earthheat

ANNUAL REPORT 2011

In Australian Dollars

Company Information

ABN 86 115 229 984

Directors

Dr Raymond Shaw Chairman, Non–Executive Director
Torey Marshall Managing Director
Alexander Rose–Innes Executive Director (resigned May 11, 2011)
Norman Zillman Non–Executive Director
Stephen Pearce Non–Executive Director (resigned May 11, 2011)
David Sutton Non–Executive Director (resigned May 11, 2011)

Secretary

Malcolm Luca- Smith – Joint Company Secretary
Stephen Pearce – Joint Company Secretary (resigned May 11, 2011)

Registered Office

In Canada, 711-675 West Hastings Street, Vancouver, BC, Canada
In Australia, Level 7, 28–30 Grenfell Street, Adelaide, South Australia, 5000, 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

Share Registry

In Canada Computershare Investor Services Inc
3rd 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 9145 5000

Stock Exchange Listing

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

Contents

Chairman's Statement

FOR YEAR ENDED SEPTEMBER 30, 2011

Dear Shareholders

As the Chairman of the Board of Directors it is a pleasure to present to you the Company's Annual Report for the year ended September 30, 2011.

As predicted in last year's review this year has been one of consolidation. I have taken the liberty of listing below some of the key milestones achieved in order to emphasise precisely what has been achieved and which is all the more remarkable given the backdrop of a severe decline in macro-economic conditions since mid 2011.

• Memorandum of Undertaking ("MOU") signed with Drake & Scull Water and Power ("DSWP"), a wholly owned subsidiary of Drake & Scull International ("DSI") PJSC, to jointly explore, bid for and secure geothermal project opportunities in the Middle East and Africa.

• Company embarked on production of necessary documentation for approvals to facilitate a TSX Venture Exchange ("TSX-V") listing and undertook a significant reduction in the number of directors on the board.

• Engaged the world respected geothermal engineering consulting group Sinclair Knight Merz ("SKM") to act as the Company's independent technical advisors.

• SKM undertook and submitted to the authorities the first phase of an Environmental Impact Statement ("EIS") for the Copahue project and completed a Concept Study for an accelerated development of a 15MW geothermal plant within the project area.

• SKM also undertook independent resource assessment of Copahue Project which resulted in an increase in over 150% of resources, measured under the Canadian Geothermal Code.

• Appointment of a technical and administrative team in an Argentina office which has so far culminated with the signing of a Letter of Intention ("LOI") and Heads of Agreement for power purchase offtake agreement ("PPA") in Argentina with Loma Negra for an initial allotment of 10MWe per annum and a PPA with Electrometalurgica Andina SAIC for an initial allotment of 30MWe pa.

• Mandated the Inter-American Development Bank's ("IDB" or "the Bank") Structured and Corporate Finance Department ("SCF"), to raise up to USD $134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina. This will entail IDB investing up to USD $48,000,000 directly and acting as arranger for the syndication of a further USD $86,000,000.

• In Djibouti discussions with Joint Venture ("JV") Partners and potential Co-developers of integrated energy projects have been steadily progressing.

• In Kenya new project opportunities involving areas of high geothermal prospectivity have been targeted with applications. It is anticipated that the outcome of these negotiations and possible formation of new strategic JVs will be completed in early 2012.

• In Australia we have consolidated our GEL holdings to reflect our current core activities in order to preserve both asset and capital interests.

Clearly a large amount of the year's activities focused on Copahue. As noted above there has been a steady progression during the year from initial technical work to more recently identifying development strategies and, importantly, funding solutions. To have the involvement of a group such as IDB as a financial arranger is a major coup. Its involvement is consistent with IDB's stated Integrated Strategy for Climate Change Adaption and Mitigation, and Sustainable and Renewable Energy, which aims at increasing the Bank's sustainable energy portfolio of 25% by the end of 2015. Clearly success at Copahue will showcase your Company's ability to identify first class geothermal projects and provide a significant building block for potential further funding opportunities in the future. Likewise, Earth Heat Resources Ltd ("Earth Heat") will pursue not only public funding but also opportunities such as the proposed Green Climate Fund which emerged following the recent Durban climate change conference.

Of course, developments cannot happen quick enough and we realise that there will be enormous challenges ahead, these made all the more difficult with the economic environment. Project development can be a real dilemma for smaller capitalised companies such as Earth Heat, as there can be a real balancing act between obtaining the necessary funding in order to commercialise their great assets whilst ensuring that failing to do so does not make them become even greater liabilities. To-date our teams in both Argentina, Adelaide and Canada have done magnificent jobs in attracting interest normally only the preserve of projects which are either much further advanced, or completed, in their bankable feasibility studies.

Next year we promise further consolidation as we continue to de-risk our projects, both technically and financially, and move closer to initial production at Copahue.

I would like to thank all of our staff for the great efforts that they have put in during the past year, and whilst it is unfair to single out any particular individual I must nevertheless express the Board's appreciation for the sterling efforts of our Managing Director Torey Marshall without whose vision and determination much of this year's efforts would not have been attained.

Earth Heat Chairman **Dr Raymond Shaw**

Directors' Information

The Directors' present their report together with the Financial Report of Earth Heat Resources Ltd ("the Company" or "EHR")) and of the Consolidated Entity, being the Company and its controlled entities ("the Consolidated Entity") for the financial year ended September 30, 2011.

Directors

The Directors of the Company at any time during and since the end of the financial year are:

Name	Position	Date appointed	Date Resigned
Dr Raymond Shaw	Non-Executive Chairman	January 22, 2010	-
Torey Marshall	Managing Director	January 22, 2010	-
Alexander Rose-Innes	Executive Director	August 3, 2010	May 11, 2011
Norman Zillman	Non-Executive Director	February 26, 2010	-
David Sutton	Non-Executive Director (formerly Chairman)	October 14, 2007	May 11, 2011
Stephen Pearce	Non-Executive Director	April 26, 2004	May 11, 2011

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 until recently he was Managing Director. Bandanna holds extensive thermal coal assets in the Galilee and Bowen basins of Queensland.

Special responsibilities

Chairman of Board of Directors

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 and QGC Ltd (A BG Group Company). He is a director of Red Gum Resources 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, a member of the Geological Society of Australia and American Association of Petroleum Geologists.

Special responsibilities
Managing Director

Alexander Rose–Innes – Executive Director (resigned May 11, 2011)

Experience and expertise

Mr Alexander Rose-Innes is a portfolio manager for long / short equities and global macro funds who has extensive experience working within the equity capital markets of Australia. With a strategic focus on the resources sectors of the ASX, JSE and FTSE markets, Alexander has a deep knowledge of African politics and business including a wide variety of contacts through his macroeconomic research that guides investment decisions. He was appointed to the Board in July 2010 and was responsible for Business Development and Finance.

Alexander is currently employed as a Macroeconomic Analyst and Portfolio Manager at Coldstream Investment Holdings where he maintains a balanced portfolio of equities, derivatives, bonds and commodities. Previous experience includes Invicta Holdings Pty Ltd in South Africa and Publishing and Broadcasting Limited. He is fluent in English, Afrikaans and French.

Special responsibilities
Executive of African Operations

Norman Zillman – Non–Executive Director

Experience and expertise

Mr Zillman holds a Bachelor of Science degree in Geology and a Bachelor of Science (Hons) 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.

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, director of Planet Gas Limited and non-executive Chairman of Blue Energy Limited. Mr Zillman is currently Chairman of Chinalco Yunnan Copper Limited, non-executive director of Burleson Energy Ltd, non-executive director of Red Gum Resources Ltd 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.

Special responsibilities
Member of the audit committee

Directors' Information Continued

David Sutton – Independent Non–Executive Director (resigned May 11, 2011)

Experience and expertise

Mr Sutton has many years experience as a director of companies in stockbroking and investment banking. He is a director of Dayton Way Financial Pty Ltd, a licensed securities dealers where he is responsible for corporate finance and stockbroking activities. He is also a director of two listed companies, Sinovus Mining Ltd; and Imperial Corporation Pty. Limited; and a former director of Martin Place Securities Pty Limited.

Special responsibilities

Member of the audit committee

Stephen Pearce – Independent Non–Executive Director and Joint Company Secretary (resigned May 11, 2011)

Experience and expertise

Mr Pearce is a practising lawyer who specialises in corporate and securities work in association with a corporate administration services company, Hastings Management Corp. in Vancouver, British Columbia. Stephen serves as a director and/or officer of the following mainly resource related public companies: Neodym Technologies Inc. (TSX-V) (Director, Corporate Secretary), Sable Resources Ltd. (TSX-V) (Director, Corporate Secretary), and Golden Goliath Resources Ltd (TSX-V) (Corporate Secretary). Stephen has a law degree from the University of British Columbia and economics degree from York University.

Special responsibilities

Member of the audit committee

Joint Company Secretary

Stephen Pearce and Malcolm Lucas-Smith were Joint Company Secretaries. For information on the experience of Stephen Pearce refer to information on directors. Mr Pearce resigned on May 11, 2011.

Malcolm Lucas-Smith was appointed as Joint Company Secretary on January 22, 2010 and became sole Company Secretary on May 11, 2011 following the resignation of Mr Pearce. 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 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).

Directors' Information Continued

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended September 30, 2011 and the number of meetings attended by each Director is as follows:

Director	Directors' Meetings		Audit Committee Meetings	
	Attended	Held whilst in office	Attended	Held whilst in office
R Shaw	5	5	-	-
T Marshall	5	5	-	-
A Rose-Innes	4	5	-	-
S Pearce	2	5	1	1
N Zillman	3	5	-	1
D Sutton	4	5	1	1

Only one audit committee meeting was held during the year. This is primarily due to board logistics and since May 11, 2011 there is only one non-executive director and therefore all audit committee duties was undertaken by the Board in absence of an audit committee meeting.

Directors' Interests

The relevant interest of each director in the securities of the company as at the date of this report is set out below:

Director	Number of shares owned or over which control is exercised	Number of options owned or over which control is exercised – including exercise price
Raymond Shaw[1]	68,089,641	Nil
Torey Marshall[2]	69,363,925	Nil
Norman Zillman[3]	66,408,294	Nil

Notes:

(1) 63,414,641 of Dr Raymond Shaw's shares are held in voluntary escrow until January 22, 2012.

(2) 63,414,641 of Torey Marshall's shares are held in voluntary escrow until January 22, 2012.

(3) 63,414,628 of Norman Zillman's shares are held in voluntary escrow until January 22, 2012.

Remuneration Report

This report outlines the remuneration agreements in place for directors and executives of Earth Heat Resources Ltd.

Remuneration Committee

Due to the size of the Company's operations, the Directors do not believe that the establishment of a remuneration committee is warranted. All matters that would normally be the responsibility of a remuneration committee are dealt with by the full board of Directors. The Chairman is responsible for the annual review of Directors remuneration.

Executive Compensation and Non-Executive Remuneration

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages are inclusive of superannuation. Remuneration packages are inclusive of suparannuation.

The Managing Director, Torey Marshall is employed on an annual contract, the initial contract commenced on January 22, 2011. His remuneration consists of a base salary of $330,000 per annum, subject to review from time to time as determined by the Board. In January 2011, Torey Marshall's salary was reviewed by the Board and increased from $230,000 to $330,000.

Until his resignation on May 11, 2011, the Executive Director, Alexander Rose-Innes was employed on a three year contract commencing on August 3, 2010. Alexander Rose-Innes remuneration consists of a base salary of $120,000 per annum (including superannuation) payable following successful capital raising of not less than $2,000,000 and options that vest, subject to Shareholder approval and successful capital raising as follows:

- 10,000,000 vesting immediately, at 3 cents and expiring on August 3, 2011;
- 10,000,000 vesting on 3 August 2011, at 5 cents and expiring on August 3, 2012; and
- 10,000,000 vesting on 3 August 2011, at 8 cents and expiring on August 3, 2013.

Following Mr Rose-Innes resignation on May 11, 2011, 20,000,000 options lapsed immediately in accordance with the terms of his employment contract, and the remaining 10,000,000 expired subsequently in accordance with the terms of the options issued.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Consolidated Entity's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

Additional information of key management personnel is disclosed in Note 16 related party transactions.

Remuneration Report Continued

Key Management Personnel Compensation

Table of Benefits and Payments for the Year Ended September 30, 2011

The following table sets forth all annual and long term compensation for services in all capacities to the Consolidated Entity for the two most recently completed financial years, in respect of the individual(s) who were, at the end of the most recently completed financial year, acting as directors or executive officers.

Name and Position	Year	Salary [1] [2] [4] $	Bonus $	Options & Rights[3] $	Other Annual Compensation & Superannuation[4] $	Total
Dr Raymond Shaw						
Chairman	2011	65,000	-	-	-	65,000
Non-executive Director	2010	44,905	-	-	-	44,905
Torey Marshall	2011	279,816	-	-	58,822	338,638
Managing Director	2010	146,345	-	-	16,916	163,261
Norman Zillman	2011	48,000	-	-	-	48,000
Non-Executive Director	2010	28,280	-	-	-	28,280
Stephen Pearce						
Independent non-executive Director and	2011	28,760	-	-	-	28,760
Joint Company Secretary	2010	(83,913)	-	-	-	(83,913)
Resigned May 11, 2011						
Jack Mulready	2011	-	-	-	-	-
Executive Director	2010	(63,737)	-	-	(485,221)	(548,958)
Resigned May 11, 2011						
Alexander Rose-Innes	2011	50,000	-	6,000	-	56,000
Executive Director	2010	-	-	-	-	-
Resigned May 11, 2011						
Bruce McLeod	2011	-	-	-	-	-
Non-Executive Director	2010	(61,898)	-	-	(11,356)	(73,254)
Resigned January 22, 2010						
David Sutton						
Non-Executive Director	2011	28,760	-	-	-	28,760
Non-Executive Director	2010	1,937	-	-	(11,356)	(9,419)
Resigned May 11, 2011						
Total	**2011**	**500,336**	**-**	**6,000**	**58,822**	**565,158**
	2010	**11,919**	**-**	**-**	**(491,017)**	**(479,098)**

Notes:

(1) Remuneration is not based on performance criteria.

(2) Remuneration is not currently linked to company performance or share price.

(3) Alexander Rose-Innes was issued with 10,000,000 options following satisfaction of certain conditions, including shareholder approval at the Annual General meeting. The vested options were valued using Black-Scholes at $6,000 as at August 3, 2010.

(4) The remuneration credits included in the above table relate to the following key personnel's unpaid remuneration and superannuation that was paid in shares (pursuant to the share sale agreement dated January 11, 2010 between the company and Earth Heat Australia Pty Ltd, refer to Note 3 and the below table for further details). The liabilities were converted at a rate of $0.2028 AUD $1 of Liabilities.

Name	Wages and superannuation $	Shares issued Number	Deemed value @ $0.01 $	Credit to statement of comprehensive income $
Bruce McLeod[1]	85,838	1,741,083	17,411	68,427
David Sutton[1]	85,838	1,741,083	17,411	68,427
Jack Mulready[1] [2]	498,503	5,000,000	50,000	448,503
Stephen Pearce[1]	178,418	3,618,967	36,190	142,228
Roderick Hollingsworth[1]	34,609	701,988	7,020	27,589
Total	**883,206**	**12,803,121**	**128,032**	**755,174**

Notes:

(1) Previous key management personnel.

(2) Jack Mulready's liabilities exclude the annual leave provision of $92,866. During the period $40,000 was paid in cash, pursuant to the share sale agreement (refer to Note 3 for futher details).

Management Discussion & Analysis

The following management's discussion and analysis ("MD&A") focuses on significant factors that affected Earth Heat Resources Ltd ("Earth Heat" or the "Company") and its subsidiaries ("Consolidated Entity") during the relevant reporting period and to the date of this report. It contains a review and analysis of the financial results for the twelve months ended September 30, 2011, identifies business risks that the Company faced and comments on the financial resources required for the development of the business.

The MD&A supplements, but does not form part of the audited annual consolidated financial statements of the Company and the notes thereto for the twelve months ended September 30, 2011 (the "September 30 Annual Financial Statements" or "consolidated financial statements") and consequently should be read in conjunction with the afore-mentioned financial statements and notes thereto. The information in this MD&A is current as of December 30, 2011.

All amounts, unless specifically identified as otherwise, both in the consolidated financial statements and this MD&A are expressed in Australian dollars.

Forward Looking Information

This MD&A contains certain "forward-looking information" which may include, but is not limited to, statements with respect to future events or future performance, management's expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs and revenue, future demand for and prices of electricity, business prospects and opportunities. In addition, statements relating to estimates of recoverable geothermal energy "reserves" or "resources" or energy generation are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that the geothermal resources and reserves described can be profitably produced in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current geothermal energy production, development and/or exploration activities and the accuracy of probability simulations prepared to predict prospective geothermal resources; changes in project parameters as plans continue to be refined; possible variations of production rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the geothermal industry; political instability or insurrection or war; labour force availability and turnover; delays in obtaining governmental approvals or in the completion of development or construction activities or in the commencement of operations; as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A. These factors should be considered carefully and readers of this MD&A should not place undue reliance on forward-looking information.

Although the forward-looking information contained in this MD&A is based upon what management believes to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Such forward-looking information is made as of the date of this MD&A and, other than as required by applicable securities laws, Earth Heat Resources Ltd assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

Use of Non-GAAP Measures

In this document, we refer to terms that do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS"). Our usage of these terms may vary from the usage adapted by other companies. In this document and in the Company's financial statements, unless otherwise noted, all financial data is prepared in accordance with IFRS as issued by the International Accounting Standards Board.

Management Discussion & Analysis Continued

Business Overview and Strategy

The Company was previously known as Fall River Resources Ltd. ("Fall River"). Fall River traded on the TSX-Venture 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 re-listing on the TSX-V. 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. EHR's mission is to become a leading global renewable power project developer and supplier of clean and reliable geothermal power.

Overview

During the period the principal continuing activities of the Consolidated Entity was geothermal exploration in Argentina, Africa and in Australia, with residual oil and gas interests in the United States of America.

Projects

As part of the Groups 'New Energy' strategy, in October 2010 a Joint Venture ("JV") Agreement was signed between the Djibouti Ministry of Energy and Natural Resources and Electricitie' de Djibouti in relation to the Fiale Geothermal Development Project ("Fiale Project"). Under the basic terms of this agreement, the Company has the right to develop up to 150MWe of geothermally fuelled power generation. During the period the majority of the progress on this project revolved around discussions with key stakeholders and potential JV partners with a view to announcing a symbiotic arrangement prior to incurring significant costs on exploitation activities.

Sinclair Knight Merz ("SKM") completed an Independent Resource Assessment on the Copahue Project which resulted in a significant resource upgrade (circa 150%). The stage 1 Copahue Environmental Impact Assessment was also completed by Estudios y Servicios Ambientales, followed by a concept study (frequently referred to as a prefeasibility study) during the period. The Consolidated Entity successfully negotiated the signing of Letters of Intent for the Sale/Purchase of Copahue's Electricity in Argentina with Loma Negra (10MWe) and Electrometalurgica Andina SAIC (30MWe). Subsequently to the end of the reporting period the announcement of a senior debt mandate being signed with the Inter-American Development Bank for the syndication of a $134m USD loan facility was a positive commercial step for the project.

In Kenya and Botswana, applications lodged during the period were progressed through the relevant jurisdictional bureaucracy and are expected to be awarded in the next financial year, though this remains subject to factors outside the Company's control.

Residual projects in Australia were suspended for the duration of the reporting period, due to the comparatively low commercial returns and exceedingly high costs of exploration represented by Australian Geothermal projects. A process was initiated to relinquish some exploration licences, and consolidate others. This process will be completed in late December according to the regulatory authorities and will result in the 11 current exploration licences becoming 3.

North America Listing

The Company continues to progress towards a potential dual listing on the Canadian Stock Exchange, although the progress has been slow due to onerous requirements placed on the Company by corporate regulators. The pursuit of a dual listing is somewhat complicated by the Company having previously traded on the TSX-Ventures Exchange.

Subject to satisfying the regulator of all of its requests, the Company is aiming to achieve a TSX-Ventures listing in early 2012 calendar year.

The Company has also completed a number of required special reports, in addition to locating a Sponsoring Broker, and will commence formal 'listing application' after final feedback from the British Columbia Securities Commission is received.

Significant Changes in the State of Affairs

The significant changes in the state of affairs of the Consolidated Entity during the financial year comprises:

i) **October 10, 2010:** a JV Agreement was signed between the Djibouti Ministry of Energy and Natural Resources and Electricitie' de Djibouti in relation to the Fiale Geothermal Development Project ("Fiale Project"). Since the year end, the Company engaged in discussions on the absolute structure of a Joint Venture with Electricitie' De Djibouti, and a suitable Power Purchase Agreement and as of the date of this management discussion and analysis the structure of the joint venture agreement has not been finalized.

ii) **October 26, 2010:** 20,037,500 shares were issued as follows:

- 9,125,000 as consideration for the acquisition Fiale Project;
- 912,500 in settlement of a commercial agreement in respect to the Fiale Project; and
- 10,000,000 at $0.025 to sophisticated investors.

iii) **February 14, 2011:** 25,316,456 ordinary shares at 7.9 cents and 12,658,228 unquoted options were issued pursuant to a Share Subscription Agreement between the Company and Socius CG II, Ltd dated February 14, 2011. The Agreement was for a total investment of up to $5,000,000 over the next two years in two tranches of $2,000,000 each and one tranche of $1,000,000 at issue prices for the shares equivalent to the closing bid price of the Company's CDI/ORD shares the day before each close, plus unquoted 5 year options to 50% in number of the shares issued at an exercise price equivalent to the related share issue price. The investor shall have a right during the term of the options (after expiry of 10 days) to surrender the options for a number of shares the aggregate value of which is to be determined by a Black Scholes calculation as detailed in the Share Subscription Agreement. At the date of this report $3,000,000 of the Socius investment is available.

iv) **February 23, 2011:** the following resolutions were passed at the AGM:

- Number of directors for ensuing year set at six;
- Raymond Shaw, Torey Marshall, David Sutton, Normal Zillman and Stephen Pearce to be re-elected as Directors of the Company;
- Alexander Rose-Innes election as a Director of the Company was ratified;
- KS Black & Co be appointed as auditors and Directors to fix auditors remuneration;
- Issue of Options to Alexander Rose-Innes pursuant to employment agreement;
- Share issue for transfer of rights to acquire the Fiale project in Djibouti; and
- Approval of Employee Share Option Scheme.

v) **February 25, 2011:** 42,000,000 unquoted options were issued with exercise price ranging from $0.02 to $0.08 and expiry dates ranging from August 3, 2011 to August 3, 2013.

vi) **March 2, 2011:** 587,998 Canadian issued common stock was transferred to ASX listed ordinary shares.

vii) **March 8, 2011:** the Company announced the engagement of the services of specialist consulting group SKM;

viii) **March 16, 2011:** the Company announced MOU signed with United Arab Emirates company, Drake and Scull Water and Power ("DSWP"), a wholly owned subsidiary of Drake and Scull International ("DSI") to jointly explore, bid and secure geothermal project opportunities in the Middle East and Africa.

ix) **May 11, 2011:** the Company announced a simplification of the board structure and the resignation of three directors, David Sutton, Alexander Rose-Innes and Stephen Pearce. As a result of Alexander Rose-Innes 20,000,000 unquoted options lapsed.

x) **May 18, 2011:** the Company announced significant resource upgrade at Copahue.

xi) **May 20, 2011:** the Company announced significant concept study for accelerated 15MW plant at Copahue.

xii) **July 28, 2011:** the Company announced a positive completion of Copahue concept study by SKM.

There were no other significant changes to the state of affairs of the Consolidated Entity during the financial year.

Operational Overview

The Company's operational overview includes operational, exploration and development activities for the period October 1, 2010 to the date of the release of this report, September 30, 2011.

Copahue Project Argentina

In May 2010 Earth Heat entered into a Heads of Agreement to farmin to the Copahue Geothermal Development Project ("Copahue Project") located in Argentina.

The Copahue Project is located within a large caldera in the Neuquen Province of Argentina, approximately 300 km from the provincial capital and within a few kilometres of the Chilean border. The geothermal resource on which the Project is based occurs on the northeast flank of the Copahue volcano.

At Copahue, geothermal exploration and development activities have been undertaken since the 1970's, including a number of superficial and shallow exploratory surveys – in particular geology, geochemistry, geophysics and temperature gradient drilling. Four deep wells, reaching depths of approximately 1,414m, drilled in the area demonstrated the presence of an exploitable hot dry vapour (steam) dominated geothermal reservoir. One of these wells, COP-1, was used to supply a pilot power plant, with a capacity of slightly less than 1MW for several years. The most recent well, COP-4, was drilled to supply a district heating system at Termas de Copahue where a pipeline was constructed from the well field.

A full pre-feasibility study completed by the Japanese International Cooperation Agency in 1992 indicated that an area covering approximately 4 km^2 around the pilot power plant had the potential to support an initial 30MWe power station, with individual wells capable of producing more than 7MWe. Numerous shallow gradient holes and subsequent studies indicated the geothermal potential might support over 100 MW of power generation on the basis that these reservoirs extend over an area of 30km^2 or more. The Company reviewed the available information, and also commissioned an independent review by SKM, which resulted in a material 150% increase in total resources, and quite a positive concept study illustrating the technical potential of the project itself.

The concept study undertaken enable accelerated negotiations with power offtake partners to reach a Letter of Intent stage. The Letter of Intent signed by both Loma Negra and Electronmetalurgica Andina SAIC compels both parties to finalise and enter into a legally binding Power Purchase Agreement ("PPA") for electrical offtake. These negotiations feed straight into both project finance discussions and the Bankable Feasibility Study which will commence as soon as its funding is approved by the Earth Heat board.

Subsequent to year end, preparations and planning for the first field season exploration program have commenced with a view to mobilising, subject to availability in March/April 2012.

Government Stimulus

The Copahue Project was attractive to Earth Heat as it was offered for tender by the Neuquen Provincial and Argentinean government authorities as part of a renewable energy policy. The Argentinean Government agreed to guarantee the purchase price of any electricity generated by geothermal technology at a rate of between USD $100 - USD $120 per MWh - in comparison to the Australian equivalent average price of USD $70- USD $85 per MWh. Utilising a basic business model, gross revenues in excess of USD $33 million p.a. may be generated for the initial 30MW base case, whilst over a 30 year project life internal rates of return in excess of 25% may be generated.

Existing power lines running adjacent to the pilot plant also provides potential to supply electricity to end users, including mine operators, at premiums over and above the rates guaranteed by the Argentinean Government. Most recent developments as a result of the change in government politics and policies, will see the slow uncapping of prices for electricity in Argentina as domestic subsidies are cut from the Federal Government budget.

Fiale Geothermal Project, Djibouti

The Fiale Geothermal Development Project ("Fiale Project") located in the Lake Assal region of Djibouti, is considered to be one of the most strategic geothermal opportunities within the Africa Rift Valley. Lake Assal is an area of recent volcanic activity, known from drilling in the 1980s and has recently come under intense focus of international geothermal power players.

Earth Heat was appointed by the Djibouti Ministry of Energy and Natural Resources as the operator of the Fiale Project in October of 2010, and subject to completion of all documentation, will enter into a binding PPA in support of its investment.

Under the terms of the JV, Earth Heat has the right to drill, extract, analyse, undertake all necessary works, and obtain all necessary rights to land access, permits and approvals covering the Fiale Project. The Fiale Project has had six wells drilled to date and has shown highly promising results, particularly in terms of productivity. Temperatures have been recorded up to 359 degrees Celsius at 2000m (commonly >250C at 1000m).

Earth Heat's work program to establish a 150MW Geothermal Development is currently broken up into three tranches:

1. To define, develop and install a 50MW plant as soon as feasible
2. To define and expand on the resource to 100MW capacity
3. To define and expand to 150MW total capacity

Stage 1 of Earth Heat's exploitation program to define the initial 50MW resource, expected to be completed by mid 2011, will involve a full geological and geophysical review, permitting and approvals for drilling program, engineering studies, identification of accessible and appropriate drilling locations, the tendering and permitting of drilling rig and the mobilisation of construction and other services to site.

The republic of Djibouti is a small stable country of under 1 million inhabitants. Strategically located across the Gulf of Aden from Yemen, the country hosts a number of international military bases and is entirely reliant on diesel power generation. The costs of diesel power in the country are reportedly up to 50c/Kwh (USD) and this leaves significant room for a highly profitable geothermal development.

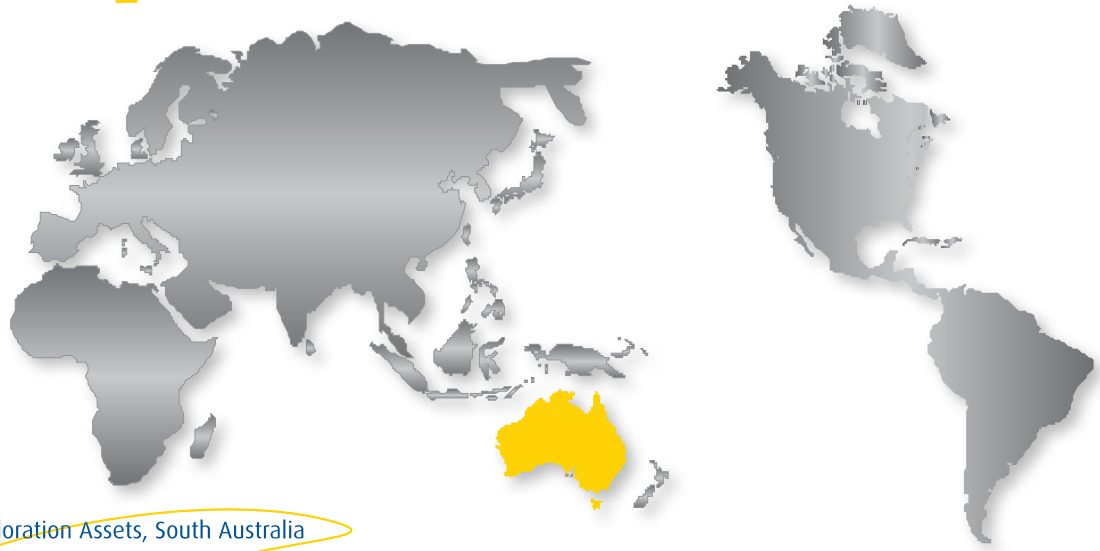
Considerable expansion is underway in the country, with new infrastructure promoting additional state and private enterprise investment, projected to lift power demand strongly over the next 20 years. Ultimately, Earth Heat's JV with Electricitie' de Djibouti ("EDD"), as the sole provider of retail electricity services in the country, is a very strong indication of the ability of the venture to access a critical mass of customers to underpin the total field development of circa 150MW. Powerline infrastructure operated by EDD exists a short distance from the Fiale project, again a major step towards rapid commercialisation of productive capacity to be installed.

The Company continues discussions and negotiations with other potential JV partners for this project.

Potential Geothermal Project, Kenya

The Company has lodged an exploration licence application over a specific area where the Company sees enhanced development potential, affirming its intention to grow its business in the most strategically important 'Geothermal Country' in East Africa. Furthermore, the Company has been engaged in a number of conversations with significant and strategic Joint Venture partners. Whilst the outcome of this process remains uncertain, the Company remains confident that it will be able to establish a cornerstone project in Kenya in the short to medium term. Clearly, until clarity can be provided on the final status of the application, no strategic discussion can be concluded.

Management Discussion & Analysis Continued



Australian Geothermal Exploration Assets, South Australia

The Company's total South Australian portfolio of GELs to 11, covering an area of over 13,000km². These licences were subsequently granted in May 2010. 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").

Due to market deterioration for geothermal companies as a whole, these South Australian tenements were suspended in their entirety for 12 months to July 2011.

Despite this, the Company made the decision to consolidate and rationalise its existing GELs portfolio in South Australia, with Primary Industries and Resources of South Australia ("PIRSA"). This resulted in GEL 505 and Gel 506 being surrendered on November 17, 2011, and the balance of the GELs consolidated into 3 (subject to final approval from the state regulator).

Financial Overview

Results of Operations

The consolidated comprehensive loss of the Consolidated Entity after providing for income tax for the financial year ended September 30, 2011 was $1,507,701 compared to a profit for the previous corresponding period of $349,142.

The significant differences since the previous period:

- The award of the Fiale Geothermal Development Project to the Consolidated Entity by the Government of Djibouti
- $5,000,000 AUD funding agreement with Socius Capital
- Engagement of SKM and consequential receipt of SKM's Concept Study of Copahue Project
- Completion of Independent Resource Assessment by Sinclair Knight Merz (SKM) which resulted in a significant Copahue resource upgrade (150%)
- Copahue Environmental Impact Assessment completed by Estudios y Servicios Ambientales has been submitted to regulatory authorities in Argentina
- Negotiations that culminated in a post year end signing of Letters of Intent for the Sale/Purchase of Copahue's Electricity in Argentina with Loma Negra (10MWe) and Electrometalurgica Andina SAIC (30MWe)
- General Meeting held passing resolutions enabling capital flexibility
- The receipt of 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 development.

Summary of Results

The following table sets forth selected financial information for each of the most recent eight quarters and three previous years prepared in accordance with international financial reporting standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB").

The functional currency of the Company and each subsidiary is Australian dollars, except for Spring River Resources Inc whose functional currency is U.S. dollars ("USD").

Summary of Financial Results for the Eight Recent Quarters

Quarter Ending	Revenue AUD $	Net Profit/(Loss) AUD $	Net Profit/(Loss) per Share AUD $
September 30, 2011	-	(327,000)	(0.0006)
June 30, 2011	-	(427,428)	(0.0008)
March 31, 2011	-	(385,256)	(0.0007)
December 31, 2010	-	(368,017)	(0.0007)
September 30, 2010	-	(247,328)	(0.0001)
June 30, 2010	-	(29,518)	(0.0001)
March 31, 2010	-	784,700	0.0019
December 31, 2009	-	(158,712)	(0.0018)

Summary of Financial Results for the Three Recent Years

Year Ending	Revenue AUD $	Net Profit/(Loss) for the Year AUD $	Net Profit/(Loss) per Share Basic AUD $	Total Assets AUD $	Total Liabilities AUD $
September 30, 2011	-	(1,507,701)	(0.28)	4,120,403	665,732
September 30, 2010	-	349,142	0.09	3,005,890	314,029
September 30, 2009	2,068	(1,434,590)	(0.016)	172,527	4,345,952

Liquidity and Capital Resources

The Company has financed its operations mainly through the sale of its common shares or securities convertible into common shares to investors.

The Company had a working capital deficiency of $293,451 at September 30, 2011 compared to a working capital $5,356 at September 30, 2010. The deficiency primarily related to an increase in amounts due to related parties. Since the year end the Company has raised over $600,000 in equity and has $3,000,000 remain available investment through a Share Purchase Agreement with Socius CG II.

In addition, the Consolidated Entity announced it has mandated the Inter-American Development Bank's ("IDB'" or "the Bank") Structured and Corporate Finance Department ("SCF"), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

Share Capital

During the period from October 1, 2010 to September 30, 2011 the Company issued the following shares:

	Number		Consideration	
	2011	2010	**2011**	2010
	No.	No.	**$**	$
Balance, beginning of period	**524,178,687**	90,536,522	**15,558,571**	11,011,753
Shares issued in period				
October 26, 2010 Security issued as consideration for the acquisition of African opportunities	**9,125,000**	-	**228,125**	-
October 26, 2010 Security issued in settlement of a commercial agreement for African opportunities	**912,500**	-	**22,813**	-
October 26, 2010 Security issued to sophisticated investors	**10,000,000**	-	**250,000**	-
February 14, 2011 Security issued to Socius CG II pursuant to a Share Subscription Agreement	**25,316,456**	-	**2,000,000**	-
Shares issued in prior period				
January 21, 2010 consolidation on 1 for 3 basis	-	(60,357,835)	-	-
January 25, 2010 Security issued to vendors of Earth Heat Australia Pty Ltd[1]	-	260,000,000	-	2,600,000
January 25, 2010 Security issue on conversion of convertible notes (Note 3)	-	69,000,000	-	2,685,564
January 25, 2010 Security issued in part settlement of Mr Jack Mulready's remuneration.	-	5,000,000	-	50,000
January 25, 2010 Security issue as part of share issue costs	-	40,000,000	-	400,000
January 25, 2010 Security issue at $0.01	-	120,000,000	-	1,200,000
Share issue costs	-	-	**(283,063)**	(393,182)
Balance, end of period	**569,532,643**	524,178,687	**17,776,446**	17,554,135

Notes:

(1) Pursuant to a share sale agreement dated January 11, 2010, 260,000,000 ordinary shares with a fair value of $2,600,000 were issued to the existing shareholders of Earth Heat Australia Pty Ltd in exchange for control of Earth Heat Australia Pty Ltd. The share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd included the following conditions that occurred prior to acquisition:

- 1 for 3 share consolidation; and
- 69,000,000 shares issued in full and final settlement of liabilities and loans amounting to $3,400,000, resulting in a $1,995,564 increase in the fair value of share issued and a $704,436 credit to the statement of comprehensive income.

Shares under option or issued on exercise of options

During the period from October 1, 2010 to September 30, 2010 the Company adopted its current employee share and option scheme (the "Scheme") effective February 23, 2011. Under the Scheme, the Company may grant options to acquire ordinary shares in Earth Heat Resources Ltd to a maximum of 5% of the issued and outstanding common shares at the date of grant. The fair value of share options is estimated using the Black-Scholes option pricing model.

The incentive stock option plan previously approved by the shareholders has lapsed. The Company previously adopted its current stock option plan (the "Plan") effective December 19, 2005, under the Plan, the Company may grant options to acquire ordinary shares in Earth Heat Resources Ltd to a maximum of 10% of the issued and outstanding common shares at the date of grant. The final 73,333 options issued under the Plan were exercisable prior to November 4, 2010 remained unexercised at their expiry date and have lapsed.

The Company has the following history of share options outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2009	2,440,000	CAD$ 0.180
Consolidated on 1 for 3 basis, January 21, 2010 (1)	(1,126,667)	-
Expired November 10, 2009	(750,000)	CAD$ 0.180
Expired April 8, 2010	(490,000)	CAD$ 0.540
Balance, September 30, 2010 (2)	73,333	AUD $0.540
Balance, September 30, 2010	73,333	AUD$ 0.540
Expired November 10, 2010 (3)	(73,333)	AUD$ 0.540
Issued on February 14, 2011 (4)	12,658,228	AUD$ 0.079
Issued on February 25, 2011 (5)	42,000,000	AUD$ 0.044
Lapsed on May 11, 2011 (5)	(20,000,000)	AUD$ 0.065
Lapsed on August 3, 2011 (5)	(10,000,000)	AUD$ 0.030
Balance, September 30, 2011	24,658,228	AUD$ 0.051
Balance, September 30, 2011	24,658,228	AUD$ 0.051
Exercised October 31, 2011 (6)	(10,000,000)	AUD$ 0.020
Issued December 12, 2011 (7)	10,000,000	AUD$ 0.060
Balance, at the date of this report	24,658,228	AUD$ 0.064

All options granted had exercise prices equal to or higher than market on the day of grant.

Notes:

(1) During the prior year ended September 30, 2010, 1,240,000 options exercisable at CAD$0.54 (prior to January 21, 2010 CAD$0.18) were unexercised at their expiry date and as a consequence have lapsed.

(2) On January 21, 2010 the options were consolidated on a 1 for 3 basis at an exercise price of CAD$0.54 in accordance with ASX Listing Rule 7.22.

(3) The 73,333 options exercisable at CAD$0.54 prior to November 4, 2010 remained unexercised at their expiry date and have lapsed.

(4) On February 14, 2011, 25,316,456 ordinary shares and 12,658,228 unquoted options were issued to Socius CG II for $2,000,000 as the first tranche pursuant to a Share Subscription Agreement dated February 14, 2011. The Investor shall have a right during the term of the options (after expiry of 10 days) to surrender the options for a number of shares the aggregate value of which is to be determined by a Black Scholes calculation as detailed in the Share Sale Agreement. The 12,658,228 unquoted options issued have an exercise price of $0.079 and expire on February 14, 2006. A Black-Scholes valuation of the issued options amounted to $651,898 was based on 75% volatility, a strike and share price of $0.079 and 5.5% risk free rate.

(5) On February 25, 2011, as part of the Executive Director, Alexander Rose-Innes remuneration package, 30,000,000 options were to be issued, subject to certain conditions, including shareholder approval. The Black Scholes valuation of vested options at the effective grant date of August 3, 2010 of those options vested amounted to $12,000. On May 11, 2011 Mr Rose Innes resigned and as a result 20,000,000 options lapsed and the remaining 10,000,000 lapsed unexercised on August 3, 2011. In addition, on February 25, 2011, 12,000,000 options with an effective date of July 30, 2010 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 of those options vested amounted to $6,000. The Black Scholes valuation was based on the exercise prices listed below, an interest free rate of 5.5%, 75% volatility, strike price of $0.07 with no dividend yield.

(6) Subsequent to the year ended September 30, 2011, 10,000,000 options were exercised on October 31, 2011 at $0.02.

(7) On December 12, 2011 $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased, exercisable at 6 cents, anytime up to December 12, 2012.

The following table summarises information about the stock options outstanding and exercisable at the date of this report.

	Exercise Price September 30, 2011	No, of Options September 30, 2011	Exercise Price September 30, 2010	No. of Options September 30, 2010
November 4, 2010 (1)	-	-	$0.54	73,333
February 14, 2011	$0.079	12,658,228	-	-
February 25, 2011 (2)	$0.030	2,000,000	-	-
December 12, 2011(3)	$0.060	10,000,000	-	-
End of the period	$0.068	24,658,228	$0.54	73,333

Notes:

(1) On November 10, 2010 the options remained unexercised and have lapsed.

(2) On October 31, 2011 10,000,000 options were exercised at $0.02, leaving 2,000,000 vested options at the date of this report.

(3) On December 12, 2011 $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching option was issued for every two shares purchased, exercisable at 6 cents, anytime up to December 12, 2012.

The Company had the following securities on issue at December 30, 2011:

	Number
Ordinary shares quoted on the ASX	596,218,676
Ordinary shares not quoted on the ASX	3,313,967
Total ordinary shares	599,532,643
Stock options issued	24,658,228

Related Party Transactions

1. Related Party Transactions

During the year the Company entered into employment contracts and loan agreements with directors and consultants that are considered to be related parties. The purpose of the transactions entered into with related parties was to facilitate the Company's strategic, operating and financing activities.

The Related party transactions mentioned above are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms of repayment.

Related Party	Debtor/(Creditor) Balance 2010 $	(Charge)/Credit to Consolidated Restated Income Statement $	Paid/(Received) during the period $	Debtor/(Creditor) Balance 2011 $
Remuneration Payable to Directors including superannuation				
S Pearce	(44,962)	(28,760)	-	(73,722)
D Sutton	(44,411)	(28,760)	-	(73,171)
R Shaw	(44,905)	(65,000)	-	(109,905)
N Zillman	(28,280)	(48,000)	-	(76,280)
A Rose-Innes	-	(56,000)	6,000[1]	(50,000)
T Marshall –annual leave provision	(3,745)	(338,638)	304,999	(37,384)
	(166,303)	(565,158)	310,999	(420,462)

[1] Equity based payment

Related party	Debtor/(Creditor) Balance 2009 $	(Charge)/Credit to Consolidated Restated Income Statement $	Cash/Shares[3] Paid/(received) during the period $	Debtor/(Creditor) Balance 2010 $
Remuneration Payable to Directors including superannuation				
B McLeod	(83,100)	73,254	9,846[5]	-
J Mulready includes annual leave provision	(556,476)	548,958	7,518[5]	-
S Pearce	(174,578)	83,913	45,703[5]	(44,962)
D Sutton	(83,100)	9,419	29,270[5]	(44,411)
R Shaw	-	(44,905)	-	(44,905)
N Zillman	-	(28,280)	-	(28,280)
T Marshall	-	(163,261)	159,516	(3,745)
	(897,254)	479,098	251,853	(166,303)
Interest Bearing Liabilities[4]				
Imperial Corporation Pty Ltd[1]	(56,809)	-	56,809	-
Martin Place Securities Pty Ltd[2]	(457,600)	-	457,600[5]	-
Optex Exchange Pty Ltd[2]	(238,702)	-	238,702[5]	-
	(753,111)	-	753,111	-
Other Creditors				
Office expenses provided by Imperial Corporation Pty Ltd[1]	(203,500)	141,084	62,416[5]	-
Non-interest bearing loans from Martin Place Securities Pty Ltd[2]	(175,447)	-	175,447[5]	-
Non-interest bearing other creditors from Martin Place Securities Pty Ltd[2]	(6,609)	-	6,609[5]	-
Non-interest bearing loans from North American Oil & Gas [3]	(100,000)	-	100,000[5]	-
	(485,556)	141,084	344,472	-
Convertible Debentures				
Optex Exchange Pty Ltd[2]	(8,401)	-	8,401[5]	-
Loan Receivable in subsidiary				
North American Oil & Gas[3]	59,543	59,543	-	-

Notes:

(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited. Mr David Sutton is also a director of Imperial Corporation Pty Limited.

(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

(3) Joint Venture contributions were paid on behalf of North American Oil & Gas of which one of its Directors, Mr David Sutton is also a Director of the Company. The loan is interest free and unsecured.

(4) The Notes Payable are unsecured and accrue interest at Nil% (2010: 7%) pa.

(5) During the year certain outstanding liabilities were repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd. See notes below for further details.

During the period $Nil (2010: $20,661 and $19,800) was paid to Imperial Corporation Pty Limited in relation to a loan and expenses respectively. In the year ended September 30, 2011 Imperial Corporation Pty Limited invoiced $Nil (2010: $26,400) in management fees, professional fees and rent (including GST). Mr Bruce McLeod is director and shareholder of Imperial Corporation Pty Limited. The outstanding liability of $210,100 in 2010 was repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

In the prior periods loans were made available by Martin Place Securities Pty Ltd, of which one of its Directors at the time the loans were made available, is also a Director of the Company. At September 30, 2009 the loan amounted to $457,600 (unsecured and accrue interest at $Nil (2010: 7% pa) and $182,056 (unsecured and interest free other creditors and loan). During the year interest amounted to $Nil (2010: $2,717). During the prior period the outstanding liability of $671,178 was repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details). The balance of the loans and other liabilities at balance date including interest is $Nil (2010: $Nil).

Loans payable include $nil (2010: $nil, 2009: $238,702) due to Optex Exchange Pty Ltd owned by a Director of the Company, the loan is unsecured and accrues interest at 7% (2010: 7%, 2009: 8%) pa. The Optex Exchange Pty Ltd loan was repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

Joint Venture contributions were paid on behalf of North American Oil & Gas, a Company of which one of its Directors is also a Director of the Company. The balance of loans owing at balance date was $nil (2010: $nil; 2009 debtor: $59,543). There is a corresponding loan from this Company of $nil (2010: $nil; 2009 Creditor: $100,000) at balance date. The balance of the loans and other liabilities at balance date including interest is $nil (2010: $nil; 2009: $633,047). During the year the outstanding net liability of $50,000 was repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

Convertible debentures and interest amounting to $8,555 at September 30, 2009 owed to Optex Exchange Pty Ltd were repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details). The interest charged on convertible debentures owing to the related parties amounted to $Nil (2010: $1,088).

In addition, $Nil (2010: $70,673 and $27,874) expenses were reimbursed to director related entities of Torey Marshall and Dr Raymond Shaw respectively.

The following loans and other liabilities were repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

Related party	**Amount paid in shares $**	**Credit to the Statement of Comprehensive Income $**
Imperial Corporation Pty Ltd(1)	377,584	-
Martin Place Securities Pty Ltd(2)	1,206,241	-
North American Oil & Gas(2)	50,000	39,858
Optex Exchange Pty Ltd Convertible Debentures(2)	15,378	-
Optex Exchange Pty Ltd(2)	431,460	-
	2,080,693	39,858

Notes:

(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited.

(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

During the year, salaries of $366,999 (2010: credit $(389,442)) and directors fees of $170,520 (2010: credit $(93,399)) were paid or accrued by the Company to Directors. The prior year remuneration included the following key personnel's unpaid remuneration and superannuation that were paid in shares (pursuant to the share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details):

Name	Wages and Superannuation $	Shares Issued No.	Fair Value @ $0.01 $	Credit to statement of comprehensive income $
Bruce McLeod[1]	85,838	1,741,083	17,411	68,427
David Sutton	85,838	1,741,083	17,411	68,427
Jack Mulready[1] [2]	498,503	5,000,000	50,000	448,503
Stephen Pearce	178,418	3,618,967	36,190	142,228
Roderick Hollingsworth[1]	34,609	701,988	7,020	27,589
Total	883,206	12,803,121	128,032	755,174

Notes:
[1] Previous key management personnel.
[2] Jack Mulready's liabilities exclude the annual leave provision of $92,866. During the period $40,000 was paid in cash, pursuant to the share sale agreement (refer to Note 3 for further details).

2. Key Management Personnel

Key management personnel include the directors and company secretary.

The names of persons who were directors of the Company at any time during the financial year were:

Dr R Shaw
T Marshall (appointed January 22, 2010)
A Rose-Innes (appointed August 3, 2010, resigned May 11, 2011)
N Zillman (appointed February 26, 2010)
S Pearce (resigned May 11, 2011)
D Sutton (resigned May 11, 2011)
B W McLeod (resigned January 22, 2010)
J Mulready (resigned January 12, 2010)

S Pearce is a Joint Company Secretary (resigned May 11, 2011)
M Lucas-Smith is a Company Secretary (appointed January 22, 2010)

3. Remuneration of Key Management Personnel

Shares or options over unissued shares in the Company held during the financial year by any key management personnel of the Company including their related parties as at September 30, 2011 are disclosed in the Note 13 to the Directors Report.

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Remuneration arrangement of key management personnel are disclosed in the Remuneration Report that forms part of the Director's Report.

4. Directors' Interests

Shares or options over unissued shares in the Company held by any director of the Company including their related parties as at September 30, 2011 are as follows:

Director	Number of shares owned over which control is exercised	Number of options owned or over which control is exercised - including exercise
Raymond Shaw[1]	68,089,641	Nil
Torey Marshall[2]	69,363,925	Nil
Norman Zillman[3]	66,408,294	Nil

Notes:

[1] 63,414,641 of Dr Raymond Shaw's shares are held in voluntary escrow until January 22, 2012.
[2] 63,414,641 of Torey Marshall's shares are held in voluntary escrow until January 22, 2012.
[3] 63,414,628 of Norman Zillman's shares are held in voluntary escrow until January 22, 2012.

Subsequent Events

On October 5, 2011 the Company announced the signing of a Letter of Intent & Heads of Agreement for a power purchase off take in Argentina with Loma Negra CIASA.

On October 12, 2011 the Company held an Extraordinary General Meeting and the shareholders' passed the following resolutions:

- The Shareholders approve and authorise the prior issue of 25,316,456 ordinary shares and 12,658,228 unquoted options to Socius Capital Group LLC in accordance with the Share Subscription Agreement.
- The Shareholders approve and authorise the future issues of ordinary shares and unquoted options to Socius Capital Group LLC in the three month period following October 12, 2011, subject to the terms of the Share Subscription Agreement.
- The Shareholders approve and authorise the future issue of 136,000,000 ordinary shares at an issue price of at least 80% of the volume weighted average market price calculated over the last 5 days on which the security were recorded.
- The Shareholders approve and authorise the future issue of 20,000,000 unquoted options at no cost to the recipient (who shall not be a related party), as required for corporate purposes.

On October 18, 2011 the Company announced the signing of a Letter of Intent & Heads of Agreement for a power purchase off take in Argentina with Electrometalurgica Andina SAIC.

On October 31, 2011 10,000,000 options were exercised.

On November 17, 2011 the Consolidated Entity surrendered GEL 505 and GEL 506.

On November 24, 2011 the Consolidated Entity announced it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ('SCF'), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

On December 12, 2011 $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased, exercisable at 6 cent within 12 months of the date of the placement.

Except for the matters referred to above, there is no other matter or circumstance that has arisen since September 30, 2011 that has significantly affected or may significantly affect:

a) the operations, in financial years subsequent to September 30, 2011, of the Consolidated Entity;
b) the results of those operations; or
c) the state of affairs, in financial years subsequent to September 30, 2011 of the Consolidated Entity.

Dividends

The directors do not recommend the payment of a dividend.

Moving Forward

2012 will be a busy year for the Company, in particular the Copahue project is expected to formally close its senior debt facility following the completion of the Bankabile Feasibility Study, and signature on key Power Purchase Agreements. This project is essentially the engine room for the Company and its ascension to the top the mountain in terms of peers in the Australian Space.

Likely Developments

The Company is aggressively pursuing its new strategy to become a major part of the New Energy Economy as a New Energy Company. This involves the continued screening of suitable opportunities that will meet advanced project status criteria set by the Company.

Equally important on the forward profile of the Company will be final clarity on the structure, scope, size and ultimately returns on the Djibouti project as the Company is working towards formalising a new operating structure which will include new partners diversifying the sole funding risks.

As a whole, Africa is an extremely important part of the Company moving forward, and several new projects are expected to be announced during the new year, subject to funding requirements being transparently available at the time.

Except for information disclosed on certain developments and the expected results of those developments included under review of operations, further information on likely developments in operations of the consolidated group and the expected results of those operations have not been disclosed in this report because the Directors' believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental Regulations

There are significant environmental regulations surrounding mining activities which have been conducted by Earth Heat Resources Ltd. However, there has been no breach of these regulations during the financial year or in the period subsequent to the end of the financial year and up to the date of this report.

Auditors

On November 22, 2011 the Company appointed Grant Thornton as the casual auditor of the Company; this appointment is to be confirmed by shareholders at the 2012 annual general meeting of the company. K S Black & Co resigned as the auditor on November 29, 2011.

Non-Audit Services

The directors have adopted specific policies and procedures for the engagement of non-audit services and are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors' behalf) is compatible with the general standard of independence for auditors imposed by the IFRS.

The aggregate fees paid or liable to be paid by the Company's external auditors for the last financial year are as follows:

	2011 $	2010 $
K S Black & Co		
Audit fees – Full Year	**-**	24,490
– Half Year	**8,250**	7,850
– Other Reports	**18,690**	-
Tax related services	**2,000**	800
Other	**-**	19,200
	28,940	52,340
Grant Thornton		
Audit fees – Full Year	**28,480**	-
– Other Reports	**10,000**	-
	38,480	-
Total	**67,420**	52,340

Indemnifying Officers

During the financial year, the company paid a premium in respect of a contract insuring the Australian directors of the company (as named above), the Australian company secretary, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Critical Accounting Policies and Estimates

Determining Fair Values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based upon the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Geothermal, Oil and Gas Interests

Exploration, evaluation and development expenditure incurred is accumulated in respect of each current identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment when fact and circumstances suggest that the carrying amount of an

exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

The Consolidated Entity follows the full cost method of accounting for natural gas and petroleum property interests and geothermalinterests whereby all costs of acquisitions, exploring for and developing geothermal, natural gas and petroleum reserves are initially capitalised into areas of interest. Such costs include land acquisition costs, geological and geophysical expenses, and carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Accounting standards and interpretations issued but not yet effective:

Accounting – Standards issued by the IASB	Effective date
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures IFRS 10 *Consolidated Financial Statements* defines the principle of control and establishes control as the basis for determining which entities are consolidated in consolidated financial statements. IFRS 10 supersedes the requirements relating to consolidated financial statements in IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) and SIC-12 *Consolidation — Special Purpose Entities.* IFRS 11 Joint Arrangements establishes principles that are applicable to the accounting for all joint arrangements. IFRS 11 supersedes the requirements in IAS 31 Interests in Joint Ventures and SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers.* IFRS 12 *Disclosure of Interests in Other Entities* provides enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity; the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. IAS 27 *Separate Financial Statements* was amended as a result of issuing IFRS 10. Requirements relating to consolidated financial statements have been removed. Requirements from IAS 28 *Investments in Associates (as revised in 2003)* and IAS 31 have been relocated to IAS 27 to create one standard that deals with separate financial statements. The amended standard supersedes IAS 27 (as amended in 2008) and the requirements related to separate financial statements in IAS 28 (as revised in 2003) and replaces/ eliminates IAS 31. IAS 28 *Investments in Associates and Joint Ventures* was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The disclosure requirements from IAS 28 (as revised in 2003) have been included in IFRS 12. The amended standard supersedes IAS 28 (as revised in 2003).	Annual periods beginning on or after January 1, 2013. Earlier application of IFRS 10, IFRS 11, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are permitted if IFRS 10, IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are applied at the same time. An entity is encouraged to provide information required by IFRS 12 earlier than annual periods beginning on or after January 1, 2013.

Accounting – Standards issued by the IASB	Effective date
IFRS 9 Financial Instruments IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.	Annual periods beginning on or after January 1, 2013. Early adoption is permitted.
IAS 1 Presentation of Financial Statements IAS 1 *Presentation of Financial Statements* was amended to improve the consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. Consistent with this requirement, income tax on items presented in other comprehensive income is required to be allocated between items that will not be reclassified subsequently to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax.	Annual periods beginning on or after January 1, 2012. Early adoption is permitted.
IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) The IASB has published some limited scope amendments to IAS 12 *Income Taxes*, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 *Investment Property.* Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale. SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. This guidance has been incorporated into IAS 12 as part of the amendments.	Annual periods beginning on or after July 1, 2011. Early adoption is permitted.

Accounting – Standards issued by the IASB	Effective date
IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) The IASB has published two limited amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The first amendment replaces references to a fixed date of '1 January 2004' that were in IFRS 1 with references to 'the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is available to entities that are emerging from a period of severe hyperinflation, whether or not they had applied IFRS prior to the severe hyperinflationary period.	Annual periods beginning on or after July 1, 2011. Early adoption is permitted.
IFRS 7 Financial Instruments: Disclosures The IASB amended IFRS 7 *Financial Instruments: Disclosures for Disclosures – Transfers of Financial Assets.* The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognised in their entirety.	Annual periods beginning on or after July 1, 2011. Early adoption is permitted.

Financial Instruments and Other Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. As of the date hereof, the Company's investment in geothermal, oil and gas properties has full exposure to commodity risk, both upside and downside. As the commodity price moves so too does the underlying value of the Company's projects.

The Company's property interests overseas make it subject to foreign currency fluctuations which may adversely affect the Company's financial position and results.

Risks and Uncertainties

The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company's business. The risk and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

Risk Relating to Earth Heat's ("EHR") Business and Industry

Geothermal exploration and development programs are highly speculative, are characterized by significant inherent risk and costs and may not be successful

EHR's future performance depends on its ability to discover and establish economically recoverable and sustainable geothermal resources on EHR's properties through its exploration and development programs. Geothermal exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into generating power plants. There is no assurance that EHR's exploration programs will be successful. Despite historical exploration work, EHR's properties are without a known geothermal resource. Substantial exploration and development work is required in order to determine if any economically recoverable and sustainable geothermal resources are located on these exploration properties. Successfully discovering geothermal resources is dependent on a number of factors, including the technical skill of exploration personnel involved. Even in the event commercial quantities of geothermal resources are discovered, it may not be commercially feasible to bring power generation facilities into a state of commercial production from such geothermal resources. The commercial viability of a geothermal resource once discovered is dependent on a number of factors, some of which are particular attributes

of the resource, such as heat content (the relevant composition of temperature and flow rate/pressure), useful life, operational factors relating to the extraction of fluids from the geothermal resource, proximity to infrastructure, capital costs to construct a power plant and related infrastructure and energy prices. Many of these factors are beyond EHR's control.

Geothermal exploration and development costs are high and are not fixed. A geothermal resource cannot be relied upon until substantial development, including drilling and testing, has taken place. The costs of development drilling are subject to numerous variables such as unforeseen geologic conditions underground that could result in substantial cost overruns. Drilling at EHR's properties may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

EHR's drilling operations may be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond EHR's control, including economic conditions, mechanical problems, title problems, weather conditions, compliance with governmental requirements and shortages or delays of equipment and services.

If EHR's drilling activities are not successful, it could materially adversely affect its business, financial condition, future results and cashflow.

EHR's has a limited operating history

EHR's has a very limited history of operations and will be subject to many of the risks common to start up enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that EHR's will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

As a result of EHR's planned exploration and plant expansion projects, over the near term EHR does not expect that its operating revenues will be sufficient to cover its expenses. EHR's ability to generate greater revenues and become profitable will depend on a number of factors, including its ability to:

- successfully complete its planned expansion programs for its Copahue and Djibouti projects;
- advance planned and future development programs on EHR's properties to commercial operation;
- verify geothermal resources on EHR's properties that are sufficient to generate a favourable economic return from electricity sales;
- acquire electrical transmission and interconnection rights for EHR's geothermal power plant development projects;
- enter into PPAs for the sale of electricity from EHR's geothermal power plant development projects at prices that support its operating and financing costs;
- finance and complete the development and construction of geothermal power plants on EHR's properties;
- operate producing geothermal power plants on a profitable basis;
- secure adequate capital to support EHR's expansion, exploration and development programs and finance its acquisitions;
- attract and retain qualified personnel; and
- arrange project financing on reasonable terms.

EHR's financial performance depends on its successful operation of geothermal power plants, which is subject to various operational risks

EHR's financial performance depends on its successful operation of geothermal power plants. The cost of operation and maintenance and the operating performance of a geothermal power plant may be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- regular and unexpected maintenance and replacement expenditures;
- shutdowns due to the breakdown or failure of the plant's equipment or the equipment of the transmission serving utility;
- labour disputes;
- catastrophic events such as fires, explosions, earthquakes, landslides, floods, releases of hazardous materials, severe storms or similar occurrences affecting a power plant, any of the power purchasers from a power plant or third parties providing services to a power plant; and
- the aging of power plants, which may reduce their operating performance and increase the cost of their maintenance.

Any of these events could significantly increase the expenses incurred by a power plant or reduce the overall generating capacity of a power plant and could significantly reduce or entirely eliminate the revenues generated by a power plant, which in turn would reduce EHR's net income and could materially and adversely affect its business, financial condition, future results and cashflow.

EHR's geothermal resources may decline over time and may not remain adequate to support the life of its power plants

The operation of geothermal power plants depends on the continued availability of adequate geothermal resources. Although EHR believes its geothermal resources will be fully renewable if managed properly, it cannot be certain that any geothermal resource will remain adequate for the life of a geothermal power plant. Any geothermal resource may suffer an unexpected decline in capacity to generate electricity. A number of events could cause such a decline or shorten the operational duration of a geothermal resource.

These events include:

- failure to recycle all of the geothermal fluids used in connection with the applicable geothermal resource
- failure to properly maintain the hydrological balance of the applicable geothermal resource
- failure of a well due to casing, cementing, improper or faulty equipment, or general reservoir damage
- the unexpected depletion of the reservoir itself, ahead of schedule versus financing committments

If the geothermal resources available to a power plant developed by EHR's become inadequate, EHR's may be unable to perform under the PPA for the affected power plant, which in turn could reduce its revenues and materially and adversely affect its business, financial condition, future results and cash flow. If EHR's suffers a decline in its geothermal resources, it may have an adverse impact on the covenants in the related projected financing documents and may impair its ability to repay its debt and provide for the anticipated tax benefits.

Uncertainty in the calculation of geothermal resources and probabilistic estimates of gross MW capacity

There is a degree of uncertainty attributable to the calculation of geothermal resources and probabilistic estimates of gross MW capacity. Until a geothermal resource is actually accessed and tested by production and injection wells, the temperature and composition of underground fluids must be considered estimates only. In addition, estimates as to the percentage of the heat that can be expected to be recovered at the surface is subject to a number of assumptions including, but not limited to, resource base temperature, areal extent of the geothermal reservoir, thickness of the geothermal reservoir, percentage of resource recovery and the expected lifetime of the geothermal reservoir. If any of these assumptions prove to be materially incorrect, it may affect the gross MW capacity of a property.

Geological occurrences beyond EHR's control may compromise its operations and their capacity to generate power

In addition to the substantial risk that production wells that are drilled will not be productive or may decline in productivity after commencement of production, hazards such as unusual or unexpected geologic formations, downhole conditions, mechanical failures, blowouts, cratering, localized ground subsidence, localized ground inflation, explosions, uncontrollable releases or flows of well fluids, pollution and other physical and environmental risks are inherent in geothermal exploration and production. These hazards could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, failure to find a proper injection zone and suspension of operations.

Additionally, active geothermal areas, such as the areas in which EHR's operations and properties are located, are subject to frequent low-level seismic disturbances. Serious seismic disturbances are possible and could result in damage to its projects or equipment or degrade the quality of its geothermal resources to such an extent that EHR's could not perform under the PPA for the affected project, which in turn could reduce its net income and materially and adversely affect EHR's business, financial condition, future results and cash flow. If EHR's suffers a serious seismic disturbance, its business interruption and property damage insurance may not be adequate to cover all losses sustained as a result thereof. In addition, insurance coverage may not continue to be available in the future in amounts adequate to insure against such seismic disturbances.

EHR's may be unable to obtain the financing it needs to pursue its growth strategy

When EHR's identifies a geothermal property that it may seek to acquire or to develop, a substantial capital investment often will be required. EHR's continued access to capital, through project financing or through credit facilities or other arrangements with acceptable terms is necessary for the success of its growth strategy. EHR's attempts to secure the necessary capital may not be on favourable terms, or successful at all. Market conditions and other factors may not permit future project and acquisition financings on terms favourable to EHR's. EHR's ability to arrange for financing on favourable terms, and the costs of such financing, are dependent on numerous factors, including general economic and capital market conditions, investor confidence, the continued success of current projects, the credit quality of the project being financed, the political situation in the jurisdiction in which the project is located and the continued existence of tax laws which are conducive to raising capital. If EHR's is unable to secure capital through credit facilities or other arrangements, it may have to finance its projects using equity financing which will have a dilutive effect on the common shares of EHR's. Also, in the absence of favourable financing or other capital raising options, EHR's may decide not to build new plants or acquire properties from third parties. Any of these alternatives could have a material adverse effect on EHR's growth prospects and financial condition.

It is very costly to place geothermal resources into commercial production

Before the sale of any power can occur, it will be necessary to construct a gathering and disposal system, a power plant, and a transmission line, and considerable administrative costs will be incurred, together with the drilling of production and injection wells. Future development and expansion of power production at EHR's properties may result in significantly increased capital costs related to increased production and injection well drilling and higher costs for labour and materials. To fund expenditures of this magnitude, EHR's may have to seek additional financing and sources of capital. There can be no assurance that additional capital can be found and, if found, it may result in EHR's having to substantially reduce its interest in the project.

EHR's may continue to incur negative operating cash flow for the foreseeable future

EHR's currently has a negative operating cash flow and may continue to do so for the foreseeable future. EHR's failure to achieve profitability and positive operating cash flows could have a material adverse effect on its financial condition and results of operations.

Energy prices are subject to dramatic and unpredictable fluctuations

The market price of energy is volatile and cannot be controlled. If the price of electricity should drop significantly, the economic prospects of the properties that EHR's has an interest in, the power from which is not contracted for, could be significantly reduced or rendered uneconomic. There is no assurance that, even if commercial quantities of geothermal resources are discovered, a profitable market may exist for the sale of geothermal energy. Factors beyond EHR's control may affect the marketability of any geothermal resources discovered. Prices have fluctuated widely, particularly in recent years. The marketability of geothermal energy is also affected by numerous other factors beyond EHR's control, including government regulations relating to royalties, allowable production and exporting of energy sources, the effect of which cannot be accurately predicted.

Dramatic and unpredictable fluctuations in the market price for energy may affect the ability of EHR's to enter into new PPAs on favourable terms to it, or at all, which would have a negative impact on the revenues of EHR's and its decisions regarding development of additional properties.

Industry competition may impede EHR's ability to access suitable geothermal resources

Significant and increasing competition exists for the limited number of quality geothermal opportunities available. As a result of this competition, some of which is with large established companies with substantial capabilities and greater financial and technical resources than EHR's, it may be unable to acquire additional geothermal operations or properties on terms it considers acceptable. There can be no assurance that EHR's acquisition programs will yield new geothermal operations or properties.

EHR's may be unable to enter into PPAs on terms favourable to EHR's, or at all

The electrical power generation industry, of which geothermal power is a sub-component, is highly competitive and EHR's may not be able to compete successfully or grow its business. The industry is complex as it is composed of public utility districts, cooperatives and investor-owned power companies. Many of the participants produce and distribute electricity. Their willingness to purchase electricity from an independent producer may be based on a number of factors and not solely on pricing and surety of supply. If EHR's cannot enter into PPAs on favourable terms to it, or at all, it would negatively impact EHR's revenue and its decisions regarding development of additional properties.

The power generation industry is characterized by intense competition from electric utilities, other power producers and power marketers. In recent years, there has been increasing competition in the sale of electricity, in part due to an emphasis on short-term or "spot" markets, and competition has contributed to a reduction in electricity prices. For the most part, EHR's expects that power purchasers interested in long-term arrangements will engage in "competitive bid" solicitations to satisfy new capacity demands.

This competition could adversely affect EHR's ability to obtain PPAs and the price paid for electricity by the relevant power purchasers. There is also increasing competition between electric utilities. This competition has put pressure on electric utilities to lower their costs, including the cost of purchased electricity, and increasing competition in the future will put further pressure on power purchasers to reduce the prices at which they purchase electricity from EHR's.

Environmental and other regulatory requirements may add costs and uncertainty

EHR's current and future operations, including exploration and development activities and electricity generation from power plants, require licenses and permits from various governmental authorities and such operations are and will be subject to laws and regulations governing exploration and development, geothermal resources, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, project safety and other matters. Companies can experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations, licenses and permits. There is no assurance that all approvals or required licenses and permits will be obtained. Additional permits, licenses and studies, which may include environmental impact studies conducted before licences and permits can be obtained, may be necessary prior to the exploration or development of properties, or the operation of power plants, in which EHR's has an interest, and there can be no assurance that EHR's will be able to obtain or maintain all necessary licenses or permits that may be required on terms that enable operations to be conducted at economically justifiable costs. Failure to comply with applicable laws, regulations, licensing or permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. EHR's may be required to compensate those suffering loss or damage by reason of its activities, and may have civil or criminal fines or penalties imposed upon it for violations of applicable laws or regulations. Applicable laws and regulations, including environmental requirements and licensing and permitting processes, may require public disclosure and consultation. It is possible that a legal protest could be triggered through one of these requirements or processes that could delay, or require the suspension of, an exploration or development program or the operation of a power plant and increase EHR's costs. Because of these requirements, EHR's could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil or water, including responsibility for remediation costs.

EHR's could potentially discharge such materials into the environment: from a well or drilling equipment at a drill site; leakage of fluids or airborne pollutants from gathering systems, pipelines, power plants or storage tanks; damage to geothermal wells resulting from accidents during normal operations; and blowouts, cratering and explosions.

No assurance can be given that new laws and regulations will not be enacted or that existing laws and regulations will not be applied in a manner that could limit or curtail EHR's exploration and development programs or its operation of power plants. Amendments to current laws, regulations, licenses and permits governing operations and activities of geothermal companies, or more stringent implementation thereof, could have a material adverse impact on EHR's and cause increases in capital expenditures or production costs, or reduction in levels of production or abandonment, or delays in development of the business.

EHR's insurance policies may be insufficient to cover losses

As protection against operating hazards, EHR's intends to maintain insurance coverage against some, but not all, potential losses. EHR's may not fully insure against all risks associated with its business either because such insurance is not available or because the cost of such coverage is considered prohibitive. The occurrence of an event that is not covered, or not fully covered, by insurance could have a material adverse effect on EHR's financial condition and results of operations.

Current global financial conditions have been subject to increased volatility

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact EHR's ability to obtain equity or debt financing in the future and, if obtained, on terms favourable to it. If these increased levels of volatility and market turmoil continue, EHR's operations could be adversely impacted and the trading price of the common shares of EHR's could be adversely affected.

Further information

For further information refer to www.earthheat.com.au and our announcements lodged on the ASX (www.asx.com.au) and on SEDAR (www.sedar.com).

Auditor's Independence Declaration

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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

We have audited the accompanying consolidated financial statements of Earth Heat Resources Limited, which comprise the consolidated statements of financial position as at September 30, 2011 and September 30, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's Independence Declaration Continued

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Earth Heat Resources Limited as at September 30, 2011 and September 30, 2010, and its financial performance and its cash flows for the years ended September 30, 2011 and September 30, 2010 in accordance with International Financial Reporting Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Adelaide, Australia, 30 December 2011

Financial Report

Consolidated Statement of Financial Position

AS AT SEPTEMBER 30, 2011

	2011	2010
	$	$
ASSETS		
Current		
Cash and cash equivalents	**282,120**	157,447
Trade and Other Receivables (Note 8)	**90,161**	161,938
	372,281	319,385
Non-Current		
Restricted Cash (Note 9)	**1**	1
Property and Equipment (Note 10)	**8,533**	4,964
Geothermal, Oil and Gas Interests (Note 11)	**3,739,588**	2,681,540
	3,748,122	2,686,505
TOTAL ASSETS	**4,120,403**	3,005,890
LIABILITIES		
Current		
Trade and other payables (Note 12)	**665,732**	314,029
Total Liabilities	**665,732**	314,029
Net Assets	**3,454,671**	2,691,861
EQUITY		
Issued Capital (Note 13)	**19,772,010**	17,554,135
Share Option Reserve (Note 13)	**64,500**	-
Foreign Exchange Reserve	**(101,036)**	(89,172)
Other Components of Shareholders Equity	**1,406,355**	1,406,355
Accumulated Losses	**(17,687,158)**	(16,179,457)
TOTAL EQUITY	**3,454,671**	2,691,861

Contingent Liabilities (Note 14)
Commitments (Note 15)
Subsequent Events (Note 19)

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

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30, 2011

	2011 $	2010 $
Revenues		
Natural gas and petroleum	-	-
Expenses (Note 5)		
Directors fees	**170,520**	(93,399)
Debenture interest, discount amortisation and accretion	**-**	(134,207)
Equipment depreciation	**2,362**	1,272
Foreign exchange loss/(gain)	**880**	141,783
Interest on loans	**-**	5,222
Management fees	**-**	22,000
Office expenses	**84,369**	11,128
Professional fees	**454,376**	154,455
Insurance	**31,321**	16,543
Shareholder costs	**70,712**	72,001
Property investigation	**-**	13,199
Regulatory and filing fees	**3,024**	8,658
Salaries and benefits	**321,548**	(357,807)
Travel and promotion	**251,933**	49,030
Total Expenses	**1,391,045**	(90,122)
Profit/(Loss) Before Other Items	**(1,391,045)**	90,122
Other Items		
Other liabilities reduction (Note 15)	**-**	373,956
Geothermal project expenses written off	**(158,446)**	(190,180)
Interest income (Note 4)	**41,790**	244
Other revenue	**-**	75,000
Profit/(Loss) Before Income Tax Expense	**(1,507,701)**	349,142
Income Tax Expense (Note 6)	**-**	-
Total Income For The Year	**(1,507,701)**	349,142
Other Comprehensive income for the year, net of tax		
Exchange gain/(loss) differences arising on the translation of foreign operations	**(11,864)**	(26,238)
Total Comprehensive Income/(Loss) For The Year Attributable to Members	**(1,519,565)**	322,904
Earnings Per Share: Basic in cents	**(0.28)**	0.09
Diluted in cents	**(0.26)**	0.09
Weighted Average Number Of Common Shares Outstanding,		
Basic	**538,864,518**	385,702,187
Diluted	**580,501,829**	387,214,392

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

Consolidated Statement of Changes In Equity

FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30, 2011

	Issued Capital $	Foreign Exchange Reserve $	Share Option Reserve $	Other Components of Shareholders' Equity $	Accumulated Losses $	Total $
Balance October 1, 2009	11,011,753	(62,934)	-	1,406,355	(16,528,599)	(4,173,425)
Shares Issued During The Year	6,935,564	-	-	-	-	6,935,564
Share Issue Costs For The Year	(393,182)	-	-	-	-	(393,182)
Total Comprehensive Income For The Year	-	(26,238)	-	-	349,142	322,904
Balance September 30, 2010	17,554,135	(89,172)	-	1,406,355	(16,179,457)	2,691,861
Shares Issued During The Year	2,500,938	-	-	-	-	2,500,938
Share Issue Costs For The Year	(283,063)	-	-	-	-	(283,063)
Total Comprehensive Income For The Year	-	(11,864)	-	-	(1,507,701)	(1,519,565)
Equity settled payment	-	-	64,500	-	-	64,500
Balance September 30, 2011	**19,772,010**	**(101,036)**	**64,500**	**1,406,355**	**(17,687,158)**	**3,454,671**

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

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30, 2011

	2011	2010
	$	$
Cash Flows Provided By/(Used In) Operating Activities		
Net Profit/(Loss)	**(1,507,701)**	349,142
Adjustment for items not requiring an outlay of cash:		
Equipment amortisation	**2,363**	1,272
Unrealized foreign exchange loss	**880**	141,783
Impairment of current assets	**13,424**	-
Share options expensed	**64,500**	-
Non cash reduction in liabilities	**-**	(427,452)
	(1,426,534)	64,745
Changes in non-cash working capital		
Accounts receivable	**3,225**	33,970
Debenture financing costs and sinking funds	**-**	(347,347)
Accounts payable and accrued liabilities	**322,657**	(562,112)
	325,882	(875,489)
Net cash provided by / (used in) operating activities	**(1,100,652)**	(810,744)
Investing Activities		
Property and equipment - Purchases	**(5,931)**	(6,236)
Geothermal Interest - Purchases	**(833,494)**	(212,209)
Proceeds of Oil and Gas Interests	**75,000**	-
Net cash provided by / (used in) investing activities	**(764,425)**	(218,445)
Financing Activities		
Share subscriptions received	**1,989,750**	1,200,000
Due to related parties	**-**	(62,398)
Net cash provided by / (used in)financing activities	**1,989,750**	1,137,602
Cash On The Acquisition Of Subsidiary (Note 3)	**-**	6,375
Increase (Decrease) In Cash and Cash Equivalents	**124,673**	114,788
Cash and cash equivalents, Beginning Of Year	**157,447**	42,659
Cash and cash equivalents, End Of Year	**282,120**	157,447

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

1. Statement Of Significant Accounting Policies

Reporting Entity

The consolidated annual financial report for the financial year ended September 30, 2011 comprise the Company, Earth Heat Resources Ltd and its subsidiaries (together referred to as the "Consolidated Entity").

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.; 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 geothermal, natural gas and petroleum properties.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Use of Estimates and Judgments

Management has also made estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3 – business combinations
- Note 17 – utilisation of tax losses

Basis of measurement

The financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

Functional and presentation currency

The functional currency of the Company and Earth Heat Australia Pty Ltd is Australian dollars; Spring River Resources functional currency is United States dollars. The financial report is presented in Australian dollars unless otherwise stated.

The consolidated annual financial report of the Consolidated Entity as at and for the year ended September 30, 2010 is available upon request from the Company's registered office at Level 7, Ferrari House, 28-30 Grenfell Street, Adelaide SA 5000 or at www.earthheat.com.au.

The Financial Report was authorised for issue by the Directors on December 30, 2011.

The following is a summary of significant accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

1. Statement Of Significant Accounting Policies (continued)

a) Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries:

- Spring River Resources Ltd., a company incorporated to carry out the Company's resource operations in the United States of America ("U.S.A."); and
- Earth Heat Australia Pty Ltd, a company acquired on January 22, 2010 to carry out the Company's geothermal operations in Australia. The subsidiary is incorporated in Australia.

Intra-group balances, any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial report.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

b) Foreign Currency Translation

The Company's primary presentation currency is the Australian dollar. Transactions in foreign currencies are translated into Australian dollars as follows:

I) Monetary items, at the rate prevailing at the balance sheet date;

II) Non-monetary items, at the historical exchange rate; and

III) Revenues and expenses, at the rate in effect at the time of the transaction.

Gains or losses arising on translation are included in the statement of comprehensive income.

1. Statement Of Significant Accounting Policies (continued)

c) Property and Equipment

I) Geothermal, Oil and Gas Interests

Exploration, evaluation and development expenditure incurred is accumulated in respect of each current identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment when fact and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

All costs of acquisitions, exploring for and developing geothermal, natural gas and petroleum reserves are initially capitalised into areas of interest. Such costs include land acquisition costs, geological and geophysical expenses, and carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

II) Provision for restoration and rehabilitation

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on discounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

III) Office Equipment

Equipment is stated at cost less accumulated amortisation, which is recorded over the useful lives of the assets on the declining balance basis at the rate of 30%.

d) Financing Fees

Discount and deferred financing fees arising from debt issues are amortized over the term of debt applying the effective interest rate method.

1. Statement Of Significant Accounting Policies (continued)

e) Revenue Recognition

Revenue from the sale of natural gas, natural gas liquids and crude oil is recognised when title passes from the Company to its customers. Costs associated with the operating of wells and facilities, delivery and production-based royalty expenses, are recognised in the same period in which the related revenue is earned.

f) Earnings Per Share

Earnings per share is calculated based on the weighted average number of common shares outstanding. The Consolidated Entity uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the dilutive effect on earnings per share is calculated to reflect on the use of the proceeds that could be obtained upon the exercise of options and warrants.

It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic and diluted earnings per share are equal as the effects of the assumed conversion of outstanding options and warrants would be anti-dilutive.

g) Income Taxes

The Consolidated Entity follows the balance sheet method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis (temporary differences) and on unclaimed losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse or when losses are expected to be utilised. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of deferred income tax assets recognised is limited to the amount of the benefit that has a probability of recovery.

h) Financial Instrument Policies

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

1. Statement Of Significant Accounting Policies (continued)

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Consolidated Entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

i) Leased assets

Leases in terms of which the Consolidated Entity assumes substantially all the risks and benefits of ownership are classified as finance leases.

Other leases are operating leases and the leases are not recognised on the Consolidated Entity's statement of financial position. For operating leases lease expenses are charged on a straight line basis over the lease term irrespective of the period in which the payment occur.

j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

1. Statement Of Significant Accounting Policies (continued)

All impairment losses are recognised in the statement of comprehensive income. Any cumulative losses in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income. For available-for-sale financial asset that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Consolidated Entity's assets, other than deferred tax assets (see accounting policy g), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy l(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets or groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

k) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income when they are due.

(ii) Long-term service benefits

The Consolidated Entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Consolidated Entity's obligations.

1. Statement Of Significant Accounting Policies (continued)

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave, that are expected to be settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Share-based payment transactions

The employee and officer share scheme allows Company employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

n) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

o) Comparatives

Where applicable, prior year amounts have been adjusted to place a comparable basis with current year amounts.

1. Statement Of Significant Accounting Policies (continued)

p) New Standards but not yet effective

Accounting – Standards issued by the IASB	Effective date
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures IFRS 10 *Consolidated Financial Statements* defines the principle of control and establishes control as the basis for determining which entities are consolidated in consolidated financial statements. IFRS 10 supersedes the requirements relating to consolidated financial statements in IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) and SIC-12 *Consolidation — Special Purpose Entities.* IFRS 11 *Joint Arrangements* establishes principles that are applicable to the accounting for all joint arrangements. IFRS 11 supersedes the requirements in IAS 31 Interests in Joint Ventures and SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers.* IFRS 12 *Disclosure of Interests in Other Entities* provides enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity; the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. IAS 27 *Separate Financial Statements* was amended as a result of issuing IFRS 10. Requirements relating to consolidated financial statements have been removed. Requirements from IAS 28 *Investments in Associates (as revised in 2003)* and IAS 31have been relocated to IAS 27 to create one standard that deals with separate financial statements. The amended standard supersedes IAS 27 (as amended in 2008) and the requirements related to separate financial statements in IAS 28 (as revised in 2003) and replaces/eliminates IAS 31. IAS 28 *Investments in Associates and Joint Ventures* was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The disclosure requirements from IAS 28 (as revised in 2003) have been included in IFRS 12. The amended standard supersedes IAS 28 (as revised in 2003).	Annual periods beginning on or after January 1, 2013. Earlier application of IFRS 10, IFRS 11, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are permitted if IFRS 10, IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) are applied at the same time. An entity is encouraged to provide information required by IFRS 12 earlier than annual periods beginning on or after January 1, 2013.

1. Statement Of Significant Accounting Policies (continued)

p) New Standards not previously applied

Accounting – Standards issued by the IASB	Effective date
IFRS 9 Financial instruments IFRS 9 *Financial Instruments* is the first of a multi-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9.	Annual periods beginning on or after January 1, 2013. Early adoption is permitted
IAS 1 Presentation of Financial Statements IAS 1 *Presentation of Financial Statements* was amended to improve the consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. Consistent with this requirement, income tax on items presented in other comprehensive income is required to be allocated between items that will not be reclassified subsequently to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax.	Annual periods beginning on or after July 1, 2012. Earlier application is permitted.

1. Statement Of Significant Accounting Policies (continued)

p) New Standards not previously applied (continued)

Accounting – Standards issued by the IASB	Effective date
IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) The IASB has published some limited scope amendments to IAS 12 *Income Taxes*, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale. SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. This guidance has been incorporated into IAS 12 as part of the amendments.	Annual years beginning on or after January 1, 2012. Early adoption is permitted.
IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) The IASB has published two limited amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The first amendment replaces references to a fixed date of '1 January 2004' that were in IFRS 1 with references to 'the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is available to entities that are emerging from a period of severe hyperinflation, whether or not they had applied IFRS prior to the severe hyperinflationary period.	Annual years beginning on or after July 1, 2011. Early adoption is permitted.
IFRS 7 Financial Instruments: Disclosures The IASB amended IFRS 7 *Financial Instruments: Disclosures for Disclosures – Transfers of Financial Assets*. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognised in their entirety.	Annual years beginning on or after July 1, 2011. Early adoption is permitted.

q) New Standards not previously applied

The Consolidated Entity has adopted new and revised IFRS issued by the IASB during the current financial year. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available. There is no material financial impact from adopting the new Standards.

2. Determining Fair Values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based upon the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Geothermal Properties

The fair value of geothermal properties recognized as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based upon the quoted market prices of similar items.

3. Acquisition Of Earth Heat Australia Pty Ltd

Pursuant to a share sale agreement dated January 11, 2010, Earth Heat Australia Pty Ltd (formerly Earth Heat Limited) became a wholly owned subsidiary of Earth Heat Resources Ltd ("Company") on January 22, 2010.

260,000,000 ordinary shares with a fair value of $2,600,000 were issued to the existing shareholders of Earth Heat Australia Pty Ltd in exchange for control of that Company.

The assets and liabilities of Earth Heat as at January 22, 2010 are:

	Fair Value 22 January 2010 $
Assets	
Current Assets: Total Cash On Hand	6,375
Non-Current Assets: Capitalised Tenement Costs (Note 11)	2,659,511
Total Assets	2,665,886
Liabilities	
Current Liabilities	
Trade Creditors and other liabilities	3,488
Related Party Loan -Director's Loan -R Shaw	27,874
Related Party Loan –Vibrante Solutions Pty Ltd	34,524
Total Liabilities	65,886
Net (Liabilities)/Assets	**2,600,000**
Consideration	**2,600,000**
Goodwill	**-**

Terms and condition of share sale agreement

The share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd included the following conditions that occurred prior to acquisition:

- 1 for 3 share consolidation; and
- 69,000,000 million shares issued in full and final settlement of liabilities and loans amounting to $3,400,000, resulting in a $1,995,564 increase in fair value of shares issued and a $704,436 credit to the statement of comprehensive income.

4. Other Revenue

	2011	2010
	$	$
Interest revenue – bank	**41,790**	244

5. Expenses

(Loss)/Profit on continuing operations included:	2011	2010
	$	$
Depreciation	**2,362**	1,272
Exploration expenses written off		
Geothermal project expenses written off	**158,446**	190,180
Salaries and benefits		
Wages and salaries – other	**22,095**	31,635
Directors fees – total (Note 16)	**394,638**	(389,442)
Directors fees – reallocated to tenements	**(95,185)**	-
Wages and benefits – income statement	**321,548**	(357,807)

6. Income Tax Expense

The Company is subject to income taxes on its non-consolidated financial statements in Australia, Canada and the U.S.A. The consolidated provision for income taxes varies from the amount that would be computed from applying the aggregate federal and provincial income tax rates to the profit/(loss) before income taxes as follows:

	2011	2010
	$	$
a. The components of tax expense comprise:		
Current tax	**-**	-
b. The prima facie tax on the loss before income tax is reconciled to the income tax as follows:		
Profit/(loss) before tax	**(1,507,701)**	349,142
Prima facie tax payable on profit/(loss) before income tax at 30% 2010: 30%)	**(452,310)**	104,743
Increase/(decrease) in income tax expense due to:		
Non-allowable capital items	**-**	-
Non-deductable expenses	**154**	-
Other deductions	**-**	-
(Under)/over provision in prior year	**-**	-
Tax losses carried forward and not brought into account	**452,156**	(104,743)
Income tax expense/(benefit)	**-**	-

7. Financial Instruments

The Company classifies its financial instruments into loans and receivables, held-to-maturity, held-for-trading or available-for-sale categories.

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

The Company is exposed to the following risks related to its financial assets and liabilities:

Currency Risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Australian dollars. The Company has not entered into any foreign currency contracts to manage foreign currency risk.

Credit Risk

The Company is not exposed to significant credit risk arising from its financial instruments. This risk is minimised as the majority of cash and restricted cash have been placed with major financial institutions.

The maximum exposure to credit risk at balance date is as follows:

	2011	2010
	$	$
Accounts receivable	**90,161**	161,938
Loan receivable	**-**	-

The maximum exposure to credit risk by country is as follows:

	2011	2010
	$	$
Australia	**90,161**	161,938
United States / Canada	**-**	-

7. Financial Instruments (continued)

Market and Interest Rate Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. Interest rate risk consists of two components:

a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's convertible debentures and notes payable are principally at fixed interest rates and, therefore, the Company's exposure to interest rate cash flow risk over the term of the debentures is minimal. The Company is exposed to interest rate price risk on its notes payable and convertible debentures to the extent that changes in prevailing market

			Fixed Interest Maturing in			
		Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
	%	$	$	$	$	$
September 30, 2011						
Financial Assets						
Cash and cash equivalents	5%	282,120	-	-	-	282,120
Accounts receivable		-	-	-	90,161	90,161
Restricted cash		-	-	-	1	1
		282,120	-	-	90,162	372,282
Financial Liabilities						
Accounts payable and accrued liabilities		-	-	-	665,732	665,732
		-	-	-	665,732	665,732
September 30, 2010						
Financial Assets						
Cash and cash equivalents	5%	157,447	-	-	-	157,447
Accounts receivable		-	-	-	161,938	161,938
Restricted cash		-	-	-	1	1
		157,447	-	-	161,939	319,386
Financial Liabilities						
Accounts payable and accrued liabilities		-	-	-	314,029	314,029
		-	-	-	314,029	314,029

7. Financial Instruments (continued)

Sensitivity Analysis

The following tables demonstrate the sensitivity to a change in interest rates in relation to the Consolidated Entity's results and assets.

The Consolidated Entity's exposure to interest rate rise extends only to financial assets as financial liabilities are the subject of fixed interest rates.

	Carrying Amount AUD	+ 1.0% of AUD interest rate	-1.0% of AUD interest rate
	$	$	$
September 30, 2011			
Financial assets	282,120	2,821	(2,821)
Tax charge 30%	-	(846)	846
	282,120	1,975	(1,975)
September 30, 2010			
Financial assets	157,447	1,574	(1,574)
Tax charge 30%	-	(472)	472
	157,447	1,102	(1,102)

The above analysis assumes all other variables remain constant.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts, which are available on demand. The carrying amount in respect of fair value:

Maturity Analysis	Carrying Amount $	Contractual Cash flows $	< 6 months $	6-12 months $	1-3 years $
September 30, 2011					
Accounts payable	665,732	665,732	665,732	-	-
September 30, 2010					
Accounts payable	314,029	314,029	314,029	-	-

8. Trade And Other Receivables

	2011	2010
	$	$
Current		
Trade receivables and prepayments	**49,767**	35,595
Other receivables	**40,394**	126,343
	90,161	161,938

a. Trade receivables past due but not impaired:

As of September 30, 2011, consolidated trade receivables of $nil (2010: $nil) were past due but not impaired.

The other balances within trade receivables are not past due and do not contained impaired assets. Based on the credit history of these receivables, it is expected that these amounts will be received when due.

b. Impaired trade receivables

As at September 30, 2011, trade receivables of $nil (2010: $nil) were impaired.

c. Other receivables

Other receivables arise from transaction outside the usual operating activities of the Company and are unsecured, interest free and repayable on demand.

There are no balances that are past due and impaired. It is expected these balances will be received when demanded.

9. Restricted Cash

On March 23, 2006, the Company purchased $320,000 of non-refundable trade dollars from a public Australian company engaged in bartering services including accounting, legal, printing, office supplies and office space in addition to offering the Company's shares to its members for investment. As at September 30, 2011 and September 30, 2010, $318,715 of the trade dollars remains. An amount of $318,714 has been provided against the carrying value of this asset as at September 30, 2011 and September 30, 2010.

10. Property And Equipment

	Cost	Accumulated Amortisation	Write-Down of Interests	2011 Net Book Value	2010 Net Book Value
	$	$	$	$	$
Oil and gas interests	-	-	-	-	-
Office equipment	18,205	(9,672)	-	**8,533**	4,964
	18,205	(9,672)	-	**8,533**	4,964

Capitalised Expenditure

During the period $6,991 (September 30, 2010: $11,214) of computer equipment was acquired.

11. Geothermal, Oil And Gas Interests

	Opening Cost $	Additions $	Disposals/ Write-Down of Interests $	2011 Net Book Value $	2010 Net Book Value $
Undeveloped oil and gas interests	-	-	-	-	-
Undeveloped geothermal interests					
- Africa	-	474,586	-	**474,586**	-
- Argentina	-	522,087	-	**522,087**	-
- Australia	2,681,540	74,799	(13,424)	**2,742,915**	2,681,540
	2,681,540	1,071,472	(13,424)	**3,739,588**	2,681,540

Capitalised Expenditure

There has been $1,071,472 (2010: $22,029) of capitalised geothermal project expenditure in the Consolidated Entity since the prior period; in addition in January 2010 $52,548 of previously capitalised undeveloped geothermal expenses and $2,606,963 of purchased tenement costs were capitalized, refer below for further details.

During the period $13,424 (2010: $190,180) of capitalized expenditure was written off to the statement of comprehensive income statement (excludes foreign exchange differences).

On January 22, 2010 the acquisition of Earth Heat Australia Pty Ltd resulted to $2,606,963 being capitalised to three South Australian tenements being GEL 337, GEL 338 and GEL 339 (see note 3). Accordingly, it was decided to apportion that cost equally amongst the three tenements. The capitalised amount was determined based on the following fair value of the 260,000,000 ordinary shares issued to the existing shareholders of Earth Heat in exchange for control.

	22 January 2010 $
Consideration of 260,000,000 shares at deemed value $0.01 per share	2,600,000
Net liabilities acquired	6,963
Purchased tenement costs	2,606,963

The Independent Expert valued GEL 337, GEL 338 and GEL 339 at between $4,200,000 and $5,100,000, in this respect, the capitalised tenement value being carried by the Company is only half that of the maximum value which in the Directors view is fair and no impairment is required. Equally the Directors have not valued the subsequently granted GELs acquired in the same transaction, effectively resulting in a 100% impairment of all SA geothermal assets except GELs 337, 338 & 339.

11. Geothermal, Oil And Gas Interests (continued)

Interest 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 Rage 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%
West Florence Joint Venture	Township 18 through 20 South Ranges 69 and 70 West Freemont County Colorado	Colorado USA	Nil%[1]

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	Paratoo SA	100%
Waroonee SA Australia	GEL 339	Waroonee SA	100%
Bulninnie SA Australia	GEL 503	Bulninnie SA	100%
Mt Grainger SA Australia	GEL 504	Mt Grainger SA	100%
Devils Chimney SA Australia	GEL 505	Devils Chimney SA	100%[2]
Bagalowie SA Australia	GEL 506	Bagalowie SA	100%[2]
Price Hill Australia	GEL 507	Price Hill	100%
Kimberlite Project Australia	GEL 523	Kimberlite Project	100%
Kimberlite Project Australia	GEL 524	Kimberlite Project	100%
Kimberlite Project Australia	GEL 525	Kimberlite Project	100%

Notes:

[1] On June 22, 2010 the Group signed a 'letter of Agreement' with Adelaide Energy Limited to sell its West Florence joint venture interests for $75,000. The funds were received on 21 July 2010.

[2] The Australian Geothermal interests in GEL 505 and GEL 506 were relinquished in November 2011.

11. Geothermal, Oil and Gas Interests (continued)

Capitalised Tenement Costs:

Tenement description	Tenement details/code	2011 $	2010 $
Fiale Project, Djibouti[1]	Fiale	474,586	-
Copahue Project, Argentina[2]	Copahue	522,087	-
Mt Grainger SA Australia	GEL 337	900,831	875,898
Paratoo SA Australia	GEL 338	900,832	875,899
Waroonee SA Australia	GEL 339	900,832	875,899
Bulninnie SA Australia	GEL 503	6,712	6,712
Mt Grainger SA Australia	GEL 504	6,712	6,712
Devils Chimney SA[3]	GEL 505	-	6,712
Bagalowie SA[3]	GEL 506	-	6,712
Price Hill	GEL 507	6,712	6,712
Kimberlite Project	GEL 523	6,840	6,840
Kimberlite Project	GEL 524	6,722	6,722
Kimberlite Project	GEL 525	6,722	6,722
Total		**3,739,588**	**2,681,540**

Notes:

[1] In October 2010 the Consolidated Entity was appointed operator of the Fiale Geothermal Development Project under the terms of the Joint Venture Agreement.

[2] In May 2010 the Consolidated Entity into a Heads of Agreement to farmin to the Copahue Geothermal Development Project located in Argentina.

[3] In November 2011, the Company surrendered GEL 505 and GEL 506.

12. Current Liabilities – Trade and Other Payables

	2011 $	2010 $
Current		
Accounts payable and accrued income	**665,732**	314,029

13. Issued Capital

a) Shares Issued and Outstanding

	Number		Consideration	
	2011	2010	**2011**	2010
	No.	No.	**$**	$
Balance, beginning of period	**524,178,687**	90,536,522	**17,554,135**	11,011,753
Shares issued in period				
October 26, 2010 Security issued as consideration for the acquisition of African opportunities	**9,125,000**	-	**228,125**	-
October 26, 2010 Security issued in settlement of a commercial agreement for African opportunities	**912,500**	-	**22,813**	-
October 26, 2010 Security issued to sophisticated investors	**10,000,000**	-	**250,000**	-
February 14, 2011 Security issued to Socius CG II pursuant to a Share Subscription Agreement	**25,316,456**	-	**2,000,000**	-
Shares issued in prior period				
January 21, 2010 consolidation on 1 for 3 basis	-	(60,357,835)	-	
January 25, 2010 Security issued to vendors of Earth Heat[1]	-	260,000,000	-	2,600,000
January 25, 2010 Security issue on conversion of convertible notes (Note 3)	-	69,000,000	-	2,685,564
January 25, 2010 Security issued in part settlement of Mr Jack Mulready's remuneration.	-	5,000,000	-	50,000
January 25, 2010 Security issue as part of share issue costs	-	40,000,000	-	400,000
January 25, 2010 Security issue at $0.01	-	120,000,000	-	1,200,000
Share issue costs	-	-	**(283,063)**	(393,182)
Balance, end of period	**569,532,643**	524,178,687	**19,772,010**	17,554,135

Notes:

[1] Pursuant to a share sale agreement dated January 11, 2010, 260,000,000 ordinary shares with a fair value of $4,595,564 were issued to the existing shareholders of Earth Heat Australia Pty Ltd in exchange for control of Earth Heat Australia Pty Ltd. The share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd included the following conditions that occurred prior to acquisition:

- 1 for 3 share consolidation; and
- 69,000,000 shares issued in full and final settlement of liabilities and loans amounting to $3,400,000, resulting in an increase in fair value of shares issued of $1,995,564 and a $704,436 credit to the statement of comprehensive income.

13. Issued Capital (continued)

b) Share Option Reserve

	2011	2010
	$	$
Equity based remuneration	**64,500**	-

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 11 May 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.

On 25 February 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.

c) 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.

The Company has the following history of stock options outstanding:

	Number of Options	**Weighted Average Exercise Price**
Balance, September 30, 2009	2,440,000	$0.180
Expired on 10 November 2009	(750,000)	$0.180
21 January 2010 consolidation on 1 for 3 basis[3]	(1,126,667)	$0.180
Expired April 8, 2010	(490,000)	$0.540
Balance at September 30, 2010	73,333	$0.540
Balance, September 30, 2010	73,333	$0.540
Expired unexercised on November 10, 2010	(73,333)	$0.540
Issued on 14 February 2011[1]	12,658,228	$0.079
Issued on 25 February 2011[2]	42,000,000	$0.044
Lapsed on May 11, 2011	(20,000,000)	$0.065
Lapsed on August 3, 2011	(10,000,000)	$0.030
Balance at September 30, 2011	24,658,228	$0.045

13. Issued Capital (continued)

The following table summarises information about the stock options outstanding:

Expiry Date	Exercise Price 2011	Number of Options 2011	Exercise Price 2010	Number of Options 2010
November 4, 2010	-	-	73,333	$0.540
July 30, 2013 (2)	$0.020	5,000,000	-	-
July 30, 2013 (2)	$0.030	1,000,000	-	-
July 30, 2013 (2)	$0.020	5,000,000	-	-
July 30, 2013 (2)	$0.030	1,000,000	-	-
February 14, 2016 (1)	$0.079	12,658,228	-	-
	$0.045	24,658,228	73,333	$0.540

Notes:

(1) 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.

(2) 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. The Black-Scholes valuation of vested options at the effective grant date of August 3, 2010 of those options vested amounted to $6,000. On 11 May 2011 Mr Rose Innes resigned and as a result 20,000,000 options lapsed and the remaining 10,000,000 lapsed unexercised on August 3, 2011. In addition on 25 February 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. In the geothermal industry and in the current market the volatility generally used is high, the directors have estimated a 75% volatility for the Company.

(3) On January 21, 2010 the options were consolidated on a 1 for 3 basis at an exercise price of $0.54 in accordance with ASX listing Rule 7.22.

(4) Options expire at the earlier of the date listed above or three months after cessation of employment.

14. Contingent Liabilities

The Consolidated Entity has no contingent liabilities at September 30, 2011.

15. Commitments

I) Exploration commitments

Copahue Development Project in Argentina

The exploration expenditure commitments relate to the economic 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 13 May 2010 ("Agreement").

Under the Agreement the Consolidated Entity will farmin 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 $16,600,000[1]. At September 30, 2011 the Agreement does not require any minimum expenditure. The minimum expenditure amount may vary at the date future agreements are signed, at which time addition funding is expected to have been secured to meet or exceed the minimum expenditure.

[1] AUD $1:USD $0.9008

15. Commitments (continued)

Fiale Development Project in Djibouti

The exploration expenditure commitments relate to the economic entity's share of the Fiale Project is based on the Joint venture Agreements exploitation program. The initial stages include:

- Stage 1 is expected to be completed over the next six months, to define the initial 50 MW resource will involve a full geological and geophysical review, permitting and approvals for drilling program, engineering studies, identification of accessible and appropriate drilling locations, the tendering and permitting of drilling rig and the mobilisation of construction and other services to site. Under the terms of the Agreement, the Company will shortly contract for a drilling rig and begin initial field work to identify the well locations within the next 6 weeks.
- Stage 2 is expected to be completed within fourteen months, to drill and evaluate reservoir and commence sliding feasibility study
- Stage 3 to complete a bankable feasibility study
- Stage 4 the construction and commissioning of 50MWe plant

There are no minimum exploration expenditure commitments at the date of this report.

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 request to suspend all GELs for twelve months was granted in July 2010. During this time the Company consolidating and rationalizing its existing GELs portfolio with PIRSA. 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.

Spring River's oil and gas interests

The exploration expenditure commitments relate to the economic entity's share of the exploration and evaluation expenditure required to comply with the licence terms issued by the relevant regulatory body. There is no fixed financial commitment under the licence terms.

(II) Other commitments

In January 2010 the Company signed an 18 month lease agreement for office accommodation, the annual rental being $36,000 (2010: $36,000) per annum. In addition, the Company has engaged Allinson Accounting Solutions Pty Ltd to provide annual accounting and administrative services at a fee of $147,478 per annum (2010: $108,000).

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

- Torey Marshall remuneration payable is $230,000 per annum and agreement is in effect until January 22, 2011. During the period the Board have approved an increase in the remuneration payable to Torey Marshall to $330,000 from January 1, 2011.
- 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 $88,986 (ZAR600,000[2]) per annum and office expenses of $8,899 (ZAR$60,000[2]) commencing on July 1, 2010 and effective until June 30, 2011.

[2]AUD$1:ZAR6.7426

16. Related Party Transactions

I) Related Party Transactions

During the year the Company entered into employment contracts and loan agreements with directors and consultants that are considered to be related parties. The purpose of the transactions entered into with related parties was to facilitate the Company's strategic, operating and financing activities.

The Related party transactions mentioned above are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms of repayment.

Related party	Debtor/(Creditor) Balance 2010 $	(Charge)/Credit to Consolidated Restated Income Statement $	Paid/(received) during the period $	**Debtor/(Creditor) Balance 2011 $**
Remuneration Payable to Directors including superannuation				
S Pearce	(44,962)	(28,760)	-	**(73,722)**
D Sutton	(44,411)	(28,760)	-	**(73,171)**
R Shaw	(44,905)	(65,000)	-	**(109,905)**
N Zillman	(28,280)	(48,000)	-	**(76,280)**
A Rose-Innes	-	(56,000)	6,000[1]	**(50,000)**
T Marshall - annual leave provision	(3,745)	(338,638)	304,999	**(37,384)**
	(166,303)	(565,158)	310,999	**(420,462)**

[1] Equity based payment to Note 13(b) for further details.

Related party	Debtor/(Creditor) Balance 2009 $	(Charge)/Credit to Consolidated Restated Income Statement $	Cash/Shares [5] Paid/(received) during the period $	**Debtor/(Creditor) Balance 2010 $**
Remuneration Payable to Directors including superannuation				
B McLeod	(83,100)	73,254	9,846[5]	-
J Mulready includes annual leave provision	(556,476)	548,958	7,518[5]	-
S Pearce	(174,578)	83,913	45,703[5]	(44,962)
D Sutton	(83,100)	9,419	29,270[5]	(44,411)
R Shaw	-	(44,905)	-	(44,905)
N Zillman	-	(28,280)	-	(28,280)
T Marshall	-	(163,261)	159,516	(3,745)
	(897,254)	479,098	251,853	(166,303)

16. Related Party Transactions (continued)

Related party	Debtor/(Creditor) Balance 2009 $	(Charge)/Credit to Consolidated Restated Income Statement $	Cash/Shares [5] Paid/(received) during the period $	**Debtor/(Creditor) Balance 2010 $**
Interest Bearing Liabilities[4]				
Imperial Corporation Pty Ltd[1]	(56,809)	-	56,809	-
Martin Place Securities Pty Ltd[2]	(457,600)	-	457,600[5]	-
Optex Exchange Pty Ltd[2]	(238,702)	-	238,702[5]	-
	(753,111)	-	753,111	-
Other Creditors				
Office expenses provided by Imperial Corporation Pty Ltd[1]	(203,500)	141,084	62,416[5]	-
Non-interest bearing loans from Martin Place Securities Pty Ltd[2]	(175,447)	-	175,447[5]	-
Non-interest bearing other creditors from Martin Place Securities Pty Ltd[2]	(6,609)	-	6,609[5]	-
Non-interest bearing loans from North American Oil & Gas[3]	(100,000)	-	100,000[5]	-
	(485,556)	141,084	344,472	-
Convertible Debentures				
Optex Exchange Pty Ltd[2]	(8,401)	-	8,401[5]	-
Loan Receivable in subsidiary				
North American Oil & Gas[3]	59,543	59,543	-	-

Notes:

(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited. Mr David Sutton is also a director of Imperial Corporation Pty Limited.

(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

(3) Joint Venture contributions were paid on behalf of North American Oil & Gas of which one of its Directors, Mr David Sutton is also a Director of the Company. The loan is interest free and unsecured.

(4) The Notes Payable are unsecured and accrue interest at Nil% (2010: 7%) pa.

(5) During the year certain outstanding liabilities were repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details). See notes below for further details.

16. Related Party Transactions (continued)

During the period $Nil (2010: $20,661 and $19,800) was paid to Imperial Corporation Pty Limited in relation to a loan and expenses respectively. In the year ended September 30, 2011 Imperial Corporation Limited invoiced $Nil (2010: $26,400) in management fees, professional fees and rent (including GST). Mr Bruce McLeod is director and shareholder of Imperial Corporation Pty Limited. The outstanding liability of $210,100 in 2010 was repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

In the prior periods loans were made available by Martin Place Securities Pty Ltd, of which one of its Directors at the time the loans were made available, is also a Director of the Company. At September 30, 2009 the loan amounted to $457,600 (unsecured and accrue interest at $Nil (2010: 7% pa) and $182,056 (unsecured and interest free other creditors and loan). During the year interest amounted to $Nil (2010: $2,717). During the prior period the outstanding liability of $671,178 was repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details). The balance of the loans and other liabilities at balance date including interest is $Nil (2010: $Nil).

Loans payable include $nil (2010: $nil, 2009: $238,702) due to Optex Exchange Pty Ltd owned by a Director of the Company, the loan is unsecured and accrues interest at 7% (2010: 7%,2009: 8%) pa. The Optex Exchange Pty Ltd loan was repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

Joint Venture contributions were paid on behalf of North American Oil & Gas, a Company of which one of its Directors is also a Director of the Company. The balance of loans owing at balance date was $nil (2010: $nil; 2009 debtor: $59,543). There is a corresponding loan from this Company of $nil (2010: $nil; 2009 Creditor: $100,000) at balance date. The balance of the loans and other liabilities at balance date including interest is $nil (2010: $nil; 2009: $633,047). During the year the outstanding net liability of $50,000 was repaid from the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details).

Convertible debentures and interest amounting to $8,555 at September 30, 2009 owed to Optex Exchange Pty Ltd were repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details). The Interest charged on convertible debentures owing to the related parties amounted to $Nil (2010: $1,088).

In addition, $Nil (2010: $70,673 and $27,874) expenses were reimbursed to director related entities of Torey Marshall and Dr Raymond Shaw respectively.

The following loans and other liabilities were repaid as part of the 69,000,000 share issue (pursuant to a share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details):

16. Related Party Transactions (continued)

Related party	Amount paid in shares $	Credit to the Statement of Comprehensive Income $	Loans and other liabilities September 30, 2010 $	Loans and other liabilities October 1, 2009 $
Imperial Corporation Pty Ltd[1]	377,584	-	-	203,500
Martin Place Securities Pty Ltd[2]	1,206,241	-	-	633,047
North American Oil & Gas[2]	50,000	39,858	-	100,000
Optex Exchange Pty Ltd Convertible Debentures[2]	15,378	-	-	8,401
Optex Exchange Pty Ltd[2]	431,460	-	-	238,702
	2,080,693	39,858	-	1,183,650

Notes:

(1) Mr Bruce McLeod is a director and shareholder of Imperial Corporation Pty Limited.

(2) Mr David Sutton was a director of Martin Place Securities Pty Ltd and is a director of North American Oil & Gas and Optex Exchange Pty Ltd.

During the year, salaries of $366,999 (2010: $(389,442)) and directors fees of $170,520 (2010: $(93,399)) were paid or accrued by the Company to Directors. The prior year remuneration included the following key personnel's unpaid remuneration and superannuation that were paid in shares (pursuant to the share sale agreement dated January 11, 2010 between the Company and Earth Heat Australia Pty Ltd, refer to Note 3 for further details):

Name	Wages and superannuation $	Shares issued No.	Deemed value @ $0.01 $	Credit to statement of comprehensive income $
Bruce McLeod[1]	85,838	1,741,083	17,411	68,427
David Sutton	85,838	1,741,083	17,411	68,427
Jack Mulready[1] [2]	498,503	5,000,000	50,000	448,503
Stephen Pearce	178,418	3,618,967	36,190	142,228
Roderick Hollingsworth[1]	34,609	701,988	7,020	27,589
Total	883,206	12,803,121	128,032	755,174

Notes:

(1) Previous key management personnel.

(2) Jack Mulready's liabilities exclude the annual leave provision of $92,866. During the period $40,000 was paid in cash, pursuant to the share sale agreement (refer to Note 3 for further details).

16. Related Party Transactions (continued)

II) Key Management personnel

Key management personnel include the directors and company secretary.

The names of persons who were directors of the Company at any time during the financial year were:

Dr R Shaw

T Marshall (appointed January 22, 2010)

A Rose-Innes (appointed August 3, 2010, resigned May 11, 2011)

N Zillman (appointed February 26, 2010)

S Pearce (resigned May 11, 2011)

D Sutton (resigned May 11, 2011)

B W McLeod (resigned January 22, 2010)

J Mulready (resigned January 12, 2010)

S Pearce is a Joint Company Secretary (resigned May 11, 2011)

M Lucas-Smith is a Company Secretary (appointed January 22, 2010)

III) Remuneration of key management personnel

Shares or options over unissued shares in the Company held during the financial year by any key management personnel of the Company including their related parties as at September 30, 2010 are disclosed in the Remuneration Report.

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Remuneration arrangement of key management personnel are disclosed in the Remuneration Report that forms part of the Directors Report.

17. Income Taxes

	2011	2010
Liabilities	**$**	$
CURRENT		
Income Tax	-	-
Assets		
NON-CURRENT		
Deferred tax asset	-	-

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(g) occur:

— tax losses: Australian operating losses to date $8,457,082 (2010: $8,004,926)

In addition, the Company has available tax losses of approximately $6,175,000 (CAD$5,928,000[3]) that may be offset against future Canadian taxable income. The Company has resource pools of approximately $7,407,292 (CAD$7,111,000[3]) available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely, but has not been recognised.

[3]AUD$1:CAD$0.96

18. Parent Entity Disclosures

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Group.

Financial Position	**2011**	2010
	$	$
Assets		
Current Assets	**372,041**	319,143
Non-Current Assets	**3,605,206**	2,604,964
Intercompany debtors	**6,046,907**	5,951,879
Total Assets	**10,024,154**	8,875,986
Liabilities		
Current Liabilities	**664,989**	309,469
Total Liabilities	**664,989**	309,469
Net Assets	**9,359,165**	8,566,517
Equity		
Issued Capital	**19,772,010**	17,554,135
Share Option Reserves	**64,500**	-
Foreign Exchange Reserve	**4,549**	-
Accumulated Losses	**(10,481,894)**	(8,987,618)
Total Equity	**9,359,165**	8,566,517

Financial Performance	**2011**	**2010**
	$	**$**
Comprehensive Income/(Loss) for the year	**(1,494,276)**	552,335
Other Comprehensive Income	**-**	-
Total Comprehensive Loss	**(1,494,276)**	552,335

19. Subsequent Events

On October 5, 2011 the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Loma Negra CIASA.

On October 12, 2011 the Company held an Extraordinary General Meeting and the shareholders' passed the following resolutions:

- The Shareholders approve and authorise the prior issue of 25,316,456 ordinary shares and 12,658,228 unquoted options to Socius Capital Group LLC in accordance with the Share Subscription Agreement.
- The Shareholders approve and authorise the future issues of ordinary shares and unquoted options to Socius Capital Group LLC in the three month period following October 12, 2011, subject to the terms of the Share Subscription Agreement.
- The Shareholders approve and authorise the future issue of 136,000,000 ordinary shares at an issue price of at least 80% of the volume weighted average market price calculated over the last 5 days on which the security were recorded.
- The Shareholders approve and authorise the future issue of 20,000,000 unquoted options at no cost to the recipient (who shall not be a related party), as required for corporate purposes.

19. Subsequent Events (continued)

On October 18, 2011 the Company announced the signing of a Letter of Intention & Heads of Agreement for a power purchase off take in Argentina with Electrometalurgica Andina SAIC.

On October 31, 2011 10,000,000 options were exercised.

On November 17, 2011 the Consolidated Entity surrendered Gel 505 and GEL 506.

On November 24, 2011 the Consolidated Entity announced it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ("SCF"), to raise up to USD$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina.

On December 12, 2011 $600,000 was raised for the issue of 20,000,000 ordinary shares at $0.03, in addition one free attaching options was issued for every two shares purchased with an exercise price of $0.06, and a 12 month period in which to exercise.

Except for the matters referred to above, there is no other matter or circumstance that has arisen since September 30, 2011 that has significantly affected or may significantly affect:

a) the operations, in financial years subsequent to September 30, 2011, of the Consolidated Entity;

b) the results of those operations; or

c) the state of affairs, in financial years subsequent to September 30, 2011 of the Consolidated Entity.

20. Management Of Capital

The Company manages its cash, ordinary shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

There are no externally imposed capital requirements

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year, which is to maintain the debt to equity ratio at not more than 100%. The debt-equity ratios as at September 30, 2011 and September 30, 2010 are as follows:

	Note	**2011 $**	2010 $
Total loans and borrowings	12	**-**	-
Less: Cash and cash equivalent		**(282,120)**	(157,447)
Net borrowings		**(282,120)**	(157,447)
Total equity		**3,454,671**	2,691,861
Total capital		**19,772,010**	17,554,135
Gearing ratio		**(1.4)%**	(0.9)%

The further decrease in the gearing ratio during 2011 is primarily due to the use of capital funds raised in the period being invested in the Company's geothermal projects.

21. Auditors Remuneration

Details of the amounts paid or payable to the auditors for services provided during the year are set out below:

		2011	2010
K S Black & Co		**$**	$
Audit fees	– Full Year	**-**	24,490
	– Half Year	**8,250**	7,850
	– Other Reports	**18,690**	-
Tax related services		**2,000**	800
Other		**-**	19,200
		28,940	52,340
Grant Thornton			
Audit fees	– Full Year	**28,480**	-
	– Other Reports	**10,000**	-
		38,480	-
Total		**67,420**	52,340

22. 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 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.

22. Operating Segments (continued)

Operating Segments	Africa Geothermal $	Argentina Geothermal $	Australia Geothermal $	USA Oil and Gas $	Australia Corporate expenses $	Total $
September 30, 2011						
REVENUE						
Total revenue - external sales	-	-	-	-	-	-
RESULT						
Segment result	(44,182)	-	-	-	(1,346,863)	(1,391,045)
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-
Convertible notes, debentures and other liabilities reduction	-	-	-	-	-	-
Write-down of project expenses	(18,653)	(126,369)	(13,424)	-	-	(158,446)
Finance income/(costs)	-	-	-	-	41,790	41,790
Profit/(loss) before income tax	(62,835)	(126,369)	(13,424)	41,659	(1,305,073)	(1,507,701)
Income tax expense	-	-	-	-	-	-
Profit/(loss) after income tax	(62,835)	(126,369)	(13,424)	41,659	(1,305,073)	(1,507,701)
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
Reconciliation of segmental assets to group assets						
Inter-segment eliminations						-
Total group assets from continuing operations						3,454,671
OTHER						
Depreciation and amortisation of segment assets	-	-	-	-	2,362	2,362

22. Operating Segments (continued)

Operating Segments

	Africa Geothermal $	**Argentina** Geothermal $	**Australia** Geothermal $	**USA** Oil and Gas $	**Australia** Corporate expenses $	**Total** $
September 30, 2010						
REVENUE						
Total revenue - external sales	-	-	-	-	-	-
RESULT						
Segment result	-	-	(601)	1,044,427	(953,704)	90,122
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-
Convertible notes, debentures and other liabilities reduction	-	-	-	373,956	-	373,956
Write-down of project expenses	(167,118)	(23,062)	-	-	-	(190,180)
Other income				75,000	-	75,000
Finance income/(costs)	-	-	-	244	-	244
Profit/(loss) before income tax	(167,118)	(23,062)	(601)	1,493,627	(953,704)	349,142
Income tax expense	-	-	-	-	-	-
Profit/(loss) after income tax	(167,118)	(23,062)	(601)	1,493,627	(953,704)	349,142
ASSETS						
Segment assets	-	-	2,681,541	-	324,349	3,005,890
LIABILITIES						
Segment liabilities	15,054	-	744	199,517	98,714	314,029
Reconciliation of segmental assets to group assets						
Inter-segment eliminations						-
Total group assets from continuing operations						2,691,861
OTHER						
Depreciation and amortisation of segment assets	-	-	-	-	1,272	1,272

22. Operating Segments (continued)

Basis for accounting for purposes of operating segments

a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent with those disclosed in Note 1.

b. Inter-segmental transaction

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

Geographical information

Geographical information is provided within the Consolidated Entity's operating segments.

Major customers

The Consolidated Entity is an exploration company and as such has no major customers.

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30, 2011

Earth Heat Resources Ltd (“the “Company”) and the Board are committed to achieving and demonstrating the appropriate standards of corporate governance, consistent with the size and nature of the Company. This statement outlines the main corporate governance practices in place.

The ASX Corporate Governance Council ("Council") released revised Corporate Governance Principles and Recommendations on 2 August 2007, and further amendments in June 2010 ("ASX Principles") and this Statement complies with those revised ASX Principles except where otherwise noted.

Having regard to the size of the Company and the nature of its enterprise, it is considered that the Company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations.

Charter For The Board Of Directors

An important and basic corporate governance policy is the Charter for the Board of Directors which is regularly reviewed. The Charter is a composite document which deals with all of the ASX principles of good corporate governance and is available on the Company’s website.

The Charter, as supported by the Director’s Code of Conduct detailed at Principle 3, sets out the following requirements:

•The role of the Board;
•The Board structure;
•The skills required on the Board; and
•The Director’s general roles.

The relevant references in the Charter are noted under each of the principles listed below.

ASX Corporate Governance Principles

The following is a summary of the 8 Corporate Governance Principles including comments where applicable on the Recommendations, and extracts from the policies adopted by the Company which demonstrate how compliance has been achieved.

PRINCIPLE 1: Lay solid foundations for management and oversight

Operations of the Board

The Board of Directors of the Company is responsible for all aspects of the management of the Company. The Board guides and monitors the businesses and affairs of the Company on behalf of the Shareholders and is committed to achieving and demonstrating the appropriate standards of corporate governance commensurate with the size of the Company and the nature of the business. The principle functions, responsibilities and performance review requirements of the Board and the Managing Director are detailed in the Charter for the Board of Directors.

The functions, responsibilities, remuneration and terms of each Directors appointment are detailed in individual Letters of Appointment, and for Senior Executives in individual Employment Agreements, all prepared in accordance with the guidelines included in the Charter for the Board of Directors.

The Chairman reviews the performance of the Board, the individual Directors and the Board Committees on an annual basis utilising the detailed performance criteria set out in the Charter for the Board of Directors, and the relevant committee charters' as a basis for measurement and such reviews will take on a regular basis. As a matter of principle, the Board is committed to the ongoing development of both Individual Directors and the Board as a whole. In addition to the Chairman’s review, the Board will also conduct an evaluation of its performance each year. The objective of these evaluations is to provide best practice corporate governance to the Company.

Such a review can be;

- Qualitative, quantitative or a mixture of both;
- Formal or informal;
- Concentrated on reviewing the Board as a whole or Directors individually;
- Self administered, administered by the Chairman / fellow Directors or administered by an independent expert; or
- Focused internally on the Directors or involve the wider body of corporate stakeholders including, but not limited to, customers, suppliers, employees and the community.

The Chairman will action the evaluations, and obtain any assistance required.

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

Board responsibilities

As the Board acts on behalf of Shareholders and is accountable to them, the Board seeks to satisfy the financial and management expectations of the Shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board appoints a Chief Executive Officer ("CEO") in this case a Managing Director ("MD"), and the responsibility for the operation and administration of the Company is delegated to that person and the Executive team supported by detailed position descriptions and or KPIs (as applicable) for each position.

The Board will develop the proper procedures as required, to assess the performance of the CEO and the Executive team and to ensure that the Executive team is appropriately qualified and experienced to discharge its responsibilities:

- The Remuneration Committee (or the Board if a Remuneration Committee is not established) undertakes evaluation of the CEO, with the process coordinated by the Chairman.
- CEO evaluation will occur annually. At this time the Board and CEO will discuss and agree goals (both quantitative and qualitative) for the upcoming year.
- The Remuneration Committee (if established) will prepare a brief report for the full Board after discussion with the CEO. However, the performance of the CEO is a matter for full Board deliberation and is a separate agenda item at the relevant Board meeting.

The Board is responsible for ensuring that management's objectives, activities and outcomes are aligned to the expectations, vision and business risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including receipt of detailed reports, site visits and regular personal presentations to the Board.

Board policies

Board policies or obligations have been established in the following areas:

- diversity
- continuous disclosure;
- dealing in securities;
- related party dealings;
- conflict of interest and external advice;
- release of information;
- significant business risks; and
- ethical standards.

Diversity

The Board has always been aware of the advantages that may flow from diversity in respect to gender, age, ethnicity and cultural background and has taken those factors into account when considering new appointments at all levels within the Company. At present there are no female Directors, one mature age part time employee, nine part time contractors including eight of differing ethnic background including three females, four part time female employees including the CFO, out of an aggregate of 17 including the Directors.

The Board adopted a Diversity Policy on May 5, 2011 which is provided in full below. In addition the Board also adopted a Diversity Strategy which includes measurable objectives for achieving cultural, gender and age diversity, and the progress in achieving the objectives will be reported in each Annual Report to shareholders.

Having regard to small size of the Company and the current diversity of the Company's management, employees and contractors, the Board considers that it has complied as far as possible with the policy and objectives adopted.

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

Diversity Policy

The Diversity Policy adopted by the Board is as follows:

DIVERSITY POLICY

1. General Purposes and Principle

(a)The Company respects and values the competitive advantage of "Diversity", and the benefits of its integration throughout the Company, in order to enrich the Company's perspective, improve corporate performance, increase shareholder value, and enhance the probability of achievement of the Company's objectives ("Principle").

(b) This Principle will manifest itself in the following areas:

(i) strategic and operational:

(A) being attuned to diverse strategies to deliver the Company's objectives;

(B) being attuned to diverse corporate, business and market opportunities; and

(C) being attuned to diverse tactics and means to achieve those strategies in (A) and to take advantage of those opportunities in (B).

(ii) management:

(A) adding to, nurturing and developing the collective relevant skills, and diverse experience and attributes of personnel within the Company;

(B) ensuring the Company's culture and management systems are aligned with and promote the attainment of the Principle, including having regard for domestic responsibilities.

Note: in the context of this paragraph 1(b)(ii) "Diversity" constitutes people at relevant levels within the Company (including board, senior executive, management and otherwise) with a diverse blend of skills, experiences, perspectives, styles and attributes gained from life's journey, including on account of their culture, gender, age or otherwise.

(c) The Company will develop strategies, initiatives and programs to promote the Principle, including the achievement of gender diversity with respect to the matters referred to in paragraph 1(b)(ii).

(d) In particular, the Company will set measurable objectives, and targets or key performance indicators (KPIs), for the strategies, initiatives and programs to achieve gender diversity with respect to the matters referred to in paragraph 1(b (ii).

(e) The Company will implement the strategies, initiatives, programs and measurable objectives referred to in (c) and (d).

(f) Management will monitor, review and report to the Board (including via the Nomination and Remuneration Committee) on the achievement of gender diversity with respect to the matters referred to in paragraph 1(b)(ii), and the Company's progress under this policy.

2. Responsibility for the Policy

(a) Although the Board retains ultimate accountability for this Policy, the Board has delegated responsibility for Policy implementation to the CEO.

(b) In turn the CEO has delegated to the Company Secretary responsibility for administration of this Policy (including its reporting to the Board, or its relevant sub-committee, as appropriate.

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

3. Measurable Objectives, targets and Key Performance Indicators (KPIs) - Gender Diversity

With respect to gender diversity, management will:

(a) develop, for approval by the Board or its relevant sub-committee, as appropriate:

(i) measurable objectives concerning the strategies, initiatives and programs referred to in paragraph 1(c);

(ii) targets or KPIs to verify progress towards attainment of those measurable objectives.

(b) measure performance against those targets and KPIs;

(c) report from time to time on the progress of the matters referred to in (a) and (b).

4. Compliance Requirements

(a) The Company will meet its obligations with respect to the issue of "Diversity", as may be required under the ASX Corporate Governance Principles and Recommendations (2nd Edition) ("ASX Principles") and other regulatory requirements (if any) including by:

(i) establishing this Policy as a compliant policy under ASX Guideline 3.2(a) by:

(A) establishing measurable objectives for achieving gender diversity;

(B) the Board assessing annually the measurable objectives for achieving gender diversity and the progress in achieving them.

(ii) disclosing this policy or a summary of it under ASX Guideline 3.2 (b);

(iii) in its annual report, and in the terms of ASX Guideline 2.4, disclosing the processes the Board adopts and the criteria the Board takes into consideration in its selection of prospective new Board members;

(iv) in its annual report, and in the terms of ASX Principles 3.3 and 3.4, disclosing:

(A) the measurable objectives for achieving gender diversity set by the Board in the terms of this Policy;

(B) the progress from time to time towards achieving them;

(C) the proportions in the Company (relative to their male counterparts) of:

- female employees;
- females in senior executive positions;
- females on the Board.

(v) incorporating in the corporate governance statement in the Company's annual report a statement as to the mix of skills and diversity that the Board is looking to achieve in membership of the Board, in the terms of ASX Guideline 2.6.

(b) The Company Secretary will assume line responsibility to ensure the Company meets its compliance and reporting obligations referred to in (a), including by collecting and collating all relevant data and ensuring that management processes and systems are adequate and effective for such reporting obligations to be met.

5. Communication

The Company commits to the communication of this policy within the Company, to its shareholders and the market, including via its website:

(i) by way of transparency and accountability; and

(ii) to better promote the prospects of attainment of the Principle.

6. Accountability

(a) Reporting and accountability in the terms of this Policy will be a periodic item on the Board agenda.

(b) At least annually the Nomination and Remuneration Committee will report to the Board on progress towards attainment of the Principle with respect to the matters referred to in paragraph 1(b)(ii), and otherwise to facilitate the Board in meeting its Compliance requirements under paragraph 4.

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

7. Addenda to this Policy

The following shall constitute addenda to this Policy as if set out in this Policy:

(a) approved strategies, initiatives and programs and measurable objectives, targets and KPIs referred to in paragraph 1(c); and

(b) approved measurable objectives, targets and KPIs referred to in paragraph 1(d);
as may apply from time to time.

8. Overriding Caveat

Nothing in this policy shall be taken, interpreted or construed so as to endorse:

(a) the principle criteria for selection and promotion of people to work within the Company, other than their overall relative prospect of adding value to the Company and enhancing the probability of achievement of the Company's objectives;

(b) any discriminatory behaviour by or within the Company contrary to the law, or any applicable codes of conduct or behaviour for the Company or its personnel;

(c) any existing person within the Company in any way feeling threatened or prejudiced by this policy in their career development or otherwise, merely because of their Diversity attributes at any time may be more, rather than less, common with others.

Diversity Strategy

The Diversity Strategy lists the strategies, initiatives and programs, measurable objectives, targets and KPIs adopted by the Board on 5 May 2011 for the Group. Many of the strategies, initiatives and programs have already been achieved or put in place necessitating amendments to the Charter for the Board of Directors and to the Charter for the Nomination & Remuneration Committee. The amended Charters may be viewed on the Company's web site.

The Strategy includes initiatives and programs designed to foster Diversity at Board level, at executive and management level and generally, commensurate with the nature and size of the Group. Progress with achievement of the Diversity Strategy will be reviewed by the Nomination & Remuneration Committee on an annual basis and the result reported to the Board. Progress will also be reported each year in the Directors' Report section of the Annual Report.

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

The role of the Chairman

The role of the Chairman is clearly defined in the Charter for the Board of Directors. In summary, the Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with Shareholders and with the Company's senior executives. The Chairman formally reviews the performance of the Board and the individual Directors on an annual basis.

The role of the CEO

The role of the CEO is also clearly defined in the Charter for the Board of Directors. In summary, the CEO is responsible for implementing the Company strategies and policies, achieving the Company objectives and managing the business of the Company. The CEO reviews the performance of his senior executives on an annual basis utilizing criteria similar to that applicable to himself, having regard to the position under review, the relevant position description and KPIs. Such reviews will lead in to the annual remuneration reviews.

Board committees

Establishment of Board committees is commensurate with the size of the Company. Terms of Reference or Charters have been adopted for each committee responsibility and in the event that the Board retains a particular responsibility and does not establish a relevant committee, the adopted Terms of Reference or Charter for that responsibility will be utilised by the Board in the discharge of that responsibility.

Letters of Appointment and Employment Agreements

The functions, responsibilities, remuneration and terms of each Directors' appointment are detailed in individual Letters of Appointment as are the same for Senior Executives in individual Employment Agreements all prepared in accordance with the guidelines included in the Charter for the Board of Directors.

Governance

In view of the small size of the Company, the duty of governance is handled by the full Board and dealt with in accordance with the Charter for the Board of Directors and the Directors' Code of Conduct.

Nomination

In view of the small size of the Company, the duty of Nomination is handled by the full Board and dealt with in accordance with the specific charter adopted for a Nomination & Remuneration Committee and in accordance with the Charter for the Board of Directors and the Diversity Policy.

PRINCIPLE 2: Structure the Board to add value

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board should comprise at least three and no more than 9 Directors (determined by the Constitution) and at least two of the Directors shall ordinarily reside in Australia.
- The Chairman should preferably be an Independent Director.
- The Board shall comprise Directors with a diverse and appropriate range of qualifications and expertise and in the event of retirement of a Director with particular expertise, the Board, with the assistance of the Governance & Nominations Committee (if formed), will seek to appoint a Director with skills and experience to balance the needs of the Board in the operations of the Company.
- The Board shall meet on a regular basis as agreed by the Directors and follow meeting guidelines established to ensure that all Directors are made aware of, and have available all necessary information in a timely manner, to participate in an informed discussion of all agenda items.
- The Directors of the Company (except the Managing Director) are elected at an Annual General Meeting

The Directors in office at the date of this statement are:

- Chairman (non executive) - Raymond Douglas Shaw
- Managing Director - Torey Robert Marshall
- Non-executive Director - Norman Joseph Zillman

Notwithstanding the ASX recommendations that a majority of the Board should be Independent Directors, the Board does not consider that there is a need to increase the number of Directors at this time. The Board maintains strict protocols to ensure that any potential or actual conflicts of interest and duty are properly identified and managed, to ensure Directors act in accordance with their fiduciary responsibilities.

Independent Directors are independent of management, do not have a substantial shareholding (i.e. less than 5%) and are free from any business or other relationship which could materially interfere with the exercise of their judgement. The commentary provided by the ASX Corporate Governance Principles and Guidelines has been considered when evaluating the independence of the Directors concerned.

Non-Executive Directors are independent of management but either have or control a substantial shareholding in the Company, i.e. 5% or more.

The Director's Code of Conduct detailed in Principle 3 includes an acknowledgement that Directors may obtain independent legal advice in order to discharge their duties properly.

The Board may establish a Governance & Nomination Committee and adopted suitable terms of reference. The role of this committee is to provide advice and assistance to the Board on recruitment, appointment, removal, desirable competencies and performance appraisal of Directors and succession planning for the Board. The Directors have resolved to handle this responsibility at Board level.

PRINCIPLE 3: Promote ethical and responsible decision-making

The Charter for the Board of Directors deals with this issue in respect to Directors, the senior executives, staff and consultants of the Company. The Board has adopted a Directors' Code of Conduct which clarifies the standards of ethical behaviour required of the Directors and is relevant to several of the ASX Corporate Governance Principles. The Directors' Code of Conduct is available on the Company's web site. The following is a summary:

Directors' Code of Conduct - Overview

The Code of Conduct outlines the principles and standards Directors are required to abide by, and governs the way in which each of the Directors should conduct themselves in the discharge of their duties. This Code of Conduct should operate in addition to relevant laws that are in force from time to time and also in conjunction with all other Board Governance Policies.

1. Directors must act honestly, in good faith and in the best interests of the Company as a whole at all times.
2. Directors have a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. Directors must always use the powers of the office for a proper purpose.
4. Directors must recognise that their primary responsibility is to the Company's members as a whole but must, where appropriate, have regard for the interests of all stakeholders of the Company.
5. Directors must not make improper use of information acquired as a Director.
6. Directors must not allow personal interests, or the interests of any Associated Person, to conflict with the interests of the Company.
7. Directors have an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
8. Confidential information received by a Director in the course of the exercise of Directors' duties remains the property of the Company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or required by law.
9. Directors should not engage in conduct likely to bring discredit upon the Company.
10. Directors have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code.

The policy includes detailed guidelines for interpretation of the principles of the Code of Conduct

Charter for the Board of Directors

The Charter for the Board of Directors is structured to promote ethical and responsible decision-making throughout the Company. All Directors, executives, employees and consultants of the Company are expected to act with integrity and objectivity and maintain appropriate ethical standards and have the following duties:

- to act honestly, fairly and without prejudice in all commercial dealings and to conduct business with professional courtesy and integrity;
- to work in a safe, healthy and efficient manner, using their skills, time and experience to the maximum of their ability;
- to comply with applicable awards, Company policies and job requirements;
- not to knowingly make any misleading statements to any person or to be a party to any improper practice in relation to dealings with or by the Company;
- to ensure that the Company's resources and property are used properly;
    - not to disclose information or documents relating to the Company or its business, other than as required by law and the ASX Listing Rules and not to misuse any information about the Company or any other members of the Group.

PRINCIPLE 3: Promote ethical and responsible decision-making (continued)

Trading in Company Securities

The Board has adopted a Directors and Officers Share Trading Policy which applies to all Directors, officers, senior management and other employees of the Company ("Designated Persons") and supports this Principle through its provisions against insider trading and market manipulation. The Policy is available on the Company's web site. In summary the trading restrictions are:

Inside Information

If a Designated Person has Inside Information (as defined in the policy) relating to the Company it is illegal for the Designated person to:

(a) deal in (that is, apply for, acquire or dispose of) the Securities or enter into an agreement to do so; or

(b) procure another person to apply for, acquire or dispose of the Securities or enter into an agreement to do so; or

(c) directly or indirectly communicate, or cause to be communicated, that information to any other person if the Designated Person knows, or ought reasonably to know, that the person would or would be likely to use the information to engage in the activities specified in paragraphs (a) or (b) above.

All Designated Persons are prohibited from trading in any Securities of the Company during recognised blackout periods and until 24 hours after an announcement to the ASX.

Black Out Period

Designated Persons are not permitted to deal at any time in financial products without the prior approval of the Board, such as options, warrants, futures or other financial products issued over the Securities by third parties such as banks and other institutions. An exception may apply where the Securities form a component of a listed portfolio or index product.

Excluded Trading

Certain types of share trading transactions which are beyond the control of the Officer or result in no change to the holding of the Officer, are excluded from the restrictions imposed by the trading policy.

Financial Products

Designated Persons are not permitted to deal at any time in financial products without the prior approval of the Board, such as options, warrants, futures or other financial products issued over the Securities by third parties such as banks and other institutions. An exception may apply where the Securities form a component of a listed portfolio or index product.

PRINCIPLE 4: Safeguard integrity in financial reporting

The Audit Committee is charged with safeguarding the integrity of the Company's financial reporting by advising on and supervising internal controls and appropriate ethical standards for the financial and operational management and risk management of the Company. The committee also confirms the quality and reliability of the financial information prepared. The Company has adopted a detailed Charter for the Audit Committee.

The Charter for the Board of Directors sets out the membership and responsibilities of the Committee as follows. Ideally, the Audit Committee will comprise a majority of independent directors and / or non-executive directors one of whom will chair the meetings and should not contain any executive directors. The Committee responsibilities are:

- to review the adequacy of systems and standards of internal control with emphasis on risk management, financial reporting procedures and compliance;
- to review proposed announcements of financial results, financial statements, management questionnaires and external audit reports in advance of the Board;
- to receive any information it requires from management;
- to report its findings and recommendations directly to the Board;
- to provide a direct link from the Board to the external auditor, the nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year audit review;
- to assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review; and
- to provide advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.

Following the resignation during the year of Directors Sutton, Pearce and Rose-Innes the Company does not have sufficient independent directors and accordingly cannot form a properly structured Audit Committee. Consequently all Audit Committee functions are handled by the full Board. As previously noted the Company continues to pursue a re-listing on the TXSV and if successful will then consider the appointment of additioal directors more than likely based in Canada.

The MD and Chief Financial Officer, as appropriate, must declare in writing to the board (see below) that the financial records of the Company for the financial year have been properly maintained, and that the Company's financial reports for the financial year comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

In the absence of an Audit Committee, the Chairman of the Board meets separately with the auditors as required from time to time to discuss the audit reviews and reports, to ensure that there are no outstanding issues and to assess the auditor's continuing independence.

The Company Auditor is invited to attend the Annual General Meeting and be available to answer any questions the Shareholders may care to ask in respect to the financial statements of the Company. The Company has not yet adopted formal procedures for the selection, appointment and rotation of external auditors.

Each year the MD or CFO will provide a statement to the Board in writing in respect to the integrity of the financial statements and the effective operation of the risk management and internal compliance and control systems.

Each year the MD or CFO will provide a statement to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

The statement also confirms that the assurance is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

PRINCIPLE 5: Make timely and balanced disclosure

The Board is very conscious of its continuous and periodic disclosure obligations as set out in ASX Listing Rules 3 and 4 and has procedures in place to ensure that the requirements of those listing rules are met at all times. The standard Board meeting agenda includes a review of past, current and forthcoming events and results to determine if there is information that should be disclosed in accordance with the Company's Continuous and Periodic Disclosure Policy. The Company's Continuous and Periodic Disclosure Policy is reinforced in the Charter for the Board of Directors. The policy is as follows:

Policy

That the Company will do all things necessary to ensure compliance with Listing Rules 3 and 4 and to follow the guidelines and best practice recommendations as set out in Principle 5 where, in the opinion of the Board, those guidelines and recommendations are appropriate to the Company.

Policy Objectives

1. To establish a vetting and authorisation process designed to ensure that Company announcements:
   - are made in a timely manner;
   - are factual;
   - do not omit material information; and
   - are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.
2. To establish a process to promote understanding of compliance within the Company.
3. To safeguard the confidentiality of corporate information to avoid premature disclosure.

In respect to Periodic Disclosure, the Listing Rules and guidelines require that the Board will ensure that the Shareholders and the market are periodically provided with all information necessary to assess the performance of the Company and the Directors.

Information to allow investors to monitor the performance of the Company is communicated by means of:

- the Annual Report which is available for distribution to all Shareholders;
- the Half-Yearly Report which is available for distribution to all Shareholders;
- periodic reports and special reports when matters of material interest arise; the Annual General Meeting and other meetings called to obtain approval of any Board action as required; and
- The Company website.

Responsibility

All Directors, Senior Executives and the Company Secretary are responsible to ensure that the Company's continuous and periodic disclosure policy is adhered to. The MD works with the Chairman in respect to dealing with media contact and any external communications, such as analyst briefings.

PRINCIPLE 6: Respect the rights of Shareholders

The Charter for the Board of Directors and the Director's Code of Conduct detailed at the beginning of this statement and the Directors and Officers Share Trading Policy detailed at Principle 3, all recognise legal and other obligations and support the legitimate interests of all stakeholders.

Fundamental to the rights of shareholders is an effective communication system utilising the methods detailed in Principle 5, and the Company web site. It is very important to ensure a clear and balanced understanding of the aims and objectives of the Company and the progress being made towards them, is readily determinable by interested parties.

The full text of Notices of General Meetings and any Explanatory Memoranda plus any other relevant announcements made to the market, and information provided to analysts, is placed on the Company web site immediately following release to the ASX.

PRINCIPLE 7: Recognise and manage risk

The Audit Committee Charter requires the Committee to:

- ensure the Company's risk management policies and procedures are adequate;
- monitor compliance with the Company's risk management policies and procedures;
- keep itself appraised of the latest developments, policies and trends in relation to financial matters, rules and regulations to the extent that they may affect the Company or the market(s) in which the Company operates;
- oversee the establishment and implementation of a risk management system and review (at least annually) the effectiveness of the Company's implementation of that system;
- review the Company's internal financial control mechanisms and risk management policies;
- compile a risk profile of the material risks (including financial and non-financial matters) facing the Company;
- establish and implement a system for identifying, assessing, monitoring and managing material risk throughout the Company;
- review major non-financial regulatory matters through the use of a compliance monitoring reporting regime which covers the following areas of exposure:
    - environment;
    - safety and health;
    - asset protection (including insurance);
    - trade practices;
    - discrimination and harassment;
    - conflict of interest; and
    - ethical standards.

The Board oversees the establishment, implementation and annual review of the Company's risk management system. Management has established and implemented a risk management system for assessing, monitoring and managing all risks, including material business risks for the Group. The MD will provide a statement to the Board in writing in respect to the integrity of the financial statements and the effective operation of the risk management and internal compliance and control systems.

PRINCIPLE 8: Remunerate fairly and responsibly

If a Nomination & Remuneration Committee is established (see previous comments regarding committees) the committee is charged with the responsibility to review and make recommendations to the Board on remuneration packages and policies related to the Non-executive Directors, MD and senior executives of the Company, and ensure that the remuneration policies and practices are consistent with the Company's strategic goals and human resource objectives. At the date of this statement, the Directors have resolved to handle this responsibility at Board level.

The Committee, in conjunction with the Chairman of the Company, will review the performance of the MD against the agreed parameters and responsibilities.

The Board has adopted a detailed Charter for a Remuneration Committee. The Charter includes the following:

- Objectives;
- Composition;
- Meetings;
- Access; and
- Duties & responsibilities including:
  - recommendations for the appointment or removal of Directors;
  - assessment of necessary and desirable competencies including diversity attributes;
  - review succession plans;
  - evaluation of Board performance;
  - advice on Director's remuneration;
  - advice on MD's remuneration;
  - advice on senior management remuneration;
  - employment packaging;
  - staff policy and procedures;
  - reporting; and
  - remuneration reviews.

Directors' Remuneration

If an Executive Director is appointed, suitable remuneration will be approved by the Board. The Non-executive Directors are paid Director's fees by the Company which may be in the form of a cash payment to the Director, cash conditional upon the purchase of shares in the Company or the issue of Options to acquire shares. Proper expenses incurred in the course of the Company's operations are reimbursed. The maximum aggregate amount of Non-Executive Director's fees must be approved by the Company in a General Meeting and in accordance with the Company's Constitution.

The Board may, as it sees fit, established a Long Term Incentive Plan to encourage and reward enhanced performance by senior management and staff subject to the performance of the Company. The Managing Director, independent and Non-executive Directors do not participate in the scheme.

The Remuneration Report included each year in the Directors' Report component of the Annual Report details the remuneration policies of the Company.

The Charter for the Governance and Nomination Committee (where appointed) includes the responsibility to assess the necessary and desirable competencies of the Board members and to evaluate the performance of the Board.

Corporate Governance Statement Continued

FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30, 2011

Company Web Site

This Statement of Corporate Governance, together with any other relevant Corporate Governance information, is available in the Corporate Governance section of the Company website at www.earthheat.com.au.

Governance and policy reviews

The Corporate Governance policies and practices of the Company are reviewed annually in accordance with the standards required of the Company by the Directors, the ASX, ASIC and other relevant stakeholders, to ensure that the appropriate governance standards are maintained.

ASX Shareholders Information

ADDITIONAL INFORMATION AS AT DECEMBER 16, 2011

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:

a) Distribution of Equity Securities

	Quoted Ordinary Shares and CDI's		
	Holders	**No. of Securities**	**% Holding**
1 - 1,000	16	6,901	-
1,001 - 5,000	75	244,074	0.04
5,001 - 10,000	77	622,273	0.11
10,001 - 100,000	495	22,583,214	3.79
100,000 +	300	572,771,758	96.06
	963	596,268,220	100.00

	Management Options		
	Holders	**Unquoted Options**	**% Holding**
1 - 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,000 +	3	24,658,228	100
	3	24,658,228	100

b) Escrowed Securities

	Number of Shares
Mr. Torey Robert Marshall & Mr. Robert Marshall <Torey Marshall Family A/C>	63,414,641
Rizk Investment Holdings Pty Ltd <The Luxor Family A/C>	63,414,628
Mr. Raymond D Shaw & Ms Rita B Jones <Shaw Jones Super Fund A/C>	63,414,641
Mr David Sutton	1,755,666
Mr. Norman Zillman & Mrs. Lorraine Zillman <The Bannerblock Super Fund A/C>	63,414,628
	255,414,204

ASX Shareholders Information Continued

ADDITIONAL INFORMATION AS AT DECEMBER 16, 2011

Additional Information As At December 16, 2011 (continued)

c) Twenty largest holders of common shares and CDI

Holder	Number of Shares	Percentage Holding
1. Mr. Torey Robert Marshall & Mr. Robert Marshall <Torey Marshall Family A/C>	69,191,307	11.60
2. Mr. Raymond D Shaw & Ms Rita B Jones <Shaw Jones Super Fund A/C>	67,839,641	11.37
3. Mr. Norman Zillman & Mrs. Lorraine Zillman <The Bannerblock Super Fund A/C>	66,408,294	11.14
4. Rizk Investment Holdings Pty Ltd <The Luxor Family A/C>	63,414,628	10.64
5. 1147 Pty Ltd <TJ Mann Super Fund Pension A/C>	21,750,000	3.64
6. Washington H Soul Pattinson & Company Ltd	11,500,000	1.93
7. Flexible Investments Super Fund Pty Ltd <M Lucas-Smith Superannuation Fund A/C>	9,700,000	1.62
8. All Stated Secretariat Pty Ltd <All-States Sec Ltd S/F A/C>	9,000,000	1.51
9. Planet Gas Limited	8,212,500	1.38
10. Atua Pty Ltd <Vaxa Super Fund A/c>	6,000,000	1.01
11. Merrill Lynch (Australia) Nominees Pty Ltd	5,947,634	1.00
12. Optex Exchange Pty Limited <David Sutton Super Fund A/C>	5,064,330	0.85
13. John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	5,000,000	0.84
14. Mr. Thomas J Mann & Mrs. Catherine J Mann <TJ & CJ Mann Super Fund A/C>	5,000,000	0.84
15. Mr. Jack N Mulready	5,000,000	0.84
16. Nutsville Pty Ltd	5,000,000	0.84
17. Australian Estate Planning Pty Ltd	4,700,000	0.79
18. All-Stated Finance Pty Ltd	4,000,000	0.67
19. Altinova Nominees Pty Ltd	4,000,000	0.67
20. Mrs. June Gugger	4,000,000	0.67
	380,728,334	63.85

d) The number of holders of less than a marketable parcel is 211

Percentage held by 20 largest holders is 63.85%

Form 52-109F1

Certification of Annual Filings

FULL CERTIFICATE

I, Torey Marshall, the Manager of Earth Heat Resources Limited, in the capacity of Chief Executive Officer of Earth Heat Resources Limited, certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings"), of Earth Heat Resources Limited (the "issuer") for the financial year ended September 30, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

   (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

   (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

   5.1 Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

   5.2 ICFR Material weakness relating to design: N/A.

   5.3 Limitation on scope of design: N/A.
6. **Evaluation:** The issuer's other certifying officer(s) and I have

   (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

   (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer had disclosed in its annual MD&A

   (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

   (ii) N/A.

Certification of Annual Filings Continued

FULL CERTIFICATE

7. Reporting changes in ICFR: The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2010 and ended on September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. Reporting to the issuer's auditors and board or directors or audit committee: The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involved management or other employees who have a significant role in the issuer's ICFR.

Date: December 30, 2011

Torey Marshall

In the capacity of Chief Executive Officer

Form 52-109F1
Certification of Annual Filings Continued

FULL CERTIFICATE

I, Victoria Allinson, the Manager of Earth Heat Resources Limited, in the capacity of Chief Financial Officer of Earth Heat Resources Limited, certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings"), of Earth Heat Resources Limited (the "issuer") for the financial year ended September 30, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the financial year end

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

   (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

   (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

   5.1 Control framework: The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

   5.2 ICFR Material weakness relating to design: N/A.

   5.3 Limitation on scope of design: N/A.
6. **Evaluation:** The issuer's other certifying officer(s) and I have

   (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

   (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer had disclosed in its annual MD&A

   (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

   (ii) N/A.

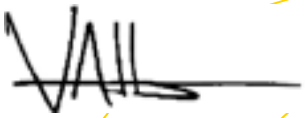
Form 52-109F1
Certification of Annual Filings Continued

FULL CERTIFICATE

7. Reporting changes in ICFR: The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2010 and ended on September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. Reporting to the issuer's auditors and board or directors or audit committee: The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involved management or other employees who have a significant role in the issuer's ICFR.

Date: December 30, 2011



Victoria Allinson

In the capacity of Chief Financial Officer

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