



Condensed Consolidated Interim Financial Statements of

ALTERNATIVE EARTH RESOURCES INC.

Three and six months ended December 31, 2014 and 2013

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ALTERNATIVE EARTH RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

Presented in US Dollars

(see Note 1 – Nature of operations and going concern)

	Note	December 31, 2014	June 30, 2014
ASSETS			
Current assets			
Cash and cash equivalents		\$ 2,179,442	\$ 1,258,928
Accounts receivable	6	5,829	11,271
Prepaid expenses		81,104	79,100
Assets held for sale	4	10,000	508,057
		\$ 2,276,375	\$ 1,857,356
Non-current assets			
Restricted cash		\$ 175,000	\$ 175,000
Investment in Crump Geothermal Company	7	-	-
Property and equipment	8	100,738	103,391
Intangible assets	9	19,677	30,497
Resource property interests	10	-	-
		\$ 295,415	\$ 308,888
TOTAL ASSETS		\$ 2,571,790	\$ 2,166,244
EQUITY & LIABILITIES			
Equity			
Share capital	12	\$ 62,923,805	\$ 62,923,805
Warrants	12	524,341	524,341
Equity compensation reserve		7,743,276	7,743,276
Accumulated other comprehensive income		162,598	356,278
Deficit		(69,072,937)	(69,983,098)
		\$ 2,281,083	\$ 1,564,602
Current liabilities			
Accounts payable and accrued liabilities		\$ 85,204	\$ 125,810
Liabilities held for sale	4	-	230,451
		\$ 85,204	\$ 356,261
Non-current liabilities			
Asset retirement obligation	11	205,503	245,381
		\$ 205,503	\$ 245,381
Total liabilities		\$ 290,797	\$ 601,642
TOTAL EQUITY & LIABILITIES		\$ 2,571,790	\$ 2,166,244

Approved on behalf of the Board of Directors:

“Brian Fairbank”
Director

“Gavin Cooper”
Director

ALTERNATIVE EARTH RESOURCES INC.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS (UNAUDITED)

Presented in US Dollars

	Note	For the three months ended		For the six months ended	
		December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenue		\$ -	\$ -	\$ -	\$ -
Salaries, wages and employee benefits		(51,463)	(120,561)	(120,576)	(234,251)
Resource property expenses		(2,599)	(4,542)	(9,445)	(21,298)
Legal and consulting expenses		41,128	(21,057)	(34,273)	(95,858)
Rent – office		(2,744)	(52,112)	(8,920)	(84,084)
Audit, accounting and tax		(25,426)	(53,334)	(72,271)	(127,919)
Insurance		(11,017)	(14,044)	(22,319)	(27,589)
Impairment of property, plant and equipment and resource properties		-	-	-	-
Adjustments to asset retirement obligations: exploration stage properties		228	12,924	7,744	12,559
Depreciation and amortization		(5,371)	(8,715)	(10,940)	(22,359)
Other operating expenses		14,756	(86,203)	25,030	(112,112)
Operating loss	13	(42,508)	(347,644)	(245,970)	(712,911)
Finance income		3,670	3,904	6,719	7,524
Finance costs		(1,471)	(1,959)	(3,361)	(2,435)
Loss before income taxes		(40,309)	(345,699)	(242,612)	(707,822)
Income taxes		(300)	-	(1,650)	-
Net loss from continuing operations		(40,609)	(345,699)	(244,262)	(707,822)
Profit (loss) from discontinued operations	4	(58,671)	82,769	1,154,423	142,434
Net loss		\$ (99,280)	\$ (262,930)	\$ 910,161	\$ (565,388)
Loss per share (Basic and diluted)		\$ (0.00)	\$ (0.01)	\$ 0.04	\$ (0.02)
- Continuing operations		(0.00)	(0.01)	(0.01)	(0.03)
- Discontinued operations		0.00	0.00	0.05	0.01
Weighted average number of common shares issued and outstanding (Basic and diluted)		24,482,115	24,482,115	24,482,115	24,482,115

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Presented in US Dollars

	For the three months ended		For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Net loss	\$ (99,280)	\$ (262,930)	\$ 910,161	\$ (565,388)
Items that may subsequently be reclassified to net loss				
Foreign translation adjustment	373,149	363,363	903,617	130,810
Fair value adjustment on disposal of marketable securities	-	-	-	23,805
Items that will not subsequently be reclassified to net loss				
Foreign translation adjustment	(457,739)	(417,075)	(1,097,297)	(143,040)
Total comprehensive loss	\$ (183,870)	\$ (316,642)	\$ 716,481	\$ (553,813)

ALTERNATIVE EARTH RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Presented in US Dollars

	Number of shares	Share capital	Warrants	Equity compensation reserve	Accumulated other comprehensive income		Deficit	Total
					Foreign currency translation reserve	Revaluation of available for sale financial assets		
As at July 1, 2013	24,482,115	\$ 62,923,805	\$ 3,501,594	\$ 4,721,221	\$ 372,630	\$ (23,805)	\$ (67,829,704)	\$ 3,665,741
Foreign currency translation difference	-	-	-	-	(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 gain (loss)	-	-	-	-	-	-	(2,129,589)	(2,129,589)
As at June 30, 2014	24,482,115	\$ 62,923,805	\$ 524,341	\$ 7,743,276	\$ 356,278	\$ -	\$ (69,983,098)	\$ 1,564,602
As at July 1, 2014	24,482,115	\$ 62,923,805	\$ 524,341	\$ 7,743,276	\$ 356,278	\$ -	\$ (69,983,098)	\$ 1,564,602
Foreign currency translation difference	-	-	-	-	(193,680)	-	-	(193,680)
Expiration of warrants	-	-	-	-	-	-	-	-
Share-based payment expense	-	-	-	-	-	-	-	-
Fair value adjustment on disposal of marketable securities	-	-	-	-	-	-	-	-
Net gain (loss)	-	-	-	-	-	-	910,161	910,161
As at December 31, 2014	24,482,115	\$ 62,923,805	\$ 524,341	\$ 7,743,276	\$ 162,598	\$ -	\$ (69,072,937)	\$ 2,281,083

ALTERNATIVE EARTH RESOURCES INC.

CONSOLIDATED CASH FLOW STATEMENTS

Presented in US Dollars

	Note	For the three months ended		For the six months ended	
		December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Operating activities					
Net loss		\$ (99,280)	\$ (262,930)	\$ 910,161	\$ (565,388)
Tax expense		300	-	1,650	-
Finance income		(3,670)	(3,904)	(6,719)	(7,524)
Finance costs		1,471	3,799	3,361	7,626
Depreciation		4,281	3,787	8,746	12,452
Amortization		1,090	4,928	2,194	9,907
Adjustments to asset retirement obligations: exploration stage properties		(35,723)	(25,031)	(43,239)	(22,529)
Loss on sale of property, plant and equipment		-	57,269	-	59,340
Loss on sale of marketable securities		-	-	-	517
Impairment of property, plant and equipment		-	-	-	-
Profit on sale of resource properties		-	-	(1,217,768)	-
Taxes paid		(300)	-	(1,650)	-
Net change in non-cash working capital	16	(1,464)	(128,583)	(63,958)	(38,055)
		\$ (133,295)	\$ (350,665)	\$ (407,222)	\$ (543,654)
Investing activities					
Disposal of property, plant and equipment		-	11,253	-	11,253
Proceeds on disposal of marketable securities		-	-	-	4,554
Proceeds on disposal of mining rights		-	-	-	35,000
Proceeds on disposal of property, plant and equipment		-	874	-	874
Proceeds on disposal of resource properties		-	-	1,490,000	-
		\$ -	\$ 12,127	\$ 1,490,000	\$ 51,681
Financing activities					
Finance income received		3,671	3,905	6,719	7,525
Finance costs paid		-	-	-	(271)
		\$ 3,671	\$ 3,905	\$ 6,719	\$ 7,254
Effects of exchange rate changes		(76,318)	(40,572)	(168,983)	(7,771)
Increase (decrease) in cash and cash equivalents		(205,942)	(375,205)	920,514	(492,490)
Cash and cash equivalents, beginning of period		2,385,384	1,861,916	1,258,928	1,979,201
Cash and cash equivalents, end of period		\$ 2,179,442	\$ 1,486,711	\$ 2,179,442	\$ 1,486,711

Refer to note 4 for details of cash flows attributable to discontinued operations.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Interim Financial Statements For the three and six months ended December 31, 2014 and 2013 (unaudited)

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on February 17, 2015.

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 1000 – 840 Howe Street, Vancouver, Canada. The head office is located at 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 4). 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 disposal of its geothermal projects, management is planning to focus on advanced stage resource projects. 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 accumulated a deficit of \$69.1 million, 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 balance available as of December 31, 2014, 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. NEWLY ADOPTED ACCOUNTING STANDINGS

The following standards became effective for annual reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company adopted these standards, and they did not have a material impact on the consolidated financial statements:

- IFRS 7, *Disclosures: Disclosures — Offsetting Financial Assets and Financial Liabilities* (amended 2011);
- IFRS 10, *Consolidated Financial Statements*;
- IFRS 11, *Joint Arrangements*;
- IFRS 12, *Disclosure of Interests in Other Entities*;
- IFRS 13, *Fair Value Measurement*;
- IAS 19, *Employee Benefits* (amended 2011);
- IAS 27, *Separate Financial Statement* (amended 2011);
- IAS 28, *Investments in Associates* (amended 2011); and
- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

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 share capital, warrants, the equity compensation reserve, deficit, and long-term liabilities. As at December 31, 2014, the capital structure amounted to \$2.1 million (June 30, 2014 – \$1.2 million).

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 has determined that it has to raise additional capital in order to ensure that there will be sufficient capital available to enable the continued operations of the Company.

The Company is not subject to externally imposed capital requirements.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended December 31, 2014 and 2013
(unaudited)

4. GAIN (LOSS) FROM 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. This agreement also gives Ormat an option, exercisable over a four year period, to purchase certain Company leases from the New Truckhaven geothermal project.

The Company received \$1,490,000 upon closing of the transaction, and a further \$10,000 is payable if and when Ormat exercises the lease purchase option.

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	\$ 464,708
Prepaid expenses	37,975
Asset retirement obligation	(230,451)
Net assets sold	\$ 272,232
Gain on sale of net assets	\$ 1,217,768

Commitments

The Company had commitments in respect of geothermal lease payments and work commitments under its geothermal leases. The commitments related to the Held for Sale properties, and which ceased upon completion of the sale, were as follows.

	June 30, 2014
Year ending June 30,	
2014	\$ -
2015	73,207
2016	126,315
2017	83,102
2018	84,115
2019	85,179
2020	86,296
2021	87,469

See notes 7 and 10 for more information on the resource property interests involved in this transaction.

ALTERNATIVE EARTH RESOURCES INC.

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4. GAIN (LOSS) FROM DISCONTINUED OPERATIONS (CONTINUED)

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

	NGP I, BM Holdco and related consolidation entries For the three months ended		Held for Sale properties For the three months ended		Total discontinued operations For the three months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	-	100,153	(58,671)	(17,384)	(58,671)	82,769
Net gain (loss) before income taxes	-	100,153	(58,671)	(17,384)	(58,671)	82,769
Income taxes	-	-	-	-	-	-
Gain on disposal	-	-	-	-	-	-
Net gain (loss) discontinued operations	\$ -	\$ 100,153	\$ (58,671)	\$ (17,384)	\$ (58,671)	\$ 82,769

	NGP I, BM Holdco and related consolidation entries For the six months ended		Held for Sale properties For the six months ended		Total discontinued operations For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	-	210,817	(63,345)	(68,383)	(63,345)	142,434
Net gain (loss) before income taxes	-	210,817	(63,345)	(68,383)	(63,345)	142,434
Income taxes	-	-	-	-	-	-
Gain on disposal	-	-	1,217,768	-	1,217,768	-
Net gain (loss) discontinued operations	\$ -	\$ 210,817	\$ 1,154,423	\$ (68,383)	\$ 1,154,423	\$ 142,434

Cash flows from discontinued operations are as follows:

	For the three months ended		For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Cash from operating activities	\$ (30)	\$ (77)	\$ (94,413)	\$ (156)
Cash from investing activities	-	-	1,490,000	-
Cash used in financing activities	(1,553)	-	(1,553)	-
(Decrease) increase in cash and cash equivalents	\$ (1,583)	\$ (77)	\$ 1,394,034	\$ (156)

ALTERNATIVE EARTH RESOURCES INC.

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5. SEGMENTAL ANALYSIS

For the three months ended December 31, 2014	United States	Canada	Total
Depreciation and amortization	\$ (93)	\$ (5,278)	\$ (5,371)
Operating loss	(21,183)	(21,325)	(42,508)
Finance costs	(1,471)	-	(1,471)
Income tax	(300)	-	(300)
(Loss) profit from discontinued operations	(58,671)	-	(58,671)
Net loss	(81,641)	(17,639)	(99,280)

For the six months ended December 31, 2014	United States	Canada	Total
Depreciation and amortization	\$ (186)	\$ (10,754)	\$ (10,940)
Operating loss	(43,820)	(202,150)	(245,970)
Finance costs	(3,361)	-	(3,361)
Income tax	(1,650)	-	(1,650)
(Loss) profit from discontinued operations	1,154,423	-	1,154,423
Net loss	1,105,576	(195,415)	910,161

For the three months ended December 31, 2013	United States	Canada	Total
Depreciation and amortization	\$ (765)	\$ (7,950)	\$ (8,715)
Operating loss	(67,844)	(279,801)	(347,645)
Finance costs	(1,959)	-	(1,959)
Income tax	-	-	-
(Loss) profit from discontinued operations	49,966	32,803	82,769
Net loss	(19,838)	(243,092)	(262,930)

For the six months ended December 31, 2013	United States	Canada	Total
Depreciation and amortization	\$ (2,315)	\$ (20,044)	\$ (22,359)
Operating loss	(111,326)	(601,585)	(712,911)
Finance costs	(2,435)	-	(2,435)
Income tax	-	-	-
(Loss) profit from discontinued operations	65,870	76,564	142,434
Net loss	(47,892)	(517,496)	(565,388)

As at December 31, 2014	United States	Canada	Total
Cash and cash equivalents	\$ 123,933	\$ 2,055,509	\$ 2,179,442
Property and equipment	96,489	4,249	100,738
Assets held for sale	10,000	-	10,000
Liabilities held for sale	-	-	-
Current liabilities	(47,920)	(37,284)	(85,204)

As at June 30, 2014	United States	Canada	Total
Cash and cash equivalents	\$ 157,956	\$ 1,100,972	\$ 1,258,928
Property and equipment	96,643	6,748	103,391
Assets held for sale	508,057	-	508,057
Liabilities held for sale	(230,451)	-	(230,451)
Current liabilities	(9,460)	(116,350)	(125,810)

ALTERNATIVE EARTH RESOURCES INC.

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6. ACCOUNTS RECEIVABLE

	December 31, 2014	June 30, 2014
Goods and Services Tax (GST)	\$ 5,829	\$ 11,271
	<u>\$ 5,829</u>	<u>\$ 11,271</u>

7. INVESTMENT IN CRUMP GEOTHERMAL COMPANY LLC ("CGC")

The Crump Geyser project is located 48 km (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 \$7.25 million.

This project was included in the Purchase and Sale Agreement (see note 4), and included in assets held for sale.

ALTERNATIVE EARTH RESOURCES INC.

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8. PROPERTY, PLANT AND EQUIPMENT

December 31, 2014	Computers, office furniture and equipment	Field equipment and vehicles	Land and leasehold improvements	Spare parts and casing	Total
COST					
As at June 30, 2014	\$ 86,525	\$ -	\$ 91,860	\$ 9,250	\$ 187,635
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Foreign exchange movement	(5,693)	-	-	-	(5,693)
As at December 31, 2014	\$ 80,832	\$ -	\$ 91,860	\$ 9,250	\$ 181,942
ACCUMULATED DEPRECIATION					
As at June 30, 2014	\$ 74,994	\$ -	\$ -	\$ -	\$ 74,994
Depreciation	2,194	-	-	-	2,194
Disposals	-	-	-	-	-
Foreign exchange movement	(5,234)	-	-	-	(5,234)
As at December 31, 2014	\$ 71,954	\$ -	\$ -	\$ -	\$ 71,954
ACCUMULATED IMPAIRMENT LOSSES					
As at June 30, 2014	\$ -	\$ -	\$ -	\$ 9,250	\$ 9,250
Impairment recognized	-	-	-	-	-
Disposals	-	-	-	-	-
As at December 31, 2014	\$ -	\$ -	\$ -	\$ 9,250	\$ 9,250
CARRYING AMOUNT					
As at June 30, 2014	\$ 11,531	\$ -	\$ 91,860	\$ -	\$ 103,391
As at December 31, 2014	\$ 8,878	\$ -	\$ 91,860	\$ -	\$ 100,738

June 30, 2014	Computers, office furniture and equipment	Field equipment and vehicles	Land and leasehold improvements	Spare parts and casing	Total
COST					
As at June 30, 2013	\$ 107,743	\$ 75,164	\$ 199,861	\$ 9,250	\$ 392,018
Additions	-	-	-	-	-
Disposals	(20,014)	(75,164)	(108,001)	-	(203,179)
Foreign exchange movement	(1,204)	-	-	-	(1,204)
As at June 30, 2014	\$ 86,525	\$ -	\$ 91,860	\$ 9,250	\$ 187,635
ACCUMULATED DEPRECIATION					
As at June 30, 2013	\$ 85,226	\$ 60,811	\$ 46,789	\$ -	\$ 192,826
Depreciation	6,450	1,417	7,300	-	15,167
Disposals	(15,684)	(62,228)	(54,089)	-	(132,001)
Foreign exchange movement	(998)	-	-	-	(998)
As at June 30, 2014	\$ 74,994	\$ -	\$ -	\$ -	\$ 74,994
ACCUMULATED IMPAIRMENT LOSSES					
As at June 30, 2013	\$ -	\$ -	\$ -	\$ 4,901	\$ 4,901
Impairment recognized	-	-	-	4,349	4,349
Disposals	-	-	-	-	-
As at June 30, 2014	\$ -	\$ -	\$ -	\$ 9,250	\$ 9,250
CARRYING AMOUNT					
As at June 30, 2013	\$ 22,517	\$ 14,353	\$ 153,072	\$ 4,349	\$ 194,291
As at June 30, 2014	\$ 11,531	\$ -	\$ 91,860	\$ -	\$ 103,391

The company disposed of the leasehold improvements during the quarter ended December 31, 2013, upon the move to new premises.

ALTERNATIVE EARTH RESOURCES INC.

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9. INTANGIBLE ASSETS

December 31, 2014	Computer software	Water rights	Mining rights	Total
COST				
As at June 30, 2014	\$ 115,742	\$ -	\$ -	\$ 115,742
Additions	-	-	-	-
Disposals	-	-	-	-
Foreign exchange movement	(8,841)	-	-	(8,841)
As at December 31, 2014	\$ 106,901	\$ -	\$ -	\$ 106,901
ACCUMULATED AMORTIZATION				
As at June 30, 2014	\$ 85,245	\$ -	\$ -	\$ 85,245
Amortization	8,746	-	-	8,746
Disposals	-	-	-	-
Foreign exchange movement	(6,767)	-	-	(6,767)
As at December 31, 2014	\$ 87,224	\$ -	\$ -	\$ 87,224
ACCUMULATED IMPAIRMENT LOSSES				
As at June 30, 2014	\$ -	\$ -	\$ -	\$ -
Impairment recognized	-	-	-	-
Disposals	-	-	-	-
As at December 31, 2014	\$ -	\$ -	\$ -	\$ -
CARRYING AMOUNT				
As at June 30, 2014	\$ 30,497	\$ -	\$ -	\$ 30,497
As at December 31, 2014	\$ 19,677	\$ -	\$ -	\$ 19,677

June 30, 2014	Computer software	Water rights	Mining rights	Total
COST				
As at June 30, 2013	\$ 117,334	\$ 30,217	\$ 60,550	\$ 208,101
Additions	-	-	-	-
Disposals	-	(30,217)	(60,550)	(90,767)
Foreign exchange movement	(1,592)	-	-	(1,592)
As at June 30, 2014	\$ 115,742	\$ -	\$ -	\$ 115,742
ACCUMULATED AMORTIZATION				
As at June 30, 2013	\$ 67,730	\$ 2,687	\$ 11,013	\$ 81,430
Amortization	18,357	755	-	19,112
Disposals	-	(3,442)	(11,013)	(14,455)
Foreign exchange movement	(842)	-	-	(842)
As at June 30, 2014	\$ 85,245	\$ -	\$ -	\$ 85,245
ACCUMULATED IMPAIRMENT LOSSES				
As at June 30, 2013	\$ -	\$ -	\$ 14,537	\$ 14,537
Impairment recognized	-	-	-	-
Disposals	-	-	(14,537)	(14,537)
As at June 30, 2014	\$ -	\$ -	\$ -	\$ -
CARRYING AMOUNT				
As at June 30, 2013	\$ 49,604	\$ 27,530	\$ 35,000	\$ 112,134
As at June 30, 2014	\$ 30,497	\$ -	\$ -	\$ 30,497

The Company sold the mining rights, belonging to Desert Valley Gold and NGP US Holdings, to EIG Global Energy Partners on August 21, 2013. The water rights, belonging to NGP Pumpnickel, were impaired on March 31, 2014, due to the company's decision not to renew its leases for that project.

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10. RESOURCE PROPERTY INTERESTS

The following acquisition costs of resource properties have been capitalized:

	Note	December 31, 2014	June 30, 2014
Imperial Valley (California)			
New Truckhaven	a	\$ 508,057	\$ 508,057
Transferred to assets held for sale (note 4)	a	(508,057)	(508,057)
Nevada			
North Valley	b	-	-
Pumpnickel Valley	c	-	-
		<u>\$ -</u>	<u>\$ -</u>

a) New Truckhaven

The New Truckhaven project consists 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 4)

This project was included in the Purchase and Sale Agreement (note 4), 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 4), and was disposed of on August 27, 2014.

c) Pumpnickel Valley

The project is located in north-central Nevada. During 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. This project was impaired at the time the decision was made.

11. ASSET RETIREMENT OBLIGATION

	December 31, 2014	June 30, 2014
Opening balance	\$ 245,381	\$ 441,643
Effect of change in discount rate	(7,744)	14,893
Accretion	3,361	19,296
Disposals	(35,495)	-
Transferred to held for sale	-	(230,451)
	<u>\$ 205,503</u>	<u>\$ 245,381</u>

The timing of the outflows in respect of the provision for retirement costs at 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.

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12. 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

See Consolidated Statements of Changes in Equity.

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.

Exercise price	Outstanding June 30, 2014			Granted	Forfeited	Exercised	Expired	Outstanding December 31, 2014			Life*
	Total	Vested	Non-vested					Total	Vested	Non-vested	
CAD**											Years
0.05	1,650,000	1,650,000	-	-	-	-	-	1,650,000	1,650,000	-	4.48
3.30-4.00	138,000	138,000	-	-	-	-	-	138,000	138,000	-	0.97
5.40-6.10	30,000	30,000	-	-	-	-	(30,000)	-	-	-	-
	<u>1,818,000</u>	<u>1,818,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>1,788,000</u>	<u>1,788,000</u>	<u>-</u>	<u>2.98</u>

* The weighted average remaining contractual life as at year end.

**Canadian dollars

During the quarter ended December 31, 2014, the Company received no proceeds (quarter ended December 31, 2013 - Nil) from the exercise of stock options (quarter ended December 31, 2013 – no options exercised).

c) Warrants

	Exercise price	Total outstanding June 30, 2014 (all vested)	Granted	Forfeited	Exercised	Expired	Total outstanding December 31, 2014 (all vested)	Life*
	CAD							Years
EIG warrants	7.50	900,000	-	-	-	-	900,000	0.70

* The weighted average remaining contractual life as at year end.

During the year ended December 31, 2014, the Company received no proceeds (year ended December 31, 2013 - Nil) from the exercise of share purchase warrants (year ended December 31, 2013 – no share purchase warrants exercised).

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12. SHARE CAPITAL (CONTINUED)

c) Warrants (Continued)

i. EIG Warrants

On September 3, 2010, the Company issued, to EIG Global Energy Partners ("EIG"), 4.5 million warrants exercisable at a price of CAD 1.50 for a period of five years. If the Company's share price closes at CAD 2.00 or greater for a period of 20 consecutive trading days, the Company shall give written notice to EIG that if the warrants are not exercised within 30 days of the notice, the warrants shall expire. The EIG warrants were fair valued based on a Monte Carlo simulation model using a risk-free rate of 1.30%, dividend yield of 0%, volatility of 68% and an expected life of 4.6 years. The fair value of the warrants issued to EIG was CAD 0.12 per warrant.

On April 2, 2013, the number of EIG warrants was consolidated to 900,000, at an exercise price of CAD 7.50 per unit.

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.

13. OPERATING LOSS

The following are items included in the operating loss from continuing operations:

	For the three months ended		For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Amortization	\$ 4,281	\$ 4,928	\$ 8,746	\$ 9,907
Depreciation	1,090	3,787	2,194	12,452
Foreign exchange (gains) losses	(44,041)	(9,371)	(97,290)	350
Loss on sale of property, plant, and equipment	-	56,022	-	58,093
Loss on sale of marketable securities	-	-	-	516

14. RELATED PARTY TRANSACTIONS

The Group's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Group and consist of the Board of Directors and the Executive management team.

	For the three months ended		For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Key management compensation				
Short-term employee benefits & directors fees	\$ 66,141	\$ 70,345	\$ 104,858	\$ 142,697
Share-based payment	-	-	-	-
Consulting fees (non-executive directors)	-	-	-	-

Balances owing to (by) related parties:

	December 31, 2014	June 30, 2014
Key management personnel	\$ 1,310	\$ 6,533

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15. COMMITMENTS

a) Lease commitments

The Company has commitments in respect of geothermal lease, as well as other operating lease commitments in respect of the head office located in Vancouver, Canada.

As of June 30, 2014, the geothermal lease payments and work commitments pertaining to the Resource Properties were considered as part of the "held for sale" assets. See note 4 for details on these commitments.

	December 31, 2014	June 30, 2014
Year ending June 30,		
2015	100,380	241,912
2016	185,293	185,293
2017	-	-
2018	-	-

16. NOTES TO THE CASH FLOW STATEMENT

a) Net change in non-cash working capital

	For the three months ended		For the six months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Decrease (increase) in accounts receivable	\$ 76	\$ (23,074)	\$ 4,887	\$ 6,427
(Increase) decrease in prepaid expenses	(8,752)	(90,213)	(13,002)	(58,187)
Increase (decrease) in accounts payable and accrued liabilities	7,212	(15,296)	(55,843)	13,705
	\$ (1,464)	\$ (128,583)	\$ (63,958)	\$ (38,055)

17. SUBSEQUENT EVENTS

The following significant events subsequent to December 31, 2014 are not disclosed elsewhere in these consolidated financial statements:

- On January 22, 2015, the Company received \$50,000 from the recovery of a Nevada statewide drilling bond with the Bureau of Land Management. This bond was part of the balance listed under Restricted Cash on the Balance Sheet.