

Earth Heat Resources Ltd Operations Report for the Third Quarter from 1st April 2011 to 30th June 2011

HIGHLIGHTS

- Significant resource upgrade (150%) as part of the Independent Resource Assessment by Sinclair Knight Merz (SKM)
- Environmental Impact Assessment completed by Estudios y Servicios Ambientales has been submitted to regulatory authorities in Argentina.
- Engagement of SKM to undertake Concept Study of Copahue Project, due for completion in early H2 2011.
- Reduction in board size, from 6 to 3 directors.

CORPORATE UPDATE

- Engagement of New York based equity research firm RB Milestone Group to provide international promotion of Earth Heat.
- Arrangements for listing on the Toronto Ventures Exchange continue to progress as the Company seeks greater investor recognition for its international portfolio of assets.
- Reduction in the size of the board from six to three as a preparatory step to listing on the Toronto Ventures Exchange.
- Cancellation of 20,000,000 unlisted options issued in conformity with an employment agreement on 16 May 2011.

OPERATIONAL UPDATE

Copahue Project, Argentina

- Independent Resource Assessment - SKM interpreted a significant resource upgrade at Copahue, with a circa 150% increase over historic estimates. This underpins the view of the board that the resource is world class, and will sustain EHR through a growth phase for a significant period of time.
- Environmental Impact Assessment (EIA) phase 1 was completed in the Copahue region (Argentina) and was very positive in terms of the outcomes of the proposed geothermal program. Importantly it highlighted no specific major risks to the environment of the proposed program, and gave clear and concise recommendations for observing best practice protocols in undertaking activities in the future.

- Recruitment - several key employees to advance the project on a daily basis were engaged in the Argentina office.
- SMK engaged to undertake Concept Study of the Copahue Project. The initial concept involves the development of a modular 15 MWe net production plant.
- Continued confidential discussions with end users of power regarding the formation of strategic alliances and or power offtake agreements.
- Final contract signing - during the Quarter a 'pre-contract' was entered into which sets the final concession contract terms and conditions. The Company is hopeful that the final concession contract will be entered into during the September Quarter of 2011.

Fiale Project, Djibouti

A significant number of strategic Joint Venture confidential discussions have continued with third parties. During the Quarter an election was held in the country, and the President was re-elected, although a substantial political/ministerial reshuffle has occurred post election resulting in some administrative delays. Changes to the potential size, scope and participants of the Fiale Project will be addressed in the September Quarter. It is anticipated that the Company will perform a resource review late in 2011 to address the potential size of the resource.

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. With recent changes to the government's position on a carbon tax and accompanying emission trading scheme (post quarter end), this will be reviewed. The Company may begin to proceed with new low cost initiatives in these GEL's, subject to relinquishing non-core parts of the portfolio and suitable funding sources.

Exploration and evaluation

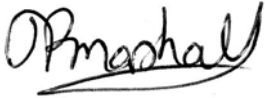
The estimated exploration and evaluation expenditure cash flows included in the previous report amounted to \$250,000, actual expenditure amounted to \$276,000. The difference in amount was due to slower than anticipated progress of negotiations in Djibouti which has deferred the commencement of the 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 \$300,000, actual expenditure amounted to \$280,000. The increase in corporate costs for this quarter occurred as a result of the previous delays to appointment of additional staff to manage the expansion of the Company in its key destinations.

While these costs were above expectations, effectively they relate to previous deferred expenses thus are expected to amount to \$300,000 in the next quarter as project activity increases, subject to the anticipated finalisation of material discussions.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1st April 2011 to 30th June 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

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 JUNE 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (9 months) \$A'000
1.1	Receipts from product sales and related debtors –sale of project	-	-
1.2	Payments for (a) exploration & evaluation	(276)	(451)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(280)	(847)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	17	17
1.5	Interest and other costs of finance paid	-	(15)
1.6	Income taxes paid	-	-
1.7	Other	-	-
	Net Operating Cash Flows	(539)	(1,296)
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)	(539)	(1,296)

1.13	Total operating and investing cash flows (brought forward)	(539)	(1,296)
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	(539)	694
1.20	Cash at beginning of quarter/year to date	1,390	157
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	851	851

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	76
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 stand by arrangements	Nil	Nil

Under a Share Subscription Agreement between the Company and Socius CG II, Ltd ("Socius") dated February 14, 2011, Socius has agreed to a total investment of up to \$5,000,000 over the next two years. At 30 June 2011 \$3,000,000 of Socius investment is available.

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(400)
4.2 Development	-
4.3 Production	-
4.4 Administration	(300)
Total	(700)

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	801	1,340
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)	851	1,390

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	Nil	Nil		
7.2	Nil	Nil		
7.3	569,523,643 Includes 3,313,967 unquote shares held in Canada	566,218,676		
7.4	Nil	Nil	N/A	N/A
	Nil	Nil	N/A	N/A
7.5	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 10,000,000 5,000,000 1,000,000 5,000,000 1,000,000 34,638,228	Nil Nil Nil Nil Nil Nil Total	<i>Exercise price</i> \$0.079 \$0.03 \$0.02 \$0.03 \$0.02 \$0.03	<i>Expiry date</i> 14/2/2016 3/8/2011 30/7/2013 30/7/2013 30/7/2013 30/7/2013
7.8 Issued during quarter				
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	10,000,000 10,000,000 20,000,000	Nil Nil Total	<i>Exercise price</i> \$0.05 \$0.08	<i>Expiry date</i> 3/8/2012 3/8/2013
7.11 Debentures (totals only)	Nil	Nil		
7.12 Unsecured notes (totals only)	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: 27 July 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.