

## Chairman's Letter to Shareholders

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**13 January 2006**

Dear Investors

On behalf of our directors, it is my pleasure to invite you to become a shareholder in Geothermal Resources Limited (Geothermal Resources).

In 2005 it was established that potentially large quantities of thermal energy exist in certain basement granites in the Cooper Basin in the far northeast corner of South Australia. A geothermal exploration company drilled two deep wells 500m apart, successfully generated a fracture network and established a flow of water between the wells, with geothermal brine temperatures reaching approximately 210oC, equivalent to 15MW thermal power.

This is a magnificent achievement. It shows the viability of generating electricity from deep hot rocks. The key observation was a large gravity low (caused by a granite with a high radioactive mineral content) and an insulating blanket of sedimentary rocks to seal in the heat created by the radiogenic breakdown of the uranium bearing minerals.

The Frome project is located in the Curnamona Craton, a mineral province that is well endowed with uranium, thorium and abnormally radiogenic granites. The granite bodies are recognised by gravity low areas in the regional gravity map because they are generally less dense than the surrounding metamorphic rocks. The widespread copper mineralisation at Benagerie and Kalkaroo is encircled by a ring of granite bodies which subcrop under the Tertiary cover. To the west of the Havilah Resources NL (Havilah) exploration licences, a much larger granite body partly outcrops in the vicinity of hard-rock uranium occurrences around Crockers Well.

Recent seismic work by Geoscience Australia and the Minerals and Energy Group of the Department of Primary Industries and Resources, South Australia not only indicated extensive granite at depth, but also revealed that much of the granite has a blanket of old sedimentary cover several thousand metres thick. It is a good analogy to the Cooper Basin area. Importantly for future development, it is within 150 kms of the regional electricity grid and ready markets. It would be 60 kms from Havilah's potential mine developments in the Kalkaroo area.

The Crower project, located in South Australia's South East, is also an area where granite plutons obviously lay beneath the northern on-lapping margin of the Otway Basin. High heat flows are indicated from the sparse heat flow measurements reported in the literature.

If geothermal energy can be generated in South Australia, the economic significance is monumental. A low cost energy source, which is greenhouse gas free, will be available for generations to come. South Australia has dwindling coal resources, limited gas supplies and is now importing electricity from Victoria. There are no significant pollutants or waste disposal issues. These hot granite bodies represent vast rock volumes from which heat can be extracted to generate recyclable steam to power electricity turbines.

Geothermal Resources Limited has been formed to explore and develop these energy sources. This strategy meshes with Havilah's mine developments in the eastern part of South Australia as well as other major projects in the region. I look forward to your participation in developing this opportunity.

Yours sincerely

Bob Johnson, PhD, FAusIMM  
Chairman