

## ALTERNATIVE EARTH RESOURCES INC.

### Management's Discussion and Analysis

For the three months ended September 30, 2015



This Management Discussion and Analysis ("MD&A") is an overview of the activities of Alternative Earth Resources, ("the Company", "Alternative Earth" and "AER") and its subsidiaries (together, "the Group") for the three months ended September 30, 2015. In order to better understand the MD&A, it should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended June 30, 2015 and its unaudited consolidated interim financial statements for the quarter ended September 30, 2015.

All dollar amounts referred to in this MD&A are expressed in US dollars except where indicated otherwise. The effective date of this Management Discussion and Analysis is November 24, 2015. This MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (Refer to "Forward Looking Statements and Estimates" on page 7).

## DESCRIPTION OF BUSINESS

Alternative Earth Resources Inc. is an experienced Canadian mineral exploration company, with headquarters in Vancouver, BC. Alternative Earth trades on the Toronto Venture Exchange under the symbol AER. With \$1.8 million in cash as of September 30, 2015, the Company is looking for opportunities in the mining sector.

Alternative Earth was responsible for the discovery and development of the Blue Mountain geothermal resource and the construction of the Faulkner 1 geothermal power plant. The Company has sold its geothermal properties and has redirected its focus to mineral development.

## TRANSACTIONS AND TRANSFERS

The Company was the project operator of the Blue Mountain power plant, and provided management and administrative services to EIG Global Energy Partners ("EIG") during a cooperative transition period. EIG opted not to purchase the operator, Nevada Geothermal Operating Company ("Opco"), instead replacing it with its own operator. This transition took place on January 31, 2014, ending the Company's involvement with this project.

On August 27, 2014, the Company closed a Purchase and Sale Agreement ("PSA") with Ormat, whereby Ormat purchased the Company's Crump Geyser (50% interest) and North Valley geothermal projects. This agreement also gave Ormat an option, exercisable over a four year period, to purchase certain Company leases from the New Truckhaven geothermal project. AER's remaining Truckhaven lease expired on March 26, 2015.

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

On October 20, 2015, the Company signed a non-binding letter of intent ("LOI") with Black Sea Copper & Gold Corp. ("BSCG") outlining the terms of a transaction whereby AER will acquire 100% of the outstanding securities of BSCG. It is intended that the LOI will be replaced by a definitive and binding security exchange agreement and the transaction is expected to close by December 18, 2015. BSCG is a non-reporting corporation that holds interests in various mineral properties that are located in Eastern Europe. Subject to execution of a definitive agreement, the principal property of BSCG is an option to acquire 100% of the Alankoy copper-gold Project located in Turkey.

Under the LOI, AER will acquire the all of the shares of BSCG (the "Acquisition") in exchange for the issuance of approximately 33 million common shares in the capital of AER, representing an equivalent number of AER shares as will be outstanding after completion of the Financing (defined below), based upon an estimated exchange ratio of 1.71 shares of AER for each share of BSCG (the "Exchange Ratio"). The final Exchange Ratio, which is subject to due diligence, a fairness opinion and the Financing, will be settled in the definitive agreement. AER will also acquire all outstanding convertible securities of BSCG (options, warrants and convertible debt) in exchange for the issue of replacement securities by AER based upon the Exchange Ratio.

Concurrently with the Acquisition, AER will complete a non-brokered private placement of 8,000,000 units at a price of \$0.06 CDN per unit, with each unit consisting of one (1) common share, and one (1) warrant to

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purchase an additional common share exercisable for two (2) years at a price of \$0.115 CDN per share, to raise gross proceeds of \$480,000 CDN (the "Financing"). AER may, in appropriate circumstances, pay finder's fees in connection with the Financing.

After completion of the Acquisition and the Financing, AER will have approximately 66 million shares outstanding (87 million fully diluted) and the directors and officers of AER will be reconstituted to consist of four (4) directors, with two (2) nominees from each of AER and BSCG. The Acquisition and the Financing are subject to TSX Venture Exchange (the "Exchange") acceptance.

In addition, and subject to receipt of applicable regulatory approvals, AER expects to complete up to a 2:1 share consolidation following completion of the Acquisition.

On November 24, 2015, Jaguar Financial Corp. ("Jaguar") began litigation in the Supreme Court of British Columbia in preparation to the commencement of a proposed takeover bid by Jaguar for all the outstanding common shares of Alternative Earth. The outcome of the litigation will affect both the timing and structure of the takeover bid for the Company. Full details of the litigation can be found at [www.sedar.com](http://www.sedar.com) under Jaguar Financial Corp.

**RESULTS OF OPERATIONS AND FINANCIAL SUMMARY****Results for the three months ended September 30, 2015**

Three months ended	September 30, 2015	September 30, 2014	Variance	%
Revenue	\$ -	\$ -	\$ -	
Operating expenses	(71,808)	(140,275)	68,467	(49%)
Operating loss	(71,808)	(140,275)	68,467	(49%)
Net loss from continuing operations	(72,305)	(140,466)	68,161	(49%)
Profit from discontinued operations	-	1,149,907	(1,149,907)	(100%)
Total net profit (loss)	(72,305)	1,009,441	(1,081,746)	(107%)
Net profit (loss) per share - (basic and diluted)	0.00	0.04	(0.04)	(100%)
Cash used in operating activities - continuing operations	(85,281)	(102,493)	17,212	(17%)
Cash from (used in) investing activities - continuing operations	21,761	-	21,761	100%
Cash from (used in) financing activities - continuing operations	-	-	-	-

The Company had net loss of \$72,305 for the three months ended September 30, 2015 compared to a net profit of \$1,009,441 for the three months ended September 30, 2014,, for a variance of \$1,081,746. The variance is attributed to the net gain from the sale of the Company's interest in Crump and North Valley projects in the prior year.

The decrease in cash used in operating activities, compared to September 30, 2014, was the result of the reduction to wages/salaries, rent expense, audit, accounting and tax fees.

The Company received \$25,000 from the recovery of a state bond during the three months ended September 30, 2015 offset by office equipment purchases.



*Results of discontinued operations*

Three months ended	September 30, 2015	September 30, 2014	Variance	%
Revenue	\$ -	\$ -	\$ -	-
Operating loss	-	-	-	-
Gain on disposal	-	1,149,907	(1,149,907)	(100%)
Profit from discontinued operations	-	1,149,907	(1,149,907)	(100%)
Cash used in operating activities	-	(109,715)	109,715	100%
Cash from investing activities	-	1,431,329	(1,431,329)	(100%)
Cash used in financing activities	-	-	-	-

The results of the Company's United States projects, which were sold to Ormat as part of the PSA, are included in discontinued operations.

**SUMMARY OF QUARTERLY RESULTS**

	Revenue	Net income (loss) from continuing operations	Net (loss) profit per share from continuing operations  (Basic and diluted)	Net income (loss) including discontinued operations	Net earnings (loss) per share  (Basic and diluted)
Quarter ended					
September 30, 2015	\$ -	\$ (72,305)	\$ (0.00)	\$ (72,305)	\$ (0.00)
June 30, 2015	-	(182,376)	(0.01)	(177,702)	(0.01)
March 31, 2015	-	(113,133)	(0.00)	(123,133)	(0.01)
December 31, 2014	-	(40,609)	(0.00)	(99,280)	(0.00)
September 30, 2014	-	(203,653)	(0.01)	1,009,441	0.04
June 30, 2014	-	(239,074)	(0.01)	(1,288,758)	(0.05)
March 31, 2014	-	(258,651)	(0.01)	(275,444)	(0.01)
December 31, 2013	-	(345,695)	(0.01)	(262,929)	(0.01)

Continuing operations:

Included in the quarter ended June 30, 2015, is a write-down in the value of the assets held sale, more specifically land owned in Nevada. Consulting costs relating to various potential projects increased also expenses during the quarter ended June 30, 2015. The quarter ended March 31, 2015, included legal costs related to Whistler project acquisition from Kiska Metals which was terminated and higher salaries paid due to a severance pay-out. The quarters ended December 31, 2013 through to, and including, September 30, 2015, show the effects of various cost-cutting strategies.

Discontinued operations:

The quarter ended June 30, 2014 includes an impairment loss on the Truckhaven property of \$1,007,829. The quarter ended September 30, 2014 includes a \$1,213,094 gain on disposal of the assets included in the PSA.

**CAPITAL RESOURCES AND LIQUIDITY**

As at September 30, 2015, the Company had cash and cash equivalents of \$1.8 million, amounts receivable of \$3,634 and accounts payable and accrued liabilities of \$35,938. During the year ended June 30, 2015, the Company received gross proceeds of \$1.49 million for the sale of its interests in the Crump and North Valley projects.

As of January 31, 2014, the Company no longer provides services to, and receives revenues from, the Blue Mountain project. Accordingly, the Company's ability to continue as a going concern is dependent on its available cash and its ability to raise additional funds.

## **RISKS AND UNCERTAINTIES**

Due to risks and uncertainties, including the risks and uncertainties identified below and elsewhere in this MD&A, actual events may differ materially from current expectations.

The Company depends on raising additional capital to fund ongoing operations. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such financing could result in a material adverse effect, delay or indefinite postponement of further exploration and development of our projects. Further, any additional financing by the Company may subject existing shareholders to substantial dilution.

The Company is at risk from changes in general economic conditions and financial markets, changes in the price of oil, gas and electricity, changes to favourable tax incentives, grants, loan guarantees and investment tax credits, changes in technology, and operational hazards in the Company's exploration, construction and development activities, uncertainties inherent in the resource development, the timing and availability of financing, governmental and other approvals, and other risk factors listed from time to time by the Company. The Company may have difficulty in attracting and retaining suitable employees. These factors may impact upon the Company's ability to finance its programs and to carry out operations.

## **RESOURCE PROPERTY INTERESTS**

As at September 30, 2015 the Company's resource property interests were comprised of the following:

### **New Truckhaven Project – Imperial Valley - California**

The New Truckhaven project is located in Imperial Valley, southeast of Salton City, California.

Certain geothermal leases were part of the Ormat PSA, and were subject to a 4-year option period. The remaining lease expired on March 26, 2015.

The Company has terminated all leases relating to the New Truckhaven project. At this time, the Company is planning no further development work on this project.

## **TRANSACTIONS WITH RELATED PARTIES**

- (a) During the three months ended September 30, 2015, the Company incurred \$13,754 (2014 – \$47,654) in salaries and benefits to the Chief Executive Officer of the Company.
- (b) During the three months ended September 30, 2015, the Company incurred \$2,865 (2014 - \$3,444) in directors' fees to two directors of the Company which are included in other operating expenses.
- (c) During the three months ended September 30, 2015, the Company incurred \$10,629 (2014 - \$15,043) in consulting fees to a company controlled by the Chief Financial Officer of the Company.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. The most significant areas of estimation are the following:

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### **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. 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 its useful life.

### **Impairment of assets**

Property and equipment, intangible assets and resource property interests are assessed for indicators of impairment at the end of each reporting period. The identification of impairment indicators as well as determination of assumptions used in impairment tests involves significant judgment.

### **The calculation of the fair value of the asset retirement obligation**

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.

### **Determining the realizable amount of deferred income tax assets**

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

### **The calculation of the fair value of warrants**

The amounts included in the financial statements in respect of the Share purchase warrants, Finders' warrants and EIG warrants were calculated using a Monte Carlo simulation. The value of the warrants was determined using a Monte Carlo simulation model rather than the Black-Scholes model due to the accelerated exercise of warrants based on price, which leads to uncertainty regarding the expected life of the warrants. The Monte Carlo simulation also included inputs such as the volatility of the Company's share price and the expected dividend yield. None of these can be determined with certainty.

### **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

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 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.

### **FIRST QUARTER**

See summary of quarterly results.



## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Financial instruments carried on the balance sheet include cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities. The fair value of the remaining instruments approximates their carrying value.

Cash equivalents include guaranteed investment certificates and term deposits where maturity at inception is less than ninety days or that may be liquidated at the Company's option without significant penalty. The amounts invested are in excess of amounts protected by the Canadian and US Government deposit insurance programs.

The Group does not have any hedging activities.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

An analysis of material components of the Company's general and administrative expenses is disclosed in the consolidated financial statements for the three months ended September 30, 2015 to which this MD&A relates.

## **OUTSTANDING SHARE DATA**

The Company has authorized unlimited common shares without par value, 25,000,000 first preferred shares without par value, and 25,000,000 second preferred shares without par value.

At September 30, 2015, the Company has 24,982,119 common shares, 1,288,000 stock options.

At the effective date of this MD&A, the Company has 24,982,119 common shares and 1,288,000 stock options outstanding.

## **FORWARD LOOKING STATEMENTS AND ESTIMATES**

Except for statements of fact related to the Company, certain statements made herein may constitute "Forward-Looking Statements". These include, but are not limited to, statements respecting anticipated business activities, planned expenditures, corporate strategies, and investigation and acquisition of new projects. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate," and other similar words, or statements that certain events or conditions "may" or "will" occur. Although the Company believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward looking statements are based on the beliefs, opinions and estimates of management at the date the statements are made, current expectations at that date - and these by their inherent nature entail various risks, uncertainties and other unknown factors. Consequently, there can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Some important factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risks and Uncertainties" contained immediately before this section. Therefore the reader is cautioned not to place undue reliance on forward-looking statements. Further, the Company disclaims any obligation or intention to update or to revise any forward-looking statement, whether as a result of new information, of future events, or otherwise except as may be required under applicable securities legislation.

## **OTHER INFORMATION**

The Company's web site address is [www.alternative-earth.com](http://www.alternative-earth.com). A copy of this management discussion and analysis, the unaudited interim financial statements for the three months ended September 30, 2015, previously published management discussions and analyses, previously published financial statements, and other information, is available on the Company's web site or on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange with the trading symbol "**AER**".

## **APPROVAL**

The Audit Committee of the Company has approved the disclosure contained in this management discussion.

## **DISCLAIMER**

The information contained within this discussion, by its very nature, is not a thorough summary of all matters and developments concerning Alternative Earth Resources Inc. This information should be considered with all of the disclosure documents of the Company. The information contained herein is not a substitute for a detailed investigation or an analysis of any issue related to the Company. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented. Further, certain data included in this document may be historical in nature. Consequently, it may not have been verified by the Company's technical staff, and therefore it should not be relied upon.