



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 and nine months ended March 31, 2016. 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 March 31, 2016.

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 May 27, 2016. This MD&A contains statements that constitute "forward-looking statements" and other cautionary notices (Refer to "Forward Looking Statements and Estimates" on page 8).

## **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 \$1.37 million in cash as of March 31, 2016, 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 would acquire 100% of the outstanding securities of BSCG. It was intended that the LOI would be replaced by a definitive and binding security exchange agreement and the transaction was expected to close by December 18, 2015. The LOI, contemplated that AER would acquire 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 would 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"). AER also intended to acquire all outstanding convertible securities of BSCG (options, warrants and convertible debt) in exchange for the issue of replacement convertible securities of AER based upon the Exchange Ratio.

Concurrently with the Acquisition, AER intended to complete a non-brokered private placement of 8,000,000 units at a price of \$0.06 CDN per unit. BSCG terminated the transaction on December 31, 2015 and subsequently repaid a \$100,000 loan it received from the Company.

On November 24, 2015, Jaguar Financial Corp. ("Jaguar") filed a petition in the Supreme Court of British Columbia (the "Court") seeking to prevent AER from completing the Acquisition of BSCG without first obtaining shareholder approval. On January 6, 2016, Jaguar filed a second petition in the Court alleging various improper conduct by the Company since December 10, 2015 and sought orders restricting the Company's conduct in advance of the



upcoming annual general meeting ("AGM") of shareholders and relating to the holding of the AGM itself. The Court found for Jaguar on both petitions and issued a number of restrictive orders.

The Company appealed the decision and on May 5, 2016, the British Columbia Court of Appeal ("BCCA") rendered its decision setting aside the Court's findings and orders from both of Jaguar's petitions and awarding the Company court costs for the appeal and the petitions.

Refer to the Litigation section below for further details on the petitions and the Court and BCCA decisions. Full details can be found on SEDAR under the Company's profile.

## RESULTS OF OPERATIONS AND FINANCIAL SUMMARY

### Results for the three months ended March 31, 2016

Three months ended	March 31, 2016	March 31, 2015	Variance	%
Revenue	\$ -	\$ -	\$ -	
Operating expenses	(312,285)	(124,854)	(187,431)	(150%)
Operating loss	(314,178)	(123,133)	(191,045)	(155%)
Net loss from continuing operations	(314,178)	(123,133)	(191,045)	(155%)
Loss from discontinued operations	-	-	-	-
Total net loss	(311,178)	(123,133)	(191,045)	(155%)
Net loss per share - (basic and diluted)	(0.01)	(0.01)	(0.00)	-
Cash used in operating activities - continuing operations	(311,845)	(143,946)	(167,899)	(117%)
Cash from (used in) investing activities - continuing operations	-	-	-	-
Cash from (used in) financing activities - continuing operations	41,897	-	41,897	100%

The Company had a net loss of \$311,178 for the three months ended March 31, 2016, compared to a net loss of \$143,946 for the three months ended March 31, 2015, for a variance of \$167,889. The variance is attributed to legal costs related to the Jaguar court proceedings, special committee fees charged by an independent director and foreign exchange loss due the weakening of the US dollar during the quarter. Expenses during the quarter were offset by lower salaries & wages and insurance costs.



*Results of discontinued operations*

Three months ended	March 31, 2016	March 31, 2015	Variance	%
Revenue	\$ -	\$ -	\$ -	-
Operating loss	-	-	-	-
Gain on disposal	-	-	-	-
Loss from discontinued operations	-	-	-	-
Cash used in operating activities	-	-	-	-
Cash from investing activities	-	125,000	(125,000)	(100%)
Cash used in financing activities	-	-	-	-

**Results for the nine months ended March 31, 2016**

Nine months ended	March 31, 2016	March 31, 2015	Variance	%
Revenue	\$ -	\$ -	\$ -	-
Operating expenses	(552,524)	(365,498)	(187,026)	(51%)
Operating loss	(552,524)	(365,498)	(187,026)	(51%)
Net loss from continuing operations	(562,588)	(362,069)	(200,519)	(55%)
(Loss) income from discontinued operations	(36,200)	1,149,907	(1,186,107)	(103%)
Total net income (loss)	(598,788)	787,028	(1,385,816)	(174%)
Net income (loss) per share - (basic and diluted)	(0.02)	0.03	(0.05)	(174%)
Cash used in operating activities - continuing operations	(551,860)	(485,778)	(66,082)	(14%)
Cash from (used in) investing activities - continuing operations	(3,239)	-	(3,239)	(100%)
Cash from (used in) financing activities - continuing operations	-	-	-	-

The Company had a net loss of \$598,788 for the nine months ended March 31, 2016, compared to a net profit of \$787,028 for the nine months ended March 31, 2015, for a variance of \$1,385,816. The variance is due to the sale of the Company's North Valley property and its' interest in Crump Geothermal LLC to Ormat Technologies in August 2014. In the nine month period ended March 31, 2016, the majority of the Company's costs related to the BSCG transaction along with Jaguar court proceedings while during the prior nine month period ending March 31, 2015, the Company incurred higher salaries and wages costs and incurred costs relating to the annual general meeting held in August 2014.

*Results of discontinued operations*

Nine months ended	March 31, 2016	March 31, 2015	Variance	%
Revenue	\$ -	\$ -	\$ -	-
Operating loss	-	-	-	-
Gain on disposal	(36,200)	1,149,097	(1,185,097)	(103%)
Loss from discontinued operations	(36,200)	1,149,097	(1,185,097)	(103%)
Cash used in operating activities	-	-	-	-
Cash from investing activities	53,800	1,556,329	(1,502,529)	(97%)
Cash used in financing activities	41,897	-	41,897	100%



## 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					
March 31, 2016	\$ -	\$ (314,178)	\$ (0.01)	\$ (314,178)	\$ (0.01)
December 31, 2015	-	(176,105)	(0.00)	(212,305)	(0.01)
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	-	(117,649)	(0.00)	(123,133)	(0.01)
December 31, 2014	-	(99,280)	(0.00)	(99,280)	(0.00)
September 30, 2014	-	(140,466)	(0.01)	1,009,441	0.04
June 30, 2014	-	(239,074)	(0.01)	(1,288,758)	(0.05)

### Continuing operations:

During the quarter ended March 31, 2016, the Company continued to incur higher costs relating to the court proceedings with Jaguar as well as a foreign exchange loss on US funds due to the weakening of the US dollar. During the quarter ended December 31, 2015, the Company also incurred higher costs due to court proceedings with Jaguar and costs relating to the proposed acquisition of BSCG, which was terminated on December 31, 2015. 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 evaluating various potential projects increased during the quarter ended June 30, 2015. The quarter ended March 31, 2015, included legal costs related to the potential 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 December 31, 2015, includes a loss on disposal of land. The quarter ended September 30, 2014, includes a \$1,213,094 gain on disposal of the assets included in the Ormat PSA. The quarter ended June 30, 2014 includes an impairment loss on the Truckhaven property of \$1,007,829.

## CAPITAL RESOURCES AND LIQUIDITY

As at March 31, 2016, the Company had cash and cash equivalents of \$1.37 million, amounts receivable of \$25,983 and accounts payable and accrued liabilities of \$39,533. During the year ended June 30, 2015, the Company received gross proceeds of \$1.49 million from 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 to favourable tax incentives, 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 March 31, 2016 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 no remaining 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 nine months ended March 31, 2016, the Company incurred \$40,342 (2015 – \$148,371) in salaries and benefits to the Chief Executive Officer of the Company.
- (b) During the nine months ended March 31, 2016, the Company incurred \$9,499 (2015 - \$9,766) in directors' fees to two directors of the Company which are included in other operating expenses.
- (c) During the nine months ended March 31, 2016, the Company incurred \$33,802 (2015 - \$37,587) in consulting fees to a company controlled by the Chief Financial Officer of the Company.
- (d) During the nine months ended March 31, 2016, the Company incurred \$20,931 (2015 - \$nil) in consulting fees to two directors for special committee services.

### **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:

#### **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.

### **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, 2016, 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.

### **SUBSEQUENT EVENTS**

None.

### **LITIGATION**

On November 24, 2015, Jaguar Financial Corp. ("Jaguar") filed a petition (the "First Petition") in the Supreme Court of British Columbia (the "Court") seeking to prevent AER from completing the Acquisition of BSCG without first obtaining shareholder approval. The Petition was heard by Mr. Justice Walker on December 4 and 10, 2015. In oral reasons rendered on December 10, 2015, the Court found, among other things, that AER's actions in connection with the BSCG transaction were oppressive and unfairly prejudicial to Jaguar and enjoined AER from completing the transaction without obtaining shareholder approval. Full details of the litigation can be found at [www.sedar.com](http://www.sedar.com) under Jaguar Financial Corp.

On January 6, 2016, Jaguar filed a second petition (the "Second Petition") in the Supreme Court of British Columbia, alleging various conduct by the Company since December 10, 2015, was oppressive or unfairly prejudicial to Jaguar, and sought orders restricting the Company's conduct in advance of the coming annual general meeting of shareholders (the "AGM") and relating to the holding the AGM itself. Jaguar had also nominated its own slate of directors for election at the AGM, which will result in a proxy battle for control of the AER Board. The Second Petition was heard by Mr. Justice Walker on January 15, 25-26, 28-29 and February 4, 2016. In reasons for judgement rendered on February 17, 2016, the Court found, among other things that AER's actions were oppressive and unfairly prejudicial to Jaguar and granted orders the effect of which will seriously impair AER's ability to contest the proxy battle at the AGM.

The Court also made various declarations related to its findings of oppression and/or undue prejudice. For full details of the Court's reasons and orders please see the copy of the Reasons for Judgment dated February 17, 2016 filed by AER on SEDAR.

### **Effect of Orders on AER**

The Court's orders had the effect of prohibiting AER from spending its funds to defend the Company against Jaguar in the upcoming proxy battle, in particular by preventing AER from engaging a proxy solicitation advisor, as is customary. AER was gravely concerned that an AGM convened in accordance with the spending and other restrictions imposed by the Court would greatly and unjustly favor Jaguar and its plan to gain control of the Board, and thereby access to AER's cash.

### **AER Appeal**

AER disagreed with the findings of the Court expressed in the Reasons for Judgment for the Second Petition. AER also disagreed with the findings of the Court made with respect to the previous petition brought by Jaguar (the "First Petition").

The Company filed an appeal from the findings in both petitions to the British Columbia Court of Appeal ("BCCA") with a hearing held on April 12, 2016.

On May 5, 2016, the British Columbia Court of Appeal ("BCCA") rendered its decision setting aside the Court's findings and orders from both of Jaguar's petitions and awarding the Company court costs for the appeal and the petitions. In a unanimous decision by a three judge panel the BCCA over-turned all of the prior decisions and orders made by the Court in the Petitions. In particular, the BCCA found that:

- directors Fairbank and Yates did not have a disclosable interest in the Black Sea transaction, and therefore did not have a conflict of interest with respect to this transaction;
- director Cooper had complied with applicable corporate law and acted appropriately with respect to disclosing his interest, as a director of AER and the CFO of Black Sea, in the Black Sea transaction;
- the Court erred in enjoining AER from completing the Black Sea transaction without shareholder approval;
- the actions of the directors and AER in pursuing the Black Sea transaction were not oppressive or unfairly prejudicial to Jaguar;
- AER did not mislead the BC Registrar of Companies when it applied for and was granted an extension to hold the 2015 annual general meeting of shareholders (the "**AGM**");
- the Court erred in making the factual findings underlying its conclusion that the Black Sea transaction was not procedurally fair and reasonable to AER;
- it was entirely appropriate for AER to commission and consider the Glanville fairness opinion which concluded that the Black Sea transaction was "fair from a financial point of view to the existing Alternative Earth shareholders";
- the news releases issued by AER following the decisions of the Court in the first Petition were not misleading or oppressive to Jaguar;
- the financial restrictions, including any corporate spending on a shareholder communications firm, and management restrictions concerning the conduct of the AGM that were imposed on AER, including the Court-appointed independent Chairman for the AGM, were unjustified and without a legal basis; and
- AER had reason to be wary of Jaguar and its CEO Vic Alboini, and the steps AER took in the face of the proposed proxy contest could not be impugned.

The BCCA decision can be found on SEDAR under the Company's profile.



## **Annual General Meeting**

The Company will be holding its 2015 annual general and special meeting (the "Meeting") of shareholders on Wednesday July 20, 2016. The record date for the Meeting shall be June 15, 2016.

## **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 Company 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 and nine months ended March 31, 2016 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 March 31, 2016, the Company has 26,132,119 common shares and no stock options or share purchase warrants outstanding. At the effective date of this MD&A, the Company has 26,132,119 common shares and no stock options or share purchase warrants 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 nine months ended March 31, 2016, 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.