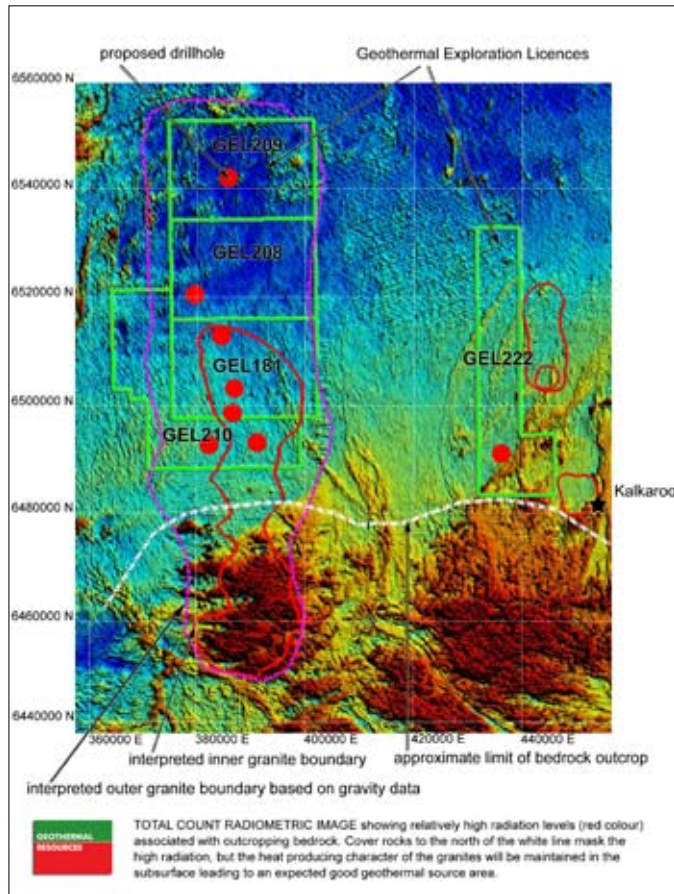


REVIEW OF OPERATIONS

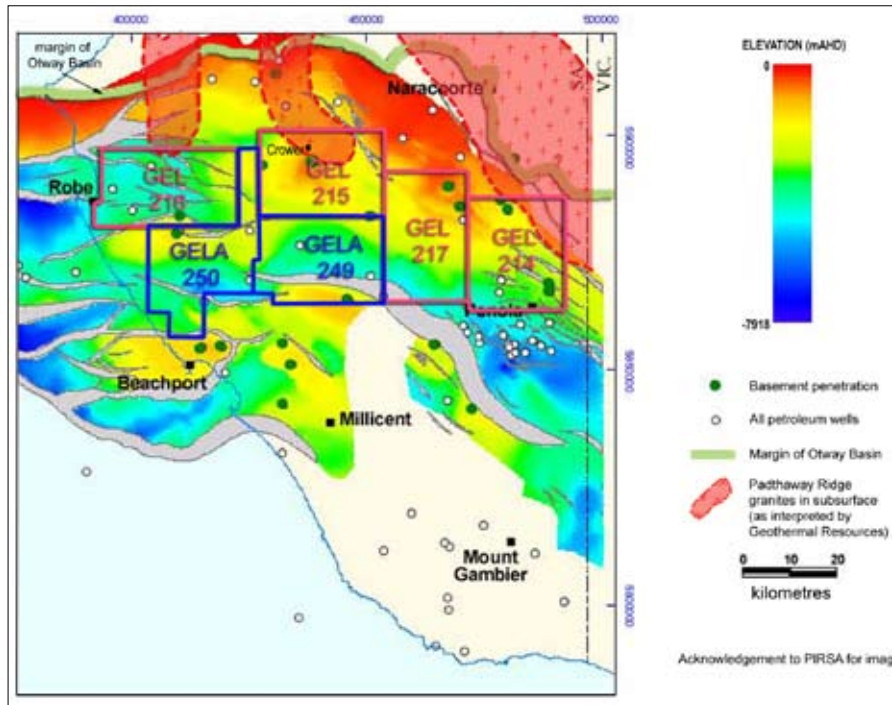
FROME PROJECT

During the quarter Geothermal Resources Limited (Geothermal Resources – ASX:GHT) focused on working through the Frome project drill permitting process with PIRSA, culminating in approval of the eight hole drilling programme on 27 October. The permitting process for geothermal drilling comes under the Petroleum Act and is considerably more involved than normal mineral drilling because of the likely depth of holes, possibility of blow out and stringent occupational health and safety standards. The required Activity Notification is a comprehensive document that addresses all aspects of the drilling programme, including notification of relevant



stakeholders, the likely environmental impacts, and full documentation of health and safety procedures adopted by the Company.

The drilling approval came too late to retain the drilling contractor who took on another contract in the meantime that will occupy the drilling rig until the end of the year. The drilling programme will now be undertaken early in the new year at a date yet to be fixed. The powerful percussion drilling rig proposed to be used is the only one of its type in South Australia that is capable of drilling a large diameter hole to depths of 500-600 metres with certainty. Open hole percussion drilling has been chosen because it is the quickest and most economical drilling method to such depths. The objective is to take temperature measurements of standing water at the bottom of the hole so that the temperature gradient can be estimated, which in turn will yield vital information concerning the likely geothermal energy potential of the region.



It is likely that one or more of the initial holes will be extended to 1500 – 2000 metres depth during a second round of diamond drilling later in the year. For this reason the largest practical diameter percussion holes are being drilled at this time as this will facilitate re-entry of the holes and improve the chances of successful deepening later on.

In the meantime it is proposed to investigate the feasibility of measuring downhole standing water temperatures in several deep oil exploration holes in the region, including Telechie 1, which lies just inside the southeastern boundary of the Frome tenements. It first needs to be determined if the holes remain open so that a temperature logging probe can be lowered down the holes. If this is the case it may be possible to obtain useful downhole temperature measurements in advance of those from Geothermal Resources' own drillholes.

CROWER PROJECT

During the quarter some relevant research work was published on recent water temperature measurements from nine former petroleum wells and seven deep water wells, mostly within the Crower project area, by Monash University-based scientists. Geothermal Resources had in fact planned to carry out this work itself as a first priority for the Crower project evaluation and it is therefore fortuitous that it was pre-empted by the Monash researchers. Their work showed comparatively high bottom of hole temperatures in a number of holes and corresponding relatively high heat flow gradients that were inferred to be comparable to those from the Cooper Basin where Geodynamics is currently actively advancing its hot dry rock geothermal energy project.

The important conclusion of this work from Geothermal Resources' perspective is that the new temperature data provides direct evidence of elevated heat flows and therefore enhances the potential for discovery of geothermal resources in the Crower Project area. This provides new and independent support for Geothermal Resources' original premise that the northern margin of the Otway Basin, where it overlaps the Ordovician granites of the Padthaway Ridge, is a potentially prospective region for geothermal energy resources. With the publication of the Monash University team's research, Geothermal Resources can move ahead with planning for some new strategically located drillholes designed to fill in gaps in the heat flow data, that will in turn allow more precise positioning of deep proof of concept test holes.

Forward Exploration Plans

Geothermal Resources' immediate objective remains to complete shallow geothermal gradient test holes within the Frome project area to depths of at least 500 metres to determine geothermal gradients across the region. This drilling is planned for early in 2007. The data generated 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.

Geophysical data and new heat flow data for the Crower project area will also be assessed in order to select optimum drillhole locations for future downhole temperature measurements.

FINANCE

As at 31 October 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 minimal ahead of considerably increased expenditure during the first round drilling in early 2007.

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
Chairman, on (08) 8338 9292

GEOTHERMAL RESOURCES LIMITED

ACN 115 281 144



Quarterly Report
October 2006

HIGHLIGHTS

PROGRESSING TOWARDS DRILLING AT THE FROME PROJECT AREA

- All approvals in place for eight hole geothermal gradient drill testing programme at the Frome project to commence early in 2007
- New deep well temperature measurement data indicates high geothermal gradients within the Crower project area

63 Conyngham Street Glenside 5065 South Australia
phone 61 8 8338 9292 fax 61 8 8338 9293
email info@geothermal-resources.com.au
www.geothermal-resources.com.au