



Consolidated Financial Statements of

ALTERNATIVE EARTH RESOURCES INC.

Years ended June 30, 2015 and 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Alternative Earth Resources Inc.

We have audited the accompanying consolidated financial statements of Alternative Earth Resources Inc. which comprise the consolidated statement of financial position as at June 30, 2015, and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the year then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Alternative Earth Resources Inc. as at June 30, 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Alternative Earth Resources Inc. for the year ended June 30, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 14, 2014.



Saturna Group Chartered Accountants LLP
Chartered Professional Accountants

Vancouver, Canada

October 26, 2015

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of financial position Presented in US dollars

	Note	June 30, 2015 \$	June 30, 2014 \$
ASSETS			
Current assets			
Cash and cash equivalents		1,904,248	1,258,928
Amounts receivable		7,788	11,271
Prepaid expenses and deposits		51,453	79,100
Assets held for sale	6	65,000	508,057
Total current assets		2,028,489	1,857,356
Non-current assets			
Restricted cash	8	50,000	175,000
Property and equipment	10	17,159	133,888
Total non-current assets		67,159	308,888
TOTAL ASSETS		2,095,648	2,166,244
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		48,180	125,810
Liabilities held for sale	6	–	230,451
Total current liabilities		48,180	356,261
Non-current liabilities			
Asset retirement obligations	13	194,910	245,381
Total liabilities		243,090	601,642
Equity			
Share capital		62,955,332	62,923,805
Warrants reserve		524,341	524,341
Equity compensation reserve		7,731,603	7,743,276
Accumulated other comprehensive income		15,054	356,278
Deficit		(69,373,772)	(69,983,098)
Total equity		1,852,558	1,564,602
TOTAL LIABILITIES AND EQUITY		2,095,648	2,166,244

Nature of operations and going concern (Note 1)
Commitment (Note 18)

Approved and authorized for issuance on behalf of the Board of Directors on October 26, 2015:

"Brian Fairbank"
Director

"Gavin Cooper"
Director

(The accompanying notes are an integral part of these consolidated financial statements)

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of operations and comprehensive income Presented in US dollars

		For the year ended	
	Note	June 30, 2015 \$	June 30, 2014 \$
Expenses			
Adjustments to asset retirement obligations:			
exploration stage properties		(14,666)	9,044
Audit, accounting and tax		74,723	145,294
Depreciation and amortization		20,685	34,279
Foreign exchange gain		(163,881)	(4,265)
General and administrative	16	117,249	125,102
Impairment of assets held for sale		26,860	—
Impairment of intangible assets	11	—	26,775
Impairment of resource property interests	12	—	15,000
Insurance		37,407	57,989
Legal and consulting fees	16	151,653	150,861
Rent		22,325	127,242
Resource property expenses		19,390	29,377
Salaries, wages, and employee benefits	16	255,122	388,430
Share-based compensation	14	—	44,802
Total expenses		546,867	1,149,930
Loss before other income (expense)		(546,867)	(1,149,930)
Other income (expense)			
Finance costs		(5,752)	(6,322)
Interest income		12,848	13,766
Loss on sale of property and equipment		—	(59,340)
Loss on sale of marketable securities		—	(517)
Total other income (expense)		7,096	(52,413)
Income (loss) before income taxes		(539,771)	(1,202,343)
Income taxes	15	—	(3,200)
Net income (loss) from continuing operations		(539,771)	(1,205,543)
Gain (loss) from discontinued operations	5	1,149,097	(924,046)
Net income (loss)		609,326	(2,129,589)
Items that may subsequently be reclassified to net income (loss):			
Foreign translation adjustment		—	158,737
Fair value adjustment on disposal of marketable securities		—	23,805
Items that will not subsequently be reclassified to net income (loss):			
Foreign currency translation adjustment		(341,224)	(175,089)
Total comprehensive income (loss)		268,102	(2,122,136)
Earnings (loss) per share (basic and diluted)		0.02	(0.09)
- Continuing operations		(0.02)	(0.05)
- Discontinued operations		0.04	(0.04)
Weighted average number of common shares issued and outstanding (basic and diluted)		24,588,968	24,482,119

(The accompanying notes are an integral part of these consolidated financial statements)

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of changes in equity

Presented in US dollars

					Accumulated other comprehensive income			
	Number of shares	Share capital \$	Warrants reserve \$	Equity compensation reserve \$	Foreign currency translation reserve \$	Revaluation of available for sale financial assets \$	Deficit \$	Total \$
As at June 30, 2013	24,482,119	62,923,805	3,501,594	4,721,221	372,630	(23,805)	(67,829,704)	3,665,741
Foreign currency translation	—	—	—	—	(16,352)	—	—	(16,352)
Expiration of warrants	—	—	(2,977,253)	2,977,253	—	—	—	—
Share-based payment expense	—	—	—	44,802	—	—	—	44,802
Fair value adjustment on disposal of marketable securities	—	—	—	—	—	23,805	(23,805)	—
Net loss	—	—	—	—	—	—	(2,129,589)	(2,129,589)
As at June 30, 2014	24,482,119	62,923,805	524,341	7,743,276	356,278	—	(69,983,098)	1,564,602
Foreign currency translation	—	—	—	—	(341,224)	—	—	(341,224)
Stock options exercised	500,000	31,527	—	(11,673)	—	—	—	19,854
Net income	—	—	—	—	—	—	609,326	609,326
As at June 30, 2015	24,982,119	62,955,332	524,341	7,731,603	15,054	—	(69,373,772)	1,852,558

(The accompanying notes are an integral part of these consolidated financial statements)

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of cash flows

Presented in US dollars

	For the year ended	
	June 30, 2015	June 30, 2014
	\$	\$
Operating activities		
Net income (loss)	609,326	(2,129,589)
Items not involving cash:		
Adjustment to asset retirement obligations: exploration stage properties	(14,666)	14,893
Accretion of asset retirement obligations	5,752	19,296
Asset retirement obligation provision settled	(41,557)	–
Depreciation and amortization	20,685	34,279
Gain on sale of resource property interests	(1,149,097)	–
Impairment of property and equipment	–	4,349
Impairment of intangible assets	–	26,775
Impairment of assets held for sale	26,860	–
Impairment of resource property interests	–	1,022,829
Loss on sale of marketable securities	–	517
Loss on sale of property and equipment	–	59,340
Share-based compensation	–	44,802
Changes in non-cash working capital:		
Amounts receivable	3,483	67,498
Prepaid expenses and deposits	23,021	70,958
Accounts payable and accrued liabilities	(77,630)	3,873
Net cash used in operating activities	(593,823)	(760,180)
Investing activities		
Proceeds from disposal of marketable securities	–	4,554
Proceeds from disposal of mining rights	–	35,000
Proceeds on disposal of resource properties	1,431,329	–
Proceeds from disposal of property and equipment	–	12,127
Restricted cash	125,000	–
Net cash provided by investing activities	1,556,329	51,681
Financing activities		
Proceeds from stock options exercised	19,854	–
Net cash provided by financing activities	19,854	–
Effects of exchange rate changes on cash and cash equivalents	(337,040)	(11,774)
Increase (decrease) in cash and cash equivalents	645,320	(720,273)
Cash and cash equivalents, beginning of year	1,258,928	1,979,201
Cash and cash equivalents, end of year	1,904,248	1,258,928
Cash and cash equivalents consist of:		
Cash	984,203	284,986
Cashable guaranteed investment certificates	920,045	973,942
Total cash and cash equivalents	1,904,248	1,258,928
Supplemental disclosures:		
Interest paid	–	–
Income taxes paid	–	–

Refer to Note 5 for details of cash flows attributable to discontinued operations.

(The accompanying notes are an integral part of these consolidated financial statements)

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

Presented in US dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Alternative Earth Resources Inc. (the "Company" or "Alternative Earth") was incorporated on April 13, 1995 under the laws of British Columbia and has its registered office at Suite 1000, 840 Howe Street, Vancouver, Canada. The head office is located at Suite 1500, 409 Granville Street, Vancouver, Canada. The Company's common shares are traded on the TSX Venture Exchange under the trading symbol AER.

The Company had been focused on the acquisition and development of geothermal properties since June 2001. Recently, difficult market conditions for venture companies in general, and the geothermal sector in particular, prevented access to new capital for geothermal project development. Thus, the Board of Directors of the Company concluded that the situation was unsustainable. Accordingly, as recommended by the Board of Directors in the Information Circular dated July 24, 2014, the shareholders of the Company approved the sale of its geothermal properties at a meeting held on August 22, 2014 (see Note 5). Prior to this, on March 28, 2013, the Company disposed of its interest in the Faulkner I power plant located in northern Nevada ("Blue Mountain"). Subsequent to the disposal of its geothermal projects, management is planning to focus on advanced stage resource projects as approved by shareholders on August 22, 2014. Although no specific transactions are presently contemplated, the directors and officers of the Company have experience and expertise in the mining industry, and will lead the Company into this business sector.

The Company has incurred net losses over the past several years and has an accumulated deficit of \$69,373,772, although it has positive overall equity. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing, and its ability to continue to raise funds to support corporate operations and the acquisition and development of properties. Over the past two years, the Company has undertaken a process to significantly reduce its ongoing costs and operating expenses. Management believes that the cash balances available as of June 30, 2015 provides sufficient funds for the Company to meet its obligations beyond the next 12 months. Additional financing may be required to acquire new projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The policies applied in these consolidated financial statements are based on IFRS in effect as of June 30, 2015.

Basis of Presentation

The consolidated financial statements are expressed in United States dollars.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Reclassifications

Certain of the figures presented for comparative purposes have been reclassified to conform to the presentation adopted in the current period.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

The financial statements include the accounts of the Company and the following wholly-owned subsidiaries ("the Group"):

- Blue Mountain Power Company Inc., incorporated in the province of British Columbia;
- Desert Valley Gold Co., incorporated in the State of Nevada;
- Nevada Geothermal Power US Holdings Inc., incorporated in the State of Nevada;
- Nevada Geothermal Power Company, incorporated in the State of Nevada;
- Nevada Geothermal Operating Company, a Delaware limited liability company (*included in discontinued operations*);
- Nevada Geothermal Power Holding Company LLC, a Delaware limited liability company;
- NGP Blue Mountain Holdco LLC ("BM Holdco"), a Delaware limited liability company (*included in discontinued operations*);
- NGP Blue Mountain I LLC, a Delaware limited liability company ("NGP I") (*included in discontinued operations*);
- NGP (Pumpnickel I), incorporated in the State of Nevada;
- NGP North Valley Inc., incorporated in the State of Nevada;
- NGP (Crump I), incorporated in the State of Nevada; and
- NGP Truckhaven LLC, a Delaware limited liability company.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of operations.

Inter-company transactions, balances, revenues and expenses between group companies are eliminated.

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment is carried at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write-off the cost of assets to their residual values over their estimated useful lives, as follows:

Computers, computer software, office furniture and equipment	3 - 5 years
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The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

Resource property interests

Costs relating to the acquisition of resource properties are capitalized. Costs relating to the exploration for and evaluation of geothermal and other resources are recognized in profit or loss when incurred if costs relate to expenditure on activities undertaken with the prospect of surveying areas where exploitation probability is uncertain and the costs do not meet the criteria for capitalization. Development costs relating to resource properties are capitalized if the Company can demonstrate all of the following:

- The technical feasibility of completing the project, including the existence of an adequate geothermal resource;
- The intention to complete the development of the project and to use or sell the power plant;
- The ability to complete the project;
- How the project will generate future benefits;
- The availability of adequate technical, financial and other resources to complete the development; and
- The ability to measure costs to be capitalized reliably.

The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss when incurred.

Upon completion of a project, costs capitalized under interests in resource properties are transferred to property and equipment, and amortized over its estimated useful life.

Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and accumulated impairment losses.

Government Assistance

Government grants are recorded as a reduction of the related expenditure, item of property and equipment or resource property interest where there is reasonable assurance that the Group has complied with all conditions necessary to receive the grants and collection is reasonably assured.

Impairment of non-financial assets

At each reporting date, the Company assesses whether there are indicators of impairment for its non-financial assets. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the statement of operations. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in the statement of operations. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

A provision is recognized in respect of future costs to retire assets, including environmental costs, remediation and ongoing treatment, and monitoring of the site. The corresponding asset is capitalized as part of the asset's carrying value and amortized over the asset's useful life. Changes in the value of the provision resulting from revisions to the amount or timing of the underlying cash flows are capitalized to the related asset. The increase in the provision due to passage of time is recognized as finance costs.

Share capital and warrants

Share capital consists of common shares with no par value. Warrants issued are presented separately from share capital. Incremental costs directly attributable to the issue of new ordinary shares or warrants are deducted from the proceeds.

Income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is the expected tax payable on taxable income for the year using the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and any adjustments in respect of prior years.

Deferred income tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts, using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the asset is realized or the liability is settled. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014
Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. The following criteria are used in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

- whether the Group has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- whether it is probable that the Group will have taxable profits before the unused tax losses or unused tax credits expire;
- whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- whether tax planning opportunities are available that will create taxable income in the period in which the unused tax losses or unused tax credits can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention and ability to settle the balances on a net basis.

Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars.

Transactions and balances

Monetary assets and liabilities denominated in foreign currency are translated at exchange rates in effect at statement of financial position dates. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. Non-monetary items measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Realized and unrealized exchange gains and losses are included in the statement of operations.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the statement of operations, any exchange component of that gain or loss shall be recognised in the statement of operations.

Group companies

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the Group's presentation currency as follows:

- Income statements and cash flow statements are translated at the average exchange rates prevailing during each reporting period; and
- Assets and liabilities are translated at the exchange rates prevailing at statement of financial position dates.

All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014
Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are included in this category if acquired principally for the purpose of selling in the short term. Derivatives are also included in this category unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of operations. Realized and unrealized gains and losses arising from changes in the fair value of assets included in this category are included in the statement of operations in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of operations when the Group's right to receive payments is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise restricted cash, accounts receivable and cash and cash equivalents on the statement of financial position, and are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost, less impairments, using the effective interest method.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets included in loans and receivables is impaired. A financial asset is impaired if objective evidence exists of an impairment as a result of one or more events subsequent to the initial recognition of the asset that has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following are loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - o adverse changes in the payment status of borrowers in the portfolio; and
 - o national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014
Presented in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Company has designated its investment in publicly traded shares of another resource company as an available for sale financial asset. Accordingly, the investment is carried at fair value, and changes in fair value are recognized directly in other comprehensive income, except for impairment losses. The cumulative gain or loss previously recognized in other comprehensive income is recognized in net income for the period at the time the investment is impaired or derecognized. The fair value of publicly traded securities is based on quoted market prices. Interest on available for sale securities calculated using the effective interest method is recognized in the statement of operations as part of other income. Dividends on available for sale equity instruments are recognized in the statement of operations as part of other income when the Group's right to receive dividend payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available for sale financial asset is impaired. For debt securities, the criteria included under loans and receivables are used. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

Financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Share-based payments

In share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received on the date the goods and services are received, unless the fair value cannot be estimated reliably. If so, the Group measures the fair value by reference to the fair value of the equity instruments granted.

The Company grants stock options to officers, directors and employees. The plan is classified as an equity settled share-based compensation plan. The fair value of stock options which vest immediately is recorded at the date of grant and the fair value of options which vest in the future is recognized on a straight-line basis over the vesting period. Stock option plans that have multiple instalments with different vesting periods are fair valued separately at the grant date. Upon exercise of options, any consideration received, together with the related portion of the equity compensation reserve, is credited to share capital. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of operations, with a corresponding adjustment to equity.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings (loss) per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at June 30, 2015, the Company had 2,188,000 (2014 – 2,718,000) potentially dilutive shares outstanding.

Comprehensive income (loss)

Comprehensive loss is the total non-owner change in equity for a reporting period. This change encompasses all changes in equity other than transactions from shareholders. For the years ended June 30, 2015 and 2014, the Company's only components of comprehensive income are unrealized gains and losses on available-for-sale marketable securities and foreign currency translation gains and losses.

Accounting standards issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended June 30, 2015, and have not been applied in preparing these consolidated financial statements:

New standard IFRS 9, "Financial Instruments"
Amendments to IAS 1, "Presentation of Financial Statements"

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

- ensure there are adequate capital resources to manage the Company's ability to continue as a going concern;
- maintain adequate levels of funding to sustain the required exploration and development of its resource properties;
- maintain investor, creditor and market confidence to sustain future development of the business; and
- provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company currently consists of cash and cash equivalents, share capital, warrants, equity compensation reserve, and deficit. The Company's resource property projects and corporate head office are currently funded by equity financing.

The Company attempts to manage its capital in a manner that provides sufficient funding for exploration and development activities. Annual budgets and rolling forecasts are used to determine the necessary capital requirements. The budgets are prepared by management, approved by the Board of Directors and are updated for changes in the underlying assumptions, economic conditions and risk characteristics of the underlying assets, as necessary. The Company is not subject to externally imposed capital requirements.

ALTERNATIVE EARTH RESOURCES INC.

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4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The Company is often required to make estimates and assumptions regarding the future. The estimates will, by definition, rarely equal the actual results achieved. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Estimates and judgements are continually re-assessed and are based on historical experience as well as other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates of the useful lives and residual values of property and equipment and intangible assets

The Group depreciates or amortizes its property and equipment and intangible assets over their estimated useful lives, as more fully described in Note 2. The actual lives of these assets can vary depending on a variety of factors, including geothermal resource characteristics and management, technological innovation, and maintenance programs.

Residual values are estimated as the amount the Group would currently obtain from disposal of the asset if the asset were already of the age and condition expected at the end of useful life.

Impairment of assets

Property and equipment are assessed for indicators of impairment at the end of each reporting period as described in Note 2. The identification of impairment indicators as well as determination of assumptions used in impairment tests involves significant judgement.

The calculation of the fair value of the asset retirement obligations

The ultimate amount of the site restoration and reclamation costs that will have to be incurred is uncertain due to uncertainty regarding the extent of the liability and the costs that will have to be incurred to settle the liability. In addition, the timing of the settlement of the obligation is uncertain.

Sale of project assets and classification as discontinued operations and held for sale

As described in Note 5, certain resource property projects were included in a potential Purchase and Sale Agreement. As such, the assets and liabilities included in this transaction were reclassified as 'held for sale', as of June 30, 2014.

The Company also determined that the expenses and revenues tied to these projects met the criteria for classification as 'discontinued operations'. These revenues and expenses have been amended and restated for the fiscal year ending June 30, 2014.

The calculation of share-based compensation expense

The calculation of share-based compensation expense using the Black-Scholes model includes assumptions regarding inputs such as the expected life of options, the expected volatility of the Company's share price, and the expected dividend yield. None of these can be determined with certainty.

Determining the realizable amount of deferred income tax assets

The Company has not recognized a deferred income tax asset in respect of its non-capital losses carried forward for tax purposes, since it was not considered more likely than not that these deferred income tax assets will be realized.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

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5. DISCONTINUED OPERATIONS

On August 27, 2014, the Company closed a Purchase and Sale Agreement ("PSA") with Ormat Nevada Inc. ("Ormat"), whereby Ormat purchased the Company's Crump Geyser (50% interest) and North Valley geothermal projects. The PSA also gave Ormat an option, exercisable over a four year period, to purchase certain Company leases from the New Truckhaven geothermal project (expired).

The Company received \$1,490,000 upon closing of the transaction.

The Company included all revenues and expenses related to these projects in discontinued operations. All related assets and liabilities were classified as held for sale.

The assets and liabilities were disposed of on August 27, 2014, and the calculation of the gain on disposal is as follows:

	\$
Consideration received	1,490,000
Resource property interests	474,708
Prepaid expenses	37,975
Legal fees relating to sale	58,671
Asset retirement obligations	(230,451)
Net assets sold including legal costs	340,903
Gain on disposal	1,149,097

On January 11, 2013, the Company entered into an equity transfer agreement under which the Company transferred its 100% interest in NGP Blue Mountain Holdco LLC ("BM Holdco"), which in turn owns NGP Blue Mountain I LLC ("NGP I"), the owner of the Blue Mountain power plant, to Blue Mountain Power, LLC, a company owned by EIG Global Energy Partners ("EIG"). Upon signature of the agreement, EIG delivered a Notice of Default under the note purchase agreement, accelerating all obligations including a yield maintenance amount of \$52.6 million. The equity transfer agreement closed on March 28, 2013 and EIG accepted the transfer of ownership of BM Holdco in full satisfaction of the outstanding principal, accrued unpaid interest and any other cash or fee obligations owing by BM Holdco under its loan agreement with EIG. In addition, EIG's cash settled options terminated.

After the transfer of ownership, the Company continued as the project operator of the Blue Mountain power plant during a cooperative transition period. The Company also provided some management and administrative services during this time. This transition was completed on January 31, 2014, ending the Company's involvement with the project.

The results of NGP I, BM Holdco and held for sale items (Note 6) included in discontinued operations are as follows:

	NGP I, BM Holdco and related consolidation entries		Held for sale properties		Total discontinued operations	
	For the year ended June 30, 2015	June 30, 2014	For the year ended June 30, 2015	June 30, 2014	For the year ended June 30, 2015	June 30, 2014
	\$	\$	\$	\$	\$	\$
Expenses	–	225,467	–	(1,149,513)	–	(924,046)
Gain on disposal	–	–	1,149,097	–	1,149,097	–
Net income (loss) from discontinued operations	–	225,467	1,149,097	(1,149,513)	1,149,097	(924,046)

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

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5. DISCONTINUED OPERATIONS (CONTINUED)

Cash flows from discontinued operations are as follows:

	Total discontinued operations For the year ended	
	June 30, 2015	June 30, 2014
	\$	\$
Cash used in operating activities	–	(311)
Cash provided by investing activities	1,431,329	–
Increase (decrease) in cash and cash equivalents	1,431,329	(311)

6. ASSET AND LIABILITIES HELD FOR SALE

As at June 30, 2014, the Company was in negotiations with Ormat, whereby Ormat would purchase a majority of the Company's geothermal projects, including New Truckhaven, North Valley, and Crump Geyser (50% interest). The Company concluded this sale on August 27, 2014.

Under IFRS, non-current assets, and the liabilities associated with these assets, that are expected to be recovered primarily through sale rather than through continuing use, are to be classified as held for sale. The assets and liabilities involved in the negotiations met the criteria to be classified as held for sale.

The carrying amount at the time of reclassification and the amounts transferred to assets held for sale as at June 30, 2015 and 2014 are presented below.

	June 30, 2015	June 30, 2014
	\$	\$
Prepaid expenses	–	33,349
Land	65,000	–
Resource property interests	–	474,708
Assets held for sale	65,000	508,057

The carrying amount for the non-current liabilities associated with the properties in the agreement transferred to liabilities held for sale as at June 30, 2015 and 2014, are presented below.

	June 30, 2015	June 30, 2014
	\$	\$
Asset retirement obligations	–	230,451
Liabilities held for sale	–	230,451

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

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7. SEGMENTED INFORMATION

As at June 30, 2015	United States \$	Canada \$	Total \$
Restricted cash	50,000	—	50,000
Property and equipment	4,542	12,617	17,159

As at June 30, 2014	United States \$	Canada \$	Total \$
Restricted cash	175,000	—	175,000
Property and equipment	96,778	37,110	133,888

8. RESTRICTED CASH

	June 30, 2015 \$	June 30, 2014 \$
Cash collateralized letters of credit:		
Nevada Division of Minerals: reclamation	—	50,000
California Division of Oil, Gas & Geothermal Resources	25,000	50,000
Bureau of Land Management	—	50,000
Imperial County Planning & Development Services	25,000	25,000
	50,000	175,000

9. INVESTMENT IN CRUMP GEOTHERMAL COMPANY LLC (“CGC”)

The Crump Geyser project is located 48km (30 miles) east of Lakeview, Oregon. In August 2005, the Company acquired leases totalling 11 square miles of private land. The private leases are subject to a royalty of 3.5% of gross revenues from the sale or use of electricity. The option exists to buy down the royalty by 1% to 2.5% within 36 months following production date, for a purchase price of \$500,000 for each of the three leases, escalating at 3% for each year following production date. CGC leased an additional 15,389 acres of state land in July 2011, subject to a 10% royalty on the market value of the geothermal steam or hot water utilized.

In November 2010, the Company signed a 50/50 Joint Venture Letter Agreement with Ormat to develop a binary geothermal power plant, up to 30 MW, at Crump Geyser in Oregon. The Company and Ormat subsequently formed a limited liability company, CGC, owned on a 50/50 basis. The Company contributed its title and interest in the Crump Geyser project, leases, technical and engineering data, existing permits and the benefit from the continuing Department of Energy (“DOE”) cost-share grant for exploration in relation to the Crump Geyser area.

Ormat was responsible for funding all development activities and was to provide plant operations and management services to CGC. Ormat's project spending to August 27, 2014, the date of disposal, amounted to \$7,250,000.

This project was included in the Purchase and Sale Agreement (see Note 5), and included in assets held for sale as at June 30, 2014.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014
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10. PROPERTY AND EQUIPMENT

	Computers, office furniture and equipment \$	Field equipment and vehicles \$	Land and leasehold improvements \$	Spare parts and casing \$	Computer software \$	Total \$
Cost:						
June 30, 2013	107,743	75,164	199,861	9,250	117,334	509,352
Disposals	(20,014)	(75,164)	(108,001)	—	—	(203,179)
Foreign exchange movement	(1,204)	—	—	—	(1,592)	(2,796)
June 30, 2014	86,525	—	91,860	9,250	115,742	303,377
Moved to assets held for sale	—	—	(91,860)	—	—	(91,860)
Foreign exchange movement	(10,339)	—	—	—	(16,053)	(26,392)
June 30, 2015	76,186	—	—	9,250	99,689	185,125
Accumulated Depreciation:						
June 30, 2013	85,226	60,811	46,789	—	67,730	260,556
Additions	6,450	1,417	7,300	—	18,357	33,524
Disposals	(15,684)	(62,228)	(54,089)	—	—	(132,001)
Foreign exchange movement	(998)	—	—	—	(842)	(1,840)
June 30, 2014	74,994	—	—	—	85,245	160,239
Additions	4,108	—	—	—	16,577	20,685
Foreign exchange movement	(9,584)	—	—	—	(12,624)	(22,208)
June 30, 2015	69,518	—	—	—	89,198	158,716
Accumulated Impairment Losses:						
June 30, 2013	—	—	—	4,901	—	4,901
Impairment recognized	—	—	—	4,349	—	4,349
June 30, 2014 and 2015	—	—	—	9,250	—	9,250
Carrying Amounts:						
As at June 30, 2014	11,531	—	91,860	—	30,497	133,888
As at June 30, 2015	6,668	—	—	—	10,491	17,159

11. INTANGIBLE ASSETS

On August 21, 2013, the Company sold its mining rights, belonging to Desert Valley Gold and NGP US Holdings, to EIG Global Energy Partners for proceeds of \$35,000.

On March 31, 2014, the water rights, with a carrying value of \$26,775 belonging to NGP Pumpnickel, were impaired due to the Company's decision not to renew its leases for that project.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014

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12. RESOURCE PROPERTY INTERESTS

(a) New Truckhaven

The New Truckhaven project consisted of 10 square miles of federal and private geothermal leases, located in the Imperial Valley region of California. The leases are subject to royalties upon electricity production varying from 2.5% to 3.5% of gross revenue during the first 20 years, increasing to a maximum of 5% thereafter.

The project was impaired at June 30, 2014, due to the loss of two Bureau of Land Management leases. The impairment loss was included in loss from discontinued operations (Note 5).

This project was included in the Purchase and Sale Agreement (Note 5), and all assets and liabilities not part of the purchase option were disposed of on August 27, 2014.

(b) North Valley

The project is located in Washoe and Churchill Counties, Nevada. The Company had a total of 10 square miles of both private land and federal lands including water and surface rights. The private leases are subject to a 4.0% royalty on gross revenue from electricity sales. Development on the federal lands is subject to a royalty of 1.75% for the first ten years of production, after which it increases to 3.5%.

This project was included in the Purchase and Sale Agreement (Note 5), and was disposed of on August 27, 2014.

(c) Pumpnickel Valley

The project is located in north-central Nevada. In February 2014, the Company decided not to renew all but two of its leases on the Pumpnickel Valley properties upon expiration of current lease terms. The Company recorded an impairment loss of \$15,000 at the time the decision was made.

13. ASSET RETIREMENT OBLIGATIONS

	June 30, 2015 \$	June 30, 2014 \$
Opening balance	245,381	441,643
Effect of change in discount rate	(14,666)	14,893
Accretion	5,752	19,296
Decommissioning costs paid	(41,557)	—
Transferred to held for sale	—	(230,451)
Ending balance	194,910	245,381

The timing of the outflows in respect of the provision for retirement costs of the exploration stage properties was estimated to be approximately 2031. Estimates regarding the timing of outflows are subject to considerable uncertainty, in particular for projects in the exploration and development phases, such as New Truckhaven.

14. SHARE CAPITAL

(a) Authorized:

Unlimited voting common shares – no par value.
25,000,000 first preferred shares – no par value (none issued).
25,000,000 second preferred shares – no par value (none issued).

Issued:

During the year ended June 30, 2015, the Company issued 500,000 common shares for proceeds of \$19,584 pursuant to the exercise of stock options.

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14. SHARE CAPITAL (CONTINUED)

(b) Share Options

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. The maximum number of outstanding options is 10% of the issued and outstanding common shares at any point in time. The exercise price of each option equals the market price of the Company's shares on the date of the grant. The maximum term of the options is five years. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price Cdn\$
Outstanding, June 30, 2013	374,400	3.31
Granted	1,650,000	0.05
Forfeited	(60,000)	3.28
Expired	(146,400)	2.34
Outstanding, June 30, 2014	1,818,000	0.43
Exercised	(500,000)	0.05
Expired	(30,000)	6.10
Outstanding, June 30, 2015	1,288,000	0.45

Additional information regarding stock options outstanding as at June 30, 2015, is as follows:

Outstanding and exercisable			
Exercise price Cdn\$	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price Cdn\$
0.05	1,150,000	4.0	0.05
3.75	138,000	0.5	3.75
	1,288,000	3.6	0.45

The fair values for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends, no expected forfeitures and the following weighted average assumptions:

	2015	2014
Risk-free interest rate	—	1.03%
Expected life (in years)	—	4.99
Expected volatility	—	278%

The fair value of stock options vested during the year ended June 30, 2015 was \$nil (2014 - \$44,802), which was recorded as equity compensation reserve and charged to operations.

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14. SHARE CAPITAL (CONTINUED)

(c) Share purchase warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price Cdn\$
Balance, June 30, 2013	5,235,000	4.15
Exercised	(4,335,000)	3.45
Balance, June 30, 2014 and 2015	900,000	7.50

As at June 30, 2015, the following common share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price Cdn\$	Expiry date
900,000	7.50**	September 3, 2015

** If the Company's share price closes at Cdn\$10.00 or greater for a period of 20 consecutive trading days, the Company shall give written notice to the warrant holders that if the warrants are not exercised within 30 days of the notice, the warrants shall expire.

15. INCOME TAXES

Income taxes shown in the statement of operations differs from the amounts obtained by applying statutory rates due to the following:

	For the year ended June 30, 2015 \$	For the year ended June 30, 2014 \$
Net income (loss)	609,326	(1,205,543)
Canadian statutory income tax rate	26%	26%
Income tax expense (recovery) at statutory rate	158,425	(313,441)
Tax effect of:		
Permanent differences and other	486,875	(321,020)
Increase in recovery – higher rate of tax of foreign subsidiaries	45,211	(108,269)
Benefit of losses not recognized	–	470,907
Expiry of non-capital loss	182,977	–
True up of prior year difference	182,443	–
Change in deferred income tax assets not recognized	(1,055,931)	275,023
Income tax provision	–	3,200

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15. INCOME TAXES (CONTINUED)

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	June 30, 2015 \$	June 30, 2014 \$
Deferred income tax assets		
Capital losses carried forward	587,595	580,198
Non-capital losses carried forward	21,806,201	19,516,986
Property and equipment, intangible assets, and resource property interests	228,707	106,300
Investment in CGC	—	3,400,000
Share issuance costs	—	57,789
Inter-company loans	1,041,802	1,041,802
Asset retirement obligations	66,269	83,430
Total deferred income tax assets	23,730,574	24,786,505
Valuation allowance	(23,730,574)	(24,786,505)
Net deferred income tax asset	—	—

The Company and its subsidiaries have non-capital losses carried forward of approximately Cdn\$15.2 million and \$53.1 million, that may be available for tax purposes. Non-capital losses will expire if they remain unused between 2016 and 2035.

The Company also has capital loss carry forwards of approximately Cdn\$4.8 million. The capital losses have no expiry and can be used to offset future capital gains.

16. RELATED PARTY TRANSACTIONS

- (a) During the year ended June 30, 2015, the Company incurred \$168,572 (2014 – \$199,944) in salaries and benefits to the Chief Executive Officer of the Company.
- (b) During the year ended June 30, 2015, the Company incurred \$12,780 (2014 - \$14,022) in directors' fees to two directors of the Company which are included in other operating expenses.
- (c) During the year ended June 30, 2015, the Company incurred \$53,168 (2014 - \$55,894) in consulting fees to a company controlled by the Chief Financial Officer of the Company.
- (d) During the year ended June 30, 2015, the Company incurred share-based compensation of \$nil (2014 – \$44,802) to officers and directors of the Company.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (this includes foreign exchange rate risk and interest rate risk) as well as credit risk and liquidity risk. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continued development of the Company's geothermal properties, and to limit exposure to credit and market risks. The types of risk exposure and the way in which such exposures are managed are as follows:

- (a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices.

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Notes to the consolidated financial statements for the years ended June 30, 2015 and 2014
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17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Foreign exchange rate risk

The operating results and financial position of the Company are reported in US dollars. The Company operates in Canada and the United States. The functional currency of the Company's US operations is the US dollar, and these operations are therefore subject to risk arising from future transactions as well as recognized assets and liabilities which are denominated in currencies other than US dollars. The functional currency of the Company's Canadian operations is the Canadian dollar and these operations are therefore subject to risk arising from future transactions as well as recognized assets and liabilities which are denominated in currencies other than Canadian dollars.

The sensitivity analysis below provides details on the effect of a change in foreign exchange rate on the net income and other comprehensive income of the Company. A 10% change in the exchange rate for the US dollar would result in a change in net income of \$94,270. A 10% change in the exchange rate for the Canadian dollar would result in a change in comprehensive income of \$76,340. The effect on other comprehensive income arises from the translation of the financial statements of the Company's Canadian operations into US dollars.

(c) Interest rate risk

The Company's cash and cash equivalents contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

(d) Credit risk

The Company's exposure to credit risk primarily arises from the Company's cash and cash equivalents, restricted cash, and amounts receivable. The risk exposure is limited to the carrying amounts of these items at the statement of financial position date. Cash and cash equivalents are held as cash deposits and invested in guaranteed investment certificates and certificates of deposit with various maturity dates. The Company periodically assesses the quality of its investments and is satisfied with the credit ratings of its banks and their certificates of deposit and guaranteed investment certificates.

(e) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

(f) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. At June 30, 2015 and 2014, the carrying amounts and contracted cash flows were the same. It is expected that accounts payable will be settled within one year.

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17. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

(g) Fair values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at June 30, 2015, as follows:

	Fair Value Measurements Using			Balance, June 30, 2015 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Cash and cash equivalents	1,904,248	—	—	1,904,248
Restricted cash	50,000	—	—	50,000
	1,954,248	—	—	1,954,248

The fair values of other financial instruments, which include amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

18. COMMITMENT

As at June 30, 2015, the Company has a premises lease for its head office. The Company is committed to paying basic monthly rent of \$72,488 plus operating costs for the year ended June 30, 2016. The premises lease expires on May 31, 2016. The Company sublets a significant portion of its office premises.