GEODYNAMICS LIMITED

ABN 55 095 006 090

2011 Financial Report

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APPENDIX 4E

PRELIMINARY FINAL REPORT

FINANCIAL YEAR ENDED 30 JUNE 2011

GEODYNAMICS LIMITED ABN 55 095 006 090

Results for announcement to the market

Results	2011 $'000	2010 $'000	Change $'000	% change
Revenues from ordinary activities	2,518	4,121	(1,603)	(39%)
Loss from ordinary activities after tax attributable to members	135,563	14,765	(120,798)	(818%)
Net loss for the period attributable to members	135,563	14,765	(120,798)	(818%)

Dividends

The Directors do not propose to recommend the payment of a dividend in respect of the period.

Brief explanation of any of the figures reported above:

The loss from ordinary activities represents administrative overhead offset by interest income received. In addition to these recurring expenses the Directors have also decided to recognise two impairment expenses relating to Deferred Exploration and Evaluation Costs and Property, Plant and Equipment. These impairment expenses totalled in aggregate $120.5 million.

Please refer to the attached Directors Report for a full commentary on the results for the period and refer to the 2011 Financial Report for the detailed financial statements and explanatory notes to the accounts.

NTA backing	**2011**	2010
Net tangible asset backing per ordinary security	**$0.459**	$0.922

Compliance statement

This report is based on accounts which have been audited.

Paul Frederiks
Company Secretary
31 August 2011

DIRECTORS' REPORT

DIRECTOR PROFILES

Your Directors submit their report for the period ended 30 June 2011. The names and details of the Directors of Geodynamics Limited in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name & Qualifications	Experience
Keith Spence B.Sc (Hons), FAIM ***Non-executive Chairman***	Mr Spence was most recently Executive Vice President Enterprise Capability for Woodside and was responsible for ensuring the business operated with the best people, technology and processes. He was also responsible for building a skilled and technologically advanced workforce through targeted recruiting and enhanced training and played a key role in representing Woodside's interests to the government and the public. In addition, he was responsible for Woodside's Western Australian gas supply interests. Mr Spence has held many roles during his time with Woodside, including Chief Operating Officer, Acting Chief Executive Officer, Director – Oil Business Unit, Director – Northern Business Unit and Exploration Manager – North West Shelf. Mr Spence has gained a broad knowledge across the industry having over 30 years of experience in the oil and gas industry including 18 years with Shell. Mr Spence is Chairman of the listed company Clough (since August 2008) and a Non-executive Director of Verve Energy, Chairman of the State Training Board of Western Australia, the National Offshore Petroleum Safety Authority Board, and the Industry Advisory Board of the Australian Centre for Energy and Process Training. He is a member of the Board of Skills Australia, the Australian Institute of Management (WA) and the Curtin University of Technology Council. Mr Spence assumed the role of Chairman following the retirement of Mr Albrecht at the November 2010 AGM.
Geoff Ward B.E (Chem) (Hons) MBA ***Managing Director & CEO*** **(Appointed 31 January 2011)**	Mr. Ward joins Geodynamics having most recently held the role of Director at Azure Capital, a Perth-based independent advisory firm, offering corporate advisory services to leading firms in the resources and engineering industries where he had worked since 2007. Prior to his time with Azure, Mr Ward has over 15 years experience in the oil and gas industry in senior roles covering business development, mergers and acquisitions, operations, oil and product trading, strategic and organisational development, planning and economics, investor relations and new project development. Mr Ward holds an honours degree in Chemical Engineering from the University of Melbourne and a Masters of Business Administration from the University of Western Australia Business School, receiving the Director's Letter of Commendation.
Banmali Agrawala B.Eng (Mech) ***Non-executive Director***	Mr Agrawala graduated with a BE Mechanical Engineering with distinction from Mangalore University in 1984. His professional experience includes working from 1984 – 1987 with Bajaj Auto in the R&D department and from 1987 - 2008 in Wartslila where he was finally the Managing Director of Wartsila India and a Member of the Global Power Plant Management Board. He is currently the Executive Director (Strategy & Business Development) of Tata Power and also a member of the Board. He has held various positions in Confederation of Indian Industry a Premier Industry body including Chairman of the Western Region and member of the National Council. He is currently a member of the National Infrastructure council as well as the National Power Committee of CII.

DIRECTORS' REPORT (Continued)

Name & Qualifications	Experience
Prame Chopra B.Sc. (Hons), Ph.D, FAICD, MAGU, MASEG, MIGA, MASC ***Alternate Director to Banmali Agrawala***	Dr Prame Chopra was a Reader in Geophysics at The Australian National University in Canberra from 1996 - 2006. He obtained his Ph.D in rock physics at the ANU in 1980 and has held research appointments at ANU, Cornell University in New York and at the Bureau of Mineral Resources, Geology & Geophysics and the Australian Geological Survey Organisation. He is an internationally recognised researcher of more than 21 years standing with strong collaborative links with key overseas Hot Fractured Rocks (HFR) geothermal energy research groups. He was a Principal Investigator of the Energy Research & Development Corporation funded project into HFR and Tight Gas in the Cooper Basin, SA and the ANU - Pacific Power geothermal research project in the Hunter Valley, NSW. In 2000, he was an invited guest of the Japanese New Energy Development Organisation and lectured on HFR geothermal resources in a number of Japanese cities. He is a member of the Australian Science Communicators and was an ABC Science Media Fellow in 2000.
Robert Davies CMA (Canada) ***Non-executive Director***	Mr Robert Davies is a Certified Management Accountant (Canada) and has extensive senior finance experience with global mining and resource companies. He was formerly the Chief Executive Officer and a Director of Australian Energy Company Limited, an unlisted public company. Prior to that he was Executive Vice President and Chief Financial Officer for Inco Ltd, the western world's largest nickel producer. Prior to that, he was Chief Financial Officer for Alumina Ltd., and General Manager Treasury Tax and Investor Relations for WMC Ltd. He has previously held senior finance positions with BHP in Canada, the US, Chile and Australia, acquiring significant operational and corporate finance experience. He was also previously a director of PT Inco and Alcoa of Australia.
Jack Hamilton B.Eng. (Chem), Ph.D, FAICD ***Non-executive Director*** **(Was interim Managing Director up until 30 January 2011)**	Dr Jack Hamilton is CEO of Exergen Pty Ltd, a low emission coal resource development Company and formerly, Director of NWS Ventures with Woodside Energy. Dr Hamilton graduated from Melbourne University with a Bachelor of Chemical Engineering and Doctorate of Philosophy in 1981. He has over 26 years experience both locally and internationally in operations management, in refining, petrochemicals and gas production, marketing, strategy and LNG project management. During his time at Woodside, he held the role of Managing Director, Metasource Pty. Ltd. a company focused on investing in sustainable and renewable energy businesses.
Michel Marier ***Non-executive Director*** **(Appointed 24 February 2011)**	Mr Michel Marier joined The Sentient Group in 2009 and he is based at their office in Montreal, Canada. Before joining the Sentient Group, Mr Marier worked 8 years at the Private Equity division of la Caisse de dépôt et placement du Québec (CDPQ). While at CDPQ, his responsibilities ranged from currency hedging, risk and return analysis to investments. In 2006, he participated in the establishment of a new sector in the Private Equity division – distressed debt. In less than two years, the portfolio grew to billions through co-investments and private equity funds. After this accomplishment, Mr Marier concentrated his efforts on restoring the natural resources sector within the Private Equity division. Michel Marier holds a Master's degree in finance from HEC Montreal. He is a CFA charter holder. He is a former Director of Natural Resources USA Corp.

DIRECTORS' REPORT (Continued)

Name & Qualifications	Experience
Andrew Stock B.Eng. (Chem) (Hons), FIE Aust ***Non-executive Director***	Mr Andrew Stock is the Director, Executive Projects for Origin Energy. In previous roles, he was responsible for Origin's major capital investments in upstream petroleum, power generation, and low emissions technology businesses. With over 30 years of experience, he previously held senior management positions in energy marketing, oil and gas and petrochemical industries in Australia and overseas. He is a Non-executive Director of the listed Company Horizon Oil Limited (since February 2011), and Director of Australia Pacific LNG Pty Limited, Transform Solar Pty Limited and The Climate Group, and a member of the Advisory Board of the Faculty of Engineering, Computer and Mathematical Sciences at the University of Adelaide. He has a Chemical Engineering degree (Honours) from the University of Adelaide, is a Fellow of the Institution of Engineers Australia, and a Graduate member of the Australian Institute of Company Directors.
Martin Albrecht AC B.Tech (Civil), FTSE, FIE Aust, FAICD, FAIM, DUniv (QUT) ***Former Non-executive Chairman*** **(retired 25 November 2010)**	Mr Martin Albrecht AC was Managing Director of Thiess Pty. Ltd. (one of Australia's largest engineering and construction companies) a position he held for more than 15 years (1985 – 2000). He was also Chairman of Thiess from 2001 to 2008. Mr Albrecht has also served as a director of the listed company Leighton Holdings Limited (2001 – 2008). He received a Companion of the Order of Australia (AC) in 2002 for service to the construction industry, to the engineering profession, and to the community in the areas of education, corporate social responsibility and industrial safety. A Centenary Medal was also awarded to him in 2003. Mr Albrecht maintains an active interest in a wide range of government, community, education and cultural activities.
Pieter Britz B Eng (Industrial), Pr Eng, MBA ***Former Non-executive Director*** **(resigned 24 February 2011)**	Mr Pieter Britz is a registered professional engineer with a wealth of experience in the resources industry since the early 1990's. He began his career at Iscor Mining in South Africa where he worked on capital expenditure programs and investments at the Sishen iron ore mine managing throughput, capacity and expansion projects. He joined the Sishen Executive Team in 1997 to oversee investment decisions and later that year set up Iscor's corporate strategy and business consulting unit where he managed various strategic initiatives. His experience also includes coal, base metals, heavy minerals, and industrial minerals. Pieter co-managed the de-merger and separate listing of Kumba Resources Limited in 2001 where he continued with strategy and corporate development. In early 2004 Pieter moved to Australia to set up Royal Bank of Canada's investment banking division, initially focusing on equity capital markets before expanding into corporate advisory work. Pieter joined The Sentient Group in early 2007 as investment professional.
Gerry Grove-White B.Sc (Hons), M I Mech E, C.Eng, C Dip A F ***Former Managing Director & CEO*** **(resigned 9 July 2010)**	Mr Gerry Grove-White has a Mechanical Engineering background, and was, up to joining Geodynamics as Managing Director, Chief Operations Officer for Tata Power, India's largest private power company. Prior to that, he was Eraring Energy's Managing Director for 5 years. He gained a B.Sc. (Hons) in Mechanical Engineering from City University, London. He is a Member of the Institution of Mechanical Engineers and a Charted Engineer. He also gained a Certified Diploma in Accountancy and Finance. He has over 38 years experience in the power industry, having worked on both conventional and nuclear power stations, in the UK and internationally. He has experience in the development and financing of power station projects on a limited recourse basis, and the project management of their subsequent construction and operation.

All of the above named Directors acted as Directors of the Company for the whole of the year under review and up to the date of this report except where indicated.

DIRECTORS' REPORT (Continued)

COMPANY SECRETARY

Paul Frederiks

B.Bus. (Acc), FCPA, FCIS, FAICD

Mr Paul Frederiks has extensive experience in public company financial and secretarial management with more than 29 years experience in the Australian resources sector. He has an extensive knowledge base in listed public company reporting and compliance, financial modelling and forecasting, treasury management, project financing and corporate governance.

He was previously Company Secretary and CFO of Ross Mining NL for over eight years until 2000 and Company Secretary for Billabong International Limited from 2000 until 2004. He is a Non-executive Director and Company Secretary of the ASX listed company Auzex Resources Limited.

CORPORATE STRUCTURE

Geodynamics Limited is a company limited by shares, incorporated and domiciled in Australia. It listed on the Australian Securities Exchange on September 2002 under code GDY. Its registered office and principal place of business is Level 3, 19 Lang Parade, Milton QLD 4064.

PRINCIPAL ACTIVITIES

Geodynamics Limited was formed in November 2000 to focus on the development of zero emissions, renewable energy generation from Enhanced Geothermal Systems (also known as Hot Fractured Rocks (HFR)) in Australia. The Company has EGS geothermal tenements in NSW, QLD and in the north-eastern part of South Australia. This latter area can be classified as the hottest accessible non-volcanic region in the world.

Geodynamics Limited aims to become the largest renewable energy producer in Australia by developing emission-free, baseload electricity generation from known EGS geothermal resources at the Innamincka "Deeps" Joint Venture located in the Cooper Basin in South Australia. The participants are Geodynamics as Operator with a 70% interest and Origin Energy Geothermal Pty Ltd with a 30% interest.

In March 2009, it completed Stage One of its three stage business plan based on the development of the known EGS geothermal resource in the Cooper Basin. Stage One was the demonstration of economic heat extraction from a two well circulation test via a developed underground heat exchanger. The Company completed this stage by drilling two deep geothermal wells (Habanero 1 and Habanero 3), successfully developing an underground heat exchanger and then successfully completing an open flow circulation test in March 2008 and a six week closed loop circulation test followed by independent data validation in March 2009.

Geodynamics also is involved in exploration in the Cooper Basin for shallow Hot Sedimentary Aquifers (HSA) down to a depth of approximately 3,000 metres. The HSA project in the Cooper Basin is known as the Innamincka "Shallows" Joint Venture with the participants being Geodynamics with a 50% interest and Origin Energy Geothermal Pty Ltd as Operator with a 50% interest. This joint venture drilled its first shallows geothermal well during the year known as Celsius 1.

REVIEW AND RESULTS OF OPERATIONS

The Company realised an operating loss before tax for the financial period as set out below:

	2011 $	2010 $
Operating loss before income tax expense	(135,563,123)	(14,765,061)
Net loss attributable to members of Geodynamics Limited	(135,563,123)	(14,765,061)
Earnings per Share	(cents)	(cents)
Basic and diluted loss per share	(43.01)	(5.08)

In the 12 months to June 2011, Geodynamics has made further progress in its development of zero-emissions, renewable energy generation.

DIRECTORS' REPORT (Continued)

REVIEW AND RESULTS OF OPERATIONS (Continued)

The key achievements and highlights for the 12 months to June 2011 were as follows:

- The Jolokia 1 well was successfully completed installing new liners from the surface to the granite With measured temperature of 278°C , Jolokia 1 was confirmed as the world's hottest known EGS well, 8 °C higher than Geodynamics' Habanero 3 reservoir at the same depths;
- A hydraulic fracture stimulation program was undertaken at Jolokia 1, with initial success in establishing enhanced fracture zones across two intervals of 4,400m and 4,700m. Analysis of results of this stimulation, the suitability of these fractures for use as an underground heat exchanger and the integration of these results with the other stimulations carried out previously with Habanero location are ongoing;
- The $90 million Renewable Energy Demonstration Program funding deed was executed between Geodynamics and the Federal Government. Geodynamics received confirmation that the grant is now unconditional, with all conditions precedent satisfied.
- Acquired further prospective geothermal acreage in the Cooper Basin, Geothermal Exploration Licence (GEL) 268, from Clean Energy Australasia. Covering an area of 497 km2, the acquisition of GEL 268 expands Geodynamics' geothermal tenement area to a total of 3,059 km2 and joins Geodynamics' existing tenements together across South Australia and Queensland.
- Construction and acceptance testing of Rig 200 was completed. Currently located in Edmonton, Canada, Rig 200 is being marketed for sale or lease to the international drilling community.
- Successfully raised $16.2 million under a Share Purchase Plan with thanks to our loyal shareholder base.
- Mr Geoff Ward was appointed as Geodynamics' new CEO and Managing Director and commenced his tenure on 31 January 2011. Dr Jack Hamilton returned to his Non-executive Director role.
- Initial exploration well, Celsius 1, drilled as the first well in an exploration program for the "Shallows" joint venture. Celsius 1 was drilled to assess the potential of Hot Sedimentary Aquifers in the Cooper Basin tenements and was drilled to a target depth of 2360m. high temperatures were encountered. However reservoir permeability was below expectations. Origin as operator of the Innamincka "Shallows" Joint Venture continues to evaluate results in order to determine the extent of any further program.
- The comprehensive investigation of the root causes of the Habanero 3 well failure was completed with the close out of a series of independent external studies into the failure. The findings of this extensive review have been progressively incorporated into the well design for future wells to be drilled into the Innamicka granites.
- The insurance claim for the Habanero 3 loss incident was progressed through the year with $4.0 million being received in payment of the first section of the claim relating to well control costs. Documentation for the balance of the claim has been completed and discussions with the underwriting syndicate are progressing.
- Habanero 4 engineering design, and operational planning activities were undertaken including detailed well design, procurement of long lead items, construction of the drilling pad and installation of the well conductor. Engagement with Innamicka "Deeps" Joint Venture partner, Origin Energy, to secure their approval to the proposed basis of design, well design, execution program and well budget is continuing through a series of extensive engineering, risk and operational reviews, including incorporation of all lessons learnt form the Habanero 3 well incident and subsequent investigations. Full approval to proceed to drill Habanero 4 is expected to be secured during first half FY2012.
- The FY2012 Deeps work program and budget was finalised and submitted to Origin Energy for joint venture approval. Discussions with Origin are ongoing to confirm the proposed program with the first major activity proposed being the drilling of Habanero 4 well.

EMPLOYEES

The Company had 50 equivalent full time employees as at 30 June 2011 (2010: 70 employees).

DIRECTORS' REPORT (Continued)

DIVIDEND

The Directors do not propose to recommend the payment of a dividend in respect of the period ended 30 June 2011.

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares of Geodynamics Limited were:

Director	Fully paid Ordinary Shares	Options over Ordinary Shares
K. Spence	117,500	37,500
G. Ward	-	-
B. Agrawala	-	-
P. Chopra	955,914	37,500
R. Davies	57,500	37,500
J. Hamilton	386,795	75,000
M. Marier	-	-
A. Stock	43,333	25,000

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial period were as follows:

- Contributed Equity increased from $319.9 million to $336.4 million as primarily a result of a Share Purchase Plan completed in December 2010 which raised $16.2 million.

- During FY2011 a thorough review of the Joint Venture's proposed program of works for the Innamicka "Deeps" Joint Venture was undertaken and a decision was made to focus efforts on the Company's Habanero location over the next periods. As a result the Board has made a decision to record an impairment expense for the expenditure associated with the previously drilled Savina 1 and Jolokia 1 wells that been previously capitalised.
- Deferred Exploration and Evaluation costs decreased from $122.4 million to $85.3 million, a decrease of $37.1 million. An increase of $49.9 million related to the Jolokia 1 re-casing and stimulation, and engineering, procurement of long lead items and preparatory field work for the Habanero 4 well, was offset by an $87 million write down of well costs outside of the Habanero area of interest.
- As has been previously announced Geodynamics is considering the sale of one or both of the Joint Venture owned drill rigs, Rig 100 and Rig 200, and expects to conclude any sales in the coming year. As these assets are being considered for sale an impairment charge of $33.5 million has been recognised to reflect the current anticipated realisation value.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not arisen between 30 June 2011 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.

DIRECTORS' REPORT (Continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The proposed 2011/12 financial year work program will progress the Innamincka "Deeps" Project through activities focussed at the Habanero location. The first proposed major activity is the drilling of the Habanero 4 well that is expected to be completed during the financial year. The Habanero 4 well is the first step to reinstating flow at the project and progressing the commissioning of the 1 MWe Habanero Pilot Plant which remains Geodynamics major near term milestone.

The proposed forward work program is a gated process with each stage dependent on achieving successful results from previous activity. As such the order and timing of future activities remains subject to ongoing review. The current appraisal program is focussed on acquiring the reservoir data and demonstrating the well capacity necessary to prove the commercial viability of EGS geothermal consistent with the objectives under our Renewable Energy Demonstration Program grant.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Geodynamics Limited is committed to the effective environmental management of all its exploration, development and operating activities, while at the same time minimising the social impact for the benefit of present and future generations.

The Company recognises that while exploration and resource development is a temporary land use, there are a range of potential environmental impacts. Prior to commencement of operations, planning must be undertaken to identify these potential impacts and lead the development of effective strategies for their management. During operations, the successful implementation of these strategies must be a principal objective of site management. Following decommissioning, the sites must be left in a safe and stable state, with all disturbed land successfully rehabilitated to an agreed standard.

The Company has an Environmental Policy and Environmental Management System (EMS) in place that explains the site requirements to achieve these objectives including operating in accordance with a site environmental control plan and identification and management of environmental risk and liability. In October 2009 Geodynamics EMS was certified as meeting the requirements of ISO 14001:2004. During the year the EMS was audited by the independent certifier, SAI Global, who found no non-compliances with the Standard.

A summary of the Company's environmental performance over the year is as follows:

- Generally there has been compliance with all environmental legal requirements, with no serious environmental incidents reported. Six minor environmental matters were reported to environmental authorities as required.
- On 19th July 2011 Geodynamics received a notice of non-compliance from the Department of Primary Industries and Resources South Australia (PIRSA), the body responsible for regulating our tenements, in respect to the in-correct disposal of waste at the Jolokia 1 well site. There is no penalty associated with this notice and all corrective actions have been implemented.
- On 6th June 2011 Origin Energy, as operator of the "Shallows" Joint Venture responsible for drilling the Celsius 1 well on our tenement GRL – 8 received a notice of non-compliance from the Department of Primary Industries and Resources South Australia (PIRSA), the body responsible for regulating our tenements, in respect to the in-correct disposal of water at the Celsius 1well site. There is no penalty associated with this notice and all corrective actions have been implemented.
- All scheduled environmental audits have been completed with the majority of the findings closed out.
- Consultation has been undertaken with all relevant stakeholders prior to commencement of construction activities, including traditional owners, with no complaints received.
- A Waste Management Plan and a Water Monitoring Program have been developed and implemented across our field operations.
- An Environmental Management Manual which provides practical guidance and information on a range of environmental issues to assist site based staff and contractors manage and minimise the environmental impact of our activities has been developed.

At the time of writing, the Company remained free of any breach of any environmental regulations regarding any field work undertaken on its tenements.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited)

This remuneration report outlines the remuneration arrangements in place for Directors and Executives of Geodynamics Limited in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly including any director and includes the five executives in the Company receiving the highest remuneration.

For the purposes of this report, the term ‘executive’ encompasses the Managing Director and the executive management team of the Company.

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive salaries to attract high calibre executives;
- Link executive rewards to shareholder value creation through the issue of shares and share options;
- Establish appropriate share price performance hurdles under its long term incentive plan to align executive reward with shareholder value creation, the achievement of which will depend on the Company achieving key corporate milestones that are integral to the Company’s successful completion of its business plan.

Remuneration Committee

The Remuneration and Nominations Committee has the primary objective of assisting the board in developing and assessing the remuneration policy and practices of the Directors, Chief Executive Officer (CEO) and Senior Executives who report directly to the CEO.

Such assessment will incorporate the development of remuneration polices and practices which will enable the Company to attract and retain executives who will create value for shareholders. Executives will be fairly and responsibly rewarded having regard to the performance of the Company, the performance of the executive and the general market environment. The Committee also assists the Board in its own self evaluation by annually reviewing the process for self evaluation. This considers attributes such as the qualitative and quantitative nature of the review, and the mix between total Board review and individual Director review.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-executive Director and senior executive remuneration is separate and distinct.

Non-executive Director Remuneration

Objective - The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure - The Constitution of Geodynamics and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 28 November 2007 when shareholders approved an aggregate remuneration of $700,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-Executive directors of comparable companies when undertaking the annual review process. The amounts are set at a level that compensates the Directors for their significant time commitment in overseeing the progression of the Company’s business plan.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Each Non-executive Director receives a fee for being a Director of the Company. The current fee structure is to pay Non-executive Directors a base annual remuneration of $64,500 p.a. with the Chairman paid $118,250 p.a. The Chairman of each committee receives an additional fee of $16,125 p.a. These fee structures have remained the same with no increase in the past three years. There are no retirement benefits offered to Non-executive Directors other than statutory superannuation which is in addition to these amounts. In accordance with good corporate governance practice, the Non-executive Directors do not participate in share and share option based remuneration plans of the Company.

The Company notes that Origin Energy Limited, The Tata Power Company Ltd and collectively Sunsuper Pty Ltd & The Sentient Group, as major investors, each have a right to appoint a Non-executive Director to the Company and as such those Directors (where appointed) are not considered by the ASX Corporate Governance Principles to be independent.

The remuneration of Non-executive Directors for the period ending 30 June 2011 is detailed in Table 1 of this report.

Managing Director and Senior Management remuneration

Objective - The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward executives for company, business division and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure - The Managing Director's and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary, a short term annual cash based performance related component together with longer term performance incentives through shares and share options which allow executives to align with the success of Geodynamics Limited.

The Company's Managing Director and Senior Executive remuneration packages are formalised in service agreements, and policies and procedures are documented and approved by the Board covering all employees who participate in the incentive plans of the Company.

Remuneration consists of the following key elements:

- Fixed Remuneration – Base salary and superannuation;
- Variable Remuneration under the Geodynamics Short Term Incentive Plan (STIP) – payable in cash at the end of the financial year;
- Variable Remuneration under the Geodynamics Long Term Incentive Plan (LTIP) – payable in Shares and Share Options.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration of the Managing Director is reviewed annually by the Remuneration and Nominations Committee. Factors considered include Company and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice. The Remuneration and Nominations Committee has access to external advice independent of management.

Senior executives receive their fixed (primary) remuneration in cash. The fixed remuneration component of key management personnel is detailed in Table 2 of this report.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Variable Remuneration under the Short Term Incentive Plan (STIP)

Objective - The objectives of the Geodynamics STIP are to:

- Reward employees for their contribution in ensuring that Geodynamics achieves the corporate key deliverables;
- Encourage cross divisional and team working;
- Enhance Geodynamics attracting and retaining high calibre and high performing employees; and
- Link remuneration directly to the achievement of key annual organizational objectives.

Structure – The Company has in place a Short Term Incentive Plan that establishes a pool of funds up to a maximum of 30% of annualised fixed remuneration, adjusted in size according to the achievement of key Company Business Plan milestones in a year. The distribution of the pool is to be determined by team achievement in delivering the team business plan milestones. To participate in the Plan, eligible staff must be employed for at least six months for the financial year in question meaning that for the FY2011 year, eligible staff must have started by 1 January 2011.

The key business plan milestones for FY2010 were the completion of Habanero 3 investigation, (achieved), gaining Joint Venture agreement to drill two wells at Habanero (achieved), signing the Renewable Energy Demonstration Fund grant funding agreement (achieved), commencement of drilling of Jolokia 2 (not achieved), successful deep stimulation of Jolokia 1 by 30 June 2010 (not achieved) and commencement of activities in QLD and NSW (not achieved).

For FY2010, the Company's performance against the above key business plan milestones resulted in a payment under the STI Plan of a maximum of 10.5% of annualised fixed remuneration or a little over a third of the maximum bonus pool. Not all employees received the maximum 10.5% STI due to performance ratings from their line managers. These payments were made in July 2010 and are reflected in the remuneration tables for FY2010 in this report.

The key business plan milestones for FY2011 were meeting or exceeding HSE targets (achieved), successful stimulation of Jolokia 1 (achieved) and drilling Habanero 4 and meeting its well objectives (not achieved). There were a number of other targets that followed on from Habanero 4 that could not be achieved as the well was not drilled.

For FY2011, the Company's performance against the above key Business Plan milestones resulted in a payment under the STI Plan of a maximum of 10% of annualised fixed remuneration or one third of the maximum bonus pool. The aggregate of annual STI payments available for staff is subject to the approval of the Remuneration and Nominations Committee. This determination usually occurs within one month after the reporting date. The payments made are recognised as remuneration in the year in which STI was earned and therefore the STI payments for FY2011 which were paid in July 2011 are reflected in the remuneration tables for FY2011. Note this is a change in policy over previous years when the STI payment was reflected in the year in which the payment was made. Therefore the FY2010, STI comparatives have been restated to reflect the STI paid in July 2010 rather than July 2009.

Variable Remuneration under the Long Term Incentive Plan (LTIP)

Objective - The objective of the Geodynamics LTIP is 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.

Structure – The LTIP was established by the Board in 2008 as part of its remuneration review. The LTIP comprises two components: Geodynamics Limited shares, and options to purchase Geodynamics Limited shares at the current price, at a time in the future. The LTIP is designed to provide rewards over a three year term. An allocation of Geodynamics shares representing a deemed value of 15% of annualised fixed remuneration is made each 12 month period. The number of shares allotted is calculated by dividing 15% of the annualised fixed remuneration by the weighted average share price at the time of issue. An allocation of Geodynamics options to purchase shares representing a deemed value of 45% of annualised fixed remuneration is made each 36 month period meaning that the option incentive is also deemed to represent 15% of the annualised fixed remuneration for each 12 month period. The number of options allotted is calculated by dividing 45% of the annualised fixed remuneration by the deemed option value at the time of issue.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

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

- Geodynamics Limited Deferred Employee Share Plan (DESP); and
- 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 with final payments approved by the Managing Director.

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 service 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.

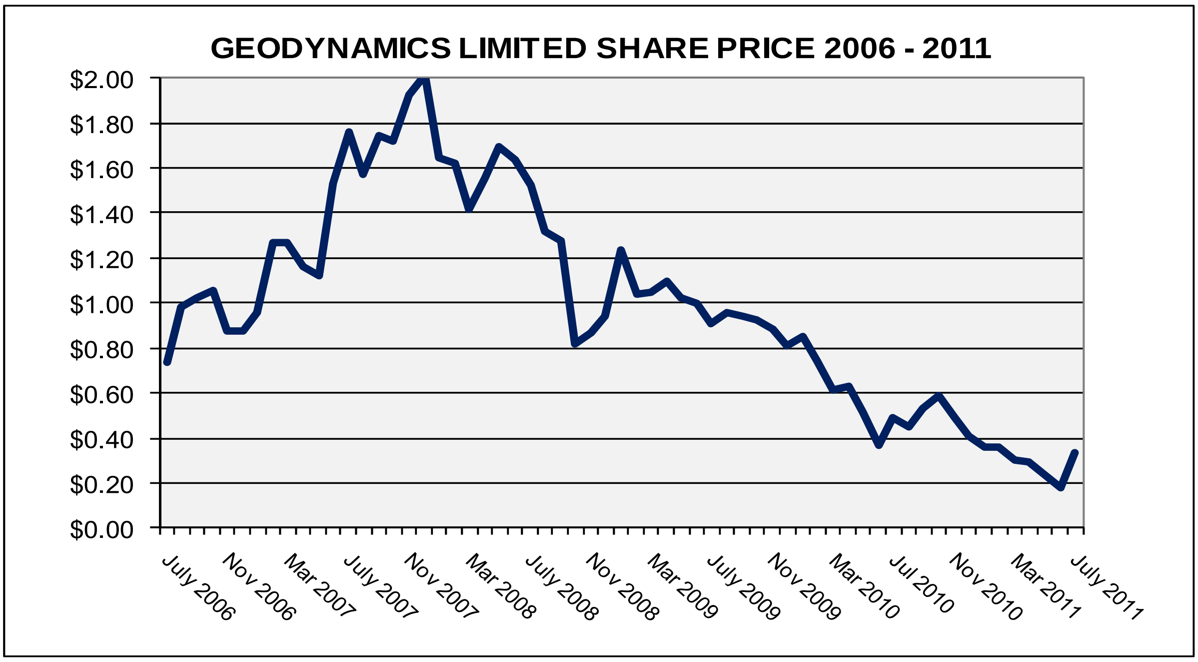
The performance requirements for options issued under the EOP requires that options will only vest should the compound growth in the Geodynamics share price increase by 15% per annum and the participant remains employed by Geodynamics or a Related Body Corporate for:

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

The Company uses a Total Shareholder Return (TSR) measure as the performance hurdle for the Geodynamics EOP as outlined below. A TSR based hurdle ensures an alignment between medium term shareholder return and reward for executives. The Board considers at this development stage of the Company's growth, share price increase itself is an adequate measure of TSR.

Relationship of rewards to performance

The graph below shows the performance of the Company as measured by its share price and therefore by definition its TSR. The loss per share from continuing operations for the last five years was as follows: 2006/07 - $0.024, 2007/08 - $0.036. 2008/09 - $0.054, 2009/10 - $0.051, 2010/11 - $0.048.



DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Hedging of shares and options risk

Currently no Director or officer uses hedging instruments to limit their exposure to risk on either shares or options in the Company. The Company's policy is that the use of such hedging instruments is prohibited.

Employment Contracts

Managing Director and Chief Executive Officer

Mr Geoff Ward was appointed Managing Director on 31 January 2011 following the completion of the fixed term, interim appointment of Dr Jack Hamilton. Mr Ward's remuneration package is formalised in a four year service agreement, the details of which were announced to the ASX on 29 November 2010. The key terms of Mr Ward's contract are as follows:

- He receives a base remuneration including superannuation of $500,000 per annum;
- Short Term Incentive – Up to $250,000 per annum which is only payable on the achievement of certain performance milestones. For the financial year ended 30 June 2011, the maximum available short term incentive has been calculated on a pro-rata basis which the parties agreed to be $104,167. The actual amount paid for the year ended 30 June 2011 was $72,917 representing 14.6% of annual fixed remuneration including superannuation. The key performance milestones set for Mr. Ward for FY2011 comprised health safety and environment performance, building shareholder value, strategy development, field execution delivery and organisational and capital effectiveness;
- Long term incentive (Shares) - an annual grant equivalent in the number of shares in value to 15% of annual base remuneration as set out under the rules associated with the Company's Deferred Employee Share Plan. The first grant will occur three months after the commencement of employment and then annually on the anniversary of the commencement of employment. The issue price will be the volume weighted average share price for the five trading days prior to the date of issue of the shares. Each grant of shares will have a vesting period of 36 months but all shares will vest if the full term of 48 months is served under the employment agreement;
- Long term incentive (Options) - A grant of a total of 2,700,000 options subject to the rules of the Company's Employee Option Plan and exercisable in four tranches as follows:
  - 400,000 options will vest on the commencement of employment and will be exercisable from the first date that the volume weighted average share price in a period of 20 consecutive trading days is 150% higher than the exercise price of 48 cents;
  - 500,000 options will vest 12 months after the commencement of employment and will be exercisable from the first date that the volume weighted average share price in a period of 20 consecutive trading days is 200% higher than the exercise price of 48 cents;
  - 900,000 options will vest 24 months after the commencement of employment and will be exercisable from the first date that the volume weighted average share price in a period of 20 consecutive trading days is 250% higher than the exercise price of 48 cents;
  - 900,000 options will vest 36 months after the commencement of employment and will be exercisable from the first date that the volume weighted average share price in a period of 20 consecutive trading days is 250% higher than the exercise price of 48 cents.
  - The last exercise date of all tranches of options is 48 months after the commencement of employment. The exercise price applying is the 10 day volume weighted average price of the Company's shares traded on the ASX leading up to the date of the appointment being 25 November 2010 which was 48 cents.
- The Company proposes to have the proposed allotment of shares and options to Mr Ward tabled at the November 2011 Annual General Meeting for shareholders to consider and if deemed appropriate, approve the issue of the aforementioned shares and options to Mr Ward.
- The Company may terminate the agreement within the first 12 months of service by giving 12 months notice or by providing payment in lieu of the notice period;
- The Company may terminate the agreement after 18 months of service by giving 6 months notice or by providing payment in lieu of the notice period;
- There is a sliding scale between 12 and 18 months of service whereby the notice requirement reduces from 12 months to 6 months on a proportional basis over that period.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Employment Contracts (continued)

Former Interim Managing Director and Chief Executive Officer

Dr Jack Hamilton was appointed Managing Director on 23 June 2010 for an interim period following a change of leadership announcement made on that date. Dr Hamilton's remuneration package was formalised in a service agreement which commenced at that time and was completed on 31 January 2011. The key terms of Dr Hamilton's contract were as follows:

- He received a base remuneration including superannuation of $525,000 per annum;
- Short Term Incentive - He received a short term incentive in the form of the issue of fully paid ordinary shares based on a 30% incentive of the annualised salary for the term of his appointment converted at the 10 day volume weighted average share price up to and including 23 June 2010 which was 38 cents per share. The issue of a total of 207,237 fully paid ordinary shares was subsequently approved by Shareholders at the Annual General Meeting held on 25 November 2010.
- Long term incentive – He did not participate in the Company's Long Term Incentive Plan due to the short term tenure of his appointment;

Other Executives

All Executives have rolling contracts that are formalised in service agreements.

The key termination provisions are a mutual obligation of 3 month's notice for the executive roles covering Well Engineering, Reservoir Engineering, Project Engineering, Finance & IT, Commercial, People, Safety & Environment and Corporate Affairs Managers' roles. The Executives may also terminate their agreements with one month's notice if, amongst other things, the Company becomes subject to a takeover where effective control changes.

The Company Secretary operates a consultancy business providing Company Secretarial and Accounting services (see profile in Director's Report). His consultancy is paid for services on normal commercial terms.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Table 1 – Directors' Remuneration for the year ended 30 June 2011 (Audited)

	Short-Term			Post Employ-ment	Share-based payment		Total
	Salary & Consulting Fees	Directors fees	Cash Bonus	Super-annuation	Shares (amortised cost)	Options (amortised cost)	
K. Spence [1] Chairman	-	112,590	-	10,133	-	-	**122,723**
G. Ward [2] Managing Director	199,801	-	72,917	10,586	10,417	45,961	**339,682**
B. Agrawala [3] Non-executive	-	-	-	-	-	-	**-**
P. Chopra Alternate Non-executive	-	64,500	-	5,805	-	-	**70,305**
R. Davies Non-executive	-	80,625	-	7,256	-	-	**87,881**
J. Hamilton[4] Non-executive	306,250	35,408	-	-	78,750	-	**420,408**
M. Marier [5] Non-executive	-	24,493	-	-	-	-	**24,493**
A. Stock Non-executive	-	80,625	-	7,256	-	-	**87,881**
M. Albrecht [6] Former Chairman	-	49,270	-	4,434			**53,704**
P. Britz [7] Non-executive	-	46,457	-	-	-	-	**46,457**
G. Grove-White [8] Former Managing Director	343,212	-	157,500	51,167	-	-	**551,879**
Totals	**849,263**	**493,968**	**230,417**	**96,637**	**89,167**	**45,961**	**1,805,413**

1 Became Chairman on 24 November 2010 following the retirement of M. Albrecht.
2 Appointed Managing Director on 31 January 2011.
3 Fees are paid to the Alternate Director, Prame Chopra.
4 Was Interim Managing Director for the seven months to 30 January 2011 then reverted to Non-executive Director role.
5 Appointed 24 February 2011, fees paid to the Director's employer (The Sentient Group), being a cornerstone shareholder of the Company.
6 Retired 24 November 2010.
7 Resigned 24 February 2011.
8 Resigned 9 July 2010.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Table 2 – Directors' Remuneration for the year ended 30 June 2010 (Audited)

	Short-Term			Post Employ-ment	Share-based payment		Total
	Salary & Consulting Fees	Directors fees	Cash Bonus	Super-annuation	Shares (amortised cost)	Options (amortised cost)	
K. Spence [1] Chairman	-	80,625	-	7,256	-	-	**87,881**
B. Agrawala [2] Non-executive	-	-	-	-	-	-	**-**
P. Chopra Alternate Non-executive	-	64,500	-	45,805	-	-	**110,305**
R. Davies Non-executive	-	80,625	-	7,256	-	-	**87,881**
J. Hamilton Non-executive	-	89,266	-	8,033	-	-	**97,299**
A. Stock Non-executive	-	80,625	-	-	-	-	**80,625**
M. Albrecht Former Chairman	-	118,250	-	10,643	-	-	**128,893**
P. Britz Non-executive	-	64,500	-	-	-	-	**64,500**
G. Grove-White Former Managing Director	428,722	-	177,930	51,673	14,048	163,675	**836,048**
	428,722	**578,391**	**177,930**	**130,666**	**14,048**	**163,675**	**1,493,432**

1 Became Chairman on 24 November 2010 following the retirement of M. Albrecht.
2 Fees are paid to the Alternate Director, Prame Chopra.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Table 3 - Remuneration of key management personnel for the year ended 30 June 2011 (Audited)

	Short-Term		Post Employ-ment	Share Based payment		Total
	Salary & Consulting Fees	Cash Bonus – Short Term Incentive	Super-annuation	Shares (amortised cost)	Options (amortised cost)	
M. Bird [2] Corporate Affairs Manager	166,000	18,200	16,578	7,500	14,823	**223,101**
K. Coates Manager Safety & People	268,850	36,885	27,516	20,832	30,547	**384,630**
P. Frederiks [3] Company Secretary	344,248	34,425	-	43,011	37,583	**459,267**
R. Hogarth [1] Reservoir Engineering Manager	323,261	32,960	32,117	28,360	45,466	**462,164**
T. Pritchard [1] Chief Financial Officer	171,612	33,348	18,441	7,500	21,082	**251,983**
M. Saunders [1] Joint Venture Manager	198,447	19,840	19,996	3,875	43,730	**285,888**
A. Webb Commercial Manager	320,667	31,077	18,156	34,780	27,100	**431,780**
M. Manton [4] Information Technology Manager	201,674	-	9,580	-	28,104	**239,358**
S. McDonnell [5] Chief Operating Officer	518,471	-	44,100	26,250	59,009	**647,830**
Totals	**2,513,230**	**206,735**	**186,484**	**172,108**	**307,444**	**3,386,001**

1 Following an organisational restructure, these Executives were deemed to be key management personnel (KMP) for the purposes of reporting under the standard as at 31 May 2011 but for transparency their full annual remuneration for FY2011 is included. The Company defines KMP as direct reports to the Managing Director.
2 Appointed 19 April 2010.
3 Changed from CFO & Company Secretary to Company Secretary effective 31 May 2011.
4 Resigned 18 November 2010.
5 Resigned 24 May 2011.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Table 4 - Remuneration of key management personnel for the year ended 30 June 2010 (Audited)

	Short-Term		Post Employ-ment	Share Based payment		Total
	Salary & Consulting Fees	Cash Bonus – Short Term Incentive	Super-annuation	Shares (amortised cost)	Options (amortised cost)	
K. Coates Manager Safety & People	220,237	24,832	19,821	8,063	22,931	**295,884**
P. Frederiks Company Secretary & CFO	352,168	36,625	-	18,303	49,685	**456,781**
A. Webb Commercial Manager	301,233	31,681	30,285	13,407	35,826	**412,432**
M. Manton Information Technology Manager	262,386	27,550	27,020	13,693	37,153	**367,802**
S. McDonnell [1] Chief Operating Officer	132,391	-	15,065	1,750	14,712	**163,918**
D. Anthony [2] Sub-Surface Manager	404,542	-	41,134	18,958	51,602	**516,236**
P. Schmidt [2] Power Engineering Manager	355,005	-	36,581	12,929	33,762	**438,277**
R. Smith [2] SA Project Manager	306,275	-	31,540	16,026	43,493	**397,334**
	2,334,237	**120,688**	**201,446**	**103,129**	**289,164**	**3,048,664**

1 Appointed 8 March 2010
2 These Executives were deemed to no longer be key management personnel (KMP) for the purposes of reporting under the standard as at 31 May 2010 but for transparency their full annual remuneration for FY2010 was included.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Continued) (Audited)

Table 5 – Shares granted to executives as part of remuneration for the year ended 30 June 2011 (Audited)

During the financial year, shares were granted or were proposed to be granted under the Long Term Incentive Plan to certain executives as disclosed below (executives who have departed during the year or subsequent to year end who were granted shares during the year which were subsequently forfeited have not been listed). The shares issued for nil consideration, are issued in accordance with performance hurdles established by the Directors of the Company under the Deferred Employee Share Plan (DESP). The shares vest with the employee after a term of 36 months.

	Grant Date	Granted Number	Value of shares granted during the year	% of Remuneration #	Value of shares vested during the year	Value of shares forfeited during the year	Value per share at grant date
J. Hamilton	24/11/10	207,237	$78,750	30%	$78,750	-	0.38
P. Frederiks	31/12/10	104,645	$52,323	15%	-	-	0.50
A. Webb	31/12/10	90,518	$45,259	15%	-	-	0.50
K. Coates	30/09/10	77,553	$40,327	15%	-	-	0.52
R. Hogarth	30/09/10	95,077	$49,440	15%	-	-	0.52
M. Bird	30/06/11	97,752	$30,303	15%	-	-	0.31
T. Pritchard	30/06/11	118,171	$36,633	15%	-	-	0.31
M. Saunders	31/03/11	150,000	$46,500	15%	-	-	0.31
G. Ward	31/03/11	258,621	$75,000	15%	-	-	0.29

The shares fair value was determined at the date of grant. Value per share at grant date is fair value.
Shares are considered remuneration for a one year period, this calculation takes the full valuation for the purposes of calculating the shares as a percentage of remuneration. Shares vest with the employee 36 months after the date of issue providing the employee is still employed by the Company at that time.

Table 6 – Options granted to executives as part of remuneration for the year ended 30 June 2011 (Audited)

During the financial year, options were granted or were proposed to be granted under the Long Term Incentive Plan to certain executives as disclosed below. The options, issued for nil consideration, are issued in accordance with performance hurdles established by the Directors of the Company under the Employee Option Plan (EOP). The options are issued for a term of 36 months (48 months for G. Ward) and are exercisable and vest in the holder of the Options in three lots (four lots for G. Ward) as detailed earlier in this remuneration report.

	Grant Date	Granted Number	Value of options granted during the year	% of Remuneration	Value of options exercised during the year	Value of options lapsed during the year	Value per option at grant date	Weighted average exercise price
M. Saunders#	31/03/11	863,931	$139,500	15%	-	-	0.16	0.31
G.Ward*	31/01/11	2,700,000*	$324,000	-	-	-	0.12	0.48

The options fair value was determined at the date of grant. Value per option at grant date is fair value.
Options vest over three years and are considered remuneration for a three year period, this calculation takes 30% of the full valuation for the purposes of calculating the options as a percentage of remuneration. The first exercise date is 12 months after the date of issue and the last exercise date is 35 months after the date of issue. Options expire 36 months after the date of issue.
* Options vest over four years and are considered remuneration for a four year period. The first exercise date is 12 months after the date of issue and the last exercise date is 48 months after the date of issue. Options expire 48 months after the date of issue.

DIRECTORS' REPORT (Continued)

SHARE OPTIONS

Unissued shares – employee options
As at the date of this report, there were 4,506,178 unissued ordinary shares under employee options (2010 - 13,039,222). 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 are unlisted, issued for nil consideration and have a term of three years. There were 5,650,960 employee options granted during the financial year ended 30 June 2011 (2010 – 5,118,650). The average exercise price of the options granted during the financial year ended 30 June 2011 is $0.35 cents per share. Refer to Note 15 of the financial statements for further details of the options outstanding.

Shares issued as a result of the exercise of employee options
There were nil employee options exercised during the financial year (2010 – Nil) or since the end of the financial year.

Unissued shares – shareholder options
As at the date of this report, there were 39,691,000 unissued ordinary shares under shareholder options (2010 – Nil). 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. There were 39,716,500 shareholder options granted during the financial year ended 30 June 2011 (2010 – Nil). The options are listed, have an exercise price of 55 cents and an expiry date of 31 March 2012.

Shares issued as a result of the exercise of shareholder options
There were 25,500 shareholder options exercised during the financial year (2010 – 96,891) or since the end of the financial year.

DIRECTORS' MEETINGS

During the period there were eleven directors' meetings held of which four were by telephone conference. The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial period are as follows:

	Directors' Meetings		Audit & Risk Management Committee Meetings		Remuneration & Nominations Committee Meetings		Technical Committee Meetings		Health, Safety & Environment Committee Meetings	
	Number held whilst in office	Number Attended	Number held whilst in office	Number Attended	Number held whilst in office	Number Attended	Number held whilst in office	Number Attended	Number held whilst in office	Number Attended
K. Spence	11	11	-	-	2	2	3	1	4	4
G. Ward	4	4	-	-	-	-	-	-	-	-
B. Agrawala	11	3	-	-	-	-	-	-	-	-
P. Chopra	7	7	4	4	-	-	2	2	4	4
B. Davies	11	11	4	4	2	2	-	-	-	-
J. Hamilton	11	11	-	-	-	-	3	3	2	2
M. Marier	3	3	1	1	-	-	-	-	-	-
A. Stock	11	11	-	-	2	2	-	-	4	2
M. Albrecht	6	6	-	-	-	-	-	-	-	-
P. Britz	8	8	3	3	-	-	-	-	3	2

The Company has four committees with the following membership:

Audit & Risk Management Committee – Membership comprises three Non-executive Directors being Messrs Davies (Chair), Marier and Chopra.

Remuneration & Nominations Committee – Membership comprises three Non-executive Directors being Messrs Stock (Chair), Spence and Davies.

Technical Committee – Membership comprises three Directors being Messrs Hamilton (Chair) and Spence and Chopra and three external members comprising a recognized expert covering the technical domain areas of well engineering and drilling execution, reservoir development and behaviour, and EGS external developments. The Company's Chief Scientific Officer (D. Wyborn) is also an ex-officio member of this Committee.

DIRECTORS' REPORT (Continued)

DIRECTORS' MEETINGS (Continued)Health, Safety & Environment (HSE) Committee – Membership comprises four Non-executive Directors being Messrs Hamilton (Chair), Spence, Chopra and Stock with G. Ward as an ex-officio member. The Company's Health and Safety Manager (K. Coates) and Environment & Compliance Manager (H. Coombes) are also ex-officio members of this Committee.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the entity paid premiums in respect of contracts insuring directors, secretaries, and executive officers of the Group and related entities against liabilities incurred as director, secretary or executive officer to the extent permitted by the Corporations Act, 2001, subject to the terms, conditions, limitations and exclusions of the policy.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received a declaration from the auditor of Geodynamics Limited which is listed immediately after this report and forms part of this Directors' report.

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Assurance	NIL

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

CORPORATE GOVERNANCE

The Directors recognise the need for the highest standards of corporate behaviour and accountability and therefore support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is printed immediately following this Directors' Report.

Signed in accordance with a resolution of the Directors.

K. Spence
Chairman
Brisbane, 31 August 2011

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Auditor's Independence Declaration to the Directors of Geodynamics Limited

In relation to our audit of the financial report of Geodynamics Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Mike Reid

Mike Reid
Partner
31 August 2011

Corporate Governance Statement

The Board of Directors of Geodynamics Limited is responsible for the corporate governance of the Company and is committed to achieving and demonstrating the highest standards of corporate governance.

The Geodynamics Limited Corporate Governance Statement is structured with reference to the Australian Securities Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations with 2010 Amendments" as revised in June 2010 the Principles of which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the Board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

This Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

Geodynamics Limited's corporate governance practices were in place throughout the year ended 30 June 2011 and were fully compliant with the Council's recommendations except for the following:

Recommendation 2.1 – a majority of the Board should be independent directors. The Company has three independent Directors out of seven Directors. The Company believes that the four Non-executive Directors who are not deemed independent provide an invaluable contribution to the Board due to their expertise. Three Non-executive Directors who are not deemed independent are Officers of the Company's three largest shareholders which each has a right to appoint a Director to the Board under their respective Investment Deeds.

Recommendation 8.2 – The Remuneration Committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members. The Company's Remuneration committee does have a majority of independent directors and three members, however its chair is Mr Andrew Stock, who is a Non-executive Director but who is not deemed independent. The Company believes that Mr Stock is an appropriate chair of this committee due to his extensive knowledge of remuneration policies and procedures arising from his current and previous positions and also because there is no conflict of interest arising from his position with Origin and his position as Chair of the Remuneration and Nominations Committee.

Recommendation 3.3 - Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them. The Company has adopted a Diversity Policy that encourages the participation and provision of opportunity to all interested in working at Geodynamics. As the Company has a relatively small work-force with many requiring specific skills that may not be widely available , the Company has not deemed it appropriate to set specific numeric targets as these could be inappropriately skewed by the small sample size. Geodynamics currently has participation from a diverse workforce, with gender diversity being in advance of industry averages for our sector.

Recommendation 3.4 - Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board. The Company has adopted a Diversity Policy that encourages the participation and provision of opportunity to all interested in working at Geodynamics. As the Company has a relatively small work-force with many requiring specific skills that may not be widely available, the Company has not deemed it appropriate to publish specific employment numbers as Company does not believe this information adds any meaningful value due to its small workforce.

The Company has chosen to early adopt the revised Principles as recommended by the Council. For further information on corporate policies adopted by Geodynamics Limited, please refer to the Corporate Governance Tab under "About Geodynamics" on our website located at www.geodynamics.com.au.

For 2011, the Company's reporting against the Principles is as follows:

CORPORATE GOVERNANCE STATEMENT (Continued)

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of Board and management.

The Board operates in accordance with the following principles and guidelines.

- The Board does comprise a majority of Non-executive Directors.
- The Chairperson is an Independent Director.
- The Board does comprise Directors with an appropriate range of qualifications and expertise.
- The terms and conditions of the appointment of Non-executive Directors are set out in a letter of appointment. The appointment letter covers the following matters:
  - the level of remuneration;
  - the tenure of appointment;
  - the expectation of the Board in relation to attendance and preparation for all Board meetings;
  - the Directors code of conduct;
  - the procedures dealing with conflicts of interest; and
  - the availability of independent advice - The Board has agreed a procedure for Directors to take independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.
- The Board meets as often as required to attend to the affairs of the Company and follow meeting guidelines set down to ensure all Directors are made aware of, and have available to them all necessary information enabling them to participate in an informed discussion of all agenda items.
- The Chairman of the Board meets regularly with the Managing Director.

The Board is responsible for the direction and supervision of the Company's business on behalf of the shareholders, by whom they are elected and to whom they are accountable. This includes ensuring that internal controls and reporting procedures are adequate and effective. The Directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. The primary functions of the Board include responsibility for:

- Approving objectives, goals and strategic direction for management;
- Monitoring financial performance including adopting annual budgets and approving the Company's financial statements;
- Ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;
- Selecting, appointing and reviewing the performance of the Chief Executive Officer and reviewing the performance of senior operational management;
- Ensuring significant business risks are identified and appropriately managed; and
- Reporting to shareholders on performance.

The Company's Managing Director's performance and remuneration is reviewed annually by the Non-executive Directors. The performance criteria against which executives are assessed is aligned with the financial and non-financial objectives of Geodynamics Limited. Further details of the process for evaluating performance is set out in the Remuneration Report.

The Board may determine from time to time to establish specific purpose sub-committees to deal with specific issues. All matters determined by committees are submitted to the full Board as recommendations for Board decision. Minutes of committee meetings are tabled at the immediate subsequent Board meeting.

CORPORATE GOVERNANCE STATEMENT (Continued)

2. STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

SKILLS, EXPERIENCE AND EXPERTISE OF DIRECTORS

The Directors in office at the date of this statement are:

Name	Position	Indep-endent	Term in Office	Expertise
Keith Spence	Non-executive Chairman	Yes	3.1 years	Energy, Engineering and Management
Geoff Ward	Managing Director	No	0.5 years	Energy, Engineering, Corporate Finance and Management
Banmali Agrawala	Non-executive Director	No	2.7 years	Energy, Engineering and Management
Prame Chopra	Alternate Director to Banmali Agrawala	No*	10.8 years	Geothermal Energy, Rock Mechanics and Geophysics
Robert Davies	Non-executive Director	Yes	2.7 years	Finance, Governance and Management
Jack Hamilton	Non-executive Director	Yes	4.9 years	Energy, Engineering and Management
Michel Marier	Non-executive Director	No	0.3 years	Finance and Management
Andrew Stock	Non-executive Director	No	7.8 years	Energy, Engineering and Management

** Prame Chopra in his capacity as a member of the Audit & Risk Committee is considered to be independent.*

INDEPENDENT DIRECTORS

Directors of Geodynamics Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the Directors as marked in the previous table are considered to be independent. Therefore there are six Non-executive Directors, three of whom are deemed independent, and one Executive Director. Three Non-executive Directors who are not deemed independent are Officers of the Company's three largest shareholders which each has a right to appoint a Director to the Board under their respective Investment Deeds. (The Sentient Group and Sunsuper Pty Ltd are jointly treated as a cornerstone investor in so far as they have a collective right to appoint a Director).

Further details of the members of the Board including their experience and expertise is set out in the Directors' Report.

NON-EXECUTIVE DIRECTORS

The six Non-executive Directors periodically meet for a period of time, without the presence of management, to discuss the operation of the Board and a range of other matters including those relating to Remuneration and Directors' Nominations. Relevant matters arising from these meetings are shared with the full Board.

CORPORATE GOVERNANCE STATEMENT (Continued)

2. STRUCTURE THE BOARD TO ADD VALUE (Continued)

TERM OF OFFICE

The Company's constitution specifies that all Directors (with the exception of the Managing Director) must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

NOMINATIONS

The Company has established a combined Remuneration and Nominations Committee. Membership and composition of this Committee is discussed at the end of this Corporate Governance Statement. With regard to the Nominations charter of the Committee, the main functions of the Committee are to:

- Devise criteria (necessary and desirable competencies) for Board membership for approval by the full Board.
- Identify specific individuals for nomination.
- Make recommendations to the Board for new Directors and membership of committees being always mindful that any recommendation should ensure there is a complementary mix of necessary skills.
- Annually, assist the Chairman of the Company in advising Directors about their performance and tenure.
- Oversee management succession plans, including the CEO and first line managers;
- Review of the Board succession plan.
- Critically examine the Committee's performance and recommend any changes to the responsibilities to the Board.

In devising criteria for Board membership, the Company uses a Board skills matrix to identify any gaps in the skills and experience of the directors on the Board. In addition, the Company uses a combination of professional intermediaries to identify and assess candidates as well as the network of contacts within the Board itself.

PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Non-executive Directors is reviewed annually by the Chairman. In addition during the year, all Directors completed a structured self evaluation questionnaire that aimed to evaluate the performance of the Board as a whole. These responses are collated and subsequently discussed by the Board to improve the functional operations of the Board. The Chairman meets privately with each Director as appropriate to discuss their individual performance. The Chairman's performance is reviewed by the Board.

CORPORATE GOVERNANCE STATEMENT (Continued)

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making

The Company supports and has adopted the Code of Conduct published by The Australian Institute of Company Directors in 2005. This code recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics and its commitment to ensuring compliance with the insider trading laws.

The Company has established a policy regarding Diversity that is underpinned by four key principles:

- Fairness: Every person will have the opportunity to work and succeed at Geodynamics - regardless of their gender, nationality, background, age, physical ability or sexual orientation.
- Support: The Company will support the varying needs of its diverse workforce by providing flexible working conditions and ensuring programs are in place to enable every Geodynamics employee to reach their career potential.
- Respect: Every Geodynamics employee will be treated with dignity and respect, recognising that success depends upon the commitment, capabilities and diversity of the Company's employees.
- Leadership: The Board and senior leaders will be ultimately responsible for instilling a culture that embraces and values diversity amongst the workforce.

At least once every 12 months, the Remuneration and Nominations Committee will review the Diversity Policy including a review of the diversity objectives and initiatives to ensure they remain current and appropriate and a review of progress on the achievement of diversity objectives over the preceding year.

4. SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The Board has adopted an Audit & Risk Committee Charter to ensure the truthful and factual presentation of the Company's financial position and to review and advise on the company's risk management processes. Audit & Risk Committee meetings will be held periodically throughout the year. It is the policy of the Board that the members of the committee shall be a minimum of three Non-executive Directors. The Audit & Risk Committee will be chaired by a Non-executive Director other than the Chairman of the Board.

The Chief Executive Officer and Chief Financial Officer may attend the committee meetings by invitation.

The main functions of the committee will be to:

- Assess the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate;
- Review the scope and results of internal, external and compliance audits;
- Maintain open lines of communication between the Board and external auditors and the Company's compliance officers;
- Review and report to the Board on the annual report, the half-year financial report and all other financial information published by the Company or released to the market;
- Assess the adequacy of the Company's internal controls and make informed decisions regarding compliance policies, practices and disclosures;
- Ensure effective deployment of risk management processes;
- Nominate the external auditors and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure that it does not adversely impact on auditor independence.

The Chairman of the Audit & Risk Management Committee reviews the performance of the Committee with members and reports annually to the Board.

The members of the Audit & Risk Committee during the year were:
Robert Davies (Chairman)
Pieter Britz (Resigned 24 February 2011)
Michel Marier (Appointed 24 February 2011)
Prame Chopra.

CORPORATE GOVERNANCE STATEMENT (Continued)

4. SAFEGUARD INTEGRITY OF FINANCIAL REPORTING (Continued)

Qualifications of audit & risk committee members

Robert Davies CMA has extensive senior finance experience with global mining and resource companies. He has held a number of senior management responsibilities including Executive Vice President and Chief Financial Officer for Inco Ltd, Chief Financial Officer for Alumina Ltd and General Manager Treasury Tax and Investor Relations for WMC Ltd. He has previously held senior finance positions with BHP in Canada, the US, Chile and Australia, acquiring significant operational and corporate finance experience.

Prame Chopra B.Sc. (Hons), Ph.D, FAICD, MAGU, MASEG, MIGA, MASC was a Reader in Geophysics at The Australian National University in Canberra from 1996 - 2006. He obtained his Ph.D in rock physics at the ANU in 1980 and has held research appointments at ANU, Cornell University in New York and at the Bureau of Mineral Resources, Geology & Geophysics and the Australian Geological Survey Organisation.

Michel Marier joined The Sentient Group in 2009. Before joining the Sentient Group, Mr Marier worked 8 years at the Private Equity division of la Caisse de dépôt et placement du Québec (CDPQ). While at CDPQ, his responsibilities ranged from currency hedging, risk and return analysis to investments. In 2006, he participated in the establishment of a new sector in the Private Equity division – distressed debt. Michel Marier holds a Master's degree in finance from HEC Montreal. He is a CFA charter holder. He is a former director of Natural Resources USA Corp.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

5. MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

The Board has adopted a Listing Rule 3.1 Compliance Policy, which has been designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company rigorously polices its continuous disclosure responsibilities to ensure a fully informed market at all times. The Company's Continuous Disclosure Policy is available on the Company's website.

CORPORATE GOVERNANCE STATEMENT (Continued)

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are provided with all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- The Annual Report, which will be distributed to all shareholders (unless shareholders specifically indicate otherwise);
- Quarterly Reports to all shareholders;
- The Annual General Meeting, and other meetings called to obtain approval for Board action as appropriate;
- Investor presentation evenings held in at least four capital cities each year; and
- The Company's Corporate Internet site at www.geodynamics.com.au. This web site is actively maintained and includes all market announcements, research reports from analysts, briefings to shareholders, full texts of notices of meeting and explanatory material and compliance reports such as the quarterly cash flow report and annual report.

Shareholders are actively encouraged to become 'online shareholders' by registering electronically with the Company to receive an email notification of announcements as they are made. The Company endeavours to respond to all shareholder queries on a prompt and courteous basis.

All information disclosed to the ASX is automatically posted on the Company's website as soon as it is disclosed to the ASX. This is achieved through a sophisticated web interface with the ASX online lodgement system.

CORPORATE GOVERNANCE STATEMENT (Continued)

7. RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight, management and internal control.

The Company is committed to having a culture of risk management and has established a risk management system that supports a pro-active approach to managing risk and to exploiting opportunity at all levels.

A series of extensive workshop reviews have been held for each component phase of Stage One of the Company's business plan and these will continue to be held for subsequent stages to highlight major risk areas and plan the treatment to manage those risks. In addition, a formal risk management plan is included as part of every major capital acquisition or procurement decision and key risk/opportunity areas and their drivers are included in the Management/Board reporting system. The Board has also established a Technical Committee and a Health Safety and Environment Committee which both operate under charters approved by the Board. A key function of the Technical Committee is to advise the Board on issues related to technical risk.

Management, through the Managing Director, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Management reports to the Audit and Risk Committee on the Company's key risks and the extent to which it believes these risks are being managed. This is performed on a six monthly basis or more frequently as required by the Board or Committee.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. It reviews strategic, operational and technical risks in conjunction with, and as a key input to an annual corporate strategy workshop attended by the Board and senior management. This workshop reviews the Company's strategic direction in detail and includes specific focus on the identification of business risks which could prevent the Company from achieving its objectives. Management are required to ensure that appropriate controls and mitigation strategies are in place to effectively manage those risks. Compliance and reporting risks and reviewed on an ongoing basis and independently audited from time to time – the most recent audit was undertaken in the past three months. The Audit and Risk Committee oversees the adequacy and comprehensiveness of risk reporting from management.
The Board receives a written assurance from the CEO and the CFO that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

TECHNICAL COMMITTEE

Technical Committee meetings are held on an as required basis but generally there will be at least two meetings throughout the year. The Committee is comprised of a Chair drawn from the Non-executives of the Geodynamics Board, the Chief Scientific Officer and approximately three members comprising of a recognized expert covering one or more of the technical domain areas identified below. These experts may be from the Board, but more likely will be drawn externally from the Company and be independent of management. The Technical Committee has been given the following Terms of Reference:

- Advise the Board on issues related to the technical risks, mitigations and opportunities associated with the five key technical domain areas the Company is currently involved in, namely exploration, well engineering and drilling execution, reservoir development and behaviour, power station development and execution and EGS external developments;
- Provide guidance and challenge to management on technical issues;
- Review and advise the Audit and Risk Committee of the Board on the Technical Risks and their potential impact on the broader Company objectives;

CORPORATE GOVERNANCE STATEMENT (Continued)

7. RECOGNISE AND MANAGE RISK (continued)

TECHNICAL COMMITTEE (continued)

- Review technology and/or product development opportunities that arise and advise the Board on their appropriateness; and
- Each member shall have the responsibility to initiate issues that should be brought to the attention of the committee or Board.

The members of the Technical Committee during the year were:

Jack Hamilton (Chairman)
Keith Spence
Prame Chopra

There are three external independent experts with expertise across the technical domain areas identified above.

HEALTH, SAFETY & ENVIRONMENT COMMITTEE

Health, Safety & Environment (HSE) meetings are held on an as required basis but generally there will be at least four meetings throughout the year. The Committee is comprised of a Chair drawn from the Non-executives of the Geodynamics Board. It is the policy of the Board that the members of the committee shall be a minimum of three Non-executive Directors. The HSE Committee has been given the following Terms of Reference:

- Its primary objective is to assist the Board of Directors in its responsibilities relating to establishing and maintaining the highest standards of Health and Safety and Environmental performance by Geodynamics, and compliance with all relevant legislation. In addition the Committee will ensure that Management reports to the Board on:-
  - Compliance with statutory requirements, codes, standards, and guidelines;
  - Establishment of measurable objectives and targets aimed at elimination of work related incidents or environmental impacts from Geodynamics' activities;
  - The defining of roles, responsibilities and levels of accountability for HSE within Geodynamics.
- Act as an independent and objective party to review the safety and environmental performance reports presented by management for the use of all stakeholders.
- Review HSE risk assessment processes and monitor their effectiveness.
- Review all significant Geodynamics incident reports along with the results of the subsequent investigations and the implementation of the identified corrective actions.
- Oversee and appraise the quality of the health & safety and the environmental audits conducted by the HSE auditors.
- Ensure through regular meetings that open lines of communication exist among the Board, Management and HSE Auditors.

The members of the HSE Committee during the year were:

Jack Hamilton (Chairman)
Keith Spence
Pieter Britz (Resigned 24 February 2011)
Prame Chopra
Andrew Stock

CORPORATE GOVERNANCE STATEMENT (Continued)

8. REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

REMUNERATION

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Managing Director's and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary together with short and long term performance incentives through cash, shares and options which allow executives to share in the success of Geodynamics Limited. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit.

The Company currently has six Non-executive Directors and a Managing Director. The Company's Managing Director does not receive Directors' fees and his remuneration package is formalised in a service agreement. The Non-executive Directors' maximum aggregate remuneration as approved by shareholders is currently $700,000 and is set at a level that compensates the directors for their significant time commitment in overseeing the progression of the Company's business plan.

There are no retirement benefits offered to Non-executive Directors other than statutory superannuation. For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period, please refer to the Remuneration Report which is contained within the Directors' Report.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee operates under a charter approved by the Board. Remuneration and Nomination Committee meetings are held at least semi-annually and otherwise as required throughout the year. It is the policy of the Board that the members of the Committee shall be a minimum of three Non-executive Directors and a majority of independent directors. The Remuneration and Nominations Committee will be chaired by a Non-executive Director other than the Chairman of the Board.

With regard to the Remuneration charter of the Committee, the main functions of the Committee are to:

- Set the terms and conditions of employment for the CEO.
- Set policies for Senior Executive remuneration including the CEO and other Executive Directors (if any) and review from time to time as appropriate.
- Set policies for Non-executive Director remuneration and review and recommend the level of remuneration with the assistance of external consultants as appropriate.
- Make recommendations to the Board on remuneration for the CEO and Executive Director(s).
- Review and approve the recommendations of the CEO on the remuneration of Senior Executives.
- Review all equity based plans and make recommendations to the Board for approval.
- Review and approve the design of Executive Incentive Plans ensuring appropriate performance hurdles are in place.
- Review transactions between the group and the Directors, or any interest associated with the Directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Act 2001 and are appropriately disclosed.
- Review and approve the annual Remuneration Report contained within the Directors' Report.

The members of the Remuneration and Nominations Committee during the year were:
Andrew Stock (Chairman)
Martin Albrecht (Retired 24 November 2010)
Keith Spence
Robert Davies

For details on the number of meetings of the Remuneration and Nominations Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

STATEMENT OF COMPREHENSIVE INCOME

FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Continuing Operations			
Interest Income		2,518	4,121
Total Revenue		**2,518**	**4,121**
Impairment of Available for Sale Financial Asset	3	-	(2,936)
Impairment of Property, Plant & Equipment	6	(33,500)	-
Impairment of Deferred Exploration & Evaluation Costs	7	(87,000)	-
General & Administrative Expenses	3	(22,571)	(21,762)
Corporate Expenses Recovered		4,990	5,812
Total Expenses		**(138,081)**	**(18,886)**
Income/(Loss) before Income Tax Expense		**(135,563)**	**(14,765)**
Income Tax Benefit	4	**-**	**-**
Income/(Loss) after Income Tax Expense		**(135,563)**	**(14,765)**
Other Comprehensive Income			
Net Gain/(Loss) On Cashflow Hedge Taken To Equity		1,000	(503)
Other Comprehensive Income for the period		**1,000**	**(503)**
Total Comprehensive Income/(Loss) for the period attributable to the Owners		**(134,563)**	**(15,268)**
Basic and Diluted Earnings/(Loss) per share (cents per share)	16	(43.01)	(5.08)
Basic and Diluted Earnings/(Loss) per share attributable to the equity holders of the entity (cents per share)	16	(43.01)	(5.08)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Current Assets			
Cash Assets	21(A)	29,178	71,312
Inventories – Rig Parts and Well Materials		883	656
Receivables	5	5,039	13,262
Total Current Assets		**35,100**	**85,230**
Non Current Assets			
Available for Sale Financial Asset	22	-	-
Property, Plant and Equipment	6	49,153	79,525
Deferred Exploration, Evaluation & Development phase costs	7	85,300	122,380
Total Non Current Assets		**134,453**	**201,905**
Total Assets		**169,553**	**287,135**
Current Liabilities			
Payables	8	5,352	7,310
Provisions	9	722	892
Deferred Income	10	6,024	5,394
Derivative Liability	11	65	1,065
Total Current Liabilities		**12,163**	**14,661**
Non Current Liabilities			
Provisions	9	2,772	2,599
Total Non Current Liabilities		**2,772**	**2,599**
Total Liabilities		**14,935**	**17,260**
Net Assets		**154,618**	**269,875**
Equity			
Contributed Equity	12	336,405	319,887
Other Reserves	13	7,437	3,649
Accumulated Losses		(189,224)	(53,661)
Total Equity		**154,618**	**269,875**

The above statement of financial position should be read in conjunction with the accompanying notes.

Cash Flow Statement

FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Cash Flows from/(used in) Operating Activities			
Net Goods and Services Tax received		4,306	1,849
Payments to suppliers and employees		(14,897)	(10,765)
Net Interest Received		3,721	3,273
Net cash flows from/(used in) Operating Activities	21(B)	**(6,870)**	**(5,643)**
Cash Flows from/(used in) Investing Activities			
Proceeds from Government Grants		630	-
Purchase of Property, Plant & Equipment		(9,165)	(12,308)
Payments for Exploration and Evaluation expenditure		(63,327)	(46,409)
Proceeds from Farmin Cash Calls		17,120	20,191
Proceeds from Insurance claim		3,601	-
Proceeds from sale of property, plant & equipment		20	377
Net cash flow used in investing activities		**(51,121)**	**(38,149)**
Cash Flows from Financing Activities			
Proceeds from issue of shares		15,857	137
Net cash flow provided by financing activities		**15,857**	**137**
Net increase / (decrease) in cash held		**(42,134)**	**(43,655)**
Add: Opening cash carried forward		71,312	114,967
Closing cash carried forward	21(A)	**29,178**	**71,312**

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FINANCIAL YEAR ENDED 30 JUNE 2011

	Issued Capital $'000	Employee Equity Benefits Reserve $'000	Foreign Exchange Hedge Reserve $'000	Accumulated Losses $'000	Total Equity $'000
At 1 July 2010	**319,887**	**4,714**	**(1,065)**	**(53,661)**	**269,875**
Recognition of foreign exchange hedge reserve	-	-	1,000	-	1,000
Total expense for period recognised directly in equity	-	-	1,000	-	1,000
Loss for the period	-	-	-	(135,563)	(135,563)
Total loss for the period	-	-	1,000	(135,563)	(134,563)
Equity Transactions:					
Exercise of options - listed	14	-	-	-	14
Issue of Share Capital in consideration of services	136	-	-	-	136
Issue of Share Capital via Share Purchase Plan	16,239	-	-	-	16,239
Transaction costs of Share Purchase Plan	(396)	-	-	-	(396)
Ordinary shares issued for the acquisition of assets	525	-	-	-	525
Ordinary shares issued for the deferred employee share plan	-	1,138	-	-	1,138
Cost of share-based payment - recognition of share option expense	-	1,650	-	-	1,650
At 30 June 2011	**336,405**	**7,502**	**(65)**	**(189,224)**	**154,618**
At 1 July 2009	**319,693**	**2,562**	**(563)**	**(38,896)**	**282,820**
Recognition of foreign exchange hedge reserve	-	-	(502)	-	(502)
Total expense for period recognised directly in equity	-	-	(502)	-	(502)
Loss for the period	-	-	-	(14,765)	(14,789)
Total loss for the period	-	-	(502)	(14,765)	(15,291)
Equity Transactions:					
Exercise of options - listed	136	-	-	-	136
Issue of Share Capital in consideration of services	58	-	-	-	58
Ordinary shares issued for the deferred employee share plan	-	541	-	-	541
Cost of share-based payment - recognition of share option expense	-	1,611	-	-	1,611
At 30 June 2010	**319,887**	**4,714**	**(1,065)**	**(53,661)**	**269,875**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – CORPORATE INFORMATION

The financial report of Geodynamics Limited (the Company) for the year ended 30 June 2011 was authorised in accordance with a resolution of the Directors on 31 August 2011.

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,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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 and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated. The Directors have adopted the going concern assumption in preparing the financial report.

(B) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Company:

- AASB 3 Business Combinations
- AASB 5 Non-current Assets Held for Sale and Discontinued Operations
- AASB 7 Financial Instruments: Disclosures
- AASB 8 Operating Segments
- AASB 101 Presentation of Financial Statements
- AASB 107 Statement of Cash Flows
- AASB 117 Leases
- AASB 118 Revenue
- AASB 121 The Effects of Changes in Foreign Exchange Rates
- AASB 128 Investments in Associates
- AASB 131 Interests in Joint Ventures
- AASB 132 Financial Instruments: Presentation
- AASB 136 Impairment of Assets
- AASB 139 Financial Instruments: Recognition and Measurement

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 2011. The Directors are assessing the impact of IFRS 11 Joint Arrangements (AASB 131) (effective 1 July 2013). Based on initial review management does not expect this standard to have any impact on the Company's Joint Venture accounting. The Directors have assessed the impact of all other 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Compliance with IFRS (continued)

The following standards were assessed.

- AASB 9 Financial Instruments (effective from 1 January 2015)
- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (December 2009) (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127) (effective from 1 January 2013)
- Revised AASB 124 Related Party Disclosures (effective from 1 January 2011)
- AASB 2009-12 Amendments to Australian Accounting Standards (AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 and 1052) (effective 1 July 2011)

- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a minimum funding requirement (effective 1 July 2011)
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements(effective 1 July 2013)
- AASB 1054 Australian Additional Disclosures (effective from 1 July 2011)
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASBs 1, 7, 101, 134 and Interpretation 13) (effective 1 July 2011)
- AASB 2010-5 Amendments to Australian Accounting Standards (AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042) (effective 1 July 2011)
- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (AASB 1 and AASB 7) (effective 1 July 2011)
- AASB 2010-7 Amendments to Australian Accounting Standards – Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7,101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139 1023 & 1038 and Interpretations 2,5,10,12, 19 & 127) (effective 1 July 2015)
- AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (AASB 112) (effective 1 July 2012)
- AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project (AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113) (effective 1 July 2011)
- AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project - Reduced disclosure regime (AASB 101 & 1054) (effective 1 July 2013)
- AASB 10 Consolidated Financial Statements (AASB 127) (effective 1 July 2013)

(C) Basis of Consolidation

The financial statements comprise the financial statements of Geodynamics Limited.

The Company has a wholly owned subsidiary 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 & Impairment
The Company determines whether Deferred Exploration and Evaluation Costs are impaired as described by AASB 6 at least on an annual basis. The Company considers whether an area of interest will be subject to futher activity in the foreseeable future. Where substantive expenditure on further exploration and evaluation is neither budgeted or planned consideration is given as to whether an impairment cost should be recognised relating specifically to that area of interest.

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.

(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 date.

All exchange differences in the financial report are taken to net income. 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 15 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 the recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(F) Property, Plant & Equipment (continued)

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 statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 statement of financial position 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 executive 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.

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 net income over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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 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 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 date. Income taxes relating to items recognised directly in equity are recognised in equity and not in net income.

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.

(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 statement of financial position. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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) Joint Venture Arrangement

The Company is a party to two joint venture arrangements with Origin Energy Geothermal Pty Ltd (Origin). The joint venture assets comprise the South Australian geothermal tenements and all property plant and equipment for use in the Cooper Basin including the drilling rigs. The two joint ventures are respectively named the Innamincka ‘Deeps’ Joint Venture and the Innamincka ‘Shallows’ Joint Venture.

Participants in the Innamincka ‘Deeps’ Joint Venture which focuses on higher temperature Enhanced Geothermal Systems (EGS) greater than 3,500 m depth are:
Geodynamics (Operator) – 70%
Origin Energy Geothermal Pty Ltd* – 30%

Participants in the Innamincka ‘Shallows’ Joint Venture which focuses on exploration of shallow Hot Sedimentary Aquifers (HSA) above approximately 3,500 m depth are:
Origin Energy Geothermal Pty Ltd* (Operator) – 50%
Geodynamics Limited – 50%
*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 Joint Venture arrangement.

(Z) **Going Concern**

As the Company’s assets are in the exploration and development phase, Geodynamics is currently non revenue generating. As such a major focus of the Board and management is on ongoing cash flow forecasting and management of cash flows to ensure that the Company always has sufficient funds to cover its planned activities and any ongoing obligations. Management has identified a number of sources of cash inflows which are expected to progressively be achieved throughout the year that will provide sufficient coverage to fund the proposed work program. Should the timing of these cash inflows not occur within expected timeframes, alternative funding options including equity funding options continue to be maintained such that operations can be continued. In addition to the close management of cash inflows, the Company has significant ability to slow or defer spending on its major activities to ensure that it is always able to meet its obligations when they fall due, including deferring expenditure on our drilling program as the company’s permit expenditures are well in advance of the minimum permit conditions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 $'000	2010 $'000
NOTE 3 – EXPENSES AND LOSSES/(GAINS)		
Operating loss before income tax has been determined after charging/(crediting) the following specific items:		
Depreciation of plant and equipment	2,552	1,176
Amortisation of leasehold improvements	214	166
Share Plan Expense	1,138	438
Share Option Expense	1,650	1,611
Personnel costs	10,606	11,658
Interest expense	13	8
Operating lease rentals paid	1,399	728
Foreign exchange loss/(gain)	(390)	547
(Profit)/loss on disposal of property, plant & equipment	(44)	(390)
Impairment of Available for sale asset	-	2,936
NOTE 4 - INCOME TAX		
Income tax expense The prima facie tax benefit on loss of 30% (2010 - 30%) differs from the income tax provided in the financial statements as follows:		
Prima facie tax on loss	(40,669)	(4,430)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Grant Income	189	222
Impairment of Available for Sale / Loss on Investment in Associate	-	881
Impairment of Exploration and Evaluation Costs	26,100	-
Impairment of Property, Plant & Equipment	10,050	-
Other income/(expenses)	1,292	90
Additional deduction for research & development expenditure	(15,740)	(9,412)
Income tax benefit attributable to current year losses	(18,778)	(12,649)
Deferred tax asset not brought to account as realisation of the asset is not regarded as probable	18,778	12,649
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:

	Statement of Financial Position		Statement of Comprehensive Income	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Deferred tax liabilities				
Deferred Exploration Phase Expenditure	(747)	(446)	-	-
Deferred Evaluation Phase Expenditure	(24,843)	(35,052)	-	-
Other Deferred tax liability	(498)	(649)	-	-
Deferred tax assets				
Losses available for offset against future taxable income	89,956	61,128	-	-
Other Deferred tax asset	350	713	-	-
Net deferred tax assets	64,218	25,694		
Deferred tax asset not recognised	(64,218)	(25,694)		
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:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the Company in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5 – RECEIVABLES (CURRENT)

	2011 $'000	2010 $'000
Accounts Receivable	1,176	4,303
GST Receivable	111	258
Interest Receivable	168	1,384
Sundry Receivables and Prepayments	3,584	7,317
	5,039	**13,262**

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 Innamincka "Deeps" Joint Venture arrangement (refer to Note 2(Y) and Note 20 for further particulars) , an amount owing in relation to reimburseable expenditure incurred by Geodynamics on behalf of the "Shallows" joint venture, 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	2011 $'000	2010 $'000
Plant and Equipment at cost	97,676	88,581
Less: accumulated depreciation and impairment	(48,523)	(9,056)
Total Property, Plant and Equipment	**49,153**	**79,525**
Reconciliation of Plant & Equipment		
Carrying amount at beginning	79,525	69,929
Additions	9,270	13,256
Disposals	(175)	(43)
Impairment *	(33,500)	-
Depreciation/Amortisation Expense	(5,967)	(3,617)
Carrying amount at the end	**49,153**	**79,525**

Assets increased during the financial year due to progress payments for the second drilling rig and associated equipment.

*Impairment of Property Plant & Equipment

Since the time of purchase or construction of the two Joint Venture owned drilling rigs, Rig 100 and Rig 200, the market value for rigs globally has declined. With the Company's decision to market the assets for sale the realisable value of the Company's rig assets have therefore required reassessment in order to bring the fair value less costs to sell in line with current market pricing. As a result an impairment loss of $33.5M in total was recognised to reduce the carrying amount of plant and equipment to recoverable amount. This has been recognised in the statement of comprehensive income in the line "impairment of PP&E". Valuation of the rig assets was based on broker estimates and indicative prices from ongoing sale negotiations.

NOTE 7 – DEFERRED EXPLORATION AND EVALUATION COSTS	2011 $'000	2010 $'000
Exploration Phase	2,490	1,489
Evaluation Phase	82,810	120,891
Total	**85,300**	**122,380**
Reconciliation of Deferred Exploration & Evaluation costs		
Carrying amount at beginning	122,380	90,349
Add: Exploration Expenditure for period	1,000	451
Add: Evaluation & Development expenditure for period	48,920	31,580
Less: Impairment of Evaluation & Development expenditure *	(87,000)	-
Carrying amount at the end	**85,300**	**122,380**

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 7 – DEFERRED EXPLORATION AND EVALUATION COSTS (Continued)

*Impairment of Deferred Exploration and Evaluation Costs

Following an intensive review of the forward work program for the Innamincka Deeps Joint Venture, the joint ventures activities will now focus on the Habanero location. In this circumstance the company has made the decision to expense those previously capitalised well assets outside of the Habanero area of interest. As a result an impairment loss of $87M in total was recognised to reduce the carrying amount of capitalised exploration and evaluation costs. This has been recognised in the statement of comprehensive income in the line “impairment of Deferred Exploration and Evaluation Costs”.

NOTE 8 - ACCOUNTS PAYABLE

	2011 $'000	2010 $'000
Current		
Trade Creditors	1,761	1,225
Accrued Liabilities	3,591	6,085
Trade creditors and accruals	**5,352**	**7,310**

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 $'000	Restoration Provision $'000	Make Good Provision $'000	Total Provisions $'000
At 1 July 2010	**905**	**2,278**	**308**	**3,491**
Arising during the year	566	243	(93)	716
Utilised	(713)	-	-	(713)
At 30 June 2011	**758**	**2,521**	**215**	**3,494**
Current 2011	712	10	0	722
Non current 2011	46	2,511	215	2,772
	758	**2,521**	**215**	**3,494**
Current 2010	818	10	64	892
Non current 2010	87	2,268	244	2,599
At 30 June 2010	**905**	**2,278**	**308**	**3,491**

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.

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 agreement on the Company’s corporate office premises in Brisbane. Under this agreement, Geodynamics is required to restore the leased premises to its original condition at the end of the lease. A bank guarantee totalling $465,820 is held by the landlord of these leased premises.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 $'000	2010 $'000
NOTE 10 – DEFERRED INCOME		
Current		
Government Grant - REDI	5,000	5,000
Government Grant – RDIF	394	394
Government Grant - REDP	630	-
	6,024	**5,394**

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 MWe Pilot 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 2010 the grant had been paid in full. 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 will be released to net income 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 MWe Pilot Plant and the Innamincka township. At 30 June 2010 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 will be released to net income over the expected useful life of the relevant asset by equal annual instalments.

Terms and Conditions – Renewable Energy Demonstration Program

The Company announced on 14 July 2010 that it had executed a $90 million funding deed with the Federal Government under the Renewable Energy Demonstration Program (REDP) to establish the Cooper Basin Geothermal Demonstration Plant. At 30 June 2011 the first milestone payment had been made relating to the procurement of long lead items for the drilling of the Habanero 4 well. The draw down of funds 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 will be released to net income over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 $'000	2010 $'000
NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS		
Current Liabilities		
Forward currency contracts – cash flow hedges	**65**	**1,065**

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 foreign currency asset 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 2011. At balance date, the details of outstanding contracts are:

	2011 $'000	2010 $'000	2011 Exchange Rate	2010 Exchange Rate
Buy US$ / sell Australian $	**1,525**	**10,591**	**0.9822**	**0.7658**
Buy GBP£ / sell Australian $	**-**	**158**	**-**	**0.4736**

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

Movement in forward currency cash flow hedge reserve

	2011 $'000	2010 $'000
Opening balance	**1,065**	**563**
Transferred to PPE and Exploration and Evaluation	(1,065)	(563)
Charged to other comprehensive income	65	1,065
Closing balance	**65**	**1,065**

	2011 $'000	2010 $'000
NOTE 12 – CONTRIBUTED EQUITY		
Issued and Fully Paid Capital		
336,892,832 (2010 – 292,840,219) fully paid ordinary shares	**336,405**	**319,887**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – CONTRIBUTED EQUITY (Continued)

Movement in ordinary share capital:		Number of Shares	Issue price $ per share	$'000
30/06/09	**Balance end of financial year**	**290,288,804**		**319,693**
Dec 2009	Ordinary shares issued as the result of the exercise of listed options with an expiry date of 8 December 2009	91,098	1.50	136
Dec 2009	Ordinary shares issued in consideration of services rendered	26,916	1.07	29
Oct 2009	Ordinary shares issued for the deferred employee share plan	232,336	0.92	53
	Less: above issue transferred to reserves	-	-	(53)
Dec 2009	Ordinary shares issued for the deferred employee share plan	80,275	0.90	14
	Less: above issue transferred to reserves	-	-	(14)
Jun 2010	Ordinary shares issued in consideration of services rendered	31,648	0.91	29
Jun 2010	Ordinary shares issued for the deferred employee share plan	2,089,142	0.64	37
	Less: above issue transferred to reserves	-	-	(37)
30/06/10	**Balance end of financial year**	**292,840,219**		**319,887**
Nov 2010	Ordinary shares issued in consideration of services rendered – J. Hamilton	207,237	0.38	79
Dec 2010	Ordinary shares issued pursuant to a Share Purchase Plan	40,596,500	0.40	16,238
	Less: Transaction costs of Share Purchase Plan	-	-	(403)
Feb-Apr 2011	Ordinary shares issued as the result of the exercise of listed options with an expiry date of 31 March 2012	25,500	0.55	21
Feb 2011	Ordinary shares issued to acquire Geothermal Exploration Licence 268	1,500,000	0.35	525
Feb 2011	Ordinary shares issued for the deferred employee share plan	443,914	0.50	-
Feb 2011	Ordinary shares issued in consideration of services rendered	109,655	0.525	58
Apr 2011	Ordinary shares issued for the deferred employee share plan	1,169,807	0.31	-
30/06/11	**Balance end of financial year**	**336,892,832**		**336,405**

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 2011, there were 39,691,000 unissued ordinary shares under shareholder options (2010 - Nil). The options have an exercise price of 55 cents and an expiry date of 31 March 2012. 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. There were 39,716,500 shareholder options granted during the financial year ended 30 June 2011 (2010 – Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2011 $'000	2010 $'000
NOTE 13 – RESERVES		
Deferred Employee Share Plan Reserve	1,886	747
Employee Share Option Reserve	5,616	3,967
Cash Flow Hedge Reserve	(65)	(1,065)
	7,437	**3,649**
Reconciliation of Reserves		
Carrying amount at beginning	3,649	1,999
Recognition of Share Plan Expense – Transfer from Contributed Equity	-	104
Recognition of Share Plan Expense	1,138	438
Recognition of Share Option Expense	1,650	1,611
Recognition of Foreign Exchange Hedge Reserve	1,000	(503)
	7,437	**3,649**

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – EXPENDITURE COMMITMENTS

Enhanced Geothermal Systems (EGS) Tenement Commitments

In order to maintain current rights of its EGS 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 EGS tenements. The obligations are not provided for in the financial report and are payable as follows:

	2011 $'000	2010 $'000
Payable not later than one year	370	370
	370	**370**

	2011 $'000	2010 $'000
Operating Leases (non-cancellable)		
Payable not later than one year	1,023	1,349
Later than one year but not later than five years	2,652	4,108
	3,675	**5,457**
Other Commitments	**3,512**	**10,750**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 15 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	2011 $'000	2010 $'000
Employee Benefits		
The aggregate employee benefit liability is comprised of:		
Provision for Annual Leave (current)	578	782
Provision for Long Service Leave (current)	69	36
Provision for Long Service Leave (non-current)	46	87
	693	**905**

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.

	2011	2010
Employer contributions paid or payable to the plans	**971**	**1,132**

Employee Incentive Option Plan (2004 Plan)

On 24 November 2004, shareholders resolved to approve an employee incentive option plan. All options under this plan lapsed during the year and this plan was replaced in 2008 with a new Employee Option Plan.

Information with respect to the number of options granted under this 2004 Plan is as follows:

	2011		2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	**765,000**	**$1.19**	**1,121,002**	**$1.25**
- lapsed or forfeited	(765,000)	$1.19	(356,002)	$1.39
Balance at end of year	**-**	**-**	**765,000**	**$1.19**
Vested & Exercisable at end of year	**-**	**-**	**-**	**-**

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 service 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 2010/11, the material assumptions used were:

- Share price of $0.31 to $0.50 (2010 - $0.92 to $0.45)
- Risk free interest rate of 5.44% to 5.56% (2010 – 5.10%)
- A volatility factor of 60% (2010 – 60%)
- An expected dividend yield of 0% (2010 – 0%)

The financial impact of the grant of options above was estimated at $78k for the financial year ended 30 June 2011 and $483k in aggregate over the exercise period of the options.
Information with respect to the number of options granted under the EOP is as follows:

	2011		2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	**12,274,223**	**$0.77**	**8,493,390**	**$0.82**
- granted	5,650,960	$0.35	5,118,650	$0.71
- lapsed and forfeited	(7,548,549)	$0.73	(1,337,817)	$0.85
Balance at end of year	**10,376,634**	$0.57	**12,274,223**	$0.77
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:

	2011		2010	
	Number of Options	**Weighted average exercise price**	**Number of Options**	**Weighted average exercise price**
Balance at beginning of year	**13,039,223**	**$0.80**	**9,614,392**	**$0.87**
Granted during the year	5,650,960	$0.35	5,118,650	$0.71
- lapsed or forfeited	(8,313,549)	$0.78	(1,693,819)	$0.96
Balance at end of year	**10,376,634**	**$0.57**	**13,039,223**	**$0.80**
Options that vested during the period	**-**	**-**	**-**	**-**
Vested & Exercisable at end of year	**-**	**-**	**-**	**-**

Options exercised

There were no options exercised by employees during the year ended 30 June 2011.

Total Options held at the end of the reporting period

The following table summarises information about options held by employees as at 30 June 2011:

Grant Date	Number Options	Type	Expiry Date	Exercise price
05/11/08	1,049,325	Employee Option Plan 2008	05/11/11	$0.73
26/11/08	1,191,711	Employee Option Plan 2008	26/11/11	$0.76
31/03/09	338,096	Employee Option Plan 2008	31/03/12	$1.04
11/05/09	314,836	Employee Option Plan 2008	11/05/12	$1.04
30/09/09	737,158	Employee Option Plan 2008	30/09/12	$0.92
31/05/10	1,691,379	Employee Option Plan 2008	31/05/13	$0.64
31/05/10	403,168	Employee Option Plan 2008	31/05/13	$0.45
31/12/10	1,455,205	Employee Option Plan 2008	31/12/13	$0.50
31/03/11	2,616,782	Employee Option Plan 2008	31/03/14	$0.31
30/06/11	578,974	Employee Option Plan 2008	30/06/14	$0.31
TOTAL	**10,376,634**			**$0.57**

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 the shares granted in FY2011, the material assumptions used were:

- Share price of $0.31 to $0.64 (2010 - $0.45 to $0.92)
- An expected dividend yield of 0% (2010 – 0%)

The financial impact of the grant of shares above was estimated at $161k for the financial year ended 30 June 2011 and $1,199k in aggregate over the exercise period of the shares.
Information with respect to the number of shares granted under the DESP is as follows:

	2011		2010	
	Number of Shares	Weighted average issue price	Number of Shares	Weighted average issue price
Balance at beginning of year	**3,806,479**	**$0.72**	**1,498,762**	**$0.81**
- granted	3,338,772	$0.40	2,401,753	$0.67
- transferred to employees or forfeited	(2,639,073)	$0.67	(94,036)	$0.77
Balance at end of year	**4,506,178**	**$0.51**	**3,806,479**	**$0.72**
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 2011:

Grant Date	Number Shares	Type	Vesting Date	Issue price
05/11/08	397,605	Deferred Employee Share Plan 2008	05/11/11	$0.73
31/03/09	58,701	Deferred Employee Share Plan 2008	31/03/12	$1.04
11/05/09	54,664	Deferred Employee Share Plan 2008	11/05/12	$1.04
30/09/09	127,989	Deferred Employee Share Plan 2008	30/09/12	$0.92
31/05/10	975,352	Deferred Employee Share Plan 2008	31/05/13	$0.64
31/05/10	70,000	Deferred Employee Share Plan 2008	31/05/13	$0.45
30/09/10	246,188	Deferred Employee Share Plan 2008	30/09/13	$0.52
31/12/10	1,010,538	Deferred Employee Share Plan 2008	31/12/13	$0.50
31/03/11	827,606	Deferred Employee Share Plan 2008	31/03/14	$0.31
30/06/11	737,535	Deferred Employee Share Plan 2008	30/06/14	$0.31
TOTAL	**4,506,178**			**$0.51**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 16 - EARNINGS PER SHARE

	2011	2010
Basic and diluted earnings/(loss) per share attributable to the equity holders (cents per share)	**(43.01)**	**(5.08)**
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 ($'000)	**(135,563)**	**(14,765)**
Weighted average number of ordinary shares used in calculation of basic earnings per share	**315,191,081**	**290,640,120**

The share options of 10,376,634 (2010: 13,039,223) are not dilutive and therefore have not been included in the calculation of diluted earnings per share.

NOTE 17 - SEGMENT INFORMATION

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

EGS geothermal energy development is the Company's primary focus and business activity and it remains committed to commercialising its "Deeps" 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 EGS geothermal resources. The Company has a secondary focus on exploration for hot sedimentary acquifer (HSA) geothermal energy also in the Cooper Basin of South Australia.

The Company's business plan is based on the development of the known EGS geothermal resource in the Cooper Basin. The Company's activities are currently concentrated on its Habanero location along with the development of appropriate drilling and completion techniques to allow the effective extraction of the geothermal power contained within the Innamincka deep granite resource.

NOTE 18 – REMUNERATION OF AUDITORS

	2011 $	2010 $
Amounts received or due and receivable by Ernst & Young Australia for:		
An audit or review of the financial report of the entity	135,000	122,000
Other Services in relation to the entity		
- tax compliance	-	-
- assurance related	-	5,900
	135,000	**127,900**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

Directors	
K. Spence	Chairman (non-executive)
G. Ward	Managing Director (Appointed 31 January 2011)
B. Agrawala	Director (non-executive)
P. Chopra	Director (alternate for B. Agrawala)
R. Davies	Director (non-executive)
J. Hamilton	Director (non-executive)
M. Marier	Director (non-executive) (appointed 24 February 2011)
A. Stock	Director (non-executive)
M. Albrecht	Chairman (non-executive) (resigned 24 November 2010)
P. Britz	Director (non-executive) (resigned 24 February 2011)
G. Grove-White	Managing Director (resigned 9 July 2010)

Executives	
M. Bird	Corporate Affairs Manager
K. Coates	Manager Safety and People
P. Frederiks	Company Secretary
R. Hogarth	Reservoir Engineering Manager
T. Pritchard	Chief Financial Officer
M. Saunders	Joint Venture Manager
A. Webb	Commercial Manager
M. Manton	Information & Communications Technology Manager (resigned 18 November 2010)
S. McDonnell	Chief Operating Officer (resigned 24 May 2011)

Compensation of Key Management Personnel

	2011 $'000	**2010 $'000**
Short-term employee benefits	4,294	3,640
Post Employment benefits	283	332
Share based payment	615	570
	5,192	**4,542**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Employee Share Plan Option holdings of Key Management Personnel

FY2011

	Balance at beginning of period 01/07/10	Granted as Remuneration/became Key Management Personnel	Options Exercised	Options Lapsed/No longer Key Management Personnel	Balance at end of period 30/06/11	Total Vested & Exercisable 30/06/11
Directors						
M. Albrecht	-	-	-	-	-	-
G. Ward	-	2,700,000*	-	-	2,700,000	-
J. Hamilton	-	-	-	-	-	-
G. Grove-White	762,348	-	-	(762,348)	-	-
B. Agrawala	-	-	-	-	-	-
P. Britz	-	-	-	-	-	-
P. Chopra	-	-	-	-	-	-
R. Davies	-	-	-	-	-	-
M. Marier	-	-	-	-	-	-
K. Spence	-	-	-	-	-	-
A. Stock	-	-	-	-	-	-
Executives						
M. Bird	-	202,484	-	-	202,484	-
K. Coates	201,897	-	-	-	201,897	-
P. Frederiks	473,631	-	-	-	473,631	-
R. Hogarth	-	300,498	-	-	300,498	-
T. Pritchard	-	287,977	-	-	287,977	-
M. Saunders	-	863,931	-	-	863,931	-
A. Webb	281,433	-	-	-	281,433	-
D. Anthony	405,356	-	-	(405,356)	-	-
M. Manton	291,856	-	-	(291,856)	-	-
S. McDonnell	566,955	-	-	(566,955)	-	-
P. Schmidt	265,218	-	-	(265,218)	-	-
R. Smith	341,657	-	-	(341,657)	-	-
Total	**3,590,351**	**4,354,890**	**-**	**(2,633,390)**	**5,311,851**	**-**

* Options to be issued subject to shareholder approval at the AGM to be held 24 November 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Employee Share Plan Option holdings of Key Management Personnel

FY2010

	Balance at beginning of period 01/07/09	Granted as Remuner-ation	Options Exercised / No Longer Key Management Personnel	Options Lapsed	Balance at end of period 30/06/10	Total Vested & Exercisable 30/06/10
Directors						
M. Albrecht	-	-	-	-	-	-
G. Grove-White	300,000	462,348	-	-	762,348	-
B. Agrawala	-	-	-	-	-	-
P. Britz	-	-	-	-	-	-
P. Chopra	-	-	-	-	-	-
R. Davies	-	-	-	-	-	-
J. Hamilton	-	-	-	-	-	-
K. Spence	-	-	-	-	-	-
A. Stock	-	-	-	-	-	-
Executives						
D. Anthony	405,356	-	-	-	405,356	-
K. Coates	-	201,897	-	-	201,897	-
P. Frederiks	473,631	-	-	-	473,631	-
M. Manton	291,856	-	-	-	291,856	-
S. McDonnell	-	566,955	-	-	566,955	-
P. Schmidt	265,218	-	-	-	265,218	-
R. Smith	341,657	-	-	-	341,657	-
A. Webb	281,433	-	-	-	281,433	-
D. Wyborn	314,230	-	(314,230)	-	-	-
Total	**2,673,381**	**1,231,200**	**(314,230)**	**-**	**3,590,351**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Listed Option holdings of Key Management Personnel
(quoted options expiring 31 March 2012 and exercisable at $0.55 per share)

FY2011

	Balance at beginning of period 01/07/10	Options granted	Balance at end of period 30/06/11
Directors			
K. Spence	-	37,500	37,500
G. Ward	-	-	-
B. Agrawala	-	-	-
P. Chopra	-	37,500	37,500
R. Davies	-	37,500	37,500
J. Hamilton	-	75,000	75,000
M. Marier	-	-	-
A. Stock	-	25,000	25,000
M. Albrecht	-	-	-
G. Grove-White	-	-	-
P. Britz	-	-	-
Executives			
M. Bird	-	-	-
K. Coates	-	-	-
P. Frederiks	-	12,500	12,500
R. Hogarth	-	-	-
T. Pritchard	-	-	-
M. Saunders	-	-	-
A. Webb	-	-	-
M. Manton	-	-	-
S. McDonnell	-	-	-
Total	**-**	**225,000**	**225,000**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Listed Option holdings of Key Management Personnel
(quoted options expiring 8 December 2009 and exercisable at $1.50 per share)

FY2010

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Shareholdings of Key Management Personnel

FY2011

	Balance at beginning of period 01/07/10	Appointments /became Key Management Personnel	Granted as Remuneration*	Purchased on market, Share Purchase Plan	Resignations, Disposed of/other / No Longer Key Management Personnel	Balance at end of period 30/06/11
Directors						
M. Albrecht	1,970,000	-	-	-	(1,970,000)	-
G. Ward**	-	-	258,621	-	-	258,621
G. Grove-White	130,571	-	-	-	(130,571)	-
B. Agrawala	-	-	-	-	-	-
P. Britz	5,000	-	-	-	(5,000)	-
P. Chopra	918,414	-	-	37,500	-	955,914
R. Davies	20,000	-	-	37,500	-	57,500
J. Hamilton	104,558	-	207,237	75,000	-	386,795
M. Marier	-	-	-	-	-	-
K. Spence	80,000	-	-	37,500	-	117,500
A. Stock	18,333	-	-	25,000	-	43,333
Executives						
M. Bird	-	35,156	97,752	-	-	132,908
K. Coates	35,054	-	77,553	-	-	112,607
P. Frederiks	159,335	-	104,645	12,500	-	276,480
R. Hogarth	-	52,174	95,077	-	-	147,251
T. Pritchard	-	50,000	118,171	-	-	168,171
M. Saunders	-	-	150,000	-	-	150,000
A. Webb	131,649	-	90,518	-	-	222,167
D. Anthony	164,449	-	-	-	(164,449)	-
M. Manton	113,278	-	-	-	(113,278)	-
S. McDonnell	98,438	-	203,226	-	(301,664)	-
P. Schmidt	143,594	-	-	-	(143,594)	-
R. Smith	132,400	-	-	-	(132,400)	-
Total	**4,225,073**	**137,330**	**1,402,800**	**225,000**	**(2,960,956)**	**3,029,247**

* 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.
** Shares to be issued subject to shareholder approval at AGM to be held 24 November 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19 – KEY MANAGEMENT PERSONNEL (Continued)

Shareholdings of Key Management Personnel

FY2010

	Balance at beginning of period 01/07/09	Appointments Resignations, purchased on market	Granted as Remuner-ation*	Issued on Exercise of Options	Disposed of/other / No Longer Key Management Personnel	Balance at end of period 30/06/10
Directors						
M. Albrecht	1,950,635	19,365	-	-	-	1,970,000
G. Grove-White	42,296	8,000	80,275	-	-	130,571
B. Agrawala	-	-	-	-	-	-
P. Britz	-	5,000	-	-	-	5,000
P. Chopra	798,414	120,000	-	-	-	918,414
R. Davies	-	20,000	-	-	-	20,000
J. Hamilton	79,116	25,442	-	-	-	104,558
K. Spence	-	80,000	-	-	-	80,000
A. Stock	13,333	5,000	-	-	-	18,333
Executives						
D. Anthony	82,418	-	82,031	-	-	164,449
K. Coates	-	-	35,054	-	-	35,054
P. Frederiks	77,581	-	81,754	-	-	159,335
M. Manton	51,781	-	61,497	-	-	113,278
S. McDonnell	-	-	98,438	-	-	98,438
P. Schmidt	60,389	-	83,205	-	-	143,594
R. Smith	60,616	-	71,784	-	-	132,400
A. Webb	60,932	-	70,717	-	-	131,649
D. Wyborn	839,776	-	52,172	-	(891,948)	-
Total	**4,117,287**	**282,807**	**716,927**	**-**	**(891,948)**	**4,225,073**

* 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 $160 (2010 – $113,267). This amount comprised electricity costs for a rental apartment. In addition, cash calls were paid to Origin Energy for the "Shallows" Joint Venture (Origin is the Operator) totalling $7,327,367.

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 EGS 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 20 - RELATED PARTY DISCLOSURES (Continued)

The Origin Energy Joint Ventures

In December 2007, shareholders approved a farmin with Origin Energy (Origin) on the Innamincka "Deeps" EGS geothermal resource. In the subsequent 24 month period, Origin has contributed $105.6m to project costs in addition to its own 30% share of project expenditure to satisfy the terms of the farmin. The resulting Joint Venture is known as the Innamincka "Deeps" Joint Venture and sees Geodynamics as Operator with a 70% project interest and Origin with a 30% project interest. The Joint Venture assets comprise the South Australian geothermal tenements and all property plant and equipment in the Cooper Basin including the drilling rigs.

In February 2010, Geodynamics announced that it had agreed to enter into a second joint venture with Origin to explore for shallow geothermal resources on existing Joint Venture licence areas in the Eromanga Basin in South Australia.

The Innamincka "Shallows" Joint Venture focuses on the exploration of shallow hot sedimentary aquifers (HSA) down to approximately 3,000 m depth, as distinct from the existing "Deeps" Joint Venture with Origin, which focuses on higher temperature enhanced geothermal systems (EGS) in the deeper granites generally below 4,000 m. The participating interests in the "Shallows" Joint Venture are Origin as Operator with a 50% interest and Geodynamics with a 50% interest. At 30 June 2011, Origin Energy Limited, held 19,788,404 fully paid ordinary shares in Geodynamics representing 5.9% of its issued capital.

The Sentient/Sunsuper investment

On 10 April 2008, Geodynamics announced that The Sentient Group (Sentient) and Sunsuper Pty Ltd (Sunsuper) 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. He resigned as a Director on 24 February 2011 and Mr Michel Marier was appointed as his replacement on the same date under that condition.

In March 2010, Sentient and Sunsuper purchased a combined total 14,974,385 fully paid ordinary shares in Geodynamics representing 5.2% of its issued capital. This occurred in an off market transaction thereby increasing their respective holdings by 7,784,592 and 7,189,793 shares. The substantial shareholder notices lodged at the time by both Sentient and Sunsuper showed that Sentient held 20,284,592 fully paid ordinary shares in Geodynamics representing 7.0% of its issued capital and Sunsuper held 19,689,793 fully paid ordinary shares in Geodynamics representing 6.8% of its issued capital.

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. At 30 June 2011, Tata Power through its subsidiary Trust Energy Resources, held 29,400,000 fully paid ordinary shares in Geodynamics representing 8.7% of its issued capital.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 21 - NOTES TO THE CASH FLOW STATEMENT

(A) Reconciliation of Cash

Cash is defined in Note 2 to this financial report. Cash balance comprises:

	2011 $'000	2010 $'000
Cash on Hand	-	-
Cash at Bank	8,378	6,631
Bank Bills and Term Deposits	20,800	64,681
Total Cash	**29,178**	**71,312**

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

	2011 $'000	2010 $'000
Operating loss after income tax	(135,563)	(14,765)
Depreciation and amortisation	3,589	1,176
Net (profit)/loss on disposal of property, plant & equipment	(44)	(390)
Share Option Valuation Expense	1,650	1,611
Shares issued in lieu of services	136	58
Shares issued under Deferred Employee Share Plan	1,138	541
Shares issued for the Acquisition of Assets	525	-
Impairment of Available for Sale financial asset	-	2,936
Impairment of Property Plant & Equipment	33,500	-
Impairment of Exploration & Evaluation Costs	87,000	-
Changes in Assets & Liabilities		
(Increase)/decrease in receivables and prepayments	1,423	1,156
Increase/(decrease) in other creditors and accruals	-	570
(Increase)/decrease in inventories	(227)	867
Increase in general provisions	150	291
Increase in provision for employee benefits	(147)	306
Net Cash Flow used in Operating Activities	**(6,870)**	**(5,643)**

(C) Non-Cash Financing and Investing Activities

During the year, a total of 109,655 (2010 – 58,564) 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 $0.58 per share which reflects the weighted average share price at the time the services were rendered. Also during the year a total of 1,500,000 fully paid ordinary shares were issued in consideration of the acquisition of Geothermal Exploration Licence 268 in South Australia from Clean Energy Australasia Pty Ltd at a deemed price of $0.35 per share. Details of this transaction were announced on 15 February 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2011, the Company has kept the investment at nil value based on advice received from GGE that it requires the support of its banks in order to pay its debts as and when they fall due. Management believes this determination is reasonable and the most appropriate at the balance date. The 3% interest held does not allow Geodynamics to exercise significant influence.

	2011 $'000	2010 $'000
Unlisted Available for sale		
Shares in Geysir Green Energy – an Icelandic unlisted public company	-	-

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 $465,820 is held by the landlord for the lease of the Brisbane office premises. At balance date there were also bank guarantees held in respect of the West Australian office closed earlier in the year totalling $59,732. These guarantees were returned and cancelled in July 2011.

NOTE 24 - SUBSEQUENT EVENTS

There has not arisen between 30 June 2011 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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.

(A) Interest rate risk

The Company's exposure to interest rate risks primarily 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:

	2011 $'000	**2010 $'000**
Cash and cash equivalents	29,178	71,312

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 2011, 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:

	Post tax profit Higher/(lower)		**Equity Higher/(lower)**	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
+1%	292	713	292	713
-0.5%	(146)	(357)	(146)	(357)

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 statement of financial position. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(C) Foreign Currency Risk (continued)

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 AUD 500,000 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 AUD 500,000 payable beyond 12 months are to be fully covered.

Exposures of less than the equivalent of AUD 500,000 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 2011, the Company had the following exposures to foreign currency that is not designated in cash flow hedges:

	2011 $'000	2010 $'000
Financial Assets		
Available for sale financial asset	-	-
Financial Liabilities		
Trade and other payables	58	227
Derivatives	65	1,065

At 30 June 2011, 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)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
+10%	5	21	15	(52)
-5%	(3)	(11)	(1)	(260)

The movements in profit in 2011 are less sensitive than in 2010 due to the lower value of the financial liabilities. Equity is also less sensitive in 2011 because of the decreased 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(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 as 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:

	2011 $'000	2010 $'000
6 months or less	5,352	7,310

NOTE 26– INTEREST IN JOINT VENTURE

As advised in Note 20, Geodynamics is party to a joint venture with Origin Energy (Origin) on the EGS geothermal resource in the Cooper Basin. The Joint Venture is known as the Innamincka "Deeps" Joint Venture and sees Geodynamics as Operator with a 70% project interest and Origin with a 30% project interest. The Joint Venture assets comprise the South Australian geothermal tenements and all property plant and equipment in the Cooper Basin including the drilling rigs.

(A) Commitments relating to the Joint Venture

	2011 $'000	2010 $'000
Share of capital commitments	1,068	7,525

(B) Interests in Joint Venture

Current Assets	9,489	7,222
Long Term Assets	213,607	171,141
Current Liabilities	2,252	5,109
Long Term Liabilities	1,024	394

(C) Method used to recognise interest in Joint Venture

The Company uses the proportionate consolidation method to recognise its interest in the Innamincka 'Deeps' Joint Venture.

As advised in Note 20, Geodynamics is also party to a Joint Venture with Origin Energy to explore for shallow geothermal resources in the Eromanga Basin in South Australia. The Joint Venture is known as the Innamincka 'Shallows' with Geodynamics with 50% project interest and Origin, as the operator, also with a 50% interest.

(A) Interests in Joint Venture

	2011 $'000	2010 $'000
Investment in Shallows	7,363	-

This interest represents the cash contributions made to the joint venture up to 30 June 2011.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Geodynamics Limited, I state that:

1) In the opinion of the Directors:

   (a) the financial statements, notes and additional disclosures included in the Directors' Report designated as audited of the Company are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of their performance for the period ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2011.

On behalf of the Board.

K. Spence
Chairman
Brisbane, 31 August 2011

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Independent auditor's report to the members of Geodynamics Limited

Report on the financial report

We have audited the accompanying financial report of Geodynamics Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Geodynamics Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2b.

Report on the remuneration report

We have audited the Remuneration Report included in pages 10 to 22 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Geodynamics Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Mike Reid

Mike Reid
Partner
Brisbane
31 August 2011