)/loss on disposal of property, plant & equipment	9,827	10,372
Impairment of Available for sale asset.	5,603,760	-
Share of associate's loss accounted for using equity method	-	2,565,082

### NOTE 4 - INCOME TAX

#### Income tax expense

The prima facie tax benefit on loss of 30% (2008 - 30%) differs from the income tax provided in the financial statements as follows:

Prima facie tax on loss	(4,592,268)	(2,214,222)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Grant Income	1,097,836	349,309
Impairment of Available for Sale / Loss on Investment in Associate	1,681,128	414,920
Other income/(expenses)	(10,970)	(1,149,401)
Additional deduction for research & development expenditure	(1,966,305)	(7,517,418)
Income tax benefit attributable to current year losses	(3,790,579)	(10,116,812)
Deferred tax asset not brought to account as realisation of the asset is not regarded as probable	3,790,579	10,116,812
Income tax expense attributable to operating loss	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 4 - INCOME TAX (Continued)

#### Deferred income tax

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Income Statement	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Deferred tax liabilities</b>				
Deferred Exploration Phase Expenditure	(311,661)	(290,237)	-	-
Deferred Evaluation Phase Expenditure	(26,793,094)	(30,002,906)	-	-
Other Deferred tax liability	(1,137,231)	(136,881)	-	-
<b>Deferred tax assets</b>				
Losses available for offset against future taxable income	44,545,562	41,638,787	-	-
Other Deferred tax asset	380,140	104,480	-	-
Net deferred tax assets	16,683,716	11,313,243	-	-
Deferred tax asset not recognised	(16,683,716)	(11,313,243)	-	-
Gross deferred income tax assets	-	-	-	-
Deferred tax income/(expense)	-	-	-	-

The deferred tax asset arising from estimated tax losses is not brought to account at balance date as realisation of the benefit is not yet regarded as probable.

The deferred tax asset will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

### NOTE 5 - RECEIVABLES (CURRENT)

	2009 \$	2008 \$
Accounts Receivable	19,661,598	28,338,588
GST Receivable	2,038,481	2,344,237
Interest Receivable	536,134	393,616
Sundry Receivables and Prepayments	471,965	193,173
	<b>22,708,178</b>	<b>31,269,614</b>

Accounts receivable, GST receivable, interest receivable and sundry receivables are non-interest bearing.

The accounts receivable balance represents the amount owing from Origin Energy at balance date under the farm in arrangement (refer to Note 2(Y) and Note 20 for further particulars) and an amount owing from insurance for the Habanero 3 incident. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

#### Allowance for Impairment loss.

No allowance has been made for impairment loss. A provision for impairment loss is only recognised when there is objective evidence that an individual receivable is impaired. None of the balances within receivables and prepayments contain impaired assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 6 - PROPERTY, PLANT & EQUIPMENT**

	2009 \$	2008 \$
Plant and Equipment at cost	75,367,743	30,214,467
Less: accumulated depreciation	(5,438,953)	(2,700,812)
Total Property, Plant and Equipment	<b>69,928,790</b>	<b>27,513,655</b>
<b>Reconciliation of Plant &amp; Equipment</b>		
Carrying amount at beginning	27,513,655	36,815,866
Additions	45,584,810	4,504,614
Disposals	(9,827)	(10,373)
Disposals – Origin Energy South Australia Farmin	-	(11,222,300)
Depreciation/Amortisation Expense	(3,159,848)	(2,574,152)
Carrying amount at the end	<b>69,928,790</b>	<b>27,513,655</b>

Assets increased during the financial year due to the construction of a 1 MW power station and the progress payments for the second drilling rig and associated equipment.

**NOTE 7 – DEFERRED EXPLORATION AND EVALUATION COSTS**

	2009 \$	2008 \$
Exploration Phase	1,038,870	967,456
Evaluation Phase	89,310,316	100,009,688
Total	<b>90,349,186</b>	<b>100,977,144</b>
<b>Reconciliation of Deferred Exploration &amp; Evaluation costs</b>		
Carrying amount at beginning	100,977,144	78,086,814
Add: Exploration Expenditure for period	149,255	66,981
Add: Evaluation & Development expenditure for period	72,123,548	23,823,349
Less: Farmin contribution from Origin Energy	(82,903,761)	-
Disposals –Origin Energy South Australia Farmin	-	(1,000,000)
Carrying amount at the end	<b>90,346,186</b>	<b>100,977,144</b>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective geothermal exploration tenements. The Company completed Stage One of its business plan in March 2009 being 'Proof of Concept'. The Proof of Concept Phase is the demonstration of economic heat extraction from a two well circulation test via a developed underground heat exchanger.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 8 - ACCOUNTS PAYABLE

#### Current

	2009 \$	2008 \$
Trade Creditors	10,079,498	9,281,155
Accrued Liabilities	1,231,295	3,285,760
Trade creditors and accruals	<b>11,310,793</b>	<b>12,566,915</b>

#### Terms and conditions

Accounts payable and accrued liabilities are non-interest bearing. Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. All amounts are normally settled within 30 days, and discounts for early payment are normally taken where it is considered advantageous for the Company to do so. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

### NOTE 9 - PROVISIONS

	Employee Entitlements \$	Restoration Provision \$	Make Good Provision \$	Total Provisions \$
<b>At 1 July 2008</b>	<b>178,871</b>	<b>1,881,001</b>	<b>42,587</b>	<b>2,102,459</b>
Arising during the year	615,584	352,278	18,072	985,934
Utilised	(194,460)	-	-	(194,460)
<b>At 30 June 2009</b>	<b>599,995</b>	<b>2,233,279</b>	<b>60,659</b>	<b>2,893,933</b>
Current 2009	457,105	10,000	-	467,105
Non current 2009	142,890	2,223,279	60,659	2,426,828
Current 2008	129,608	10,000	-	139,608
Non current 2008	49,263	1,871,001	42,587	1,962,851
<b>At 30 June 2008</b>	<b>178,871</b>	<b>1,881,001</b>	<b>42,587</b>	<b>2,102,459</b>

The restoration provision relates to the ultimate restoration of the Habanero 1, Habanero 2, Habanero 3, Jolokia 1 and Savina 1 sites including the wells themselves (permanent plugs), the monitoring wells and water supply pipeline routes. The provision has increased on account of increased exploration and evaluation activity in the Cooper Basin.

Bank guarantees totalling \$150,000 and \$80,000 are held respectively by the South Australian and NSW governments to secure tenement rehabilitation obligations.

The make good provision relates to the lease agreements on the Company's corporate office premises in Brisbane and Perth. Under these agreements, Geodynamics is required to restore the leased premises to their original condition at the end of the respective lease. Bank guarantees totalling \$203,099 for Brisbane and \$8,500 for Perth are held by the respective landlords of these leased premises.

### NOTE 10 - DEFERRED INCOME

#### Current

	2009 \$	2008 \$
Government Grant - REDI	4,261,568	1,164,365
Government Grant - RDIF	562,250	-
	<b>4,823,818</b>	<b>1,164,365</b>

**NOTE 10 – DEFERRED INCOME (Continued)**

**Terms and conditions – Renewable Energy Development Initiative**

The Company announced on 5 December 2005, that it had been awarded a \$5 million grant under the then Federal Government’s Renewable Energy Development Initiative (REDI) Program. The grant was for the demonstration 1 MW HFR power plant to be constructed near Innamincka in the Cooper Basin, South Australia (Stage Two of Geodynamics Cooper Basin project).

The REDI grant was formally executed in late 2007 and at 30 June 2009 an amount of \$4,261,568 + GST had been paid by AusIndustry against this total grant of \$5 million. It has been classified as deferred income on the basis that the grant relates to an asset, and therefore the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

**Terms and Conditions - Regional Development Infrastructure Fund**

The Company announced on 16 April 2009 that it had been successful in its application for a \$560,000 grant in relation to the construction of the power line, from the Regional Development Infrastructure Fund (RDIF), an initiative of the South Australian government. The grant funded 50% of the cost of the transmission line between the 1 MW Power Plant and the Innamincka township. At 30 June 2009 this grant had been paid in full and it has been classified as deferred income on the basis that the grant relates to an asset, and therefore the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

**NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS**

Current Liabilities

Forward currency contracts – cash flow hedges

	2009 \$	2008 \$
	562,724	-

**Forward currency contracts – cash flow hedges**

In order to protect against exchange rate movements, the Company has entered into forward exchange contracts to hedge certain US\$ purchase commitments. These contracts are timed to mature when payments are scheduled to be made. The cash flows are expected to occur between 1 and 7 months from 1 July 2009. At balance date, the details of outstanding contracts are:

	2009 \$	2008 \$	2009	2008
<b>Buy US\$ / sell Australian \$</b>	14,898,979	-	0.7744	-

The forward currency contracts are considered to be highly effective hedges as they are matched against committed fixed asset payment schedules and any gain or loss on the contracts attributable to the hedged risk is taken directly to equity. When the fixed asset is delivered the amount recognised in equity is adjusted to the fixed asset account in the balance sheet.

**NOTE 12 – CONTRIBUTED EQUITY**

Issued and Fully Paid Capital

290,288,801 (2008 – 259,226,348) fully paid ordinary shares

	2009 \$	2008 \$
	319,692,861	275,322,345

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 12 – CONTRIBUTED EQUITY (Continued)

	Movement in ordinary share capital	Number of Shares	Issue price \$ per share	\$
<b>30/06/07</b>	<b>Balance end of financial year</b>	<b>174,066,766</b>		<b>154,100,293</b>
Jul 07	Ordinary shares issued as a result of the exercise of listed options with an expiry date of 31 Jan 2008 (monies received June 2007)	16,121	-	-
Aug 07	Ordinary shares issued as a result of the exercise of unlisted placement options with an expiry date of 31 Aug 2007	11,250,000	1.00	11,250,000
Dec 07	Ordinary shares issued as a result of the exercise of unlisted options	1,000,000	1.60	1,600,000
Jan 08	Ordinary shares issued as a result of the exercise of listed options with an expiry date of 31 Jan 2008	24,916,372	1.50	37,373,953
	Ordinary shares issued as a result of the exercise of employee options	8,334	0.54	4,500
	Ordinary shares issued as a result of the exercise of employee options	182,500	0.98	178,850
	Ordinary shares issued as a result of the exercise of employee options	133,333	1.05	140,000
	Ordinary shares issued as a result of the exercise of employee options	115,000	1.09	125,350
	Ordinary shares issued as a result of the exercise of employee options	133,333	1.18	157,333
	Ordinary shares issued as a result of the exercise of employee options	18,000	1.23	22,140
	Ordinary shares issued in consideration of services rendered	63,844	1.60	102,150
May 08	Ordinary shares issued pursuant to Placement	25,000,000	1.50	37,500,000
Jun 08	Ordinary Shares issued pursuant to a Share Purchase Plan	22,322,745	1.50	33,484,117
	Transaction costs of Share Purchase Plan and exercise of listed options	-	-	(730,742)
	Ordinary shares issued in consideration of services rendered – Shares issued in Aug 2008	-	-	14,400
<b>30/06/08</b>	<b>Balance end of financial year</b>	<b>259,226,348</b>		<b>275,322,345</b>
Aug 2008	Ordinary shares issued in consideration of services rendered – Shares issued in Aug 08	9,600	-	-
Sep 2008	Ordinary shares issued to pursuant to placement (Tata Power)	29,400,000	1.50	44,100,000
Sep 2008	Transaction cost adjustment			16,932
Nov 2008	Ordinary shares issued for the deferred employee share plan	1,126,644	0.73	182,769
	Less: above issue transferred to reserves	-	-	(182,769)
Feb 2009	Exercise of Listed \$2.00 Options expiring 28 February 2009	61,008	2.00	122,349
Mar 2009	Ordinary shares issued in consideration of services rendered	24,800	1.16	28,800
Mar-May 2009	Ordinary shares issued for the deferred employee share plan	372,115	1.04	23,575
	Less: above issue transferred to reserves	-	-	(23,575)
Apr-Jun 2009	Exercise of Listed \$1.50 Options expiring 8 December 2009	68,289	1.50	102,436
<b>30/06/09</b>	<b>Balance end of financial year</b>	<b>290,288,804</b>		<b>319,692,861</b>

**NOTE 12 – CONTRIBUTED EQUITY (Continued)**

**Terms and Conditions of contributed equity**

Ordinary Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company. Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

**Capital Management**

When managing capital, management's objective is to ensure the entity continues as a going concern and to maintain a structure that ensures the lowest cost of capital available to the entity. As the entity is not in position to be debt funded until it advances its Cooper Basin project to a completed feasibility phase which has the support of financiers, it must rely totally on shareholders and government grants for its funding requirements.

**Unissued Shares – Shareholder Options**

At 30 June 2009, 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 – 22,638,856). The average exercise price of the shareholder options granted during the financial year ended 30 June 2009 is \$1.50 per share.

**NOTE 13 – RESERVES**

Deferred Employee Share Plan Reserve

206,344

-

Employee Share Option Reserve

2,355,370

1,629,089

Cash Flow Hedge Reserve

(562,724)

-

**1,998,990**

**1,629,089**

**Reconciliation of Reserves**

Carrying amount at beginning

1,629,089

1,164,326

Recognition of Share Plan Expense

206,344

-

Recognition of Share Option Expense

726,281

464,763

Recognition of Foreign Exchange Hedge Reserve

(562,724)

-

**1,998,990**

**1,629,089**

**Nature and purpose of reserves**

**Employee share plan reserve**

The employee share plan reserve is used to record the value of fully paid ordinary shares granted to employees, including key management personnel, as part of their remuneration. Refer to note 15 for further details.

**Employee share option reserve**

The employee share option reserve is used to record the value of share options granted to employees, including key management personnel, as part of their remuneration. Refer to note 15 for further details.

**Cash flow hedge reserve**

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

**NOTE 14 – EXPENDITURE COMMITMENTS**

**Hot Fractured Rock (HFR) Tenement Commitments**

In order to maintain current rights of its HFR tenements, the Company is required to outlay annual rentals and to meet certain expenditure requirements of the New South Wales, South Australian and Queensland Mines Departments. These obligations are subject to renegotiation upon expiry of the HFR tenements. The obligations are not provided for in the financial report and are payable as follows:

	<b>2009 \$</b>	<b>2008 \$</b>
Payable not later than one year	370,000	130,000
	<b>370,000</b>	<b>130,000</b>
<b>Operating Leases (non-cancellable)</b>		
Payable not later than one year	521,652	431,291
Later than one year but not later than five years	1,181,544	1,447,867
	<b>1,703,196</b>	<b>1,879,158</b>
<b>Capital Expenditure Commitments</b>	<b>14,899,495</b>	-
<b>Other Commitments</b>		
Payable not later than one year	-	5,500
	-	<b>5,500</b>

**NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS**

	<b>2009 \$</b>	<b>2008 \$</b>
<b>Employee Benefits</b>		
The aggregate employee benefit liability is comprised of:		
Provision for Annual Leave (current)	457,105	129,608
Provision for Long Service Leave (non-current)	142,890	49,263
	<b>599,995</b>	<b>178,871</b>

**Superannuation Commitments**

The Company contributes to external accumulation funds for its employees which provide benefits for employees and their dependants on retirement, disability or death. These funds provide benefits on a defined contribution basis. Contributions are enforceable to the extent of the contribution required by the Superannuation Guarantee Levy.

Employer contributions paid or payable to the plans	<b>671,791</b>	<b>230,116</b>
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**NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)**

**Expired Directors & Employees Incentive Option Plans**

Geodynamics issued options to employees and executive officers of the Company under various conditions from its listing in 2002 through to 2006. The options, issued for nil consideration, were issued in accordance with performance hurdles established by the Directors of Geodynamics Limited at that time. The options were issued for a term of five years and lapsed in the past year as follows:

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	354,001	\$1.21	1,138,001	\$1.07
- exercised	-	-	(275,000)	\$1.10
- lapsed or forfeited	(354,001)	\$1.21	(509,000)	\$0.95
Balance at end of year	-	-	<b>354,001</b>	<b>\$1.21</b>
Vested & Exercisable at end of year	-	-	<b>187,334</b>	<b>\$1.29</b>

**Employee Incentive Option Plan (2004 Plan)**

On 24 November 2004, shareholders resolved to approve an employee incentive option plan. It was considered that the previous plan had been superseded by developments since the Company's listing and for FY06/07 and FY07/08, the vesting criteria for the issue of options was as follows:

- As to one half, on the first day after the first anniversary of the date of grant that the Company's closing share price on ASX is at least 25% greater than the exercise price. The employee will have 24 months after the first anniversary in which to exercise the options.
- As to one half, on the first day after the second anniversary of the date of grant that the Company's closing share price on ASX is at least 50% greater than the exercise price. The employee will have 24 months after the second anniversary in which to exercise the options.

The options cannot be transferred and are not be quoted on the ASX. Information with respect to the number of options granted under this Plan is as follows:

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	<b>3,897,500</b>	<b>\$1.46</b>	<b>2,639,000</b>	<b>\$1.40</b>
- granted	1,144,400	\$1.47	2,077,000	\$1.50
- exercised	-	-	(315,500)	\$1.03
- lapsed or forfeited	(3,920,898)	\$1.52	(503,000)	\$1.58
Balance at end of year	<b>1,121,002</b>	<b>\$1.25</b>	<b>3,897,500</b>	<b>\$1.46</b>
Vested & Exercisable at end of year	-	-	<b>1,136,164</b>	<b>\$1.48</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)

#### Long Term Incentive Plan (LTIP)

In October 2008, the Board after taking extensive external advice, resolved to approve a new Long Term Incentive Plan (LTIP) with the key objective being 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.

The LTIP is provided in two components being Geodynamics Limited shares as traded on the ASX and options to purchase Geodynamics Limited shares at the current price, sometime in the future. The LTIP is designed to provide rewards over a three year term.

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

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

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

#### Employee Option Plan (EOP) (2008 Plan)

The options are issued for a term of three years. The options are valued using the Black-Scholes formula which is a function of the relationship between a number of variables that principally comprise the share price, option exercise price, risk free interest rate and the volatility of the Company's underlying share price. Accordingly, the formula requires a number of inputs, some of which must be assumed. For the purposes of these options granted in 2009, the material assumptions used were:

- Share price of \$0.73 to \$1.04
- Risk free interest rate of 5.52%
- A volatility factor of 65%
- An expected dividend yield of 0%

The financial impact of the grant of options above was estimated at \$575k for the financial year ended 30 June 2009 and \$2,990k in aggregate over the exercise period of the options.

Information with respect to the number of options granted under the EOP is as follows:

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	-	-	-	-
- granted	8,493,390	\$0.82	-	-
Balance at end of year	<b>8,493,390</b>	<b>\$0.82</b>	-	-
Vested & Exercisable at end of year	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)

#### Total Option Movements

The following table summarises all options issued under the aforementioned Option Plans and Subscription Deeds:

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	4,251,501	\$1.44	3,777,001	\$1.30
Granted during the year	9,637,790	\$0.82	2,077,000	\$1.50
- exercised	-	-	(590,500)	\$1.06
- lapsed or forfeited	(4,274,899)	\$1.32	(1,012,000)	\$1.27
Balance at end of year	<b>9,614,392</b>	<b>\$0.87</b>	<b>4,251,501</b>	<b>\$1.44</b>
Options that vested during the period	-	-	<b>1,071,336</b>	<b>\$1.30</b>
Vested & Exercisable at end of year	-	-	<b>1,323,498</b>	<b>\$1.46</b>

#### Options exercised

There were no options exercised by employees during the year ended 30 June 2009.

#### Total Options held at the end of the reporting period

The following table summarises information about options held by employees as at 30 June 2009:

Grant Date	Number Options	Type	Expiry Date	Exercise Price
15/07/05	96,668	Employee Option Plan 2004	14/07/10	\$1.60
04/11/05	11,000	Employee Option Plan 2004	03/11/10	\$1.68
23/11/05	123,334	Employee Option Plan 2004	22/11/10	\$1.60
22/08/06	182,500	Employee Option Plan 2004	23/08/10	\$0.98
18/09/06	42,500	Employee Option Plan 2004	18/09/10	\$1.05
23/03/07	40,000	Employee Option Plan 2004	23/03/11	\$1.19
10/04/07	115,000	Employee Option Plan 2004	10/04/11	\$1.09
18/12/07	300,000	Employee Option Plan 2004	01/08/11	\$1.09
27/08/07	210,000	Employee Option Plan 2004	27/08/11	\$1.48
05/11/08	2,973,356	Employee Option Plan 2008	05/11/11	\$0.73
26/11/08	3,376,820	Employee Option Plan 2008	26/11/11	\$0.76
31/03/09	1,278,452	Employee Option Plan 2008	30/03/12	\$1.04
11/05/09	864,762	Employee Option Plan 2008	10/05/12	\$1.04
<b>TOTAL</b>	<b>9,614,392</b>			<b>\$0.87</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)

#### Deferred Employee Share Plan (DESP) (2008 Plan)

The shares are issued for a term of three years. The shares are valued using fair value at the date of grant which is deemed to be the five day volume weighted average share price at the date of grant. For the purposes of these shares granted in 2008 and 2009, the material assumptions used were:

- Share price of \$0.73 to \$1.04
- An expected dividend yield of 0%

The financial impact of the grant of shares above was estimated at \$206k for the financial year ended 30 June 2009 and \$1,209k in aggregate over the exercise period of the shares.

Information with respect to the number of shares granted under the DESP is as follows:

	2009		2008	
	Number of Shares	Weighted average issue price	Number of Shares	Weighted average issue price
Balance at beginning of year	-	-	-	-
- granted	1,498,762	\$0.81	-	-
Balance at end of year	<b>1,498,762</b>	<b>\$0.81</b>	-	-
Vested & Exercisable at end of year	-	-	-	-

#### Total Shares held at the end of the reporting period

The following table summarises information about shares held by employees under the DESP as at 30 June 2009:

Grant Date	Number Shares	Type	Vesting Date	Issue Price
05/11/08	1,126,647	Deferred Employee Share Plan 2008	05/11/11	\$0.73
31/03/09	221,970	Deferred Employee Share Plan 2008	30/03/12	\$1.04
11/05/09	150,145	Deferred Employee Share Plan 2008	10/05/12	\$1.04
<b>TOTAL</b>	<b>1,498,762</b>			<b>\$0.81</b>

### NOTE 16 - EARNINGS PER SHARE

Basic and diluted earnings/(loss) per share attributable to the equity holders (cents per share)

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net loss attributable to equity shareholders

Weighted average number of ordinary shares used in calculation of basic earnings per share

The share options of 9,614,392 (2008 – 4,251,501) are not dilutive and therefore have not been included in the calculation of diluted earnings per share.

2009	2008
\$	\$
(5.42)	(3.63)
(15,307,432)	(7,380,740)
282,545,381	203,521,679

**NOTE 17 - SEGMENT INFORMATION**

The Company operates in one geographical segment – namely Australia. The Company operated in one business segment being the activity of Hot Fractured Rock geothermal energy exploration & development.

Hot Fractured Rock geothermal energy development is the Company's primary focus and business activity and it remains committed to commercialising its geothermal project in the Cooper Basin of South Australia. Geodynamics aims to become the largest renewable energy producer in Australia by developing emission-free, baseload electricity generation from known Hot Fractured Rock geothermal resources.

The Company's three-stage business plan is based on the development of the known HFR geothermal resource in the Cooper Basin as follows:

**Stage 1 - Demonstration of economic heat extraction (Proof of Concept)**

Stage One of the Company's business plan is the demonstration of economic heat extraction from a two well circulation test via a developed underground heat exchanger. This stage was completed on 31 March 2009 following the successful completion and validation of a closed loop circulation test. A 1 MW power plant has been constructed, which is awaiting hot commissioning, to demonstrate the production of power from HFR.

**Stage 2 - Commercial demonstration of power plant**

Design and construction of a 25-50 MW Commercial Demonstration Plant (CDP) to demonstrate the commercial viability of production of power from HFR.

**Stage 3 - Large scale commercial power plant**

Expansion of production to large scale commercial HFR geothermal power generation (100s of MWe) for long term sale of emission free electricity to the national grid.

**NOTE 18 – REMUNERATION OF AUDITORS**

Amounts received or due and receivable by Ernst & Young Australia for:

An audit or review of the financial report of the entity

Other Services in relation to the entity

- tax compliance

- assurance related

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
An audit or review of the financial report of the entity	162,739	97,025
Other Services in relation to the entity		
- tax compliance	6,300	20,000
- assurance related	11,000	4,500
	<b>180,039</b>	<b>121,525</b>

## NOTE 19 – KEY MANAGEMENT PERSONNEL

### Details of Key Management Personnel

<b>Directors</b>	
M. Albrecht	Chairman (non-executive)
G. Grove-White	Managing Director
B. Agrawala	Director (non-executive)
P. Britz	Director (non-executive)
P. Chopra	Director (non-executive)
R. Davies	Director (non-executive)
J. Hamilton	Director (non-executive)
K. Spence	Director (non-executive)
A. Stock	Director (non-executive)
<b>Executives</b>	
D. Anthony	Sub-Surface Manager
K. Coates	Human Resources Manager (commenced 13 July 2009)
P. Frederiks	Company Secretary and Chief Financial Officer
M. Manton	Information & Communications Technology Manager
P. Schmidt	Power Engineering Manager
R. Smith	Project Manager South Australia
A. Webb	Commercial Manager
D. Wyborn	Chief Scientific Officer

### Compensation of Key Management Personnel

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	2,907,894	1,976,609
Post Employment benefits	276,810	208,512
Share based payment	394,059	237,745
	<b>3,578,763</b>	<b>2,422,866</b>

Further information on remuneration of Key Management Personnel is shown in the Remuneration Report contained within the Directors Report.

**NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)**
**Employee Share Plan Option holdings of Key Management Personnel**

	Balance at beginning of period 01/07/08	Granted as Remuneration	Options Exercised	Options Lapsed	Balance at end of period 30/06/09	Total Vested and Exercisable 30/06/09
<b>Directors</b>						
M. Albrecht	-	-	-	-	-	-
G. Grove-White	300,000	-	-	-	300,000	-
B. Agrawala	-	-	-	-	-	-
P. Britz	-	-	-	-	-	-
P. Chopra	-	-	-	-	-	-
R. Davies	-	-	-	-	-	-
J. Hamilton	-	-	-	-	-	-
K. Spence	-	-	-	-	-	-
A. Stock	-	-	-	-	-	-
<b>Executives</b>						
D. Anthony	-	405,356	-	-	405,356	-
P. Frederiks	350,000	390,297	-	(266,666)	473,631	-
M. Manton	-	291,856	-	-	291,856	-
P. Schmidt	-	265,218	-	-	265,218	-
R. Smith	275,000	341,657	-	(275,000)	341,657	-
A. Webb	230,000	281,433	-	(230,000)	281,433	-
D. Wyborn	146,666	240,896	-	(73,332)	314,230	-
<b>Total</b>	<b>1,301,666</b>	<b>2,216,713</b>	<b>-</b>	<b>(844,998)</b>	<b>2,673,381</b>	<b>-</b>

**Listed Option holdings of Key Management Personnel**

(quoted options expiring 8 December 2009 and exercisable at \$1.50 per share)

	Balance at beginning of period 01/07/08	Options issued	Balance at end of period 30/06/09	Total Exercisable 30/06/09
<b>Directors</b>				
M. Albrecht	-	487,660	487,660	487,660
G. Grove-White	-	10,575	10,575	10,575
B. Agrawala	-	-	-	-
P. Britz	-	-	-	-
P. Chopra	-	199,604	199,604	199,604
R. Davies	-	-	-	-
J. Hamilton	-	19,780	19,780	19,780
K. Spence	-	-	-	-
A. Stock	-	3,334	3,334	3,334
<b>Executives</b>				
D. Anthony	-	2,625	2,625	2,625
P. Frederiks	-	2,084	2,084	2,084
M. Manton	-	-	-	-
P. Schmidt	-	3,334	3,334	3,334
R. Smith	-	-	-	-
A. Webb	-	2,750	2,750	2,750
D. Wyborn	-	174,259	174,259	174,259
<b>Total</b>	<b>-</b>	<b>906,005</b>	<b>906,005</b>	<b>906,005</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

#### Listed Option holdings of Key Management Personnel (quoted options expired 28 February 2009 and exercisable at \$2.00 per share)

	Balance at beginning of period 01/07/09	Options Lapsed	Balance at end of period 30/06/09
<b>Directors</b>			
M. Albrecht	3,334	(3,334)	-
G. Grove-White	4,334	(4,334)	-
B. Agrawala	-	-	-
P. Britz	-	-	-
P. Chopra	1,667	(1,667)	-
R. Davies	-	-	-
J. Hamilton	3,334	(3,334)	-
K. Spence	-	-	-
A. Stock	1,667	(1,667)	-
<b>Executives</b>			
D. Anthony	-	-	-
P. Frederiks	-	-	-
M. Manton	-	-	-
P. Schmidt	-	-	-
R. Smith	-	-	-
A. Webb	-	-	-
D. Wyborn	-	-	-
<b>Total</b>	<b>14,336</b>	<b>(14,336)</b>	<b>-</b>

#### Shareholdings of Key Management Personnel

	Balance at beginning of period 01/07/08	Appointments Resignations, purchased on market	Granted as Remuner- ation*	Issued on Exercise of Options	Disposed of/other	Balance at end of period 30/06/09
<b>Directors</b>						
M. Albrecht	1,950,635	-	-	-	-	1,950,635
G. Grove-White	29,296	13,000	-	-	-	42,296
B. Agrawala	-	-	-	-	-	-
P. Britz	-	-	-	-	-	-
P. Chopra	798,414	-	-	-	-	798,414
R. Davies	-	-	-	-	-	-
J. Hamilton	79,116	-	-	-	-	79,116
K. Spence	-	-	-	-	-	-
A. Stock	13,333	-	-	-	-	13,333
<b>Executives</b>						
D. Anthony	-	10,500	71,918	-	-	82,418
P. Frederiks	8,334	-	69,247	-	-	77,581
M. Manton	-	-	51,781	-	-	51,781
P. Schmidt	13,334	-	47,055	-	-	60,389
R. Smith	-	-	60,616	-	-	60,616
A. Webb	11,000	-	49,932	-	-	60,932
D. Wyborn	797,036	-	42,740	-	-	839,776
<b>Total</b>	<b>3,700,498</b>	<b>23,500</b>	<b>393,289</b>	<b>-</b>	<b>-</b>	<b>4,117,287</b>

\* Shares granted as remuneration were issued under the Geodynamics Deferred Employee Share Plan and are held in escrow on behalf of the Executive. The Executive is required to remain employed by Geodynamics for 36 months from the date of allocation for the shares to vest.

**NOTE 20 - RELATED PARTY DISCLOSURES****Services rendered during the year**

During the year, services were provided by Origin Energy (one of the Company's substantial shareholders) under normal commercial terms and conditions for an aggregate amount of \$102,772 (2008 – \$106,426). This amount comprises fees for a Non-Executive Director, travel costs and electricity costs for the Brisbane head office.

Also during the year, consulting services were provided by Dr Prame Chopra under normal commercial terms and conditions for an aggregate sum of \$130,900 (2008 – \$7,500).

**The Metasource (Woodside) environmental credits off take rights**

In 2002 Metasource committed by an Agreement to subscribe for 10,443,392 fully paid ordinary shares as a pre-IPO investor in the Company's August 2002 Prospectus. Under the terms of that Agreement Metasource has the right to participate pro rata to its then current shareholding in any further issue of equity in Geodynamics at the price payable by other parties at the time and Metasource has a right to nominate a person to be appointed as a director of Geodynamics.

On 31 March 2004 the Company announced that it had executed an Environmental Credits Off take Deed with Metasource which formalises Metasource's rights to Environmental Credits. Metasource or its nominee has the right to procure all of the environmental credits which arise from 50% (capped at 1,300 GWh/year) of the power generated by Geodynamics power plant(s). 37.5% of the Environmental Credits can be sold to Metasource at full market price with the balance of 12.5% of the Environmental Credits assigned to Metasource without separate consideration. The term for the purchase of Environmental Credits commenced on 8 April 2004 and ends on the earlier of:

- a) 10 years after the commissioning of the first commercial power plant with capacity exceeding 250 megawatts;
- b) 20 years after the Company achieves commissioning of HDR plants with a combined sales capacity exceeding 250 megawatts; or
- c) 80 years after the date of the contract.

**The Origin Energy environmental credits and power off take rights**

On 5 August 2003, Geodynamics executed an Investment Deed with Origin Energy Limited wherein the parties agreed to enter into a strategic alliance under which Origin would subscribe for 10,000,000 shares in Geodynamics. Under the terms of the Investment Deed, Origin Energy has a right of participation in future share issues pro rata to its then percentage shareholding in Geodynamics and Origin has a right to nominate a person to be appointed as a director of Geodynamics.

On 29 April 2005, Geodynamics executed a Heads of Agreement (HOA) with Origin Energy Electricity Limited (Origin) under which, at the time final contracts are entered into, the parties will enter into a power purchase agreement (PPA) and Renewable Energy Certificate purchase agreement (RPA). Under the terms of the PPA, Origin will have the right to purchase 50% of the power generated by Geodynamics (capped at 1300 GWh/year) from any power plant that is connected to a transmission system at a discount of 5% to the then market price. The term of the PPA will commence on the first generation of power by Geodynamics from any power plant that is connected to a transmission system and end 10 years after the commissioning of Geodynamics' first large commercial power plant (being a power plant which has a nominal rated capacity of 200 MW or more);

Under the terms of the RPA, Origin will have the right to purchase any Renewable Energy Certificates (RECs) and/or environmental credits (ECs) arising from 47.5% of all power generated by Geodynamics at market price (up to a maximum of the number of RECs and ECs arising from the generation of 1300 GWh of power which qualify for the issue of RECs or ECs in each year). In addition a further 2.5% of the RECs and/or ECs will be assigned to Origin without separate consideration. The RPA will start on the first generation of power by Geodynamics and will end 10 years after the commissioning date of Geodynamics first large commercial power plant.

**The Origin Energy farmin**

On 29 October 2007, Geodynamics announced that it has executed a binding Heads of Agreement with Origin Energy Limited (Origin) wherein Origin would farmin to 30% of Geodynamics South Australian geothermal tenements together with 30% of the Company's Cooper Basin assets including the Lightning drilling rig. In addition to its 30% share of on-going project expenditure, Origin will contribute up to \$105.6 million towards all project cash costs comprising \$96 million plus an additional \$9.6 million should Geodynamics, as Operator, complete its Stage One 'proof of concept' phase by 31 March 2008 within a defined budget.

The conditionality of the additional \$9.6 million was confirmed as having been satisfied by a joint Geodynamics/Origin announcement made on 15 July 2008. Origin's total commitment under the farmin is therefore approximately \$150 million. At 30 June 2009, Origin had paid \$148 million of this amount.

As a condition of the farmin, the South Australian tenements and drilling rig were placed into an unincorporated joint venture structure and Geodynamics is the operator of the joint venture with a 70% participating interest. In addition, Origin has agreed to provide technical support and secondments to assist in project development and Origin intends to retain its current equity interest of approximately 10% in Geodynamics. On 19 December 2007, shareholders approved the farmin by Origin Energy by overwhelming majority.

### **NOTE 20 - RELATED PARTY DISCLOSURES (Continued)**

#### **The Sentient/Sunsuper cornerstone investment**

On 10 April 2008, Geodynamics announced that The Sentient Group (Sentient) and Sunsuper Pty Ltd had agreed to become joint cornerstone investors in Geodynamics. It had been agreed that Sentient and Sunsuper would collectively subscribe for 11.8% of the Company's then current issued share capital or 25 million fully paid ordinary shares in Geodynamics at an issue price of \$1.50 per share. In addition, one attaching unquoted placement option exercisable at \$2.00 per share for every two Shares issued (i.e. 12.5 million options) and expiring 28 February 2009 would be issued. An extraordinary general meeting of shareholders was convened on 29 May 2008 and unanimously approved the placement.

As part of the investment, Sentient and Sunsuper have the right to collectively appoint a non-executive director to the Board of Geodynamics. Sentient and Sunsuper are collectively required to maintain a 10% shareholding in Geodynamics to maintain this Board representation. Mr Pieter Britz was appointed to the Board on 25 June 2008 as the director representative under this condition.

#### **The Tata Power investment**

On 4 September 2008, Geodynamics announced that The Tata Power Company Limited (Tata Power) had agreed to become a cornerstone investor in the Company. It had been agreed that Tata Power would subscribe for 11.4% of the Company's then current issued share capital or 29.4 million fully paid ordinary shares in Geodynamics at an issue price of \$1.50 per share. In addition, one attaching unquoted placement option exercisable at \$2.25 per share for every two Shares issued (i.e. 14.7 million options) and expiring 28 February 2009 would be issued. At the Annual General Meeting held on 20 November 2008 shareholders approved the placement and attaching options issue.

As part of the investment, Tata Power has the right to appoint a non-executive director to the Board of Geodynamics. Tata Power is required to maintain a 10% shareholding in Geodynamics to maintain this Board representation. Mr Banmali Agrawala was appointed to the Board on 20 November 2008 as the director representative under this condition.

**NOTE 21 - NOTES TO THE STATEMENT OF CASH FLOWS**

## (A) Reconciliation of Cash

Cash is defined in Note 2 to this financial report.

Cash balance comprises:

	2009 \$	2008 \$
Cash on Hand	250	250
Cash at Bank	33,669,482	7,901,128
Bank Bills and Term Deposits	81,297,155	92,000,000
<b>Total Cash</b>	<b>114,966,887</b>	<b>99,901,378</b>

## (B) Reconciliation of the operating loss after tax with the net cash flows used in operations

Operating loss after income tax	(15,307,432)	(7,380,740)
Depreciation and amortisation	827,440	212,244
Net (profit)/loss on disposal of property, plant & equipment	9,827	10,373
Share Option Valuation Expense	726,281	464,763
Shares issued in lieu of services	28,800	116,550
Shares issued under Deferred Employee Share Plan	206,344	-
Share of associate's loss accounted for using equity method	-	2,565,082
Impairment of Available for Sale financial asset	5,603,760	-
Realised gain on sale of investment	-	(1,182,012)
<b>Changes in Assets &amp; Liabilities</b>		
(Increase)/decrease in receivables and prepayments	(5,042,788)	(1,591,670)
Increase/(decrease) in other creditors and accruals	-	-
(Increase)/decrease in inventories	(503,024)	(1,019,198)
Increase in general provisions	370,350	1,490,371
Increase in provision for employee benefits	421,124	108,831
<b>Net Cash Flow used in Operating Activities</b>	<b>(12,659,318)</b>	<b>(6,205,406)</b>

## (C) Non-Cash Financing and Investing Activities

During the year, a total of 34,400 (2008 – 63,844) fully paid ordinary shares were issued in consideration of professional services rendered by external consultants to the Company in the ordinary course of business. The shares were valued at a weighted average price of \$0.84 per share which reflects the weighted average share price at the time the services were rendered.

**NOTE 22 – AVAILABLE FOR SALE FINANCIAL ASSETS**

Geysir Green Energy (GGE) is an unlisted public company headquartered in Iceland with an extensive portfolio of assets in the geothermal sector. The Company's investment in GGE is classified as an investment in an Available for sale Financial Asset. The fair value of the unlisted available for sale investment has been estimated using the valuation techniques based on assumptions, which are outlined in Note 2. For the valuation of GGE at 30 June 2009, a recently announced sale of a 10.8% share in a GGE subsidiary in July 2009 was used to support the valuation. Management believes the estimated fair value resulting from the valuation techniques and recorded in the balance sheet are reasonable and the most appropriate at the balance sheet date. The 3% interest held does not allow Geodynamics to exercise significant influence.

	2009 \$	2008 \$
<b>Unlisted Available for sale</b>		
Shares in Geysir Green Energy – an Icelandic unlisted public company	2,936,204	8,539,964

### **NOTE 23 - CONTINGENT LIABILITIES**

Geodynamics Limited has been advised that the South Australian Geothermal Exploration Licences No. 211 (GEL) and Geothermal Retention Licences (GRL) No. 3 through to 12 and 20 to 24 have been granted by the Department of Primary Industries and Resources South Australia on the basis that the grant of a GEL or GRL is not an act which creates a 'right to mine' and therefore 'the right to negotiate' process in the relevant native title legislation does not apply and the grant of the GELs and GRLs are valid for native title purposes. The Company's legal advice is that this is a sustainable position although it would be open to a Court to reach a different conclusion. Any substantiated claim may have a financial ramification for the Company.

The Company has also been advised that none of the New South Wales tenements are invalid for native title purposes or attract the relevant right to negotiate provisions in the applicable native title legislation.

Bank guarantees totalling \$150,000 and \$80,000 are held respectively by the South Australian and New South Wales governments to secure tenement rehabilitation obligations. A bank guarantee totalling \$203,099 is held by the landlord for the lease of the Brisbane office premises and for \$8,500 for lease of Perth office premises.

### **NOTE 24 - SUBSEQUENT EVENTS**

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 1 MW Power Plant. It stated that the revised work program and project delivery timelines will be communicated as they are finalised.

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.

### **NOTE 25 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to manage the finances for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are cash flow interest rate risk and foreign currency risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

Primary responsibility for identification and control of financial risks rests with the board of directors, however the day-to-day management of these risks is under the control of the Managing Director and Chief Financial Officer. The Board agrees the strategy for managing future cash flow requirements and projections.

**NOTE 25 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**(A) Interest rate risk**

The Company's exposure to interest rate risks primary relates to the Company's funds held on term deposit. The Company has no debt obligations. At balance date, the Company had the following mix of financial assets and liabilities exposed to interest rate risk:

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Cash and cash equivalents	114,966,887	99,901,378

The Company's policy is to place funds in interest-bearing deposits that are surplus to immediate requirements. The Company's interest rate exposure is reviewed near the maturity date of term deposits to assess whether more attractive interest rates are available without increasing risk.

At 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the post tax loss and equity would have been affected as follows:

	<b>Post tax profit</b> <b>Higher/(lower)</b>		<b>Equity</b> <b>Higher/(lower)</b>	
	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
+1%	(1,089,231)	(243,039)	1,089,231	243,039
-0.5%	544,616	121,520	(544,616)	(121,520)

The movements in the loss and equity are due to higher/(lower) interest income from cash balances.

**(B) Credit Risk**

The Company's maximum exposures to credit risk at balance date in relation to financial assets, is the carrying amount of those assets as recognised on the balance sheet. There are no derivative financial instruments currently being used by the Company to offset its credit exposure.

The Company trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Company's policy to securitise its trade and other receivables. It is noted that the only trade debtor at balance date is Origin Energy, the Company's farmin partner.

**(C) Foreign Currency Risk**

During the course of its business activities, the Company has had some transactional currency exposures, principally to the US dollar. Such exposure arises from purchases in currencies other than the Company's functional currency. The Company has entered into forward currency contracts to hedge some of these exposures due to the length and size of the currency exposure. They generally relate to the purchase of capital assets such as the Company's second drilling rig. Conversely, the purchase of foreign currency operational supplies and services are generally not hedged due to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

Approved foreign exchange derivatives are limited to foreign exchange forward contracts and foreign exchange swaps (i.e. simultaneous purchase and forward sale) with tenors of less than 12 months except for long lead time capital items where the tenor shall be as specified under the contract.

Contractually agreed or committed (i.e. Board approval received) foreign currency exposures in excess of the equivalent of AUD500,000 payable within 12 months are to be fully covered. In addition, contracted capital items with a foreign currency exposure in excess of the equivalent of AUD500,000 payable beyond 12 months are to be fully covered.

Exposures of less than the equivalent of AUD500,000 will not normally be covered, as the business risk of not covering these is considered negligible (due to the short time between supply and payment).

It is the Company's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to exactly match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2009, the Company had the following exposures to foreign currency that is not designated in cash flow hedges:

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
<b>Financial Assets</b>		
Available for sale financial asset	2,936,204	8,539,964
<b>Financial Liabilities</b>		
Trade and other payables	2,792,138	961,574

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 25 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

At 30 June 2009, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, the post tax loss and equity would have been affected as follows:

	Post tax profit Higher/(lower)		Equity Higher/(lower)	
	2009 \$	2008 \$	2009 \$	2008 \$
+10%	(266,926)	(766,360)	(13,097)	(688,945)
-5%	146,810	426,998	7,203	378,920

The movements in profit in 2009 are less sensitive than in 2008 due to the lower carrying value of the available for sale financial asset. Equity is also less sensitive in 2009 because of the increased use of hedges of foreign currency purchases and the natural foreign currency hedge arising from the offset of the financial asset and financial liability.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last years historical movements.
- The reasonably possible movement of 10% was calculated by taking the relevant foreign currency spot rates as at balance date, moving those spot rates by 10% and then re-converting back into AUD with the 'new spot-rate'.
- This methodology reflects the translation methodology undertaken by the Company.

#### (D) Liquidity Risk

The Company's objective is to maintain sufficient funds to finance its current operations with additional funds to ensure its long-term survival in the event of a business downturn. The Company's policy is that it is dependent on shareholder funds until such time it commences generating revenue from operations. It has no finance facilities in place and no borrowings. The contractual maturity of the Company's financial liabilities are:

	2009 \$	2008 \$
6 months or less	11,310,793	12,566,915

#### (E) Available for Sale Securities Risk

The Company's exposure to available for sale assets which are unlisted securities relates to the movements in the pricing of those securities from one period to the next. That in turn is measured in the first instance by the pricing of those securities when share allotments of those securities are made on or around balance date to independent third parties and in the second instance by the fair value of those assets.

At 30 June 2009, if the price of the securities in the available for sale asset (Geysir Green Energy) had moved, as illustrated in the table below, with all other variable held constant, the post tax loss and equity would have been affected as follows:

	Post tax profit Higher/(lower)		Equity Higher/(lower)	
	2009 \$	2008 \$	2009 \$	2008 \$
+10%	(293,620)	(853,996)	293,620	853,996
-5%	146,810	426,998	(146,810)	(426,998)