



GREENEARTH ENERGY LTD
ACN: 120 710 625
AND CONTROLLED ENTITIES

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2016

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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30 JUNE 2016

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GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
DIRECTORS' REPORT

The Directors present their report, together with the financial report of the consolidated entity consisting of Greenearth Energy Ltd and the entities it controlled, for the financial year ended 30 June 2016 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The names, qualifications, experience and special responsibilities of each person who has been a director of Greenearth Energy Ltd at any time during or since the end of the financial year are provided below, together with details of the company secretary as at the year end. The directors have been in office since the start of the year to the date of this report unless otherwise stated.

Charles Macek B.Ec., M.Admin, FAICD, FCA, FCPA, SF.Fin (*Non-executive Chair*)

Mr Macek joined the Board on 3 December 2015 and was appointed Chair on 1 May 2016. He has a B.Ec. and M.Admin, both from Monash University; and, is a Fellow of the AICD, CPA, ICAA and a Senior Fellow of the Financial Services Institute of Australasia.

He is currently the Chairman of Earthwatch Institute (Australia); a Director of Vicinity Ltd. since 2011, where he also chairs the Remuneration Committee; a Director of Sinefa Pty. Ltd.; a member of the Investment Committee at Unisuper Ltd.; and, a member of the ASIC Director Advisory Panel. He had a long executive career in financial services encompassing Australia, New Zealand, UK and Japan. In his non-executive career he has been a Director of Telstra (2001-09) and Wesfarmers (2001-14;) and, is a former Chairman of IOOF and of the Financial Reporting Council; and was Vice-Chairman of the IFRS Advisory Council (2009-14), and was a member of the inaugural ASIC External Advisory Panel.

Robert J. Annells CPA, F.Fin. (*Non Executive Director*)

Mr Annells has held a seat on the board as a non executive Director since the company's inception on 13 July 2006, and served as Chairman from 1 July 2010 to 1 May 2016. He is a former member of the Australian Stock Exchange with over forty years' experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries.

Mr Annells was Chairman of Lakes Oil N.L.(ASX:LKO) until 20 May 2016 (where he had served on the board since 1984). He was also a non-executive director of Rum Jungle Resources Limited (ASX:RUM) from 2006 to 2015, serving as Chairman from 2012 to June 2014, and Chairman of Central Australian Phosphate Limited (ASX:CEN) from July 2013 until its delisting in January 2014 following compulsory acquisition by RUM. During the past three years Mr. Annells has not held any other listed company directorships.

Mr Annells is also a member of the Audit Committee.

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DIRECTORS' REPORT

Directors (continued)

Leslie Butterfield BSc Civil Eng., AICD, AIPM, AIM (*Non Executive Director*)

Ms. Butterfield joined the Board on 1 May 2016. She holds a Bachelor of Science Civil Engineering from Rensselaer Polytechnic Institute, NY. She is currently a Non Executive Director of UniQuest, RKF Engineering, and the Australian Literacy and Numeracy Foundation. Leslie's international and local experience spans project management, business development, corporate advisory, corporate finance, strategic planning and operational management in the construction, technology and telecommunications sectors. She served on the Board of Australia's largest public R&D fund, and was one of a panel of three industry representatives appointed by the nine government ministers to review the progress, strategies and future direction of the National Building Codes Board.

John T. Kopcheff B.Sc (Hons) (Geology and Geophysics), SPE, AIMM (*Non Executive Director*)

Mr Kopcheff was appointed to the Board on 13 July 2006. He is a geologist and geophysicist, and holds a Bachelor of Science (Honours) from the University of Adelaide (1970). He has extensive experience in Australia, South East Asia, USA, South America and the North Sea, in field operations and management, including sales for a division of a major service company to the oil industry, Baker-Hughes.

Mr Kopcheff held the position of Managing Director of Victoria Petroleum Ltd from August 1984 until late July 2010 and continued on their board as Executive Director until resigning on 22 September 2010. He was also a non executive director of Great Panther Silver Limited from August 2001 through to 30 June 2012 when he resigned from the position. Mr Kopcheff is the Chairman of the Audit Committee and the Chairman of the Remuneration Committee.

Samuel R. Marks CA, B.Bus. (*Managing Director*)

Mr Marks was appointed as Managing Director on 1 July 2012. Mr Marks has over 17 years global commercial experience across accounting, consulting, corporate finance and corporate roles. He commenced his career with Coopers & Lybrand (PwC) in the Middle Market team, followed by Arthur Anderson (now KordaMentha) in their advisory/insolvency team.

Prior to founding the Toroso Group (subsequently Main Street Capital) in 2009, Mr Marks completed 7 years within General Electric based in Australia and the United States and was responsible for leading and executing projects across the US, UK, Europe, Australia, China and Hong Kong.

Mr Marks is a Chartered Accountant with a Bachelor of Business and is Six Sigma qualified through General Electric. He is also a director of The Melbourne Foundation, a not-for-profit organisation which provides education opportunities for financially disadvantaged youths. Mr Marks has not held any other directorships of listed companies during the three year period prior to 30 June 2016.

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Directors (continued)

Philip Zajac B.Comm, F.Fin (*Non Executive Director*)

Mr Zajac was appointed to the Board on 4 September 2014, and has over 30 years of commercial experience in the finance industry. He is currently an executive director of the Erdi Group of companies, a director of Erdi Fuels Pty Ltd, and a non-executive director of NewCO2Fuels Ltd (Israel).

Mr Zajac is involved in the development, ownership and management of eight hotels in Victoria, Sydney and Brisbane, along with the design and construction of affordable student housing and apartments. He also runs an extensive philanthropy programme across Australia and overseas. No other directorships of listed companies were held at any time during the three years prior to 30 June 2016.

Mr Zajac is also a member of the Remuneration Committee.

Company Secretary

Robert Smith, B.Bus(Acc), CA (*Company Secretary*)

Mr. Smith is also the Chief Financial Officer of Greenearth Energy Ltd, and has previously held senior financial roles both within industry and within public practice.

Principal activities

The principal activities of the consolidated entity during the financial year were investment in energy efficiency technologies along with other renewable energy research and development projects. There has been no significant change in the nature of these activities during the financial year.

Operating and financial review

A review of the operations of the consolidated entity during the financial year and the results of those operations are as follows:

Results

The consolidated loss after income tax attributable to the members of Greenearth Energy Ltd was \$4,817,457 (2015: \$5,986,012 loss). The result reflects the group's investment in growth during the period, operational highlights of which included:

- The acquisition of Ilum-a-Lite, an energy efficient lighting solutions provider to the commercial sector, with effect from 31 March 2016;
- Development and roll-out of Vivid Industrial's proprietary Matrixx industrial lighting system range across multiple full scale sites;
- Finalisation and restructure of the group's investment in NewCO2Fuels, as it increased focus on commercialisation of its award winning CO₂ reduction technology.

An increase in total revenue from \$1,174,016 to \$3,300,258 was driven primarily by a 251% increase in sales revenue (from \$637,176 to \$2,239,222), due in turn to a combination of organic sales growth and a part-year contribution from Ilum-a-Lite Pty Ltd.

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Results (continued)

Employee benefits expense increased by 48% to \$3,077,468 (2015: \$2,076,479), as experienced sales and operations personnel were added to the team, with a 73% increase in employee numbers during the year.

The company issued a total of 52,580,625 shares and 18,450,000 unlisted options during the period ended 30 June 2016.

Review of operations

The 2015/2016 financial year saw Vivid Industrial begin the scale up and roll-out of full scale sites across a range of its energy efficient lighting systems, along with the acquisition of Illum-a-Lite as part of the strategy to grow into the commercial lighting sector.

The group's investment in NewCO2Fuels (its CO₂-to-fuels technology investment) increased focus on sourcing commercialisation partners and furthering technology development for commercialisation.

Further detail regarding each of these businesses is provided in the following pages.

In accordance with its strategy to take Greenearth to the next stages of growth and development, Greenearth appointed Mr Charles Macek as Non-Executive Chair of the Company following the decision of Mr Robert Annells to step down from that role. Concurrently, the Company also appointed Ms Leslie Butterfield as Non-Executive Director. Both of these appointments took effect as of 1 May 2016.

Mr Macek was initially appointed to the Board of Greenearth Energy as a Non-Executive Director in December 2015, and has a wealth of global experience in the financial services sector. He has held senior board positions (past and present) with a number of high profile public companies, most notably Telstra and Wesfarmers.

Ms Butterfield, a qualified Civil Engineer, has broad and diverse local and international experience in engineering, business development, strategic planning and management. She has also served on the boards of numerous private company, Government and not-for-profit Boards and Advisory Boards.

The Board of Greenearth Energy once again takes this opportunity to acknowledge Mr Annells, a founding director of the Company in 2006, for his outstanding service, stewardship and contribution over the last decade.

The group is focussed on growing its Vivid Industrial business unit, and managing its investment in NewCO2Fuels ("NCF") via its 50% owned holding company, NCF Global Pty Ltd, which was established during the year. Geothermal exploration is no longer the group's primary focus, and its geothermal assets were impaired in full during the previous financial year. These assets are retained with no material expenditure on a year to year basis.

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Review of operations (continued)

Strategy execution

Greenearth Energy's technology interests are managed via two main investment vehicles, Vivid Industrial and NewCO2Fuels.

Vivid Industrial provides energy efficient lighting systems to industrial, commercial and infrastructure businesses. As a world leading technology company achieving energy savings of >80%, the company is seeing its technology being deployed by key blue chip customers in Australia & overseas. Coupled with the recent acquisition of Ilum-a-Lite which focuses on Energy Performance Contracts, the combined business is enabling development of high margin recurring revenue streams.

NewCO2Fuels has an independently validated and globally awarded technology that converts CO₂ into fuel using solar or waste heat as the energy source. The technology is now into commercialisation phase and is an externally managed (passive) investment. Greenearth Energy Ltd has a 33.33% economic stake in NewCO2Fuels, represented by a 50% interest in NCF Global Pty Ltd, a company which owns 66.67% of NewCO2Fuels Ltd.

The group contains the following business units, as reflected in its reported operating segments:



Both business units are reviewed for the financial year in the following pages, set out in turn below, followed by a descriptive overview of each business unit.

The Paris Agreement reached in December 2015 by 195 nations at COP21 (the United Nations Framework Convention on Climate Change) has been described as an historic milestone for the global energy industry. It is expected to drive an increase in focus and investment in energy efficiency and renewable energy technologies, which is particularly encouraging for both Vivid Industrial and NewCO2Fuels. Both of these businesses have experienced a significant increase in inbound enquiries since COP21 in December, which is consistent with the increased global interest in addressing the challenges of limiting and then reducing CO₂ emissions.

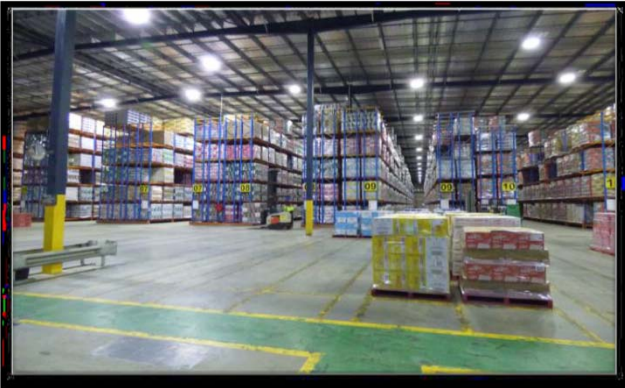
Review of operations (continued)

BUSINESS UNIT UPDATES

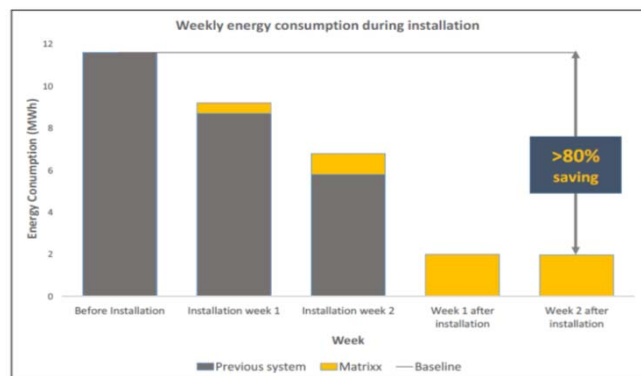
Industrial Energy Efficiency

The Industrial Energy Efficiency business focused heavily on growing the large scale sites across the industrial sector to include customer sites including a Linfox-Arnett's warehouse and a Woolworths major distribution centre hub (both in Queensland). These and other deployments continue to deliver savings north of 80% of lighting energy costs to the customers. Ongoing technology development continued with Vivid Industrials' proprietary Matrixx product range, seeing developments around improving efficiencies of technology implementation, as well as within the manufacturing process.

Arnett's case study:



Site after installation of Vivid Industrial's intelligent Matrixx™ lighting system



This chart shows the immediate reduction in energy consumption as a result of the upgrade to Vivid Industrial's Matrixx™ system

During the year Vivid Industrial acquired Ilum-a-Lite, an energy efficiency business which was founded over 20 years ago and is at the forefront of the lighting energy efficiency sector. During its history, Ilum-a-Lite has pioneered a number of new energy efficiency products in the lighting sector and successfully taken them to world markets. The company's skills in project management and logistics makes it highly efficient at delivering large scale industrial projects anywhere in the country. Ilum-a-Lite brings vast experience in commercial lighting and LED lighting upgrades that deliver outstanding returns for customers.

The integration of the two business units, Vivid Industrial and Ilum-a-Lite has already seen the combined client base offer great opportunities to expand and deliver first rate solutions to our customers across a wider portfolio.

During the financial year Vivid Industrial began to explore opportunities overseas into South East Asia and Latin America. With the ever increasing cost of energy across the globe, and Australia's relatively cheap cost in comparison, once Vivid Industrial had proven the systems efficiencies with short Return on Investment periods seen for our customer base, the company began to investigate approaches from overseas distributors to partner and sell into attractive foreign markets. These interactions included the signing of a new Distributor in Malaysia, along with the signing of an MOU for a Joint Venture agreement with a Mexican lighting company, which is part of Mexico's largest group of construction materials companies. The global lighting market, within which Vivid Industrial focuses, is estimated to be worth greater than \$110 billion per annum. Vivid Industrial continues discussions with multiple countries and partners to grow the Vivid Industrial family and opportunities.

Review of operations (continued)

Technology Investment

The 2016 financial year saw progress across a range of areas for NewCO2Fuels ("NCF"), from pilot partners, to collaboration agreements and further independent recognition via awards and selection for global competitions. NCF received much global press coverage with the continued focus on commercialising and socialising the NCF technology to the world.

During the year, the group's investment in NCF was finalised and restructured, such that the group's 33.33% effective economic interest in NCF is now represented by its 50% ownership of NCF Global, a company that owns 66.67% of NCF. The other 50% of NCF Global is owned by the Erdi Group, which is also a shareholder in Greenearth.

Having developed its unique technology, NCF's current focus is commercialisation (via deployment of modular systems to several pilot plants). One of the key steps towards the commercialisation stage is the design, building and testing of its first pilot plant. The NCF engineering team made significant progress with the design and development of NCF's first large scale pilot plant, composing two commercial reaction units able to convert ~160 tons per year of carbon dioxide (CO₂) into fuel and oxygen (O₂). This pilot plant, containing multiple disassociating membranes, will have a CO₂ processing capacity equivalent to the CO₂ absorption capacity of around 6,000 mature trees.



NCF pilot facility



Measuring 1.5m x1m
NCF Reactor (one module) external design view

Of note in the potential partners was the cooperation agreement entered into by NCF and Sinopec Ningbo Engineering Co., Ltd (SNEC) during the year. Subsequent to balance date, NCF also signed a Letter of Intent (LOI) with Sinopec Engineering (Group) Co. Ltd (SEG) and Hong Kong ECO/Blooming (Beijing) Technology Co Ltd (BBT), to further progress NCF's technology to commercialisation. The entry into the LOI follows a site visit to NCF's facility in Israel by representatives of SEG, which was pursuant to the cooperation agreement. The LOI contains the goals, objectives and timelines of SEG, BBT and NCF over the coming period including a feasibility study for a pre-identified NCF pilot site. Upon successful analysis and proof of economics, NCF envisages entering into a commercialisation agreement for SEG and NCF to jointly engineer and commercialise the NCF technology, funded by BBT, with the three parties sharing profits on a commercial basis to be agreed in the current financial year. Whilst this was of independent note, further discussions also progressed with other global corporations and power companies who are considering NCF for the development of pilot plants and rights to develop and deploy its technology.

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Review of operations (continued)

NCF received further significant recognition during the year, adding to the previous acknowledgement and recognition of its award-winning technology. Highlights included:

- NCF winning the "Innovation Potential" category at the 2015 International Quality Innovation of the Year awards ceremony in Tallinn, Estonia for its CO₂ Emission Reduction and Utilization system, with the award presented by the President of the Republic of Finland.
- NCF being chosen as one of eight companies to present its technology to the general assembly at the first World Science Conference in Israel in August 2015, where fifteen Nobel Laureates and 400 scientists from 71 countries were assembled.
- NCF being selected as one of only three innovative companies representing Israel in the finals of the Innovation Competition of International Talents, which took place in Shenzhen, China in April 2016 (<http://www.itcsz.cn/>).
- NCF making the Red Herring Top 100 Europe shortlist. This is a globally recognised award, operating since 1996 and determined by an expert panel of technology industry executives, investors, and strategists as an instrument for discovering and advocating the most promising private ventures from around the world. The Red Herring Top 100 awards highlight the most exciting start-ups from Asia, Europe and the Americas (<http://www.redherring.com/events/top-100/>).

Review of operations (continued)

ABOUT EACH BUSINESS UNIT

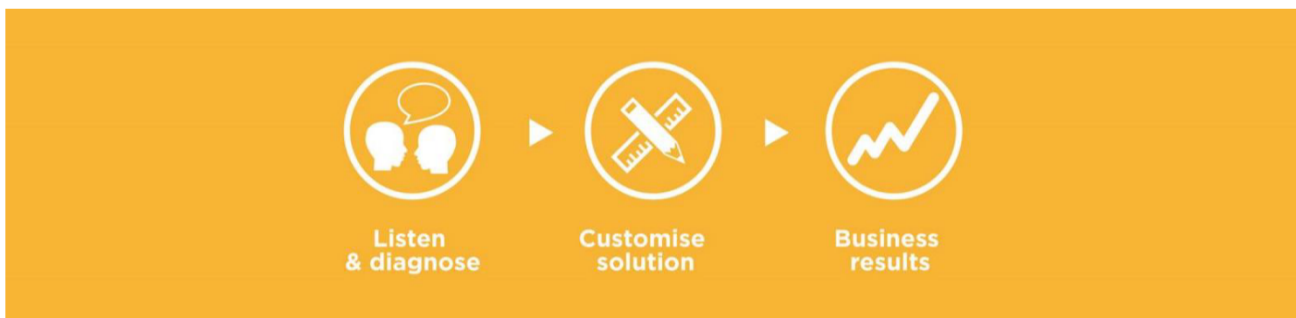
INDUSTRIAL ENERGY EFFICIENCY



Vivid Industrial is a subsidiary of Greenearth Energy Ltd, providing customised, intelligent and energy efficient cloud based solutions for our growing industrial and infrastructure client base. The "internet of lights" and "cloud based monitoring" delivers quantifiable efficiencies and significant cost savings with environmentally sustainable benefits for our customers.

The business' core technologies are designed for application in warehouses, distribution centres, cold storage facilities, ports, stadiums, car parks, roads and tunnels. Vivid Industrial is a trusted partner to our customer base of blue chip, industrial companies.

Vivid Industrial recently acquired Ilum-a-Lite, a business specialising in creating highly effective, energy-saving lighting solutions predominantly for commercial and government clients that generate significant cost savings and reduce environmental impact.



www.vividindustrial.com

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Review of operations (continued)

TECHNOLOGY INVESTMENT



NewCO2Fuels (NCF) is an Israeli start-up company which was formed in 2011 by a group of scientists and entrepreneurs with the support of Greenerth Energy Ltd and the Erdi Group. NCF was formed to develop and commercialise an innovative system to profitably produce fuels from CO₂ and water, using renewable high temperature heat from solar or excess heat from industry. The system is based on a technology previously developed at the Weizmann Institute of Science and exclusively licensed to NCF.

NCF won the World Technology Network award for Energy in November 2014, and has received numerous grants and accolades from governments around the world. Its technology has also been independently validated by several major international engineering and technology consultancy firms.

Having developed its unique technology, NCF's current focus is commercialisation (via deployment of modular systems to several pilot plants).

Review video at the attached link for further information:

http://www.youtube.com/watch?v=vH-YZdqB_SE



Greenerth's 33.33% effective economic interest in NCF is represented by its 50% ownership of NCF Global, a company that owns 66.67% of NCF. The other 50% of NCF Global is owned by the Erdi Group, which is also a shareholder in Greenerth.

www.newco2fuels.co.il

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Review of operations (continued)

OTHER INVESTMENTS

No material activity took place within Greenearth's geothermal business during the financial year.

The Victorian government currently has a moratorium on hydraulic fracturing and well activity.

This moratorium was due for review in mid 2015 and again in mid 2016, but is now likely to be in place until further notice. Lifting the moratorium would assist the geothermal industry to continue its exploration and investment in this sector in Victoria. Due to industry uncertainty Greenearth is not investing additional capital into its geothermal business. The company has assessed that, on balance, the current regulatory and political environment is unlikely to enable progression of its Victorian geothermal interests in the near future. Consequently, the carrying amount of the company's exploration and evaluation assets was reduced to nil in the previous financial year.

Prolonged discussions with the Victorian Government led to Greenearth submitting three requests for suspension and extension for all our current exploration permits as follows:

- **Geothermal Exploration Permit 10** (located in the greater Geelong / Anglesea region)
- **Geothermal Exploration Permit 12** (located in the greater Latrobe Valley region)
- **Geothermal Exploration Permit 13** (located in the greater Latrobe Valley region)

Greenearth's decision to apply for suspension and extension of its permit conditions was influenced by the lack of geothermal funding by Government (following withdrawal of funding for Greenearth's flagship geothermal project by the Victorian Government in 2013), and by current government policy relating to a moratorium on "fracking" (hydraulic stimulation) and well activity. The moratorium continues to be in place and the company maintains its assessment that, on balance, the current regulatory and political environment is unlikely to enable progression of its Victorian geothermal interests in the near future.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the group that occurred during the year other than those listed in the review of operations above.

After balance date events

Subsequent to the end of the period, the company issued a total of 1,500,000 unlisted incentive options in July 2016 pursuant to the company's Employee Option Plan, as follows:

| <u>No. of options</u> | <u>Exercise price</u> | <u>Issue date</u> | <u>Expiry date</u> |
|-----------------------|-----------------------|-------------------|--------------------|
| 1,500,000 | 12.5 cents | 13 July 2016 | 1 July 2019 |

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After balance date events (continued)

Subsequent to the end of the financial year, the company issued 50,870,937 fully paid ordinary shares for 7.5 cents per share in August 2016 pursuant to a share placement, proceeds from which totalled \$3,609,555 after costs.

Subsequent to the end of the financial year, the Victorian State Government announced a ban on hydraulic fracturing (a key operation for efficient renewable geothermal production) and an extension of the current onshore drilling moratorium until 2020. The company is currently assessing the extent of any impact of the ban and moratorium extension on its previous investment in geothermal activities. Prior to the beginning of the 2015/2016 financial year, the company provided in full for the impairment of its geothermal exploration and evaluation assets. The company has ceased its geothermal activities and now focuses on technology investment in the industrial energy efficiency and CO₂-to-fuels conversion markets.

Likely developments

The group's focus in the 2016/2017 financial year will be on its Industrial Energy Efficiency and Technology Investment business units. Objectives for Vivid Industrial include a strong focus on sales growth and execution of opportunities within the sales pipeline, which are both expected to be assisted by the introduction of internally developed lighting products and expansion into further regions outside Australia and New Zealand. Objectives for NewCO₂Fuels include commercialisation of its CO₂-to-fuels technology.

Environmental regulation

The company holds interests in geothermal exploration permits and licenses in Victoria. All of these permits and licences impose regulations regarding environmental issues. Similarly, a number of our renewable technology projects are subject to planning regulations and approvals which incorporate appropriate environmental regulations. The consolidated entity is not aware of any significant breaches of environmental regulations during the financial year.

Share options

Details of options over unissued ordinary shares granted by Greenearth Energy Ltd during or since the financial year end to directors and Key Management Personnel are provided in the Remuneration Report which forms part of this Directors' Report.

Details of options outstanding over unissued ordinary shares of Greenearth Energy Ltd are provided in notes 22(d)(ii) and 29 to the financial report.

No ordinary shares of Greenearth Energy Ltd were issued during or since the end of the financial year as a result of the exercise of an option.

There are no amounts unpaid on shares issued on exercise of options.

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Dividend paid, recommended or declared

No dividends were paid, declared or recommended since the start of the financial year.

Directors' meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

| | Board of Directors | | Audit Committee | | Remuneration Committee | |
|---------------|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|
| | <i>Eligible to attend</i> | <i>Attended</i> | <i>Eligible to attend</i> | <i>Attended</i> | <i>Eligible to attend</i> | <i>Attended</i> |
| R Annells | 21 | 17 | 2 | 2 | - | - |
| L Butterfield | 3 | 3 | - | - | - | - |
| J Kopcheff | 21 | 16 | 2 | 2 | 1 | 1 |
| C Macek | 11 | 9 | - | - | - | - |
| S Marks | 21 | 19 | - | - | - | - |
| P Zajac | 21 | 16 | - | - | 1 | 1 |

Directors' interests in shares or options

Directors' relevant interests in shares of Greenearth Energy Ltd or options over shares in the company (or a related body corporate) are detailed below.

| <i>Directors' relevant interests in:</i> | | <i>Ordinary shares of Greenearth Energy Ltd</i> | | <i>Options over shares in Greenearth Energy Ltd</i> | |
|--|----------|---|-------------|---|-------------|
| | | 2016 | 2015 | 2016 | 2015 |
| R Annells | Direct | - | - | - | - |
| | Indirect | 6,312,883 | 6,312,883 | 2,000,000 | - |
| L Butterfield | Direct | - | - | - | - |
| | Indirect | 666,667 | - | - | - |
| J Kopcheff | Direct | 2,524,810 | 2,524,810 | - | - |
| | Indirect | 2,928,572 | 2,928,572 | 1,000,000 | - |
| C Macek | Direct | - | - | - | - |
| | Indirect | 2,000,000 | - | - | - |
| S Marks | Direct | - | - | 5,000,000 | 5,000,000 |
| | Indirect | 1,126,375 | 1,126,375 | 15,000,000 | 10,000,000 |
| P Zajac | Direct | 200,000 | 200,000 | - | - |
| | Indirect | 733,333 | 733,333 | 1,000,000 | - |

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Indemnification and insurance of directors, officers and auditors

The company has, during and since the end of the financial year, in respect of any person who has, is or has been an officer of the company or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies Directors, Officers and the Company of any claims made against the Directors, Officers of the Company and the Company, subject to conditions contained in the insurance policy. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-audit services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. Non-audit services were provided by the auditors of entities in the consolidated group during the year, namely Pitcher Partners (Melbourne), network firms of Pitcher Partners, and other non-related audit firms, as detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

| | 2016 | 2015 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Amounts paid and payable to Pitcher Partners (Melbourne) for non-audit services: | | |
| Other assurance services | 9,000 | - |
| Taxation services | 30,100 | 26,000 |
| | <u>39,100</u> | <u>26,000</u> |
| Amounts paid and payable to non-related auditors of group entities for non-audit services: | | |
| Other assurance services | 27,000 | - |
| Taxation services | 4,500 | - |
| | <u>31,500</u> | <u>-</u> |
| Total auditors' remuneration for non-audit services | <u><u>70,600</u></u> | <u><u>26,000</u></u> |

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REMUNERATION REPORT (AUDITED)

The directors present the consolidated entity's 2016 remuneration report which details the remuneration information for Greenearth Energy Ltd's executive directors, non-executive directors and other key management personnel.

A. Details of key management personnel

| <i>(i) Directors</i> | <i>Position</i> |
|----------------------------|--|
| Charles Macek | Chair - non executive (from 1 May 2016) Director - non executive (from 3 December 2015 to 1 May 2016) |
| Robert Annells | Director - non executive (from 1 May 2016) Chair - non executive (to 1 May 2016) |
| Leslie Butterfield | Director - non executive (from 1 May 2016) |
| John Kopcheff | Director - non executive |
| Samuel Marks | Managing Director |
| Philip Zajac | Director - non executive (from 4 September 2014) |
| <i>(ii) Executives</i> | <i>Position</i> |
| Urbain du Plessis | Chief Operating Officer - Energy Efficiency |
| Mark Rutherford | Managing Director - Ilum-a-Lite (from 31 March 2016)* |
| Robert Smith | Chief Financial Officer and Company Secretary |

* Mark Rutherford has been Managing Director of Ilum-a-Lite since prior to its acquisition by the group, and became a key executive of the group on 31 March 2016 when Ilum-a-Lite first formed part of the consolidated group.

B. Remuneration policies

The board of directors of Greenearth Energy Ltd is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The board assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as expenses payment plans.

For executives, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. Bonuses are issued when Key Performance Indicators (KPI's), which are stipulated within services agreements, are met in part or full, as assessed appropriate by the Board.

The company determines the maximum amount for remuneration, including thresholds for remuneration for directors, by resolution. Further details regarding components of directors' and executive remuneration are provided in the notes to the financial statements.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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REMUNERATION REPORT (AUDITED)

B. Remuneration policies (continued)

Service agreements

Details of service agreements entered into by the company with key management personnel are:

Service agreements - Executive Directors

Samuel Marks

Mr Samuel Marks, who commenced as Managing Director on 1 July 2012, entered into an initial arrangement at the start of his employment with the Company with a remuneration package that includes a base salary plus superannuation. He was also issued incentive options in each subsequent year (including as outlined in part E(b) of this Remuneration Report).

During the year, this arrangement was formalised by entering into an Executive Service Agreement, specifying terms of employment including a remuneration package comprising base salary plus superannuation and salary packaged benefits commensurate with the role. The agreement, which specifies a minimum period of employment ending on 31 December 2018, can be terminated by the company with six month's notice or by the executive with three months' notice. Termination payments comprise the base salary payment for the duration of the applicable notice period, plus any statutory entitlements owing, such as outstanding annual leave entitlements and superannuation contributions. The remuneration package is subject to annual review by the Board during the term of the agreement, and the base salary is set at a level consistent with the previous informal arrangement after allowing for reasonable annual remuneration reviews since the commencement date (including a total of \$30,711 in relation to the period prior to the commencement of the financial year). In the event of a change of control of the company, the executive is entitled to a termination payment in lieu of any remaining term of the agreement, subject to shareholder approval for any amounts exceeding one years' base salary. Any bonuses are at the discretion of the Board and subject to Board approval, and any equity-based incentives (including options) are at the discretion of the Board yet subject also to Shareholder approval.

Service agreements - Senior Executives

Service agreements are in place for Senior Executives.

These agreements, which do not specify fixed periods of employment, can be terminated by either party with notice periods ranging between four and five weeks' notice (or, in the case of the Managing Director of Ilum-a-Lite, twelve months'). Termination payments comprise the base salary payment for the duration of the applicable notice period, plus any statutory entitlements owing, such as outstanding annual leave entitlements and superannuation contributions.

These agreements also contain KPIs, that are set and assessed by the company in relation to objectives suitable to each executive's role and chosen for alignment of interests, under which performance bonuses may be achieved. Where appropriate, these bonuses include components that are related to the company's performance. KPIs for operational and sales executives focus on business planning, risk and compliance, revenue targets, and profitability. KPIs for the Managing Director of Ilum-a-Lite relate to the profitability of Ilum-a-Lite in each relevant financial year. KPIs for finance and governance executives focus on governance, compliance, reporting and financial management.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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C. Details of key management personnel remuneration

(a) Directors' remuneration

| | | Short-Term | | | Post employment [#] | Share-Based Payments | | Total | Total performance related | Options as % of total |
|-------------------------------|-------------------------------|---------------|-----------------|----------------|---------------------------------|-------------------------------|---------|-------|---------------------------------|-----------------------------|
| | Salary & Fees [#] | Cash Bonus | Non Monetary | Superannuation | Equity Options [*] | Shares issued [#] | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % | |
| R Annells ¹ | | | | | | | | | | |
| 2016 | 79,167 | - | - | 7,521 | 45,200 | - | 131,888 | - | 34.27% | |
| 2015 | 85,000 | - | - | 8,075 | - | - | 93,075 | - | - | |
| L Butterfield ² | | | | | | | | | | |
| 2016 | 8,333 | - | - | 792 | - | - | 9,125 | - | - | |
| 2015 | - | - | - | - | - | - | - | - | - | |
| J Kopcheff | | | | | | | | | | |
| 2016 | 50,000 | - | - | 4,750 | 22,600 | - | 77,350 | - | 29.22% | |
| 2015 | 50,000 | - | - | 4,750 | - | - | 54,750 | - | - | |
| C Macek ³ | | | | | | | | | | |
| 2016 | 34,597 | - | - | 3,287 | - | - | 37,884 | - | - | |
| 2015 | - | - | - | - | - | - | - | - | - | |
| S Marks | | | | | | | | | | |
| 2016 | 300,000 | - | 19,331 | 28,500 | 113,000 | - | 460,831 | - | 24.52% | |
| 2015 | 246,665 | - | 3,335 | 23,336 | 125,700 | - | 399,036 | - | 31.50% | |
| P Zajac | | | | | | | | | | |
| 2016 | 50,000 | - | - | 4,750 | 22,600 | - | 77,350 | - | 29.22% | |
| 2015 | 41,111 | - | - | 3,906 | - | - | 45,017 | - | - | |
| Total Directors' remuneration | | | | | | | | | | |
| 2016 | 522,097 | - | 19,331 | 49,600 | 203,400 | - | 794,428 | | | |
| 2015 | 422,776 | - | 3,335 | 40,067 | 125,700 | - | 591,878 | | | |

[#] Refer to part E(b) of this Remuneration Report for further information regarding directors' fees and share based payments.

^{*} The values shown in the column headed 'equity options' represents the accounting value of the options as detailed in note 29(a).

Notes:

- 1 R Annells was a Non-executive Director for the entire financial year, and served as Chair from the commencement of the financial year until 1 May 2016.
- 2 L Butterfield commenced as a Non-executive Director on 1 May 2016.
- 3 C Macek commenced as a Non-executive Director on 3 December 2015 and has served as Chair since 1 May 2016.

Refer to part E(b) of this Remuneration Report for further information regarding share based payments.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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REMUNERATION REPORT (AUDITED)

C. Details of key management personnel remuneration (continued)

(b) Executives' remuneration

| | Short-Term | | | Post employment | Share-Based Payments | | Total | Total performance related | Options as % of total |
|--------------------------------|------------------------|---------------------|-----------------------|----------------------|--------------------------|------------------------|---------|---------------------------------|-----------------------------|
| | Salary & Fees \$ | Cash Bonus \$ | Non Monetary \$ | Superannuation \$ | Equity Options* \$ | Shares issued \$ | \$ | % | % |
| U du Plessis | | | | | | | | | |
| 2016 | 166,965 | - | 15,684 | 17,351 | 30,330 | - | 230,330 | - | 13.17% |
| 2015 | 166,965 | - | 15,684 | 17,351 | - | - | 200,000 | - | - |
| M Rutherford ¹ | | | | | | | | | |
| 2016 | 48,750 | 62,088 | - | 4,275 | - | - | 115,113 | 53.94% | - |
| 2015 | - | - | - | - | - | - | - | - | - |
| R Smith | | | | | | | | | |
| 2016 | 180,000 | - | - | 17,100 | 30,330 | - | 227,430 | - | 13.34% |
| 2015 | 180,000 | 24,300 | - | 17,520 | - | - | 221,820 | 10.95% | - |
| Total Executives' remuneration | | | | | | | | | |
| 2016 | 395,715 | 62,088 | 15,684 | 38,726 | 60,660 | - | 572,873 | | |
| 2015 | 346,965 | 24,300 | 15,684 | 34,871 | - | - | 421,820 | | |

* The values shown in the column headed 'equity options' represents the accounting value of the options as detailed in note 29(a).

Notes:

- 1 M Rutherford became a key executive of the group on 31 March 2016 when Illum-a-Lite first formed part of the consolidated group. The amounts shown here relate to the period from 31 March 2016 to the end of the financial year.

Refer to part E(b) of this Remuneration Report for further information regarding share based payments.

D. Relationship between remuneration and company performance

The non-executive directors' remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

Consequences of company performance on shareholder wealth:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------------|-------|-------|-------|-------|-------|
| Revenue (\$'000) | 3,300 | 1,174 | 3,143 | 763 | 480 |
| Loss before tax (\$'000) | 4,817 | 5,986 | 226 | 1,613 | 2,836 |
| Change in share price (%) | -12% | +17% | +132% | -40% | -58% |
| Dividends paid to shareholders (\$) | - | - | - | - | - |
| Return of capital (\$) | - | - | - | - | - |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES

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REMUNERATION REPORT (AUDITED)

E. Key management personnel's bonuses and share-based compensation

(a) Details of compensation Options

| | Grant | Granted | Value per | Vest Number | Year in | Value | | | Terms and conditions for each grant | | | | |
|---------------|------------|-----------|-------------------------|--------------------|----------------------------------|-------|---------------------------------|-----------|-------------------------------------|----------------|---------------------------|--------------------------|--|
| | Date | Number | option at grant date | During the Year | which option may be vested | Vest | Exercised During the Year | Forfeited | Exercise Price | Expiry Date | First Exercise Date | Last Exercise Date | |
| | | \$ | \$ | | | % | \$ | % | \$ | | | | |
| Directors | | | | | | | | | | | | | |
| R Annells | | | | | | | | | | | | | |
| 2016 | 23/12/2015 | 2,000,000 | 0.023 | 2,000,000 | 2015/16 | 100% | - | - | 0.125 | 23/12/2018 | 23/12/2015 | 23/12/2018 | |
| 2015 | | - | - | - | | - | - | - | - | | | | |
| L Butterfield | | | | | | | | | | | | | |
| 2016 | | - | - | - | | - | - | - | - | | | | |
| J Kopcheff | | | | | | | | | | | | | |
| 2016 | 23/12/2015 | 1,000,000 | 0.023 | 1,000,000 | 2015/16 | 100% | - | - | 0.125 | 23/12/2018 | 23/12/2015 | 23/12/2018 | |
| 2015 | | - | - | - | | - | - | - | - | | | | |
| C Macek | | | | | | | | | | | | | |
| 2016 | | - | - | - | | - | - | - | - | | | | |
| S Marks | | | | | | | | | | | | | |
| 2016 | 23/12/2015 | 5,000,000 | 0.023 | - | 2016/17 | - | - | - | 0.125 | 23/12/2018 | 23/12/2016 | 23/12/2018 | |
| 2015 | 18/12/2014 | 2,000,000 | 0.029 | - | 2015/16 | - | - | - | 0.150 | 30/09/2017 | 18/12/2015 | 30/09/2017 | |
| | 18/12/2014 | 3,000,000 | 0.023 | - | 2015/16 | - | - | - | 0.20 | 30/09/2017 | 18/12/2015 | 30/09/2017 | |
| P Zajac | | | | | | | | | | | | | |
| 2016 | 23/12/2015 | 1,000,000 | 0.023 | 1,000,000 | 2015/16 | 100% | - | - | 0.125 | 23/12/2018 | 23/12/2015 | 23/12/2018 | |
| 2015 | | - | - | - | | - | - | - | - | | | | |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES

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REMUNERATION REPORT (AUDITED)

(a) Details of compensation Options (continued)

| | Grant Date | Granted Number | Value per option at grant date | Vest Number During the Year | Year in which option may be vested | Vest % | Value Exercised During the Year | Forfeited % | Terms and conditions for each grant | | | |
|---------------------------------------|------------|----------------|--------------------------------|-----------------------------|------------------------------------|--------|---------------------------------|-------------|-------------------------------------|-------------|---------------------|--------------------|
| | | \$ | \$ | | | % | \$ | % | Exercise Price | Expiry Date | First Exercise Date | Last Exercise Date |
| Executives | | | | | | | | | | | | |
| U du Plessis | | | | | | | | | | | | |
| | 2016 | 1,000,000 | 0.034 | - | 2016/17 | - | - | - | 0.125 | 7/08/2018 | 7/08/2016 | 7/08/2018 |
| | 2015 | - | - | - | | - | - | - | - | | | |
| M Rutherford | | | | | | | | | | | | |
| | 2016 | - | - | - | | - | - | - | - | | | |
| | 2015 | - | - | - | | - | - | - | - | | | |
| R Smith | | | | | | | | | | | | |
| | 2016 | 1,000,000 | 0.034 | - | 2016/17 | - | - | - | 0.125 | 7/08/2018 | 7/08/2016 | 7/08/2018 |
| | 2015 | - | - | - | | - | - | - | - | | | |
| Total Directors and Executives | | | | | | | | | | | | |
| | 2016 | 11,000,000 | | 4,000,000 | | 36% | - | - | | | | |
| | 2015 | 5,000,000 | | - | | - | - | - | | | | |

The service and performance criteria in relation to the grant of options, together with other details are described in (b).

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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REMUNERATION REPORT (AUDITED)

E. Key management personnel's bonuses and share-based compensation

(b) Details concerning bonuses and share-based compensation of directors and executives (consolidated)

(i) Grant of options to Non-executive Directors

Following approval from shareholders at the company's Annual General Meeting (AGM) in November 2015, 4,000,000 unlisted options were issued to Non-executive Directors, in relation to their remuneration as Directors of the company. The options are options to subscribe for shares in the capital of Greenearth Energy Ltd (comprising 4,000,000 at an exercise prices of 12.5 cents), expire on 23 December 2018, and vested at grant date. Each recipient has also entered into a voluntary non-exercise agreement, undertaking not to exercise those options prior to 25 November 2016. No portion of this remuneration is related to company performance.

(ii) Grant of options to Managing Director

Following approval from shareholders at the company's Annual General Meeting (AGM) in November 2015, 5,000,000 unlisted options were issued to Mr Samuel Marks, in relation to his employment as Managing Director. The options are options to subscribe for shares in the capital of Greenearth Energy Ltd (comprising 5,000,000 at an exercise prices of 12.5 cents), expire on 23 December 2018, and will vest on 23 December 2016 subject to Mr Marks' continuing employment with the company up until that date. No portion of this remuneration is related to company performance.

Following approval from shareholders at the company's Annual General Meeting (AGM) in November 2014, 5,000,000 unlisted options were issued to Mr Samuel Marks, in relation to his employment as Managing Director. The options are options to subscribe for shares in the capital of Greenearth Energy Ltd (comprising 2,000,000 at an exercise prices of 15 cents and 3,000,000 options at an exercise price of 20 cents), expire on 30 September 2017, and will vest on 18 December 2015 subject to Mr Marks' continuing employment with the company up until that date. No portion of this remuneration is related to company performance.

(iii) Grant of options to senior executives

2,000,000 unlisted options were issued to Key Management Personnel during the financial year in relation to employment with the company. The options are options to subscribe for shares in the capital of Greenearth Energy Ltd (comprising 2,000,000 at an exercise price of 12.5 cents) expire on 7 August 2018, and vested on 7 August 2016 (subsequent to balance date) due to continued employment with the company up until that date. No portion of this remuneration is related to company performance.

(c) Shares issued on exercise of compensation options

No compensation options were exercised during the year.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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REMUNERATION REPORT (AUDITED)

F. Key management personnel's equity holdings

(a) Number of options held by key management personnel

| 2016 | Balance 1/7/2015 | Granted as remu- neration | Options exercised | Net change other (purchases /expired) | Balance 30/6/2016 | Total vested 30/6/2016 | Total exercisable 30/6/2016 | Total un- exercisable 30/6/2016 |
|-----------------------------|-----------------------------|--|------------------------------|--|--------------------------|-----------------------------------|--|--|
| Directors | | | | | | | | |
| R Annells | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 | 2,000,000 | - |
| L Butterfield [#] | - | - | - | - | - | - | - | - |
| J Kopcheff | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | 1,000,000 | - |
| C Macek ^{##} | - | - | - | - | - | - | - | - |
| S Marks | 15,000,000 | 5,000,000 | - | - | 20,000,000 | 15,000,000 | 15,000,000 | 5,000,000 |
| P Zajac | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Executives | | | | | | | | |
| U du Plessis | 3,500,000 | 1,000,000 | - | - | 4,500,000 | 3,500,000 | 3,500,000 | 1,000,000 |
| M Rutherford ^{###} | - | - | - | - | - | - | - | - |
| R Smith | 2,000,000 | 1,000,000 | - | - | 3,000,000 | 2,000,000 | 2,000,000 | 1,000,000 |
| | 20,500,000 | 11,000,000 | - | - | 31,500,000 | 24,500,000 | 24,500,000 | 7,000,000 |

[#] L Butterfield became a Director on 1 May 2016. The opening balance of holdings shown is as of that date.

^{##} C Macek became a Director on 3 December 2015. The opening balance of holdings shown is as of that date.

^{###} M Rutherford became a member of Key Management Personnel on 31 March 2016. The opening balance of holdings shown is as of that date.

| 2015 | Balance 1/7/2014 | Granted as remu- neration | Options exercised | Net change other (purchases /expired) | Balance 30/6/2015 | Total vested 30/6/2015 | Total exercisable 30/6/2015 | Total un- exercisable 30/6/2015 |
|----------------------|-----------------------------|--|------------------------------|--|--------------------------|-----------------------------------|--|--|
| Directors | | | | | | | | |
| R Annells | - | - | - | - | - | - | - | - |
| J Kopcheff | - | - | - | - | - | - | - | - |
| S Marks | 10,000,000 | 5,000,000 | - | - | 15,000,000 | 10,000,000 | 10,000,000 | 5,000,000 |
| P Zajac [#] | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | |
| U du Plessis | 3,500,000 | - | - | - | 3,500,000 | 3,500,000 | 3,500,000 | - |
| R Smith | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 | 2,000,000 | - |
| | 15,500,000 | 5,000,000 | - | - | 20,500,000 | 15,500,000 | 15,500,000 | 5,000,000 |

[#] P Zajac became a Director on 4 September 2014. The opening balance of holdings shown is as of that date.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
REMUNERATION REPORT (AUDITED)

F. Key management personnel's equity holdings (continued)

(b) Number of shares held by key management personnel

| 2016 | Balance 1/7/2015 | Issued as remu- neration | On exercise of options | Net change other (purchases /disposals) | Balance 30/6/2016 |
|-----------------------------|---------------------|--------------------------------|---------------------------|--|-------------------|
| Directors | | | | | |
| R Annells | 6,312,883 | - | - | - | 6,312,883 |
| L Butterfield [#] | 666,667 | - | - | - | 666,667 |
| J Kopcheff | 5,453,382 | - | - | - | 5,453,382 |
| C Macek ^{##} | 650,000 | - | - | 1,350,000 | 2,000,000 |
| S Marks | 1,126,375 | - | - | - | 1,126,375 |
| P Zajac | 933,333 | - | - | - | 933,333 |
| Executives | | | | | |
| U du Plessis | - | - | - | - | - |
| M Rutherford ^{###} | - | - | - | 3,281,348 | 3,281,348 |
| R Smith | - | - | - | - | - |
| | 15,142,640 | - | - | 4,631,348 | 19,773,988 |

L Butterfield became a Director on 1 May 2016. The opening balance of holdings shown is as of that date.

C Macek became a Director on 3 December 2015. The opening balance of holdings shown is as of that date.

M Rutherford became a member of Key Management Personnel on 31 March 2016. The opening balance of holdings shown is as of that date. The net change of 3,281,348 shares represents shares issued by the group in connection with the acquisition of Ilum-a-Lite Pty Ltd, in his capacity as a vendor of Ilum-a-Lite Pty Ltd.

| 2015 | Balance 1/7/2014 | Issued as remu- neration | On exercise of options | Net change other (purchases /disposals) | Balance 30/6/2015 |
|----------------------|---------------------|--------------------------------|---------------------------|--|-------------------|
| Directors | | | | | |
| R Annells | 6,312,883 | - | - | - | 6,312,883 |
| J Kopcheff | 5,453,382 | - | - | - | 5,453,382 |
| S Marks | 1,126,375 | - | - | - | 1,126,375 |
| P Zajac [#] | 933,333 | - | - | - | 933,333 |
| Executives | | | | | |
| U du Plessis | - | - | - | - | - |
| R Smith | - | - | - | - | - |
| | 13,825,973 | - | - | - | 13,825,973 |

P Zajac became a Director on 4 September 2014. The opening balance of holdings shown is as of that date.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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REMUNERATION REPORT (AUDITED)

G. Loans to key management personnel

There are no loans made by Greenearth Energy Ltd to key management personnel.

H. Other transactions with key management personnel

An amount of \$31,596 excluding GST (2015:\$31,346) was paid by the group to Virtual and Illumination Engineering Services; a business associated with Mr U. du Plessis, a member of the key management personnel of the company in respect of research and development services provided by it to the group. The Directors believe these transactions to be on an arms-length basis.

End of Remuneration Report.

Signed in accordance with a resolution of the directors.



Charles Macek
Chairman



Samuel R Marks
Managing Director

Greenearth Energy Ltd
Dated this 19th day of September 2016
Melbourne

**GREENEARTH ENERGY LTD
ACN 120 710 625
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF GREENEARTH ENERGY LTD**

In relation to the independent audit for the year ended 30 June 2016, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Greenearth Energy Ltd and the entities it controlled during the year.



B POWERS
Partner

19 September 2016



PITCHER PARTNERS
Melbourne

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES

ACN: 120 710 625

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|---------------------------|---------------------------|
| Revenue and other income | | | |
| Sales revenue | 5 | 2,239,222 | 637,176 |
| Other income | 5 | 1,061,036 | 536,840 |
| | | <u>3,300,258</u> | <u>1,174,016</u> |
| Less: Expenses | | | |
| Employee benefits expense | 6 | (3,077,468) | (2,076,479) |
| Costs incurred in the sale of inventories | | (1,640,732) | (550,367) |
| Depreciation and amortisation | 6 | (50,051) | (16,065) |
| Finance costs | 6 | (1,475) | - |
| Accounting and audit expenses | | (132,134) | (78,738) |
| Marketing and promotion expenses | | (61,786) | (150,013) |
| Rent and occupancy expenses | | (205,074) | (128,398) |
| Consulting expenses | | (344,492) | (293,992) |
| Unrealised loss on fair value of investments | | (3,140) | (8,636) |
| Impairment expense | 6 | (116,334) | (2,152,288) |
| Administrative expenses | 6 | (1,017,646) | (654,032) |
| Other expenses | 6 | (265,116) | (246,954) |
| Total Expenses | | <u>(6,915,448)</u> | <u>(6,355,962)</u> |
| Share of net losses of associates accounted for using the equity method | 14 | <u>(1,202,267)</u> | <u>(804,066)</u> |
| Loss before income tax expense | | (4,817,457) | (5,986,012) |
| Income tax expense | 8 | - | - |
| Net loss from continuing operations | 6 | <u>(4,817,457)</u> | <u>(5,986,012)</u> |
| Loss for the year | | <u>(4,817,457)</u> | <u>(5,986,012)</u> |
| Other comprehensive income for the year | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u><u>(4,817,457)</u></u> | <u><u>(5,986,012)</u></u> |
| Loss is attributable to: | | | |
| Members of the parent | | (4,817,457) | (5,986,012) |
| Non-controlling interest | | - | - |
| | | <u>(4,817,457)</u> | <u>(5,986,012)</u> |
| Earnings per share for loss attributable to the equity holders of the parent entity: | | | |
| Basic loss per share (cents per share) | 28 | (1.75) | (2.87) |
| Diluted loss per share (cents per share) | 28 | (1.75) | (2.87) |

The above statement should be read in conjunction with the accompanying notes

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 9 | 1,326,296 | 2,572,164 |
| Receivables | 10 | 1,117,340 | 837,281 |
| Inventories | 11 | 1,709,184 | 650,623 |
| Other financial assets | 12 | 58,050 | 61,190 |
| Other current assets | 13 | 628,908 | 125,022 |
| Total current assets | | 4,839,778 | 4,246,280 |
| Non-current assets | | | |
| Receivables | 10 | 129,393 | - |
| Equity accounted investments | 14 | 1,925,874 | 698,826 |
| Property, plant and equipment | 15 | 186,928 | 149,877 |
| Intangible assets | 16 | 2,023,066 | - |
| Exploration and evaluation assets | 17 | - | - |
| Total non-current assets | | 4,265,261 | 848,703 |
| Total assets | | 9,105,039 | 5,094,983 |
| Current liabilities | | | |
| Payables | 18 | 2,182,589 | 891,538 |
| Borrowings | 19 | 457,323 | - |
| Other financial liabilities | 20 | 1,927,164 | - |
| Income in advance | | 12,617 | - |
| Provisions | 21 | 739,212 | 87,413 |
| Total current liabilities | | 5,318,905 | 978,951 |
| Non-current liabilities | | | |
| Provisions | 21 | 95,914 | 35,542 |
| Total non-current liabilities | | 95,914 | 35,542 |
| Total liabilities | | 5,414,819 | 1,014,493 |
| Net assets | | 3,690,220 | 4,080,490 |
| Equity | | | |
| Share capital | 22 | 27,747,113 | 23,708,815 |
| Reserves | 23 | 454,175 | 65,286 |
| Accumulated losses | 23 | (24,470,731) | (19,653,274) |
| Equity attributable to the owners of Greenearth Energy Ltd | | 3,730,557 | 4,120,827 |
| Non-controlling interests | | (40,337) | (40,337) |
| Total equity | | 3,690,220 | 4,080,490 |

The above statement should be read in conjunction with the accompanying notes

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
 ACN: 120 710 625
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2016

| Consolidated entity | Share capital \$ | Reserves \$ | Accumulated losses \$ | Non- controlling interest \$ | Total Equity \$ |
|---|------------------------|----------------|-----------------------------|---------------------------------------|-----------------------|
| Year ended 30 June 2016 | | | | | |
| Balance as at 1 July 2015 | 23,708,815 | 65,286 | (19,653,274) | (40,337) | 4,080,490 |
| Loss for the year | - | - | (4,817,457) | - | (4,817,457) |
| Total comprehensive income for the year | - | - | (4,817,457) | - | (4,817,457) |
| Transactions with owners in their capacity as owners: | | | | | |
| Contributions | 2,963,700 | - | - | - | 2,963,700 |
| Costs of raising capital | (168,152) | - | - | - | (168,152) |
| Shares issued in connection with the acquisition of Illum-a-Lite Pty Ltd | 1,242,750 | - | - | - | 1,242,750 |
| Equity based payments | - | 388,889 | - | - | 388,889 |
| | 4,038,298 | 388,889 | - | - | 4,427,187 |
| Balance as at 30 June 2016 | 27,747,113 | 454,175 | (24,470,731) | (40,337) | 3,690,220 |
| Year ended 30 June 2015 | | | | | |
| Balance as at 1 July 2014 | 19,716,215 | (37,521) | (13,667,262) | (40,337) | 5,971,095 |
| Loss for the year | - | - | (5,986,012) | - | (5,986,012) |
| Total comprehensive income for the year | - | - | (5,986,012) | - | (5,986,012) |
| Transactions with owners in their capacity as owners: | | | | | |
| Contributions | 4,198,575 | - | - | - | 4,198,575 |
| Costs of raising capital | (205,975) | - | - | - | (205,975) |
| Equity based payments | - | 102,807 | - | - | 102,807 |
| | 3,992,600 | 102,807 | - | - | 4,095,407 |
| Balance as at 30 June 2015 | 23,708,815 | 65,286 | (19,653,274) | (40,337) | 4,080,490 |

The above statement should be read in conjunction with the accompanying notes

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|-------------------------|-------------------------|
| Cash flow from operating activities | | | |
| Receipts | | 3,849,159 | 690,276 |
| Payments to suppliers and employees | | (6,656,035) | (4,344,945) |
| Research and development rebates received | | 575,209 | 684,732 |
| Interest received | | 6,226 | 7,968 |
| Borrowing costs paid | | (3,288) | - |
| Net cash used in operating activities | 24(a) | <u>(2,228,729)</u> | <u>(2,961,969)</u> |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | | (50,351) | (174,273) |
| Purchase of unlisted securities | | (1,848,333) | (1,482,128) |
| Payment for acquisition, net of cash acquired | | (358,014) | - |
| Loans to related entities | | (6,185) | - |
| Payments for bonds and deposits | | (54,124) | (54,124) |
| Proceeds from matured bonds and deposits | | 54,124 | 54,124 |
| Net cash used in investing activities | | <u>(2,262,883)</u> | <u>(1,656,401)</u> |
| Cash flow from financing activities | | | |
| Proceeds from issues of ordinary shares | | 2,963,700 | 4,187,116 |
| Capital raising costs | | (160,116) | (205,975) |
| Proceeds from borrowings | | 450,000 | - |
| Net cash provided by financing activities | | <u>3,253,584</u> | <u>3,981,141</u> |
| Net increase/(decrease) in cash and cash equivalents | | (1,238,028) | (637,229) |
| Foreign exchange differences on cash holdings | | (7,840) | 21,978 |
| Cash and cash equivalents at beginning of year | | 2,572,164 | 3,187,415 |
| Cash and cash equivalents at end of the year | 24(b) | <u><u>1,326,296</u></u> | <u><u>2,572,164</u></u> |

The above statement should be read in conjunction with the accompanying notes

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Greenearth Energy Ltd and controlled entities as a consolidated entity. Greenearth Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. The address of Greenearth Energy Ltd's registered office and principal place of business is Level 14, 500 Collins Street, Melbourne, Victoria, 3000. Greenearth Energy Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the Directors as at the date of the Directors' report.

Compliance with IFRS

The consolidated financial statements of Greenearth Energy Ltd also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Going Concern

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a net loss for the year of \$4,817,457 (2015: \$5,986,012), and at balance date current liabilities exceeded current assets by \$479,127.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Going Concern (continued)

The Directors have concluded that the going concern basis is appropriate, based on analysis of the company's internal cash flow forecasts which include expected future cash flows over the next 12 months. These forecasts contain certain assumptions in relation to the short term development of the business, including the expected future revenue and profitability of Vivid Industrial (a company within the consolidated group), and are based on currently available information including management assessments of probable future orders and other information.

In the event that the company is unable to trade as forecast or the actual outcomes differ significantly from the assumptions used, the company may need to take measures to conserve and secure cash flow, which may include adjusting its operating capital requirements, raising additional capital, and other funding avenues such as continued development of other industrial technologies and expanding revenue streams.

Subsequent to the end of the financial year, the company issued 50,870,937 fully paid ordinary shares for 7.5 cents per share in August 2016 pursuant to a share placement, proceeds from which totalled \$3,609,555 after costs.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the consolidated entity be unable to trade as forecast or to secure sufficient funding to continue as a going concern.

If the going concern basis of accounting is found to no longer be appropriate, the recoverable amount of the assets shown in the Consolidated Statement of Financial Position are likely to be significantly less than the amounts disclosed and the extent of liabilities may differ significantly from those reflected.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated Statement of Profit or Loss and Other Comprehensive Income and consolidated Statement of Financial Position respectively.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

Revenue from rendering of services to customers is recognised upon delivery of the service to the customer.

Government grants are recognised at fair value when there is reasonable certainty that the grant will be received and all grant conditions met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is measured net of the amount of goods and services tax (GST).

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value.

(g) Property, plant and equipment

Cost and valuation

All classes of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amounts of all property, plant and equipment are calculated using either the prime cost or diminishing balance method over their estimated useful lives commencing from the time the asset is held ready for use.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

| | 2016 | 2015 |
|------------------------|----------------|----------------|
| Plant and equipment | 5 years | 5 years |
| Computer equipment | 3 years | 3 years |
| Office equipment | 6 years | 6 years |
| Leasehold improvements | the lease term | the lease term |

(h) Exploration and evaluation costs

Costs arising from exploration activities are carried forward provided such costs are expected to be recouped through successful development or sale, or exploration activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. AASB 6 "Exploration for and Evaluation of Mineral Resources" requires that the company perform impairment tests on those assets when facts and circumstances suggest that the carrying amount may be impaired. The impairment testing has been aligned with the factors that must currently be satisfied for capitalisation of exploration and evaluation costs.

Exploration expenses are recognised on a net basis, after offsetting grant income and exploration expenditure written off. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Amortisation

The entity does not currently have any production areas.

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs that have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such wells in the future.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of profit or loss. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

(j) Intangibles

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Refer to Note 1(w) for a description of how goodwill arising from a business combination is initially measured. Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less any accumulated impairment losses.

Software licenses

Software licences that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the asset. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development

Expenditure on research activities is recognised as an expense when incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangibles (continued)

Development costs are capitalised when the entity can demonstrate all of the following: the technical feasibility of completing the asset so that it will be available for use or sale; the intention to complete the asset and use or sell it; the ability to use or sell the asset; how the asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and the ability to measure reliably the expenditure attributable to the asset during its development. Capitalised development expenditure is carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using a straight-line method to allocate the cost of the intangible asset over its estimated useful life, which range from 2 to 3 years. Amortisation commences when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

(k) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount in accordance with AASB 6.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use. Refer to Note 2 for a description of how management determines value in use.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of non-financial assets (continued)

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is carried at a revalued amount such as property, plant and equipment, in which case the impairment loss is treated as a revaluation decrease in accordance with the applicable Standard. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

(l) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax balances

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

Greenearth Energy Limited and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2012. Greenearth Energy Limited is the head entity of the tax-consolidated group. The members of the tax-consolidated group are identified in note 30.

The members of the tax-consolidated group have entered into a tax funding agreement, stipulating that amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the agreement. Under the terms of the tax funding agreement, Greenearth Energy Limited and each of the entities in the tax-consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(m) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(n) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, accumulated sick leave and any other employee benefits expected to be settled wholly before twelve months after the end of the annual reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave and accumulated sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the statement of financial position.

(ii) Long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

Other long-term employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the statement of financial position.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(iii) Retirement benefit obligations

The consolidated entity makes superannuation contributions (currently 9.50% of the employee's average ordinary salary) to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the statement of financial position.

(iv) Bonus plan

The consolidated entity recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

(v) Share-based payments

The consolidated entity operates a share-based payment employee share option plan. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is measured at the market price at grant date. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

(o) Borrowing costs

Borrowing costs can include interest expense calculated using the effective interest method, finance charges in respect of finance leases.

Borrowing costs are expensed as incurred.

(p) Third party share-based payments

From time to time share options are granted to third parties for services rendered. The fair value of the equity to which third parties become entitled is determined by reference to the value of services provided, and recognised as an expense over the period(s) when the services were provided.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments

Classification

The consolidated entity classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature of the item and the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, are derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation by key management personnel. Investments in listed securities are carried at fair value through profit or loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in profit or loss of the current period. Fair value of listed investments are based on closing bid prices at the reporting date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and the group intends to hold the investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

Available-for-sale

Available-for-sale financial assets include any financial assets not included in the above categories or are designated as such on initial recognition. Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit or loss.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Impairment of financial assets

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment as a result of one or more events ('loss events') having occurred and which have an impact on the estimated future cash flows of the financial assets.

For loans and receivables and held-to-maturity investments carried at amortised cost, impairment losses are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

For available-for-sale financial assets carried at cost because a fair value cannot be reliably determined, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

For available-for-sale financial assets carried at fair value, the impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss. If the asset is impaired, the cumulative loss is reclassified from equity to the profit or loss. For equity investments, the impairment loss is not reversed through profit or loss. For debt investments, the impairment loss is reversed through profit or loss if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment losses was recognised in profit or loss.

(r) Investments in associates

An associate is an entity over which the consolidated entity is able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The consolidated entity's interests in associates are brought to account using the equity method after initially being recognised at cost. Under the equity method, the profits and losses of the associate are recognised in consolidated entity's profit or loss and the consolidated entity's share of the associate's other comprehensive income items are recognised in the consolidated entity's other comprehensive income. Details relating to associates are set out in Note 14(a).

Unrealised gains and losses on transactions between the consolidated entity and an associate are eliminated to the extent of the entity's share in an associate.

(s) Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(t) Foreign currency

Functional and presentation currency

The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Foreign currency (continued)

Transactions and balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or re statement are recognised as revenues and expenses for the financial year.

Foreign subsidiaries

Subsidiaries that have a functional currency different to the presentation currency of the consolidated are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

(u) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(v) Goods and services tax (GST)

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss. Acquisition related costs are expensed as incurred.

(x) Accounting standards and interpretations Issued but not Operative at 30 June 2016

At the date of authorisation of the financial statements, the relevant Standards and Interpretations that were issued but not yet effective are listed below.

AASB 15: Revenue from contracts with customers

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

The effective date is for annual reporting periods beginning on or after 1 January 2018. The consolidated entity has decided not to early adopt AASB 15 at 30 June 2016.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Accounting standards and interpretations Issued but not Operative at 30 June 2016
(continued)

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. Any impacts of AASB 15 will be dependent on the substance of future contracts with customers and as such has not yet been quantified.

AASB 9: Financial Instruments

This new standard contains significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

When adopted, the standard could change the classification and measurement of financial assets. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income for equity investments that are not held for trading. In the current reporting period, the group did not recognise any amounts in other comprehensive income in relation to the movements in the fair value of available for sale financial assets, which are not held for trading.

The new standard amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.

The new standard is not expected to have a material impact on the consolidated entity's accounting for financial liabilities.

Chapter 6 Hedge Accounting supersedes the general hedge accounting requirements in AASB 139 Financial Instruments: Recognition and Measurement, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from AASB 139 are as follows:

- to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139);
- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and
- modification of the requirements for effectiveness testing (including removal of the 'brightline' effectiveness test that offset for hedging must be in the range 80-125%).

Revised disclosures about an entity's hedge accounting have also been added to AASB 7 Financial Instruments: Disclosures.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(x) Accounting standards and interpretations Issued but not Operative at 30 June 2016
(continued)**

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The effective date is annual reporting periods beginning on or after 1 January 2018. The consolidated entity has decided not to early adopt AASB 9 at 30 June 2016.

The impact of changes in hedge accounting requirements on the reported financial position and performance is dependent on the volume and value of future derivatives. Other impacts on the reported financial position and performance have not yet been determined.

AASB 16: Leases

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The accounting model for lessees will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. AASB 16 applies to annual periods beginning on or after 1 January 2019. The application of AASB 16 in the future may have a material impact on the consolidated financial statements, however it is not practicable to provide a reasonable estimate of the effect of AASB 16 until the a detailed review has been performed.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amounts of the assets and liabilities discussed below:

(a) Impairment of goodwill

Goodwill is allocated to cash generating units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 5% for cash flows in years two to five which is below the historical average, a terminal value growth rate of 5% and a post-tax discount rate of 15.4% to determine value-in-use.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined. Recoverable amounts represented by value in use calculations are based on projected cash flows determined based on management expectations of future business performance.

(c) Impairment of financial assets

Financial assets (other than financial assets carried at fair value) are assessed for impairment at each reporting date in accordance with note 1(q). Where such an assessment requires determination of the present value of future cash flows, consideration is given to anticipated methods of realisation of future cash flows, estimates of the amounts of future cash flows, and appropriate discount rates.

(d) Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. Deferred tax assets arising from tax losses are not recognised at balance date as realisation of the benefit is not probable.

(e) Fair value measurements

Certain financial assets and liabilities are measured at fair value, or assessed for impairment based on recoverable amounts represented by estimated fair value. Fair values have been determined in accordance with fair value measurement hierarchy. Refer to Note 4 for the details of the fair value measurement key assumptions and inputs.

(f) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends.

(g) Share based payments

Calculation of share based payments requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends and are calculated using the Black Scholes method.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(h) Deferred exploration expenditure

Exploration expenditure is carried forward when management expect that the expenditure can be recouped through successful development and exploration of the area of interest. In this event management will consider impairment of deferred exploration expenditure in accordance with note 1(h) and 1(j). Where sufficient data does not exist to indicate successful development and there is an ongoing commitment to significant exploration in the area of interest, the exploration expenditure is carried forward.

(i) Provision for restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the deferred exploration expenditure. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These costs are estimated and are based on the anticipated technology and legal requirements and future costs. These costs are also dependent on there being no significant changes to relevant federal and state legislation.

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NOTE 3: FINANCIAL RISK MANAGEMENT

The consolidated entity is exposed to a variety of financial risks comprising:

- Market price risk
- Currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The board of Directors has overall responsibility for identifying and managing operational and financial risks.

The consolidated entity holds the following financial instruments:

| | Note | 2016 \$ | 2015 \$ |
|--|------|------------------|------------------|
| Financial assets | | | |
| Cash and cash equivalents | 9 | 1,326,296 | 2,572,164 |
| Receivables | 10 | 1,117,340 | 837,281 |
| Financial assets at fair value through profit and loss classified as held for trading | 12 | 3,926 | 7,066 |
| Security deposits for exploration permits | 12 | 54,124 | 54,124 |
| | | <u>2,501,686</u> | <u>3,470,635</u> |
| Financial liabilities | | | |
| Payables | 18 | 2,182,589 | 891,538 |
| Borrowings | 19 | 457,323 | - |
| Other financial liabilities | 20 | 1,927,164 | - |
| | | <u>4,567,076</u> | <u>891,538</u> |

(a) Market price risk

Market or price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

Investments in listed securities at fair value through profit and loss are measured at fair value at reporting date based on quoted market prices.

Investments in non-listed securities are made after an assessment has been made in terms of how the investment achieves or enhances the company's abilities of achieving its corporate objectives. To determine the fair value of these investments and monitor their performance, assessments of similar listed securities are undertaken and comparisons are made. When assessments are carried out a number of other factors are also taken into account such as the investment's abilities to achieve its initial stated objectives, the level of progress made towards achieving objectives and similar external transactions which may assist in establishing a base for determining fair value.

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NOTE 3: FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

Sensitivity

If security prices were to increase/decrease by 15% from fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is below. This risk is managed by monitoring security prices on a regular basis.

| | 2016 \$ | 2015 \$ |
|------------------------------------|------------|------------|
| +/- 15% price variation | | |
| Impact on profit or loss after tax | 589 | 1,060 |
| Impact on equity | 589 | 1,060 |

(b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At 30 June 2016 the consolidated entity held \$14,513 (2015: \$589,891) in foreign bank accounts.

The group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed to the extent considered appropriate based on the level of activity.

The carrying amounts of the group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

| | Liabilities | | Assets | |
|----------------------------|-------------|---------|--------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Unites States Dollar (USD) | 291,664 | 210,084 | 14,513 | 589,891 |

Sensitivity

If foreign exchange rates were to increase/decrease by 15% from rates used to determine fair values of all financial instruments as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 15% change in foreign exchange rates.

| | 2016 \$ | 2015 \$ |
|--|------------|------------|
| 15% appreciation of AUD against USD | | |
| Impact on profit or loss after tax | 55,983 | (74,181) |
| Impact on equity | 55,983 | (74,181) |
| 15% depreciation of AUD against USD | | |
| Impact on profit or loss after tax | (55,983) | 74,181 |
| Impact on equity | (55,983) | 74,181 |

NOTE 3: FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The company does not currently have any floating rate interest bearing debt. Cash deposits attract interest at the prevailing floating interest rates, which for interest bearing deposits is currently 2.0%.

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

At balance date, the consolidated entity's only material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the entity was in relation to trade receivables from Honeywell Limited of \$732,086 which is included within trade receivables in Note 10.

i) Cash deposits

Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks.

ii) Trade receivables

Credit risk for trade receivables is managed by setting credit limits and completing credit checks for new customers. Outstanding receivables are regularly monitored for payment in accordance with credit terms.

iii) Other receivables

Credit risk for other receivables is managed by ensuring the group only trades with parties that are able to trade on the group's credit terms.

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The group manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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NOTE 3: FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

Maturity analysis

For financial instruments held by the Group at balance date, the table below represents the undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

| | < 6 Months | 6-12 months | 12-18 months | Total contractual cash flows |
|---------------------------|------------------|----------------|----------------|------------------------------|
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 1,326,296 | - | - | 1,326,296 |
| Receivables | 868,287 | 276,430 | 129,393 | 1,274,110 |
| Other financial assets | 58,050 | - | - | 58,050 |
| Other current assets | 456,887 | - | - | 456,887 |
| Payables | (2,182,589) | - | - | (2,182,589) |
| Borrowings | (457,323) | - | - | (457,323) |
| Consideration payable | (963,582) | - | - | (963,582) |
| Net maturities | <u>(893,974)</u> | <u>276,430</u> | <u>129,393</u> | <u>(488,151)</u> |

For all items shown above, the carrying amounts are equal to the total contractual cash flows, except:

- (i) Receivables (details of adjustments to carrying amounts of receivables are detailed in note 10).
- (ii) Consideration payable (details of the cash and non-cash components are detailed in note 25(a)). Only the cash component is included above, for which the carrying amount is equal to the total contractual cash flows.

(f) Fair values compared to carrying amounts

The net fair value of financial assets and liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

NOTE 4: FAIR VALUE MEASUREMENTS

Assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Inputs for the asset or liability that are not based on observable market data

All financial assets at fair value through profit or loss totalling \$3,926 (2015: \$7,066) as disclosed in Note 12 are classified as Level 1 items in the fair value hierarchy. There were no transfers between level 1 and level 2 during the year.

Investments in equity accounted associated entities and convertible loans receivable from associates have been assessed for impairment by reference to fair value. Fair value has been determined through application of the market approach, by using the comparable company valuation technique. This technique involves the use of level 3 inputs, specifically valuation inputs (such as multiples) by reference to the same valuation inputs applied to comparable entities. Adjustments are made as required to ensure comparability, for factors such as liquidity and size.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|------------------|----------------|
| NOTE 5: REVENUE AND OTHER INCOME | | | |
| Revenue and other income from continuing operations | | | |
| <i>Sales revenue</i> | | | |
| Sales of goods and rendering of associated services | | <u>2,239,222</u> | <u>637,176</u> |
| <i>Other income</i> | | | |
| Interest | | 6,226 | 9,712 |
| Net foreign exchange gain | | 30,593 | - |
| Rental income | | 12,000 | 12,000 |
| Research and development tax concession rebate | | 575,209 | 467,330 |
| Doubtful debts recovered | | - | 45,284 |
| Other income | | <u>437,008</u> | <u>2,514</u> |
| | | <u>1,061,036</u> | <u>536,840</u> |

NOTE 6: LOSS FROM CONTINUING OPERATIONS

Loss from continuing operations before income tax has been determined after the following specific expenses:

| | | | |
|----------------------------------|-----|------------------|------------------|
| <i>Employee benefits expense</i> | | | |
| Share-based payments expense | (a) | 334,149 | 102,807 |
| Directors' fees | (b) | 222,097 | 176,111 |
| Other employee benefits | | <u>2,521,222</u> | <u>1,797,561</u> |
| | | <u>3,077,468</u> | <u>2,076,479</u> |

(a) Share-based payments expenses represents the non-cash notional value of equity options - refer to note 1(n).

(b) For further information on Directors' fees, refer to part (E)(b) of the Remuneration Report within the Directors' Report.

| | | | |
|--|-------|---------------|---------------|
| <i>Depreciation and amortisation of non-current assets</i> | | | |
| Plant and equipment | 15(a) | 31,003 | 2,024 |
| Office equipment | 15(a) | 420 | 135 |
| Computer equipment | 15(a) | 11,329 | 6,893 |
| Leasehold improvements | 15(a) | 4,777 | 7,013 |
| Software licences | | <u>2,522</u> | <u>-</u> |
| | | <u>50,051</u> | <u>16,065</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|------------------|
| NOTE 6: LOSS FROM CONTINUING OPERATIONS (continued) | | | |
| <i>Impairment expense</i> | | | |
| Impairment of trade receivables | | 12,036 | - |
| Impairment of equity accounted investments | | 104,298 | |
| Impairment of exploration and evaluation assets | 17 | - | 2,152,288 |
| | | <u>116,334</u> | <u>2,152,288</u> |
| <i>Finance costs expensed</i> | | | |
| Interest on loans and finance leases | | <u>1,475</u> | <u>-</u> |
| <i>Administrative expenses</i> | | | |
| Travel and accommodation | | 249,218 | 168,995 |
| Share registry costs | | 76,746 | 60,563 |
| Legal fees | | 146,111 | 63,159 |
| Insurance premiums | | 91,469 | 60,049 |
| General and office expenses | | <u>454,102</u> | <u>301,266</u> |
| | | <u>1,017,646</u> | <u>654,032</u> |
| <i>Other expenses</i> | | | |
| Writedowns of inventory to net realisable value | | - | 22,037 |
| Net foreign exchange loss | | - | 17,220 |
| Loss on disposal of plant and equipment | | 1,212 | - |
| Product research | | 263,432 | 204,401 |
| Warranty expenses | | <u>472</u> | <u>3,296</u> |
| | | <u>265,116</u> | <u>246,954</u> |

NOTE 7: DIVIDENDS

No dividends have been paid or provided for in respect of the financial year.

NOTE 8: INCOME TAX

(a) Components of tax expense

| | | |
|---------------------------------------|----------|----------|
| Current tax | - | - |
| Deferred tax | - | - |
| Under/(over) provision in prior years | - | - |
| | <u>-</u> | <u>-</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|--------------------|--------------------|
| NOTE 8: INCOME TAX (continued) | | | |
| (b) Prima facie tax payable | | | |
| The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows: | | | |
| Profit/(loss) before tax from continuing operations | | (4,817,457) | (5,986,012) |
| Total profit/(loss) before income tax | | <u>(4,817,457)</u> | <u>(5,986,012)</u> |
| Prima facie income tax benefit on loss before income tax at 30% (2015: 30%): | | <u>(1,445,237)</u> | <u>(1,795,804)</u> |
| Add/(less) tax effect of: | | | |
| Movement in deferred tax assets not brought to account | 8(c) | 1,578,478 | 1,924,419 |
| Non deductible and non assessable items | | <u>(133,241)</u> | <u>(128,615)</u> |
| Income tax expense attributable to loss | | <u>-</u> | <u>-</u> |
| (c) Deferred tax assets not brought to account | | | |
| Tax losses and temporary differences | | <u>5,869,635</u> | <u>4,291,157</u> |
| NOTE 9: CASH AND CASH EQUIVALENTS | | | |
| Cash at bank | | 1,325,685 | 2,571,553 |
| Cash on hand | | <u>611</u> | <u>611</u> |
| | | <u>1,326,296</u> | <u>2,572,164</u> |
| NOTE 10: RECEIVABLES | | | |
| <i>Current</i> | | | |
| Trade receivables | | 982,741 | 57,531 |
| Less: provision for impairment | (a) | <u>(27,377)</u> | <u>(15,341)</u> |
| | | 955,364 | 42,190 |
| Loan receivable from associate | | 6,185 | - |
| Convertible loan receivable from associate | | - | 651,042 |
| Receivables from other related parties | | 53,042 | |
| Other receivables | | <u>102,749</u> | <u>144,049</u> |
| | | <u>1,117,340</u> | <u>837,281</u> |
| <i>Non current</i> | | | |
| Trade receivables | | <u>129,393</u> | <u>-</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 10: RECEIVABLES (continued)

(a) Provision for impairment

(i) Trade receivables

Trade receivables are non-interest bearing and usually have 30 day terms. An impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The impairment losses have been included within Impairment Expense within profit or loss.

(ii) Loan receivable from associate

The loan receivable from NCF Global Pty Ltd (an associate of the group), is an unsecured non interest bearing loan with no contracted repayment date. An impairment loss is recognised when there is objective evidence that the loan receivable is impaired. No impairment loss was recorded during the year.

(iii) Convertible loan receivable from associate

The convertible loan receivable from NewCO2Fuels Ltd ("NCF", an associate of the group at 30 June 2015), was a secured non interest bearing loan with a face value of USD \$500,000. During the year ended 30 June 2016, the group elected to convert it to ordinary shares in NCF with such conversion counting towards the group's investment in NCF. During the year, the group subsequently transferred that investment to a new associated entity, NCF Global Pty Ltd (refer note 14(b)).

(iv) Other receivables

Other receivables includes amounts receivable from the Australian Taxation Office.

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|---------------|---------------|
| Movements in the provision for impairment were: | | | |
| Opening balance at 1 July | | 15,341 | 60,625 |
| Charge for the year | | 12,036 | - |
| Recovery of amounts previously provided | | - | (45,284) |
| Amounts written off | | - | - |
| Closing balance at 30 June | | <u>27,377</u> | <u>15,341</u> |

Trade and other receivables ageing analysis at 30 June is:

| | Gross \$ | Impairment \$ |
|------------------------------|------------------|------------------|
| Balances as at 30 June 2016: | | |
| Not past due | 1,044,320 | - |
| Past due 1-30 days | 162,006 | - |
| Past due 31-60 days | 6,580 | - |
| Past due 61-90 days | 5,146 | - |
| Past due more than 91 days | 56,058 | 27,377 |
| | <u>1,274,110</u> | <u>27,377</u> |

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| | Notes | Gross \$ | Impairment \$ |
|---|-------|----------------|------------------|
| NOTE 10: RECEIVABLES (continued) | | | |
| Balances as at 30 June 2015: | | | |
| Not past due | | 803,229 | - |
| Past due 31-60 days | | 10,454 | - |
| Past due 61-90 days | | 319 | - |
| Past due more than 91 days | | 38,620 | 15,341 |
| | | <u>852,622</u> | <u>15,341</u> |

| | 2016 \$ | 2015 \$ |
|---|------------------|----------------|
| NOTE 11: INVENTORIES | | |
| Inventories at cost: | | |
| - on hand | 1,428,281 | 603,355 |
| - on consignment | 177,079 | 44,703 |
| - in transit | 103,824 | 2,565 |
| | <u>1,709,184</u> | <u>650,623</u> |
| Write downs of inventories to net realisable value recognised as an expense during the year | | |
| | - | 22,037 |

NOTE 12: OTHER FINANCIAL ASSETS

Current

Financial assets at fair value through profit or loss classified as held for trading:

| | | |
|---|---------------|---------------|
| Shares in listed entities | 3,926 | 7,066 |
| Total financial assets at fair value through profit or loss | <u>3,926</u> | <u>7,066</u> |
| Security deposits for exploration permits | 54,124 | 54,124 |
| | <u>58,050</u> | <u>61,190</u> |

Security deposits for exploration permits are interest bearing. The deposits are refundable upon the exploration permits being relinquished.

NOTE 13: OTHER ASSETS

| | | |
|----------------|----------------|----------------|
| Prepayments | 172,021 | 125,022 |
| Accrued income | 456,887 | - |
| | <u>628,908</u> | <u>125,022</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|----------------|
| NOTE 14: EQUITY ACCOUNTED INVESTMENTS | | | |
| Equity accounted associated entities | (a) | <u>1,925,874</u> | <u>698,826</u> |

(a) Associated entities

Investments in associated entities are accounted for using the equity method. Interests are held in the following associated entities:

| Associates | Equity instrument | Ownership interest | | Carrying amounts | |
|-----------------------|----------------------|-----------------------|--------|------------------|----------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | | % | % | \$ | \$ |
| NCF Global Pty Ltd | Ordinary shares | 50.00% | 0% | 1,925,874 | - |
| NewCO2Fuels Limited | Ordinary shares | 0% | 33.33% | - | 638,040 |
| PT Geopower Indonesia | Ordinary shares | 40% | 40% | - | 60,786 |
| | | | | <u>1,925,874</u> | <u>698,826</u> |

The principal activity of NCF Global Pty Ltd is technology investment. NCF Global Pty Ltd is incorporated in Australia. During the year, NCF Global Pty Ltd acquired 66.67% of NewCO2Fuels Limited (including the 33.33% previously held by the group) (refer note 14(b)). The principal activity of NewCO2Fuels Limited is the development and commercialisation of technology which focuses on the conversion of CO2 to fuel. NewCO2Fuels Ltd is incorporated in Israel. Although the group's direct ownership interest in NewCO2Fuels Limited is nil at 30 June 2016, its previous 33.33% economic interest is maintained via the group's 50% ownership interest in NCF Global Pty Ltd.

The group's direct investment in NewCO2Fuels Limited at 30 June 2015 was represented in these financial statements by:

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------|------------------|
| Convertible loan receivable from associate | 10 | - | 651,042 |
| Equity accounted investment in associate | 14(a) | - | 638,040 |
| | | <u>-</u> | <u>1,289,082</u> |

The principal activity of PT Geopower Indonesia is clean technology distribution. PT Geopower Indonesia is incorporated in Indonesia. The carrying amount of the company's equity accounted investment in PT Geopower Indonesia has been reduced to nil in order to provide for the impairment of the company's investment. As Geothermal exploration is no longer the group's primary focus, it is currently reevaluating its strategic objectives in relation to the investment in PT Geopower Indonesia.

The group's investment in PT Geopower Indonesia comprises:

| | | |
|--|-----------|---------------|
| Equity accounted investment in associate | 104,298 | 60,786 |
| Provision for impairment | (104,298) | - |
| | <u>-</u> | <u>60,786</u> |

In each case, the country of incorporation is also the principal place of business.

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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------|------------|
|--|-------|------------|------------|

NOTE 14: EQUITY ACCOUNTED INVESTMENTS (continued)

(b) Change in the Group's ownership interest in an associate

(i) Investment acquired during the year - NCF Global Pty Ltd

During the year, the group transferred its 33.33% interest in NewCO2Fuels Ltd ("NCF") to a new company, NCF Global Pty Ltd ("NCF Global"), in exchange for 50% of the share capital of NCF Global. NCF Global also acquired a further 33.33% interest in NCF from Erdi Fuels Pty Ltd (a related entity of the group) in a similar transaction. Following these transactions:

- The group and Erdi Fuels Pty Ltd each own 50% of NCF Global.
- The group and Erdi Fuels Pty Ltd no longer each own 33.33% of NewCO2Fuels Ltd.
- NCF Global owns 66.67% of NewCO2Fuels Ltd.

The group's disposal of its previous 33.33% interest in NCF was in return for 50% of the share capital of NCF Global. The value of the group's 50% interest in NCF Global for accounting purposes at the time of transfer was based on the carrying value of its previous 33.33% interest in NCF at the time of transfer. The carrying amount of the group's investment in NCF Global has also been adjusted for the group's share of NCF Global's result during the remainder of the period, in accordance with equity accounting requirements.

NCF Global is classified as an associate of the group, as the group has assessed that it has significant influence over the operating and financial decisionmaking of NCF Global, but not control. This assessment is based on the rights and obligations of each NCF Global shareholder in relation to decisionmaking and the power to influence variable returns.

NCF Global is classified as a related party of the group, as some of the directors of NCF Global are also directors of Greenearth Energy Ltd.

(ii) Investment disposed during the year - NewCO2Fuels Ltd

As outlined above, the group's previous investment in NewCO2Fuels Ltd ("NCF") was transferred to NCF Global Pty Ltd ("NCF Global") during the year, in exchange for 50% of the share capital of NCF Global. Based on the carrying value of the group's investment in NCF at the time of transfer, the transfer resulted in no net gain or loss on the disposal of the group's investment in NCF, as follows:

| | | |
|---|-------------|----------|
| Proceeds of disposal | 2,577,326 | - |
| Less: carrying amount of investment at disposal | (2,577,326) | - |
| Gain recognised | <u>-</u> | <u>-</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|----------------|
| NOTE 14: EQUITY ACCOUNTED INVESTMENTS (continued) | | | |
| (c) Summarised financial information for associates | | | |
| Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with AASBs adjusted by the Group for equity accounting purposes. | | | |
| <i>(i) NCF Global Pty Ltd and NewCO2Fuels Ltd</i> | | | |
| Current assets | | 257,283 | 390,767 |
| Non-current assets | | 5,843,951 | 5,950,485 |
| Current liabilities | | 775,688 | 1,161,008 |
| Non-current liabilities | | 8,842,302 | 7,493,918 |
| Revenue | | - | - |
| Net profit/(loss) from continuing operations | | (3,530,243) | (2,331,424) |
| Other comprehensive income | | - | - |
| Total comprehensive income | | (3,530,243) | (2,331,424) |
| Reconciliation of the above summarised financial information to the carrying amount of the interest in NCF Global Pty Ltd recognised in the consolidated financial statements: | | | |
| Net assets of the associate | | (3,516,756) | (2,313,674) |
| Proportion of the Group's ownership interest | | 33.33% | 33.33% |
| Group's share of net assets | | (1,172,135) | (771,148) |
| Goodwill and other adjustments including unrealised currency translation impacts | | 3,098,009 | 1,409,188 |
| Carrying amount of the Group's interest in NCF Global Pty Ltd | | <u>1,925,874</u> | <u>638,040</u> |

The amounts shown above pertain to the group's effective economic interest in NewCO2Fuels Ltd of 33.33%, which equity accounted as an investment in associate. The investment is represented at balance date by a 50% interest in NCF Global, which in turn holds 66.67% of NewCO2Fuels Ltd. At 30 June 2015, the group's 33.33% interest in NewCO2Fuels Ltd was represented by a direct shareholding of 33.33% of NewCO2Fuels Ltd.

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|-----------------------|-----------------------|
| NOTE 14: EQUITY ACCOUNTED INVESTMENTS (continued) | | | |
| (c) Summarised financial information for associates (continued) | | | |
| <i>(iii) PT Geopower Indonesia</i> | | | |
| Net loss from continuing operations | | (63,706) | (76,331) |
| Other comprehensive income | | - | - |
| Total comprehensive income | | (63,706) | (76,331) |
| NOTE 15: PROPERTY PLANT AND EQUIPMENT | | | |
| <i>Plant and equipment</i> | | | |
| At cost | | 177,804 | 117,755 |
| Accumulated depreciation | | (38,148) | (2,024) |
| | | <u>139,656</u> | <u>115,731</u> |
| <i>Office equipment</i> | | | |
| At cost | | 20,290 | 3,409 |
| Accumulated depreciation | | (10,987) | (3,069) |
| | | <u>9,303</u> | <u>340</u> |
| <i>Computer equipment</i> | | | |
| At cost | | 88,747 | 43,833 |
| Accumulated depreciation | | (62,753) | (24,074) |
| | | <u>25,994</u> | <u>19,759</u> |
| <i>Leasehold improvements</i> | | | |
| At cost | | 224,860 | 222,155 |
| Accumulated amortisation | | (212,885) | (208,108) |
| | | <u>11,975</u> | <u>14,047</u> |
| Total plant and equipment | | <u><u>186,928</u></u> | <u><u>149,877</u></u> |

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|----------------|----------------|
| NOTE 15: PROPERTY PLANT AND EQUIPMENT (continued) | | | |
| (a) Reconciliations | | | |
| Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year | | | |
| <i>Plant and equipment</i> | | | |
| Carrying amount at beginning of year | | 115,731 | - |
| Additions | | 45,455 | 117,755 |
| Additions through acquisition of entity | | 9,473 | - |
| Depreciation | | (31,003) | (2,024) |
| Carrying amount at end of year | | <u>139,656</u> | <u>115,731</u> |
| <i>Office equipment</i> | | | |
| Carrying amount at beginning of year | | 340 | 475 |
| Additions | | 997 | - |
| Additions through acquisition of entity | | 8,386 | - |
| Depreciation | | (420) | (135) |
| Carrying amount at end of year | | <u>9,303</u> | <u>340</u> |
| <i>Computer equipment</i> | | | |
| Carrying amount at beginning of year | | 19,759 | 7,009 |
| Additions | | 8,141 | 19,643 |
| Additions through acquisition of entity | | 10,635 | - |
| Disposals | | (1,212) | - |
| Depreciation | | (11,329) | (6,893) |
| Carrying amount at end of year | | <u>25,994</u> | <u>19,759</u> |
| <i>Leasehold improvements</i> | | | |
| Carrying amount at beginning of year | | 14,047 | 21,060 |
| Additions | | 2,705 | - |
| Additions through acquisition of entity | | - | - |
| Amortisation | | (4,777) | (7,013) |
| Carrying amount at end of year | | <u>11,975</u> | <u>14,047</u> |

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| | Notes | 2016 \$ | 2015 \$ |
|-----------------------------------|-------|------------------|------------|
| NOTE 16: INTANGIBLE ASSETS | | | |
| Goodwill at cost | 25(b) | 2,012,138 | - |
| Accumulated impairment loss | | - | - |
| | | <u>2,012,138</u> | <u>-</u> |
| Software licences at cost | | 30,261 | - |
| Accumulated amortisation | | (19,333) | - |
| | | <u>10,928</u> | <u>-</u> |
| | | <u>2,023,066</u> | <u>-</u> |

Goodwill arose due to the to the group's acquisition of Ilum-a-Lite Pty Ltd during the year (refer note 25(b)) and relates to the Industrial Energy Efficiency segment and cash generating unit ("CGU").

The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 5% for cash flows in years two to five which is below the historical average, a terminal value growth rate of 5% and a post-tax discount rate of 15.4% to determine value-in-use.

No reasonable change in the key assumptions of the value in use calculations would result in impairment.

NOTE 17: EXPLORATION AND EVALUATION ASSETS

| | | | |
|--|-----|-------------|-------------|
| At cost | | 2,152,288 | 2,152,288 |
| less provision for impairment | | (2,152,288) | (2,152,288) |
| | (a) | <u>-</u> | <u>-</u> |
| (a) Reconciliation | | | |
| Opening balance | | - | 2,146,783 |
| Net expenditure incurred during the year | | - | 10,592 |
| Offsets from rebates and grants | | - | (5,087) |
| Impairment charge | | - | (2,152,288) |
| Closing balance | | <u>-</u> | <u>-</u> |

The carrying amount of exploration and evaluation assets has been reduced to nil in order to provide for the impairment of the company's Otway and Gippsland areas of interest. The company has assessed that, on balance, the current regulatory and political environment is unlikely to enable progression of its Victorian geothermal interests in the near future.

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NOTE 17: EXPLORATION AND EVALUATION ASSETS (continued)

Should the company be in a position to make a more positive assessment in the future, the provision for impairment may be reversed if the applicable criteria are met. The ultimate recoupment of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

| | Notes | 2016 \$ | 2015 \$ |
|------------------------------------|-------|------------------|----------------|
| Trade payables | | 1,184,826 | 343,705 |
| Amounts payable to related parties | 31(b) | 69,788 | 62,970 |
| Accrued inventory purchases | | 135,092 | 130,625 |
| Other payables | | 792,883 | 354,238 |
| | | <u>2,182,589</u> | <u>891,538</u> |

Trade payables are non-interest bearing and usually have 30 day terms.

NOTE 19: BORROWINGS

| | | | |
|------------------|-----|----------------|----------|
| <i>Secured</i> | | | |
| Loan payable | (i) | 451,239 | - |
| <i>Unsecured</i> | | | |
| Lease liability | | <u>6,084</u> | <u>-</u> |
| | | <u>457,323</u> | <u>-</u> |

(i) Loan payable

Amounts totalling \$450,000 were borrowed from a third party during the year at an interest rate of 5% per annum, secured by a security interest granted over certain assets of the company. The liability at balance date represents the principal loan amount together with accrued interest. Subsequent to balance date, the loan was repaid in full and the security discharged.

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|------------------|------------|
| NOTE 20: OTHER FINANCIAL LIABILITIES | | | |
| Consideration payable | | <u>1,927,164</u> | <u>-</u> |

Consideration payable represents the fair value at balance date of the amount payable subsequent to reporting date in connection with the acquisition of Ilum-a-Lite Pty Ltd, and comprises cash consideration and non-cash consideration (in the form of new Greenearth Energy Ltd shares) (refer note 25(a)).

The ultimate amount and value of consideration payable has been determined and agreed, but the value of the non-cash consideration portion for accounting purposes will ultimately depend on the fair value of Greenearth Energy Ltd shares at the date of issue. The carrying value of consideration payable (shown above) is based on the fair value at balance date (refer note 25(a)(iii)).

Any differences upon settlement of the non-cash consideration portion between the ultimate value for accounting purposes and the carrying amount at balance date will be included in profit or loss.

NOTE 21: PROVISIONS

Current

| | | | |
|-------------------|-----|----------------|---------------|
| Employee benefits | | 664,236 | 87,413 |
| Warranty | (a) | <u>74,976</u> | <u>-</u> |
| | | <u>739,212</u> | <u>87,413</u> |

Non-current

| | | | |
|-------------------|--|---------------|---------------|
| Employee benefits | | 80,914 | 20,542 |
| Restoration costs | | <u>15,000</u> | <u>15,000</u> |
| | | <u>95,914</u> | <u>35,542</u> |

| | | | |
|---------------------------------------|--|---------|---------|
| Aggregate employee benefits liability | | 745,150 | 107,955 |
|---------------------------------------|--|---------|---------|

(a) Movements in provision for warranty

| | | | |
|--|--|---------------|----------|
| Carrying amount at the beginning of the year | | - | - |
| Additions through acquisition of entity | | <u>74,976</u> | <u>-</u> |
| Carrying amount at the end of the year | | <u>74,976</u> | <u>-</u> |

The warranty provision relates to potential obligations for goods and services sold prior to balance date, based on management estimates of potential in-service defect rates and rectification costs. The extent and timing of any resulting outflows of economic benefits will depend on actual defect rates and rectification costs.

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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|-------------------|-------------------|
| NOTE 22: SHARE CAPITAL | | | |
| (a) Issued and paid up capital | | | |
| 299,555,628 (2015: 246,975,003) ordinary shares fully paid | | <u>27,747,113</u> | <u>23,708,815</u> |

The company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Movements in shares on issue

| | Number of shares | | \$ | |
|---|--------------------|--------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning of the financial year | 246,975,003 | 197,580,003 | 23,708,815 | 19,716,215 |
| Shares issued during the year: | | | | |
| - Placement (i) | 37,046,250 | - | 2,963,700 | - |
| - Issued in connection with the acquisition of Ilum-a-Lite (ii) | 15,534,375 | - | 1,242,750 | - |
| - Placement (iii) | - | 49,395,000 | - | 4,198,575 |
| Transaction costs of equity issued | - | - | (168,152) | (205,975) |
| End of the financial year | <u>299,555,628</u> | <u>246,975,003</u> | <u>27,747,113</u> | <u>23,708,815</u> |

- (i) 37,046,250 fully paid ordinary shares were issued during the year for 8 cents per share pursuant to a share placement.
- (ii) 15,534,375 fully paid ordinary shares were issued during the year for 8 cents per share in connection with the acquisition of Ilum-a-Lite Pty Ltd, in satisfaction of \$1,242,750 of non-cash consideration. Refer to note 25 for details of the acquisition.
- (iii) 49,395,000 fully paid ordinary shares were issued during the prior year for 8.5 cents per share pursuant to a share placement.

NOTE 22: SHARE CAPITAL (continued)

(c) Terms and conditions of share capital

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(d) Share options

Options over ordinary shares:

(i) Options issued to directors and employees

The issue of options provides an effective way for the directors to give employees a chance to share in the success of the company and enhance the ability of the company to retain staff of the required calibre, at a lower rate of remuneration that might otherwise be required.

As part of the director annual remuneration review, consideration is given to individual employee's performance, workload and dedication to achieving the company's objectives when deciding whether or not to award options as an incentive.

Details of options issued to directors and employees are provided in note 29(a).

(ii) Options issued to Consultants and Contractors

Each option entitles the holder to acquire one fully paid ordinary share in the company at a price of 12.5 cents per share at any time up to and including 23 December 2018 subject to standard terms and conditions attached to Greenearth Energy Ltd. options. 4,600,000 options were issued during the year, and remained exercisable at balance date. No options were exercised or expired during the year.

(e) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as ensuring there are sufficient funds to meet commitments, which is performed via monitoring of historical and forecast performance.

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|-------------------|-------------------|
| NOTE 23: RESERVES AND ACCUMULATED LOSSES | | | |
| Third party options reserve | (a) | 54,740 | - |
| Employee equity benefits reserve | (b) | 701,956 | 367,807 |
| Transactions with non-controlling interests reserve | (c) | (302,521) | (302,521) |
| Total reserves | | <u>454,175</u> | <u>65,286</u> |
| Accumulated losses | (d) | <u>24,470,731</u> | <u>19,653,274</u> |

(a) Third party options reserve

(i) Nature and purpose of reserve

This reserve represents the fair value of options granted to third parties as detailed in Note 22(d)(ii).

(ii) Movements in reserve

| | | |
|-----------------------------------|---------------|----------|
| Balance at beginning of year | - | - |
| Issue of options to third parties | 54,740 | - |
| Balance at end of year | <u>54,740</u> | <u>-</u> |

(b) Employee equity benefits reserve

(i) Nature and purpose of reserve

This reserve represents the fair value of options granted to staff and directors as detailed in Notes 22(d)(i) and 29(a).

(ii) Movements in reserve

| | | |
|---|----------------|----------------|
| Balance at beginning of year | 367,807 | 265,000 |
| Issue of options to directors and employees | 334,149 | 102,807 |
| Balance at end of year | <u>701,956</u> | <u>367,807</u> |

(c) Transactions with non-controlling interests reserve

(i) Nature and purpose of reserve

The transactions with non-controlling interests reserve is used to record differences arising as a result of transactions with non-controlling interests that do not result in a loss of control.

(d) Accumulated losses

| | | |
|--|-------------------|-------------------|
| Balance at beginning of year | 19,653,274 | 13,667,262 |
| Net loss attributable to members of the parent | 4,817,457 | 5,986,012 |
| Balance at end of year | <u>24,470,731</u> | <u>19,653,274</u> |

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|--------------------|--------------------|
| NOTE 24: CASH FLOW INFORMATION | | | |
| (a) Reconciliation of cash flow from operations to loss after income tax | | | |
| Loss from ordinary activities after income tax | | (4,817,457) | (5,986,012) |
| Non-cash items | | | |
| Depreciation of property, plant and equipment | | 50,051 | 16,065 |
| Unrealised loss/(gain) on fair value of investments held | | 3,140 | 8,636 |
| Share of associates' loss | | 1,202,267 | 804,066 |
| Impairment of trade receivables /(doubtful debts recovered) | | 12,036 | (45,284) |
| Impairment of equity accounted investments | | 104,298 | - |
| Impairment of exploration and evaluation assets | | - | 2,152,288 |
| Share based payments expense | | 388,889 | 102,807 |
| Exchange difference on translation of foreign currency | | 7,840 | (21,978) |
| Writedowns of inventory to net realisable value | | - | 22,037 |
| Interest expense not paid in cash | | 1,239 | - |
| Changes in assets and liabilities | | | |
| Increase in exploration and evaluation assets | | - | (5,506) |
| Decrease in receivables | | 462,832 | 218,412 |
| Increase in other assets | | (229,482) | (116,306) |
| Increase in inventory | | (688,796) | (153,112) |
| Increase in payables | | 959,014 | 8,759 |
| Increase in income in advance | | 12,617 | - |
| Increase in employee benefits | | 302,783 | 33,159 |
| Net cash flows used in operating activities | | <u>(2,228,729)</u> | <u>(2,961,969)</u> |

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|--------------|------------------|------------------|
| Cash at bank | 1,325,685 | 2,571,553 |
| Cash on hand | 611 | 611 |
| | <u>1,326,296</u> | <u>2,572,164</u> |

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NOTE 25: BUSINESS COMBINATIONS

Effective 31 March 2016, the consolidated entity acquired 100% of the share capital of Ilum-a-Lite Pty Ltd. Ilum-a-Lite Pty Ltd specialises in creating highly effective, energy-saving lighting solutions for commercial, industrial and government clients that generate significant cost savings and reduce environmental impact. The business derives the majority of its income by delivering large scale and multi-site lighting upgrades on a supply and install basis as part of Energy Performance Contract upgrades in partnership with leading global energy efficiency technology leaders, and an innovative lighting sales division.

The acquisition complements organic opportunities as part of Vivid Industrial's growth strategy. The combined group now has a unique range of product and service offerings for commercial and industrial clients.

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|------------|
| (a) Details of purchase consideration | | | |
| Cash consideration | (i) | 1,377,832 | - |
| Non-cash consideration | (ii) | 2,206,332 | - |
| Total purchase consideration | | <u>3,584,164</u> | <u>-</u> |
| Total purchase consideration comprises: | | | |
| Consideration paid during the year | | 1,657,000 | - |
| Consideration payable subsequent to balance date | (iii) | 1,927,164 | - |
| | | <u>3,584,164</u> | <u>-</u> |

- (i) \$414,250 cash consideration was paid during the year. A further \$963,582 cash consideration is payable subsequent to balance date.
- (ii) 15,534,375 fully paid ordinary shares were issued during the year for 8 cents per share in satisfaction of \$1,242,750 of non-cash consideration. A further 12,044,775 fully paid ordinary shares are to be issued subsequent to reporting date for 8 cents per share in satisfaction of \$963,582 of non-cash consideration.
- (iii) The total consideration payable subsequent to balance date is recorded as a liability at 30 June 2016 of \$1,927,164 (refer note 20), of which \$963,582 is payable in cash and \$963,582 in non-cash consideration as detailed above.

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NOTE 25: BUSINESS COMBINATIONS (continued)

(b) Assets and liabilities acquired

Assets and liabilities acquired as a result of the business combination were:

| | \$ |
|----------------------------------|-------------------------|
| Assets and liabilities acquired | |
| -Cash | 76,628 |
| -Trade and other receivables | 1,636,928 |
| -Inventory | 369,766 |
| -Accrued income | 243,894 |
| -Other assets | 30,510 |
| -Property, plant and equipment | 28,494 |
| -Other intangible assets | 13,449 |
| -Trade and other payables | (418,320) |
| -Provisions | (409,323) |
| Net identifiable assets acquired | <u>1,572,026</u> |
| Add: goodwill | <u>2,012,138</u> |
| Total purchase consideration | <u><u>3,584,164</u></u> |

Factors contributing to recognition of goodwill on acquisition include expected synergies from combining the acquirer and acquiree and intangibles that did not qualify for separate recognition.

Goodwill is not deductible for tax purposes.

Contribution since acquisition

Since the acquisition date, Ilum-a-Lite Pty Ltd has contributed revenue of \$1,303,295 and profit after tax of \$326,100 which is included within the consolidated loss. For the full financial year (including prior to acquisition), Ilum-a-Lite Pty Ltd recorded revenue of \$5,731,436 and profit after tax of \$1,128,616. Had the combination occurred from the beginning of the reporting period, revenue for the consolidated entity would have been \$7,728,399 and the consolidated loss after tax would have been \$4,014,942.

Transaction costs

Transaction costs of \$157,159 were incurred in relation to the acquisition, comprising \$35,000 which is included within consulting expenses within profit or loss, \$9,000 which is included within accounting and audit expenses within profit or loss, and \$113,159 which is included within administrative expenses within profit or loss.

Contingent liability

No contingent liabilities of the acquiree were recognised as part of the acquisition.

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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------|------------|
|--|-------|------------|------------|

NOTE 25: BUSINESS COMBINATIONS (continued)

Transactions recognised separately from the business combination

There were no other transactions with the vendors of Ilum-a-Lite (in their capacity as vendors) that were recognised separately from the acquisition of assets and assumption of liabilities in the business combination. There were no other transactions representing effective settlement of a pre-existing relationship. Since the acquisition, the group has also recognised employee expenses in relation to the remuneration of the Managing Director of Ilum-a-Lite in his capacity as an employee of the group, as detailed in the Remuneration Report.

NOTE 26: COMMITMENTS

Lease expenditure commitments

Operating leases (non-cancellable)

Minimum lease payments:

| | | |
|--|----------------|----------------|
| Not later than one year | 230,491 | 165,169 |
| Late that one year and not later than five years | 264,439 | 399,906 |
| | <u>494,930</u> | <u>565,075</u> |

Operating lease commitments relate to lease of office and warehouse premises.

Capital expenditure commitments

Technology

Estimated aggregate amount payable:

| | | |
|-------------------------|--------------|----------------|
| Not later than one year | <u>8,484</u> | <u>289,101</u> |
|-------------------------|--------------|----------------|

Capital expenditure commitments for technology relate to commitments for purchases of inventory and plant and equipment.

The company also retains interests in geothermal exploration tenements via direct ownership. To continue these interests work programs are maintained, which have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain each permit. At the company's request, the Victorian Government granted suspensions for the work program requirements associated with the company's geothermal exploration permits due to the lack of geothermal funding by Government and government policy relating to a moratorium on "fracking" (hydraulic stimulation) and well activity. The relief initially extended until May 2015, and Greenearth has since been in discussions with the Victorian Government in relation to extension of the relief in the context of the current moratorium. The company is not committed to this expenditure while its work program is suspended.

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| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------|------------|
|--|-------|------------|------------|

NOTE 26: COMMITMENTS (continued)

Bank guarantees

Exploration

| | | | |
|------------------------------|--|---------------|---------------|
| Maximum amount bank may call | | <u>45,000</u> | <u>45,000</u> |
|------------------------------|--|---------------|---------------|

NOTE 27: CONTINGENCIES

As at balance date, the company had no contingent assets or liabilities.

NOTE 28: LOSS PER SHARE

(i) Loss per share attributable to equity holders of the parent

Reconciliation of loss used in calculating loss per share:

| | | |
|--|--------------------|--------------------|
| Net loss attributable to equity holders of the parent entity | (4,817,457) | (5,986,012) |
| Net loss used in calculating basic and diluted loss per share | <u>(4,817,457)</u> | <u>(5,986,012)</u> |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 275,479,424 | 208,541,633 |
| Effect of dilutive securities: | | |
| Share options | - | - |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | <u>275,479,424</u> | <u>208,541,633</u> |

Due to losses incurred all potential ordinary shares that could potentially dilute basic loss per share in the future were considered to be anti-dilutive and therefore not included in the calculation of diluted loss per share. Accordingly basic and diluted loss per share equate.

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NOTE 29: SHARE BASED PAYMENTS

(a) Employee option plan

The Group has an ownership-based compensation scheme for executives and senior employees, for the purposes of recognising the ability and efforts of employees (including officers) who have contributed to its success, provide an incentive for employees to achieve the long term objectives of the Group and improve its performance, and attract and retain persons of experience and ability. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, employees may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of Greenearth Energy Ltd on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Details of the options granted are provided below:

2016

| Grant date | Vesting date | Expiry date | Exercise price | Balance at beginning of year | Granted during the year | Fair value (\$)* | Exercised during the year | Expired during the year | Balance at the end of the year | Exercisable at the end of the year |
|------------|--------------|-------------|----------------|------------------------------|-------------------------|------------------|---------------------------|-------------------------|--------------------------------|------------------------------------|
| 1/10/2012 | 1/10/2013 | 30/09/2017 | 10c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 1/10/2012 | 1/10/2013 | 30/09/2017 | 15c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 20/12/2012 | 20/12/2013 | 30/09/2017 | 10c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 20/12/2012 | 20/12/2013 | 30/09/2017 | 15c | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| 20/12/2012 | 20/12/2012 | 30/09/2017 | 15c | 5,000,000 | - | - | - | - | 5,000,000 | 5,000,000 |
| 18/12/2013 | 1/07/2014 | 30/09/2018 | 7.5c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 18/12/2013 | 1/07/2014 | 30/09/2018 | 10c | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| 4/02/2014 | 2/02/2015 | 2/02/2017 | 15c | 1,125,000 | - | - | - | - | 1,125,000 | 1,125,000 |
| 4/02/2014 | 2/02/2015 | 2/02/2017 | 20c | 625,000 | - | - | - | - | 625,000 | 625,000 |
| 4/02/2014 | 4/02/2014 | 30/09/2017 | 15c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 4/02/2014 | 4/02/2014 | 30/09/2017 | 20c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 22/08/2014 | 14/07/2015 | 30/06/2019 | 15c | 500,000 | - | - | - | - | 500,000 | 500,000 |
| 22/08/2014 | 14/07/2015 | 30/06/2019 | 20c | 500,000 | - | - | - | - | 500,000 | 500,000 |
| 1/09/2014 | 1/09/2015 | 30/09/2017 | 15c | 50,000 | - | - | - | 50,000 | - | - |
| 1/09/2014 | 1/09/2015 | 30/09/2017 | 20c | 50,000 | - | - | - | 50,000 | - | - |
| 18/12/2014 | 18/12/2015 | 30/09/2017 | 15c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 18/12/2014 | 18/12/2015 | 30/09/2017 | 20c | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| 10/08/2015 | 7/08/2016 | 7/08/2018 | 12.5c | - | 4,350,000 | 0.034 | - | - | 4,350,000 | - |
| 11/08/2015 | 7/08/2016 | 7/08/2018 | 12.5c | - | 50,000 | 0.021 | - | 50,000 | - | - |
| 23/12/2015 | 23/12/2015 | 23/12/2018 | 12.5c | - | 4,000,000 | 0.023 | - | - | 4,000,000 | 4,000,000 |
| 23/12/2015 | 23/12/2016 | 23/12/2018 | 12.5c | - | 5,000,000 | 0.023 | - | - | 5,000,000 | - |
| 15/04/2016 | 17/08/2016 | 30/09/2018 | 12.5c | - | 100,000 | 0.011 | - | - | 100,000 | - |
| 15/04/2016 | 8/02/2017 | 31/03/2019 | 12.5c | - | 250,000 | 0.013 | - | - | 2,500,000 | - |
| 15/04/2016 | 18/01/2017 | 31/03/2019 | 12.5c | - | 100,000 | 0.013 | - | - | 100,000 | - |

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NOTE 29: SHARE BASED PAYMENTS (continued)

(a) Employee option plan (continued)

* Fair value per option at grant date, for options issued during the year. Options are valued using the Black-Scholes pricing model using the following inputs:

| | |
|---|------------|
| Weighted average fair value of options granted during the year (at grant date): | 2.6 cents |
| Weighted average exercise price | 12.5 cents |
| Volume weighted average share price during the year | 7.1 cents |
| Weighted average expected share volatility (based on historical volatility) | 77% |
| Weighted average risk free interest rate | 2.08% |
| Expected dividends | Nil |
| Average option life | 3 years |

2015

| Grant date | Vesting date | Expiry date | Exercise price | Balance at beginning of year | Granted during the year | Fair value (\$)* | Exercised during the year | Expired during the year | Balance at the end of the year | Exercisable at the end of the year |
|------------|--------------|-------------|----------------|------------------------------|-------------------------|------------------|---------------------------|-------------------------|--------------------------------|------------------------------------|
| 1/10/2012 | 1/10/2013 | 30/09/2017 | 10c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 1/10/2012 | 1/10/2013 | 30/09/2017 | 15c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 20/12/2012 | 20/12/2013 | 30/09/2017 | 10c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 20/12/2012 | 20/12/2013 | 30/09/2017 | 15c | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| 20/12/2012 | 20/12/2012 | 30/09/2017 | 15c | 5,000,000 | - | - | - | - | 5,000,000 | 5,000,000 |
| 18/12/2013 | 1/07/2014 | 30/09/2018 | 7.5c | 2,000,000 | - | - | - | - | 2,000,000 | 2,000,000 |
| 18/12/2013 | 1/07/2014 | 30/09/2018 | 10c | 3,000,000 | - | - | - | - | 3,000,000 | 3,000,000 |
| 4/02/2014 | 2/02/2015 | 2/02/2017 | 15c | 1,625,000 | - | - | - | 500,000 | 1,125,000 | 1,125,000 |
| 4/02/2014 | 2/02/2015 | 2/02/2017 | 20c | 1,125,000 | - | - | - | 500,000 | 625,000 | 625,000 |
| 4/02/2014 | 4/02/2014 | 30/09/2017 | 15c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 4/02/2014 | 4/02/2014 | 30/09/2017 | 20c | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| 22/08/2014 | 14/07/2015 | 30/06/2019 | 15c | - | 500,000 | 0.016 | - | - | 500,000 | - |
| 22/08/2014 | 14/07/2015 | 30/06/2019 | 20c | - | 500,000 | 0.013 | - | - | 500,000 | - |
| 1/09/2014 | 1/09/2015 | 30/09/2017 | 15c | - | 100,000 | 0.024 | - | 50,000 | 50,000 | - |
| 1/09/2014 | 1/09/2015 | 30/09/2017 | 20c | - | 100,000 | 0.021 | - | 50,000 | 50,000 | - |
| 18/12/2014 | 18/12/2015 | 30/09/2017 | 15c | - | 2,000,000 | 0.029 | - | - | 2,000,000 | - |
| 18/12/2014 | 18/12/2015 | 30/09/2017 | 20c | - | 3,000,000 | 0.023 | - | - | 3,000,000 | - |

(b) Employee share scheme

Details of shares issued to Directors and employees are outlined in the Remuneration Report within the Directors' Report. With the exception of Key Management Personnel identified in the Remuneration Report (including Directors and Senior Executives), no other employees are party to an Employee Share Scheme.

(c) Expenses recognised from share-based payment transactions

The expense recognised in relation to the share-based payment transactions recorded within employee benefits expense in the statement of comprehensive income was as follows:

| | 2016 | 2015 |
|---|---------|---------|
| | \$ | \$ |
| Options issued under employee option plan | 334,149 | 102,807 |

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NOTE 30: INTERESTS IN SUBSIDIARIES

(a) Subsidiaries

| | Country of Incorporation | Percentage owned | |
|--|--|------------------|----------|
| | | 2016 | 2015 |
| Parent entity | | | |
| Greenearth Energy Ltd (i) (ii) | Australia | | |
| Subsidiaries of Greenearth Energy Ltd: | | | |
| Greenearth Biomass Energy Pty Ltd (i) | Australia | 100% | 100% |
| Greenearth Energy Limited (NZ) | New Zealand | 100% | 100% |
| Greenearth Geothermal Energy Pty Ltd (i) | Australia | 100% | 100% |
| Greenearth Heat Energy Pty Ltd (i) | Australia | 100% | 100% |
| Greenearth Power Pty Ltd (i) | Australia | 100% | 100% |
| Greenearth Solar Energy Pty Ltd | Australia | 85% | 85% |
| GT LED Lighting Pty Ltd (i) | Australia | 100% | 100% |
| LED Distribution Network Pty Ltd (i) | Australia | 100% | 100% |
| NewCO2Fuels Pty Ltd (i) | Australia | 100% | 100% |
| Vivid Industrial Pty Ltd (i) | Australia | 100% | 100% |
| Subsidiaries of Vivid Industrial Pty Ltd: | | | |
| GEE Advanced Technologies Pty Ltd (i) | Australia | 100% | 100% |
| Illum-a-Lite Pty Ltd (i) (iii) | Australia | 100% | 0% (iii) |
| (i) | Member of the Australian tax consolidated group | | |
| (ii) | Head Entity of the Australian tax consolidated group | | |
| (iii) | Acquired during the year (refer note 25) | | |

| | Notes | 2016 \$ | 2015 \$ |
|---|-------|-----------------|-----------------|
| (b) Reconciliation of the non-controlling interest (NCI) | | | |
| Accumulated NCI at the beginning of the year | | (40,337) | (40,337) |
| Profit or loss allocated to NCI during the year | | - | - |
| Accumulated NCI at the end of the year | | <u>(40,337)</u> | <u>(40,337)</u> |

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| Notes | 2016 | 2015 |
|-------|------|------|
| | \$ | \$ |

NOTE 31: RELATED PARTY DISCLOSURES

(a) Transactions with key management personnel of the entity or its parent and their personally-related entities

(i) Key management personnel compensation

Key management personnel compensation comprised the following:

| | | |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,014,915 | 813,060 |
| Post-employment benefits | 88,326 | 74,938 |
| Share-based payments* | 264,060 | 125,700 |
| | <u>1,367,301</u> | <u>1,013,698</u> |

* Share-based payments represents the non-cash notional value of equity options - refer to note 1(n).

Details of key management personnel compensation are disclosed in the Remuneration Report which forms part of the Directors' Report.

(ii) Key management personnel equity holdings

Details of key management personnel equity holdings are disclosed in the Remuneration Report which forms part of the Directors' Report.

(iii) Loans to key management personnel

There are no loans made by Greenearth Energy Ltd to key management personnel.

(iv) Other transactions with key management personnel of the group

An amount of \$31,596 excluding GST (2015:\$31,346) was paid by the group to Virtual and Illumination Engineering Services; a business associated with Mr U. du Plessis, a member of the key management personnel of the company in respect of research and development services provided by it to the group. The Directors believe these transactions to be on an arms-length basis.

(b) Other related party transactions

During this financial period, the company sub-leased office space for \$162,745 (2015: \$95,240) from Lakes Oil N.L., which also settled accounts with suppliers on behalf of Greenearth Energy Ltd totalling \$103,255 (2015: \$124,583). At balance date an amount of \$69,788 (2015: \$62,970) was payable to Lakes Oil N.L. by Greenearth Energy Ltd. The Directors believe these transactions to be on an arms-length basis.

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| | Notes | 2016 \$ | 2015 \$ |
|---|-------|--------------------|--------------------|
| NOTE 31: RELATED PARTY DISCLOSURES (continued) | | | |
| (b) Other related party transactions (continued) | | | |
| During this financial period, the company received management fees totalling \$145,199 (2015: nil) from Erdi Fuels Pty Ltd in relation to its investment in NCF Global Pty Ltd. The Directors believe these transactions to be on an arms-length basis. | | | |
| Where applicable, other significant related party transactions are disclosed in the relevant notes to the financial statements. | | | |
| NOTE 32: PARENT ENTITY INFORMATION | | | |
| Summarised presentation of the parent entity, Greenearth Energy Ltd, financial statements. | | | |
| (a) Summarised statement of financial position | | | |
| Assets | | | |
| Current assets | | 545,226 | 2,777,507 |
| Non-current assets | | 11,928,962 | 6,031,015 |
| Total assets | | <u>12,474,188</u> | <u>8,808,522</u> |
| Liabilities | | | |
| Current liabilities | | 3,557,167 | 1,514,647 |
| Non-current liabilities | | 74,682 | 32,567 |
| Total liabilities | | <u>3,631,849</u> | <u>1,547,214</u> |
| Net assets | | <u>8,842,339</u> | <u>7,261,308</u> |
| Equity | | | |
| Share capital | | 27,747,120 | 23,708,822 |
| Reserves | | 756,696 | 367,807 |
| Accumulated losses | | (19,661,477) | (16,815,321) |
| Total equity | | <u>8,842,339</u> | <u>7,261,308</u> |
| (b) Summarised statement of comprehensive income | | | |
| Loss for the year after tax | | (2,846,156) | (4,268,782) |
| Other comprehensive income | | - | - |
| Total comprehensive income/(loss) | | <u>(2,846,156)</u> | <u>(4,268,782)</u> |

NOTE 33: SEGMENT INFORMATION

(a) Description of segments

The group has three (2015: five) reportable segments. A brief description of each identified segment is detailed below. Corporate head office and administration costs are not allocated to segments. Segments include investments, business units or projects that the group holds, or is interested in, which operate in different geographical settings. These settings can be clearly identified by the country they are situated in.

Segment 1: Industrial Energy Efficiency

Greenearth Energy Group via its subsidiaries provides intelligent and energy efficient lighting solutions to industrial and infrastructure businesses in Australia and the Pacific Rim. The primary route to market for this segment is via Vivid Industrial, a wholly-owned subsidiary of the group.

Segment 2: Technology Investment

This segment includes technology investments or projects, which Greenearth Energy Ltd has either invested in but have not been fully expanded into a distinct business segment, or technologies or projects that are currently being developed or considered. This segment includes the consolidated entity's investment in NCF Global Pty Ltd and its previous investment in NewCO2Fuels Ltd.

Segment 3: Other Investments

The segment "other investments" encompasses the previous segments that existed in relation to the company's geothermal interests (being "Geothermal - Otway Basin", "Geothermal - Gippsland Basin" and "Geothermal - Indonesia"). The company's core focus no longer includes geothermal activities, and the former segments related to those areas of interest (including GEP 10 in the Otway Basin, as well as GEP 12 and GEP13 in the Gippsland Basin) have now been combined. Presentation of the comparative figures for the previous financial year has been updated accordingly.

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NOTE 33: SEGMENT INFORMATION (continued)

(b) Segment information

| 2016 | Industrial Energy Efficiency \$ | Technology Investment \$ | Other Investments \$ | Total \$ |
|--|--|--------------------------------|----------------------------|--------------------|
| Segment revenue | | | | |
| Total segment revenue | 3,106,240 | 145,199 | - | 3,251,439 |
| Inter-segment revenue | - | - | - | - |
| Segment revenue from external source | <u>3,106,240</u> | <u>145,199</u> | <u>-</u> | <u>3,251,439</u> |
| Segment result | | | | |
| Total segment result | (2,481,555) | (1,337,891) | (129,780) | (3,949,226) |
| Inter-segment eliminations | - | - | - | - |
| Segment result from external source | <u>(2,481,555)</u> | <u>(1,337,891)</u> | <u>(129,780)</u> | <u>(3,949,226)</u> |
| Items included within segment result: | | | | |
| Share of net profit/(loss) of associates | - | (1,176,785) | (25,482) | (1,202,267) |
| Total segment assets | <u>5,611,447</u> | <u>1,933,509</u> | <u>-</u> | <u>7,544,956</u> |
| Total segment assets include: | | | | |
| Investment in equity accounted associates | - | 1,925,874 | - | 1,925,874 |
| Additions to non-current assets other than financial instruments and deferred tax assets | 51,217 | - | - | 51,217 |
| Total segment liabilities | <u>4,138,468</u> | <u>-</u> | <u>15,000</u> | <u>4,153,468</u> |

The segment "other investments" encompasses the previous segments that existed in relation to the company's geothermal interests. The company's core focus no longer includes geothermal activities, and the former segments related to those activities have now been combined.

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NOTE 33: SEGMENT INFORMATION (continued)

(b) Segment information (continued)

| 2015 | Industrial Energy Efficiency \$ | Technology Investment \$ | Other Investments \$ | Total \$ |
|---|--|--------------------------------|----------------------------|--------------------|
| Segment revenue | | | | |
| Total segment revenue | 1,038,159 | - | 114,141 | 1,152,300 |
| Inter-segment revenue | - | - | - | - |
| Segment revenue from external source | 1,038,159 | - | 114,141 | 1,152,300 |
| Segment result | | | | |
| Total segment result | (1,922,805) | (1,041,622) | (2,068,679) | (5,033,106) |
| Inter-segment eliminations | - | - | - | - |
| Segment result from external source | (1,922,805) | (1,041,622) | (2,068,679) | (5,033,106) |
| Items included within segment result: | | | | |
| Share of net profit/(loss) of associates | - | (773,534) | (30,532) | (804,066) |
| Total segment assets | 716,726 | 1,289,082 | 69,019 | 2,074,827 |
| Total segment assets include: | | | | |
| Investment in equity accounted associates | - | 638,040 | 60,786 | 698,826 |
| Additions to non-current assets other than financial instruments and deferred tax assets | 120,382 | - | - | 120,382 |
| Total segment liabilities | 468,293 | - | 15,000 | 483,293 |

The segment "other investments" encompasses the previous segments that existed in relation to the company's geothermal interests. The company's core focus no longer includes geothermal activities, and the former segments related to those activities have now been combined. Presentation of the comparative figures for the previous financial year has been updated accordingly.

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 NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

| Notes | 2016 | 2015 |
|-------|------|------|
| | \$ | \$ |

NOTE 33: SEGMENT INFORMATION (continued)

(b) Segment information (continued)

(i) Reconciliation of segment revenue to the consolidated statement of comprehensive income

| | | |
|--------------------------------------|------------------|------------------|
| Segment revenue from external source | 3,251,439 | 1,152,300 |
| Other revenue | 12,000 | 12,004 |
| Interest revenue | 6,226 | 9,712 |
| Net foreign exchange gain | 30,593 | - |
| Total revenue | <u>3,300,258</u> | <u>1,174,016</u> |

(ii) Reconciliation of segment result to the consolidated statement of comprehensive income

| | | |
|---|--------------------|--------------------|
| Segment result from external source | (3,949,226) | (5,033,106) |
| Interest revenue | 6,226 | 9,712 |
| Net foreign exchange gain/(loss) | 30,593 | (17,220) |
| Unrealised loss on fair value of investments | (3,140) | (8,636) |
| Depreciation and amortisation | (50,051) | (16,065) |
| Interest expense | (1,475) | - |
| Unallocated other income | 12,000 | 12,004 |
| Unallocated expenses | (862,384) | (932,701) |
| Total loss from continuing operations before income tax | <u>(4,817,457)</u> | <u>(5,986,012)</u> |

(iii) Reconciliation of segment assets to the consolidated statement of financial position

| | | |
|---------------------------|------------------|------------------|
| Segment assets | 7,544,956 | 2,074,827 |
| Cash and cash equivalents | 1,326,296 | 2,572,164 |
| Unallocated assets | 233,787 | 447,992 |
| Total assets | <u>9,105,039</u> | <u>5,094,983</u> |

(iv) Reconciliation of segment liabilities to the consolidated statement of financial position

| | | |
|-------------------------|------------------|------------------|
| Segment liabilities | 4,153,468 | 483,293 |
| Unallocated liabilities | 1,261,351 | 531,200 |
| Total liabilities | <u>5,414,819</u> | <u>1,014,493</u> |

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES
ACN: 120 710 625
NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2016

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|-----------------------|----------------------|
| NOTE 34: AUDITOR'S REMUNERATION | | | |
| (a) Amounts paid and payable to Pitcher Partners (Melbourne) for: | | | |
| <i>(i) Audit and other assurance services</i> | | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated entity | | 92,500 | 67,500 |
| Other assurance services | | 9,000 | - |
| Total remuneration for audit and other assurance services | | <u>101,500</u> | <u>67,500</u> |
| <i>(ii) Other non-audit services</i> | | | |
| Taxation services | | <u>30,100</u> | <u>26,000</u> |
| Total remuneration for non-audit services | | <u>30,100</u> | <u>26,000</u> |
| Total remuneration of Pitcher Partners (Melbourne) | | <u>131,600</u> | <u>93,500</u> |
| (b) Amounts paid and payable to non-related auditors of group entities for: | | | |
| <i>(i) Audit and other assurance services</i> | | | |
| An audit or review of the financial report of other entities in the consolidated entity | | 10,000 | - |
| Other assurance services | | 27,000 | - |
| Total remuneration for audit and other assurance services | | <u>37,000</u> | <u>-</u> |
| <i>(ii) Other non-audit services</i> | | | |
| Taxation services | | <u>4,500</u> | <u>-</u> |
| Total remuneration for non-audit services | | <u>4,500</u> | <u>-</u> |
| Total remuneration of non-related auditors of group entities | | <u>41,500</u> | <u>-</u> |
| Total auditors' remuneration | | <u><u>173,100</u></u> | <u><u>93,500</u></u> |

NOTE 35: SUBSEQUENT EVENTS

Subsequent to the end of the financial year, the company issued a total of 1,500,000 unlisted incentive options in July 2016 pursuant to the company's Employee Option Plan, as follows:

| <u>No. of options</u> | <u>Exercise price</u> | <u>Issue date</u> | <u>Expiry date</u> |
|-----------------------|-----------------------|-------------------|--------------------|
| 1,500,000 | 12.5 cents | 13 July 2016 | 1 July 2019 |

Subsequent to the end of the financial year, the company issued 50,870,937 fully paid ordinary shares for 7.5 cents per share in August 2016 pursuant to a share placement, proceeds from which totalled \$3,609,555 after costs.

NOTE 35: SUBSEQUENT EVENTS (continued)

Subsequent to the end of the financial year, the Victorian State Government announced a ban on hydraulic fracturing (a key operation for efficient renewable geothermal production) and an extension of the current onshore drilling moratorium until 2020. The company is currently assessing the extent of any impact of the ban and moratorium extension on its previous investment in geothermal activities. Prior to the beginning of the 2015/2016 financial year, the company provided in full for the impairment of its geothermal exploration and evaluation assets. The company has ceased its geothermal activities and now focuses on technology investment in the industrial energy efficiency and CO₂-to-fuels conversion markets.

GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES

ACN: 120 710 625

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 26 to 83 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Greenearth Energy Ltd will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2016.

This declaration is made in accordance with a resolution of the directors.



Charles Macek
Chairman



Samuel R Marks
Managing Director

Greenearth Energy Ltd
Dated this 19th day of September 2016
Melbourne

**GREENEARTH ENERGY LTD
ACN 120 710 625
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES**

Report on the Financial Report

We have audited the accompanying financial report of Greenearth Energy Ltd and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**GREENEARTH ENERGY LTD
ACN 120 710 625
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
GREENEARTH ENERGY LTD AND CONTROLLED ENTITIES**

Opinion

In our opinion:

- (a) the financial report of Greenearth Energy Ltd and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter in relation to Going Concern

Without modifying our opinion expressed above, attention is drawn to the matters set out in Note 1(b) – Going Concern in the financial report.

The conditions, as set forth in Note 1 (b), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 24 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Greenearth Energy Ltd and controlled entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.



B POWERS
Partner

19 September 2016



PITCHER PARTNERS
Melbourne