

Earth Heat Resources Ltd Operations Report for the First Quarter from 1st October 2010 to 31st December 2010

HIGHLIGHTS

The award of the Fiale Geothermal Development Project to EHR by the Government of Djibouti
Corporate progress with potential cornerstone investors and strategic partners.

CORPORATE UPDATE

The Company is aggressively pursuing its new strategy to become a major part of the New Energy Economy as a New Energy Company. This involves the continued screening of suitable opportunities that will meet advanced project status criteria set by the Company.

The Company is involved in a number of confidential discussions with groups and entities interested in either becoming a substantial shareholder or participating in a JV with EHR. These groups have signed Confidentiality Agreements and are progressing with their own due diligence on aspects of the Company and its projects with a view to progressing to a formal proposal. While there can be no certainty that a material transaction may be proposed in any form, the Company is working diligently to ensure these discussions come to a speedy conclusion.

Fiale Project, Djibouti

The successful award of the Fiale project in Djibouti is an excellent result for the Company, and further proof that the pipeline of projects acquired through the acquisition of Earth Heat Ltd in January of 2010. During the quarter the Company engaged in discussions on the absolute structure of a Joint Venture with Electricite' De Djibouti, and a suitable Power Purchase Agreement. These negotiations necessitate the translation of documents between French and English and are therefore slower than normal. The Company had representatives attend face to face meetings in Djibouti to progress negotiations on details of the agreements.

Copahue Project, Argentina

In working closely with the provincial authority a number of important issues have been discussed in an open forum and solutions have been found. Signature of the contract has been delayed by the provincial authority while it solves internal issues. This is a good outcome for the Company as it has facilitated the renegotiation of key elements of the contract which may be considerably value accretive.

Market announcements on the subject of the precise timing of this signing will be made when it is agreed.

Geography

The Copahue project area is located in the western part of Neuquén province, approximately 300 km from the provincial capital and just a few km 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 caldera retains its expression as a valley with steep walls on several sides, breached in several places by gaps formed by erosion, which provide access into the Caviahue-Copahue area from more populated areas of Argentina to the east. The principal activities in the area are tourism (including skiing at Caviahue and general recreation) and low-intensity agriculture. One of the zones of thermal manifestations related to the geothermal resource, Termas de Copahue, has been developed for seasonal use as a therapeutic spa.

Work to date

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 1,414 m 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.

One of the wells (COP-1) was used to supply a pilot power plant, with a capacity of slightly less than one MW for a period of several years. The most recent well (COP-4) was drilled to supply a district heating system at Termas de Copahue; a pipeline was constructed from the well field for this system which is no longer in use. Aside from the spa at Termas de Copahue, there is no exploitation of the Copahue geothermal resource at present.

South Australian GELs

In view of challenging market conditions the Company successfully applied to have all of its South Australian GEL's suspended for 12 months in the quarter ended 30th September 2010, as a result no expenditure has been incurred in the current quarter or is expected to be incurred in the next quarter.

Onshore USA - Baxter Shale Project, Green River Basin, Wyoming

The company continues to pursue an agreement with its joint venture partner and Operator (Samson Oil & Gas) to convert its interest in the Baxter project to a royalty. At present, the Company is waiting on confirmation of a previous proposal put forth by the Operator. No time frame has been presented for resolution to this issue.

CAPITAL

During the quarter the Company issued 20,037,500 ordinary shares as follows:

- 9,125,000 issued as consideration for the acquisition of certain opportunities for tenement application in Africa as announced on 3rd August 2010;
- 912,500 issued in settlement of a commercial agreement in respect to the African opportunities; and
- 10,000,000 special placement to sophisticated investors raising \$250,000.

The Company had the following securities on issue at 31 December 2010:

	<u>Number</u>
Ordinary shares quoted on the ASX	540,314,222
Ordinary shares not quoted on the ASX	<u>3,901,965</u>
Total ordinary shares	<u>544,216,187</u>
Stock options issued	<u>Nil</u>

The remaining 73,333 option expired on 4th November 2010.

FINANCIAL

Reconciliation of expenditure

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

Exploration and evaluation

The estimated exploration and evaluation expenditure cash flows included in the previous report amounted to \$130,000, actual expenditure amounted to \$55,000. The difference in amount was due to slower than anticipated progress of negotiations in Djibouti which has deferred the commencement of the project to a point in the future. Expenditure in Argentina was approximately equal to its anticipated level. Although suspended, the Company met its expenditure targets in its South Australian GELs.

Administration

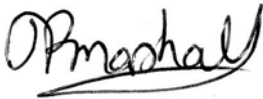
The estimated administration expenditure cash flows included in the previous report amounted to \$225,000, actual expenditure amounted to \$127,000. The reduction in corporate costs occurred in the delays to appointment of additional staff to manage the expansion of the Company in its key destinations. This was caused by the focus of the board of the Company on corporate discussions with strategic, and potential cornerstone investors which would materially alter the requirements for certain administrative structures.

While these costs were below expectations, effectively they have been deferred thus are expected to increase to \$225,000 in the next quarter as project activity increases, subject to the anticipated finalisation of material discussions.

Cash at the end of the quarter

Cash at 31st December 2010 was \$215,466.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1 October 2010 to 31 December 2010.

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")

31 DECEMBER 2010

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	(55)	(55)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(127)	(127)
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	(182)	(182)
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)	(182)	(182)

1.13	Total operating and investing cash flows (brought forward)	(182)	(182)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	240	240
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)	-	-
	Net financing cash flows	240	240
	Net increase (decrease) in cash held	58	58
1.20	Cash at beginning of quarter/year to date	157	157
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	215	215

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	52
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

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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	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(130)
4.2 Development	-
4.3 Production	-
4.4 Administration	(225)
Total	(355)

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	165	107
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)	215	157

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	Fiale Project	Joint Venture	Nil% ⁽¹⁾

(1) In October 2010 a Joint Venture Agreement ('JV') has been signed with the Djibouti Ministry of Energy and Natural Resources and Electricite de Djibouti in relation to the Fiale Geothermal Development Project ('Fiale Project').

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	544,216,187 Includes 3,901,965 unquote shares held in Canada	540,314,222	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	10,000,000 10,037,500 Nil	10,000,000 10,037,500 Nil	Issued at \$0.025 Paid up at \$0.025 Issued at no costs to recipient 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 (<i>description and conversion factor</i>)	Nil	Nil	<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	73,333	Nil	CAD\$0.54	Expired on 4 November 2010
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: 28 January 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.