



**GEODYNAMICS**  
LIMITED

ABN 55 095 006 090



2013 Financial Report

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## 2013 Financial Report

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**APPENDIX 4E****PRELIMINARY FINAL REPORT****FINANCIAL YEAR ENDED 30 JUNE 2013****GEODYNAMICS LIMITED ABN 55 095 006 090****Results for announcement to the market**

<b>Results</b>	2013	2012	Change	% change
	\$'000	\$'000	\$'000	
Revenues from ordinary activities	1,166	1,418	(252)	(18%)
Loss from ordinary activities after tax attributable to members	105,092	11,772	(93,320)	(793%)
Net loss for the period attributable to members	105,092	11,772	(93,320)	(793%)

**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 \$88.8 million.

Please refer to the attached Directors Report for a full commentary on the results for the period and refer to the 2013 Financial Report for the detailed financial statements and explanatory notes to the accounts.

<b>NTA backing</b>	<b>2013</b>	2012
Net tangible asset backing per ordinary security	<b>\$0.124</b>	\$0.380

**Compliance statement**

This report is based on accounts which have been audited.



Tim Pritchard  
Company Secretary  
30 August 2013

## DIRECTORS' REPORT

### DIRECTOR PROFILES

Your Directors submit their report for the period ended 30 June 2013. 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
<p><b>Keith Spence</b> B.Sc (Hons), FAIM <b>Non-executive Chairman</b></p>	<p>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. 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.</p> <p>Mr Spence is Chairman of the listed company Clough (since August 2008) and a Non-executive Director of Oil Search, Synergy and Verve Energy. He is Chairman of the State Training Board of Western Australia, the National Offshore Petroleum Safety and Environmental Management Authority Board and the Industry Advisory Board of the Australian Centre for Energy and Process Training. He is a member of the Board of the Australian Workforce Development and Productivity Agency.</p>
<p><b>Geoff Ward</b> B.E (Chem) (Hons) MBA <b>Managing Director &amp; CEO</b></p>	<p>Mr Ward was appointed Managing Director and Chief Executive Officer of Geodynamics in January 2011. Prior to his appointment he 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.</p> <p>Mr Ward has over 20 years experience in the energy and finance industries 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.</p> <p>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.</p>
<p><b>Andrew Stock</b> B.Eng. (Chem) (Hons), FIE Aust <b>Non-executive Director</b></p>	<p>Mr Andrew Stock was formerly Director, Executive Projects for Origin Energy and in previous roles, he was responsible for Origin's major capital investments in upstream petroleum, power generation, and low emissions technology businesses.</p> <p>With over 35 years of experience, he previously held senior management positions in energy industries in Australia and overseas. He is a Non-executive Director of the listed Company Horizon Oil Limited (since February 2011) and Silex Systems Limited (since August 2013), a Board Member of the Clean Energy Finance Corporation, a member of the Advisory Board of the Faculty of Engineering, Computer and Mathematical Sciences, Institute for Mineral and Energy Resources and Centre for Energy Technology at the University of Adelaide, and Melbourne University's Energy Institute. 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.</p>

**DIRECTORS' REPORT (Continued)**

Name & Qualifications	Experience
<p><b>Prame Chopra</b> B.Sc. (Hons), Ph.D, FAICD, MAGU, MASEG, MIGA, MASC <b>Alternate Director to Minessh Dave</b> (Retired 29 November 2012)</p>	<p>Dr Prame Chopra was a Reader in Geophysics at The Australian National University (ANU) 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 &amp; 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.</p> <p>He was a Principal Investigator of the Energy Research &amp; 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.</p>
<p><b>Robert Davies</b> CMA (Canada) <b>Non-executive Director</b></p>	<p>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.</p>
<p><b>Jack Hamilton</b> B.Eng. (Chem), Ph.D, FAICD <b>Non-executive Director</b></p>	<p>Dr Jack Hamilton was formerly CEO of Exergen Pty Ltd, a low emission coal resource development Company and prior Director of NWS Ventures with Woodside Energy. Dr. Hamilton is also a non-executive director of Southern Cross Electrical Engineering Ltd and Calix Ltd. Dr Hamilton graduated from Melbourne University with a Bachelor of Chemical Engineering and Doctorate of Philosophy in 1981. He has over 28 years' experience both locally and internationally in operations management, in refining, petrochemicals and gas production, marketing, strategy and LNG project management.</p>
<p><b>Michel Marier</b> BBA (Int'l Mgt), M.Sc. (Finance), CFA, FRM <b>Non-executive Director</b></p>	<p>Mr Michel Marier joined The Sentient Group in 2009 and he is based at their office in Sydney. 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.</p> <p>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, and a Director of Samco Gold, a company listed on the TSX.V exchange.</p>

**DIRECTORS' REPORT (Continued)**

Name & Qualifications	Experience
<p><b>Minesh Dave</b> <i>Non-executive Director</i> (Retired 29 November 2012)</p>	<p>Mr Dave has over 29 years professional experience in the power sector covering engineering, fuels, environment, project feasibility, project development, project construction, policy and regulatory, strategy &amp; business development and corporate functions. He has a Bachelor of Engineering (Mech.) and a Master of Technology (Heat, Power &amp; Refrigeration).</p> <p>He has been an employee of The Tata Power Company Ltd since 1983 and is currently its Chief Representative – Indonesia and Head Business Development – APEC. His key responsibilities for Tata Power include managing the development of geothermal projects in Indonesia and the development of Power Projects in the Association of South East Asian Nations (ASEAN) and overseeing Tata Power's investments in the region. He is a Non-executive Director on the Boards of several subsidiaries and investments of Tata Power in the region.</p>

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.

**COMPANY SECRETARY****Tim Pritchard**

MCom, MIT, CPA, CSA (Cert)

Mr Tim Pritchard joined Geodynamics in 2010 as Financial Controller and became Chief Financial Officer in May 2011 responsible for managing all financial activities of the Company as well as leading the information technology team. He was appointed Company Secretary in March 2012.

Mr Pritchard has over 20 years management experience in finance, accounting, consulting, project management and information technology. In addition to extensive accounting experience, he has led a number of successful business transformation and system implementation assignments that have resulted in significantly improved financial processes and business systems.

Before joining Geodynamics, Mr Pritchard was most recently engaged by leading institutional investment company, QIC as Head of Management Information.

**DIRECTORS' REPORT (Continued)****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**

The principal activity of Geodynamics Limited during the financial year was to explore and develop areas suitable for geothermal power production.

Geodynamics has established a leading capability in the exploration and development of Enhanced Geothermal Systems (EGS). Through our Cooper Basin tenement position covering the Innamincka Deep granite resource the company has identified a substantial heat resource with the potential to play a material role in Australia's long term energy system as a reliable source of large scale continuous and controllable energy. In exploring and demonstrating the capability of supplying EGS derived power from the Innamincka Deep granite, Geodynamics has capacity to manage sub-surface investigation of geothermal resources, management of technically demanding and high risk drilling activities, development of power conversion facilities and securing commercial and funding agreements necessary to develop major geothermal power projects. The Company is pursuing the further development of the identified Innamincka Deep resources through a proposal to develop an initial small scale commercial plant (estimated capacity 5–10 MW) at the Habanero location, approximately 10 kms south of Innamincka SA. The long term aspiration of Geodynamics is to supply large scale utility power to Australian energy customers through the large scale development of the Innamincka Deep resource and securing a connection to the National Electricity Market.

In parallel to our activities in our Australian permits and utilising the skill base and experience developed through our operation of the Habanero Project, Geodynamics is seeking to acquire and develop smaller scale geothermal projects based on conventional hydrothermal (volcanic) geothermal resources. The Company has identified that there is a good opportunity to utilise our geothermal development capacity to supply power to isolated or island markets that have access to good high temperature geothermal resources and are currently supplied though high cost imported liquid fuels such as diesel or fuel oil. Projects of this type represent lower cost, lower risk opportunities that can be developed in a shorter time frame than the Company's Australian assets and within existing market conditions and costs. This provides a significant risk diversification for the Company and an alternative path to generating sustainable revenues. The first project of this type is the Savo Island Project, located in the Solomon Islands, approximately 35 km from the capital of Honiara. The Company acquired its interest in the Savo Island Project in November 2012 and is targeting initial exploration drilling to be undertaken in 2014 with a target of first power production in 2017. The Company will seek to add further projects similar to the Savo Island Project to its project portfolio based on a strict selection criteria.

While principally focused on geothermal exploration and development, Geodynamics continues to monitor developments in clean energy markets and technologies and will assess opportunities to acquire interests in projects or technologies where it is able to utilise its skills and capacity to develop further clean energy projects that provide an acceptable return for shareholders.

**REVIEW AND RESULTS OF OPERATIONS**

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

	2013 \$	2012 \$
Loss before income tax expense	(105,092,252)	(11,771,616)
Net loss attributable to members of Geodynamics Limited	(105,092,252)	(11,771,616)
<b>Earnings per Share</b>	<b>(cents)</b>	<b>(cents)</b>
Basic and diluted loss per share	(25.86)	(3.06)

## DIRECTORS' REPORT (Continued)

### REVIEW AND RESULTS OF OPERATIONS (Continued)

In the 12 months to 30 June 2013, Geodynamics has made further progress in its development of zero-emissions, renewable energy generation. The key achievements and highlights for the 12 months to June 2013 were as follows:

- Habanero 4 was completed to a target depth of 4,204 m, one of the most technically challenging wells to be drilled in Australia this year. The completion of Habanero 4 also saw the first reverse cementing operation in Australia, a technique adopted to ensure the overall safety and integrity of the well.
- A major stimulation at Habanero 4 was completed. Over a period of 14 days commencing 17 November over 24,000 micro seismic events were detected by Geodynamics' seismic network..
- The surface works construction for the Habanero 4 – Habanero 1 closed loop and the 1MWe Habanero Pilot Plant refurbishments were completed. The 1MWe Habanero Pilot Plant was successfully commissioned on 30 April 2013 with first EGS power being generated in Australia.
- The power plant trial operations progressed successfully including turbine test runs, brine reinjection loop reliability, step rate tests to assess reservoir performance parameters, and a tracer test was initiated to measure reservoir size and characteristics. A significant milestone was achieved on 24 June 2013 with the power plant operating in stand-alone mode generating net power without assistance from the site diesel generator.
- A two stage earn-in and joint operating agreement was entered into with Kentor Energy Pty Ltd, a subsidiary of Kentor Gold Ltd, to acquire up to a 70% interest in a conventional geothermal project on the island of Savo in the Solomon Islands. In April 2013 Geodynamics released an Inferred Resource Assessment for Savo indicating the presence of a high quality geothermal exploration prospect with the potential capacity to generate in excess of 30MWe, or 100% of Honiara and the Gold Ridge Mine's power requirement.
- A Heads of Agreement for a new joint venture project opportunity in Gove Peninsula, East Arnhem Land, Northern Territory, was signed with Gulkula Mining Pty Ltd. The joint venture plans to investigate the potential to deliver heat to the Rio Tinto owned Pacific Aluminium alumina refinery, focusing on Gumatj land that is adjacent to the refinery.
- The sale of Rig 200 was successfully completed for a total cash consideration of \$21 million to Pangaea Resources. Net proceeds to Geodynamics for its 70% interest in the rig asset totalled \$14.7 million.
- Geodynamics received \$22.2 million under the Federal Government's R&D Tax Incentive Scheme.

### EMPLOYEES

The Company had 30 equivalent full time employees as at 30 June 2013 (2012: 37 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 2013.

**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:

<b>Director</b>	<b>Fully paid Ordinary Shares</b>	<b>Options over Ordinary Shares</b>
K. Spence	212,413	-
G. Ward	730,319	2,700,000
R. Davies	120,775	-
J. Hamilton	371,208	-
M. Marier	-	-
A. Stock	62,315	-

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

- On 27 March Origin Energy provided Geodynamics Limited with a notice of withdrawal from both the Deeps and Shallows Joint Ventures. The withdrawal from the joint ventures became effective on 30 June 2013. Geodynamics are actively seeking alternate partners to take a share in the Deeps joint venture.
- Deferred Exploration and Evaluation costs decreased from \$106.9 million to \$1.2 million, a decrease of \$105.7 million. The movement was largely the result of an impairment of Geodynamic's deferred exploration and evaluation costs in respect of the Deeps and Shallows joint ventures, partially offset by government grants and R&D tax incentives received or receivable, of \$78.5 million.
- Property, Plant and Equipment reduced from \$19.8 million to \$4.0 million primarily as a result of the impairment of the 1MWe Power Plant and the offset from government grants.

**DIRECTORS' REPORT (Continued)****SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

As advised to the ASX on 28 March 2013, Origin Energy have withdrawn from both the Deeps and Shallows joint ventures effective 30 June 2013. Origin Energy continues to be liable for their share of site rehabilitation costs for both joint ventures for a period of five years from withdrawal. As at 1 July 2013 the company has a 100% interest in both the Deeps and Shallows joint ventures.

On 22 July 2013 the company advised that the 1MWe Habanero Pilot Plant, which was commissioned on 30 April 2013, had produced Australia's first Enhanced Geothermal Systems (EGS) generated power and was a leading global demonstration of EGS technology.

On 25 July 2013 the company was honoured to receive the Clean Energy Council (CEC) Innovation Award at the CEC Clean Energy Week Gala Event. The award recognised the leading edge technology developed and deployed in producing Australia's first EGS power with the commissioning of the 1MWe Habanero Pilot Plant.

Other than the above, there has not arisen between 30 June 2013 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.

## **DIRECTORS' REPORT (Continued)**

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The proposed 2013/14 financial year work program will continue to progress activities at the Habanero site to complete the final stages of the Habanero 1 MW Pilot Plant demonstration trial and develop a proposal for an initial small scale commercial plant utilising the demonstrated Habanero resource. Additional field works to undertake plug and abandonment and site remediation works associated with the earlier Habaerno-3, Habanero-2 and Celsius-1 well sites will also be completed in line with our permit obligations.

The completion of the 1MWe Habanero Pilot Plant demonstration trial is the final activity in this phase of investigation and assessment of the viability of development of the Innamincka Deeps resource. This phase has focussed on the successful drilling and testing of the Habanero-4 well, successful demonstration of EGS derived power and the acquisition of reservoir and plant performance data necessary to be able to develop the engineering, performance and cost parameters of a commercial scale development to demonstrate the viability of an EGS geothermal development consistent with the objectives defined under the terms of our Renewable Energy Demonstration Program grant.

With the completion of the pilot plant demonstration trial Geodynamics will now confirm the key parameters (plant capacity, plant scope, cost etc.) for the next development stage and seek to secure customer off-take agreements and funding to support this development. The Company has identified and has commenced discussions with potential customers for energy, both power and heat, located in the Cooper Basin area associated with the development of conventional and unconventional oil and gas resources. These customers vary from existing operations with a current demand for power, to prospective future operations reliant on the further development of unconventional gas or oil resources in the area that may have a requirement for both power and heat. Geodynamics will look to work with both existing and potential new operations to identify a customer base capable of supporting an initial commercial project.

With the continued exploration for unconventional gas and oil in the Cooper Basin we believe there is strong potential for the market for energy, both power and industrial heat, to grow and which our Innamincka Deeps resource is well positioned to supply. Securing such a customer capable of supporting further capital expenditure will be a pre-requisite to any further material spending at Habanero after the current trial activities are completed. Geodynamics is targeting securing a customer agreement in FY2014; however if further exploration and development activities are required to allow potential customers to enter into a contract this may be delayed.

The proposed 2013/14 financial year work program for the Savo Island Geothermal Power Project is focussed on stakeholder management, commercial negotiations and studies necessary to progress key commercial milestones. Further to this plans are being developed for initial exploration drilling to commence towards the end of the financial year. The drilling program will continue into FY14/15 culminating in Geodynamics having completed stage 2 of the earn-in and being entitled to an additional 45% interest. The results of the exploration drilling will allow for the completion of a feasibility study for the project allowing for the detailed design and planning, and project financing stages to progress.

### **ENVIRONMENTAL REGULATIONS AND PERFORMANCE**

Geodynamics Limited is strongly committed to the effective environmental management of our exploration, development and operating activities. Our Environmental Policy is the driver for maintaining our Environment Management System (EMS). This in turn provides the framework to support and guide activities, both in our offices and on our sites, in relation to environmental performance.

Our EMS was re-certified in October 2012 by SAI Global Limited as compliant with the requirements of the International Standard for Environmental Management Systems ISO14001:2004 and this indicates Geodynamics is meeting the global benchmark for environmental practice.

## DIRECTORS' REPORT (Continued)

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

- Generally, compliance has been achieved with environmental regulatory requirements with the exception of the following occurrences:
  - A notice of non-compliance was issued to Geodynamics by the South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) in March 2013 in relation to a breach of the 1MWe Geothermal Plant SEO. The breach related to a weed being introduced at the site in the form of a small landscaped area of couch grass adjacent to the amenities area at the Habanero base camp. Geodynamics responded by removing the landscaped area. No impact on the surrounding environment occurred; and
  - A non-compliance with the Stimulation and Evaluation SEO was detected in an internal environmental compliance audit (October 2012) relating to minor surficial salinisation of soil on the Habanero 4 drill pad by geofluid condensate drift (generated during the clean-up open flow). Geodynamics responded by constructing a cover for the open flow outlet to minimise condensate drift and recent sampling of soil indicates a normal level of salt in the soil.
- No serious environmental incidents occurred and only one reportable (to DMITRE) incident occurred. Three minor environmental incidents occurred during the past year which were addressed and closed out with negligible environmental impact.
- All scheduled environmental audits have been completed on time, with the majority of the findings closed out or in progress.
- Consultation has been undertaken with all relevant stakeholders prior to commencement of activities, including traditional owners and pastoralists, with no complaints received.
- An environmental best practice reference guide ('*The Green Book*') has been developed and is provided to site personnel and contractors once inducted. It provides a best practice reference guide specific to Geodynamics' activities in the Cooper Basin.

We continue to build on our environmental achievements by seeking ways to reduce the day-to-day impact of our activities on the environment while at the same time maintaining a framework for continued environmental performance focussing on mitigating our environment impacts.

In particular, Geodynamics is focussing on rehabilitating those areas that are no longer being actively used for geothermal exploration and development. Monitoring and evaluation of these areas indicates that Geodynamics' rehabilitation work at the Savina 1 and Celsius 1 & 2 well sites has resulted in good vegetation cover that either meets or exceeds the revegetation requirements for such well sites.

Even within active sites such as the main Habanero camp, Geodynamics is minimising its footprint by cordoning off areas not required for operations so that they can recover and revegetate naturally.

### 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.

The total amount of insurance contract premiums paid was \$35,500

### 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.

**DIRECTORS' REPORT (Continued)****SHARE OPTIONS****Unissued shares – employee options**

As at the date of this report, there were 6,828,319 unissued ordinary shares under employee options (2012 – 10,729,530). 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 no employee options granted during the financial year ended 30 June 2013 (2012 – 4,142,765). Refer to Note 16 of the financial statements for further details of the options outstanding.

**Shares issued as a result of the exercise of employee options**

There were no employee options exercised during the financial year (2012 – Nil) or since the end of the financial year.

**Unissued shares – shareholder options**

As at the date of this report, there were no unissued ordinary shares under shareholder options (2012 – 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 no shareholder options granted during the financial year ended 30 June 2013 (2012 – Nil).

**Shares issued as a result of the exercise of shareholder options**

There were no shareholder options exercised during the financial year (2012 – Nil) or since the end of the financial year.

**DIRECTORS' MEETINGS**

During the period there were seven directors' meetings held of which three 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	7	7	-	-	2	2	2	2	1	1
G. Ward	7	7	-	-	-	-	-	-	-	-
P. Chopra	3	3	-	-	-	-	1	1	-	-
B. Davies	7	7	3	3	2	2	-	-	-	-
J. Hamilton	7	7	1	1	-	-	2	2	1	1
M. Marier	7	5	3	2	-	-	-	-	-	-
A. Stock	7	7	-	-	2	2	1	1	1	1
M. Dave	3	0	-	-	-	-	-	-	-	-

The Company had four committees during the year with the following membership:

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

**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), Spence and Chopra. The Company's Well Engineer and Technology Manager, Amy Hodson, is an ex-officio member. A. Stock attended one of the Technical Committee meetings as a proxy for P. Chopra. At a meeting of Directors on 23 April 2013 the Board resolved to formally dissolve the technical committee due to the original basis for the formation of the committee no longer being applicable.

**DIRECTORS' REPORT (Continued)****DIRECTORS' MEETINGS (Continued)**

**Health, Safety & Environment (HSE) Committee** – Membership comprises four Non-executive Directors being Messrs Hamilton (Chair), Spence, and Stock with G. Ward as an ex-officio member. The Company's Health and Safety Manager (K. Coates) is also an ex-officio member of this Committee.

**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.

During the 2013 financial year, no non-audit services were provided by the entity's auditor, Ernst & Young (2012: \$nil). Other assurance services provided by Ernst & Young represent audits of government grants.

**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.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Audited)**

This remuneration report for the year ended 30 June 2013 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. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
  - A. Remuneration principles and strategy
  - B. Approach to setting remuneration
  - C. Detail of Incentive Plans
4. Executive remuneration outcomes for 2012/13 (including link to performance)
5. Executive contracts
6. Non-executive Director remuneration (including statutory remuneration disclosures)
7. Additional statutory disclosures

**1. Introduction**

The remuneration report details the remuneration arrangements for key management personnel (KMP) who 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.

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

**Non-executive Directors (NEDs)**

K. Spence	Chairman
P. Chopra	Alternate Director – retired 29 November 2012
R. Davies	Director
J. Hamilton	Director
M. Marier	Director
A. Stock	Director
M. Dave	Director – retired 29 November 2012

**Executive Directors**

G. Ward	Managing Director and CEO
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**Other Executives**

K. Coates	Operations Manager
R. Hogarth	Reservoir Engineering Manager
T. Pritchard	Chief Financial Officer & Company Secretary
A. Hodson	Well Engineering and Technology Manager
A. Mills	Project Engineering Team Leader – appointed 5 September 2011

## **DIRECTORS' REPORT (Continued)**

### **REMUNERATION REPORT (Continued) (Audited)**

#### **2. Remuneration governance**

##### ***Remuneration Committee***

The Remuneration & Nominations Committee comprises three Non-executive Directors. 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.

Specifically, the Board approves the remuneration arrangements of the CEO, the aggregate annual fixed remuneration salary review, the level of the short-term incentive (STI) pool and the methodology for awards made under the long-term incentive (LTI) plan, following recommendations from the Remuneration & Nominations Committee. The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval, and NED fee levels.

Committee assessments incorporate the development of remuneration policies 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.

The Remuneration & Nominations Committee meets regularly through the year. The CEO attends remuneration committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

Further information on the Remuneration & Nomination Committee's role, responsibilities and membership can be found on the Company's web site at [www.geodynamics.com.au](http://www.geodynamics.com.au).

##### ***Use of Remuneration Consultants***

In keeping with the legislation relating to the appointment of remuneration consultants for organisations, Hay Group was appointed by the Chair of the Board of Directors to provide advice on salary movements within the energy and resources sectors of the market and in particular the Brisbane market for general salaried employees and KMP.

During FY12/13 year, the Hay Group provided the Company with reports on market movements and remuneration for senior executives and selected other staff. These were used by the Board in considering remuneration for the coming year.

The fees paid to the Hay Group for the remuneration recommendations were \$13,500

The Company is satisfied the advice received from the Hay Group is free from undue influence from the KMP to whom the remuneration recommendations apply as the reports received from the Hay Group were presented to the Remuneration and Nominations Committee and were used in consideration of salary changes for FY13/14.

##### ***Remuneration Report approval at FY11/12 AGM***

The FY11/12 remuneration report received positive shareholder support at the FY11/12 AGM with a vote of 93.8% in favour.

## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT (Continued) (Audited)

#### 3. Executive Remuneration Arrangements

##### 3A. Remuneration principles and strategy

Geodynamics' executive remuneration strategy is designed to attract, motivate and retain highly skilled executives and align the interests of executives and shareholders.

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

- Provide competitive salaries to attract high calibre executives;
- Link executive performance rewards to medium and longer term shareholder value creation through the KPI linked Short Term Incentive plan and periodic grants 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.

The Company aims to reward its 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;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

##### 3B. Approach to setting remuneration

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 periodic grants of shares and share options which allow executives to align with the success of Geodynamics Limited.

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. Due to the Company's low share price and the dilution involved under the LTIP from issuing securities at such a share price, the Board Resolved to suspend the LTIP with effect from 1 October 2011 and no issues have been made under the LTIP since that date other than where there is a contractual obligation.

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 and approved by the Board. 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 KMP is detailed in Table 1 of this report.

## **DIRECTORS' REPORT (Continued)**

### **REMUNERATION REPORT (Continued) (Audited)**

#### **3. Executive Remuneration Arrangements (Continued)**

##### **3C. Details of Incentive Plans**

###### **Short Term Incentive Plan (STIP)**

The objectives of the Geodynamics STIP are to:

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

The Company has in place an annual STIP 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. Specifically, base targets are outlined that if achieved would result in an award of 20% of annualised fixed remuneration. First stretch targets are outlined that if achieved would result in an award of up to 25% of fixed annual remuneration and second stretch targets are outlined that if achieved would result in an award of up to the maximum of 30% of fixed annual remuneration.

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 FY12/13 year, eligible staff must have started by 1 January 2013.

On an annual basis, after consideration of performance against KPIs, the board, in line with their responsibilities, determine the amount, if any, of the short-term incentive to be paid from the pool of funds.

###### **Long Term Incentive Plan (LTIP)**

- 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. Due to the Company's low share price and the dilution involved under the LTIP from issuing securities at such a share price, the Board Resolved to suspend the LTIP with effect from 1 October 2011 and no issues have been made under the LTIP since that date other than where there is a contractual obligation.

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. 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 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).

## **DIRECTORS' REPORT (Continued)**

### **REMUNERATION REPORT (Continued) (Audited)**

#### **3. Executive Remuneration Arrangements (Continued)**

##### ***Long Term Incentive Plan (LTIP) (Continued)***

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.

##### ***Performance measure to determine vesting***

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.

##### ***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.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Continued) (Audited)****4. Executive Remuneration outcomes for FY12/13*****Company performance and its link to short-term incentives***

The key business plan milestones driving STI payment outcomes for FY12/13 with relevant performance against targets are outlined in the table below:

<b>Milestone</b>	<b>FY12/13 performance versus targets</b>
Health Safety & Environment – delivering the business plan safely with low environmental impact	Three of five base targets and first stretch target met
Delivery of operational results on schedule, quality and budget with a weighting of time 20%, cost 40% and quality 40%	Five of six base targets met
Management of Finances – the Company remains securely funded through management of income and costs, and uses financial resources to develop new opportunities.	Two of three base targets first stretch target met

For FY12/13, 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 was approved by the Remuneration and Nominations Committee. The payments made are recognised as remuneration in the year in which STI was earned and therefore the STI payments for FY12/13 which were paid in August 2013 are reflected in the remuneration tables for FY12/13.

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to FY2013

<b>Name</b>	<b>Proportion of maximum STI earned in FY13</b>	<b>Proportion of maximum STI forfeited in FY13</b>
G. Ward		
K. Coates	32%	68%
R. Hogarth	26%	74%
T. Pritchard	39%	61%
A. Hodson	32%	68%
A. Mills	48%	52%

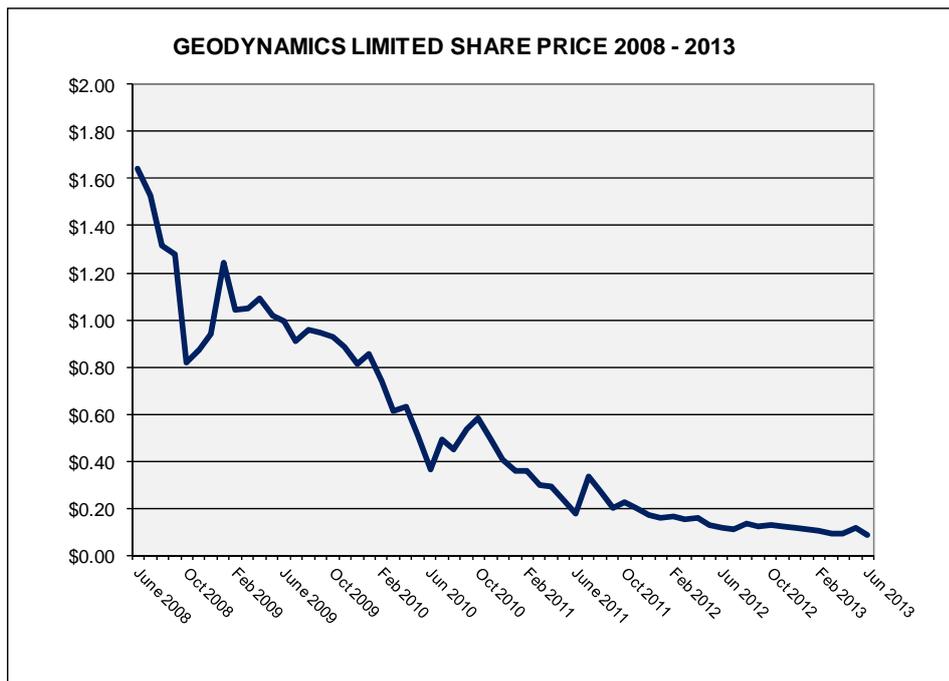
## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT (Continued) (Audited)

#### 4. Executive Remuneration outcomes for FY12/13 (Continued)

##### *Company performance and its link to long-term incentives*

The graph below shows the performance of the Company as measured by its share price and therefore by definition its Total Shareholder Return. The loss per share from continuing operations for the last five years was as follows: 2008/09 - \$0.054, 2009/10 - \$0.051, 2010/11 - \$0.43, 2011/12 - \$0.031, 2012/13 - \$0.26.



No options vested during the year under the Employee Option Plan as share price vesting performance hurdles were not met.

596,753 shares vested during the year for seventeen employees who met the vesting hurdle of three years of continuous service.

471,698 shares were issued to the Deferred Employee Share Plan on behalf of Geoff Ward. These shares were issued under the Long Term Incentive provision of his contract and have a vesting period of 36 months.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Continued) (Audited)****4. Executive Remuneration outcomes for FY12/13 (Continued)****Table 1 – Remuneration of KMP of the Company for the year ended 30 June 2013**

	Short-Term		Post Employment	Share Based payment		Total	Performance Related
	Salary	Cash Bonus – Short Term Incentive	Super-annuation	Shares (amortised cost)	Options (amortised cost)		
G. Ward	475,000	194,508	42,992	39,286	104,265	<b>856,051</b>	<b>39.49%</b>
K. Coates	288,546	27,345	21,760	29,573	2,297	<b>369,521</b>	<b>16.02%</b>
R. Hogarth	366,992	26,819	22,441	36,960	3,418	<b>456,630</b>	<b>14.72%</b>
T. Pritchard	244,220	29,808	24,737	19,086	9,327	<b>327,178</b>	<b>17.79%</b>
A. Hodson	257,562	16,519	16,071	28,880	2,671	<b>321,703</b>	<b>14.94%</b>
A. Mills	264,962	38,142	24,712	12,500	34,190	<b>374,506</b>	<b>22.65%</b>
<b>Totals</b>	<b>1,897,282</b>	<b>333,141</b>	<b>152,713</b>	<b>166,285</b>	<b>156,168</b>	<b>2,705,589</b>	

**Table 2 – Remuneration of KMP of the Company or the year ended 30 June 2012**

	Short-Term		Post Employment	Share Based payment		Total	Performance Related
	Salary	Cash Bonus – Short Term Incentive	Super-annuation	Shares (amortised cost)	Options (amortised cost)		
G. Ward	476,479	-	19,917	25,000	112,145	<b>633,541</b>	<b>21.65%</b>
K. Coates	268,850	64,100	29,966	34,274	20,596	<b>417,786</b>	<b>28.48%</b>
R. Hogarth	320,726	56,000	33,905	44,840	30,654	<b>486,125</b>	<b>27.05%</b>
T. Pritchard	244,340	58,200	27,218	19,711	20,540	<b>370,009</b>	<b>26.61%</b>
A. Hodson <sup>1</sup>	284,444	74,100	30,816	35,004	23,949	<b>448,313</b>	<b>29.68%</b>
A. Mills <sup>2</sup>	206,439	42,400	22,396	9,375	34,284	<b>314,894</b>	<b>27.33%</b>
<b>Totals</b>	<b>1,801,278</b>	<b>294,800</b>	<b>164,218</b>	<b>168,204</b>	<b>242,168</b>	<b>2,670,668</b>	

<sup>1</sup> Deemed to be a KMP from 1 July 2011, full annual remuneration included

<sup>2</sup> Appointed 5 September 2011

## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT (Continued) (Audited)

#### 5. Summary of Executive Contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

The contracts below include arrangements entered into prior to the amendments to the Corporations Act 2001 regarding termination payments which came into effect on 24 November 2009. No contracts of the Company however exceed the revised limits on termination payments.

#### *Managing Director and Chief Executive Officer*

Mr Geoff Ward was appointed Managing Director on 31 January 2011. 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. The members of the Remuneration and Nominations Committee have assessed that Mr Ward is eligible for a payment under the Short Term Incentive Scheme of 85% of the maximum payable or \$212,500 including superannuation, having achieved key financial and operational milestones identified for FY2013.. The key performance milestones set for Mr Ward for FY12/13 were delivering results to achieve agreed strategy, including achievement of planned milestones at the Habanero Project and identification of and successful acquisition of the Savo Island Geothermal Power Project, securing funding to deliver strategy, strengthening alignment with key stakeholders and partners necessary to support project development, building the right organisational capacity to deliver projects while adapting to a high level of environmental uncertainty and increasing Geodynamics' influence as the energy market in Australia transforms.
- 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 31 January 2012 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 31 January 2013 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 31 January 2014 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 31 January 2014. 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 allotment of shares to Mr Ward during the 2013 financial year was made pursuant to his contract of employment. The allotment of shares and options included was set out in the contract as approved by shareholders at the November 2011 Annual General Meeting.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Continued) (Audited)****5. Summary of Executive Contractual arrangements (Continued)**

The CEO's termination provisions are as follows:

	<b>Notice period</b>	<b>Payment in lieu of notice*</b>	<b>Treatment of STI on termination</b>	<b>Treatment of LTI on termination</b>
Resignation	6 months	6 months	Unvested awards forfeited	Unvested awards forfeited
Termination for cause	14 days	None	Unvested awards forfeited	Unvested awards forfeited
Termination in cases of long term illness, disablement, or notice without cause	6 months	6 months	Maybe prorated for time and performance subject to Board discretion	Maybe prorated for time and performance subject to Board discretion
Change of control	14 days	12 months	Prorated for time and performance	Prorated for time and performance

\*If the time remaining under the 4 year contract is less than 6 months then that lesser amount.

**Other KMP**

All other KMP have rolling contracts.

Other standard KMP provisions are as follows:

	<b>Notice period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of STI on termination</b>	<b>Treatment of LTI on termination</b>
Resignation	3 months	3 months	Unvested awards forfeited	Unvested awards forfeited
Termination for cause	None	None	Unvested awards forfeited	Unvested awards forfeited
Termination in cases of death, disablement, or notice without cause	3 months	3 months	Maybe prorated for time and performance subject to board discretion	Maybe prorated for time and performance subject to board discretion
Change of control	1 month	1 month	Prorated for time and performance	Prorated for time and performance

## **DIRECTORS' REPORT (Continued)**

### **REMUNERATION REPORT (Continued) (Audited)**

#### **6. Non-executive Director remuneration arrangements**

##### ***Remuneration Policy***

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.

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.

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 Board will not seek any increase for the NED pool at the 2013 AGM.

##### ***Structure***

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 four 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 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. Origin Energy formally waived their right to appoint a nominee director on 15 August 2012. As Mr A. Stock retired from Origin on 30 June 2012 he is now considered to be independent.

The remuneration of Non-executive Directors for the year ending 30 June 2013 is detailed in Table 3 of this report and the remuneration for the comparative year ending 30 June 2012 is detailed in Table 4 of this report.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Continued) (Audited)****6. Non-executive Director remuneration arrangements (Continued)****Table 3 – Non-executive Directors' Remuneration for the year ended 30 June 2013**

	Salary & Consulting fees	Directors fees	Super-annuation	Other	Total
K. Spence	-	118,250	10,643	-	<b>128,893</b>
P. Chopra <sup>1</sup>	-	35,875	2,419	-	<b>38,294</b>
R. Davies	-	80,625	7,256	-	<b>87,881</b>
J. Hamilton	-	87,881	-	-	<b>87,881</b>
M. Marier	-	64,500	5,805	-	<b>70,305</b>
A. Stock	-	80,625	7,256	-	<b>87,881</b>
M. Dave <sup>1</sup>	-	-	-	-	-
<b>Totals</b>	-	<b>467,756</b>	<b>33,379</b>	-	<b>501,135</b>

<sup>1</sup> Retired 29 November 2012

**Table 4 – Non-Executive Directors' Remuneration for the year ended 30 June 2012**

	Salary & Consulting Fees	Directors fees	Super-annuation	Shares (amortised cost)	Total
K. Spence	-	118,250	10,642	-	<b>128,892</b>
B. Agrawala <sup>1</sup>	-	-	-	-	-
P. Chopra	-	56,250	5,063	-	<b>61,313</b>
R. Davies	-	80,625	7,256	-	<b>87,881</b>
J. Hamilton	-	87,881	-	-	<b>87,881</b>
M. Marier	-	64,500	-	-	<b>64,500</b>
A. Stock	-	80,625	7,256	-	<b>87,881</b>
M. Dave <sup>2</sup>	-	-	-	-	-
<b>Totals</b>	-	<b>488,131</b>	<b>30,217</b>	-	<b>518,348</b>

<sup>1</sup> Retired 24 November 2011

<sup>2</sup> Appointed 23 February 2012, Fees are paid to the Alternate Director, Prame Chopra.

**DIRECTORS' REPORT (Continued)****REMUNERATION REPORT (Continued) (Audited)****7. Additional statutory disclosures****Table 5 – Shares granted to executives as part of remuneration for the year ended 30 June 2013**

During the financial year, no shares were granted or were proposed to be granted under the Long Term Incentive Plan other than those granted on behalf of Geoff Ward in accordance with his contract.

	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
R. Hogarth					6,261	-	0.92
K. Coates					4,206	-	0.92
A. Hodson					4,891	-	0.92
T. Pritchard					4,600	-	0.45
G. Ward	22/2/13	471,698	\$75,000	15%	-	-	0.16

**Table 6 – Options granted to executives as part of remuneration for the year ended 30 June 2013**

During the financial year, no options were granted or were proposed to be granted under the Long Term Incentive Plan.

	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
R. Hogarth						36,060	0.48	0.92
K. Coates						24,228	0.48	0.92
A. Hodson						28,172	0.48	0.92
T. Pritchard						26,494	0.23	0.45

Signed in accordance with a resolution of the Directors.



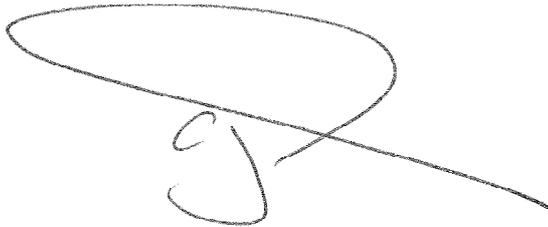
**K. Spence**  
**Chairman**  
**Brisbane, 30 August 2013**

## 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 2013, 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



Andrew Carrick  
Partner  
30 August 2013

## 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 2013 and were fully compliant with the Council's recommendations except for the following:

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.

For further information on corporate policies adopted by Geodynamics Limited, please refer to "Governance" under the Our Company Tab on our website located at [www.geodynamics.com.au](http://www.geodynamics.com.au).

For 2013, 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 Managing Director and 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 are 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	Independent	Term in Office	Expertise
Keith Spence	Non-executive Chairman	Yes	5.1 years	Energy, Engineering and Management
Geoff Ward	Managing Director	No	2.6 years	Energy, Engineering, Corporate Finance and Management
Robert Davies	Non-executive Director	Yes	4.8 years	Finance, Governance and Management
Jack Hamilton	Non-executive Director	Yes	6.9 years	Energy, Engineering and Management
Michel Marier	Non-executive Director	No	2.5 years	Finance and Management
Andrew Stock	Non-executive Director	Yes	9.8 years	Energy, Engineering and Management

#### 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, four of whom are deemed independent, and one Executive Director. One Non-executive Director who is not deemed independent is an Officer of one of the Company's three largest shareholders which has a right to appoint a Director to the Board under their Investment Deed. (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 are 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 Managing Director and Chief Executive Officer 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)

Michel Marier

Prame Chopra

Jack Hamilton.

## 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.

Prave 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. Mr Chopra retired from the Board on 29 November 2012.

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.

Dr Jack Hamilton was formerly CEO of Exergen Pty Ltd, a low emission coal resource development Company and prior Director of NWS Ventures with Woodside Energy. Dr. Hamilton is also a non-executive director of Southern Cross Electrical Engineering Ltd and Calix Ltd. Dr Hamilton graduated from Melbourne University with a Bachelor of Chemical Engineering and Doctorate of Philosophy in 1981. He has over 28 years' experience both locally and internationally in operations management, in refining, petrochemicals and gas production, marketing, strategy and LNG project management.

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; and
- The Company's Corporate Internet site at [www.geodynamics.com.au](http://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 posted on the Company's website as soon as it is disclosed to the ASX.

## 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 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 Health Safety and Environment Committee which operates under a charter approved by the Board.

Management, through the Managing Director and Chief Executive Officer, 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 are reviewed on an ongoing basis and independently audited from time to time. The Audit and Risk Committee oversees the adequacy and comprehensiveness of risk reporting from management.

The Board receives a written assurance from the Chief Executive Officer and the Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer 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-Executive Directors of the Geodynamics Board, the Well Engineering and Technology Manager and Chief Scientific Officer are ex-officio members. 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 key technical domain areas the Company related to the Company's development plans;
- 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)

- 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

At a meeting of Directors on 23 April 2013 the Board resolved to formally dissolve the technical committee due to the original basis for the formation of the committee no longer being applicable.

#### HEALTH, SAFETY & ENVIRONMENT COMMITTEE

Health, Safety & Environment (HSE) meetings are held on an as required basis. 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 HSE 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  
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 five 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 Chief Executive Officer.
- Set policies for Senior Executive remuneration including the Chief Executive Officer 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 Chief Executive Officer and Executive Director(s).
- Review and approve the recommendations of the Chief Executive Officer 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)

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.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FINANCIAL YEAR ENDED 30 JUNE 2013**

	Note	2013 \$'000	2012 \$'000
<b>Continuing Operations</b>			
Interest Income		1,166	1,418
<b>Total Revenue</b>		<b>1,166</b>	<b>1,418</b>
Impairment of Property, Plant & Equipment	7	(10,300)	(728)
Impairment of Deferred Exploration & Evaluation Costs	8	(78,510)	-
General & Administrative Expenses	3	(17,817)	(15,860)
Corporate Expenses Recovered		369	3,398
<b>Total Expenses</b>		<b>(106,258)</b>	<b>(13,190)</b>
<b>Income/(Loss) before Income Tax Expense</b>		<b>(105,092)</b>	<b>(11,772)</b>
Income Tax Benefit	4	-	-
<b>Income/(Loss) after Income Tax Expense</b>		<b>(105,092)</b>	<b>(11,772)</b>
<b>Other Comprehensive Income</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Net Gain/(Loss) On Cashflow Hedge Taken To Equity		-	65
Other Comprehensive Income for the period		-	<b>65</b>
<b>Total Comprehensive Income/(Loss) for the period attributable to the Owners</b>		<b>(105,092)</b>	<b>(11,707)</b>
Basic and Diluted Earnings/(Loss) per share (cents per share)	17	(25.86)	(3.06)
Basic and Diluted Earnings/(Loss) per share attributable to the equity holders of the entity (cents per share)	17	(25.86)	(3.06)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 30 JUNE 2013**

	Note	2013 \$'000	2012 \$'000
<b>Current Assets</b>			
Cash Assets	22(A)	41,390	35,146
Inventories – Rig Parts and Well Materials		188	189
Receivables	5	14,239	3,126
Non-Current Assets Held for Sale	6	-	14,700
<b>Total Current Assets</b>		<b>55,817</b>	<b>53,161</b>
<b>Non Current Assets</b>			
Property, Plant and Equipment	7	3,962	19,771
Deferred Exploration, Evaluation & Development phase costs	8	1,177	106,923
<b>Total Non Current Assets</b>		<b>5,139</b>	<b>126,694</b>
<b>Total Assets</b>		<b>60,956</b>	<b>179,855</b>
<b>Current Liabilities</b>			
Payables	9	4,301	13,773
Provisions	10	2,201	660
Deferred Income	11	-	5,700
Derivative Liability	12	-	-
<b>Total Current Liabilities</b>		<b>6,502</b>	<b>20,133</b>
<b>Non Current Liabilities</b>			
Provisions	10	4,003	5,299
<b>Total Non Current Liabilities</b>		<b>4,003</b>	<b>5,299</b>
<b>Total Liabilities</b>		<b>10,505</b>	<b>25,432</b>
<b>Net Assets</b>		<b>50,451</b>	<b>154,423</b>
<b>Equity</b>			
Contributed Equity	13	346,083	346,083
Other Reserves	14	10,456	9,336
Accumulated Losses		(306,088)	(200,996)
<b>Total Equity</b>		<b>50,451</b>	<b>154,423</b>

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

**CONSOLIDATED CASH FLOW STATEMENT****FINANCIAL YEAR ENDED 30 JUNE 2013**

	Note	2013 \$'000	2012 \$'000
<b>Cash Flows from/(used in) Operating Activities</b>			
Net Goods and Services Tax received		2,096	463
Payments to suppliers and employees		(10,020)	(10,513)
Net Interest Received		1,082	1,317
Net cash flows from/(used in) Operating Activities	22(B)	<b>(6,842)</b>	<b>(8,733)</b>
<b>Cash Flows from/(used in) Investing Activities</b>			
Proceeds from Government Grants		14,000	8,050
Proceeds from R&D Tax Incentive		22,115	-
Purchase of Property, Plant & Equipment		(3)	(276)
Payments for Exploration and Evaluation expenditure		(38,657)	(32,830)
Proceeds from Farmin Cash Calls		1,551	10,406
Proceeds from Insurance claim		-	8,215
Proceeds from sale of property, plant & equipment		14,080	11,478
Net cash flow used in investing activities		<b>13,086</b>	<b>5,043</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		-	9,658
Net cash flow provided by financing activities		-	<b>9,658</b>
Net increase / (decrease) in cash held		<b>6,244</b>	<b>5,968</b>
Add: Opening cash carried forward		35,146	29,178
<b>Closing cash carried forward</b>	22(A)	<b>41,390</b>	<b>35,146</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FINANCIAL YEAR ENDED 30 JUNE 2013**

	Issued Capital	Employee Equity Benefits Reserve	Foreign Exchange Hedge Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2012</b>	<b>346,083</b>	<b>9,336</b>	<b>-</b>	<b>(200,996)</b>	<b>154,423</b>
Recognition of foreign exchange hedge reserve	-	-	-	-	-
Total expense for period recognised directly in equity	-	-	-	-	-
Loss for the period	-	-	-	(105,092)	(105,092)
Total loss for the period	-	-	-	(105,092)	(105,092)
<b>Equity Transactions:</b>					
Share based payment on Employee Share Plan	-	582	-	-	582
Cost of share-based payment - recognition of share option expense	-	538	-	-	538
<b>At 30 June 2013</b>	<b>346,083</b>	<b>10,456</b>	<b>-</b>	<b>(306,088)</b>	<b>50,451</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FINANCIAL YEAR ENDED 30 JUNE 2012**

	Issued Capital	Employee Equity Benefits Reserve	Foreign Exchange Hedge Reserve	Accumulated Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2011</b>	<b>336,405</b>	<b>7,502</b>	<b>(65)</b>	<b>(189,224)</b>	<b>154,618</b>
Recognition of foreign exchange hedge reserve	-	-	65	-	65
Total expense for period recognised directly in equity	-	-	65	-	65
Loss for the period	-	-	-	(11,772)	(11,772)
Total loss for the period	-	-	65	(11,772)	(11,707)
<b>Equity Transactions:</b>					
Issue of Share Capital in consideration of services	19	-	-	-	19
Refund for overpayment of option exercise	(6)	-	-	-	(6)
Issue of Share Capital pursuant to capital placement	3,823	-	-	-	3,823
Share Capital raising expenses	(142)	-	-	-	(142)
Issue of Share Capital via Share Purchase Plan	6,201	-	-	-	6,201
Transaction costs of Share Purchase Plan	(217)	-	-	-	(217)
Ordinary shares issued for the deferred employee share plan	-	657	-	-	657
Cost of share-based payment - recognition of share option expense	-	1,177	-	-	1,177
<b>At 30 June 2012</b>	<b>346,083</b>	<b>9,336</b>	<b>-</b>	<b>(200,996)</b>	<b>154,423</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – CORPORATE INFORMATION

The financial report of Geodynamics Limited (the Company) for the year ended 30 June 2013 was authorised in accordance with a resolution of the Directors on 29 August 2013.

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.

#### (C) New Accounting standards and interpretations

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 2013. The Directors have assessed the impact of all new or amended standards (to the extent relevant to the Company) and have concluded that these Standards and interpretations will not have any financial impact on the amounts recognised in the financial statements.

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 January 2013:

- AASB 2011-09 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).

The following standards were assessed.

- AASB 9 – Financial Instruments (effective 1 July 2013).
- AASB 10 – Consolidated Financial Statements (effective 1 July 2013).
- AASB 11 – Joint Arrangements (effective 1 July 2013).
- AASB 12 – Disclosure of Interests in Other Entities (effective 1 July 2013).
- AASB 13 – Fair Value Measurement (effective 1 July 2013).
- AASB 119 – Employee Benefits (effective 1 July 2013).
- AASB 2011-4 – Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124) (effective 1 July 2013).
- 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).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(D) Basis of Consolidation**

The financial statements comprise the financial statements of Geodynamics Limited and its subsidiaries.

The Company has three wholly owned subsidiaries.

Geodynamics Share Plans Pty Ltd has an issued capital of \$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.

Geodynamics Savo Island Pty Ltd has an issued capital of \$1.00 and its purpose is to act as the controlling entity for the Savo Island Geothermal Project Joint Venture.

Geodynamics NT Pty Ltd has an issued capital of \$1.00 and its purpose is to act as the controlling entity for the Gove Direct Heat Geothermal Project Joint Venture.

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)****(E) 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 further 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.

**(F) 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.

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

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The costs include obligations relating to reclamation, plant closure and other costs associated with the restoration of the site. 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)****(G) 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.

**(H) 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.

**(I) 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)****(J) 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.

**(K) 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.

**(L) 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.

**(M) Inventories**

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

**(N) 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.

**(O) 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.

**(P) 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)****(Q) 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.

**(R) 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.

**(S) 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.

**(T) 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 until such time as all conditions associated with the grant are met. Once these conditions are achieved the credit is allocated to the relevant asset. The amount of the grant is then released to net income over the expected useful life (by way of reduced depreciation or amortisation) of the relevant asset.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(U) Earnings per Share**

Basic earnings per share is determined by dividing the profit/(loss) after tax by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share is determined by dividing the profit/(loss) 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.

**(V) 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 income 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 income 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 income tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(W) 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)****(X) 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.

**(Y) 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.

**(Z) 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. 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 21 for a status of the payments made to date under this Joint Venture arrangement.

As advised to the ASX on 28 March 2013, Origin Energy have withdrawn from both of the above joint ventures effective 30 June 2013. As at 1 July 2013 the Company has a 100% interest in both the Deeps and Shallows joint ventures.

The Company is also a party to a joint venture arrangements with Kentor Energy Pty Ltd (Kentor). The joint venture assets comprise the Savo Island prospecting license and all property plant and equipment for use on Savo Island. The joint venture is named the Savo Island Geothermal Joint Venture.

Under the terms of the agreement, Geodynamics (Savo Island) Pty Ltd is entitled to earn an initial 25% interest in the Savo Island Geothermal Power Project following the completion of initial geophysical studies to determine target locations for a drilling program. The Company has the right to earn an additional 45% interest through exploration drilling and the completion of a feasibility study for the Project. At 30 June Geodynamics had met all requirements for the initial 25% interest.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****(AA) 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)**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>NOTE 3 – EXPENSES AND LOSSES/(GAINS)</b>		
Loss before income tax has been determined after charging/(crediting) the following specific items:		
Depreciation of plant and equipment and Amortisation of leasehold improvements	7,431	1,320
Share Plan Expense	582	657
Share Option Expense	538	1,177
Employee Expenses	5,987	7,327
Interest expense	32	6
Operating lease rentals paid	856	816
Foreign exchange loss/(gain)	(27)	130
(Profit)/loss on disposal of property, plant & equipment	(79)	877
<b>NOTE 4 - INCOME TAX</b>		
<b>Income tax expense</b>		
The prima facie tax benefit on loss of 30% (2011 - 30%) differs from the income tax provided in the financial statements as follows:		
Prima facie tax on loss	(31,528)	(3,531)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Grant Income	4,200	2,415
Impairment of Property, Plant & Equipment	-	218
Other income/(expenses)	340	(3,215)
Income tax benefit attributable to current year losses	(26,988)	(4,113)
Deferred tax asset not brought to account as realisation of the asset is not regarded as probable	26,988	4,113
Income tax benefit 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b><i>Deferred tax liabilities</i></b>				
Deferred exploration phase expenditure	(10)	(762)	-	-
Deferred evaluation phase expenditure	(343)	(21,561)	-	-
Other deferred tax liability	(1,064)	(1,857)	-	-
<b><i>Deferred tax assets</i></b>				
Losses available for offset against future taxable income	90,375	87,852	-	-
Other deferred tax asset	253	6,184	-	-
Net deferred tax assets	89,211	69,856		
Deferred tax asset for tax losses not recognised	(89,211)	(69,856)		
Gross deferred income tax assets	-	-		
Deferred tax income/(expense)	-	-	-	-

The deferred tax asset arising from estimated tax losses is only brought to account to the extent that it offsets the Company's deferred tax liabilities arising from temporary differences. To the extent surplus tax losses are available, the deferred tax asset associated with these tax losses is not brought to account at balance date as 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)**

	2013 \$'000	2012 \$'000
<b>NOTE 5 – RECEIVABLES (CURRENT)</b>		
Accounts Receivable	-	1,602
GST Receivable	109	688
Interest Receivable	315	264
Other Receivables	13,815	572
	<b>14,239</b>	<b>3,126</b>

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

The other receivables balance represents an amount receivable in relation to a claim made under the REDP grant deed as well as an estimate of the amount due under the R&D Tax Incentive Scheme relating to expenditure incurred during the year ended 30 June 2013.

**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.

	2013 \$'000	2012 \$'000
<b>NOTE 6 – NON-CURRENT ASSETS HELD FOR SALE</b>		
Non-Current Assets Held for Sale	-	14,700
Total Non-Current Assets Held for Sale	-	<b>14,700</b>
<b>Reconciliation of Non-Current Assets Held For Sale</b>		
Carrying amount at beginning	14,700	-
Additions	-	26,821
Impairment	-	(728)
Disposals	(14,700)	(11,393)
Carrying amount at the end	-	<b>14,700</b>

Rig 200 was reclassified as non-current assets held for sale as at 30 June 2012 as the Rig was being actively marketed. The sale was successfully completed in September 2012.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>NOTE 7 - PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Plant and Equipment at cost	25,467	23,577
Less: accumulated depreciation and impairment	(21,505)	(3,806)
<b>Total Property, Plant and Equipment</b>	<b>3,962</b>	<b>19,771</b>
<b><i>Reconciliation of Plant &amp; Equipment</i></b>		
Carrying amount at beginning	19,771	49,153
Additions	127	208
Disposals	(156)	(916)
Impairment *	(10,300)	-
Reclassification to Assets Held for Sale	-	(26,821)
Reclassification from Deferred Exploration and Evaluation Costs	9,919	-
Less: Proceeds of Government Grants	(8,000)	-
Depreciation/Amortisation Expense	(7,399)	(1,853)
<b>Carrying amount at the end</b>	<b>3,962</b>	<b>19,771</b>

The reclassification from Deferred Exploration and Evaluation costs relates to the transfer of carrying costs for the 1MWe pilot plant and reclassification as a depreciable asset as at the time of commissioning. .

**\*Impairment of Property Plant & Equipment**

While the technical appraisal of the resource and trial of the 1MWe Pilot Plant has been successful and provides proof of concept, the development of EGS geothermal resources in Australia remains a long term challenge requiring significant capital investment and extension of infrastructure.

The 1MWe pilot plant was designed to provide a platform for proof of concept but is not commercially viable as a long term source of power production. The Board has therefore impaired the carrying amount of the 1MWe pilot plant to its residual value being an estimate of the fair value less costs to sell at 30 June 2013.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>NOTE 8 – DEFERRED EXPLORATION AND EVALUATION COSTS</b>		
Exploration Phase	32	2,539
Evaluation Phase	1,145	104,384
<b>Total</b>	<b>1,177</b>	<b>106,923</b>
<b><i>Reconciliation of Deferred Exploration &amp; Evaluation costs</i></b>		
Carrying amount at beginning	106,923	85,300
Add: Exploration Expenditure for period	57	50
Add: Evaluation & Development expenditure for period	28,741	35,769
Less: Insurance proceeds received	-	(5,122)
Less: Proceeds of Government Grants	(14,000)	(9,074)
Less: Proceeds from R&D Tax Incentive	(32,115)	-
Reclassification to Property Plant and Equipment	(9,919)	-
Less: Impairment of Evaluation & Development expenditure	(78,510)	-
<b>Carrying amount at the end</b>	<b>1,177</b>	<b>106,923</b>

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

As mentioned under Note 7, while the technical appraisal of the resource has been successful and provides proof of concept, the development of EGS geothermal resources in Australia remains a long term challenge requiring significant capital investment and extension of infrastructure.

In the absence of a small scale commercial project or other plan to commercialise the project in the medium term, the Board has impaired the carrying amount of the Geodynamics deferred exploration, evaluation and development cost in respect of its Cooper basin project to \$nil. This represents the company's best estimate of the fair value less cost to sell of these assets at 30 June 2013.

The decision to impair does not change Geodynamic's view that EGS geothermal resource will play a material role in Australia's long term energy economy as a reliable supplier of large scale, continuous, predictable and controllable energy.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>NOTE 9 - ACCOUNTS PAYABLE</b>		
<b>Current</b>		
Trade Creditors	801	3,881
Accrued Liabilities	3,500	9,892
Trade creditors and accruals	<b>4,301</b>	<b>13,773</b>

**Terms and conditions**

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

**NOTE 10 – PROVISIONS**

	<b>Employee Entitlements \$'000</b>	<b>Restoration Provision \$'000</b>	<b>Make Good Provision \$'000</b>	<b>Total Provisions \$'000</b>
<b>At 1 July 2012</b>	<b>713</b>	<b>5,015</b>	<b>231</b>	<b>5,959</b>
Arising during the year	652	313	11	976
Utilised	(731)	-	-	(731)
<b>At 30 June 2013</b>	<b>634</b>	<b>5,328</b>	<b>242</b>	<b>6,204</b>
Current 2013	504	1,697	-	2,201
Non current 2013	130	3,631	242	4,003
	<b>634</b>	<b>5,328</b>	<b>242</b>	<b>6,204</b>
Current 2012	650	10	-	660
Non current 2012	63	5,005	231	5,299
<b>At 30 June 2012</b>	<b>713</b>	<b>5,015</b>	<b>231</b>	<b>5,959</b>

The restoration provision relates to the ultimate restoration of the Habanero 1, Habanero 2, Habanero 3, Habanero 4, Jolokia 1, Savina 1 and Celsius 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)**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>NOTE 11 – DEFERRED INCOME</b>		
<b>Current</b>		
Government Grant - REDI	-	5,000
Government Grant – RDIF	-	-
Government Grant - REDP	-	-
Non-refundable Deposit	-	700
	<b>-</b>	<b>5,700</b>

**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 1MWe Pilot Plant to be constructed near Innamincka in the Cooper Basin, South Australia ).

The REDI grant was formally executed in late 2007 and at 30 June 2010 the grant had been paid in full. It had been classified as deferred income on the basis that the grant relates to an asset. As at 30 June 2013 the conditions of the grant had been achieved and therefore the deferred income was transferred to the associated asset (being the 1MWe pilot plant). The 1MWe pilot plant was subsequently impaired to its residual value (refer Note 7)

**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 2012 this grant has been transferred to deferred exploration and evaluation costs as no further activity is required under the terms of the deed.

**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. At 30 June 2012 the proceeds of the grant have been transferred to deferred exploration and evaluation costs as the proceeds relate to recoupment of historic expenditure.

**Non-Refundable Deposit**

Non-refundable deposit at 30 June 2012 represents the initial payment, received on 19 June 2012, under the terms of the conditional sale agreement for Rig 200. The sale was successfully completed in September 2012.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2013 \$'000	2012 \$'000
<b>NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS</b>		
Current Liabilities	-	-
Forward currency contracts – cash flow hedges	-	-

**Forward currency contracts – cash flow hedges**

In order to protect against exchange rate movements, the Company enters 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. At balance date, the details of outstanding contracts are:

	2013 \$'000	2012 \$'000	2013 Exchange Rate	2012 Exchange Rate
Buy US\$ / sell Australian \$	-	-	-	-
Buy GBP£ / sell Australian \$	-	-	-	-

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**

	2013 \$'000	2012 \$'000
Opening balance		65
Transferred to PPE and Exploration and Evaluation	-	(65)
Charged to other comprehensive income	-	-
Closing balance	-	-

	2013 \$'000	2012 \$'000
<b>NOTE 13 – CONTRIBUTED EQUITY</b>		
Issued and Fully Paid Capital		
406,452,608 (2012 – 406,452,608) fully paid ordinary shares	346,083	346,083

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 13 – CONTRIBUTED EQUITY (Continued)**

Movement in ordinary share capital:		Number of Shares	Issue price \$ per share	\$'000
<b>30/06/11</b>	<b>Balance end of financial year</b>	<b>336,892,832</b>		<b>336,405</b>
Jul 2011	Ordinary shares issued in consideration of services rendered	60,000	0.32	19
Jul 2011	Ordinary shares issued for the deferred employee share plan	131,342	0.31	-
Sep 2011	Refund for overpayment of option exercise	-	-	(6)
Oct 2011	Ordinary shares issued for the deferred employee share plan	858,050	0.20	-
Nov 2011	Performance Incentive for the Managing Director as approved by shareholders	258,621	0.29	-
Dec 2011	Ordinary shares issued pursuant to a share placement	25,489,782	0.15	3,823
Dec 2011	Share Placement expenses	-	-	(142)
Jan 2012	Share Purchase Plan	42,761,981	0.145	6,201
Jan 2012	Share Purchase Plan Costs	-	-	(217)
<b>30/06/12</b>	<b>Balance end of financial year</b>	<b>406,452,608</b>		<b>346,083</b>
NIL Movement				
<b>30/06/13</b>	<b>Balance end of financial year</b>	<b>406,452,608</b>		<b>346,083</b>

**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 2013, there were no unissued ordinary shares under shareholder options (2012 – 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 no shareholder options granted during the financial year ended 30 June 2013 (2012 – Nil).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2013 \$'000	2012 \$'000
<b>NOTE 14 – RESERVES</b>		
Deferred Employee Share Plan Reserve	3,125	2,543
Employee Share Option Reserve	7,331	6,793
	<b>10,456</b>	<b>9,336</b>
<b>Reconciliation of Reserves</b>		
Carrying amount at beginning	9,336	7,437
Recognition of Share Plan Expense – Transfer from Contributed Equity	-	-
Recognition of Share Plan Expense	582	657
Recognition of Share Option Expense	538	1,177
Recognition of Foreign Exchange Hedge Reserve	-	65
	<b>10,456</b>	<b>9,336</b>

**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 16 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 16 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 15 – 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:

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Payable not later than one year	164	238
<b>Operating Leases (non-cancellable)</b>		
Payable not later than one year	1,071	929
Later than one year but not later than five years	1,109	1,739
	<b>2,180</b>	<b>2,668</b>
<b>Other Commitments (Open Purchase Orders)</b>		
	<b>3,204</b>	<b>8,925</b>

Included in the other commitments are open purchase orders in relation to the Deeps Joint Venture – refer to Note 27 for details.

The Company has no capital commitments at 30 June 2013.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 16 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS**

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Employee Benefits</b>		
The aggregate employee benefit liability is comprised of:		
Provision for Annual Leave (current)	440	548
Provision for Long Service Leave (current)	-	52
Provision for Long Service Leave (non-current)	130	63
	<b>570</b>	<b>663</b>

**Superannuation Commitments**

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

Employer contributions paid or payable to the plans	<b>695</b>	<b>825</b>
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 16 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)****Long Term Incentive Plan (LTIP)**

In October 2008, the Board 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)**

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.

The LTIP was suspended in October 2011 and remains suspended at 30 June 2013. As such there were no options issued during the 2012/13 financial year.

471,698 shares were issued to the Deferred Employee Share Plan on behalf of Geoff Ward. These shares were issued under the Long Term Incentive provision of his contract and have a vesting period of 36 months.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 16 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)****Employee Option Plan (EOP) (Continued)**

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

	2013		2012	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	<b>10,729,530</b>	<b>\$0.44</b>	<b>10,376,634</b>	<b>\$0.57</b>
Granted during the year	-		4,142,765	\$0.38
- lapsed or forfeited	(3,901,211)	\$0.55	(3,789,869)	\$0.73
Balance at end of year	<b>6,828,319</b>	<b>\$0.39</b>	<b>10,729,530</b>	<b>\$0.44</b>
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 2013.

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

The following table summarises information about options held by employees as at 30 June 2013:

Grant Date	Number Options	Type	Expiry Date	Exercise price
31/12/10	1,256,501	Employee Option Plan	31/12/13	\$0.50
31/03/11	1,630,962	Employee Option Plan	31/03/14	\$0.31
30/06/11	160,942	Employee Option Plan	30/06/14	\$0.31
30/09/11	1,079,914	Employee Option Plan	30/09/14	\$0.20
25/11/11	2,700,000	Employee Option Plan	31/01/15	\$0.48
<b>TOTAL</b>	<b>6,828,319</b>			<b>\$0.39</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 16 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)****Deferred Employee Share Plan (DESP)**

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.

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

	2013		2012	
	Number of Shares	Weighted average issue price	Number of Shares	Weighted average issue price
Balance at beginning of year	4,512,489	\$0.41	4,506,178	\$0.51
- granted	471,698	\$0.16	1,153,034	\$0.22
- transferred to employees or forfeited	(1,864,506)	\$0.54	(1,146,723)	\$0.61
Balance at end of year	<b>3,119,681</b>	<b>\$0.30</b>	<b>4,512,489</b>	<b>\$0.41</b>
Vested & Exercisable at end of year	-	-	-	-

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

The following table summarises information about shares held by employees under the DESP as at 30 June 2013:

Grant Date	Number Shares	Type	Vesting Date	Issue price
30/09/10	246,188	Deferred Employee Share Plan	30/09/13	\$0.52
31/12/10	414,957	Deferred Employee Share Plan	31/12/13	\$0.50
31/03/11	520,416	Deferred Employee Share Plan	31/03/14	\$0.31
30/06/11	376,388	Deferred Employee Share Plan	30/06/14	\$0.31
30/9/11	831,413	Deferred Employee Share Plan	30/09/14	\$0.20
25/11/11	258,621	Deferred Employee Share Plan	30/04/14	\$0.29
22/02/13	471,698	Deferred Employee Share Plan	31/01/15	\$0.16
<b>TOTAL</b>	<b>3,119,681</b>			<b>\$0.30</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2013	2012
<b>NOTE 17 - EARNINGS PER SHARE</b>		
Basic and diluted earnings/(loss) per share attributable to the equity holders (cents per share)	(25.86)	(3.06)
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)	(105,092)	(11,772)
Weighted average number of ordinary shares used in calculation of basic earnings per share	406,452,608	384,280,944

The share options of 6,828,319 (2012: 10,729,530) are not dilutive and therefore have not been included in the calculation of diluted earnings per share.

**NOTE 18 - SEGMENT INFORMATION**

The Company operates in one segment, being the geothermal energy exploration & development. The Company's areas of operation are currently located in Australia and the Solomon Islands.

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'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.

Operating segments are identified on the basis of internal reports that are regularly reviewed and used by the Board of Directors (chief operating decision maker) in order to allocate resources to the segment and assess its performance. The financial information presented in the Statements of Comprehensive Income and Financial Position is the same as that presented to the chief operating decision maker.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief operating decision maker are in accordance with the entity's accounting policies.

	2013 \$	2012 \$
<b>NOTE 19 – REMUNERATION OF AUDITORS</b>		
Amounts received or due and receivable by Ernst & Young Australia for:		
An audit or review of the financial report of the entity	92,500	123,500
Other assurance services	5,000	5,000
	<b>97,500</b>	<b>128,500</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 20 – KEY MANAGEMENT PERSONNEL****Details of Key Management Personnel****Directors**

K. Spence	Chairman (non-executive)
G. Ward	Managing Director & CEO
P. Chopra	Director (alternate for M. Dave) (retired 29 November 2012)
R. Davies	Director (non-executive)
J. Hamilton	Director (non-executive)
M. Marier	Director (non-executive)
A. Stock	Director (non-executive)
M. Dave	Director (non-executive) (retired 29 November 2012)

**Executives**

K. Coates	Operations Manager
R. Hogarth	Reservoir Engineering Manager
T. Pritchard	Chief Financial Officer
A. Hodson	Well Engineering & Technology Manager
A. Mills	Project Engineering Team Leader

**Compensation of Key Management Personnel**

	<b>2013</b> <b>\$</b>	<b>2012</b> <b>\$</b>
Short-term employee benefits	2,698,179	2,584,209
Post Employment benefits	186,092	194,435
Share based payment	322,453	410,372
	<b>3,206,724</b>	<b>3,189,016</b>

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 20 – KEY MANAGEMENT PERSONNEL (Continued)****Employee Share Plan Option holdings of Key Management Personnel****FY2013**

	Balance at beginning of period  01/07/12	Granted as Remuner- ation/became Key Management Personnel	Options Exercised	Options Lapsed/No longer Key Management Personnel	Balance at end of period  30/06/13	Total Vested & Exercisable  30/06/13
<b>Directors</b>						
G. Ward	2,700,000	-	-	-	2,700,000	-
J. Hamilton	-	-	-	-	-	-
P. Chopra	-	-	-	-	-	-
M. Dave	-	-	-	-	-	-
R. Davies	-	-	-	-	-	-
M. Marier	-	-	-	-	-	-
K. Spence	-	-	-	-	-	-
A. Stock	-	-	-	-	-	-
<b>Executives</b>						
K. Coates	201,897	-	-	(201,897)	-	-
R. Hogarth	300,498	-	-	(300,498)	-	-
T. Pritchard	287,977	-	-	(287,977)	-	-
A. Hodson	234,764	-	-	(234,764)	-	-
A. Mills	1,079,914	-	-	-	1,079,914	-
<b>Total</b>	<b>4,805,050</b>	<b>-</b>	<b>-</b>	<b>1,025,136</b>	<b>3,779,914</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 20 – KEY MANAGEMENT PERSONNEL (Continued)****Employee Share Plan Option holdings of Key Management Personnel****FY2012**

	Balance at beginning of period 01/07/11	Granted as Remuneration/became Key Management Personnel	Options Exercised	Options Lapsed/No longer Key Management Personnel	Balance at end of period 30/06/12	Total Vested & Exercisable 30/06/12
<b>Directors</b>						
G. Ward	2,700,000	-	-	-	2,700,000	-
J. Hamilton	-	-	-	-	-	-
P. Chopra	-	-	-	-	-	-
M. Dave	-	-	-	-	-	-
R. Davies	-	-	-	-	-	-
M. Marier	-	-	-	-	-	-
K. Spence	-	-	-	-	-	-
A. Stock	-	-	-	-	-	-
<b>Executives</b>						
K. Coates	201,897	-	-	-	201,897	-
R. Hogarth	300,498	-	-	-	300,498	-
T. Pritchard	287,977	-	-	-	287,977	-
A. Hodson	-	234,764	-	-	234,764	-
A. Mills	-	1,079,914	-	-	1,079,914	-
<b>Total</b>	<b>3,490,372</b>	<b>1,314,678</b>	<b>-</b>	<b>-</b>	<b>4,805,050</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 20 – KEY MANAGEMENT PERSONNEL (Continued)**

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

There are no listed options held by KMP at 30 June 2013

**FY2012**

	Balance at beginning of period 01/07/11	Options lapsed	Balance at end of period 30/06/12
<b>Directors</b>			
K. Spence	37,500	(37,500)	-
G. Ward	-	-	-
B. Agrawala	-	-	-
P. Chopra	37,500	(37,500)	-
M. Dave	-	-	-
R. Davies	37,500	(37,500)	-
J. Hamilton	75,000	(75,000)	-
M. Marier	-	-	-
A. Stock	25,000	(25,000)	-
<b>Executives</b>			
K. Coates	-	-	-
R. Hogarth	-	-	-
T. Pritchard	-	-	-
A. Hodson	-	-	-
A. Mills	-	-	-
<b>Total</b>	<b>212,500</b>	<b>(212,500)</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 20 – KEY MANAGEMENT PERSONNEL (Continued)****Shareholdings of Key Management Personnel****FY2013**

	Balance at beginning of period  01/07/12	Appointments /became Key Management Personnel	Granted as Remuner- ation*	Purchased on market, Share Purchase Plan	Resignations, Disposed of/other / No Longer Key Management Personnel	Balance at end of period  30/06/13
<b>Directors</b>						
G. Ward	258,621	-	471,698	-	-	730,319
P. Chopra	955,914	-	-	-	-	955,914
M. Dave	-	-	-	-	-	-
R. Davies	120,775	-	-	-	-	120,775
J. Hamilton	481,708	-	-	-	-	481,708
M. Marier	-	-	-	-	-	-
K. Spence	212,413	-	-	-	-	212,413
A. Stock	62,315	-	-	-	-	62,315
<b>Executives</b>						
K. Coates	314,245	-	-	-	(35,054)	279,191
R. Hogarth	394,451	-	-	-	-	394,451
T. Pritchard	168,171	-	-	-	(50,000)	118,171
A. Hodson	309,394	-	-	-	-	309,394
A. Mills	187,500	-	-	-	-	187,500
<b>Total</b>	<b>3,465,507</b>	<b>-</b>	<b>471,698</b>	<b>-</b>	<b>(85,054)</b>	<b>3,852,151</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 20 – KEY MANAGEMENT PERSONNEL (Continued)****Shareholdings of Key Management Personnel****FY2012**

	Balance at beginning of period  01/07/11	Appointments /became Key Management Personnel	Granted as Remuner- ation*	Purchased on market, Share Purchase Plan	Resignations, Disposed of/other / No Longer Key Management Personnel	Balance at end of period  30/06/12
<b>Directors</b>						
G. Ward	258,621	-	-	-	-	258,621
B. Agrawala	-	-	-	-	-	-
P. Chopra	955,914	-	-	-	-	955,914
M. Dave	-	-	-	-	-	-
R. Davies	57,500	-	-	63,275	-	120,775
J. Hamilton	386,795	-	-	94,913	-	481,708
M. Marier	-	-	-	-	-	-
K. Spence	117,500	-	-	94,913	-	212,413
A. Stock	43,333	-	-	18,982	-	62,315
<b>Executives</b>						
K. Coates	112,607	-	201,638	-	-	314,245
R. Hogarth	147,251	-	247,200	-	-	394,451
T. Pritchard	168,171	-	-	-	-	168,171
A. Hodson	-	114,319	195,075	-	-	309,394
A. Mills	-	-	187,500	-	-	187,500
<b>Total</b>	<b>2,029,247</b>	<b>114,319</b>	<b>831,413</b>	<b>272,083</b>	<b>-</b>	<b>3,465,507</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 21 - RELATED PARTY DISCLOSURES**Services rendered during the year

During the year electricity was provided to the Company by Origin Energy under normal commercial terms and conditions.

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 21 - 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 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 2013, Origin Energy Limited, held 15,454,119 fully paid ordinary shares in Geodynamics representing 3.8% of its issued capital.

As advised to the ASX on 28 March 2013, Origin Energy have withdrawn from both of the above joint ventures effective 30 June 2013. The result being Geodynamics hold a 100% interest in the Deeps and Shallows joint ventures as at 1 July 2013.

#### The Kentor Energy Joint Venutre

In November 2012, Geodynamics Limited entered into a two stage earn-in and joint operating agreement with Kentor Energy Pty Ltd ("Kentor"), a subsidiary of Kentor Gold Ltd (ASX: KGL), to acquire up to 70% interest in a conventional geothermal power supply project in the Solomon Islands.

Under the terms of the agreement, Geodynamics is entitled to earn an initial 25% interest in the Savo Island Geothermal Power Project ("Project") following the completion of initial geophysical studies to determine target locations for a drilling program. The Company has the right to earn an additional 45% interest through exploration drilling and the completion of a feasibility study for the Project.

In April 2013 Geodynamics fulfilled its commitments under Stage One of the Earn-In by releasing a Savo Island Inferred Geothermal Resource Assessment and became entitled to the initial 25% in the Savo Island Geothermal Power Project.

#### 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 21 - RELATED PARTY DISCLOSURES (Continued)**

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 Minesh Dave was appointed to the Board on 23 February 2012 as the director representative under this condition. At 30 June 2013, Tata Power through its subsidiary Trust Energy Resources, held 29,400,000 fully paid ordinary shares in Geodynamics representing 7.2% of its issued capital. Mr Minesh Dave retired from the Board on 29 November 2012 and, due to the Tata shareholding being below the required level of 10%, was not replaced.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2013 \$'000	2012 \$'000
<b>NOTE 22 - NOTES TO THE CASH FLOW STATEMENT</b>		
<b>(A) Reconciliation of Cash</b>		
Cash is defined in Note 2 to this financial report. Cash balance comprises:		
Cash on Hand	-	-
Cash at Bank	10,590	8,346
Bank Bills and Term Deposits	30,800	26,800
<b>Total Cash</b>	<b>41,390</b>	<b>35,146</b>
<b>(B) Reconciliation of the operating loss after tax with the net cash flows used in operations</b>		
Loss after income tax	(105,092)	(11,772)
Depreciation and amortisation	7,431	1,320
Net (profit)/loss on disposal of property, plant & equipment	(90)	877
Share Option Valuation Expense	538	1,176
Shares issued in lieu of services	-	19
Shares issued under Deferred Employee Share Plan	582	657
Shares issued for the Acquisition of Assets	-	-
Impairment of Property Plant & Equipment	10,300	728
Impairment of Exploration & Evaluation Costs	78,510	-
<b>Changes in Assets &amp; Liabilities</b>		
(Increase)/decrease in receivables and prepayments	(90)	(5,180)
Increase/(decrease) in other creditors and accruals	823	283
(Increase)/decrease in inventories	-	694
Increase/(decrease) in general provisions	325	2,510
Increase/(decrease) in provision for employee benefits	(79)	(45)
<b>Net Cash Flow used in Operating Activities</b>	<b>(6,842)</b>	<b>(8,733)</b>

**(C) Non-Cash Financing and Investing Activities.** During the year nil (2012 – 60,000) fully paid ordinary shares were issued in consideration of professional services rendered by external consultants to the Company in the ordinary course of business.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 23 – 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 2013, 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.

	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
<u>Unlisted Available for sale</u>		
Shares in Geysir Green Energy – an Icelandic unlisted public company	-	-

**NOTE 24 - 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 25 - SUBSEQUENT EVENTS**

As advised to the ASX on 28 March 2013, Origin Energy have withdrawn from both the Deeps and Shallows joint ventures effective 30 June 2013. Origin Energy continues to be liable for their share of site rehabilitation costs for both joint ventures for a period of five years from withdrawal. As at 1 July 2013 the company has a 100% interest in both the Deeps and Shallows joint ventures.

On 22 July 2013 the company advised that the 1MWe Habanero Pilot Plant, which was commissioned on 30 April 2013, had produced Australia's first Enhanced Geothermal Systems (EGS) generated power and was a leading global demonstration of EGS technology.

On 25 July 2013 the company was honoured to receive the Clean Energy Council (CEC) Innovation Award at the CEC Clean Energy Week Gala Event. The award recognised the leading edge technology developed and deployed in producing Australia's first EGS power with the commissioning of the 1MWe Habanero Pilot Plant.

Other than the above, there has not arisen between 30 June 2013 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.

**NOTE 26 - 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 26 - 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:

	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
Cash and cash equivalents	41,390	35,146

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 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, the post tax loss and equity would have been affected as follows:

	<b>Post tax profit</b> <b>Higher/(lower)</b>		<b>Equity</b> <b>Higher/(lower)</b>	
	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
+1%	414	351	414	351
-0.5%	(207)	(176)	(207)	(176)

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 company's significant receivable balances at 30 June 2013 are in respect of the REDP grant and R&D tax incentive scheme. As such they are receivable from the Federal Government of Australia.

#### (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 or major material purchases. Conversely, the purchase of foreign currency operational supplies and services are generally not hedged due

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

**(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 2013, the Company had the following exposures to foreign currency that is not designated in cash flow hedges:

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<b>Financial Assets</b>		
Available for sale financial asset	-	-
<b>Financial Liabilities</b>		
Trade and other payables	41	398
Derivatives	-	-

At 30 June 2013, 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:

	<b>Post tax profit Higher/(lower)</b>		<b>Equity Higher/(lower)</b>	
	<b>2013 \$'000</b>	<b>2012 \$'000</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
+10%	4	36	4	36
-5%	(2)	(20)	(2)	(20)

The movements in profit and equity in 2013 are less sensitive than in 2012 due to the lower value of the financial liabilities.

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 26 - 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:

	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
6 months or less	4,301	13,773

**NOTE 27- INTEREST IN JOINT VENTURE**

As advised in Note 21, 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.

**(A)** Commitments relating to the Joint Venture

	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
Share of capital commitments	-	-

**(B)** Interests in Joint Venture

Current Assets	2,696	7,438
Long Term Assets	3,675	95,597
Current Liabilities	2,395	11,618
Long Term Liabilities	-	-
Other Commitments (Open Purchase Orders)	3,003	8,615
Income	40	1,135
Expenses	5,963	7,929

**(C)** Method used to recognise interest in Joint Venture

The Company accounts for its interest in the Innamincka 'Deeps' Joint Venture as a jointly controlled asset. As such it records its legal and beneficial share in the joint venture's assets, liabilities, revenues and expenses.

As advised in Note 21, 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 27 - INTEREST IN JOINT VENTURE (Continued)**

## (A) Interests in Joint Venture

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Investment in Shallows	10,376	10,376

This interest represents the cash contributions made to the joint venture up to 30 June 2013.

As advised to the ASX on 28 March 2013, Origin Energy have withdrawn from both of the above joint ventures effective 30 June 2013. Origin Energy continues to be liable for their share of site rehabilitation costs for both joint ventures for a period of five years from withdrawal. As at 1 July 2013 the company has a 100% interest in both the Deeps and Shallows joint ventures.

As advised in Note 21, Geodynamics is also a party to a Joint Venture with Kentor Energy Pty Ltd (Kentor) to explore for geothermal resources on Savo Island in the Solomon Islands. The joint venture assets comprise the Savo Island prospecting license and all property plant and equipment for use on Savo Island. The joint venture is named the Savo Island Geothermal Joint Venture.

## (A) Interests in Joint Venture

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Investment in Savo Joint Venture	1,137	-
Expenses	47	-

This interest represents capitalised exploration costs to 30 June 2013.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****NOTE 28 – INFORMATION RELATING TO GEODYNAMICS LIMITED (THE PARENT)**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Current Assets	55,817	53,161
Total Assets	60,956	179,855
Current Liabilities	6,502	20,133
Total Liabilities	10,505	25,432
Contributed Equity	346,083	346,083
Accumulated Losses	(306,088)	(200,996)
Other Reserves	10,456	9,336
	<b>50,451</b>	<b>154,423</b>
Profit or loss of the Parent entity	(105,092)	(11,707)
Total comprehensive income of the Parent entity	(105,092)	(11,707)

The Parent has not issued guarantees in relation to the debts of its subsidiaries.

The Parent has no contingent liabilities nor any contractual obligations on behalf of its subsidiaries at 30 June 2013.

## 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 2012 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 2012.

On behalf of the Board.



**K. Spence**  
**Chairman**  
**Brisbane, 30 August 2013**

## 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 consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company Geodynamics Limited 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. In Note 2B, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *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 judgement, 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:

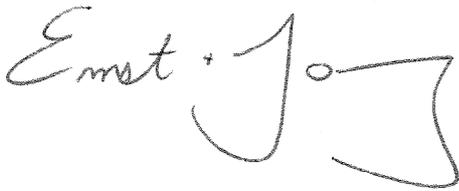
- a. the financial report of Geodynamics Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii complying with Australian 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**

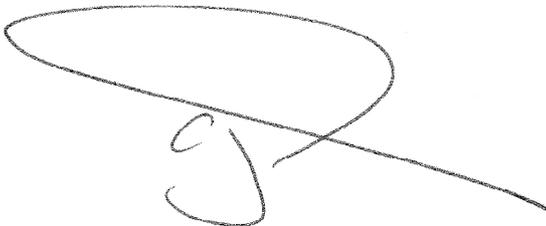
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is 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 2013 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Andrew Carrick  
Partner  
Brisbane  
30 August 2013