

REVIEW OF OPERATIONS

FROME PROJECT

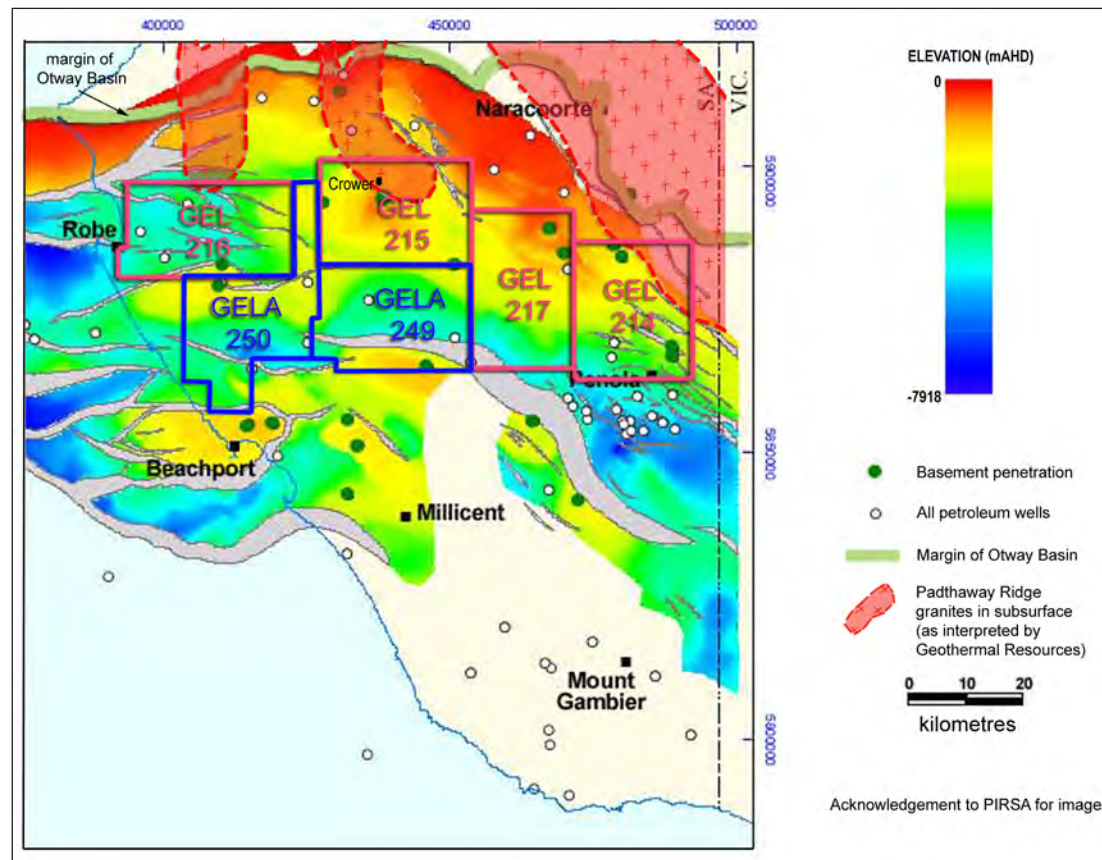
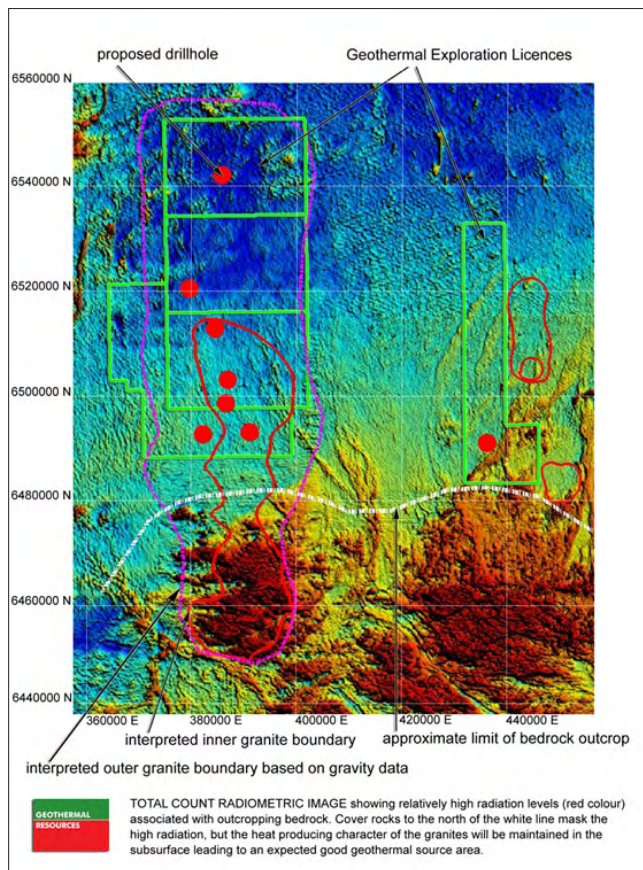
A major highlight of the quarter was advice that the Company had been successful in attracting a \$2.5 million REDI (Renewable Energy Development Initiative) grant from the Federal Government. This assistance is welcome and is a tangible demonstration of the Federal Government's encouragement of the development and commercialisation of renewable forms of energy in Australia.

The REDI grant was applied for on the basis of assisting research that will lead to identification of optimum drilling locations for testing geothermal resources in the Frome project area, and subsequent

verification and commercialisation. The \$2.5 million grant is to be spent over a period of three years, and must be matched by the company's own funds. Part of the scientific rationale behind the REDI grant application was to map the theoretical heat generating capacity of the outcropping granite bodies in the region, and apply this to the covered areas where it is proposed to drill. Since the natural radioactive decay of isotopes of uranium, thorium and potassium is responsible for the heating of the granites, the published radiometric maps of the region can therefore give a good idea of the heat generating capacity of the granites. The high radiometric responses of outcropping basement rocks lying immediately south of the Frome project area indicates an exceptionally high heat generating capacity, which if contained under a suitable

insulating blanket should yield high geothermal gradients.

Considerable time was spent during the quarter preparing an Activity Notification document, as required under the Petroleum Act, relating to the proposed initial shallow geothermal gradient drill testing of the Frome project. The Activity Notification is a comprehensive document that addresses all aspects of the drilling programme, including notification of relevant stakeholders, the likely environmental impacts, and documentation of health and safety procedures adopted by the Company. Drilling cannot commence until the Activity Notification is approved by the relevant Minister, and currently the submission is under review by PIRSA.



In July the Company hosted a visit to the proposed drill sites by a team of the Adnyamathanha native title claimants, who carried out a heritage clearance survey in accordance with the requirements of the Petroleum Act. This resulted in all drill sites being cleared for future drilling related activities, which is a condition of approval of the Activity Notification.

CROWER PROJECT

During the quarter the Company applied for two new geothermal exploration licences (GELAs 249 and 250) that lie adjacent to its existing GELs in South Australia's South East. These geothermal exploration licence applications cover an area of approximately 1000 square kilometres where the thickness of Otway Basin sediments are potentially optimal for entrapping heat generated from the Padthaway Ridge granites at depth.

Forward Exploration Plans

Geothermal Resources' immediate objective is to complete at least six shallow geothermal gradient test holes within the Frome project area to depths of around 500 metres to determine geothermal gradients across the region. This data will be vitally important to select the best location to site the first deep test drillhole into the potential geothermal reservoir at 2-4 kilometres depth.

All of the shallow geothermal gradient test hole sites have been selected and a drilling contractor arranged to complete the work in the last quarter of the year. A \$100,000 PACE grant (Programme for Accelerated Exploration) has been awarded to the Company to assist with this drilling programme.

The Company is currently awaiting approval of its Activity Notification from PIRSA, which is required before the drilling can proceed.

FINANCE

As at 31 July 2006 the company had available funds of \$2.76 million (not including the REDI grant funds, which are paid progressively based on verified expenditures) of which the majority is held in a term deposit. Exploration expenditure in the forthcoming quarter will be dependent on how quickly regulatory procedures can be completed that will permit field programmes to proceed.

Dr K R Johnson
CHAIRMAN

Further technical details relating to Geothermal Resources activities will be found on the Company's website:

www.geothermal-resources.com.au

The information in this report has been prepared by Dr Bob Johnson who is a member of the Australasian Institute of Mining and Metallurgy and Dr Chris Giles who is a member of The Australian Institute of Geoscientists. Drs Johnson and Giles are employed by the Company on consulting contracts. They have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration to qualify as Competent Persons as defined in the JORC Code 2004. Drs Johnson and Giles consent to the release of the information compiled in this report in the form and context in which it appears.

Enquiries should be directed to Dr Bob Johnson
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GEOTHERMAL RESOURCES LIMITED

ACN 115 281 144



Quarterly Report
July 2006

HIGHLIGHTS

MORE FUNDS TO ASSIST FROME PROJECT GEOTHERMAL GRADIENT DRILLING

- The Company was successful in attracting a REDI grant from the Federal Government for a sum of \$2.5 million to assist with the research and development of the Frome project leading to its commercialisation if feasible.
- Required documents submitted to PIRSA to obtain regulatory approvals for the shallow geothermal gradient drill testing of the Frome project.
- Two new GELs applied for adjacent to current Crower project GELs in the South East of South Australia in areas where depth of insulating cover rocks is likely to be optimal.

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