

ASX

ANNOUNCEMENT

7 August 2012

ASX : EHR

Capital Raising Completed

Earth Heat Resources Limited ('Earth Heat' or 'the Company') is pleased to update shareholders and stakeholders on the current events.

Highlights

- **Company has successfully raised \$670,000 using its maximum 15% available under ASX Listing Rule 7.1;**
- **Funds to be used to maintain development momentum through the Copahue Project “bridging gap” period;**
- **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;**
- **The current \$670,000 capital raising has aroused strong third party interest in supporting any future underwritten rights issue on like, or similar, terms. The Company is giving this serious consideration as it will ensure maintenance of critical path development timetables and bolster the balance sheet through the bridging gap period;**

Earth Heat Resources Ltd
Registered Offices

Australia

Suite 9 Lester Court,
75a Angas Street,
Adelaide SA 5000

p +61 8 8212 0579
f +61 8 8212 2230
ABRN 86 115 229 984

Canada

711-675 West Hastings Street,
Vancouver, BC, Canada,
V6B 1N2

p +1 604 685 2222
f +1 604 685 3764

www.earthheat.com.au

Funding

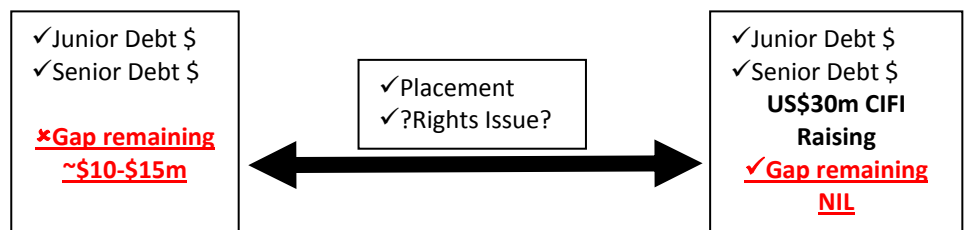
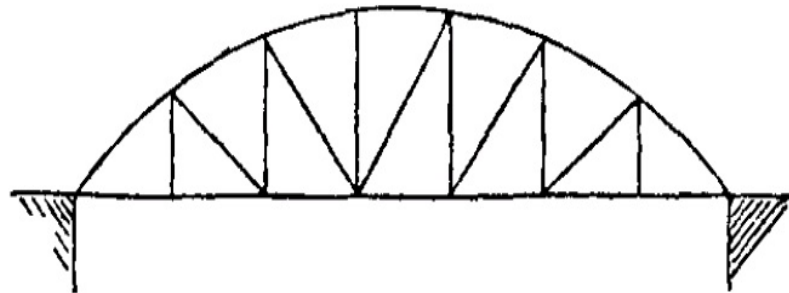
The Company has successfully completed a placement raising gross proceeds of \$670,000 from local and overseas sophisticated investors. The capital raising was at 1cps with one option (3yr duration, 4c exercise price) for every two shares subscribed. The Directors of the Company have agreed that, subject to shareholder approval, they (or their nominees) will underwrite up to a maximum of \$73,000 worth of shares under the placement. The Company will cause a General Meeting to be held as soon as practicable to approve the Directors (or their nominee) taking up shares under the placement under their underwriting arrangements with the Company.

The funds are being applied to the development of the Copahue project, working capital and the close of the US\$30m Preference Share issue announced previously.

Strong interest has contributed to consideration of a modest rights issue to existing shareholders in the short term, which is likely to be underwritten. Further details will be provided over the coming weeks once negotiations with a number of potential underwriters unfolds.

By way of an update, the Preference Share issue announced on 2 July 2012 is proceeding well, with a number of parties expressing interest. At this time and inclusive of recent updates, the Company feels positive about its chances of closing.

Bridging the Funding Gap for the Copahue Project



Earth Heat Managing Director Torey Marshall commented- "The recent capital raising, and consideration of a future rights issue, are being pursued to ensure the Company maintains an appropriate balance sheet during the financial gap period ahead of critical decisions to keep the development on track. Whilst the current investment market is not good for anyone, our project's development schedule dictates continuous progress and the need for on-going, short term, funding. The Copahue project, a first of its kind in South America is highly sought after by both debt lenders, power offtake partners and competitors to Earth

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Heat. This momentum should be continued as a solid response to the value proposition of the project rather than fall victim to current negative capital market sentiment. Earth Heat is the only ASX listed company of its type to have a geothermal project with a clear path to commercial development supported by both visible and tangible funding solutions. Whilst challenges are inescapable, Earth Heat continues to push towards being the first ASX listed small utility to construct and derive revenue from a geothermal power plant."

*** Ends***

For further information please contact:

Torey Marshall, Managing Director, +61 8 8223 1681 or +61 8 8212 0579

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.

About Copahue

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.

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.

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).

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.

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Since acquiring an interest in the project EHR has increased the resources by 150%, completed an EIA, a pre-feasibility study and most recently signed Letters of Intent for offtake of the power to be produced well in excess of stage 1 and 2 development.

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