

Earth Heat Resources Ltd Operations Report for the Fourth Quarter from July 1, 2012 to September 30, 2012

HIGHLIGHTS

- **CIFI mandated to raise up to \$30m USD of non-voting preference shares**
- **Executed Head of Agreement to acquire the issued share capital of Geothermal one Inc., the Company's joint venture partner, for CAD\$6m in cash or shares minus agreed expenses**
- **Completion of field programs and associated follow up analyses (geoscientific and engineering)**
- **Received another 20MWe of indicated demand from a potential offtaker in Argentina**
- **Signed agreement covering the joint exploitation of 2 new areas in Mendoza, Peteroa and Las Molles**

CORPORATE SUMMARY

On 2 July 2012 the Company announced that it had appointed Corporacion Interamericana para el Financiamiento de Infraestructura ("CIFI") as financial advisors to raise up to USD\$30m through the issuance of non-voting preference shares in the project Company. It is anticipated that financial closure will occur before year end. To date, neither CIFI nor Earth Heat are aware of any reason to doubt the success of an appropriately priced raising of this type, although macro events have significantly slowed the completion timetable.

On 7 August 2012 the Company announced that it had completed a raising of \$670,000 through the issue of 67 million Special shares to sophisticated investors at 1 cps with one free attaching option for every two shares. Each of the 23,500,000 options is exercisable at 4 cps until 10 August 2015. On 10 August 2012 the Company announced that it had issued 10 million commitment shares in lieu of cash payment for work done and to be done. These shares were to remain in escrow until 26 October 2012.

As announced on 2 July 2012 the Company executed an Agreement to acquire the issued capital of Geothermal One Inc. for CAD\$6,000,000. Earth Heat signed a farm-in Heads of Agreement with Geothermal One Inc. in May 2010 in respect of an initial identified 30MW Project in Copahue and Earth Heat had the right to earn up to 87.5% of the Project by funding various stages.

During the Reporting Period the Company undertook negotiations for the appointment of a corporate advisor following discussions with various third parties concerning a broad range of options for further growth and financing. As announced, subsequent to the Reporting Period MidOil USA has been appointed as Corporate Advisor to assist the Company in its future growth opportunities.

OPERATIONAL SUMMARY

Argentina

The Company has achieved a number of highly significant project milestones, advancing Copahue to a much more mature stage than most peer projects. During the Reporting Period the following milestones were achieved.

- Progression of geoscientific studies following field work undertaken earlier this year by Sinclair Knight Merz (SKM). As announced on 12 July 2012 these studies revealed considerable information on the controls of fracture and fault based reservoir productivity in the Copahue Project area. Geochemistry data reviewed very positive results in terms of lower non compressible gas contents than previously

measured, and the presence of high-temperature vapor conditions outside the main thermal areas which are the subject of the current drilling area.

- Progression of well planning and review. As announced on 20 July 2012 preliminary work on the design of future drilling program has been completed. Standard diameter 9 – 5/8” production casing and a 7” slotted liner within an 8-1/2” diameter production hole will be used, with each hole having a target depth of approximately 1500m.
- During the Reporting Period the Company continued discussions for an expansion of its activities in Argentina. As announced to the market, subsequently on 2 October 2012, the Company has signed an agreement with a local group, GeoEnergia Argentina S.A. to evaluate the Los Molles and Peteroa projects in the Mendoza Province. This is part of a strategy of the Company to respond to significant additional demand for geothermal energy in Argentina over the coming years. The agreement has received strong provincial support including that of the Governor of Mendoza, Francisco Perez.
- During the Reporting Period the Company also continued discussions with parties for Letters of Intent and/or Heads of Agreement to enter into a binding Power Purchase Agreements, with respected industrial groups. This subsequently culminated with the announcement on 5 October 2012 of a potential third party intention to enter into a Power Purchase Agreement for 20 MWe. Previously the Company has announced some 110 MWe of demand from high quality offtakers for the Copahue Project.
- During the Reporting Period tenders were issued for the acquisition of a geophysical survey over the Copahue Project area. Several contractors have bid for the survey which is expected to be conducted during this summer weather window.

Fiale Project, Djibouti

There has been no operational activity with this project during the Reporting Period. Substantial progress will not take place until the Company has identified a suitable Joint Venture Party and has received the express agreement of the Djiboutian Government and stakeholders.

Kenya

As announced previously, the Company has lodged an exploration licence in a highly prospective area of Kenya. The application remains on foot and the Company has not been advised with the Government will make a final decision.

South Australia

During the Reporting Period the Company conducted a review of its South Australian assets. In view of the Company having focused on more favourable geothermal areas it is anticipated that it will seek to relinquish and or rationalize these assets during the coming Quarter.

About Copahue

As announced on 2 July 2012 Corporacion Interamericana para el Financiamiento de Infraestructura ('CIFI'), has been mandated to assist in completion of development funding for Copahue Project through a US\$30m preference share issue.

Close of the CIFI Project financing, anticipated later this year, will provide EHR with a complete funding solution for its Copahue Project - Phase 1;

As previously announced, the Inter American Development Bank ('IADB'), has been mandated to raise senior debt for the project inclusive of directly investing up to US\$75m with the balance of US\$135m to be syndicated. CIFI is also lead arranger of an additional US\$22.5 mil to fund the drilling of 3 production wells;

Since the Company's capital raising in March 2012 it has funded Copahue's Stage 2 EIS assessment, Independent Expert Geoscientific field studies, engineering studies, progressed power purchase agreements, interconnection studies and power market studies which are all critical path milestones;

Letters of Intent for negotiating and entering into Power Purchase Agreements have been announced with Xstrata Copper (50MWe), Loma Negra (10Mwe), and Electrometalugica Andina (30MWe).

The Copahue project area is located in the western part of Neuquén Province, approximately 300 km from the provincial capital and just a few kilometres from the Chilean border. The geothermal resource on which the project is based occurs on the North-East flank of the Copahue volcano a young, historically active stratovolcano whose summit is on the international border. It is also situated within a broad caldera that is inferred to have formed by activity that pre-dates that of the Copahue volcano.

Four deep wells, reaching depths of as much as 1,414m have also been drilled in the area. These wells have demonstrated the presence of a commercially exploitable, vapor-dominated geothermal reservoir within at least a part of the project area.

With a substantial resource of up to 264MWe*, the project is considered 'world class' by the Earth Heat team. Earth Heat signed a Heads of Agreement to farm-in to the Copahue Geothermal Development Project in Argentina in May 2010, which comprises an identified initial 30 MW geothermal development with the potential for significant expansion. Development of Copahue is anticipated to provide first power production and revenue within four years and Earth Heat has the right to earn up to 87.5% of the Project by funding various stages of development. Recently the Company announced the right to purchase its Joint Venture partner for CAD\$6m minus expenses, to own the project 100%.

The project area has been the site of geothermal exploration and development activities since the 1970s. This work has included a number of superficial and shallow exploratory surveys (geology, geochemistry, geophysics and temperature gradient drilling).

Any determination by any financial organisation mentioned within the context of Senior Debt and the Drilling Loan to participate in the financing of the Project shall be conditioned upon all of the following, to the satisfaction of the entities: (i) the completion of the analysis process; (ii) the structuring and negotiation of a financial plan for the financing of the Project; (iii) the negotiation of terms, conditions and arrangements for the Investor's participation in the Project; (iv) formal approval by the investor's Management and Board of Directors; (v) negotiation and execution of appropriate financing and security documentation; (vi) the receipt by the investor's from participants satisfactory to the Investor's of firm commitments in an amount equal to the amount of the B Loan (Senior Debt only); and (vii) payment of all reasonable legal and other consultant expenses incurred by the entities through such date, in accordance with the Mandate Letters, each Retainer Agreement and each Consultant Agreement.

**The above resource estimates have been prepared by Jun Seastres and Zim Aunzo under the direction of Brian Lovelock (Practice Leader and Senior Geochemist), full-time employee of Sinclair Knight Merz Limited (SKM), who takes responsibility and is accountable for the report as a Qualified Person in terms of the Canadian Geothermal Code. Brian has 32 years experience in the geothermal industry and is a member of the International Geothermal Association. SKM is a corporate member in good standing with the Canadian Geothermal Energy Association and has a Code of Ethics. SKM has been engaged as Consultant by Earth Heat but holds no financial interest in the project or in Earth Heat.*

CAPITAL

During the quarter \$670,000 was raised from the issue 67,000,000 special placement securities with 23,500,000 free attaching options. In addition, commitment shares of 10,000,000 were issued and held under escrow.

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

	Number
Ordinary shares quoted on the ASX	741,010,038
Escrowed Ordinary shares not quoted on the ASX	10,000,000
Ordinary shares not quoted on the ASX	3,264,423
Total ordinary shares	<u>754,274,461</u>
Unquoted stock options on issue	<u>48,158,228</u>
Unquoted performance rights on issue	<u>40,000,000</u>

FINANCIAL

Reconciliation of expenditure

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

Exploration and evaluation

The estimated exploration and evaluation expenditure cash flows amounted to \$310,000, actual expenditure amounted to \$334,000.

Administration

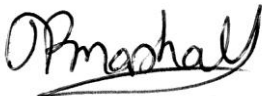
The estimated administration expenditure cash flows included in the previous report amounted to \$150,000, actual expenditure amounted to \$94,000. The decrease in administration expenditure is due to lower expenses and certain fees being accrued not paid.

Cash at the end of the quarter

Cash at September 30, 2012 was \$344,399.

The Company is working with its Corporate Advisor on potential capital initiatives to ensure the ongoing development of key projects and availability of working capital. The Company notes it has both the AGS and Socius facilities that remain undrawn from the previous quarter.

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



Torey Marshall

Managing Director

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

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

EARTH HEAT RESOURCES LTD

ABN

ABN 86 115 229 984

Quarter ended ("current quarter")

30 SEPTEMBER 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors - sale of project	-	-
1.2 Payments for (a) exploration & evaluation	(334)	(1,717)
(b) development	-	-
(c) production	-	-
(d) administration	(96)	(987)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other prepaid project finance costs	(84)	(467)
Net Operating Cash Flows	(514)	(3,171)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(1)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(514)	(3,172)

Appendix 5B

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		Current quarter \$A'000	Year to date (12 months) \$A'000
1.13	Total operating and investing cash flows (brought forward)	(514)	(3,172)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	670	3,416
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	(24)	(187)
	Net financing cash flows	646	3,229
	Net increase (decrease) in cash held	132	57
1.20	Cash at beginning of quarter/year to date	212	287
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	344	344

Payments to directors of the entity and associates of the directors

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

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

1.25 Explanation necessary for an understanding of the transactions

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

Appendix 5B

Mining exploration entity quarterly report

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

Non-cash financing and investing activities

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

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

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Financing facilities available

Add notes as necessary for an understanding of the position.

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

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(150)
4.2 Development	
4.3 Production	-
4.4 Administration	(100)
Total	(250)

Appendix 5B

Mining exploration entity quarterly report

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

Reconciliation of cash

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

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	294	162
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	344	212

Changes in interests in mining tenements

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

Appendix 5B

Mining exploration entity quarterly report

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

Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)	Nil	Nil		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3	+Ordinary securities	754,274,461 Includes 10,000,000 Escrowed shares 3,264,423 unquote shares held in Canada	741,010,038		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	67,000,000 10,000,000 Nil	67,000,000 10,000,000 Nil	\$0.01 each In lieu of cash payment for work done	n/a
7.5	+Convertible debt securities (description)	Nil	Nil		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		

Appendix 5B

Mining exploration entity quarterly report

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.7 Options (<i>description and conversion factor</i>)	23,500,000	Nil	<i>Exercise price</i> \$0.04	<i>Expiry date</i> 10/08/2015
	12,658,228	Nil	\$0.079	14/2/2016
	2,000,000	Nil	\$0.03	30/7/2013
	10,000,000	Nil	\$0.06	12/12/2012
	48,158,228	Total		
	40,000,000	Nil	N/A Unquoted performance rights	N/A
7.8 Issued during quarter	23,500,000	Nil	\$0.04	10/08/2015
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	Nil	Nil		
7.11 Debentures (<i>totals only</i>)	Nil	Nil		
7.12 Unsecured notes (<i>totals only</i>)	Nil	Nil		

Appendix 5B

Mining exploration entity quarterly report

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

Compliance statement

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

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

Sign here:
(Company secretary)

Date: 31 October 2012

Print name: Mr Malcolm Lucas Smith

Notes

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