

# ASX

## ANNOUNCEMENT

24 November 2011

ASX : EHR

### Up to \$134m USD through Inter-American Development Bank for Copahue Project Finance

Earth Heat Resources Limited ('Earth Heat' or 'the Company') is pleased to announce it has mandated the Inter-American Development Bank's ('IDB' or 'the Bank') Structured and Corporate Finance Department ('SCF'), to raise up to \$134m USD in project finance for the development of the 30MWe Copahue Project in Argentina

#### Highlights:

- IDB to directly invest up to \$48m USD as a lead investment
- IDB to arrange with assistance from Earth Heat, the syndication of \$86m, taking advantage of the significant appetite for the Copahue project
- Significant savings to the project as a result of having this relationship with IDB, the largest financier of projects in the region
- Mandate for the raising of the funds successfully executed by IDB and Earth Heat

As detailed in recent Company announcements, Earth Heat has remained focused on the requirements of project financiers in order to provide shareholders with the best possible financing outcome for the Copahue project.

This event is extremely significant, as it will enable the final parts of the funding and feasibility processes to be undertaken with clear parameters. Closing the initial phase of the financing in line with previously announced plans, will be subject to the completion of a Bankable Feasibility Study and the meeting of all the requirements and covenants of the senior lenders.

The project would be consistent with the IDB 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. As such, by having a large exposure to the region, Earth Heat is looking forward to building the relationship with the IDB through this initial investment, which will hopefully expand in time.

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**Earth Heat Managing Director, Torey Marshall commented,** "The execution of this mandate is clearly an enormous step for the development of the Copahue Project. With this mandate in place, it prominently places Earth Heat at the forefront of the Australian geothermal developers and is an enormous vote of confidence in the execution of our business strategy. At the moment, we believe that Copahue is the only geothermal project that has this maturity in project financing discussions in South America.

"IDB has undertaken significant due diligence to date and found that Copahue is extremely promising. Whilst we have already achieved a lot to date, there is still more to do, and we will now focus on closing the senior debt facility, rounding out the project finance with an additional hybrid facility, and executing the physical development of the project."

"Earth Heat will continue to take the necessary steps to ensure its projects meet criteria set by various project lenders who generally account for 50%-75%, of total development capex. The main issue for small cap companies is their ability to fund their projects without significant shareholder wealth dilution. Pleasingly, EHR is now well on the path to establishing independent funding sources which significantly reduce the need for equity raisings through the project development cycle."

For further information please contact:

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### **Summary of the Mandate**

The IDB is the largest funding agency that operates in the Latin American region, and does so under a specific financial mandate.

The IDB offers both long-terms and guarantee programs utilising its own resources and in the case of Copahue, has agreed to match financing phases with the potential development phases of the project therefore; lead the syndication with a direct investment of \$24m ("Loan A") for Phase I with an option to lead the Phase II financing with a direct investment of \$24m, towards the capital costs of Phase II.; IDB to arrange the Loan B portion of the Phase I syndication Earth Heat totalling \$43m, with the option to arrange the Loan B portion of the syndication debt for Phase II.

IDB also works with sponsors and co-financiers (including private banks and other multi-lateral and bilateral agencies) in order to provide the project's complete financing requirements, contingent upon Earth Heat and the Copahue Project meeting IDB's due diligence requirements.

Earth Heat has agreed to assist in the syndication of the \$86m USD by providing its negotiations to date with other parties and pooling collective resources to have the greatest chance of successfully closing.

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Any determination by the Bank to participate in the financing of the Project shall be conditioned upon all of the following, to the satisfaction of the Bank: (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 Bank's participation in the Project; (iv) formal approval by the Bank's Management and Board of Directors; (v) negotiation and execution of appropriate financing and security documentation; (vi) the receipt by the Bank from participants satisfactory to the Bank of firm commitments in an amount equal to the amount of the B Loan; and (vii) payment of all reasonable legal and other consultant expenses incurred by the Bank through such date, in accordance with the Mandate Letter, 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.

Through the Course of 2011, 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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