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Dear Fellow Shareholders

I have just returned from Europe, where the main topic of conversation in the media on a daily basis is global warming and its likely impacts on humankind. It has reached almost fever pitch and takes precedence over almost all other news.

During the last few months we have seen the debate brought to the fore in Australia, as our political leaders grapple with the best strategies for our nation. Geothermal energy has been specifically referred to on numerous occasions, to the extent that the Federal Labor Party has taken the lead from its progressive South Australian comrades and offered to provide direct funding on a dollar for dollar basis for geothermal drilling. In fact, Geothermal Resources is already the grateful recipient of such funding under a PACE grant from the South Australian Government and also a much larger 1:1 funding from the Commonwealth Government under its Renewable Energy Development Initiative (REDI grant). It does mean that we can probably expect more assistance in the high risk initial drill testing phase over coming years.

All of this is good news for us as shareholders in a Company that has as its specific objective, the discovery and exploitation of the only form of continuously renewable, non-greenhouse gas emitting energy that is able to supply base load (or continuous) energy for electricity generation. However, as in all exploration endeavours, while the ideas are important, far more important is having prospective tenement holdings and actually executing exploration programmes that can test the potential efficiently and effectively rather than just talking about it. We are currently doing just this as drilling progresses on our Frome project tenements in the northeast of South Australia.

As I write, the drilling rig is turning and deepening drillhole Frome 1 to 500 metres. Once it reaches that depth the drill rig will pull out and move to the next site, and we will take bottom of hole temperature measurements. This data, combined with conductivity measurements of the rock core, will give a good indication of the geothermal gradient and heat generating potential below.

We plan to drill eight 500 metre diamond core holes on the Frome project before the end of the year and this will give us a good idea of the regional heat generating capacity of the granitic bedrock. Based on this data we will select the optimum site to drill a deeper, large diameter hole into the heat reservoir at depth. This hole will be a potential production bore. The deep hole will cost significantly more than the 500 metre holes we are currently drilling as it will need to be drilled by an oil rig with adequate depth capacity, with all blow out safety equipment in place, and an ability to handle extremely hot water.

We have had delays in securing suitable drilling equipment, and heavy rains have also caused frustrating delays for the last month, but we are now well underway, and shareholders can look forward to regular updating of drilling results and temperature measurements over coming months. From now on we expect to maintain a continuous programme of exploration that will also include commencement of drilling activity on our Crower project in the South East.

Good projects are the key to a successful outcome and to this end we have recently applied for two further 500 square kilometre geothermal exploration licences (GELs) in the Frome project area. These GELs are located closer to Broken Hill than the current Frome project GELs and were

applied for based on geological concepts developed by Havilah Resources in its basemetal exploration programmes. In this area, Havilah has recognised a thick sequence of fine-grained Broken Hill age sediments up to several thousand metres thick. Such fine-grained sediments are normally excellent insulators and would be expected to result in entrapment of heat at depth. There is evidence that uranium-rich granitic rocks lie beneath this sedimentary pile, plus possibly some faulted blocks of other igneous rocks or high grade basement metamorphic rocks, that might provide good primary heat sources. We propose to test these concepts in due course.

As our drilling programme at the Frome project progresses and relevant measurements are taken, we look forward with optimism that the geological concepts on which Geothermal Resources is based will be validated. This will be a major achievement, not only for all patient shareholders, but as the first step towards discovery of a truly renewable energy resource that can actually make a tangible contribution towards slowing the build-up of greenhouse gases in the earth's atmosphere.

Yours sincerely

Bob Johnson  
Chairman