



GEODYNAMICS
LIMITED

QUARTERLY REPORT
PERIOD ENDING 30 SEPTEMBER 2013



power
from the earth.

Review of the Quarter

HIGHLIGHTS

The major highlights of the quarter were the successful completion of the 1 MWe Habanero Pilot Plant trial and the announcement of Geodynamics' proposal to acquire KUTh Energy Limited to expand Geodynamics' portfolio of conventional geothermal projects.

FOLLOWING IS A SUMMARY OF HIGHLIGHTS FROM THE QUARTER:

- The 1 MWe Habanero Pilot Plant Trial was successfully completed with no safety or environmental incidents. Prior to closure of trial, the plant was operating at 19 kg/s and 215°C production well-head temperature; the highest results ever achieved at the plant.
- Geodynamics hosted The Hon. Gary Gray AO, MP, Federal Minister for Resources and Energy and other guests at a site tour to observe the 1 MWe Habanero Pilot Plant in operation in July.
- Activities for the Savo Island Geothermal Power Project focussed on continued engagement with customary landowners to negotiate land access agreements, with government ministries to secure further exploration approvals and with the Solomon Islands Electricity Authority to progress electricity supply and power purchase agreements, ahead of targeting an initial exploration drilling campaign during the 2014 dry season.
- In September, Geodynamics announced its intention to acquire 100% of geothermal energy company, KUTh Energy Limited, through a conditional off-market takeover offer. The proposed acquisition aligns with Geodynamics' strategy to develop a portfolio of high quality small-medium scale conventional ("volcanic-hosted") geothermal projects initially targeting the Pacific Islands region, capable of providing strong revenues to shareholders within a short timeframe.
- Former Chief Scientist, Dr Doone Wyborn, was awarded the Geothermal Resource Council Special Achievement Award. The company was also honoured to receive the Clean Energy Council (CEC) Innovation Award.

The Company's cash position at the end of the quarter stood at \$ 38.7 million.

Cover: GDY Staff at Habanero Plant during Ministerial visit
This page: Savo Island beach



Letter to Shareholders

Dear Shareholder

The first quarter of financial year 2014 has been a successful and busy period for Geodynamics with two key developments for the Company. The first highlight was the successful completion of the demonstration trial of the 1 MW Habanero Pilot Plant that was concluded on 7 October. The second highlight was the announcement of an agreed proposal for Geodynamics to acquire KUTH Energy Limited, an Australian geothermal company with a conventional geothermal project in Vanuatu and exploration licence applications in PNG and Fiji.

The 1 MWe Habanero Pilot Plant trial has been an important demonstration that we can reliably and effectively produce power from the deep Innamincka granite resource. Throughout the trial we have seen excellent performance across a range of parameters, which combined with the improvements demonstrated in the drilling of the Habanero 4 production well, provide significant confidence about our capability to successfully develop the high productivity resource demonstrated at Habanero. We are very pleased to have safely and successfully completed this demanding program with no safety or environmental incidents.

I would like to thank all the team for their contribution to the excellent trial outcome. In particular I would like to acknowledge the support of ARENA for their assistance in achieving this significant milestone.

We look forward to using the successful results of this trial to underpin proposals to local customers to secure further development of the Habanero project through an initial commercial project. Discussions with potential customers were progressed during the quarter covering the potential to supply process heat in addition to electrical power to gas project operators in the region. We will continue these discussions over the coming months as we complete our analysis of the trial results and finalise a field development plan for the next stage of the development at Habanero.

We continue to make progress on the Savo Island Geothermal Power Project, completing initial baseline studies as part of the environmental and social impact assessment and progressing planning, design and procurement activities for the planned exploration drilling campaign in 2014. We have also continue our strong engagement with the customary landowners with further community consultation and education meetings held during the quarter. Negotiations with the Solomon Islands Electricity Authority to secure a power purchase agreement to underpin the planned exploration campaign are progressing and we continue to target achieving an off-take agreement prior to commencement of exploration drilling.

The announcement of the proposal to acquire KUTH Energy is an important step for Geodynamics. This transaction will expand our project portfolio in the Pacific, giving us access to additional opportunities to develop higher margin, smaller scale projects offering earlier returns to shareholders. This expansion of our portfolio has many benefits, it reduces risk through diversification and will also allow significant efficiencies and savings through the sharing of equipment, knowledge and human resources between the development of the Savo Island Geothermal Power Project in the Solomon Islands and the Takara Geothermal Project (held by KUTH) in Vanuatu. I look forward to this transaction bringing benefits to the shareholders of both KUTH and Geodynamics as well as the host governments and consumers in Solomon Islands and Vanuatu.

I invite you to read more about the results achieved at Habanero, progress at Savo Island and details of the proposed KUTH Energy acquisition in this quarterly report and look forward to discussing our projects in greater detail at the upcoming Annual General Meeting on 28 November where I hope to welcome as many shareholders as possible.



*Mr Geoff Ward,
Managing Director and
Chief Executive Officer*

Geoff Ward
Managing Director and Chief Executive Officer



Operations Update

Habanero Project Update

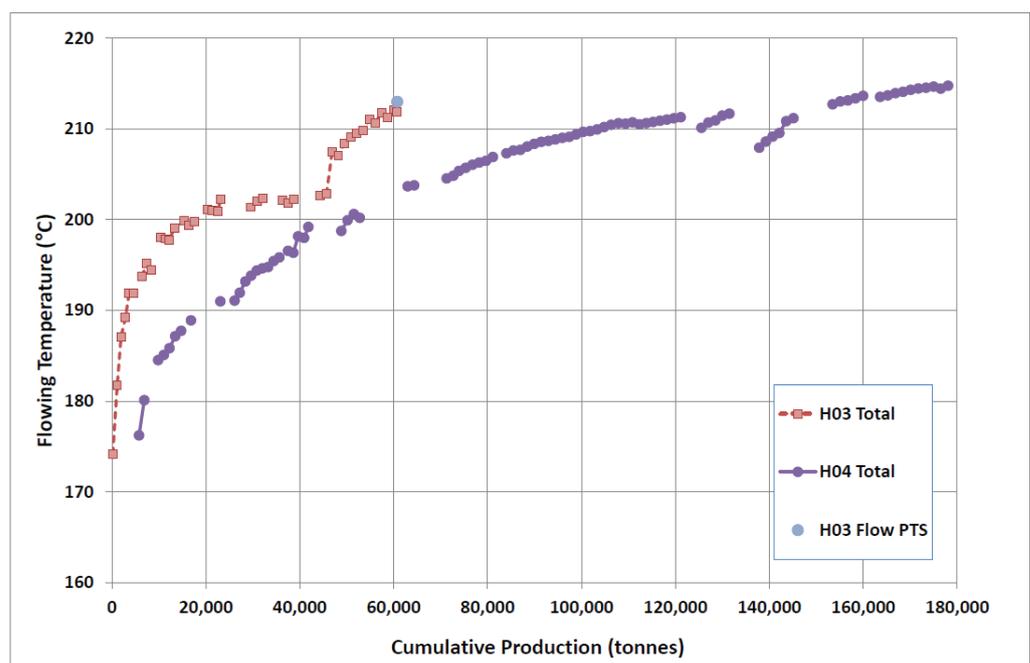
COMPLETION OF THE 1 MWE HABANERO PILOT PLANT TRIAL

The 1 MWe Habanero Pilot Plant trial continued throughout the quarter and was concluded on 7 October 2013. The pilot plant trial was originally scheduled for completion in August. However given the excellent quality of the reservoir data being obtained, and the lower than projected costs of operating the trial as a result of lower than expected diesel consumption, the trial was extended a further 60 days. This provided the opportunity to undertake additional testing to evaluate plant performance, assess brine loop reliability and performance, carry out extensive materials and chemistry testing, and prove key technologies for future plants.

During the trial period, testing covered a number of fundamental parameters with results exceeding all modelled expected values to achieve the best recorded closed loop and open flow results and highest well-head temperatures at the Habanero location.

Key results of the trial:

- Recorded the highest open flow results yet achieved with a stabilised flow rate of 39 kg/s recorded in open flow testing at Habanero 4; the test results indicate the potential for Habanero 4 to flow between 40 – 50 kg/s at full drawdown in open flow mode.
- Strong and stable production was observed at Habanero 4 with temperatures rising consistent with models and estimates. This was coupled with improved injectivity in the original Habanero 1 well. Prior to closure of trial, the pilot plant had sustained a maximum closed loop flow rate of 19 kg/s. The result is significantly above the expected maximum performance of the Habanero 4 - Habanero 1 closed loop, indicated by previous performance of Habanero 1 as an injection well.
- A new maximum well-head temperature was achieved at Habanero 4 of 215°C; at the time of completing the trial the well-head temperature at Habanero 4 was still slowly rising after 160 days of production.
- The plant demonstrated better than expected reliability and system stability; an extended continuous production run in excess of 50 days was achieved with availability exceeding 75% up-time since commissioning.



Right: Graph plotting well-head temperature over production volume (time), showing an increasing trend over the period of the trial.



Operations Update

RESERVOIR TESTING

Step rate performance tests were completed during the quarter. The step rate tests involve operating the plant at different flow rates for the purpose of assessing reservoir performance parameters. By operating the system at different flow rates the overall performance of the system can be investigated and the impact of turbulent flow through the system can be identified. These parameters are critical in understanding reservoir performance and the productivity of the EGS system.

A tracer test was initiated to measure reservoir size and other characteristics. The tracer test involves injecting a solution of naphthalene sulphonate into the reservoir. We are then able to measure the time it takes for this tracer to travel in the geothermal brine from the injection point, through the fracture systems in the granite and return to surface at the production well head. The reservoir size and other characteristics can be estimated based upon the time taken for the tracer to return to surface. Results of the test are expected over the coming months as the brine passes through the reservoir.

Of utmost importance, the trial demonstrated excellent safety and environmental performance with zero incidents recorded during the commissioning and trial period. Geodynamics is delighted to have conducted the trial in such a successful manner.



Ben Humphreys - Mechanical Engineer inspecting brine sample for chemical cleaning test.



1 MWe Habanero Pilot Plant Operators, responsible for the 24/7 plant operations.



Maintenance on the brine flow lines.



Preparing to start a chemical cleaning cycle during the test program.



Operations Update

Case Study

STEP RATE TESTING EXCEEDS EXPECTATIONS

During the extended trial two step rate tests were performed in closed loop flow mode. A step rate test involves circulating fluid around the closed loop for a defined period in a series of increasing pump rates. The resulting data are used to identify key performance parameters for the closed loop.

The first test was run in early July and recorded a maximum closed loop flow rate of 15.9 kg/s. Over the subsequent weeks of continuous operation, the flow rate increased steadily as the impedance, or flow resistance, of the closed loop decreased. A second step rate test in mid-September recorded a maximum flow rate of 17.6 kg/s and highlighted the reduction in impedance. Further improvement was observed when repairs were made to a surface control valve, again reducing system impedance. The maximum recorded closed loop rate achieved over 24 hours of continuous operation was 19 kg/s.

TRACER TESTING ADDS TO RESERVOIR UNDERSTANDING

During the trial, tracer testing using naphthalene sulphonate tracers was initiated to evaluate reservoir size, productivity and other characteristics. This is achieved by injecting the tracer in one well and then monitoring the concentration of tracer in produced fluid from another well or even from the same well. Since testing commenced, brine samples have been collected at regular intervals from Habanero 4 and analysed for tracer concentration and chemical makeup.

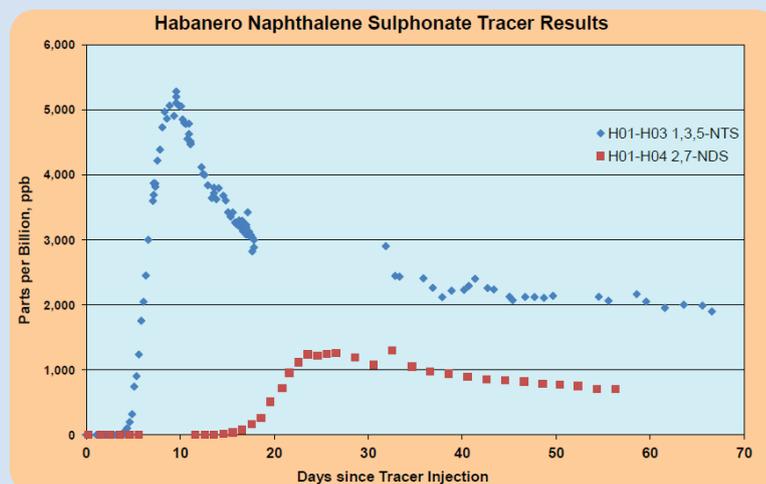
Results of the tracer testing were received during the quarter. In the initial test, a tracer was added to the water used for stimulation of Habanero 4 in October 2012. From this tracer it is interpreted that Habanero 4 is now producing a mixture of about 15% stimulation water and 85% formation brine.

A second tracer was injected as a concentrated solution into Habanero 1 in July with the tracer fluid taking around 25 days to travel between Habanero 1 and 4. From this information it will be possible to estimate the volume of the reservoir through which the brine is flowing.

This latest result compares favourably with the tracer test undertaken in 2009 at which time the tracer fluid took 9 days to move from Habanero 1 to Habanero 3. The increase in time taken suggests that reservoir volume has been enhanced during the latest campaign meaning that heat recovery should be improved.

Analysis of the results is ongoing with Geodynamics' Reservoir team developing a calibrated thermodynamic model of the reservoir to continue to develop our understanding of how the reservoir operates and behaves.

Right: Graph tracking the time (days) since injection of tracer into Habanero 1 against concentration (parts per billion) of tracer in reservoir fluid at Habanero 4. A comparison to Habanero 1 - Habanero 3 results is also given.





Operations Update

FINAL REPORT ON HABANERO 4 SEISMICITY

The final report on the analysis of the induced seismicity associated with the stimulation of Habanero 4 was received in the quarter under review. The analysis confirms similar findings from Habanero 1 and Habanero 3 that the majority of the seismic events are related to shearing on a sub-horizontal structure. This information together with further data collected during stimulation and Pilot Plant testing will be instrumental in developing the Field Development Plan for the Habanero resource.

HABANERO RESERVOIR MODEL DEVELOPMENT

A 3D thermodynamic simulation model of the Habanero reservoir has been constructed using TOUGH2, the geothermal industry's most widely used simulation tool. This model is now being calibrated using data from the stimulations, the closed loop tests and the tracer tests to guide parameter selection. The intent is that this simulation model will be able to guide selection of well locations for further development options.

NEXT STEPS FOR THE 1 MWE HABANERO PILOT PLANT

The successful completion of the 1 MWe Habanero Pilot Plant trial represents a significant milestone for Geodynamics and shareholders and has provided an important demonstration of EGS technology globally. Since the completion of the trial, the 1 MWe Habanero Pilot Plant has been shut down and the process has commenced to prepare the plant to be on standby for further trials or future use as part of an ongoing initial commercial development.

Having demonstrated the reliable operation of the 1 MWe Habanero Pilot Plant, the next step is to establish a long term commercial scale operation supplying customers in the local area. With the increase of shale gas drilling and production activity in the region, Geodynamics believes there is sufficient demand and viable customers for the potential offtake of the Habanero geothermal project that would allow the development of an initial 5 – 10 MWe commercial scale plant.

The Company is now focussed on developing a firm proposal for this next stage of development covering a range of options for the supply of electric power or provision of industrial heat to local customers.

Initial discussions with identified cornerstone customers have been positive and Geodynamics looks forward to more detailed engagement as trial information is fully assessed to secure off-take agreements and to progress discussions with funding partners for financing.

Geodynamics remains in close contact with ARENA (the Australian Renewable Energy Agency), our key funding partner through this demonstration trial, with regards to the potential next steps to achieve a successful commercial demonstration plant at Habanero.

Boardroom Radio Investor Update

GEODYNAMICS' CEO AND MD, GEOFF WARD DISCUSSES THE 1 MWE HABANERO PILOT PLANT TRIAL RESULTS WITH BRR MEDIA



To hear Geoff Ward discuss the completion of the 1 MWe Habanero Pilot Plant, the results received and their significance to global EGS development, please visit this link:
<http://www.brr.com.au/event/116952>



Exploration Projects

Savo Island Geothermal Power Project

Throughout the quarter, Geodynamics has continued to engage with key stakeholder groups including customary landowners in preparation for exploration drilling, relevant government ministries to secure further exploration approvals; in particular environmental approvals, and with the Solomon Islands Electricity Authority to progress electricity supply and power purchase agreements. Local support for the project continues to be strong.

Key activities have included the completion of initial customary landowner identification and mapping by Department of Mines and Department of Lands and the completion of baseline studies (flora, fauna, marine etc) at Savo Island as part of a comprehensive Environmental and Social Impact Assessment (ESIA). The initial customary landowner identification and mapping is invaluable to the project to ensure proper dealings with customary landowners. Geodynamics wishes to acknowledge the Department of Mines and Department of Lands for their work and assistance.

Four community consultation sessions were held during August to update the community on project progress and to commence engagement on the ESIA process. The sessions were well received with over 400 people in attendance. Geodynamics plans to conduct further consultation meetings to present the initial findings of the ESIA for discussion with the community and again when the ESIA is released for public consultation.

Sub-surface assessment in preparation for exploration drilling also continued during the quarter. Structural data collected during a field trip in April have been combined with regional structural information to develop a conceptual model of the likely orientation of faulting within the Savo Island resource. The conceptual model will help in determining the placement of future development wells to maximise well productivity.

During August and September, two further field trips to Savo Island were undertaken to investigate and confirm initial exploration drill sites. Four sites have now been selected based upon the initial conceptual geothermal model and site access constraints in the steep terrain.

Predictions of expected geology have been prepared for the four exploration wells based upon the magnetotelluric data and the likely geology of the island.

With the joint venture targeting initial exploration drilling in the dry season of 2014, long lead items including well heads and casing have been ordered in anticipation of commencing drilling operations. The plan is to drill four diamond core exploration wells of 97 mm (3.8") diameter to approximately ~ 1,200 m depth using a track mounted drilling rig. With successful results, the Company will undertake further production drilling in 2015 with a target of achieving first power generation in 2017.

Right: Kaogele Village community consultation: local boy reading the FAQ document prepared for the community; the gathering in front of the local church for the meeting.





Investor and Public Relations

KUTh takeover proposal

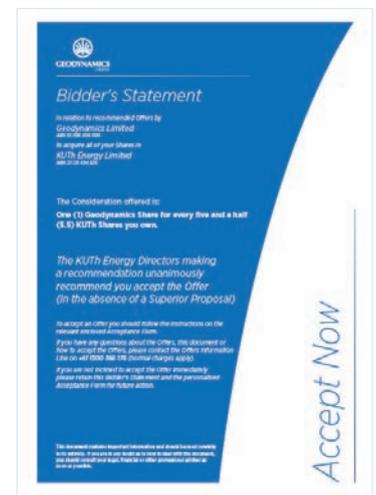
In September 2013, Geodynamics announced that it had entered into a binding Takeover Bid Implementation Agreement to make an off-market takeover bid to acquire all of the issued ordinary shares in geothermal peer, KUTh Energy Limited (ASX: KEN).

RATIONALE

KUTh Energy has a portfolio of geothermal energy projects and prospects focussed on growing markets in the Pacific Islands. This market is also a key focus of Geodynamics where it is actively pursuing the Savo Island Geothermal Power Project located in Solomon Islands. KUTh's primary project is the Takara Geothermal Project in Vanuatu, where it holds a Production Licence providing exclusive rights over a prospective geothermal area located on the north of the main island of Efate.

Additionally KUTh has submitted applications for licenses in Papua New Guinea and Fiji. In all these locations there is growing electricity demand and the potential to replace current high cost diesel power supply with cheaper, cleaner and more reliable power through geothermal generation.

In particular, the Takara Geothermal Project offers synergies with Geodynamics' Solomon Islands Geothermal Power Project - equipment, knowledge and capability can be shared effectively across the portfolio providing access to combined drilling campaigns, shared technical resources and cost efficiencies.



OFFER HIGHLIGHTS

- On 10 October, Geodynamics lodged a Bidder's Statement with ASIC, under which it offered KUTh Energy Limited shareholders one Geodynamics share for every five and a half KUTh shares owned. The Bidder's Statement can be downloaded from the ASX or Geodynamics' website.
- The Offer represents a significant premium of 31.6% based on the respective 30-day volume weighted average price (VWAP) of Geodynamics and KUTh shares on 17 September 2013.
- The combination of the two companies provides shareholders with access to a larger portfolio of high quality geothermal opportunities in the Pacific Islands and Australia, backed by a strong company with the technical, financial and operational skills to successfully develop these projects.
- By accepting the offer KUTh shareholders will gain access to a larger company with increased liquidity in share trading.
- KUTh has modest cash reserves and is very likely to require a capital raising in the next year. If the Merger does not proceed, KUTh shareholders face the prospect of significant dilution from future capital raisings to fund and develop its projects.
- If the Merger does not proceed, there is a significant risk that KUTh's share price will fall upon the lapsing of the Geodynamics Offer.
- KUTh's directors who are making a recommendation, unanimously recommend that KUTh Shareholders accept the Offer by Geodynamics, subject to there being no Superior Proposal and no Geodynamics Material Adverse Event having occurred.
- KUTh Directors have indicated that they intend to accept the Offer in respect of all their KUTh Shares, subject to there being no Superior Proposal and no Geodynamics Material Adverse Event having occurred.



Investor and Public Relations

KUTH OFFER - KEY DATES

Announcement Date	18 September 2013
Date this Bidder's Statement was lodged with ASIC	10 October 2013
Register Date	7.00 pm on 10 October 2013
Offer Opens	9.00* am on Tuesday 15 October 2013
Offer Closes (unless extended or withdrawn)	7.00 pm on 15 November 2013

KEY CONTACTS

Share Registry for the Offer	Link Market Services Limited
Postal Address	Link Market Services Limited KUTh Energy Limited Takeover Locked Bag A14 SYDNEY SOUTH NSW 1235
Offer Information Line	1300 366 176 from within Australia, or +61 1300 366 176 outside of Australia

* KUTh has given its consent to Geodynamics despatching this Bidder's Statement to KUTh Shareholders on the date the Offer opens, being a date earlier than would otherwise apply under section 633 of the *Corporations Act*.

Boardroom Radio Investor Update



GEODYNAMICS' CEO AND MD, GEOFF WARD TOGETHER WITH KUTH MD, DAVID MCDONALD DISCUSS THE KUTH TAKEOVER OFFER

Geodynamics' CEO and Managing Director, Geoff Ward and KUTh Energy's Managing Director, David McDonald discuss how combining the two companies will provide shareholders with access to an enlarged large and more diverse portfolio of geothermal projects, in growing markets, hungry for electricity. To listen to the audio recording, visit: <http://www.brrmedia.com/event/116303>



Investor and Public Relations

GEODYNAMICS RECEIVES INDUSTRY RECOGNITION

During the quarter, founding member of Geodynamics and former Chief Scientist, Dr Doone Wyborn, was awarded the Geothermal Resource Council's Special Achievement Award, recognising his outstanding achievement in the area of geothermal energy development and related areas. Dr Wyborn has been championing the development potential of EGS geothermal energy for over 15 years and is recognised as a leading Australian expert authority.

The Company wishes to congratulate Dr Wyborn on the receipt of the award, and thanks him for the important industry contribution he has made to the development and promotion of renewable energy in particular EGS technology in Australia.

Dr Wyborn's award announcement follows further industry recognition for Geodynamics which was announced as this year's recipient of the Clean Energy Council Innovation Award, as reported in the June Quarterly Activities statement.



*Right: Dr Doone Wyborn;
Far Right: Clean Energy Council
Innovation Award*



SHAREHOLDER SITE TOURS

Following the successful completion of the 1 MWe Habanero Pilot Plant trial, the plant and site office has been shutdown and the process has commenced to prepare the plant to be on standby for further testing or future use as part of initial commercial development.

As a result, Geodynamics is unable to offer tours of the 1 MWe Habanero Pilot Plant and site location to shareholders or visitors.

We wish to thank all shareholders for your continued interest in the Habanero project and Company developments and invite you to contact our Investor Relations team, via +61 7 3721 7500 or info@geodynamics.com.au to receive further information.



Investor and Public Relations

Geodynamics 2013 Annual General Meeting

The Board of Directors is pleased to invite shareholders to join this year's Annual General Meeting.

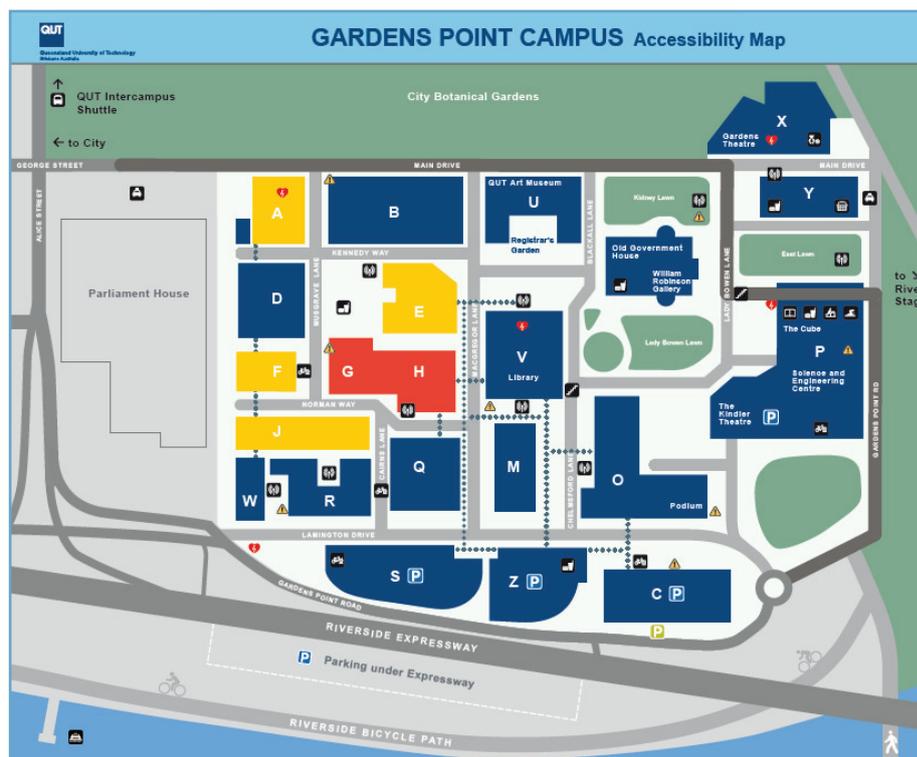
The Annual General Meeting will commence at **6.00 pm (AEST), Thursday 28 November 2013 and for the first time will be held at the Queensland University of Technology (QUT) at:**

**Room Three Sixty
Level 10, Y Block, QUT
2 George Street, Brisbane 4000**

After the official business concludes, we will provide shareholders with a presentation on the progress of the Company and the opportunity to ask any questions of our management team and Board of Directors. You are then invited to join us afterwards to meet and talk to the Directors and senior staff in an informal environment.

For catering and seating purposes, we would appreciate you registering your intention to attend by Monday 18 November 2013. If you are unable to attend in person, you are welcome to register to listen to the live audiocast of the Annual General Meeting.

Please visit our website www.geodynamics.com.au/rsvp to register or contact Geodynamics directly on 07 3721 7500.



GETTING THERE:

QUT has ample pay on exit car parking facilities, public transport options and a taxi rank is also located close by. The Science and Engineering Centre (SEC) P Block car park has current rates of \$10 for 4 hours.

DIRECTIONS TO THE SCIENCE AND ENGINEERING CENTRE (SEC) - P BLOCK CAR PARK:

Turn left off Alice Street into Gardens Point Road. Drive approximately 400m to the roundabout. Take the first left exit off this roundabout into Lamington Drive, then veer right down the ramp to the entrance to the car park

Corporate Directory

BOARD OF DIRECTORS

Mr Keith Spence
(Non-executive Chairman)

Mr Geoff Ward
(Managing Director and CEO)

Mr Bob Davies
(Non-executive Director)

Dr Jack Hamilton
(Non-executive Director)

Mr Michel Marier
(Non-executive Director)

Mr Andrew Stock
(Non-executive Director)

COMPANY SECRETARY

Mr Tim Pritchard CPA CSA (CERT)

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Website: www.linkmarketservices.com.au

Email: registrars@linkmarketservices.com.au

SECURITIES EXCHANGE LISTING

Geodynamics Limited shares are listed on the Australian Securities Exchange, Ticker: GDY

COMPETENT PERSONS STATEMENT

The information in this report to which this statement is attached that relates to Exploration Results, Geothermal Resources or Geothermal Reserves is based on information compiled by Dr Graeme Wheller and Mr Robert Hogarth, who appear on the Register of Practising Geothermal Professionals maintained by the Australian Geothermal Energy Group Incorporated at the time of the publication of this announcement.

Dr Graeme Wheller is employed by Volcanex International. Robert Hogarth is a full-time employee of the Company. Dr Wheller and Mr Hogarth have sufficient experience which is relevant to the style and type of geothermal play under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the Second Edition (2010) of the 'Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves'. Dr Wheller and Mr Hogarth have consented in writing to the inclusion in the report of the matters based on their information in the form and context in which it appears.