

Earth Heat Resources Ltd Operations Report for the Fourth Quarter from 1 July 2011 to 30 September 2011

HIGHLIGHTS

- Receipt of a draft Concept Study by Auckland based consultants Sinclair Knight Merz
- Successful negotiation and signing of Letters of Intent for the Sale/Purchase of Electricity in Argentina with Loma Negra (10MWe) and Electrometalurgica Andina SAIC (30MWe)
- EGM 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 Stage 1 and 2 developments

CORPORATE UPDATE

The September 2011 quarter has proven to be an exciting time for the Company, and the future is looking even better, with milestones being achieved and/or important negotiations taking place.

Extraordinary General Meeting

The Company held an Extraordinary General Meeting of Shareholders on October 12, 2011 where the following four resolutions were approved by the members:

- the issue of the following securities to Socius Capital Group LLC or its nominee, on the terms and in accordance with the Share Subscription Agreement:
 - 25,316,456 fully paid ordinary shares; and
 - 12,658,228 unquoted options to acquire fully paid ordinary shares;
- the future issue of fully paid ordinary shares and options to acquire fully paid ordinary shares to Socius Capital Group LLC or its nominee during the 3 months period following the date of this Meeting, subject to the terms of the share Subscription Agreement (discussed below under 'Financial');
- the future allotment and issue of up to 136,000,000 fully paid ordinary shares to any party or parties nominated by the Company (who shall not be related parties) at an issue price for the shares being at least 80% of the volume weighted average market price of securities in the class calculated over the last 5 days on which sales in the securities were recorded before the day on which the issue is made or, if there is a Prospectus, Offer Information Statement (OIS) or Product Disclosure Statement (PDS) relating to the issue, over the last 5 days on which sales in the securities were recorded before the date on which the Prospectus, OIS or PDS is signed, on the terms and conditions set out in the Explanatory Memorandum;

- authorise the Company, at the sole and absolute discretion of the Directors, to issue at no cost to the recipient(s) (who shall not be related parties), up to 20,000,000 unquoted options to acquire fully paid ordinary shares in the Company, as required for corporate purposes, in line with the Management Information Circular.

A number of parties have continued corporate due diligence on the Company, with accompanying discussions progressing slowly. There is no timetable for the completion of these discussions and any particular outcome cannot be guaranteed.

Fiale Project, Djibouti

The Company continues to explore value-adding options for taking its Fiale Geothermal Project forward. A number of robust and exciting discussions have taken place with parties interested in the project, but at present no particular outcome is certain. The Company will progress discussions preferentially with parties that offer the greatest strategic advantage for its shareholders, in particular those that offer opportunities to lower risks or offer other opportunities that would otherwise be out of reach.

Copahue Project, Argentina

The Company has received extremely strong support from all levels in the Provincial Government in Neuquen, in addition to support from the Argentinean Federal Government, Australian and Canadian Embassies. Such support is extremely valuable, and despite some delays, the Company and the Provincial Government have agreed to the framework of a concession contract, that forms the basis of the ultimate concession contract to be executed later this year.

The reception of the Environmental Impact Assessment which was essential in completing the Concept Study (or pre-feasibility study). The main outcome of the study was the approximate costing and technical planning relating to a stage one, 15MWe plant. Pleasingly, the stage one plant was strongly NPV positive based on financial modelling completed as part of the study.

Elucidation of technical and costing approximates from the Concept Study enabled accelerated negotiations with power offtake partners to reach a Letter of Intent stage. The Letter of Intent signed by both Loma Negra and Electrometalurgica Andina 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 after a lead manager for the senior debt syndication is mandated.

The Company has remained focused on the requirements of project financiers in order to provide shareholders with the best possible financing outcome. Project financiers in geothermal projects account for 50%-75% of total capital raised and applied for the development of a power plant. Whilst the Company cannot disclose the names of parties it is in discussions with, it can however advise on the progress of such discussions including:

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

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.

South Australian GELs

The Company is consolidating and rationalising its existing Geothermal Exploration Licences ('GELs') portfolio in South Australia, with Primary Industries and Resources of South Australia (PIRSA). This will result in the reduction of certain the number of GELs attributable to the Company. We will continue to liaise with PIRSA to ensure that we achieve this result for administrative simplicity. The Company is of the view that the overall consolidation process will not be completed until December 2011.

North America Listing

The Company continues to progress towards a potential dual listing, although 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 by the end of the 2011 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.

CAPITAL

During the quarter the Company issued nil securities and options.

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

	Number
Ordinary shares quoted on the ASX	566,218,676
Ordinary shares not quoted on the ASX	3,313,967
Total ordinary shares	569,532,643
Unquoted stock options on issue	34,658,228

On October 31, 2011, employee options were exercised raising additional funds of \$200,000.

FINANCIAL

Reconciliation of expenditure

This is the fourth quarterly report for Earth Heat Resources Limited for the year ending 30 September 2011.

Exploration and evaluation

The estimated exploration and evaluation expenditure cash flows included in the previous report amounted to \$300,000, actual expenditure amounted to \$144,490. This amount was lower due to the conservative approach to the overall investment climate which deteriorated substantially during the quarter. We anticipate that this amount will increase over the next coming months, funded through capital raising and other financing strategies to be employed by the Company.

Administration

The estimated administration expenditure cash flows included in the previous report amounted to \$400,000, actual expenditure amounted to \$412,129.

Financing

The Company, at its election may and at any time, under a Share Subscription Agreement between the Company and Socius CG II, Ltd (Socius) dated February 14, 2011, call upon Socius for an agreed total investment of up to \$5,000,000, in two tranches over two years 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. Such requested funds of up to the agreed amounts is to be paid on the *next business day following the request*, and will be available to the Company (subject to normal bank clearing terms).

However, the Company's ability to access this money is subject to a number of conditions being satisfied before and/or at the time of issue of the Ordinary Shares to Socius such as:

- the Company must:
 - remain quoted on the ASX at all time in the previous three months of the share issues;
 - must not be suspended from trading for more than 5 days in the previous 12 months;
 - have no knowledge that it will either be removed or suspended from trading on the ASX;
 - comply with all reporting requirements in order to maintain listing on the ASX and for its shares to be quoted on the ASX, and to the extent applicable, has complied with section 674 and the provisions of Chapter 2M of the *Corporations Act 2001* ('Act')
- the representations and warranties of the Company, as stated in the agreement, are materially true and correct at time of issue, and that no material default has occurred with the Investor with respect to that agreement or any other agreement the Company may have with Socius or its Affiliates
- the contemplated or subsequent issue of the Ordinary Shares will not result in the Company being in default of any "material agreement" such as, and not limiting to, equity investment agreement

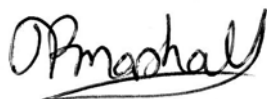
- there is no law, rule or regulation either prohibiting or restricting the arrangement contemplated under the agreement;
- the total Shares owned by Socius or its affiliates, when aggregated with its entitlement in the Company must not exceed 20% of the outstanding shares of the Company (or other amount the Company is subject to), subject to the investor waiving such a condition,
- the Company has no reason to believe that it will not be able to give a Cleansing Statement in respect of any shares or option shares issued as a consequence of this agreement

Cash at the end of the quarter

Cash at September 30, 2011 was \$288,824. An additional \$200,000 is also available due to options exercised subsequent to the end of the quarter.

At September 30, 2011, \$3,000,000 of Socius investment is available under the terms described above.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 July 2011 to 30 September 2011.

A handwritten signature in black ink that reads "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")

30 SEPTEMBER 2011

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	(145)	(596)
(b) development	-	-
(c) production	-	-
(d) administration	(417)	(1,264)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	5	22
1.5 Interest and other costs of finance paid	-	(15)
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(557)	(1,853)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(6)	(6)
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	(6)	(6)
1.13	Total operating and investing cash flows (carried forward)	(563)	(1,859)
1.13	Total operating and investing cash flows (brought forward)	(563)	(1,859)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,990
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	300
1.17	Repayment of borrowings	-	(300)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	1,990
	Net increase (decrease) in cash held	(563)	131
1.20	Cash at beginning of quarter/year to date	851	157
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	288	288

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	83
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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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



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	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(100)
4.2 Development	-
4.3 Production	-
4.4 Administration	(400)
Total	(500)

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	237	801
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)	287	851

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	569,523,643 Includes 3,313,967 unquote shares held in Canada	566,218,676	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil Nil	Nil Nil N/A	N/A N/A
7.5	⁺Convertible debt securities (description)	Nil	Nil	

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
7.7 Options (description and conversion factor)	12,658,228	Nil	<i>Exercise price</i> \$0.079	<i>Expiry date</i> 14/2/2016
	10,000,000	Nil	\$0.03	3/8/2011
	5,000,000	Nil	\$0.02	30/7/2013
	1,000,000	Nil	\$0.03	30/7/2013
	5,000,000	Nil	\$0.02	30/7/2013
	1,000,000	Nil	\$0.03	30/7/2013
	34,658,228	Total		
7.8 Issued during quarter				
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	Nil	Nil		
7.11 Debentures (totals only)	Nil	Nil		
7.12 Unsecured notes (totals only)	Nil	Nil		

On October 31, 2011, employee options were exercised raising additional funds of \$200,000.

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 2011

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 1022: Accounting for Extractive Industries* and *AASB 1026: 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.