



Condensed Consolidated Financial Statements of

ALTERNATIVE EARTH RESOURCES INC.

Three and six months ended December 31, 2015 and 2014

(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 statements of financial position Presented in US dollars

	Note	December 31, 2015 \$	June 30, 2015 \$
ASSETS			
Current assets			
Cash and cash equivalents		1,550,460	1,904,248
Amounts receivable	15	82,830	7,788
Prepaid expenses and deposits		57,230	51,453
Assets held for sale	5	–	65,000
Total current assets		1,690,520	2,028,489
Non-current assets			
Restricted cash	7	25,000	50,000
Property and equipment	8	12,768	17,159
Total non-current assets		37,768	67,159
TOTAL ASSETS		1,728,288	2,095,648
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		109,116	48,180
Non-current liabilities			
Asset retirement obligations	10	190,106	194,910
Total liabilities		299,222	243,090
Equity			
Share capital		62,955,332	62,955,332
Warrants reserve		–	524,341
Equity compensation reserve		8,255,944	7,731,603
Accumulated other comprehensive income		(123,828)	15,054
Deficit		(69,658,382)	(69,373,772)
Total equity		1,429,066	1,852,558
TOTAL LIABILITIES AND EQUITY		1,728,288	2,095,648

Nature of operations and going concern (Note 1)
Commitment (Note 13)

Approved and authorized for issuance on behalf of the Board of Directors on February 29, 2016:

"Brian Fairbank"
Director

"Gavin Cooper"
Director

ALTERNATIVE EARTH RESOURCES INC.

Condensed consolidated statements of operations and comprehensive income Presented in US dollars

	Note	For the three months ended		For the six months ended	
		December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Expenses					
Adjustments to asset retirement obligations: exploration stage properties		\$ (1,232)	\$ (228)	\$ (7,359)	\$ (7,744)
Audit, accounting and tax		22,783	25,426	36,155	72,271
Depreciation and amortization		3,270	5,371	6,508	10,940
Foreign exchange gain		(46,788)	(44,041)	(61,372)	(97,290)
General and administrative		30,434	29,285	47,534	72,260
Insurance		5,947	11,017	10,469	22,319
Legal and consulting expenses		133,073	17,543	155,082	34,273
Rent – office		5,076	2,744	10,572	8,920
Resource property expenses		95	2,599	3,627	4,929
Salaries, wages and employee benefits		15,773	51,463	39,023	120,576
Total expenses		168,431	101,179	240,239	241,454
Loss before other income (expense)		(168,431)	(101,179)	(240,239)	(241,454)
Other income (expense)					
Finance income		1,652	3,670	4,268	6,719
Finance costs		(1,192)	(1,471)	(2,555)	(3,361)
Loss before income taxes		(167,971)	(98,980)	(238,526)	(238,096)
Income taxes		(8,134)	(300)	(9,884)	(1,650)
Net loss from continuing operations		(176,105)	(99,280)	(248,410)	(239,746)
Gain (loss) from discontinued operations	4	(36,200)	-	(36,200)	1,149,907
Net income (loss)		\$ (212,305)	\$ (99,280)	\$ (284,610)	\$ 910,161
Items that will not subsequently be reclassified to net loss					
Foreign translation adjustment		(70,330)	(84,590)	(138,882)	(193,680)
Total comprehensive loss		\$ (282,635)	\$ (183,870)	\$ (422,492)	\$ 716,481
Loss per share (Basic and diluted)		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ 0.04
- Continuing operations		(0.01)	(0.00)	(0.01)	(0.01)
- Discontinued operations		(0.00)	0.00	(0.00)	0.05
Weighted average number of common shares issued and outstanding (Basic and diluted)		24,982,119	24,482,119	24,982,119	24,482,119

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of changes in equity

Presented in US dollars

	Number of shares	Share capital \$	Warrants reserve \$	Equity compensation reserve \$	Accumulated other comprehensive income Foreign currency translation reserve \$	Deficit \$	Total \$
As at June 30, 2014	24,482,119	62,923,805	524,341	7,743,276	356,278	(69,983,098)	1,564,602
Stock options exercised	500,000	31,527	—	(11,673)	—	—	19,854
Foreign currency translation	—	—	—	—	(341,224)	—	(341,224)
Net gain	—	—	—	—	—	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
As at July 1, 2015	24,982,119	62,955,332	524,341	7,731,603	15,054	(69,373,772)	1,852,558
Warrant expired	—	—	(524,341)	524,341	—	—	—
Foreign currency translation	—	—	—	—	(138,882)	—	(138,882)
Net loss	—	—	—	—	—	(284,610)	(284,610)
As at December 31, 2015	24,982,119	62,955,332	—	8,255,944	(123,828)	(69,658,382)	1,429,066

ALTERNATIVE EARTH RESOURCES INC.

Consolidated statements of cash flows Presented in US dollars

	Note	For the three months ended		For the six months ended	
		December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Operating activities					
Net loss		\$ (212,305)	\$ (99,280)	\$ (284,610)	\$ 910,161
Items not involving cash:					
Adjustments to asset retirement obligations: exploration stage properties		(1,232)	(35,723)	(7,359)	(43,239)
Accretion of asset retirement obligations		1,192	1,471	2,555	3,361
Depreciation and amortization		3,270	5,371	6,508	10,940
Loss on sale of property and equipment		36,200	-	36,200	-
Gain on sale of resource properties		-	-	-	(1,149,907)
Net change in non-cash working capital		(17,237)	(1,463)	(28,687)	(73,148)
		\$ (190,112)	\$ (129,624)	\$ (275,393)	\$ (341,832)
Investing activities					
Acquisition of property and equipment		-	-	(3,239)	-
Proceeds on disposal of property and equipment		28,800	-	28,800	-
Restricted cash		-	-	25,000	-
Proceeds on disposal of resource properties		-	-	-	1,431,329
		\$ 28,800	\$ -	\$ 50,561	\$ 1,431,329
Effects of exchange rate changes		(67,409)	(76,318)	(128,956)	(168,983)
Increase (decrease) in cash and cash equivalents		(228,721)	(205,942)	(353,788)	920,514
Cash and cash equivalents, beginning of period		1,779,181	2,385,384	1,904,248	1,258,928
Cash and cash equivalents, end of period		\$ 1,550,460	\$ 2,179,442	\$ 1,550,460	\$ 2,179,442

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Financial Statements
For the Six months ended December 31, 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. 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").

The Company has incurred net losses over the past several years and has an accumulated deficit of \$69,658,382, 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 December 31, 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. BASIS OF PRESENTATION

The condensed consolidated financial statements are expressed in United States dollars.

Statement of Compliance

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

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, 2016, 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;

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Financial Statements For the Six months ended December 31, 2015 and 2014 Presented in US dollars

3. CAPITAL MANAGEMENT – (CONTINUED)

- 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, 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.

4. 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.

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 November 25, 2015, the Company disposed of land held in northern Nevada, previously recorded as Assets Held for Sale. The Company received net proceeds of \$28,800 after closing costs.

The results of the held for sale items included in discontinued operations are as follows:

	For the three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Expenses	–	–	–	–
Gain (loss) on disposal	(36,200)	–	(36,200)	1,149,097
Net income from discontinued operations	(36,200)	–	(36,200)	1,149,097

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4. DISCONTINUED OPERATIONS – (CONTINUED)

Cash flows from discontinued operations are as follows:

	For the three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash used in operating activities	–	–	–	–
Cash provided by investing activities	28,800	–	28,800	1,431,329
Increase (decrease) in cash and cash equivalents	28,800	–	28,800	1,431,329

5. ASSET AND LIABILITIES HELD FOR SALE

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 December 31, 2015 and June 30, 2015 are presented below.

	Dec. 31, 2015 \$	June 30, 2015 \$
Land	–	65,000
Assets held for sale	–	65,000

6. SEGMENTED INFORMATION

As at December 31, 2015	United States \$	Canada \$	Total \$
Restricted cash	25,000	–	25,000
Property and equipment	4,363	8,405	12,768
As at June 30, 2015	United States \$	Canada \$	Total \$
Restricted cash	50,000	–	50,000
Property and equipment	4,542	12,617	17,159

ALTERNATIVE EARTH RESOURCES INC.

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7. RESTRICTED CASH

	Dec. 31, 2015 \$	June 30, 2015 \$
Cash collateralized letters of credit:		
California Division of Oil, Gas & Geothermal Resources	—	25,000
Imperial County Planning & Development Services	25,000	25,000
Restricted Cash Balance	25,000	50,000

8. PROPERTY AND EQUIPMENT

	Computers, office furniture and equipment \$	Land and leasehold improvements \$	Spare parts and casing \$	Computer software \$	Total \$
Cost:					
June 30, 2015	76,186	—	9,250	99,689	185,125
Additions	3,239	—	—	—	3,239
Foreign exchange movement	(6,088)	—	—	(9,180)	(15,268)
December 31, 2015	73,337	—	9,250	90,509	173,096
Accumulated Depreciation:					
June 30, 2015	69,518	—	—	89,198	158,716
Additions	1,549	—	—	4,959	6,508
Foreign exchange movement	(5,760)	—	—	(8,386)	(14,146)
December 31, 2015	65,307	—	—	85,771	151,078
Accumulated Impairment Losses:					
June 30, 2015	—	—	9,250	—	9,250
Impairment recognized	—	—	—	—	—
December 31, 2015	—	—	—	—	9,250
Carrying Amounts:					
As at June 30, 2015	6,668	—	—	10,491	17,159
As at December 31, 2015	8,030	—	—	4,738	12,768

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Notes to the Condensed Consolidated Financial Statements
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8. PROPERTY AND EQUIPMENT – (CONTINUED)

	Computers, office furniture and equipment \$	Land and leasehold improvements \$	Spare parts and casing \$	Computer software \$	Total \$
Cost:					
June 30, 2014	86,525	91,860	9,250	115,742	303,377
Foreign exchange movement	(5,693)	–	–	(8,841)	(14,534)
December 31, 2014	80,832	91,860	9,250	106,901	288,843
Accumulated Depreciation:					
June 30, 2014	74,994	–	–	85,245	160,239
Depreciation	2,194	–	–	8,746	10,940
Foreign exchange movement	(5,234)	–	–	(6,767)	(12,001)
December 31, 2014	71,954	–	–	87,224	159,178
Accumulated Impairment Losses:					
June 30, 2014	–	–	9,250	–	9,250
Impairment recognized	–	–	–	–	–
December 31, 2014	–	–	9,250	–	9,250
Carrying Amounts:					
As at June 30, 2014	11,531	91,860	–	30,497	143,138
As at December 31, 2014	8,878	91,860	–	19,677	120,415

9. RESOURCE PROPERTY INTERESTS

(a) New Truckhaven

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.

(b) Pumpernickel Valley

The project is located in north-central Nevada. The Company did not renew its last lease, during the six month period ended December 31, 2015.

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Financial Statements
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10. ASSET RETIREMENT OBLIGATIONS

	For the six months ended Dec. 31, 2015 \$	For the year ended June 30, 2015 \$
Opening balance	194,910	245,381
Effect of change in discount rate	(7,359)	(14,666)
Accretion	2,555	5,752
Decommissioning costs paid	—	(41,557)
Ending balance	190,106	194,910

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.

11. 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 Statement 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.

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

Six months ended December 31, 2015

	Number of stock options	Weighted average exercise price Cdn\$
Outstanding, June 30, 2015	1,288,000	0.45
Exercised	—	—
Expired	(138,000)	3.75
Outstanding, December 31, 2015	1,150,000	0.05

ALTERNATIVE EARTH RESOURCES INC.

Notes to the Condensed Consolidated Financial Statements
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Presented in US dollars

11. SHARE CAPITAL – (CONTINUED)

(b) Share Options (continued)

Six months ended December 31, 2014

	Number of stock options	Weighted average exercise price Cdn\$
Outstanding, June 30, 2014	1,818,000	0.43
Exercised	—	—
Expired	(30,000)	3.20
Outstanding, December 31, 2014	1,788,000	0.34

Additional information regarding stock options outstanding as at December 31, 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	3.5	0.05
	1,150,000	3.5	0.05

(c) Share purchase warrants

The following table summarizes the continuity of share purchase warrants:

Six months ended December 31, 2015

	Number of warrants	Weighted average exercise price Cdn\$
Balance, June 30, 2015	900,000	7.50
Expired	(900,000)	7.50
Balance, December 31, 2015	—	—

Six months ended December 31, 2014

	Number of warrants	Weighted average exercise price Cdn\$
Balance, June 30, 2014	900,000	7.50
Expired	—	—
Balance, December 31, 2014	900,000	7.50

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12. RELATED PARTY TRANSACTIONS

- (a) During the six months ended December 31, 2015, the Company incurred \$27,235 (2014 – \$73,444) in salaries and benefits to the Chief Executive Officer of the Company.
- (b) During the six months ended December 31, 2015, the Company incurred \$5,674 (2014 - \$6,745) in directors' fees to two directors of the Company which are included in other operating expenses.
- (c) During the six months ended December 31, 2015, the Company incurred \$22,471 (2014 - \$24,670) in consulting fees to a company controlled by the Chief Financial Officer of the Company.

13. COMMITMENT & CONTINGENCY

As at December 31, 2015, the Company has a premises lease for its head office. The Company is committed to paying basic monthly rent of \$20,883 plus operating costs until June 30, 2016. The premises lease expires on May 31, 2016. The Company sublets a significant portion of its office premises.

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 Black Sea Copper & Gold Corp. without first obtaining shareholder approval. On January 6, 2016, Jaguar filed a second petition in the Court alleging various conduct by the Company since December 10, 2015 and sought orders restricting the Company's conduct in advance of the coming annual general meeting of shareholders and relating to the holding of the AGM itself.

The Court had sided with Jaguar on both matters. The Company intends to appeal the decision. Please see the Litigation section of the Management Discussion & Analysis for the period ended December 31, 2015 for more details. Full information can be found at www.sedar.com.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.

15. SUBSEQUENT EVENTS

- a) On January 8, 2016, the Company was repaid a short-term loan of \$100,000 CDN from Black Sea Copper & Gold Corp. that was advanced in December 2015.
- b) On January 20, 2016, the Company received \$57,500 CDN from the exercise of 1,150,000 stock options.