

ASX ANNOUNCEMENT

December 22, 2011

ASX : EHR

Financing Progress Update

Earth Heat Resources Limited ('Earth Heat' or 'the Company') is pleased to provide an update of finance activities of its Copahue Project.

- **Inter-American Development Bank – Senior Debt Facility**

As previously announced the Senior Debt syndication process has commenced through the Inter-American Development Bank ('IDB'). The Company is in the process of completing the full form Project Information Memorandum, in addition to providing information at the request of IDB, for syndication due diligence purposes. Demand has been strong for the US\$86m balance of the facility (IDB accounts for US\$48m directly), despite the current unattractive macro-economic environment. The formal bookbuild process is anticipated to be completed during early 2012 after which time commitments to fund are expected to be binding, subject to certain Conditions Precedent to financial close.

Senior Debt accounts for 60-70% of the total project capital cost of the Copahue Geothermal development, and the Company is in an enviable position in not being forced to go to equity markets for this amount.

Formal close of the entire senior debt facility is anticipated to take place in the first half of 2012, and is on track with no issues of significant concern arising at this point in time.

- **Hybrid Financing**

Given the strong interest in the Copahue Project and the recently announced entry into Letters of Intent for Power Offtake Agreements Earth Heat has also received considerable interest by third parties for financing the balance of the project finance, totaling approximately US\$60 million. In this space, the Company is in an enviable position as the maturity of the project has enabled the construction of a 'capital guaranteed' hybrid financing which is being marketed in target markets. The novel structure of this product has exceeded expectations, resulting in a number of indicative expressions of interest being received by the Company and its advisors.

Marketing of the hybrid product has also identified interest in a number of funding variants some of which could involve alternative capital injections either at the project or Company level. These will be assessed

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in conjunction with the other funding options in order to obtain the most beneficial overall funding solution for this and subsequent stages of the Copahue Project.

In particular a considerable amount of interest has been shown for the execution of strategic placements into the Company, which may occur at a significant premium to the prevailing share price.

The outcome of these discussions is still uncertain, but the Company will keep the market informed.

- **Timing**

At this stage, the expectation is that the subordinate, hybrid, facility could be announced as soon as the end of January 2012, and formally close concurrently with the Senior Debt, this is subject to overall macro economic conditions.

This would mean the project could be up to 100% Project financed without any reliance upon significant equity contributions from existing shareholders.

Earth Heat Managing Director, Torey Marshall commented, "Taken together, the progress and position of our Project Finance now puts the Company in an enviable position. We stand out as the only ASX listed Geothermal Company which has a clearly identified plan for its funding solution – and one so far in advance of the completion of a Bankable Feasibility Study. This reflects genuine third party interest and the quality of the Copahue Project itself. Project Financing milestones which we have already achieved would not normally be attained until either after, or well into, the Bankable Feasibility Stage. The current situation is particularly heartening given the relative size of the Company and the funding level requirements for the project. This is particularly more so given the advances we have recently made in what are extremely difficult macro-economic conditions. The Company is now connected with just about every major Geothermal financier in the world on some level, and has exceeded any reasonable expectations for obtaining project finance. Considering that shareholders are often exposed to significant project CAPEX, our funding solution once implemented will virtually eliminate the chances of future large equity raises for this project"

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About Copahue

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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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