

Dear Fellow Shareholder

1<sup>st</sup> December 2008

This has been a big quarter for Geothermal Resources. We commenced our first deep hole (Frome 12) on the Frome project, and it has moved steadily ahead with no major difficulties, and as I write the depth of 1700 metres has been passed. I mentioned in my last letter to you that there was “technical execution risk that we will be able to achieve the 1800 metre target depth without problems and unexpected additional drilling expense. We have attempted to minimize this by careful planning of the hole and using a very experienced diamond drilling contractor with the best drilling crew on the job.” The fact that this hole has been drilled with minimal technical difficulty and has not cost us a fortune is a tribute to the management by our on site team and the drilling contractors.

This hole will provide invaluable data that will guide our future exploration drilling for geothermal resources in the region. For a start, the fact that we have hit granite proves that our geological model of buried granite beneath the Arrowie Basin sediments is correct. We now have drillcore samples of this granite and can directly calculate its heat generating capacity by measuring the contents of uranium, thorium and potassium. Also, the drillcore shows that this granite has well developed subhorizontal fracturing, which is an essential requirement for establishing a hot water circulation system. Without horizontal fracturing, or the ability to generate such fractures, no exploitation of the superheated water would be possible.

We can now relate the rock sequence found in Frome 12 with the available seismic data, which in turn will assist us to site the next deep hole in the best position to hit the granite at an optimum depth. We now plan to drill at least another two deep holes in the region to similar depths in the first half of next year with the support of our current REDI grant, before its completion on 30 June 2009.

As a consequence of the current market conditions, and our need to raise funds to support drilling on our Crower project, we will defer planned drilling there in the first half of next year in favour of more drilling on the Frome project. This will give us time to adequately study the large amount of seismic data for the region in order to best site the future drillholes.

Finally, the acquisition of two petroleum exploration licences in the Otway Basin does not reflect a change of direction or strategy for Geothermal Resources, but rather is more of an insurance policy. One of the petroleum licences covers a large part of our GEL's and in the event that our deep geothermal drilling happened to discover hydrocarbons, which is possible in the Otway Basin, Geothermal Resources shareholders would receive the benefit, rather than someone else, which makes good business sense.

Next quarter we will assess our Frome 12 drilling results, and complete the planning and permitting in preparation for more deep drilling next year.

In the meantime, I trust that you have a most enjoyable and safe Christmas and holiday break.

Yours faithfully



Bob Johnson - Chairman