

Earth Heat Resources Ltd Operations Report for the First Quarter from October 1, 2011 to December 31, 2011

HIGHLIGHTS

- The Company has mandated the Inter-American Development Bank's Structured and Corporate Finance Department to raise up to USD \$134,000,000 in project finance for the development of the 30MWe Copahue Project in Argentina
- Construction of a 'capital guaranteed' hybrid financing, currently marketed in target markets
- Successful negotiation and signing of Letter of intents for the Sale/Purchase of Electricity in Argentina with Loma Negra CIASA (10MWe) and Electrometalurgica Andina SAIC (30MWe)
- Successful placement undertaken, raising \$600,000 in funds
- Exercise of options, raising \$200,000 in funds
- Appointment of Grant Thornton as its new auditors
- Full Year Annual Report released
- Release of the Company's Annual General Meeting dates in Canada in order to comply with the Canadian meeting requirements

CORPORATE UPDATE

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

Fiale Project, Djibouti

The Company continues to progress through negotiations with various Joint Venture Partners and potential Co-Developers. Whilst no time frame has been set regarding those discussions, the size and scale of the outcomes involved in Djibouti could be transformational for the Company. These negotiations are being pressed forward with urgency, efficiency and with a clear focus for Earth Heat shareholders to benefit in a significant way.

Copahue Project, Argentina

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

- Completion of a resource review at Copahue, which resulted in a **significant upgrade of approximately 150%** over historical estimates, demonstrating both the enormous potential of this project within Argentina, and the extremely high quality of the resource itself;

- Completion of a Stage 1 Environmental Impact Assessment, suggesting no major issues are likely to be encountered, with a second stage to be completed during the bankable feasibility study;
- Negotiated Letters of Intent and Heads of Agreement to enter into a binding Power Purchase Agreements, with respected industrial groups;
- The establishment of a fully operational team in Argentina to empower this project in country;
- Execution of several CSR policies, particularly in communication activities within communities close to the project's site, providing interested parties with full educational access to the project's planned development.

However, and more significantly, the Company has mandated the Inter-American Development Bank's Structured ('IDB') and Corporate Finance Department ('CFD'), to raise up to USD \$134,000,000 in project finance for the development of the 30MWe Copahue Project. It predominantly places the Company at the forefront of the Australian geothermal developers and is an enormous vote of confidence in the execution of the Company's business strategy.

The Mandate provides:

- IDB to directly invest up to USD \$48,000,000 as lead investment;
- IDB to arrange with assistance from the Company, the syndication of USD \$86,000,000, taking advantage of the significant appetite for the Copahue project;
- Both IDB and the Company will share the role of arranger for the syndicated portion of the loan;
- Significant savings to the project as a result of having this relation with IDB, the largest financier of projects in the region.

The Company is in the process of completing the full form Project Information Memorandum, in addition to providing information at the request of IDB, for syndication due diligence purposes. The Company anticipates that the bookbuild process will be 'soft closed' in the next quarter, meaning that the senior debt in its entirety will be subject to formal close at the completion of due diligence and conclusion of formal commercial negotiations.

This financing is consistent with the IDB Integrated Strategy for Climate Change Adaption and Mitigation, and Sustainable Energy as they seek to increase their sustainable energy portfolio.

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

- groups individually have expressed interest in providing up to 25% of the total Project costs directly;
- expressed interest in being mandated for the debt syndication of the balance of the Copahue's complete financing requirements;
- innovative financial product being developed with a large international entity which, if successful, has ramifications for extension of lending facilities for the project in excess of 75% of the total capex.

The establishment of independent funding sources will significantly reduce the need for equity raisings through project development cycle.

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

Kenya

As announced previously, the Company has lodged an exploration licence in a highly prospective area of Kenya. The application remains subject to grant with no firm timeline for this to be achieved. The Company has not been made aware of any information that would lead it to believe this application could not be granted within the first half of 2012. In preparation for the commencement of activities in Kenya, Joint Venture discussions have been held with strategic partners in the Middle East and North Africa region.

South Australia

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

Appointment of Grant Thornton as auditors

The Company has changed its auditors commencing with the audit for the financial year ended 30 September 2011. This change was necessary as a consequence of the Company's intention to seek re-listing on the TSX-Venture Exchange (TSX-V). Requirements of this process could not be met by the Company's previous Auditor, who consequently resigned.

Annual General Meeting date

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

CAPITAL

During the quarter:

- the Company issued 20,000,000 in securities on December 15, 2011, raising \$600,000 in funds, in addition one free attaching options was issued for every two shares purchased, exercisable at 6 cents, anytime up to December 15, 2012; and
- 10,000,000 options were exercised on October 31, 2011, raising \$200,000.

The Company had the following securities on issue at December 31, 2011:

	Number
Ordinary shares quoted on the ASX	596,218,676
Ordinary shares not quoted on the ASX	3,313,967
Total ordinary shares	<u>599,532,643</u>
Unquoted stock options on issue	<u>24,658,228</u>

FINANCIAL

Reconciliation of expenditure

This is the first quarterly report for Earth Heat Resources Limited for the year ending December 31, 2012.

Exploration and evaluation

The estimated exploration and evaluation expenditure cash flows amounted to \$100,000, actual expenditure amounted to \$400,576. The increase in the actual expenditure was a result of certain exploration costs being incurred in an earlier than expected, such as insurance and reservoir entrance fees. We anticipate that future exploration costs will be funded through capital raising and other financing strategies to be employed by the Company, including but not limited to the mezzanine debt facility announced December 31, 2012.

Administration

The estimated administration expenditure cash flows included in the previous report amounted to \$400,000, actual expenditure amounted to \$287,413. The decrease in administration expenditure is due to the TSX-V related re-listing costs being delayed to at least the next quarter.

Financing

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

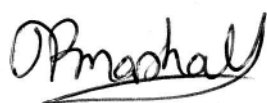
- the Placement consisted of 20,000,000 shares at 3 cents (the Company's closing price the day prior to announcement), plus one free attaching option for every two shares purchased, with a 12 month term and exercisable at 6 cents;
- the bulk of the shares committed for purchase were by Australian institutions, with the remainder taken up by sophisticated investors.

Cash at the end of the quarter

Cash at December 31, 2011 was \$323,166.

At December 31, 2011, \$3,000,000 of Socius CG II, Ltd (Socius) investment is available. There were no shares or options issued to Socius during this reporting quarter. Please refer to the Company's September 30, 2011 Financial Statements for a discussion of the Socius arrangement.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from October 1, 2011 to December 31, 2011.

A handwritten signature in black ink, appearing to read "Torey Marshall".

Torey Marshall

Managing Director

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

The information prepared on operations in this report relating to oil and gas activities has been prepared by Torey Marshall who has significant experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Torey Marshall consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

EARTH HEAT RESOURCES LTD

ABN

ABN 86 115 229 984

Quarter ended ("current quarter")

31 DECEMBER 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors –sale of project	-	-
1.2	Payments for (a) exploration & evaluation	(400)	(400)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(288)	(288)
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	-	-
	Net Operating Cash Flows	(688)	(688)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
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)	(688)	(688)

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1.13	Total operating and investing cash flows (brought forward)	(688)	(688)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	800	800
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)	(76)	(76)
	Net financing cash flows	724	724
	Net increase (decrease) in cash held	36	36
1.20	Cash at beginning of quarter/year to date	287	287
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	323	323

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	82
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

Non-cash financing and investing activities

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

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Appendix 5B

Mining exploration entity quarterly report

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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.

- 3.1 Loan facilities

- 3.2 Credit standby arrangements

Amount available \$A'000	Amount used \$A'000
Nil	Nil
Nil	Nil

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

Estimated cash outflows for next quarter

- 4.1 Exploration and evaluation

- 4.2 Development

- 4.3 Production

- 4.4 Administration

	\$A'000
	(250)
	-
	-
	(120)
Total	(370)

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	273	237
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)	323	287

Appendix 5B

Mining exploration entity quarterly report

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Changes in interests in mining tenements

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

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	599,532,643 Includes 3,313,967 unquote shares held in Canada	596,218,676	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	20,000,000 Nil	20,000,000 Nil	\$0.03 N/A

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	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.5 +Convertible debt securities (<i>description</i>)	Nil	Nil		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
7.7 Options (<i>description and conversion factor</i>)	12,658,228 2,000,000 <u>10,000,000</u> <u>24,658,228</u>	Nil Nil Nil Total	<i>Exercise price</i> \$0.079 \$0.03 \$0.06	<i>Expiry date</i> 14/2/2016 30/7/2013 12/12/2012
7.8 Issued during quarter	10,000,000	Nil	\$0.06	12/12/2012
7.9 Exercised during quarter	10,000,000	Nil	\$0.02	30/7/2013
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		

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 January 2012

Print name: Mr Malcolm Lucas Smith

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.

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.