

Earth Heat Resources Ltd Operations Report for the Third Quarter from April 1, 2012 to June 30, 2012

HIGHLIGHTS

- CIFI appointed to raise up to \$30m USD of non-voting preference shares
- Executed Head of Agreement to acquire the issued share capital of Geothermal one Inc., the Company's joint venture partner, for CAS\$6m in cash or shares minus agreed expenses
- Completion of field programs and associated follow up analyses (geoscientific and engineering)
- Receipt of engineering study and preliminary well planning study
- Extended an Agreement with IDB to extend finance facilities to cover a 50MWe power project in Argentina
- Letter of interest received from Xstrata to purchase approximately 50MWe of electricity in Argentina

CORPORATE UPDATE

The Company has continued to significantly progress its key projects in Argentina and Djibouti.

Fiale Project, Djibouti

No progress with this project has been made given pressing urgencies created by the market. The project will not progress without a suitable Joint Venture Party and with the express agreement of the Djiboutian Government and stakeholders.

Copahue Project, Argentina

The Company has achieved a number of highly significant project milestones, advancing Copahue to a much more mature stage than most peer projects. Such milestones include:

- Executed an Agreement to acquire the issued capital of Geothermal One Inc. for CAD\$6,000,000. Earth Heat signed a farm-in Heads of Agreement with Geothermal One Inc. in May 2010 in respect of an initial identified 30MW Project in Copahue and Earth Heat had the right to earn up to 87.5% of the Project by funding various stages.

- Completion of a resource review at Copahue, which resulted in a **significant upgrade of approximately 150%** over historical estimates, demonstrating both the enormous potential of this project within Argentina, and the extremely high quality of the resource itself;
- Completion of a Stage 1 Environmental Impact Assessment, suggesting no major issues are likely to be encountered, with the second stage commencing recently. This study will determine the environmental baseline, in addition to providing an opinion on measures that should be undertaken for specific plant locations and well locations;
- Negotiated Letters of Intent and Heads of Agreement to enter into a binding Power Purchase Agreements, with respected industrial groups, though as mooted in a number of announcements, the Company expects additional demand to materialise. The importance of the offtake partner in project finance closing cannot be understated, equally the total demand gives a strong indication of the growth trajectory of the Company's Argentinean business. During the quarter a major indication was received from Xstrata Copper, who need power for their Pachon project in San Juan, Argentina;
- The establishment of a fully operational team in Argentina to empower this project in country;
- Execution of several CSR policies, particularly in communication activities within communities close to the project's site, providing interested parties with full educational access to the project's planned development.

However, and more significantly, the Company has mandated the Inter-American Development Bank's Structured ('IDB') and Corporate Finance Department ('CFD'), to raise up to USD \$210,000,000 in Senior Debt for the development of a geothermal power plant in Argentina totalling up to \$50Mwe in capacity.

The Mandate provides:

- IDB to directly invest up to USD \$75,000,000 as lead investment in stages that match a development timetable;
- IDB to arrange with assistance from the Company, the syndication of USD \$135,000,000;
- Both IDB and the Company will share the role of arranger for the syndicated portion of the loan;
- Significant savings to the project as a result of having this relation with IDB, the largest financier of projects in the region.

Further to that Mandate, and again as an indication of the quality of the Company's project and business plan successfully mandated Corporacion Interamericana para el Financiamiento de Infraestructura ("CIFI") as Lead Arranger for a Drilling Loan of USD \$22.5 million subject to due diligence.

- CIFI will directly invest and syndicate a total of USD \$22.5m;
- Funds to be used for drilling 3 of the 4 production wells planned for Copahue Stage 1;
- Drilling loan to close contemporaneously with the Senior Debt portion referred to above.

CIFI have also been appointed as financial advisors to raise up to USD\$30m through the issuance of non-voting preference shares in the project Company. Both CIFI and Earth Heat remain engaged with investors in an effort to ensure smooth closing. To date, neither CIFI nor Earth Heat are aware of any reason to doubt the success of an appropriately priced raising of this type, though macro events could slow the completion timetable.

During the quarter the Company has continued or commenced a number of essential items to progress towards formal close with project financiers mentioned. These items include, though can be varied at the request of the lenders:

- Environmental Impact Assessment Stage 2
- Formal Power Purchase Agreement (critical)
- Interconnection Study
- Resource Review
- Civil Engineering Reports
- Engineering (technology)
- Logistical studies
- Engineer, Procure & Construct contracts
- Extended CSR policy documents

A major piece of work that is almost complete is the integration of the results of the geoscience program, with that of the engineering study completed by Alstom. More details will be released in August, but at this point in time it was critical to see that the anticipated number of production wells fell by 25% to just three, and potentially the plant output may be slightly higher than anticipated. These two results raise the potential (subject to final figures) for a reduction in the overall capital cost and improved economics.

The establishment of independent funding sources will significantly reduce the need for equity raisings through project development cycle. To this end, a strategic review of options is being undertaken by an advisory group based in the Middle East. Options being explored include:

- Sale or part sale of a portion or entirety of an asset;
- Joint Venture involving one or more assets in specific destinations;
- Introduction of a cornerstone investor which is likely to have a geographic bias affecting the above;

The board and management believe that the Cifi equity raising is an ideal mechanism for future funding of various projects, particularly as the equity markets show no sign of improvements for this sector.

Kenya

As announced previously, the Company has lodged an exploration licence in a highly prospective area of Kenya. The application remains subject to grant with no firm timeline for this to be achieved. The Company has not been made aware of any information that would lead it to believe this application could not be granted in 2012.

South Australia

The Company has placed its Exploration Licences in South Australia under review, with a formal decision on their future due by the end of calendar 2012.

CAPITAL

During the quarter no securities were issued.

The Company had the following securities on issue at June 30, 2012:

	Number
Ordinary shares quoted on the ASX	674,010,038
Ordinary shares not quoted on the ASX	3,264,423
Total ordinary shares	677,274,461
Unquoted stock options on issue	24,658,228
Unquoted performance rights on issue	40,000,000

FINANCIAL

Reconciliation of expenditure

This is the third quarterly report for Earth Heat Resources Limited for the year ending September 30, 2012.

Exploration and evaluation

The estimated exploration and evaluation expenditure cash flows amounted to \$250,000, actual expenditure amounted to \$210,000.

Administration

The estimated administration expenditure cash flows included in the previous report amounted to \$250,000, actual expenditure amounted to \$299,000. The increase in administration expenditure is due an increase in consultancy fees associated with the strategic review of the Company.

Board composition

Mr Malcolm Lucas-Smith was appointed as a director on April 23, 2012.

Mr Norman Zillman resigned as a director on April 23, 2012.

Registered Office

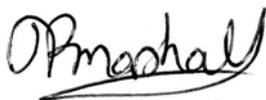
During the Reporting Period the Company relocated its principal business and registered office to Suite 9, Lester Court, 75a Angus Street Adelaide 5000.

Cash at the end of the quarter

Cash at June 30, 2012 was \$212,078.

At June 30, 2012, \$3,000,000 of Socius CG II, Ltd (Socius) investment is available. There were no shares or options issued to Socius during this reporting quarter. Please refer to the Company's September 30, 2011 Financial Statements for a discussion of the Socius arrangement.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from April 1, 2012 to June 30, 2012.

A handwritten signature in black ink that reads "Torey Marshall".

Torey Marshall

Managing Director

BSc (Hons), MSc University of South Australia
Chartered Professional Member of AusIMM

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

EARTH HEAT RESOURCES LTD

ABN

ABN 86 115 229 984

Quarter ended ("current quarter")

30 JUNE 2012

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (9 months) \$A'000
1.1	Receipts from product sales and related debtors –sale of project	-	-
1.2	Payments for (a) exploration & evaluation	(210)	(1,383)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(299)	(891)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other prepaid project finance costs	(71)	(383)
	Net Operating Cash Flows	(580)	(2,657)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(1)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	-	-
1.13	Total operating and investing cash flows (carried forward)	(580)	(2,658)

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

1.13	Total operating and investing cash flows (brought forward)	(580)	(2,658)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,746
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	(163)
	Net financing cash flows	-	2,583
	Net increase (decrease) in cash held	(580)	(75)
1.20	Cash at beginning of quarter/year to date	792	287
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	212	212

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	75
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Cash payment in respect of directors' gross remuneration and superannuation.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Bank overdraft \$10,000	Nil
3.2 Credit standby arrangements	Nil	Nil

At June 30, 2011, \$3,000,000 of Socius investment is available.

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(310)
4.2 Development	
4.3 Production	-
4.4 Administration	(150)
Total	(460)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	162	742
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	212	792

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements acquired or increased	N/A		

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference	Nil	Nil	
7.2	*securities(description) Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil	

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.3 +Ordinary securities	677,274,461 Includes 3,264,423 unquote shares held in Canada	674,010,038		
7.4 Changes during quarter				
(a) Increases through issues	Nil	Nil		
(b) Decreases through returns of capital, buy-backs	Nil	Nil		
7.5 +Convertible debt securities (description)	Nil	Nil		
7.6 Changes during quarter	Nil	Nil		
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)	12,658,228 2,000,000 10,000,000 <u>24,658,228</u> <u>40,000,000</u>	Nil Nil Nil Total Nil	<i>Exercise price</i> \$0.079 \$0.03 \$0.06 N/A Unquoted performance rights	<i>Expiry date</i> 14/2/2016 30/7/2013 12/12/2012 N/A
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	Nil	Nil		
7.11 Debentures (totals only)	Nil	Nil		
7.12 Unsecured notes (totals only)	Nil	Nil		

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:
(Company secretary)

Date: 31 July 2012

Print name: Mr Malcolm Lucas Smith

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.