

Earth Heat Resources Ltd Operations Report for the Second Quarter from 1st January 2011 to 31st March 2011

HIGHLIGHTS

- \$5m AUD funding agreement with Socius Capital
- Commencement of Independent Resource Assessment by SKM
- Strategic corporate and project level JV discussions progress
- Appointment of key staff in Argentina
- Notified shareholders of intent to seek a listing on the TSX Ventures Exchange in Canada

CORPORATE UPDATE

The Socius Capital investment has allowed the commencement of various studies related to Argentina, namely:

- Independent Resource Assessment - SKM are well advanced on this process and have provided an incomplete draft. Once the review is finalised a release will be made to the market.
- Environmental Impact Study (EIS) phase 1 commenced in the Copahue region recently, and the preliminary field work has been completed. The Company is looking forward to receiving a draft report in the next quarter if at all possible.
- Team building - via the appointment of strategic employees to advance the project on a daily basis in Argentina.
- Conceptual engineering studies are due to commence in the next 3 weeks following the completion of the resource assessment.
- Joint venture discussions are proceeding very well, with a number of parties expressing keen interest in the project. The Company is presently focussing on the parties that would add the most strategic value to the project and its execution.

Fiale Project, Djibouti

A significant number of strategic Joint Venture discussions have continued with parties external to the Company and to the country of Djibouti. The Company expects that these discussions will take more time before any final agreement is reached. However the depth of the parties interested in this project has been a pleasant surprise for the board and management of EHR.

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 the following securities:

- On 14 February 2011, 25,316,456 ordinary shares and 12,658,228 unquoted options were issued for \$2 million as the first tranche in accordance with an agreement between the Company and Socius CG II, Ltd. Under the agreement the total investment of up to \$5 million over the next six months, in two tranches of \$2 million and one and \$1 million at issue prices for the shares equivalent to the closing bid price of the Company's CDI/ORD shares the days before each 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. The 12,658,228 unquoted options issued have an exercise price of \$0.079 and expire on 14 February 2016;
- On 25 February 2011 42,000,00 unquoted options with an exercise price ranging from \$0.02 to \$0.08 and expiry dates ranging from 3 August 2011 to 3 August 2013. The effective grant dates are 30 July 2010 for 12,000,000 and 3 August 2010 for 30,000,000 pursuant to agreement negotiated at that time; and
- On 3 March 2011 587,998 Canadian issued common stock were transferred to CDI/ORD.

The Company had the following securities on issue at 31 March 2011:

	Number
Ordinary shares quoted on the ASX	566,218,676
Ordinary shares not quoted on the ASX	3,313,967
Total ordinary shares	<u>569,532,643</u>
Unquoted stock options on issue	<u>54,658,228</u>

FINANCIAL

Reconciliation of expenditure

This is the second 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 \$120,000. 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

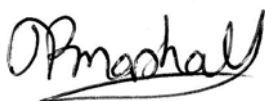
The estimated administration expenditure cash flows included in the previous report amounted to \$225,000, actual expenditure amounted to \$440,000. The increase in corporate costs for this quarter occurred is a result in the previous delays to appointment of additional staff to manage the expansion of the Company in its key destinations. The significant expenditure included insurance \$36,000, travelling and promotion related costs \$84,000 and legal and professional fees \$140,000.

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.

Cash at the end of the quarter

Cash at 31st March 2010 was \$1,390,241.

Attached is the Appendix 5B Consolidated Statement of Cash Flows for the period from 1st January 2011 to 31st March 2011.

A handwritten signature in black ink, appearing to read "T 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 MARCH 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors –sale of project	-	-
1.2	Payments for (a) exploration & evaluation	(120)	(175)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(440)	(567)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	(15)	(15)
1.6	Income taxes paid	-	-
1.7	Other	-	-
	Net Operating Cash Flows	(575)	(757)
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)	(575)	(757)

1.13	Total operating and investing cash flows (brought forward)	(575)	(757)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,750	1,990
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	300	300
1.17	Repayment of borrowings	(300)	(300)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	1,750	1,990
	Net increase (decrease) in cash held	1,175	1,233
1.20	Cash at beginning of quarter/year to date	215	157
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,390	1,390

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
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

- 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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(250)
4.2 Development	-
4.3 Production	-
4.4 Administration	(300)
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	1,340	165
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)	1,390	215

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	25,316,456 Includes 587,998 previously unquote shares held in Canada Nil	25,316,456 Nil	Issued at \$0.079 N/A
7.5	+Convertible debt securities (description)	Nil	Nil	Paid up at \$0.079 N/A

		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)	Nil	Nil	<i>Exercise price</i>	<i>Expiry date</i>
7.8	Issued during quarter	12,658,228 10,000,000 10,000,000 10,000,000 5,000,000 1,000,000 5,000,000 1,000,000	Nil Nil Nil Nil Nil Nil Nil Nil	\$0.079 \$0.03 \$0.05 \$0.08 \$0.02 \$0.03 \$0.02 \$0.03	14/2/2016 3/8/2011 3/8/2012 3/8/2013 30/7/2013 30/7/2013 30/7/2013 30/7/2013
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		

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: 21 April 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.