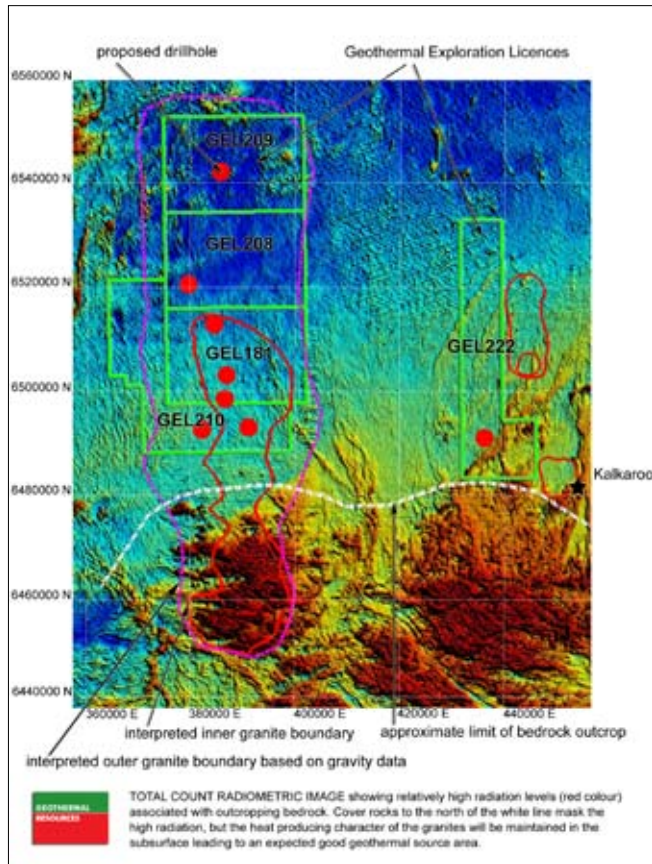


REVIEW OF OPERATIONS

FROME PROJECT

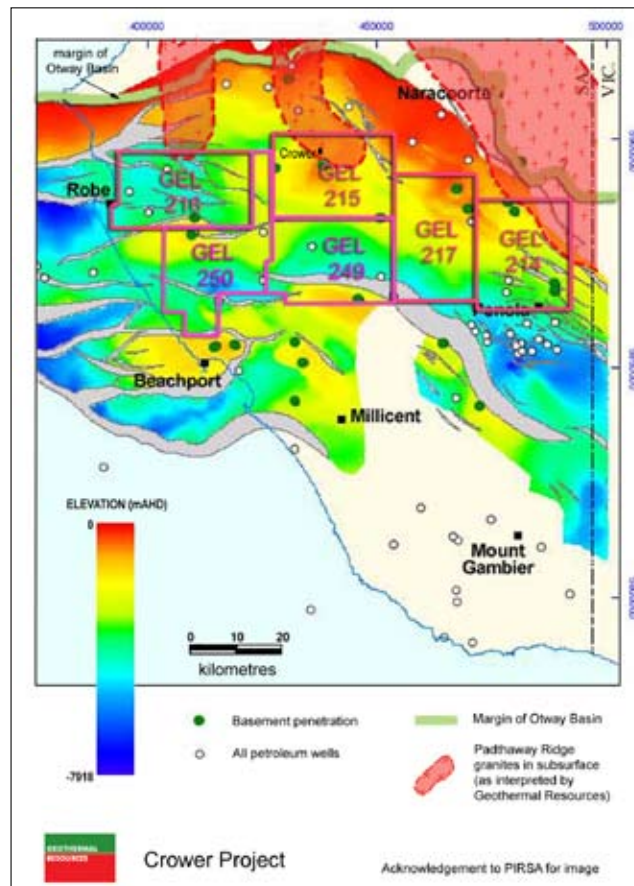
Geothermal Resources Limited (Geothermal Resources – ASX : GHT) commenced an eight hole shallow geothermal gradient drilling programme on its Frome Project in March. The holes will be drilled to 500 metres depth for the purpose of taking temperature measurements of standing water at the bottom of each drillhole so that the temperature gradient can be estimated, which in turn will yield vital information concerning the likely geothermal energy potential of the predicted buried uranium rich granites in the region.



The red (high radiation) portion on this image corresponds to the areas of outcropping uranium rich granitic rocks lying to the south of the GELs. The intensity of the red colour gives a direct indication of the likely heat generating capacity of these granites, which are interpreted to lay beneath the sediments within the GELs.

Four pre-collar holes were completed with a percussion drilling rig made available by Havilah Resources. The second stage of drilling to extend the holes to 500 metres depth is now underway using a diamond drilling rig contracted from Silver City Drilling. This drilling rig was several weeks late in mobilising to the Frome 1 drill site because of extremely heavy rainfall and flooding in the region that prevented access until recently.

The diamond drilling will produce rock cores, which can be used to undertake essential thermal conductivity measurements and hence determine the insulating properties of the blanketing sediments. If the rock formations encountered are stable, it should be possible to re-enter the diamond drillholes at a later date and extend them for deeper temperature measurements if necessary.

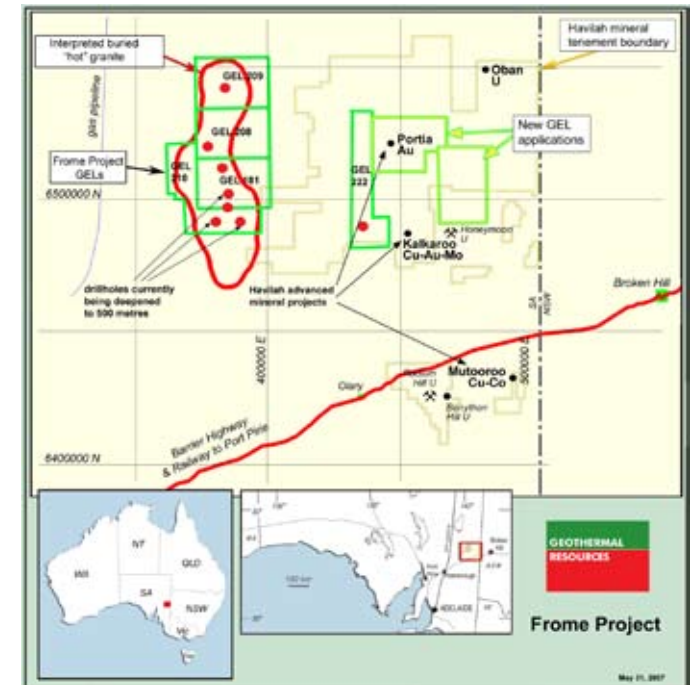


This drilling is being supported by a \$2.4 million REDI (Renewable Energy Development Initiative) grant from the Federal Government, which will match the Company's funding until completion of at least one deep hole into the hot rock geothermal energy source.

A survey of several deep mineral and oil exploration holes in the region, including Telechie 1, which lies just inside the southeastern boundary of the Frome tenements, was completed during the quarter. Telechie 1 and another hole were found to be open to at least 500 metres depth and bottom of hole temperature measurements will be taken at the time of testing the Frome project holes currently being drilled. It is expected that useful downhole temperature measurements will be obtained to compliment those obtained from Geothermal Resources' own drillholes.

CROWER PROJECT

Geothermal Resources continues to plan several new strategically located drillholes to roughly 500 metres depth designed to fill in gaps in the positive heat flow data generated by the Monash University research



work. Consideration is also being given to extending one of the existing drillholes that has produced high heat flow data to greater depth. It is expected this work will commence in the second half of the year.

NEW GEOTHERMAL EXPLORATION LICENCE APPLICATIONS

Geothermal Resources has applied for two new geothermal exploration licences of approximately 500 square kilometres each to the east of the Frome GELs (see map). They cover an area of Broken Hill age low grade metamorphosed sediments that are interpreted to be underlain by large granite bodies, based on existing gravity and seismic geophysical data. The metasediments comprise a thick pile of uniformly fine-grained original silts and shales, that should provide an ideal insulating blanket. The granites in the region are known to contain high levels of uranium based on mineral exploration data and are therefore predicted to be good sources of heat.

This area has the added advantage of being only 60-80 kilometres from Broken Hill and substantial markets for power.

FORWARD EXPLORATION PLANS

Geothermal Resources' immediate objective remains to complete at least eight 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 underway and is expected to be completed during the second half of the year. Downhole temperature measurements will be progressively read within a few weeks of completion of each of the holes, in order to allow time for the water temperature to equilibrate with the surrounding rock. The temperature data from these 500 metre holes 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 continue to be assessed in order to select optimum drillhole locations for future downhole temperature measurements.

FINANCE

As at 30 April 2007 the Company had available funds of \$2.69 million of which the majority is held in a term deposit. Exploration expenditure in the forthcoming quarter will be considerably higher owing to costs associated with the drilling programme on the Frome project area. REDI grant funds will match half of all such drilling and associated expenditures.

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
May 2007

HIGHLIGHTS

DRILLING COMMENCED ON FROME PROJECT

- *Drilling has commenced on the Frome project and deepening of four holes to 500 metres is currently in progress*
- *Considerable appreciation in share price reflecting strategic value of projects and greater public awareness of geothermal energy potential*

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