

Earth Heat Resources Ltd Operations Report for the First Quarter from January 1, 2012 to March 31, 2012

HIGHLIGHTS

- \$22.5m USD term sheet signed in support of drilling 3 production wells
- \$17.5m in Capital Contingency finance
- \$1.94m Equity Capital Raising
- Mobilisation of crews in support of Environmental Impact Assessment Stage 2, Civil Engineering & Geoscientific team
- Significant progress with Power Purchase Agreement customers, expecting news in next quarter
- Consolidation of South Australian GEL's to a more prudent structure

CORPORATE UPDATE

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

Fiale Project, Djibouti

The Company continues to progress through negotiations with various Joint Venture Partners and potential Co-Developers. Whilst no time frame has been set regarding those discussions, the size and scale of the outcomes involved in Djibouti could be transformational for the Company. A delegation of stakeholders (including financiers) is visiting Djibouti during May, the outcome of which is essential for moving the project forward, and therefore various negotiations. These negotiations are being pressed forward with urgency, efficiency and with a clear focus for Earth Heat shareholders to benefit in a significant way.

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:

- 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.;
- 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 \$134,000,000 in project finance for the development of the 30MWe Copahue Project. It predominantly places the Company at the forefront of the Australian geothermal developers and is an enormous vote of confidence in the execution of the Company's business strategy.

The Mandate provides:

- IDB to directly invest up to USD \$48,000,000 as lead investment;
- IDB to arrange with assistance from the Company, the syndication of USD \$86,000,000, taking advantage of the significant appetite for the Copahue project;
- 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 Bank and Mandated Lead Arranger for a Drilling Loan of USD \$22.5 million subject to due diligence. Further, the Company has signed an agreement for \$17.5m in Capital Contingency Finance with AGS Capital Group LLC ('AGS'). In a macro environment as challenging as this one, the extra financing is quite an accomplishment.

- 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.

Subsequent to the equity capital raising, 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
- Bankable Feasibility Study

The Company's executive management also met with its debt lenders, and remains in constant contact. Once the project documents are significantly advanced the Company looks forward to negotiating the Credit Agreement, which will contain all the final terms and conditions of the loan.

The Company has received a number of letters of support and expressions of interest from a variety of investment banks, commercial, multi-lateral and private investor groups with respect to funding the Copahue Project's Stage 1 and 2 developments, and the company as a whole. The highlights of such negotiations include:

- expressed interest in paying for the remaining well through structured finance investment, in addition to establishing a significant line of credit for drilling additional wells for stage 2;
- groups individually have expressed interest in providing up to 25% of the total Project costs directly;
- farmin to earn a percentage of the project, via either a work program or straight cash purchase
- expressed interest in being mandated for the debt syndication of the balance of the Copahue's complete financing requirements, and the funding requirements of Djibouti and Kenya combined;
- strategic placements into the Company, which may be a part of points mentioned above.

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.

Whilst the project is located in Argentina, discussions have continued with interested parties located across South America, North America, the Middle East and parts of Asia, highlighting the significant prospects of this project.

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. The Company has investigated additional options for exploring regions within Kenya, as a result of forming strong alliances with large entities operating in the region. Subject to technical and financial conditions, the Company is looking forward to expanding in the country with multiple projects.

South Australia

The Company has consolidated its portfolio of Geothermal Exploration Licences in South Australia. This has been achieved in compliance with the state government regulations and provides for considerable flexibility moving forward in properly exploring this area for geothermal potential.

Annual General Meeting

The Company's Annual General Meeting was held at 11:30am on Thursday, February 23, 2012 at City Tattersalls Club, 194-204 Pitt Street, Sydney NSW.

CAPITAL

During the quarter:

- the Company issued 12,871,817 on February 24, 2012 to directors in lieu of unpaid directors' fees amounting to \$436,353.59 (\$0.0339 per share);
- On February 24, 2012, 40,000,000 unquoted performance rights were issued to Torey Marshall at no costs but subject to Key Performance Indicators ("KPIs") and vesting conditions as approved by the shareholders at the AGM and escrowed for 24 months; and
- The Company issued 64,870,010 in securities on March 15, 2012, raising \$1,946,100 in funds.

The Company had the following securities on issue at March 31, 2012:

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

FINANCIAL

Reconciliation of expenditure

This is the second 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 \$773,000. The increase in the actual expenditure was a result of the mobilization of crews (as announced on March 8, 2012). We anticipate that future exploration costs will be funded through capital raising, farmout and other financing strategies to be employed by the Company, including but not limited to the \$40 million of additional finance announced February 22, 2012.

Administration

The estimated administration expenditure cash flows included in the previous report amounted to \$120,000, actual expenditure amounted to \$304,000. The increase in administration expenditure is due an increase in professional fees, some of which relate to preparing for the TSX-V re-listing.

Financing

The Company has successfully undertaken a placement during this quarter, despite significant market uncertainty. The highlights of the placement were:

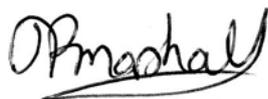
- the Placement of 64,870,010 in securities on March 15, 2012, raising \$1,946,100 in funds, though the Company was seeking up to \$4.5m;
- the bulk of the shares committed for purchase were by Australian sophisticated investors.

Cash at the end of the quarter

Cash at March 31, 2012 was \$792,135.

At March 31, 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 January 1, 2012 to March 31, 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")

31 MARCH 2012

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors –sale of project	-	-
1.2	Payments for (a) exploration & evaluation	(773)	(1,173)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(304)	(592)
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	(312)	(312)
Net Operating Cash Flows		(1,389)	(2,077)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(1)	(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)	(1,390)	(2,078)

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)	(1,390)	(2,078)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,946	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)	(91)	(163)
	Net financing cash flows	1,855	2,583
	Net increase (decrease) in cash held	465	505
1.20	Cash at beginning of quarter/year to date	327	287
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	792	792

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	151
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	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

At December 31, 2011, \$3,000,000 of Socius investment is available.

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(250)
4.2 Development	
4.3 Production	-
4.4 Administration	(250)
Total	(500)

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	742	273
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)	792	323

Appendix 5B

Mining exploration entity quarterly report

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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	The South Australian Government has approved the application to consolidated the following GEL's:		
Mt Grainger SA	GEL 337 Consolidated	100%	Now part of 337
Pararoo SA	GEL 338 Consolidated	100%	Now part of 337
Waroonnee SA	GEL 339 Consolidated	100%	Now part of 337
Bulninnie SA	GEL 503 Consolidated	100%	Now part of 337
Mt Grainger SA	GEL 504 Consolidated	100%	Now part of 337
Price Hill	GEL 507 Consolidated	100%	Now part of 337
Kimberlite Project	GEL 524 Consolidated	100%	Now part of 523
	The above GEL are now included in the following expanded GEL's:		
Kimberlite Project	GEL 523 Expanded	100%	100%
Mt Grainger SA	GEL 337 Expanded	100%	100%
Kimberlite Project	GEL 525 No change	100%	100%
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 securities (description)	Nil	Nil		
7.2 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	Issued 4/02/2011 12,871,817	Issued 4/02/2012 12,871,817	\$0.03	\$0.03
	Issued 12/03/2012 64,870,001	Issued 12/03/2012 64,870,001	\$0.03	\$0.03
(b) Decreases through returns of capital, buy-backs	N/A Nil	Transferred from Canada: 49,544 Nil	N/A N/A	N/A N/A
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 24,658,228	Nil Nil Nil Total	<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	40,000,000 40,000,000	Nil Nil	N/A Unquoted performance rights	N/A
7.9 Exercised during quarter				
7.10 Expired during quarter	Nil	Nil		
7.11 Debentures (totals only)	Nil	Nil		
7.12 Unsecured notes (totals only)	Nil	Nil		

Appendix 5B

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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: 30 April 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.