



GEOYNAMICS
LIMITED

QUARTERLY REPORT
PERIOD ENDING 31 DECEMBER 2002



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CORPORATE DIRECTORY

BOARD OF DIRECTORS

Mr Martin Albrecht (Chairman)
Mr Bob Flew (Non-Executive Director)
Dr Bertus de Graaf (Managing Director)
Dr Doone Wyborn (Executive Director)
Dr Prame Chopra (Non-Executive Director)
Mr Neil Galwey (Non-Executive Director)
Dr Jack Hamilton (Non-Executive Director)

COMPANY SECRETARY

Paul M. Frederiks FCPA FCIS

REGISTERED OFFICE

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BANKERS

Westpac Banking Corporation

ANZ Banking Group

AUDITORS

Ernst & Young

SOLICITORS

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HIGHLIGHTS

- The well design for Habanero 1 was completed;
- Field activities in the Cooper Basin have commenced;
- The design and specifications for the hydraulic stimulation and the monitoring programme have been completed;
- Corporate policies on Health and Safety and on Environmental Management were implemented;
- Use of Kalina Cycle technology will reduce generating costs;
- Collaboration agreements with the Soultz project in France (EEIG) and CRIEPI in Japan are nearing completion;
- Drawdown on the \$5 R&D Start grant has commenced.

OVERVIEW

Geodynamics is making good progress in the development of the world class HDR geothermal resource in the Cooper Basin. Some start up delays have been encountered, but at the time of writing, field activities in the Cooper Basin are in full progress.

The scope and size of the Cooper Basin HDR project is such that we regard it as one of national importance. It represents an

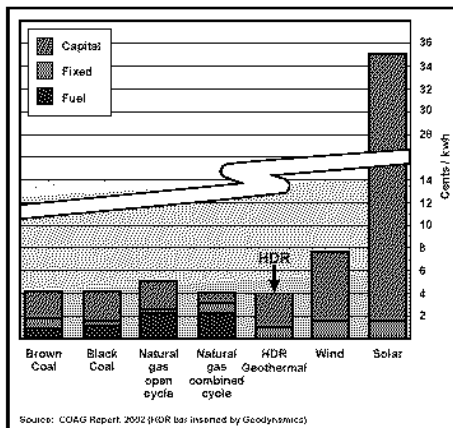
outstanding opportunity, without parallel, to change the energy balance in Australia away from fossil fuels. For its size and age, the Company is uniquely placed in having access to direct advice from a large network of national and international research organisations as well as companies.

Following the issue of the COAG report (Parer report) in November 2002, the national energy policy is set to move to centre stage in Canberra this year. The COAG report has resulted in considerable confusion particularly in the renewable energy sector as it has put into question the so-called "Mandatory Renewable Energy Targets" (MRET) designed to achieve a cost effective longer-term CO₂ emission reduction strategy. Instead, the Parer report focuses on short term measures such as "carbon trading", thereby indirectly questioning Renewable Energy Certificates (REC's) as a long term commercial incentive. Whatever the outcome of this important debate, we believe that Geodynamics is in a good position since the known high underground temperatures in the Cooper Basin have the capacity to generate power at a significantly lower total cost than other identified renewable energy resources.

Moreover, the western world's extreme dependency on finite oil reserves from the Middle East (e.g. the US needs to import 6 million barrels per day), combined with strong and ongoing international pressures for emission reduction measures also places the Company well from an international perspective. Plans are in place to broaden the understanding of investors (institutional and individual) of energy markets, both nationally and internationally, with the objective to broaden our overall investment appeal.

CORPORATE

The period ending December, 2002 was the first quarter for Geodynamics as a listed Company. The Geodynamics share price has





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been subject to some volatility on light trading, but managed to end 2002, 30% above the issue price. The trading volumes indicate that shares are tightly held. The number of shareholders at the end of the quarter stood at 964, a slight increase (11%) since listing.

Considerable efforts have been made, through the media and presentations, to broaden our appeal in the market, especially for institutional investors. We focus on the fact that the Cooper Basin HDR geothermal project represents an outstanding, medium to long term investment opportunity to meet the need for large scale, clean, zero-emission base load power at competitive cost. As part of this ongoing effort, a new brochure has been produced (see enclosure) and our website is regularly updated.

Ongoing discussions are taking place with a number of potential cornerstone investors from the power industry. These efforts are designed to secure funds to:

- Enable the Company to carry out the optimal work programme for Stage One, as set out in our Prospectus (August 2002);
- Meet unforeseen programme expenses and overcome setbacks;
- Ensure that Metasource does not take up their right to inject additional funds in return for direct equity participation in the Cooper Basin tenements.

We have reason to be confident that we will succeed in this.

Good progress was achieved in forging close ties with the Soultz project in France (EEIG) and with the Central Research Institute for the Electricity Industry (CRIEPI) in Japan. Geodynamics attended a board meeting of EEIG in Soultz and this has resulted in the formulation of a draft collaboration agreement, scheduled for completion during the current quarter. A second collaboration agreement between CRIEPI – CSIRO – Geodynamics is

being finalised. As a small young company, Geodynamics' network of research and institutional and corporate support puts the Company in a uniquely favourable position. We like to think that this collaborative network is also an indirect confirmation of the potential of the Cooper Basin project.

A recent publication has raised the link between HDR geothermal power generation and radioactivity. Shareholders should know that there are **no environmental radioactive issues associated with HDR**. The heat that is utilised by HDR is the same heat that has warmed the Earth for billions of years and makes the planet liveable today. Shareholders interested in details on this issue are referred to our website (see section FAQ's).

As part of our commitment to transparency, Geodynamics has scheduled an open forum meeting on the Cooper Basin HDR project in Adelaide as well as in Innamincka.

The AGM in November 2002 unanimously adopted all resolutions, including the resolution of the appointment of Dr Jack Hamilton from Metasource (Woodside) as a Director.

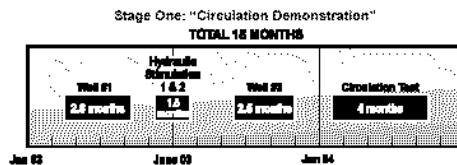
EXPLORATION AND DEVELOPMENT

Cooper Basin - SA

Bulyeroo GEL 97 – Innamincka GEL 98

Stage One

Field operations started in late November 2002 with the preparation of the drill pad and associated infrastructure for Habanero 1. The





start of drilling had to be postponed from 10 January 2003 to 15 February 2003 because of delays in obtaining access to the existing deep gas exploration well McLeod 1, owned by Santos and Joint Venture Partners. At the time of writing, the work-over programme on McLeod 1 (500m away from Habanero 1) to prepare this well for use as a deep observation well and also for water supply, is in progress.

Following the execution of a drilling contract with Century Resources, Rig 27 is now being assembled on site. All permits are in place and Primary Industry and Resources South Australia (PIRSA) have given their final consent to commence drilling. As such no further delays are expected.

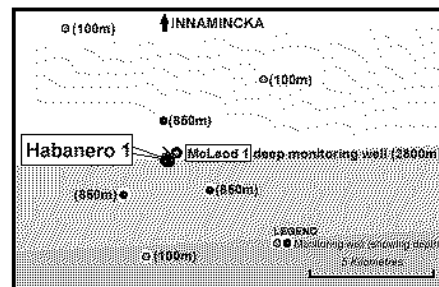
Habanero 1 will be drilled to a depth of 4500m to 4900m (14800-16000ft). The cost of this historic deep geothermal well is estimated at A\$5.4 million, excluding contingencies. The drilling is estimated to take ten weeks to complete. In finalising the well design, Geodynamics has greatly benefited from having access to Woodside Petroleum's "state of the art" drilling software as well as from having access to 30 years of open file drilling data through PIRSA.

The overall design process also profited from a peer review, with participation from Woodside Petroleum, Santos, CSIRO, PIRSA and Century Resources, during a two day workshop held in our office in Brisbane in November 2002.

The anticipated high temperatures of the well require the specialised steel casing, the supply of which has been secured.

Monitoring Network and Hydraulic Stimulation

Apart from McLeod 1, this network comprises three 850m deep wells, located 2 km away from Habanero 1, for the placement of acoustic monitoring sondes (geophones). The drilling of these wells will be carried out by Century Resources. This activity is scheduled to be completed during April, 2003. Specifications for the sondes have been finalised and a local company Auslog has been commissioned to build these.



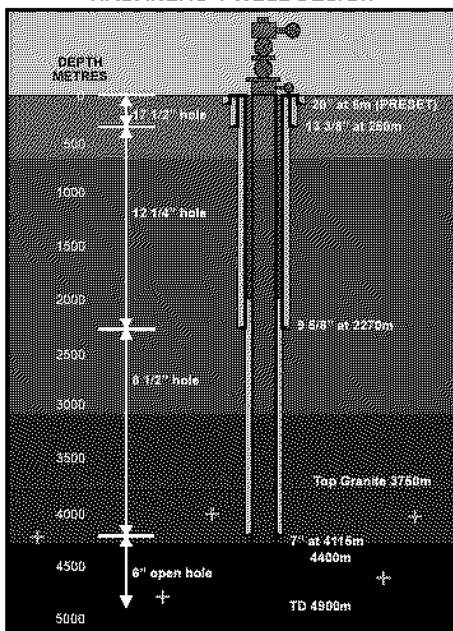
The Central Research Institute for the Electricity Industry (CRIEPI), Japan will be actively involved together with Tohoku University in the acoustic monitoring programme. As part of a collaboration agreement between CRIEPI, CSIRO and Geodynamics, CRIEPI have offered to expand the monitoring network by drilling four additional, shallow holes and the placement of four extra sondes, at no cost to us. The wide area network shallow drilling programme is scheduled to commence in March, 2003, with direct assistance from CRIEPI staff.

The results obtained from the hydraulic stimulation programme hold the key to the success of the Cooper Basin HDR Project. During the quarter the specifications of the



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HABANERO 1 WELL DESIGN



stimulation programme have been further refined and the pumping contract has been re-tendered. Indications are that at least five companies will submit new tenders.

A peer review of our hydraulic stimulation programme has been scheduled for 25 and 26 February 2003. We have confirmations that experts from Europe, Japan, USA, Woodside, Santos, CSIRO, University of Queensland and PIRSA will attend.

Economic Modelling

Data provided by Siemens Australia indicate that greater efficiency in the conversion of heat to electricity can be obtained by using the Kalina Cycle in a binary geothermal power plant rather than the standard Organic Rankine Cycle (ORC). The Kalina Cycle uses a water ammonia mixture in a closed loop

system as compared to organic fluids such as isobutane in an ORC plant. The Kalina Cycle has been successfully applied in a binary geothermal power plant in Iceland and at two waste heat recovery projects in Japan. The efficiency improvement at the Cooper Basin temperature range is expected to be 25% or more.

This is quite a significant fact as this indicates that the previously assumed total power costs (capital plus operating costs) of \$62 MWh for a demonstration plant and A\$40 MWh for a 275 MW scale up plant could be reduced by a similar factor of 25%.

EXPLORATION

Exploration activities on GEL 97 and GEL 98 were limited to further analysis by the CSIRO of existing seismic data covering the region between Burley (GEL 97) and McLeod 1(GEL 98). There are some indications that the top of the granite near Burley has greater variations than was anticipated. Further regional interpretation of the gravity data, also by the CSIRO, indicate that the extent of the granite underlying GEL 97 and 98 is even greater than previously assumed.

PIRSA have accepted a variation of the year 2 programme and budget for GEL 97, which now excludes drilling a well on this tenement.

Hunter Valley – NSW

Geodynamics received temperature logs from three wells drilled by Anglo Coal near the centre of the Muswellbrook tenement. The logs obtained were of temperature measurements carried out immediately after the wells were completed, before the bottom hole temperature was stabilised. The gradients appear similar to those in existing wells. Anglo Coal will re-log these holes when temperatures are close to equilibrium.



GEODYNAMICS
CORPORATION

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Eromanga - QLD

The application still awaits the adoption of legislative changes. It is understood that the priority of our application is recognised and accepted.

INTERNATIONAL DEVELOPMENTS

Soultz HDR Project, France (EEIG)

The second 5000m deep geothermal well was completed ahead of time and below budget. Indications are that the underground heat exchanger developed from the first deep hole is well established 500m away. Preparations for a circulation test are underway. Subject to the outcome of this test, EEIG is seriously considering installing a small, existing binary geothermal power plant by the end of this year.

Zurich – HDR Expert Meeting

An international meeting of experts on hydraulic stimulation is scheduled to be held in February 2003, in Zurich. Dr Doone Wyborn will present on our programme which forms a major part of the 2 day meeting.

Bad Urach, Germany

Evaluations of the newly formed underground heat exchanger indicate that its development is similar to what has been achieved across the border, in France.

Other Initiatives

New HDR projects are planned in Germany in Potsdam and Hannover.

HEALTH SAFETY AND ENVIRONMENTAL

Geodynamics is committed to achieving and maintaining high standards of health and safety as well as effective environmental management at all its operations and work

sites. As such, the Company has formulated and adopted new corporate policies on Occupational Health and Safety and Environmental Management, copies of which have been posted on our website for general review.

The importance of these policies will be emphasized in person by the MD of Geodynamics as well as by the MD of Century Resources at the well site pre-spud meeting for Habanero 1 in the Cooper Basin.

As reported in the previous quarterly report, we also have adopted a policy to report all key Health, Safety and Environmental Statistics on a quarterly basis.

There were no lost time incidents (LTI), nor environmental incidents to report for the quarter under review.

FINANCE AND ADMINISTRATION

The issue of the \$5M R&D Start grant from AusIndustry was formalised through the execution of an agreement. A first reimbursement of \$615k as part of the scheduled Habanero 1 programme and budget has been received. Total expenditure, net of interest, for the quarter equalled \$649k. This figure includes expenditure related to moving to new modest office premises and the purchase of a 4WD field vehicle.

Bertus de Graaf
Managing Director

If you have any questions or concerns, I would be pleased to assist.

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