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EARTH HEAT RESOURCES LIMITED

CONDENSED CONSOLIDATED HALF YEAR REPORT

FOR THE SIX MONTHS ENDED 31 MARCH 2012

(In Australian Dollars)

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COMPANY INFORMATION

Directors

Dr Raymond Shaw	Chairman, Non-Executive Director
Torey Marshall	Managing Director
Norman Zillman	Non-Executive Director (resigned April 23, 2012)
Malcolm Lucas-Smith	Non-Executive Director (appointed April 23, 2012)

Secretary

Malcolm Lucas-Smith	Company Secretary
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Registered Office

In Canada	711 – 675 West Hastings Street, Vancouver, BC
In Australia	Suite 9, 75a Angas Street, Adelaide, 5000, South Australia, Australia Ph: 08 8212 0579 Fax: 08 8212 2230

Auditors

Grant Thornton Audit Pty Ltd	Level 1, 67 Greenhill Road Wayville, South Australia 5034, Australia
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Share Registry

In Canada	Computershare Investor Services Inc 3 rd Floor, 510 Burrard Street, Vancouver, BC, Canada
In Australia	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street, Abbotsford, Victoria, 3067, Australia Ph: 61 3 9415 5000

Stock Exchange Listing

Australian Securities Exchange (ASX) – Australia – Code EHR (previously FRV)

DIRECTORS' REPORT

31 MARCH 2012

Your Directors submit the financial report of Earth Heat Resources Limited ("Company") and its subsidiaries ("Group") for the half-year ended March 31, 2012. In order to comply with the provisions of the *Corporations Act 2001*, the directors report:

Directors

The names of the Directors of the Company in office during the six months reporting period and up to the date of this report are:

Name	Position	Date appointed	Date resigned
Dr Raymond Shaw	Chairman–Non-Executive	January 22, 2010	-
Torey Marshall	Managing Director	January 22, 2010	-
Malcolm Lucas-Smith	Non-Executive Director	April 23, 2012	-
Norman Zillman	Non-Executive Director	February 26, 2010	April 23, 2012

Directors held office for the entire period unless otherwise stated.

Information on Directors

Dr Raymond Shaw – Non-Executive Chairman

Experience and expertise

Dr Raymond Shaw is a geologist and geophysicist with more than 30 years' experience in the resources 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.

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 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 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, Ray Shaw 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 is currently Managing Director. Bandanna holds extensive thermal coal assets in the Galilee and Bowen basins of Queensland.

Special responsibilities

Chairman of Board of Directors

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Information on Directors (continued)

Torey Marshall – Managing Director

Experience and expertise

Mr Torey Marshall is a geologist with broad based technical and business development experience in the minerals, petroleum 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, 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.

He has assisted a number of private and public (unlisted) companies build their businesses to enhance shareholder value such as Phoenix Oil and Gas Ltd, Australian Oil Company Ltd, Red Gum Resources Ltd, Great Artesian Oil and Gas Ltd & QGC Ltd (A BG Group Company).

Mr Marshall is a Director of Red Gum Resources Ltd and African Power & Coal Pty Ltd.

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

Special responsibilities

Managing Director

Norman Zillman– Non-Executive Director (resigned April 23, 2012)

Experience and expertise

Mr Zillman has held positions of Exploration Manager and subsequently Deputy General Manager of Crusader Limited, General Manager Exploration and Production with Claremont Petroleum NL and Beach, and Manager of the Petroleum Branch of the Queensland Department of Mines and Energy and State Mining Engineer for Petroleum.

Mr Zillman has also held the position of Regional Manager of Northern Queensland for the Department of Mines and Energy based in Charters Towers where he supervised all aspects of mineral exploration and mining activities in that region including among others, the Ravenswood, Pajingo, Mt Leyshon and Thalanga mines. This broad experience base provided Mr Zillman with an intimate knowledge of the Queensland resource sector.

Consequently he has held a wide variety of public company positions including foundation Managing Director of Queensland Gas Company Limited, foundation Chairman of Great Artesian Oil and Gas Limited, Chairman of China Yunnan Copper Limited, director of Planet Gas Limited, non-executive Chairman of Blue Energy Limited and non-executive Chairman of Hot Rocks Limited. Mr Zillman is a Member of the Australasian Institute of Mining and Metallurgy and the Petroleum Exploration Society of Australia.

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Information on Directors (continued)

Mr Zillman holds a Bachelor of Science degree in Geology and a Bachelor of Science (with Honours) degree in Botany from the University of Queensland. Mr Zillman has nearly 40 years experience as a professional geologist. His initial training was as a petroleum geologist with international companies Aquitaine Petroleum in Papua New Guinea and Union Oil Company of California (UNOCAL) in Indonesia.

Special responsibilities

Member of the audit committee

Malcolm Lucas-Smith – Non-Executive Director and Company Secretary.

Malcolm Lucas-Smith was appointed as a Non-Executive Director on April 23, 2012 and Company Secretary on 22 January 2010.

Mr Lucas-Smith has over 40 years experience in finance, executive and non executive management, property development, corporate secretarial and administrative services. In September 1987 he formed a corporate service business and has since worked on and consulted to the corporate sector specialising in part time company secretary services and often assisting new start ups and existing operations proposing to list on the Australian Securities Exchange (ASX). He is currently also Company Secretary for Red Gum Resources Limited, Medivac Limited and HealthLinx Limited (all currently listed on the ASX). Mr Lucas-Smith is a member of the Australian Institute of Company Directors (MAICD).

Highlights

- The Company has mandated the Inter-American Development Bank's Structured and Corporate Finance Department to raise up to USD \$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina
- Construction of a 'capital guaranteed' hybrid financing, currently marketed in target markets
- Successful negotiation and signing of Letter of intent for the Sale/Purchase of Electricity in Argentina with Loma Negra CIASA (10MWe) and ElectrometalurgicaAndina SAIC (30MWe)
- Successful placement undertaken, raising \$600,000 in funds in December 2011 and \$1,946,100 in February 2012
- Exercise of options, raising \$200,000 in funds
- Appointment of Grant Thornton as its new auditors
- \$22,500,000 USD term sheet signed in support of drilling 3 production wells
- \$17,500,000 in Capital Contingency finance
- 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

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Principal Activities

During the period the principal continuing activities of the consolidated entity were oil, gas and geothermal exploration in Argentina, Africa, United States of America and in Australia.

There were no other significant changes to those activities during the period under review.

Consolidated Results

The consolidated loss after tax of the Consolidated Entity after providing for income tax for the half-year ended March, 2012 was \$607,176 compared to a loss for the previous corresponding period of \$753,273.

The significant differences since the previous period:

- Higher non-cash salaries in the form of Performance Rights valued at \$20,000 (2011: \$nil) in the current year using Black Scholes valuations; offset by
- Lower directors fees compared to prior year as a result of the Board being reorganised; and
- Lower travel costs compared to prior year as majority of overseas travel is now capitalised to projects.

Review of Operations

The Company was previously known as Fall River Resources Ltd. ("Fall River"). Fall River traded on the TSX-Ventures Exchange ("TSX-V"), and Australian Securities Exchange ("ASX"), and was engaged in the exploration and development of oil and gas interests. Fall River was de-listed from the TSX-V on September 30, 2007 and continued to trade on the ASX. In July 2010 Fall River changed its name to Earth Heat Resources ("EHR"), and at the current time is going through the process of having the cease trade order lifted. There can be no certainty at this time with respect to the timing of the Company's re-listing on the TSX-V.

In January 2010, when under the previous name, Fall River, the Company successfully entered the geothermal market becoming a "new energy company" through the acquisition of Earth Heat Australia Pty Ltd ("EHR Australia").

Through the pipeline of Geothermal opportunities acquired in the purchase of EHR Australia, the Company has subsequently announced the participation in the Copahue project in Argentina, Fiale in Djibouti, and applied for certain areas in Kenya.

The Consolidated Entity is currently engaged in the operation, development, exploration and acquisition of geothermal energy projects in Argentina, Africa and Australia. The Company also has a singular residual interest in an oil and gas interest in the United States which will be divested. The Company's mission is to become a leading global renewable power project developer and supplier of clean and reliable geothermal power.

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

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.

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Copahue Project Argentina (continued)

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 ("CIF") as Lead Bank and Mandated Lead Arranger for a Drilling Loan of USD \$22,500,000 subject to due diligence. Further, the Company has signed an agreement for \$17,500,000 million 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.

- CIF will directly invest and syndicate a total of USD \$22,500,000;
- 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

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Copahue Project Argentina (continued)

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.

Fiale Geothermal Project, Djibouti

The Company continues to progress through negotiations with various Joint Venture Partners and potential Co-Developers.

Geothermal 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.

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Australian Geothermal Exploration Assets, South Australia

All of Earth Heat's South Australian assets are located in an area of higher heat flow which is known as the South Australian Heat Flow Anomaly ('SAHFA'). The SAHFA is a corridor through the eastern-central part of the Australian continent where heat-producing rocks in the crust contain relatively high concentrations of radiogenic isotopes of uranium, potassium and thorium. The natural radioactive decay of these rocks produces high heat flow. A thick succession of sedimentary rocks contained within the Adelaide Geosyncline of South Australia represents an effective insulating blanket required to maintain high heat flow through units of high thermal conductivity in this part of the SAHFA.

The part of the Adelaide Geosyncline between Adelaide and Copley has attracted much interest from geothermal explorers recently, and the southeast corner of the ORROROO 1:250 000 geological map sheet has been identified by Earth Heat as highly prospective. Several prospects are contained within the GELs where there is strong potential for Hot, Dry Fractured rocks ('HDR') and Hot Sedimentary Aquifers ('HSA').

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.

Moving Forward

2012 will be a busy year for the Company, in particular the Copahue project is expected to formally close its financing facilities and begin construction of its flagship power plant in Argentina, followed by announcements regarding expansion both within Argentina, and also within Kenya.

Subsequent Events

April 17, 2012: Company announces that its first phase field program at its Copahue Project has been completed.

April 23, 2012: Company announced the resignation of Mr Norman Zillman as non-executive Director and the appointment of Mr Malcolm Lucas-Smith as non-executive Director. Mr Lucas-Smith will remain Company Secretary.

May 1, 2012: Company announces change in registered office to Suite 9, Lester Court, 75a Angas Street, SA 5000.

May 8, 2012: Company announces the signing of an exclusivity agreement with Alstom Power, a division of the Alstom Group to work on an integrated engineering, procure and construct solutions for the Copahue project.

May 22, 2012: Company announces the receipt of a Letter of Interest for an initial power off take of 50MWe in Argentina from Xstrata Pachon S.A. a subsidiary of Xstrata Copper.

May 24, 2012: Company announces an update on the previously announced the execution of an Agreement with Inter American development Bank ("IDB"). IDB to directly invest up to USD \$75 million; and to syndicate USD\$135 million for the balance of Senior Debt (total USD \$210 million) with the assistance of the Company.

June 05, 2012: Company announces the receipt of an Engineering Study for the Copahue geothermal project.

DIRECTORS' REPORT (CONTINUED)
31 MARCH 2012

Auditors

The Company is incorporated in Canada and in that jurisdiction there is no requirement for the Company to prepare Audited Financial Reports for any period other than on an annual basis.

For the purposes of complying with the Listing Rules of the Australian Securities Exchange Limited, the Company's Auditors, Grant Thornton, Chartered Accountants have completed a review of the Interim Financial Result for the six months period ended March 31, 2012.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306(3) of the *Corporation Act 2001*.

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

Dr Raymond Shaw
Chairman
Sydney, 13th day of June 2012

DIRECTORS'
DECLARATION
FOR THE HALF-YEAR ENDED MARCH 31, 2012

In the opinion of the Directors of Earth Heat Resources Limited:

1. The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at March 31, 2012 and of its performance, for the period ended on that date; and
 - b) complying with International Accounting Standard IAS 34 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to Section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors

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

Dr Raymond Shaw
Chairman
Dated this 13th day of June 2012

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE SHAREHOLDERS OF EARTH HEAT RESOURCES LIMITED**

In accordance with our engagement letter dated 29 May 2012 we have reviewed the interim consolidated financial statements of Earth Heat Resources Limited, consisting of the statement of financial position as at March 31, 2012 and September 30, 2011 and the consolidated statement of comprehensive income for the six months ended March 31, 2012 and March 31, 2011 and consolidated statements of changes in equity and cash flows for the six months ended March 31, 2012 and March 31, 2011.

These interim consolidated financial statements are the responsibility of the Earth Heat Resources Limited's management.

We performed our reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor (an "interim review"). Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim consolidated financial statements to be in accordance with IAS 34 *Interim Financial Reporting*.

We have previously audited, in accordance with Canadian generally accepted auditing standards, the consolidated statement of financial position of Earth Heat Resources Limited, as at September 30, 2011, and the consolidated related statements of income, retained earnings and cash flows for the year then ended (not presented herein). In our report dated December 30, 2011, we expressed an unmodified audit opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed statement of financial position as at September 30, 2011, is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

This report is solely for the use of the Members of Earth Heat Resources Limited to assist it in discharging its regulatory obligation to review these interim consolidated financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Adelaide, 13 June 2012

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

	March 31, 2012	September 30, 2011
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	792,135	282,120
Trade and other receivables	96,683	90,161
	<u>888,818</u>	<u>372,281</u>
Non-Current		
Restricted Cash	1	1
Property and Equipment	7,197	8,533
Geothermal, Oil and Gas Interests (Note 3)	4,823,530	3,739,588
Deferred Finance Fees (Note 4)	383,430	-
	<u>5,214,158</u>	<u>3,748,122</u>
Total Assets	<u>6,102,976</u>	<u>4,120,403</u>
LIABILITIES		
Current		
Trade and other payables	159,694	665,732
Total Liabilities	<u>159,694</u>	<u>665,732</u>
NET ASSETS	<u>5,943,282</u>	<u>3,454,671</u>
EQUITY		
Issued Capital (Note 5)	22,843,518	19,772,010
Share Reserve (Note 5)	84,500	64,500
Foreign Exchange Reserve	(96,757)	(101,036)
Other Components of Shareholders Equity	1,406,355	1,406,355
Accumulated Losses	(18,294,334)	(17,687,158)
TOTAL EQUITY	<u>5,943,282</u>	<u>3,454,671</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	For the Six Months Ended March 31,	
	2012	2011
Continuing Operations	\$	\$
Revenues	-	-
Expenses		
Administration costs		
Salaries and benefits	116,297	131,875
Accounting fees	112,030	54,000
Professional fees	114,301	169,640
Insurance	18,806	21,790
Shareholder costs	55,428	34,366
Office	34,567	73,698
Directors' fees	58,947	104,496
Travel and promotion	41,482	148,306
Finance costs		
Bank and facility charges	2,633	-
Other expenses		
Foreign exchange (gain)/loss	-	44
Project costs not capitalised	5,472	-
Equipment amortization	1,976	1,060
	561,939	739,275
Profit/(Loss) before other items	(561,939)	(739,275)
Other Items		
Project interests written off	-	(18,647)
Interest income	2,311	4,649
Total income for the period before tax	(559,628)	(753,273)
Tax charge -deferred tax asset on share issue cost	(47,548)	-
Total income for the period after tax	(607,176)	(753,273)
Other comprehensive income		
Exchange differences arising on the translation of foreign operations	4,279	(7,391)
Total comprehensive income for the period	(602,897)	(760,664)
Profit/(Loss) Per Share, basic and diluted	(0.001)	(0.001)
Weighted Average Number of Common Shares Outstanding, basic and diluted	586,307,804	537,704,284

The accompanying notes are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS**

	For the Six Months ended March 31,	
	2012 \$	2011 \$
Cash Flows Provided From Operating Activities		
Payment to suppliers and employees	(592,201)	(600,583)
Net Cash (used)/provided by Operating Activities	(592,201)	(600,583)
Investing Activities		
Payments for exploration activities	(1,484,750)	(156,373)
Purchase of property, plant and equipment	(640)	-
Net Cash (used)/provided by Investing Activities	(1,485,390)	(156,373)
Financing Activities		
Share subscriptions received	2,587,606	1,989,750
Net Cash provided/(used) by Financing Activities	2,587,606	1,989,750
Foreign Exchange Gain from holding cash	-	-
Increase In Cash and Cash Equivalent	510,015	1,232,794
Cash and Cash Equivalent on Acquisition of Subsidiary	-	-
Cash and Cash Equivalent at Beginning of Period	282,120	157,447
Cash and Cash Equivalent at End of Period	792,135	1,390,241

The accompanying notes are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY**
FOR THE SIX MONTHS PERIOD ENDED MARCH 31, 2012

	Share Capital \$	Foreign Exchange Transac- tions \$	Share Reserve \$	Other Components of Share- holders Equity \$	Accumulated Losses \$	Total \$
Balance at October 1, 2010	17,554,135	(89,172)	-	1,406,355	(16,179,457)	2,691,861
Total comprehensive income for period	-	(7,391)	-	-	(753,273)	(760,664)
Recognition of equity based payments	-	-	36,000	-	-	36,000
Shares issued during the period	2,500,938	-	-	-	-	2,500,938
Share issue costs	(283,063)	-	-	-	-	(283,063)
Balance at March 31, 2011	19,772,010	(95,563)	36,000	1,406,355	(16,932,730)	4,185,072
Balance at October 1, 2011	19,772,010	(101,036)	64,500	1,406,355	(17,687,158)	3,454,671
Total comprehensive income for period	-	4,279	-	-	(607,176)	(602,897)
Recognition of security based payments	-	-	20,000	-	-	20,000
Shares issued during the period	3,182,453	-	-	-	-	3,182,453
Share issue costs	(158,493)	-	-	-	-	(158,493)
Share issue costs deferred tax	47,548	-	-	-	-	47,548
Balance at March 31, 2012	22,843,518	(96,757)	84,500	1,406,355	(18,294,334)	5,943,282

The accompanying notes are an integral part of these consolidated financial statements.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

1. NATURE OF OPERATIONS

The Company was incorporated under the Alberta *Business Corporations Act* as 777231 Alberta Ltd. on February 5, 1998. On April 24, 1998, it changed its name to Trent-Severn Watershed Ltd. and on November 14, 2002 to Fall River Resources Ltd and in July 2010 to Earth Heat Resources Ltd. The Company was continued in British Columbia effective December 23, 2004. The Company registered as a foreign company in Australia on August 29, 2005. The principal business activities include the evaluation, acquisition, exploration and development of natural gas and petroleum properties.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the Half-Year Financial Report

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act and IAS 134 *Interim Financial Reporting*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore shall be read in conjunction with the most recent financial report.

The principal accounting policies and the methods of computation utilised in the preparation of the half-year report are consistent with those applied in preparation of the September 30, 2011 annual financial report.

It is also recommended that the half-year financial report be considered together with any public announcements made by Earth Heat Resources Limited and its controlled entities during the half-year ended March 31, 2012 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the ASX listing rules.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are stated in Australian dollars unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2011 Annual Report for the financial year ended September 30, 2011. These accounting policies are consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 September 2011.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

Amendments to IAS 134 Interim Financial Reporting

The amendments clarified certain disclosures relating to events and transactions that are significant to an understanding of changes in the Group's circumstances since the last annual financial statements. The Group's interim financial statements as of 31 March 2012 reflect these amended disclosure requirements, where applicable.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

3. GEOTHERMAL, OIL AND GAS INTERESTS

	Opening Cost \$	Additions \$	Disposals/ Write-Down of Interests \$	March 31, 2012 Net Book Value \$	September 30, 2011 Net Book Value \$
Undeveloped oil and gas interests	-	-	-	-	-
Undeveloped geothermal interests					
- Africa	474,586	87,594	-	562,180	474,586
- Argentina	522,087	986,858	-	1,508,945	522,087
- Australia	2,742,915	9,490	-	2,752,405	2,742,915
	<u>3,739,588</u>	<u>1,083,942</u>	-	<u>4,823,530</u>	<u>3,739,588</u>

Capitalised Expenditure

There has been \$1,083,942 (September 30, 2011: \$1,071,472) of capitalised geothermal project expenditure in the Consolidated Entity since the prior period. In addition, \$383,430 (2011: \$nil) has been paid for future project finance costs (refer to Note 4 for further details).

During the period \$nil (March 31, 2011: \$18,647) of capitalized expenditure was written off to the statement of comprehensive income statement (excludes foreign exchange differences).

Interests held by the Group are listed below.

Spring River's Oil and gas interests:

Tenement description	Tenement details/code	Location	Interest held
Baxter Joint Venture	Township 19 North Range 106 West Section 12: All Section 24: All	Wyoming USA	15%
Baxter Joint Venture	Township 19 North, Range 106 West Section 4: Lots 5-8 Section 24: Lots 8-14	Wyoming USA	15%
Baxter Joint Venture	Township 19 North, Range 106 West Section 2: Lots 5-8 Section 10: All Section 22: E2	Wyoming USA	15%
Baxter Joint Venture	Township 19 North, Range 106 West Section 18: Lots 5-8 Section 20: All	Wyoming USA	15%
Baxter Joint Venture	Township 19 North, Range 106 West Section 22: All	Wyoming USA	15%
Baxter Joint Venture	Township 19 North, Range 106 West Section 22: W2	Wyoming USA	15%

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

3. GEOTHERMAL, OIL AND GAS INTERESTS (CONTINUED)

Earth Heat's Australia Geothermal interests:

Tenement description	Tenement details/code	Location	Interest held
Mt Grainger SA Australia	GEL 337	Mt Grainger SA	100%
Paratoo SA Australia	GEL 338 now part of GEL 337 ⁽¹⁾	Paratoo SA	100%
Waroonee SA Australia	GEL 339 now part of GEL 337 ⁽¹⁾	Waroonee SA	100%
Bulninnie SA Australia	GEL 503 now part of GEL 337 ⁽¹⁾	Bulninnie SA	100%
Mt Grainger SA Australia	GEL 504 now part of GEL 337 ⁽¹⁾	Mt Grainger SA	100%
Price Hill Australia	GEL 507 now part of GEL 337 ⁽¹⁾	Price Hill	100%
Kimberlite Project Australia	GEL 523	Kimberlite Project	100%
Kimberlite Project Australia	GEL 524 now part of GEL 523 ⁽¹⁾	Kimberlite Project	100%
Kimberlite Project Australia	GEL 525	Kimberlite Project	100%

Notes:

- (1) The Australian Geothermal interests were approved for consolidation into 3 expanded GEL's (GEL 337 GEL 523 and GEL 525).
- (2) The Australian Geothermal interests in GEL 505 and GEL 506 were relinquished in November 2011
- (3) In October 2010, the Consolidated Entity was appointed operator of the Fiale Geothermal Development Project under the terms of the Memorandum of Understanding with the relevant Government body in Djibouti.
- (4) In May 2010, the Consolidated Entity into a Heads of Agreement to farmin to the Copahue Geothermal Development Project located in Argentina.

Capitalised Tenement Costs:

Tenement description	Tenement details/code	March 31, 2012 \$	September 30, 2011 \$
Fiale Project, Djibouti	Fiale	543,890	474,586
Copahue Project, Argentina	Copahue	1,508,945	522,087
Homa Bay, Kenya	Kenya	18,290	-
Mt Grainger SA Australia	GEL 337	2,732,121	900,831
Paratoo SA Australia	GEL 338 now part of GEL 337 ⁽¹⁾	-	900,832
Waroonee SA Australia	GEL 339 now part of GEL 337 ⁽¹⁾	-	900,832
Bulninnie SA Australia	GEL 503 now part of GEL 337 ⁽¹⁾	-	6,712
Mt Grainger SA Australia	GEL 504 now part of GEL 337 ⁽¹⁾	-	6,712
Price Hill	GEL 507 now part of GEL 337 ⁽¹⁾	-	6,712
Kimberlite Project	GEL 523	6,840	6,840
Kimberlite Project	GEL 524 now part of GEL 523 ⁽¹⁾	-	6,722
Kimberlite Project	GEL 525	13,444	6,722
Total		4,823,530	3,739,588

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

4. NON-CURRENT TRADE AND OTHER RECEIVABLES

	March 31, 2012 \$	September 30, 2011 \$
Prepayments	<u>383,430</u>	-

During the year, the Company paid \$383,430 (2011 \$nil) in finance fees future project financiers. The finance fees include:

- AGS Capital Group LLC's Capital Contingency Finance,
- Corporation Interamericana para el Financiamiento de Infraestructura's Drilling Loan and
- Inter-America Development Bank's Senior Debt Facility.

5. ISSUED CAPITAL

	Number		Consideration	
	March 31, 2012 No.	September 30, 2011 No.	March 31, 2012 No.	September 30, 2011 \$
Balance, beginning of period	569,532,643	524,178,687	19,772,010	17,554,135
Shares issued in period				
October 31, 2011 Securities issued on exercise of Options ¹	10,000,000	-	200,000	-
December 15, 2011 Securities issued to sophisticated investors ²	20,000,000		600,000	
February 24, 2012 Securities issued ³	12,871,817	-	436,354	-
March 12, 2012 Securities issued as a special share placement ⁴	64,870,001	-	1,946,100	-
Shares issued in prior period				
October 26, 2010 Securities issued as consideration for the acquisition of African opportunities	-	9,125,000	-	228,125
October 26, 2010 Securities issued in settlement of a commercial agreement for African opportunities	-	912,500	-	22,813
October 26, 2010 Securities issued to sophisticated investors	-	10,000,000	-	250,000
February 14, 2011 Securities issued to Socius CG II ⁵	-	25,316,456	-	2,000,000
Share issue costs net of tax	-	-	(110,946)	(283,063)
Balance, end of period	<u>677,274,461</u>	<u>569,532,643</u>	<u>22,843,518</u>	<u>19,772,010</u>

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

5. ISSUED CAPITAL (CONTINUED)

Notes

⁽¹⁾On October 31, 2011 Securities issued on exercise of Options at \$0.02 per share.

⁽²⁾December 15, 2011 Securities issued to sophisticated investors at \$0.03 per share.

⁽³⁾On February 24, 2012 Securities issued to directors in lieu of cash payment for accumulated directors' fees at \$0.0339 (based on VWAP over the 5 trading days immediately prior to date of the AGM, when the issue was approved).

⁽⁴⁾ On March 12, 2012 Securities issued as a special share placement to sophisticated investors at \$0.03 per share.

⁽⁵⁾On February 14, 2011, 25,316,456 ordinary shares and 12,658,228 unquoted options were issued Socius CG II for \$2,000,000 as the first tranche in pursuant to a Share Subscription Agreement dated February 14, 2011 Under the Agreement the total investment of up to \$5,000,000 over the next six months, in two tranches of \$2,000,000 and one \$1,000,000 at issue prices for the shares equivalents to the closing bid price of the Company's CDI/ORD shares the day before closing, plus unquoted five year options to 50% in number of the share issue at an exercise price equivalent to the related share issue price. The 12,658,228 unquoted options issued have an exercise price of \$0.079 and expire on February 14, 2016.

a) Share Reserve

	March 31, 2012	September 30, 2011
	\$	\$
Share Options Reserve - Equity based remuneration	20,000	-
Performance Rights Reserve - Equity based remuneration	64,500	64,500
	84,500	64,500

The Performance Rights Reserve items recognised on the valuation of vested performance rights issued:

On February 24, 2012, as part of a long term incentive 40,000,000 Performance Rights were issues to Mr Torey Marshall, Managing Director. The Black-Scholes valuation of Performance Rights at the effective grant period over five years of those rights vested amounted to \$240,000 per annum over the next five years. During the half-year \$20,000 of equity based remuneration was charged to the Comprehensive Income Statement.

The Share Option Reserve records items recognised on the valuation of vested share options.

On February 25, 2011, as part of the Executive Director, Alexander Rose-Innes remuneration package, 30,000,000 options are to be issued, subject to certain conditions, including shareholder approval. On May 11, 2011 Mr Rose Innes resigned and as a result 20,000,000 options lapsed. The Black-Scholes valuation of remaining vested options at the effective grant date of August 3, 2010 of those options vested amounted to \$6,000.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

5. ISSUED CAPITAL (CONTINUED)

On February 25, 2011, 12,000,000 options were issued to David Anderson as consideration for the acquisition of certain African opportunities. The Black-Scholes valuation of vested options at the effective grant date of August 3, 2010 and July 30, 2011 amounted to \$58,500. The Black-Scholes valuation was based on an interest free rate of 5.5% and 75% volatility.

b) Unquoted Performance Rights

The Performance Rights are to be issued as part of the Executives remuneration at no cost, subject to the achievement of the Key Performance Indicators (“KPIs”) at the discretion of the Board, and the achievement of one of the conditions listed below. In addition, the Performance Rights will be escrowed for two years from the date of issue.

The fair value of Rights is estimated at \$1,200,000 vesting over 5 year (\$240,000 per annum) using the Black-Scholes option pricing model, based on an interest free rate of 5.9% and 75% volatility. The charge the comprehensive income statement in the half year amounted to \$20,000 (2011: \$nil).

The Company has the following history of unquoted performance rights on securities outstanding:

	Number of Rights	Weighted Average Exercise Price
Balance at September 30, 2011	-	-
February 24, 2012 unquoted performance rights were issued to the Managing Directors, Torey Marshall	40,000,000	n/a
Balance at March 31, 2012	40,000,000	n/a

Key Performance Indicators

The following KPI must all be achieved, at the discretion of the Board:

- Completions of a third capital raising for the Company (in addition to the two raising completed prior to the Commencement Date of the Agreement);
- Introduction of a new project in Africa;
- The Company progresses any of the projects of the Company including but not limited to a farmout or joint venture agreement entered into between the Company and a third party;
- Completion of a Bankable Feasibility Study for one of the projects in the Company’s portfolio;
- Closing at least one phase of project finance for any project in the Company’s portfolio;
- Listing of the Company on a North American Stock Exchange on which it is not listed at the Commencement Date;
- The share price of the Company remaining at 7cents or more for 2 consecutive months during the Term;
- The Executive being employed by the Company in the Position for at least 2 years.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

5. ISSUED CAPITAL (CONTINUED)

Vesting conditions

One of the following to be achieved:

- Achievement of each of the Performance Right's KPIs (as determined by the Board, in its complete discretion);
- The Executive ceases to be employed by the Company in the Position, notwithstanding that he may be employed by the Company in another role;
- 50% or more of the shareholding of the Company is acquired by a third party following a takeover bid by that party (whether recommended by the Board or not) and rollover tax relief is not available to the Executive;
- The expiration of 10 years from the date of issue of the Performance Rights by the Company to the Executive.

c) Unquoted Stock Options

The Company has adopted a new current stock option plan (the "Plan") effective October 12, 2011. Under the Plan, the Company may grant options to acquire common shares to a maximum of 5% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options is estimated using the Black-Scholes option pricing model.

Under the previous Plan, the Company may grant options to acquire common shares to a maximum of 10% of the issued and outstanding common shares at the date of the grant. The fair value of share options is estimated using the Black-Scholes option pricing model.

6. OPERATING SEGMENTS

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in accessing performance and determining the allocation of resources.

The Consolidated Entity previously operated one industry in North America and one principal activity being oil and gas. However, information reported to the Consolidated Entity's chief operating decision makers for the purposes of resource allocation and assessment of segmental reporting is more specifically focused on operating division by specific geographical location. The Consolidated Entity's reporting segments under IFRS 8 are therefore as follows:

Geothermal	- Africa
	- Argentina
	- Australia
Oil and Gas	- USA
Corporate	- Australia

Information regarding the Consolidated Entity's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

6. OPERATING SEGMENTS (CONTINUED)

Operating Segments

	Africa Geothermal \$	Argentina Geothermal \$	Australia Geothermal \$	USA Oil and Gas \$	Australia Corporate expenses \$	Total \$
March 31, 2012						
REVENUE						
Total revenue -external sales	-	-	-	-	-	-
RESULT						
Segment result	(73)	-	-	-	(556,394)	(556,467)
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-
Project expenses not capitalised	-	(1,734)	(3,738)	-	-	(5,472)
Finance income/(costs)	-	-	-	-	2,311	2,311
Profit/(loss) before income tax	(73)	(1,734)	(3,738)	-	(554,083)	(559,628)
Income tax expense	-	-	-	-	(47,548)	(47,548)
Profit/(loss) after income tax	(73)	(1,734)	(3,738)	-	(601,631)	(607,176)
March 31, 2012						
ASSETS						
Segment assets	562,811	1,909,754	2,752,646	-	877,765	6,102,976
LIABILITIES						
Segment liabilities	7,468	-	8,064	-	144,162	159,694

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

6. OPERATING SEGMENTS (CONTINUED)

	Africa Geothermal \$	Argentina Geothermal \$	Australia Geothermal \$	USA Oil and Gas \$	Australia Corporate expenses \$	Total \$
March 31, 2011						
REVENUE						
Total revenue -external sales	-	-	-	-	-	-
RESULT						
Segment result	(32,913)	-	-	-	(706,362)	(739,275)
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-
Write-down of project expenses	(18,647)	-	-	-	-	(18,647)
Finance income/(costs)	-	-	-	-	4,649	4,649
Profit/(loss) before income tax	(51,560)	-	-	-	(701,713)	(753,273)
Income tax expense	-	-	-	-	-	-
Profit/(loss) after income tax	(51,560)	-	-	-	(701,713)	(753,273)
September 30, 2011						
ASSETS						
Segment assets	474,586	522,717	2,743,156	-	379,944	4,120,403
LIABILITIES						
Segment liabilities	14,455	54,092	744	-	596,441	665,732

7. CONTINGENT LIABILITIES

The Company will be liable for asset retirement obligations with respect to one of its oil and gas interests that were abandoned during the period. The Company will accrue the related asset retirement obligation when the costs are known.

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

8. COMMITMENT

(a) Exploration commitments

Copahue Development Project in Argentina

The exploration expenditure commitments relate to the entity's share of Argentinean exploration and evaluation expenditure required to comply with the licence terms issued by the relevant regulatory body and the Heads of Agreement dated May 13, 2010 ("Agreement").

Under the Agreement the Consolidated Entity will farm in to the Copahue development project in Argentina and the Consolidated Entity may be required to undertake a minimum expenditure during the first two years of \$16,600,000¹. At March 31, 2012 the Agreement does not require any minimum expenditure due to an ongoing negotiation on a consolidation of ownership, and requires Geothermal One to have achieved certain Conditions Precedent which to date, it has not. The minimum expenditure amount may vary at the date future agreements are signed, at which time additional funding is expected to have been secured to meet or exceed the minimum expenditure. The Company has announced various financings which, subject to close, will meet any future obligations if they occur under the Agreement.

Fiale Development Project in Djibouti

There are no minimum exploration expenditure commitments at the date of this report as the Company has engaged in Joint Venture discussions with a number of groups, and announced that no work will take place on the project without a new partner in the venture.

Earth Heat Australian geothermal interests

The exploration expenditure commitments relate to the economic entity's share of South Australian exploration and evaluation expenditure required to comply with the licence terms issued by the relevant regulatory body. PIRSA do not require any minimum exploration expenditure commitment.

These obligations may be subject to re-negotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements.

As a result of the prevailing economic climate, activities were significantly scaled back in these areas.

The Company's has consolidated its GELs into 3 (refer to Note 4 for further details). In November 2011, the Company relinquished GEL 505 and GEL 506. The Company will not be forced to relinquish any portion of its existing granted Geothermal Exploration Licences until the end of the primary work program, which is 5 years from initial grant of each tenement.

The Company plan future expenditure to reach its work program commitments and remain fully compliant with its obligations.

¹ AUD \$1:USD \$0.9008

Notes to
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED MARCH 31, 2012

8. COMMITMENT (CONTINUED)

(b) Other commitments

The Company has engaged Allinson Accounting Solutions Pty Ltd to provide annual accounting and administrative services at a fee of \$199,680 per annum (2011: \$147,478).

The Company has an employment agreement with two employees who are also directors:

- Torey Marshall remuneration payable is \$330,000 per annum (excluding Performance Rights) and agreement is in effect until January 22, 2013.
- Alexander Rose-Innes remuneration payable is \$120,000 per annum (refer to directors' report further details) commencing on July 1, 2010 and agreement is in effect until June 30, 2013. Mr Rose-Innes resigned on May 11, 2011.
- David Anderson remuneration payable is \$74,937 (ZAR600,000²) per annum and office expenses of \$7,494 (ZAR\$60,000²) commencing on July 1, 2010 and effective until June 30, 2012.

9. SUBSEQUENT EVENT

April 17, 2012: Company announces that its first phase field program at its Copahue Project has been completed.

April 23, 2012: Company announced the resignation of Mr Norman Zillman as non-executive Director and the appointment of Mr Malcolm Lucas-Smith as non-executive Director. Mr Lucas-Smith will remain Company Secretary.

May 1, 2012: Company announces change in registered office to Suite 9, Lester Court, 75a Angas Street, SA 5000.

May 8, 2012: Company announces the signing of an exclusivity agreement with Alstom Power, a division of the Alstom Group to work on an integrated engineering, procure, and construct solutions for the Copahue project.

May 22, 2012: Company announces the receipt of a Letter of Interest for an initial power off take of 50MWe in Argentina from Xstrata Pachon S.A. a subsidiary of Xstrata Copper.

May 24, 2012: Company announces an update on the previously announced the execution of an Agreement with Inter American development Bank ("IDB"). IDB to directly invest up to USD \$75 million; and to syndicate USD\$135 million for the balance of Senior Debt (total USD \$210 million) with the assistance of the Company.

June 05, 2012: Company announces the receipt of an Engineering Study for the Copahue geothermal project.

² AUD\$1:ZAR8.0067