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Dear Fellow Shareholder

2nd September 2008

I recently presented at the first Australian Geothermal Resources conference in Melbourne and was amazed at the public interest and the diversity of geothermal projects that are being advanced around the world. I predict, along with most attendees I met, that geothermal energy will attract major worldwide investment over the next decade as the best projects are advanced along the development road. In the final analysis, however, it all gets back to the quality of the projects and their commerciality, and the reality is that as with all exploration, many projects will not make the grade.

As I mentioned in my talk (which is posted on our website) Geothermal Resources is at the forefront of geothermal energy exploration in Australia, being poised to commence the deepest hole in its history – to a depth of 1,800 metres in Frome 12. This drillhole is both exciting and risky. It is exciting, because we expect it will be a definitive test of whether sufficiently hot granite driven geothermal reservoirs exist at depth on our Frome project.

As for the risks, there is technical execution risk that we will be able to achieve the 1,800 metre target depth without problems and unexpected additional drilling expense. We have attempted to minimize this by careful planning of the hole and using a very experienced diamond drilling contractor with the best drilling crew on the job. There is also geological risk that the geothermal gradient will continue undiminished from that measured in Frome 3. All the indicators we have gathered so far point to this being the case and we are optimistic of a positive result. We are certainly appreciative of Commonwealth Government support via the REDI grant, which effectively halves our financial risk on drilling this hole.

What Geothermal Resources is doing is a carefully measured extension of the work completed previously, using the most economical drilling method possible for the maximum testing effect. It is simply not possible for us to go directly to drilling to 3-4 kilometres depth with a large oil rig because of the high costs involved and the present unavailability of such rigs. However, if Frome 12 results are positive, Geothermal Resources will have on its hands a major asset that it will be able to fund in various ways going forward, such is the interest in the geothermal energy sector at this time.

In parallel, we are carefully planning initial shallow drilling of our Crower geothermal exploration licences in the South East of the State, scheduled for early 2009. This drilling will require considerable skill and experience owing to the multiple aquifers that are likely to be encountered in the upper parts of the holes. Extensive seismic data is available for the region, which is greatly assisting our interpretations and initial hole placement.

At this stage Frome 12 is expected to commence on 5 September, and we will provide regular updates on progress once drilling is underway. As a shareholder, we hope you share the excitement and expectation of this endeavour that your Company is embarking on, after two years of painstaking preparatory work.

Yours faithfully,

Dr K R Johnson
CHAIRMAN