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Prospectus

Earth Heat Resources Limited ABN 86 115 229 984
(registered in British Columbia Canada and a registered foreign company in Australia)

A renounceable pro-rata rights issue to Eligible Shareholders of three New Shares for every four Shares held by Eligible Shareholders on the Record Date, at an issue price of \$0.002 per New Share to raise up to approximately \$1.29 million before costs of the Offer. The Offer will include one attaching option exercisable at \$0.005 and expiring on 31 January 2014 for every two New Shares subscribed for and one attaching option exercisable at \$0.007 and expiring on 31 January 2016 for every three New Shares subscribed for.

This document is important and it should be read in its entirety

The Offer is fully underwritten

Underwriter to the Offer: DJ Carmichael Pty Limited

Your Entitlement and Acceptance Form must be received by the Share Registry with your payment no later than 5:00pm (AEDT) on the Closing Date. Please refer to the timetable set out in this Prospectus for the important dates.

If you are in any doubt as to the contents of this document, you should consult your stockbroker, solicitor, banker, financial advisor or accountant as soon as possible. The securities offered by this Prospectus are considered to be speculative.

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Offer Statistics

| | |
|--|-----------------------|
| Number of Shares on issue prior to Offer | 861,010,038 |
| Number of New Shares to be issued | 645,757,529 |
| Number of Short Dated Options to be issued under the Offer | 322,878,764 |
| Number of Long Dated Options to be issued under the Offer | 215,252,510 |
| Offer Price | \$0.002 per New Share |

Indicative Timetable for important dates

| | |
|---|---|
| Announcement of Offer | Prior to commencement of trading on Thursday 13 December 2012 |
| Lodgement of Prospectus with ASIC and ASX | Prior to commencement of trading on Thursday 13 December 2012 |
| Notice sent to Shareholders containing Appendix 3B information | Friday 14 December 2012 |
| Shares commence trading on an ex rights basis | Monday 17 December 2012 |
| Rights trading starts | Monday 17 December 2012 |
| Record Date for the Offer | Friday 21 December 2012 |
| Opening Date of Offer | Monday 24 December 2012 |
| Prospectus and Entitlement and Acceptance Form despatched to Shareholders | Thursday 27 December 2012 |
| Rights trading ends | Friday 4 January 2013 |
| Shares quoted on a deferred settlement basis | Monday 7 January 2013 |
| Closing Date of Offer | Friday 11 January 2013 |
| Advise ASX of any Shortfall | Wednesday 16 January 2013 |
| Expected date of despatch of holding statements for New Shares | Monday 21 January 2013 |
| Commencement of trading of New Shares on ASX | Tuesday 22 January 2013 |

Some of these dates are indicative only and subject to change without notice. The Company may extend the period of the Offer or bring forward the Closing Date at its discretion whether or not the Offer has been fully subscribed. This may have a consequential effect on the other dates.

The Directors may at any time decide to withdraw this Prospectus and the Offer made under this Prospectus, in which case the Company will return all Acceptance Monies (without interest) within 28 days of giving notice of such withdrawal.

Important notice

Investors should read this document in its entirety and, if in doubt, should consult their professional advisors.

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This Prospectus is dated 13 December 2012 and was lodged with ASIC on the same date. Neither the ASIC nor ASX takes any responsibility as to the contents of this Prospectus. No securities will be issued on the basis of this Prospectus any later than 13 months after the date of issue of this Prospectus.

This Prospectus contains an offer to Eligible Shareholders of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with Section 713 of the Corporations Act.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

The Offer is made only to those Eligible Shareholders with registered addresses in Australia and New Zealand and only those Eligible Shareholders will be offered New Shares. In making this offer to Eligible Shareholders in New Zealand, the Company is relying on the *Securities Act (Overseas Companies) Exemption Notice 2002 (NZ)*, by virtue of which this Prospectus is not required to be registered in New Zealand.

The Company has not investigated the regulatory requirements that may prevail in any country in which the Company's Shareholders may reside outside of Australia and New Zealand. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe those restrictions. Any failure to comply with restrictions might constitute a violation of applicable securities laws.

Important information for Shareholders with registered addresses outside Australia and New Zealand

The Company has decided that it is unreasonable to make offers under this Prospectus to Shareholders with registered addresses outside Australia and New Zealand having regard to the number of Shareholders in those places, the number and value of the New Shares they would be offered and the cost of complying with the legal and regulatory requirements in those places. Accordingly, the Offer is not being extended to, and does not qualify for distribution or sale, and no New Shares will be issued, to Shareholders having a registered address outside Australia and New Zealand. See Section 2.10 for further details on how the entitlements of Foreign Shareholders are to be dealt with.

Forward Looking Statements

Certain statements in this Prospectus constitute forward looking statements. Investors should note that these statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors which could cause actual values or results, performance or achievements to differ materially from anticipated results, implied values, performance or achievements expressed, projected or implied in the statements. These risks, variables and factors include, but are not limited to, the matters described in Sections 1.11 and 5. The Company gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward-looking statements will be achieved.

Warning

No person named in this Prospectus, nor any other person, guarantees the performance of Earth Heat, the repayment of capital or the payment of a return on the New Shares.

Please read this document carefully before you make a decision to invest. An investment in the Company has specific risks which you should consider before making a decision to invest.

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Chairman's letter

Dear Shareholders,

Since June 2012 we have witnessed the price of Earth Heat Resources Limited (**Earth Heat or Company**) undergo a sustained decline, punctuated by periods of more rapid deterioration around the two capital raisings we have undertaken. These raisings were for modest amounts, consistent with our attempting a balance between maintaining operational momentum of our key geothermal projects and minimising dilution of our existing shareholders. However, on each occasion the terms have become more onerous in line with the general deterioration of market conditions for junior company capital raisings, and regrettably all the more so for participants in the geothermal sector. This is despite all of Earth Heat's positive achievements including the delivery of the most advanced geothermal project to the market and at a historical cost base which is typically only a fraction of that expended by our peers.

Notwithstanding that we believe our existing projects afford us an exceptional long term growth opportunity the reality is that our declining share price is symptomatic of the market's failure to embrace these views. If this share price trend were to persist it would, in effect, bring about the downfall of your Company. This developing situation has been the catalyst of much critical review of our business strategy.

Following the engagement of corporate advisors, a major internal strategic review of our current and future projects and funding requirements, your Board has accepted that there is currently insufficient levels of market interest in the geothermal sector in Australia to continue to persevere with our purely geothermal asset base. The consensus is that your Company needs to embrace a broader spectrum of energy interests in the short and medium terms, particularly new ventures that have current investor appeal - such as in the upstream oil and gas sector. We believe that by broadening our energy interests with these new ventures we will be able to provide the drivers capable of halting shareholder's losses and rebuilding future shareholder value.

Critical to this is the support of leading Perth based stock broking house – DJ Carmichael Pty Limited. Earth Heat, as announced on 3rd December 2012, has entered into a mandate with DJ Carmichael Pty Limited to assist in raising approximately \$1.5 million through a placement and this rights issue. These funds will provide working capital, supporting a broadening energy focus, and meeting our short term obligations with our existing geothermal projects.

The Board, through this Prospectus, is offering all existing shareholders the opportunity to participate in this renounceable rights issue on the basis of three New Shares for every four existing Shares held with one free Attaching Short Dated Option for every two New Shares subscribed for and one Long Dated Option for every three New Shares subscribed for. The issue will be fully underwritten by DJ Carmichael Pty Limited.

The determination of the Board to re-establish shareholder value through the combination of an introduction of new, broader based, energy opportunities and the significant support of DJ Carmichael Pty Limited, will I believe enable the Company to re-emerge as one capable of unlocking value for its shareholders.

We would like all our shareholders to be a part of a rebuilding of the Company brand. Whilst it has been a trying and difficult period for the Company and its shareholders, I trust that you will appreciate our proactive response and give favourable consideration to supporting this capital raising which we believe is in your best interests.

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Yours faithfully

A handwritten signature in black ink, appearing to read 'R. Shaw', with a horizontal line underneath.

Dr. Raymond D. Shaw
Chairman

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1. Investment Overview

The information set out in this section is not intended to be comprehensive and should be read in conjunction with the full text of this Prospectus.

1.1 The Offer

This Prospectus is for the pro-rata renounceable rights issue offer to Eligible Shareholders of the New Shares at an issue price of \$0.002 per New Share with one attaching option exercisable at \$0.005 (expiry 31 January 2014, the **Short Dated Option**) for every two New Shares subscribed for, and another one attaching option exercisable at \$0.007 (expiry 31 January 2016, the **Long Dated Option**, together with the Short Dated Option, the **Attaching Options**) for every three New Shares subscribed for, to raise up to approximately \$1.29 million before the costs of the Offer. The terms of the Attaching Options are set out in Section 7.4 of this Prospectus.

The Offer is fully underwritten by DJ Carmichael Pty Limited (**Underwriter**). Further details of the underwriting are set out in section 6.1 of this Prospectus.

There is no minimum subscription to the Offer.

On the same date as announcing the Offer, the Company applied to the ASX for the New Shares to be granted Official Quotation on the ASX. Official quotation of the New Shares is expected to occur on or about 22 January 2013.

1.2 Capital Structure

The capital structure of the Company (excluding 3,264,423 unquoted common stock issued in Canada and 40,000,000 Performance Rights held by the Managing Director which will not participate in the Offer) following the issue of New Shares and Attaching Options (assuming the maximum number of New Shares and Attaching Options are issued under the Offer) will be as follows:

| Item | Shares | Options |
|--|---------------|-------------------------|
| Total on issue on date of Prospectus | 861,010,038 | 48,158,228 ² |
| Shares and Options to be issued under the Offer (excluding Options to be issued to Underwriter) | 645,757,529 | 538,131,274 |
| Maximum Options to be issued to Underwriter or nominee under Underwriting Agreement | | 645,757,529 |
| Maximum Options to be issued to Underwriter as a fee under the Underwriting Agreement | | 110,000,000 |
| Total on issue after the Offer ¹ | 1,506,767,567 | 1,342,047,031 |

Notes:

1. This assumes that the maximum number of New Shares and Attaching Options are taken up under the Offer. In addition, on 14 February 2011, the Company announced to the ASX that it has entered into a \$5,000,000 investment agreement with Socius Capital Group LLC (**Socius**). Under the agreement, the Company issued 12,658,228 Options to Socius exercisable at \$0.079 and expiring on 14 February 2014. In the Appendix 3B released by the Company to the ASX on 14 February 2011, it was noted that the investor (being Socius) has the right during the term of the Options, by notice to the Company, to surrender these Options for such number of Shares the aggregate value of

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which is to be determined by a Black Scholes calculation. The capital structure set out in the table above assumes that the Company has not received any such notice from Socius. If the Company does receive such a notice, it may have a dilutionary impact on the share capital of the Company.

2. As part of the recent placement by the Company raising \$220,000 at \$0.002 per Share (**Placement**), the Company, subject to shareholder approval to be sought at the Company's annual general meeting to be held in February 2013, will issue 55,000,000 Options on the basis of 1 Option for every 2 Shares under the Placement exercisable at \$0.007 per Option and expiring on 31 January 2016.

1.3 New Share and Attaching Option terms

Upon issue, each New Share will rank equally with all existing Shares then on issue. A summary of the rights and liabilities attaching to the New Shares is set out in Section 7.3 of this Prospectus.

The Attaching Options will be issued on the terms set out in Section 7.4 of this Prospectus. The Company does not intend to apply to the ASX for quotation of the Attaching Options.

1.4 Renounceable Offer and Entitlements trading

The Offer is renounceable. Accordingly, there will be trading of Entitlements on ASX meaning Shareholders may choose to sell or transfer all or any part of their Entitlement instead of paying the subscription price for the Offer.

Entitlement trading will commence on 17 December 2012. Sale of your Entitlement must be completed by 4 January 2013 when Entitlement trading is expected to cease. This does not mean that you have to sell your existing Shares. Your right to subscribe for the Offer may be sold or transferred without selling the Shares you presently hold.

Shareholders who do not take up their Entitlement will find that their Entitlement lapses and the Shortfall will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

1.5 Underwritten Offer

The Offer is fully underwritten by the Underwriter. Therefore, if any Shareholder or any person who has an Entitlement to acquire New Shares and elects not to subscribe for their full Entitlement, the Underwriter will, subject to the provisions of the Underwriting Agreement, ensure that the Company receives applications and subscription monies for those New Shares which form part of any Shortfall. A summary of the material terms of the Underwriting Agreement are set out in Section 6.1 of this Prospectus.

1.6 Acceptance of Entitlement to New Shares and trading of Rights

The number of New Shares to which an Eligible Shareholder is entitled, and the total amount an Eligible Shareholder would have to pay if they choose to take up all of their Entitlements to subscribe for New Shares, is shown on the Entitlement and Acceptance Form accompanying this Prospectus. This Prospectus is for the information of Eligible Shareholders who are entitled and may wish to apply for the New Shares. Fractional entitlements will be rounded up to the nearest whole number.

Entitlements to New Shares can be accepted in full, or in part, by completing and returning the Entitlement and Acceptance Form which accompanies this Prospectus in accordance with the instructions set out below and on the Entitlement and Acceptance Form.

Acceptance Monies for the New Shares must be received by the Company at its Share Registry by the Closing Date. Please refer to the timetable for the important dates of the Offer set out in Section 2.2.

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1.7 Additional Shares

Eligible Shareholders are entitled to apply for New Shares over and above their Entitlement at the Offer Price. The allocation of additional New Shares (**Additional Shares**) to those Eligible Shareholders who have applied for additional New Shares will be subject to the expiry of the Entitlement trading period and there being any Shortfall Securities.

Shareholders wishing to apply for further New Shares in addition to the Entitlement as shown on the Entitlement and Acceptance Form may:

- (a) purchase additional Entitlements on ASX during the Entitlement trading period; or
- (b) indicate on their Entitlement and Acceptance Form the additional New Shares they wish to apply for.

In the event that there is a Shortfall in subscriptions, the Directors **in consultation with the Underwriter**, reserve the right, as contemplated within the ASX Listing Rules and subject to the terms of the Underwriting Agreement, to allocate any shortfall of New Shares in their discretion (which may include to subscribers for Additional Shares) so as to ensure a maximum amount of funds is raised. There is no guarantee that Eligible Shareholders will be successful in being allotted any of the Additional Shares that they may apply for. The Company may reject any application for Additional Shares or allocate fewer New Shares than applied for by subscribers for Additional Shares.

1.8 Purpose of the Offer and use of funds

| Purpose | \$ |
|--|------------------|
| Copahue Geothermal Project expenditure | 350,000 |
| Working capital and New Ventures | 790,000 |
| Costs of the offer and contingency | 150,000 |
| TOTAL | 1,290,000 |

However, in the event that the Company does not raise the maximum amount under the Offer, circumstances change, business opportunities vary from expected, or other beneficial opportunities arise, the Directors reserve the right to vary the proposed use of funds to maximise the benefit to Shareholders.

1.9 Directors' interests

As at the date of this Prospectus, all of the Directors of Earth Heat have a direct or indirect interest in Shares. Set out below is a table summarising the current holding and entitlement of each Director.

| Director | Shares | | Existing Options | Existing Performance Rights | Entitlement under the Offer (in Shares) | |
|-------------------|---------|------------|------------------|-----------------------------|---|------------|
| | Direct | Indirect* | | | Direct | Indirect* |
| Dr Raymond Shaw | 250,000 | 71,880,592 | Nil | Nil | 187,500 | 53,910,444 |
| Mr Torey Marshall | 172,618 | 69,191,307 | Nil | 40,000,000 | 129,464 | 51,893,480 |
| Mr Malcolm | Nil | 1,000,000 | Nil | Nil | Nil | 750,000 |

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| | | | | | | |
|-------------|--|--|--|--|--|--|
| Lucas-Smith | | | | | | |
|-------------|--|--|--|--|--|--|

* Indirect holdings held by associates of the Directors

1.10 Investment Highlights

- Board members and management with extensive experience in acquiring major projects, building operating teams and developing major energy projects;
- A subsurface development company with a focus on a diversified energy asset base to build short and long term value drivers;
- Operating with a broadened focus which will lead to new project acquisitions and developments.

1.11 Key Risk Factors

Investing in the Company involves risk which could result in a possible loss of income and principal invested. There are factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance of the Company. Some of these factors can be mitigated by appropriate commercial action. However, many are outside the control of the Company, dependent on the policies adopted and approaches taken by regulatory authorities, or cannot otherwise be mitigated. If you are unsure about subscribing for New Shares, you should first seek advice from your stockbroker, accountant, financial or other professional adviser.

The following sets out a summary of some of the key risks relevant to the Company and its operations (further details are contained in Section 5):

| | |
|-----------------------------------|--|
| Contractual Risk | The Company's ability to efficiently conduct its operations in a number of respects depends upon a number of contracts. As in any contractual relationship, the ability for the Company to ultimately receive the benefit of the contract is dependent upon the relevant third party complying with its contractual obligations. To the extent that such third parties default in their obligations, it may be necessary for the Company to enforce its rights under any of the contracts and pursue legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms. |
| Evaluation Risk | The current and future operations of the Company may be affected by a range of factors, including, but not limited to: <ul style="list-style-type: none"> (a) limitations on activities due to seasonal weather patterns; (b) alterations to exploration programs and budgets; and (c) unanticipated operational and technical difficulties encountered in drilling, development, and production activities. |
| Environmental Regulation and Risk | The Company's interests are or may be subject to various laws and regulations regarding environmental matters and the discharge of hazardous waste and materials. These include standards and obligations to remediate current and former facilities and locations |

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| | |
|---|--|
| | where operations are or were conducted. |
| Additional Capital Requirements | <p>The Company is an exploration company and will need further financing for the development of projects. Accordingly it must continue to fund its exploration, feasibility, design and construction planning programs through its cash reserves, equity capital or debt. The viability of the Company is therefore dependent upon:</p> <ul style="list-style-type: none"> • the success of the Offer; and • the Company's access to further capital through debt or equity. <p>There can be no guarantee that the Company will be able to successfully raise project debt or equity finance.</p> <p>The Company has mandated CIFI to raise funds through equity and debt raisings for the development of the Copahue geothermal project in Argentina. The CIFI preference share mandate will expire on 31 December 2012 and if the fund raising by CIFI is not successfully completed, this may adversely impact on the Company's ability to carry out the development of the Copahue geothermal project.</p> <p>In addition, if the Company is not able to secure further funds through debt or equity this may adversely affect the Company's ability to meet any obligations including the payment of funds to government agencies in order to maintain its Geothermal Interest or the tenure which underlie the Geothermal Interest.</p> <p>Furthermore, any additional equity financing may dilute shareholdings, and debt financing may involve restrictions on financing and operating activities.</p> |
| Currency Risk | Adverse movements in the exchange rate may materially impact on commodity prices and the commercial viability of specific projects. |
| Reliance on Key Management | The Company is dependent on its Directors', managers' and consultants' ability to implement the Company's strategy in respect of the exploration and possible development of the Company's geothermal interests. A number of factors, including the departure of senior management of the Company, could adversely affect the Company's ability to implement its strategy. |
| Sovereign Risk and Foreign Country Risk | Future government actions in jurisdictions in which the Company currently or may in the future hold interests concerning the economy, ownership of geothermal operations, repatriation of profits, corporate policies, taxation policies, environmental policies, changes in political conditions or the operation and regulation of the geothermal industry could affect the Company and its financial performance generally. |
| Insurance Risk | The Company intends to adequately insure its operations in accordance with industry practice. However, in certain circumstances the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered by insurance could have a material adverse effect on the Company. Insurance of all risks associated with the geothermal industry is not always available and where available the costs can be prohibitive. |

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In addition, there are a number of general risks that are common to all investments in shares and are not specific to the business model and operations of the Company.

The New Shares offered under this Prospectus carry no guarantee of profitability, dividends, return of capital or the price at which they may trade on ASX. The past performance of the Company should not necessarily be considered a guide to their future performance.

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2. Details of the Offer

2.1 Offer to Eligible Shareholders

The Directors of Earth Heat have approved a pro-rata renounceable rights issue to Eligible Shareholders of up to approximately 645,757,529 New Shares at \$0.002 per New Share to raise up to approximately \$1.29 million before costs of the Offer. Eligible Shareholders of Earth Heat are entitled to subscribe for one New Share for every four Shares held on the Record Date, with one attaching option exercisable at 0.005 (expiry 31 January 2014) for every two New Shares subscribed for (**Short Dated Option**) and another one attaching option exercisable at \$0.007 (expiry 31 January 2016) (**Long Dated Option**) for every three New Shares subscribed for. Only those Shareholders shown on the share register at 7:00pm (AEDT) on the Record Date will be entitled to participate in the Offer. The Offer is fully underwritten by the Underwriter, details of which are set out in Section 6.1 of this Prospectus.

There is no minimum subscription to the Offer.

Earth Heat has applied to the ASX for the New Shares to be granted Official Quotation on the ASX. Official Quotation of the New Shares is expected to occur on or about 22 January 2013.

2.2 Important dates

| | |
|---|---|
| Announcement of Offer | Prior to commencement of trading on Thursday 13 December 2012 |
| Lodgement of Prospectus with ASIC and ASX | Prior to commencement of trading on Thursday 13 December 2012 |
| Notice sent to Shareholders containing Appendix 3B information | Friday 14 December 2012 |
| Shares commence trading on an ex rights basis | Monday 17 December 2012 |
| Rights trading starts | Monday 17 December 2012 |
| Record Date for the Offer | Friday 21 December 2012 |
| Opening Date of Offer | Monday 24 December 2012 |
| Prospectus and Entitlement and Acceptance Form despatched to Shareholders | Thursday 27 December 2012 |
| Rights trading ends | Friday 4 January 2013 |
| Shares quoted on a deferred settlement basis | Monday 7 January 2013 |
| Closing Date of Offer | Friday 11 January 2013 |
| Advise ASX of any Shortfall | Wednesday 16 January 2013 |
| Expected date of despatch of holding statements for New Shares | Monday 21 January 2013 |
| Commencement of trading of New Shares on ASX | Tuesday 22 January 2013 |

Some of these dates are indicative only and subject to change without notice. The Company may extend the period of the Offer or bring forward the Closing Date at its discretion whether

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or not the offer has been fully subscribed. This may have a consequential effect on the other dates.

The Directors may at any time decide to withdraw this Prospectus and the Offer made under this Prospectus, in which case the Company will return all Acceptance Monies (without interest) within 28 days of giving notice of such withdrawal.

2.3 Additional Shares

Eligible Shareholders are entitled to apply for New Shares over and above their Entitlement at the Offer Price. The allocation of additional New Shares (**Additional Shares**) to those Eligible Shareholders who have applied for additional New Shares will be subject to the expiry of the Entitlement trading period and there being any Shortfall Securities.

Shareholders wishing to apply for further New Shares in addition to the Entitlement as shown on the Entitlement and Acceptance Form may:

- (c) purchase additional Entitlements on ASX during the Entitlement trading period; or
- (d) indicate on their Entitlement and Acceptance Form the additional New Shares they wish to apply for.

In the event that there is a Shortfall in subscriptions, the Directors **in consultation with the Underwriter**, reserve the right, as contemplated within the ASX Listing Rules and subject to the terms of the Underwriting Agreement, to allocate any shortfall of New Shares in their discretion (which may include to subscribers for Additional Shares) so as to ensure a maximum amount of funds is raised. There is no guarantee that Eligible Shareholders will be successful in being allotted any of the Additional Shares that they may apply for. The Company may reject any application for Additional Shares or allocate fewer New Shares than applied for by subscribers for Additional Shares.

2.4 How to accept your Entitlement

(a) If you wish to take up all of your Entitlement

Eligible Shareholders may accept their Entitlement either in whole or in part. The number of New Shares which Eligible Shareholders are entitled to is shown on the Entitlement and Acceptance Form which accompanies this Prospectus.

Acceptances cannot exceed your Entitlement as shown on the Entitlement and Acceptance Form. If it does, acceptance will be deemed to be for your maximum Entitlement and any surplus subscription funds will be returned (without interest).

If Eligible Shareholders take no action in respect of their Entitlement they will have no right to subscribe for the New Shares pursuant to this Offer.

Entitlements to New Shares can be accepted in full or in part by completing and returning the Entitlement and Acceptance Form which accompanies this Prospectus in accordance with the instructions set out on the Entitlement and Acceptance Form and forwarding the completed Form together with the full amount payable so as to reach the Share Registry by no later than 5:00pm (AEDT) on the Closing Date.

The Offer Price of \$0.002 per New Share is payable in full on acceptance of part or all of your Entitlement.

If Eligible Shareholders wish to take up part or all of their Entitlement, payment may be made by cheque, bank draft, money order or by using BPAY®.

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If paying by cheque, bank draft or money order, Entitlement and Acceptance Forms must be accompanied by the cheque, bank draft or money order for the amount of your Acceptance Monies - calculated by multiplying the number of New Shares applied for by the Offer Price.

If paying by cheque, it must be in Australian currency and made payable to "Earth Heat Resources Limited –Offer A/C" and crossed "not negotiable".

If an Eligible Shareholder elects to make payment using BPAY®, they must contact their bank, credit union or building society to make payment of the Acceptance Monies from their cheque or savings account. Refer to the Entitlement and Acceptance Form for the Biller Code and Customer Reference Number. Eligible Shareholders who have multiple holdings will have multiple Customer Reference Numbers.

Payment will only be accepted in Australian currency and cheques, bank drafts, money orders and BPAY® payments must be drawn on an Australian bank.

No stamp duty, brokerage or handling fees are payable by the Applicant for New Shares offered by this Prospectus. Completed Entitlement and Acceptance Forms and accompanying cheques should be or forwarded to the following address:

Earth Heat Resources Limited Rights Issue
C/- Computershare Investor Services Pty Limited
GPO Box 505
Melbourne VIC 3001

The amount payable on acceptance will not vary during the period of the Offer and no further amount is payable on allotment. Acceptance Monies will be held in trust in a subscription account until allotment of the New Shares. The subscription account will be established and kept by Earth Heat on behalf of the Applicants. Any interest earned on the Acceptance Monies will be retained by the Company irrespective of whether allotment takes place.

(b) If you wish to sell all of your Entitlement

Complete the section marked "Instructions to Your Stockbroker/Agent" on the back of the Entitlement and Acceptance Form, which accompanies this document, in accordance with the instructions contained on the form and lodge it with your stockbroker.

Entitlement trading will commence on 17 December 2012. Sale of your Entitlement must be completed by 4 January 2013 when Entitlement trading is expected to cease.

(c) If you wish to take up part of your Entitlement and sell the balance

Please complete the Entitlement and Acceptance Form, which accompanies this document, by inserting the number of New Shares for which you wish to accept (being less than as specified on the Entitlement and Acceptance Form) and complete the section marked "Instructions to Your Stockbroker/Agent" on the back of the form in respect of that part of your Entitlement you wish to sell.

Forward the form to your stockbroker together with your cheque or bank draft for the total amount payable in respect of the New Shares accepted.

Cheques or bank drafts should be in Australia dollars and made payable to "Earth Heat Limited –Offer A/C" and crossed – "Not Negotiable".

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Entitlement trading will commence on 17 December 2012. Sale of your Entitlement must be completed by 4 January 2013 when Entitlement trading is expected to cease.

(d) **Entitlement not taken up**

If all or part of your Entitlement lapses you will receive no benefit. Any Shortfall will pass to the Underwriter pursuant to the terms of the Underwriting Agreement.

Your Entitlement may have value. You are advised to deal with your Entitlement rather than allow them to lapse.

If you do not wish to take up or trade any part of your Entitlement you are not required to take any further action. The Company and the Underwriter will deal with the New Shares in accordance with the Underwriting Agreement.

2.5 **Allotment and allocation policy**

Earth Heat will proceed to allocate New Shares as soon as possible after the Closing Date and receiving ASX permission for Official Quotation of the New Shares.

In the case that there is less than full subscription by Shareholders of their Entitlements under this Prospectus, the Directors, will issue any Shortfall in accordance with the Underwriting Agreement.

Successful Applicants will be notified in writing of the number of New Shares allocated to them as soon as possible following the allocation being made.

It is the responsibility of Applicants to confirm the number of New Shares allocated to them prior to trading in New Shares. Applicants who sell New Shares before they receive notice of the number of New Shares allocated to them do so at their own risk. No New Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus.

2.6 **ASX listing**

On the same date as announcing the Offer, the Company applied to the ASX for the New Shares to be issued pursuant to this Prospectus to be listed for Official Quotation by the ASX. If granted, quotation of the New Shares will commence as soon as practicable after allotment of the New Shares to Applicants. The Company does not intend to seek quotation of the Attaching Options.

Should the New Shares not be granted official quotation on the ASX within 3 months after the date of this Prospectus, none of the New Shares and Attaching Options offered under this Prospectus will be issued and all Acceptance Monies will be refunded without interest to Applicants within the time prescribed by the Corporations Act.

2.7 **CHESS**

Earth Heat will apply to the ASX Settlement for the New Shares to participate in the Securities Clearing House Electronic Subregister System known as CHESS. After allotment of the New Shares, those who are issuer sponsored holders will receive an issuer sponsored statement and those who are CHESS holders will receive an allotment advice.

The CHESS statements, which are similar in style to bank account statements, will set out the number of New Shares allotted to each successful applicant pursuant to this Prospectus. The statement will also advise holders of their Holder Identification Number. Further statements will be provided to holders which reflect any changes in their holding in Earth Heat during a particular month.

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2.8 Minimum subscription

There is no minimum subscription to the Offer.

2.9 Unquoted Options and Performance Rights on issue

There are currently:

- (a) 48,158,228 unquoted Options; and
 - (b) 40,000,000 unquoted Performance Rights,
- on issue in the Company.

The above securities are not quoted on the ASX.

2.10 Foreign Shareholders

The Offer will not be extended to any Shareholder with a registered address outside of Australia or New Zealand (**Foreign Shareholder**) as at the Record Date.

However, in order for the Offer to satisfy Listing Rule 7.7.1(c) in respect of a renounceable entitlement offer, the Company is required to do each of the following:

- (a) appoint a nominee (**Nominee**) to arrange for the sale of the entitlements that would have been given to the Foreign Shareholders and to account to them for the net proceeds of the sale; and
- (b) advise each Foreign Shareholder not given the entitlement that the Nominee will arrange for the sale of the entitlements and, if they are sold, for the net proceeds to be sent to the Foreign Shareholder.

The Company has appointed DJ Carmichael Pty Limited, the Underwriter for the Offer, as the Nominee for Foreign Shareholders to undertake the matters set out in paragraphs (a) and (b) above and also Section 9A of the Corporations Act. The Company will advise the Foreign Shareholders of the matters set out in Listing Rule 7.7.1(c) shortly after the date of this Prospectus.

2.11 Electronic Prospectus

An electronic version of this Prospectus is available online at the Company's website at www.earthheat.com.au.

The Entitlement and Acceptance Form may only be distributed together with a complete and unaltered copy of the Prospectus. The Company will not accept a completed Entitlement and Acceptance Form if it has reason to believe that the investor has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Entitlement and Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is extremely unlikely that in the Offer period the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that it will not be the case. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from the Company, the Share Registry or a financial advisor.

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3. Information on Earth Heat

3.1 Company overview

ASX-listed Earth Heat Resources Limited (ASX: EHR) was incorporated as a limited liability company in Alberta, Canada on 5 February 1998 and changed its location on 23 December 2004 to British Columbia. The Company adopted the name Earth Heat Resources Limited on 29 July 2010.

For the Company's most recent and up-to-date filing please refer to the Company's announcement platform on the ASX website or to the Company's website at www.earthheat.com.au.

The Company is focussed on the acquisition and development of subsurface energy resources. For example, the Company holds an interest in the Copahue geothermal project located in Argentina, geothermal interests in Djibouti and oil and gas interests in the United States of America.

The Company is looking to embrace a broader spectrum of energy interests in the short and medium terms, particularly new ventures that have current investor appeal - such as in the upstream oil and gas sector.

Interests in the Australian geothermal exploration have been relinquished in their entirety, and African projects will be reviewed over the next 6 months.

After payment of Offer costs, funds raised under this Prospectus are intended to be used for working capital, expenditure on its interest in the Copahue geothermal project in Argentina and also on focus which will lead to new project acquisitions and developments to support a broader mix of energy projects. Please refer to use of funds table set out in Section 1.8.

A key outcome of a major internal strategic review was that the Company does not contain sufficient short term value drivers that are attractive to the Australian investment market and that this needs urgent attention. As a result Earth Heat is looking to expand its presence in conventional upstream energy projects (e.g. oil and gas projects). Any future project will need to satisfy shorter term company and market objectives; such as having ready-made markets for producible products.

3.2 Board of Directors

Dr Raymond Shaw (Chairman)

Dr Raymond Shaw is a geologist and geophysicist with more than 30 years' experience in the resources and energy sector including the oil, gas and coal industries. He commenced his professional career as a petroleum explorationist with Shell Development Australia in Perth, prior to working for various consulting groups including the Swiss based international consulting firm Petroconsultants SA, as resident director based in Singapore and responsible for its Far East operations.

Dr Shaw was founding Managing Director of Great Artesian Oil and Gas Limited, prior to its listing on the ASX in 2003, until April 2007. In May 2007 he became Executive Chairman of ASX listed Enterprise Energy Limited. In 2008 he oversaw the merger and backdoor listing of some \$250 million of coal assets into Enterprise Energy as part of a restructuring and change in business to form Bandanna Energy Limited, of which he was Managing Director until March 2012.

He has consulted extensively to industry, government, and international aid agencies on a variety of resource projects throughout Australia and Asia, including the World Bank, Asia

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Development Bank and Ausaid. He was a part time consultant with the New South Wales Department of Mineral Resources for 7 years providing input for industry initiatives during the late 1990's and early 2000's. Dr Shaw holds a B.Sc (Hon 1) and Ph.D from the University of Sydney and Dip Law (SAB). He is a member of the Australasian Institute of Mining and Metallurgy and the American Association of Petroleum Geologists.

He is also a director of ASX listed Red Gum Resources Ltd.

Mr Torey Marshall (Managing Director)

Mr Torey Marshall is a geologist with broad based technical and business development experience in the petroleum, mineral and geothermal sectors. This has resulted in the successful execution of various exploration programs (some resulting in discoveries), in a number of different areas. Having worked extensively as an exploration geoscientist in Australia, South America, Africa & the Middle East, his skills have been considerably expanded to include senior management experience of various private and public (unlisted) companies.

As part of his consulting practice, he has developed strategies for, and acquired projects on behalf of a number of clients at a number of scales (between \$1m and \$100m).

Mr Marshall has a B.Sc (Hons) and M.Sc from University of South Australia and is a Chartered Professional member of the Australasian Institute of Mining and Metallurgy and an associate member of the American Association of Petroleum Geologists.

Mr Marshall has been Managing Director of Earth Heat since January 2011 and was responsible for assembling its geothermal assets.

He is a director of ASX listed Red Gum Resources Ltd.

Mal Lucas-Smith (Director and Company Secretary)

Mal Lucas-Smith has over 40 years experience in finance, executive and non executive management, property development, corporate secretarial and administrative services.

During that period he spent 12 years with State Bank of New South Wales and 18 years with the property finance and the property joint venture divisions of Australian Guarantee Corporation Limited (**AGC**), at the time a listed subsidiary of Westpac Bank.

Mal left AGC of his own accord in September 1987 to form a corporate services business and has since worked within and consulted to the corporate sector often assisting new start ups and existing operations proposing to list on the Australian Securities Exchange, and also providing local representative and registered office services for offshore entities.

He is the Company Secretary of the following ASX listed companies; Healthlinx Limited, Medivac Limited and Red Gum Resources Limited.

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4. Effect of Offer on Earth Heat

4.1 Effect of the Offer on the Company

The effect of this Rights offer on the Company is that there will be an increase in the primary number of shares on issue. This will have the effect that any earnings will be divided by a greater number of shares, and this will therefore be dilutive. In addition, if all the Attaching Options are exercised this will have a dilutionary impact on the Company's share capital but will also result in the Company receiving further funds from the Option holders as a result of the exercise of the Attaching Options.

The Company does not anticipate that there will be any material change of control consequences to the current Offer.

After payment of Offer costs, funds raised under this Prospectus are intended to be used for working capital, expenditure on its interest in the Copahue geothermal project in Argentina and new project acquisitions that support a broader mix of energy projects. Funds raised by this Rights issue will strengthen the balance sheet and enable the Company to meet its short term obligations (refer to use of funds table set out in Section 1.8).

4.2 Pro-forma Financial Statement of financial position (assuming the maximum amount is raised under the Offer)

Based upon the unaudited accounts as at 30 September 2012

| | Historical as at 30 September 2012 (unaudited) \$,000 | Placement to sophisticated investors less expenses \$,000 | Offer Fully Subscribed less expenses of the Offer \$,000 | Pro Forma Statement of Financial Position \$,000 |
|--|---|---|--|--|
| Current Assets | | | | |
| Cash & Equivalents | (a) 344 | (b) 208 | (c) 1,052 | (d) 1,604 |
| Trade & other receivables | 74 | - | - | 74 |
| Total Current Assets | 418 | 208 | 1,052 | 1,678 |
| Non-Current Assets | | | | |
| Property & equipment | 5 | - | - | 5 |
| Geothermal oil & gas interests | 2,191 | - | - | 2,191 |
| Total Non-Current Assets | 2,196 | - | - | 2,196 |
| Total Assets | 2,614 | 208 | 1,052 | 3,874 |
| Liabilities | | | | |
| Trade & other payables | 470 | - | - | 470 |
| Total Liabilities | 470 | - | - | 470 |
| Net Assets | 2,144 | 208 | 1,052 | 3,404 |
| Equity | | | | |
| Issued capital | 23,509 | 208 | 1,052 | 24,769 |
| Share reserve | 64 | - | - | 64 |
| Foreign exchange reserve | (71) | - | - | (71) |
| Other components of shareholders equity | 1,406 | - | - | 1,406 |

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| | | | | |
|---------------------|--------------|------------|--------------|--------------|
| Accumulated losses | (22,764) | - | - | (22,764) |
| Total Equity | 2,144 | 208 | 1,052 | 3,404 |

- (a) Cash and cash equivalents comprise cash balances and call deposits held at 30 September 2012.
- (b) On 6 December 2012, 110,000,000 Shares were issued and 55,000,000 attaching Options (exercisable at \$0.007 and expiring on 31 January 2016) will be issued subject to Shareholder approval to be sought at the Company's annual general meeting to take place in February 2013. The placement had an issue price of \$0.002 per Share and raised \$0.208 million cash after issue costs.
- (c) A renounceable pro-rata rights issue to Eligible Shareholders of three New Shares for every four Shares held by Eligible Shareholders on the Record Date, at an issue price of \$0.002 per New Share to raise up to approximately \$1,052 million cash after costs of the Offer based on full subscription and 645,757,529 shares being issued.
- (d) Cash and cash equivalents comprise cash balances and call deposits held assuming completion of a fully subscribed renounceable pro-rata rights issue.

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5. Risk factors

5.1 Introduction

There are risks which may impact on the operating and financial performance of the Company and, therefore, on the value of the New Shares offered under this Prospectus. Some of these risks can be mitigated by the Company's systems and internal controls, but many are outside of the control of the Company and of the Board. There can be no guarantee that the Company will achieve its stated objectives or that any forward-looking statements will eventuate. An investment in a business with limited operating history, such as Earth Heat, is considered speculative and an investor could lose most or all of any investment. There are also general risks associated with any investment in shares.

More specifically, the risks are that:

- the price at which the Applicant is able to sell the New Shares is less than the price paid due to changes in market circumstances;
- the Applicant is unable to sell the New Shares or the Shares issued on exercise of the Attaching Options;
- the Company is placed in receivership or liquidation making it reasonably foreseeable that Shareholders could receive none, or only some of their initial investment; and
- the Company fails to generate sufficient profit in order to pay dividends.

In the event of insolvency, the holders of fully paid ordinary Shares would not normally be liable to pay money to any person.

Potential investors should therefore carefully consider all associated risks before applying for New Shares under this Prospectus and should consider their personal circumstances (including financial and taxation issues) and seek advice from their stockbroker, accountant, solicitor or other professional advisers before deciding whether to invest.

A number of material risk factors which may adversely affect the Company and the value of the New Shares offered under this Prospectus are set out in this Section. This is not an exhaustive list and there may be other factors which have an adverse effect on the Company and the value of the Shares offered under this Prospectus.

5.2 Key risks specific to an investment in the Company

(a) Tenure Risk

The Company is not the registered holder of the geothermal projects in which the Company holds interests in which are located in Argentina and Djibouti (**Geothermal Interests**).

The Geothermal Interests held by the Company and in which the Company has an interest are subject to applicable laws regarding exploration, expenditure and renewal of such interests in the jurisdictions in which the Company holds those geothermal interests.

If a Geothermal Interest is not granted or renewed (as the case may be) or access cannot be secured to carry out operations, the Company could be adversely affected as a result of the consequential loss of opportunity to discover and develop the Company's geothermal interests.

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Licenses and permits for Geothermal Interests are for a specified term and carry annual expenditure and reporting commitments and, if not met, the holder could lose title to its interest in the tenements. In the case of the underlying concession periodic payments are made which equates to 'good financial standing' under the tender. Equally, activities are required (work program commitments), to keep the concession in good administrative standing. There is a risk that these permits could be terminated or reduced if the holder is unable to show cause for the delay in payment.

(b) **Evaluation Risk**

The current and future operations of the Company may be affected by a range of factors, including (but not limited to):

- (1) limitations on activities due to seasonal weather patterns;
- (2) alterations to exploration programs and budgets;
- (3) unanticipated operational and technical difficulties encountered in drilling, development, and production activities;
- (4) mechanical failure of operating plant and equipment or late supply thereof;
- (5) adverse weather conditions, industrial and environmental accidents, industrial disputes and an event of force majeure;
- (6) unavailability of drilling, production and surface plant and other equipment;
- (7) unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment and labour;
- (8) prevention of access by reason of inability to obtain regulatory or landowner consents or approvals, or indigenous and cultural issues;
- (9) terms imposed by government on project development including conditions such as environmental rehabilitation, royalty rates and taxes;
- (10) delays in completing feasibility studies and obtaining necessary development approvals;
- (11) risks of default or non-performance by third parties providing essential services.

No assurance can be given that tenure can be secured, that future exploration and development will be successful.

The ultimate success and financial viability of the Company depends on securing title to tenure, the discovery and delineation of economically recoverable reserves and resources, construction of efficient surface power plant installation and operation and competent operational and managerial performance. Even given these outcomes the Company cannot guarantee that it can be profitably exploited.

Development of a commercial power project is also dependent on the Company's ability to acquire or obtain and maintain necessary titles and governmental and other regulatory, including but, not limited to, environmental approvals on a timely basis. Development of commercial power production is also dependent on the Company's ability to establish and have constructed basic infrastructure such as (but not limited to) power connections, water, transport and housing to support its operations.

(c) **Environmental Regulation and Risk**

The interests of the Company are or may be subject to various laws and regulations regarding environmental matters and the discharge of hazardous waste and materials. These include standards and obligations to remediate current and former facilities and locations where operations are or were conducted.

The Company may be required to comply from time to time with environmental management issues that arise from factors beyond its control. The conduct of power production activities, if any ultimately takes place, on the Geothermal Interests are subject to receipt of all necessary environmental approvals. There can be no guarantee that such approvals will be forthcoming. Furthermore, the conditions imposed for the grant of such approvals may be so onerous that they render the project uneconomic.

To mitigate environmental risk, the Company intends to ensure that it has appropriate insurance cover to mitigate any environmental risk, however, in certain circumstances the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered by insurance could have a material adverse effect on the Company.

(d) **Changes in Government Policy and Laws**

Changes in government laws, regulations, policies and administrative regimes, particularly those affecting ownership of tenure, taxation, royalties, land access, labour relations, the development and production of fossil fuels, environmental pollution and mining and exploration activities, may adversely affect the financial performance or the current and proposed operations generally of the Company. These changes may increase operating costs and have a material adverse effect on the Company.

(e) **Taxation**

In all places where the Company has operations, in addition to the normal level of income tax imposed on all industries, the Company may be required to pay government royalties, indirect taxes, goods and services tax and other imposts which generally relate to revenue or cash flows. Industry profitability can be affected by changes in government taxation policies.

(f) **Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities and potential future revenues.

(g) **Operating Risks**

The operations of the Company may be affected by various factors including operational and technical difficulties, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated geotechnical and metallurgical problems which may affect extraction costs, adverse reservoir conditions, weather conditions, unexpected maintenance, unplanned capital expenditure, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment. The occurrence of any of these factors could result in substantial liability being incurred by the Company.

To mitigate the impact of the factors mentioned above which may affect the operations of the Company, it intends to ensure that appropriate insurance is maintained within

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ranges of coverage that the Company believes to be consistent with industry practice and having regard to the nature of activities being conducted. No assurance, however, can be given that the Company will be able to obtain such insurance coverage at reasonable rates or that any coverage it arranges will be adequate and available to cover any potential claims. Insurance cover may not be available for every risk faced by the Company. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

(h) **Reliance on Key Management**

The Company is dependent on its Directors', managers' and consultants' abilities to implement the Company's strategy in respect of the exploration and possible development of the Company's interests. A number of factors, including the departure of senior management of the Company, could adversely affect the Company's ability to implement its strategy.

The success of the Company's operations may also depend on continued access to competent management and technical expertise, prudent financial administrators and the availability of appropriately skilled and experienced employees, contractors and consultants operating in relevant sectors. In the event that the Company is unable to source such personnel, the Company could be adversely affected.

(i) **Competition Risk**

The energy industry in which the Company is involved is subject to country and global competition. Although the Company will undertake all reasonable due diligence in its business direction and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

(j) **Additional Capital Requirements**

The Company is an exploration company and will need further financing for the development of projects. Accordingly it must continue to fund its exploration, feasibility, design and construction planning programs through its cash reserves, equity capital or debt. The viability of the Company is therefore dependent upon:

- the success of the Offer; and
- the Company's access to further capital through debt or equity.

There can be no guarantee that the Company will be able to successfully raise project debt or equity finance.

The Company has mandated CIFI to raise funds through equity and debt raisings for the development of the Copahue geothermal project in Argentina. The CIFI preference share mandate will expire on 31 December 2012 and if the fund raising by CIFI is not successfully completed, this may adversely impact on the Company's ability to carry out the development of the Copahue geothermal project.

In addition, if the Company is not able to secure further funds through debt or equity this may adversely affect the Company's ability to meet any obligations including the payment of funds to government agencies in order to maintain its Geothermal Interest or the tenure which underlie the Geothermal Interest.

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Furthermore, any additional equity financing may dilute shareholdings, and debt financing may involve restrictions on financing and operating activities.

(k) **Contractual Risk**

The Company's ability to efficiently conduct its operations in a number of respects depends upon a number of contracts. As in any contractual relationship, the ability for the Company to ultimately receive the benefit of the contract is dependent upon the relevant third party complying with its contractual obligations. To the extent that such third parties default in their obligations, it may be necessary for the Company to enforce its rights under any of the contracts and pursue legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms.

(l) **Sovereign Risk and Foreign Country Risk**

The Company currently has interests in foreign countries and is therefore subject to the risks normally associated with the conduct of business in foreign countries. Risks pertaining to such foreign countries may include among other things, labour disputes, corruption, uncertain political and economic environments, civil disturbances and crime and arbitrary changes in laws or policies.

In addition, the Company must conform to the taxation regimes in the foreign countries in which it has interests. These regimes may be subject to change. The foreign investment policies in the foreign countries in which the Company holds interests may affect the Company's ability to conduct business in these countries, successfully repatriate funds to Australia and retain its foreign assets.

(m) **Currency Risk**

Adverse movements in the exchange rate may materially impact on commodity prices and the commercial viability of specific projects.

The revenues, earnings, assets and liabilities of the Company may be exposed adversely to exchange rate fluctuation. In particular, it is likely that most of the costs payable by the Company in relation to its operations in foreign countries will be paid in US dollars or other local currencies. Any shift in those exchanges against the Australian dollar could affect the financial performance and results generally of the Company.

(n) **Insurance Risk**

The Company intends to adequately insure its operations in accordance with industry practice and applicable laws in the jurisdictions it operates. However, in certain circumstances the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered by insurance could have a material adverse effect on the Company. Insurance of all risks associated with the geothermal industry is not always available and where available the costs can be prohibitive.

(o) **Indigenous Land Rights Risk**

Where the jurisdictions in which the Company holds interests have laws governing the rights of indigenous peoples to land, the Company may be subject to such laws and any restrictions imposed by such laws on the Company. Such restrictions may impact on the ability of the Company to carry out operations and manage projects in these countries.

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(p) **Market Risk**

The Company's possible future revenue is intended to be derived from the production of wholesale energy products. Consequently, the Company's potential future earnings are likely to be closely related to the price of electricity.

The ability of the Company to successfully enter the commercialisation phase of its activities will depend upon its ability to acquire relevant interests in projects it does not already hold, develop its projects and sell generated electricity on commercial terms and at commercial prices. Due to competition from established methods of electricity provision, there can be no assurance that the Company will ultimately be able to sell the electricity it may produce on commercial terms.

The Company's ability to benefit from any future operations will depend on market factors, some of which may be beyond its control. The market for electricity is subject to competition and many variables and as such, may fluctuate markedly.

5.3 **General risks**

(a) **Share Market Investments**

The New Shares are to be quoted on the ASX, where their price may rise or fall in relation to the Offer Price. The New Shares carry no guarantee in respect of profitability, dividends or return of capital, or the price at which they may trade on the ASX. The value of the Shares will be subject to the ASX market and hence a range of factors outside of the control of the Company and the Directors and officers of the Company. Such factors include the demand for and availability of Shares, movements in domestic and international interest rates and inflation rates, economic conditions and general economic outlook, exchange rates, fluctuations in the Australian and international share markets, taxation, government and monetary policies and demand and supply for capital. Returns from an investment in the New Shares offered under this Prospectus may also depend on general share market conditions, as well as the performance of the Company. Investors who decide to sell their New Shares may not receive the entire amount of their original investment. There can be no guarantee that an active market in the Shares will develop or that the price of the New Shares will increase.

(b) **General Economic Conditions**

Factors such as inflation, currency fluctuations, interest rates, supply and demand, industrial disruption, government policy and legislation have an impact on operating costs, commodity prices, and the parameters in which the Company operates. Factors that may be beyond the control of the Company include:

- general economic conditions in Australia and its trading partners and, in particular, inflation rates, interest rates, exchange rates, commodity supply and demand factors;
- financial failure or default by a participant in any of the joint ventures or other contractual relationship to which the Company is, or may become, a party;
- insolvency or other managerial failure by any of the contractors used by the Company in its activities; and
- industrial disputes.

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These as well as other conditions can affect the Company's future revenues and profitability and the price of its securities.

(c) **Industrial Risk**

Industrial disruptions, work stoppages and accidents in the course of the Company's operations could result in losses and delays, which may adversely affect profitability.

(d) **Management Actions**

The Directors will, to the best of their knowledge, experience and ability (in conjunction with management) endeavour to anticipate, identify and manage the risks inherent in the activities of the Company, but without assuming any personal liability for same, with the aim of eliminating, avoiding and mitigating the impact of risks on the performance of the Company and its securities.

(e) **Interest Rate Risk**

Financial prospects could be affected by changes in the level of interest rates. The magnitude of this effect will depend on the degree of gearing and the interest rate management strategies implemented by the Board.

5.4 **Speculative nature of investment**

The above list of risk factors is not to be taken as exhaustive of the risks faced by the Company or by Shareholders in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares offered under this Prospectus.

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6. Material contracts

6.1 Underwriting Agreement

The Company has entered into the Underwriting Agreement with the Underwriter, appointing the Underwriter to exclusively manage the Offer and fully underwrite the subscription and sale of the Underwritten Securities. Under the Underwriting Agreement, the Underwriter is entitled to appoint a sub-underwriter to underwrite as much of the Rights Issue as it sees fit.

Set out below is a summary of the material terms of the Underwriting Agreement.

The obligations of the Underwriter under the Agreement to subscribe for the Shortfall are subject to conditions precedent, namely:

- (a) the Underwriter being satisfied with the due diligence investigations;
- (b) the Underwriter being satisfied with the form of the Prospectus;
- (c) a legal sign off letter being provided to the due diligence committee by the Company's solicitors;
- (d) the Prospectus being lodged with ASIC prior to 5:00pm on the lodgement date being 13 December 2012; and
- (e) the Underwriter entering into sub underwriting agreements with sub underwriters on terms and conditions satisfactory to the Underwriter.

In consideration for undertaking its obligations under the Underwriting Agreement, the Company has agreed to:

- (e) pay the Underwriter a management and underwriting fee of 5.5% of the Underwritten Amount, which is 5.5% of \$1,291,515 (**the Underwriting Fee**);
- (f) issue to the Underwriter 110,000,000 Options exercisable at \$0.007 per Option and expiring on 31 January 2016; and
- (g) issue up to 645,757,529 Options exercisable at \$0.007 per Option and expiring on 31 January 2016 to the Underwriter or its nominee (who for the avoidance of doubt will be third parties that will not be related parties of the Company) on the basis of one Option for every New Share taken up under the Shortfall.

The Underwriting Fee shall only be payable by the Company in the event that the Offer proceeds. Any sub-underwriting and selling fees to third parties will be met from this fee by the Underwriter. In addition to this, the Company must pay the Underwriter a Corporate Advisory Fee of \$60,000 for its services in managing the Offer. In the event that the Company or the Underwriter terminates the Underwriting Agreement, it must pay the Corporate Advisory Fee and any expenses incurred or accrued up to the date of termination.

The Company has agreed to indemnify the Underwriter, in respect of all costs of and incidental to the Issue, and further indemnify the Underwriter and related parties against all losses, liabilities and claims in respect of the Prospectus, the Issue and associated documents to the Issue.

The Company makes standard representations and warranties to the Underwriter.

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The Underwriting Agreement makes provisions for certain covenants to be observed by the Company and also circumstances in which the Underwriter may terminate the Underwriting Agreement. Some of those provisions which allow termination of the Underwriting Agreement are summarised as following:

- (a) If the ASX All Ordinaries Index is at any time after the date of this Agreement at a level that is 10% or more below its respective level as at the close of trading on the Business Day prior to the date of the Underwriting Agreement Business Days after the date of the Underwriting Agreement;
- (b) If the Company's Shares have a closing price at any time after the date of the Underwriting Agreement less than the Price of the Rights Shares for two consecutive days;
- (c) The Company does not lodge the Prospectus on the lodgement date being 13 December 2012, or the Offer is withdrawn;
- (d) ASX notifies that Official Quotation will not be granted, or once granted, is withdrawn

The Underwriter has entered into arrangements with sub-underwriters for any Shortfall. Any sub-underwriter fees as a result of such sub-underwriting arrangements will be paid by the Underwriter out of the Underwriting Fee.

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7. Additional information

7.1 Transaction specific prospectus

Earth Heat is a disclosing entity and therefore subject to regular reporting and disclosure obligations under the Corporations Act. Under those obligations, Earth Heat is obliged to comply with all applicable continuous disclosure and reporting requirements in the ASX Listing Rules.

This Prospectus is issued under Section 713 of the Corporations Act. This section enables disclosing entities to issue a prospectus in relation to securities in a class of securities which has been quoted by ASX at all times during the 3 months before the date of the Prospectus or options to acquire such securities. Apart from formal matters this Prospectus need only contain information relating to the terms and conditions of the Offer, the effect of the Offer on the Company and the rights and liabilities attaching to the New Shares.

Copies of the documents lodged by Earth Heat with ASIC may be obtained from, or inspected at an office of ASIC.

The Company will provide a copy of any of the following documents, free of charge, to any person who asks for a copy of the document before the Closing Date in relation to this Prospectus:

- (a) audited financial statements for the Company for the year ended 30 September 2011;
- (b) reviewed half-yearly financial statements for the Company for the period ending 31 March 2012; and
- (c) any other financial statements lodged in relation to Earth Heat with ASIC and any continuous disclosure notices given by Earth Heat to ASX, in the period starting immediately after lodgement of the audited financial statements for the Company for the year ended 30 September 2011 and ending on the date of lodgement of this Prospectus with ASIC.

7.2 ASX Information and Share Information

The ASX Announcements that the Company has made since 3 December 2011 are set out below.

| | |
|------------|---|
| 12/12/2012 | Change in substantial holding relodged to correct address |
| 12/12/2012 | Change in substantial holding |
| 12/12/2012 | Change in substantial holding |
| 12/12/2012 | Change in substantial holding |
| 12/12/2012 | Change in substantial holding |
| 06/12/2012 | Section 708A release |
| 06/12/2012 | Placement Completed and Appendix 3B |
| 03/12/2012 | \$1.5m Capital Raising and Broadened Direction |
| 03/12/2012 | Reinstatement to Quotation |
| 29/11/2012 | Extension of Suspension |
| 26/11/2012 | Extension of Suspension |
| 22/11/2012 | Extension of Suspension |
| 19/11/2012 | Extension of Suspension |
| 15/11/2012 | Request for Voluntary Suspension |
| 13/11/2012 | Request for Trading Halt |

Prospectus

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|------------|---|
| 31/10/2012 | Quarterly Activities Report and Appendix 5B |
| 30/10/2012 | Appendix 3B |
| 25/10/2012 | Results of Meeting |
| 23/10/2012 | Corporate Advisor Appointed |
| 16/10/2012 | Expiry of escrow period |
| 12/10/2012 | Significant Argentine Government Support for Copahue |
| 10/10/2012 | Geophysical Acquisition Update |
| 05/10/2012 | Energy Demand Increase to be Supplied in Argentina |
| 02/10/2012 | Notice of Extraordinary General Meeting/Proxy Form |
| 02/10/2012 | Expansion in Argentina and progress update |
| 30/08/2012 | Media Report - Spot On Geothermal |
| 10/08/2012 | Placement Completed and Appendix 3B attached |
| 10/08/2012 | Corporate Presentation |
| 07/08/2012 | Reinstatement to Official Quotation |
| 07/08/2012 | Capital Raising and Update |
| 06/08/2012 | Extension of Suspension |
| 01/08/2012 | Extension of Suspension |
| 31/07/2012 | Activities Report and appendix 5B |
| 27/07/2012 | Suspension from official quotation |
| 25/07/2012 | Progress Update |
| 25/07/2012 | Trading Halt |
| 23/07/2012 | New Research and Strategic Review |
| 20/07/2012 | Well Planning and Review for Copahue |
| 12/07/2012 | Update of Geoscience Results |
| 02/07/2012 | Earth Heat to raise up to \$30m and purchase Geothermal One |
| 29/06/2012 | Trading Halt |
| 13/06/2012 | Half Yearly Report and Accounts |
| 05/06/2012 | Receipt of Engineering Study |
| 24/05/2012 | Extension of Finance to Cover 50MWe Project |
| 22/05/2012 | Xstrata interested to purchase approximately 50MWe |
| 15/05/2012 | Operations Update |
| 08/05/2012 | Earth Heat signs an exclusivity agreement with Alstom |
| 01/05/2012 | Change to registered office and place of business |
| 01/05/2012 | Change in substantial holding |
| 30/04/2012 | Quarterly Activities and Cashflow Report |
| 23/04/2012 | Change in substantial holding |
| 23/04/2012 | Initial Director's Interest Notice |
| 23/04/2012 | Final Director's Interest Notice |
| 23/04/2012 | Change in Board Composition |
| 17/04/2012 | Copahue Project Update |
| 19/03/2012 | Appendix 3B transfer of Canadian stock to CDIs in Australia |
| 14/03/2012 | EIA Stage 2 Begins |
| 12/03/2012 | Appendix 3B |
| 08/03/2012 | Mobilisation of Crews |
| 07/03/2012 | Earth Heat Capital Raising Completed |
| 07/03/2012 | Reinstatement to official list |

Prospectus

| | |
|------------|---|
| 05/03/2012 | Suspension from Official Quotation |
| 29/02/2012 | Trading halt |
| 23/02/2012 | Change of director's interest notice by 3 |
| 23/02/2012 | Appendix 3B |
| 23/02/2012 | Results of Meeting |
| 23/02/2012 | Managing Director's presentation to AGM |
| 23/02/2012 | Earth Heat ahead of the pack |
| 23/02/2012 | BRR Earth Heat secure \$40m in project financing |
| 22/02/2012 | \$40m in additional project finance for the Copahue developme |
| 14/02/2012 | Junior debt update |
| 31/01/2012 | Quarterly Activities / Cashflow Report |
| 31/01/2012 | General Update |
| 23/01/2012 | Waiver from ASX listing rule 10.13.5 |
| 23/01/2012 | Notice of Annual General Meeting/Proxy Form |
| 20/01/2012 | Consolidation of South Australian GELs |
| 16/01/2012 | New research available on company website |
| 12/01/2012 | Expiry of escrow period 22 January 2012 |
| 30/12/2011 | Annual Report to shareholders |
| 30/12/2011 | 2010 Annual Report restated for Canadian listing requirement |
| 30/12/2011 | 2008 Annual Report restated for Canadian listing requirement |
| 22/12/2011 | Financing Progress Update |
| 15/12/2011 | Section 708A Notice |
| 15/12/2011 | Appendix 3B |
| 14/12/2011 | AGM meeting dates released for Canadian requirements |
| 14/12/2011 | Change of auditor in order to meet Canadian requirements |
| 14/12/2011 | Expiry of unquoted options |
| 12/12/2011 | Placement and Finance Update |

The highest and lowest prices of shares in the Company on the ASX in the 6 month period before the date of this Prospectus and the respective dates of those sales are set out below.

| | | High | Low | Volume weighted average |
|--------------|--|-------------|------------|--------------------------------|
| | | \$ | \$ | \$ |
| One month | | 0.006 | 0.002 | 0.003 |
| Three months | | 0.010 | 0.002 | 0.006 |
| Six months | | 0.027 | 0.002 | 0.010 |

The last market sale price of Shares as at 12 December 2012 was \$0.005.

The Offer Price represents a discount of \$0.003 per share to the last market price of Shares on 12 December 2012, being the date before lodgement of this Prospectus (disregarding the value of the Attaching Options). The Offer of up to 645,757,529 New Shares and discount with respect to the last market price is highlighted against historical share value and liquidity (volume of shares traded) in recent months (refer to table above).

Prospectus

7.3 Rights and liabilities attaching to New Shares

There is only one class of shares on issue in the Company, fully paid common shares. The rights attaching to Shares in the Company are:

- (a) set out in the Constitution of the Company;
- (b) regulated by the Business Corporations Act (British Columbia), the Securities Act (British Columbia), the Securities Act (Alberta), the Listing Rules, ASX Settlement Operating Rules and the general law.

The principal rights attaching to the New Shares are summarised below.

Meetings and Notice

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Company's Constitution.

Voting

Shareholders present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands and on a poll Shareholders who are present in person or by proxy, attorney or representative has one vote for every Share held by the Shareholder. A poll may be demanded by the chairman of the meeting, by any five Shareholders present in person or by proxy, attorney or representative, or by one or more Shareholders who are together entitled to not less than 5% of the total voting rights of the Shares of all those Shareholders having the right to vote at that meeting.

Dividends

Dividends are payable out of the Company's profits and are declared by the Directors. There is no current proposal to pay a dividend.

Transfer of Shares

Shareholders may transfer Shares in accordance with any system applicable in the place where the relevant share register is maintained, including in Australia any computerised or electronic system established by the Listing Rules, including a transfer that may be affected pursuant to the ASX Settlement Operating Rules, or in a form approved by the Board.

Issue of new Shares and options

The Directors may (subject to any restrictions under the relevant law in British Columbia and the Listing Rules) allot, grant options in respect of Shares on such terms and conditions as they see fit.

Variation of rights

The rights, privileges and restrictions attaching to Shares can be altered with the approval of a resolution passed at a general meeting by a two thirds majority of Shareholders being entitled to vote at the general meeting.

Winding up

Subject to any future special or preferential rights attaching to any class or classes of shares, members will be entitled, in the event of the winding up of the Company, to share in any surplus assets of the Company in proportion to the Shares held by them.

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For more particular details of the rights attaching to ordinary Shares in the Company, investors should refer to the Constitution of the Company.

7.4 Rights attaching to Options

As outlined above, the Short Dated Options are those Options issued for every two New Shares subscribed, whereas the Long Dated Options are those Options issued for every three New Shares subscribed. The Short Dated Options and Long Dated Options have a different Exercise Price and a different Strike Price (differences noted below), however the rights attaching to the Attaching Options are substantially the same (apart from as noted above) and are set out below:

- (a) The Attaching Options are issued for no consideration and vest on the date that they are issued;
- (b) The Short Dated Options will be exercisable either wholly or in part at an Exercise Price of \$0.005 each;
- (c) The Short Dated Options will expire on 31 January 2014 (**Short Dated Option Expiry Date**), unless exercised earlier;
- (d) The Long Dated Options will be exercisable either wholly or in part at an Exercise Price of \$0.007 each;
- (e) The Long Dated Options will expire on 31 January 2016 (**Long Dated Option Expiry Date**);
- (f) The Attaching Options will not be transferable in whole or in part and may not be exercised by any other person (except, in the case of the Option holder's death, by his or her legal personal representative);
- (g) The number of Options that may be exercised at any one time must not be less than 20,000 unless the total number of Options held is less than 20,000 then that number of Options;
- (h) Upon the valid exercise of either or both of the Attaching Options and payment of the Exercise Price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares;
- (i) Option holders do not have any right to participate in new issues of securities in the Company made to shareholders generally. The Company will, where required pursuant to the ASX Listing Rules, provide Option holders with notice prior to the books record date (to determine entitlements to any new issue of securities made to shareholders generally) to exercise the Options, in accordance with the requirements of the Listing Rules;
- (j) Option holders do not participate in any dividends unless the Options are exercised and the resultant shares of the Company are issued prior to the record date to determine entitlements to the dividend;
- (k) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:
 - (1) the number of Options, the Exercise Price of the Options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules as applicable at the time of reconstruction, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the Options which are not conferred on shareholders; and

Prospectus

- (2) subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the Options will remain unchanged;
- (l) The Company does not intend to quote the Options on the ASX, however the Company will apply for listing of resultant Shares of the Company issued upon the exercise of any Option;
- (m) If there is a pro rata issue (except a bonus issue), the Exercise Price of an Option may be reduced according to the following formula:

$$O^n = O - E [P - (S + D)]$$

$$N + 1$$

Where:

O^n = the new exercise price of the Option;

O = the old exercise price of the Option;

E = the number of underlying securities into which one Option is exercisable;

P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;

S = the subscription price for a security under the pro rata issue;

D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);

N = the number of securities with rights or entitlements that must be held to receive a right to one new security.

- (n) If there is a bonus issue to the holders of shares in the Company, the number of shares over which the Option is exercisable may be increased by the number of shares which the Option holder would have received if the Option had been exercised before the record date for the bonus issue; and
- (o) The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, the terms of the Options shall not be changed to reduce the Exercise Price, increase the number of Options or change any period for exercise of the Options.

7.5 Corporate Governance

The Company has adopted various corporate governance policies and charters that can be obtained, at no cost, from the Company's registered office and are also available on the Company's website, www.earthheat.com.au.

The Company reports on its compliance with the recommendations made by the Corporate Governance Principles and Recommendations in its various annual report. Where the Company's corporate governance practices do not comply with the practices recommended by the ASX Corporate Governance Council, the Company is working towards compliance, although it does not necessarily consider that all practices are appropriate for the Company due to the size and scale of operations.

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7.6 Directors' interests

The nature and extent of the interest (if any) that any of the Directors of the Company holds, or held at any time during the last 2 years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the company in connection with:
 - (1) its formation or promotion; or
 - (2) the Offer; or
- (c) the Offer,

is set out below or elsewhere in this Prospectus.

Other than as set out below or elsewhere in this Prospectus, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit to any director or proposed director:

- (a) to induce them to become, or to qualify as, a Director of the Company; or
- (b) for services provided by a director in connection with:
 - (1) the formation or promotion of the Company; or
 - (2) the Offer.

Set out below are details of the interest of the Directors in the securities of the Company immediately prior to lodgement of the Prospectus with ASIC. Interest includes those securities held directly and indirectly. The table does not take into account any New Shares the directors may acquire under the Offer.

| Director | Number of Shares | | Number of Options | Number of Performance Rights |
|-----------------------|------------------|------------|-------------------|------------------------------|
| | Direct | Indirect* | | |
| Dr Raymond Shaw | 250,000 | 71,880,592 | Nil | Nil |
| Mr Torey Marshall | 172,618 | 69,191,307 | Nil | 40,000,000 |
| Mr Malcom Lucas-Smith | Nil | 1,000,000 | Nil | Nil |

* Indirect holdings held by associates of the Directors

7.7 Substantial Holders

The following are details of those Shareholders who hold more than 5% of the Shares on issue prior to the date of this Prospectus:

| Substantial Holder | Number of Shares ¹ | % |
|--|-------------------------------|------|
| Mr Norman Zillman + Mrs Lorraine Zillman | 85,581,745 | 9.90 |
| Mr Torey Marshall + Mr Robert Marshall | 72,130 592 | 8.35 |

Prospectus

| | | |
|-------------------------------------|------------|------|
| Mr Raymond D Shaw + Ms Rita B Jones | 69,363,925 | 8.03 |
| Rizik Investment Holdings Pty Ltd | 50,000,000 | 5.78 |

Note

1. This includes Shares held directly and indirectly by the Substantial Holders

As at the date of this Prospectus, there are no other Shareholders who hold more than 5% of the Shares on issue.

7.8 Related Party Transactions

From time to time the Company may be party to transactions with related parties including:

- (a) employment and service arrangements; and
- (b) payment of directors' fees.

The Company believes that it has made appropriate disclosure of past related party transactions. Other than any further disclosure specifically set out below or made elsewhere in this Prospectus the Company does not intend to make any further disclosure of such transactions which will have proceeded either on an "arms length" basis, reasonable remuneration basis or been approved by Shareholders in general meeting.

The Company discloses the following transactions with related parties which have either proceeded on an "arms length" or reasonable remuneration basis. The transactions are:

- (a) proposed capital issues to Directors or interests associated with Directors;
- (b) employment agreements with related parties; and
- (c) payment of directors' fees to Non-Executive Directors.

Payment of Non-Executive Directors' fees

The Non-Executive Directors of the Company are entitled to be paid directors fees. The aggregate amount that may be paid to Non-Executive Directors in directors fees is \$240,000 per annum. The actual amount currently paid is \$113,000 per annum.

The Board considers that these fees are reasonable remuneration pursuant to Section 211 of the Corporations Act and accordingly, member approval is not required.

7.9 Interests of experts and advisers

This section applies to persons named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, promoters of the Company and stockbrokers or arrangers to the Offer (collectively **Prescribed Persons**).

Other than as set out below or elsewhere in this Prospectus, no Prescribed Person has, or has had in the last 2 years, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired in connection with the formation or promotion of the Company or the Offer; or

Prospectus

- (c) the Offer of New Shares under this Prospectus.

Other than that as set out below or elsewhere in this Prospectus, no benefit has been given or agreed to be given to any Prescribed Person for services provided by a Prescribed Person in connection with the:

- (a) formation or promotion of the Company; or
- (b) offer of New Shares under this Prospectus.

HopgoodGanim Lawyers is acting as legal advisor to the Offer and has performed work in relation to the Prospectus. In doing so, HopgoodGanim Lawyers has placed reasonable reliance upon information provided to it by the Company. HopgoodGanim Lawyers does not make any statement in this Prospectus. In respect of this work, the Company estimates that it will pay approximately \$40,000 (excluding disbursements and GST) to HopgoodGanim Lawyers. Further amounts may be paid to HopgoodGanim Lawyers in accordance with its normal time based charges.

Computershare Investor Services Pty Limited is acting as Share Registry to the Offer and has performed work in relation to the Prospectus. In doing so, Computershare Investor Services Pty Limited has placed reasonable reliance upon information provided to it by the Company. Computershare Investor Services Pty Limited does not make any statement in this Prospectus.

DJ Carmichael Pty Limited is acting as the Underwriter to the Offer. In doing so, the Underwriter has placed reasonable reliance upon information provided to it by the Company. The Underwriter does not make any statement in this Prospectus. In consideration for the Underwriter's role as Underwriter to the Offer it will receive a fee as set out in Sections 6.1 of this Prospectus.

7.10 Subsequent events

There has not arisen, at the date of this Prospectus, any item, transaction or event of a material or unusual nature not already disclosed in this Prospectus which is likely, in the opinion of the Directors of the Company to affect substantially:

- (a) the operations of the Company;
- (b) the results of those operations; or
- (c) the state of affairs of the Company.

7.11 Litigation

The Company is otherwise not engaged in any litigation which has or would be likely to have a material adverse effect on either the Company or its business.

7.12 Privacy

By submitting an Entitlement and Acceptance Form for shares you are providing to the Company personal information about yourself. If you do not provide complete and accurate personal information, your application may not be able to be processed.

The Company maintains the register of members of the Company through Computershare Investor Services Pty Limited, an external service provider. The Company requires Computershare Investor Services Pty Limited to comply with the National Privacy Principles with performing these services. The Company's register is required under the Corporations Act to contain certain personal information about you such as your name and address and number of shares and options held. In addition the Company collects personal information

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from members such as, but not limited to, contact details, bank accounts and membership details and tax file numbers.

This information is used to carry out registry functions such as payment of dividends, sending annual and half yearly reports, notices of meetings, newsletters and notifications to the Australian Taxation Office. In addition, contact information will be used from time to time to inform members of new initiatives concerning the Company.

The Company understands how important it is to keep your personal information private. The Company will only disclose personal information we have about you:

- (a) when you agree to the disclosure;
- (b) when used for the purposes for which it was collected;
- (c) when disclosure is required or authorised by law;
- (d) to other members in the Earth Heat group of companies;
- (e) to your broker;
- (f) to external service suppliers who supply services in connection with the administration of the Company's register such as mailing houses and printers, Australia Post and financial institutions.

You have the right to access, update and correct your personal information held by the Company and Computershare Investor Services Pty Limited, except in limited circumstances. If you wish to access, update or correct your personal information held by Computershare Investor Services Pty Limited or by the Company please contact our respective offices.

If you have any questions concerning how the Company handles your personal information, please contact the Company.

7.13 Expenses of the Offer

All expenses connected with the Offer are being borne by the Company. Total expenses of the Offer are estimated to be in the order of \$150,000.

7.14 Consents and disclaimers

Written consents to the issue of this Prospectus have been given and at the time of this Prospectus have not been withdrawn by the following parties:

Computershare Investor Services Pty Limited has given and has not withdrawn its consent to be named in this Prospectus as the Share Registry of the Company in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than the references to its name.

HopgoodGanim Lawyers has given, and has not withdrawn, its consent to be named in this Prospectus as solicitors to the Offer in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than references to its name.

DJ Carmichael Pty Limited has given, and has not withdrawn, its consent to be named in this Prospectus as Underwriter to the Offer in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than references to its name.

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7.15 Directors' statement

This Prospectus is issued by Earth Heat Resources Limited. Each Director has consented to the lodgment of the Prospectus with ASIC.

Signed on the date of this Prospectus on behalf of Earth Heat Resources Limited by

A handwritten signature in black ink, appearing to be 'R.D. Shaw', written over a horizontal line.

Dr Raymond D. Shaw
Chairman

Prospectus

8. Definitions & glossary

Terms and abbreviations used in this Prospectus have the following meaning:

| | |
|---|--|
| Acceptance | An acceptance of Entitlements |
| Acceptance Monies | The Offer Price multiplied by the number of New Shares accepted for |
| AEDT | Australian Eastern Daylight Savings Time |
| Applicant | A person who submits an Entitlement and Acceptance Form |
| ASIC | Australian Securities & Investments Commission |
| Attaching Options | Attaching options issued under the Offer on the terms set out in Section 7.4 |
| ASX | ASX Limited |
| ASX Listing Rules | The official listing rules of the ASX |
| ASX Settlement Operating Rules | The official settlement operating rules of the ASX |
| Board | The board of directors of Earth Heat from time to time |
| Business Day | A day, other than a Saturday or Sunday, on which banks are open for general banking business in Adelaide |
| CIFI | Corporacion Interamericana para el Financiamiento de Infraestructura S.A |
| Closing Date | The date by which valid acceptances must be received by the Share Registry being 5pm (AEDT) 11 January 2013 or such other date determined by the Board |
| Company or Earth Heat | Earth Heat Resources Limited ABN 86 115 229 984 |
| Constitution | The Articles of the Company (equivalent to a constitution under the Corporations Act) |
| Corporate Governance Principles and Recommendation | Corporate Governance Principles and Recommendation 2nd Edition released by the ASX Corporate Governance Council in August 2007 (as amended) |
| Corporations Act | <i>Corporations Act 2001</i> (Cth) |

Prospectus

| | |
|--|---|
| Directors | The directors of Earth Heat from time to time |
| Eligible Shareholder | A Shareholder of the Company with a registered address in Australia or New Zealand that holds Shares in the Company on the Record Date |
| Entitlement and Acceptance Form or Form | An entitlement and acceptance form in the form accompanying this Prospectus |
| Entitlements | The entitlement to accept New Shares under this Prospectus |
| Long Dated Option | The free attaching option issued for every three New Shares subscribed for |
| New Shares | The Shares offered under this Prospectus |
| Offer | The offer and issue of New Shares and Attaching Options in accordance with this Prospectus |
| Offer Price | \$0.002 for each New Share applied for (this shall include the Attaching Options) |
| Official List | The official list of entities that ASX has admitted and not removed |
| Official Quotation | Quotation on the Official List |
| Opening Date | 9am (AEDT) 24 December 2012 |
| Options | Options on issue in Earth Heat from time to time |
| Prospectus | This prospectus dated 13 December 2012 as modified or varied by any supplementary prospectus made by the Company and lodged with ASIC from time to time and any electronic copy of this prospectus and supplementary prospectus |
| Record Date | 21 December 2012 |
| Register | Company Register of Earth Heat |
| Securities | Has the same meaning as in Section 92 of the Corporations Act |
| Share Registry | Computershare Investor Services Pty Limited ABN 48 078 279 277 |
| Shares | The ordinary shares on issue in Earth Heat from time to time |
| Shareholders | The holders of Shares from time to time |

Prospectus

| | |
|--------------------------------|--|
| Short Dated Option | The free attaching option issued for every two New Shares subscribed for |
| Shortfall | Those New Shares for which the Entitlement lapses and the benefit reverts to the Underwriter under the terms of the Underwriting Agreement |
| Sophisticated Investors | Investors who qualify as sophisticated investor pursuant to Section 708(8) of the Corporations Act |
| Underwriter | DJ Carmichael Pty Limited |
| Underwriting Agreement | The underwriting agreement entered into between the Company and the Underwriter |

Prospectus

Corporate Directory

| Directors and Company Secretary | Solicitors to the Offer |
|---|--|
| Dr Ray Shaw (Chairman) Mr Torey Marshall (Managing Director) Mr Malcolm Lucas-Smith (Non-Exec. Director and Company Secretary) | HopgoodGanim Lawyers Level 8, Waterfront Place 1 Eagle Street Brisbane QLD 4000 Tel: +61 7 3024 0000 Fax: +61 7 3024 0300 www.hopgoodganim.com.au |
| Administration and Registered Office | Share Registry |
| Earth Heat Resources Limited Suite 9, Lester Court 75a Angas Street Adelaide SA 5000 Tel: +61 8 8212 0579 Fax: +61 8 8212 2230 www.earthheat.com.au | Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston St Abbotsford VIC 3067 Tel: 1300 850 505 Fax: +61 9415 4000 www.computershare.com |
| Underwriter | |
| DJ Carmichael Pty Limited Level 3, London House 216 St Georges Terrace, Perth WA 6000 Tel: +618 9263 5200 Fax: +618 9263 5280 www.djcarmichael.com.au | |

For all enquiries:

Phone:
 (within Australia) 1300 850 505
(outside Australia) 61 3 9415 4000

Web:
 www.investorcentre.com/contact



000001 000 EHR
MR SAM SAMPLE
123 SAMPLE STREET
SAMPLETOWN VIC 3000

Make your payment:

See over for details of the Offer and
how to make your payment

Renounceable Rights Issue — Entitlement and Acceptance Form

 **Your payment must be received by 5:00pm (AEDT) Friday 11 January 2013**

This is an important document that requires your immediate attention. It can only be used in relation to the shareholding represented by the details printed overleaf. If you are in doubt about how to deal with this form, please contact your financial or other professional adviser. ASX will quote a market for rights between 17 December 2012 and 4 January 2013. Please refer to the Prospectus for details on how to renounce your rights.

Step 1: Registration Name

Please check the details provided and update your address via www.investorcentre.com if any of the details are incorrect.

If you have a CHESS sponsored holding, please contact your Controlling Participant to notify a change of address.

Step 2: Make Your Payment

You can apply to accept either all or part of your Entitlement. Enter the number of new shares you wish to apply for and the amount of payment for those shares.

By making your payment you confirm that you agree to all of the terms and conditions as detailed in the Prospectus dated 27 December 2013.

Choose one of the payment methods shown below.

BPAY®: See overleaf. Do not return the slip with BPAY payment.

By Mail: Complete the reverse side of this payment slip and detach and return with your payment. Make your cheque or bank draft payable in Australian dollars to "**Earth Heat Resources Ltd - Offer A/C**". The cheque must be drawn from an Australian bank. Cash is not accepted.

Payment will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques received may not be re-presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the slip below as indicated. Receipts will not be forwarded. Funds cannot be debited directly from your account.

Entering your contact details is not compulsory, but will assist us if we need to contact you.

Turn over for details of the Offer →

Entitlement and Acceptance Form with Additional Shares

X 9999999991

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STEP 1

Registration Name & Offer Details

Registration
Name:

MR SAM SAMPLE
123 SAMPLE STREET
SAMPLETOWN VIC 3000

For your security keep your SRN/
HIN confidential.

Entitlement No: 00005856

**You can apply for Additional Shares as well as your entitlement
- see Acceptance Payment Details below**

Offer Details: Existing shares entitled to participate as at 21 December 2013:

4,000

Entitlement to new shares on a 3 for 4 basis:

(with 1 attaching option exercisable at \$0.005 and expiring on 31/01/2014 for every 2 New Shares subscribed for
and 1 attaching option exercisable at \$0.007 and expiring on 31/01/2016 for every 3 New Shares subscribed for)

1

Amount payable on acceptance at \$0.002 per share:

\$0.01

STEP 2

Make Your Payment



Billers Code: 207472
Ref No: 1234 5678 9123 4567 89

Pay by Mail:



Make your cheque, money order or bank draft payable to "Earth Heat
Resources Ltd - Offer A/C".

Return your cheque with the below slip to:

Computershare Investor Services Pty Limited
GPO BOX 505 Melbourne Victoria 3001 Australia

Contact your financial institution to make your
payment from your cheque or savings
account.

Lodgement of Acceptance

If you are applying for shares and your payment is being made by **BPAY®**, you do not need to return the slip below. Your payment must be received by no later than 5:00pm (AEDT) on 11 January 2013. Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. Neither Computershare Investor Services Pty Limited (CIS) nor Earth Heat Resources Limited accepts any responsibility for loss incurred through incorrectly completed **BPAY®** payments. It is the responsibility of the applicant to ensure that funds submitted through **BPAY®** are received by this time.

If you are paying by cheque, bank draft or money order the slip below must be received by CIS by no later than 5:00pm (AEDT) on 11 January 2013. You should allow sufficient time for this to occur. A reply paid envelope is enclosed for shareholders in Australia. Other Eligible Shareholders will need to affix the appropriate postage. Return the slip below with cheque attached. Neither CIS nor the Company accepts any responsibility if you lodge the slip below at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited (CIS) as registrar for the securities issuer (the issuer), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS using the details provided above or email privacy@computershare.com.au

Detach here

Acceptance Payment Details

Entitlement taken up:

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Number of additional shares
applied for:

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Amount enclosed at \$0.002 per
new share:

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Entitlement No: 00005856

MR SAM SAMPLE
123 SAMPLE STREET
SAMPLETOWN VIC 3000

Payment must be received by 5:00pm (AEDT) Friday 11 January 2013

Contact Details

Contact
Name

Daytime

Telephone

Cheque Details

| Drawer | Cheque Number | BSB Number | Account Number | Amount of Cheque |
|--------|---------------|------------|----------------|------------------|
| | | | | A\$ |

123456789123456789+0000000001-3051+14