



GEODYNAMICS LIMITED

ASX ANNOUNCEMENT 14 AUGUST 2003 Progress Report on Habanero #1

Drilling operations at Habanero #1 resumed on 27 July 2003 at a depth of 4,209m. The well made good progress and is currently at a depth of 4,318m. Temperature of the granite at this depth is estimated at 250°C, in line with expectations.

The drilling rig has encountered backflow pressures caused by fluid over-pressure in the target granite. The discovery of these over-pressures has enhanced the overall prospects of the project. Over-pressure will be of direct benefit to hydraulic stimulation, the next phase of Geodynamics' program to demonstrate extraction of geothermal heat from the target granites.

Drilling has been temporarily suspended while additional equipment is being brought to the site to manage fluid backflow. The backflow is a consequence of the unexpected presence of over-pressure in the granite. To control these pressures, the use of heavy drilling mud is required as the drilling fluid rather than water as originally anticipated. The joints and fractures in the granite are already "primed" to open more easily, because of these over-pressures. Drilling with heavy drilling mud is causing local hydraulic stimulation around the open hole below the casing. This causes build up of additional backflow pressures and makes well control difficult with the existing drill rig configuration.

To gain better control in further deepening the well, specialised contract equipment (Top Drive & Snubbing Unit) has been secured from New Zealand and Australia. As a consequence, drilling will recommence in approximately ten days.

Although the encountered interruptions in drilling are frustrating and are increasing the cost of the well, the prospects for success in hydraulic stimulation to develop an underground heat exchanger (our primary objective) have been significantly enhanced. Also, future well design will directly benefit from the experience gained from Habanero #1, the pioneering well.

Funding to meet the additional expenses of Habanero #1 as well as to complete Stage One of our business plan, is in place.

For further information please check our website (www.geodynamics.com.au) or contact Dr Bertus de Graaf on 07 3721 7504.

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