



Annual Report 2008

Corporate Information

Directors

Simon R. Molesworth AM QC (Non-executive Chairman)
Robert J. Annells (Non-executive Director)
John T. Kopcheff (Non-executive Director)
Robert L. King (Executive Director)

Managing Director

Mark Miller BSc (Maj. Geology)

Company Secretary

Vicki M. Kahanoff BBus CPA

Registered Office

Level 14
500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9620 7299

Facsimile: (03) 9629 1624

Stock Exchange

Australian Stock Exchange Limited
Level 3 530 Collins Street
Melbourne Victoria 3000
ASX code: GER

Auditors

Pitcher Partners
Level 19 15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

Technical Staff and Consultants

Guy Holdgate BSc (Hons), PhD

Address for Correspondence

P.O. Box 24
Collins Street West
Victoria 8007

Email: greenearth@greenearthenergy.com.au

Web site: www.greenearthenergy.com.au

Legal Advisors

Baker & McKenzie
Rialto Level 39
525 Collins Street
Melbourne Victoria 3000

Share Registry

Computershare Investor Services Pty. Ltd.
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

The company operates a web site which directors encourage you to access for the most recent information on Greenerth Energy Ltd.

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Directors' Report

The Directors present their report together with the financial report of Greenerth Energy Ltd. for the financial year ended 30 June 2008 and Auditors Report thereon.

This Financial Report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Directors

The names and details of the Directors in office during the financial year and until the date of this Report are set out below. The directors have been in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Simon R. Molesworth AM QC BA, LL.B, FEIANZ, FAIM, FAICD, FVPELA, PIA(Hon.F), C.Env.P, M.ICOMOS Queen's Counsel

(Non Executive Chairman)

Mr Molesworth was appointed to the Board on 31 July 2007, as non-executive Chairman. He is one of Australia's most experienced Queens Counsel specializing in environmental and resource law. He is a fellow of five professional institutes and has been a member of numerous government advisory bodies at both State and Federal levels, including having once served as Victoria's Mining Warden. Mr Molesworth has served on many boards, mainly as chairman, including a number of publicly listed corporations in the resource field.

He is currently a director of Alison Hunter Memorial Foundation Limited, Australian Council of National Trusts, and Rippon Lea Endowment Fund Ltd. Mr Molesworth is also the Chairman of the ME/Chronic Fatigue Syndrome Society of Victoria Inc. During the past three years Mr Molesworth has sat on the boards of the Environment Institute of Australia and New Zealand, the Earth Foundation Australia Limited and the National Trust of Australia (Victoria).

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

Mr Annells was appointed to the Board on 13 July 2006. He is a former member of the ASX with over forty years experience in the securities industry and is a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. During the past seven years Mr Annells has also served as Executive Chairman of ASX listed oil and gas exploration company Lakes Oil NL, Chairman of ASX listed mining company Minotaur Exploration Limited, Non Executive Director of Gippsland Offshore Petroleum Limited, Rum Jungle Uranium

Limited and London based company Xtract Energy Plc.

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

Mr Kopcheff was appointed to the Board on the 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 petroleum experience in Australia, South East Asia, USA, South America and the North Sea, both in field operations and management. Mr Kopcheff is the managing Director of Victoria Petroleum NL and is a director both of Kestrel Energy Inc and Great Panther Resources Limited.

Robert L. King B.Sc. Dip Ed. M Env. Studies *(Executive Director)*

Mr King was appointed to the Board on the 13 July 2006. He has 25 years experience working for the Geological Survey of Victoria. In 1985 he led a team that reviewed the geothermal potential of Victoria and produced a report that formed the basis for the current geothermal legislation and managed the Geological Mapping and Basin Studies Section in the Geological Survey. Mr King was the Director of Minerals and Petroleum Regulation Branch that administered licensing, occupational health and safety and environmental law covering offshore and onshore petroleum operations, oil and gas transmission pipelines, mines and quarries. Mr King was a member of a Federal Government team that formed to establish the National Offshore Petroleum Safety Authority and from 2005 he has been a member of its board.

Company Secretary

Vicki M. Kahanoff B Bus, CPA

Mrs Kahanoff is a qualified accountant (CPA) who has spent the majority of her career in the resources sector. Mrs Kahanoff spent eight years in the forestry sector, being initially employed in the native forestry sector, performing the management accounting function for the Department of Natural Resources in Orbost and then in Melbourne. On privatisation of the plantation section of the department Mrs Kahanoff was the management accountant, and then the financial accountant for the state owned enterprise, Victorian Plantations Corporation. She assisted in its successful sale to Hancock Plantations, now known as Hancock Victorian Plantations. During the last five years, she has been the corporate accountant and chief financial officer of Lakes Oil NL. These roles have involved overseeing all of the accounting functions as well as assisting in company secretarial functions.

Directors' Report (continued)

Directors' Meetings

During the year ended 30 June 2008 the Directors of the company met nine times. The names of those individuals who served as Directors of the company during the period, together with the number of meetings which they attended and those for which they were eligible to attend, are detailed below:

	Board Meetings	
	Attended	Eligible to attend
Simon R. Molesworth	9	9
Robert J. Annells	9	9
John T. Kopcheff	8	9
Robert L. King	9	9

Directors' Interests in Shares or Options

The interests in securities of the company and related entities which are held by each Director as at the date of this Report, either directly or indirectly through entities or parties related to him, are:

		Securities held in Greenearth Energy Ltd.			
		Ordinary shares		Options	
		2008	2007*	2008	2007*
S.R. Molesworth	D	366,667	-	1,500,000	-
	I	636,667	-	1,167,779	-
R.J. Annells	D	-	-	1,000,000	-
	I	1,099,999	333,333	1,033,332	333,333
J.T. Kopcheff	D	-	-	-	-
	I	2,083,333	416,667	3,777,777	416,667
R.L. King	D	-	-	-	-
	I	683,334	166,667	1,811,112	166,667

Note: D = direct ownership. I = indirect ownership.

* Consolidation of shares occurred on 31 October 2007. Consolidation was on a 3:1 basis and for comparative purposes 2007 has been consolidated.

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 21 to Financial Statements.

Auditor's Independence Declaration

The directors have received a declaration of independence from our auditors, Pitcher Partners, which is attached to the Directors Report.

Non-Audit Services

Non audit services are approved by resolution of the Board of Directors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2008:

	2008	2007
	\$	\$
Tax compliance	3,505	-
Accounting advice and assistance	7,000	-
Investigating accountants' report (IPO Process)	21,916	-
	<u>32,421</u>	<u>-</u>

Directors' Report (continued)

Corporate Information

Corporate Structure

Greenearth Energy Ltd. is a company limited by shares, incorporated and domiciled in Australia. Greenearth Energy Ltd. has two subsidiaries that have no activity. Greenearth Energy Ltd. has no Associates.

Principal Activity

The principal activity of the company during the period ended 30 June 2008 was that of geothermal exploration and investment.

Significant changes in the state of affairs

During the financial year, the company listed on the Australian Stock Exchange (ASX). Prior to official listing which occurred on 4 February 2008, the company conducted an Initial Public Offering (IPO), which raised \$10,034,227.

Results and dividends

The operating loss of the company for the year ended 30 June 2008 was:

	2008	2007
Operating loss before income tax	1,794,848	130,163
Income tax attributable to operating loss	-	-
Operating loss after income tax	1,794,848	130,163

During the year ended 30 June 2008, no dividends were paid or declared by the company and the directors do not recommend payment of a dividend.

Indemnification and Insurance of Directors' and Officers

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 company

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

Share Options

Unissued Shares

As at the date of this report 63,593,449 unissued ordinary shares under options (12,500,000 at 30 June 2007). Refer note 15 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the options, to participate in any share issue of the company or any related body corporate.

Shares Issued as a Result of the Exercise of Options

There have been 8,333,335 shares issued during this financial year as a result of exercising of options. Refer note 15. On 5 August 2008, 2 bonus options were exercised to raise a total of \$0.60.

Environmental Regulation and Performance

The company holds interests in geothermal exploration permits and licences in Victoria. All of these permits and licences impose regulations regarding environmental issues. There have been no known breaches of the environmental regulations during the year.

Directors' Report (continued)

Review of Operations

Greenearth Energy Ltd. was awarded three geothermal exploration permits in Victoria in May 2007, just prior to the commencement of this financial year.

On the grant of the permits the Company immediately commissioned a detailed review to validate the central premise of its geothermal model for Hot Sedimentary Aquifers (HSA) and Engineered Geothermal Systems (EGS)/Hot Fractured Rock (HFR) in the permit. The review supported that the permit areas are prospective for both HSA in the 3-4 km range and deeper EGS in the 4.5 km plus zone.

Greenearth Energy Ltd. established an expert team to advise the Company on the exploration program. A key addition to the program in all permits was a program of heat flow mapping. This work was deemed a fundamental input to the ability to more accurately predict temperature at depth.

The magnetotelluric (MT) survey method was assessed for its applicability as a lower-cost geophysical method applicable to mapping the subsurface in the area. A forward modelling exercise, undertaken across all the permits, concluded the method could differentiate buried permeable (wet) zones, our HSA geothermal targets, and the boundary between the Palaeozoic rocks and the overlying Cretaceous.

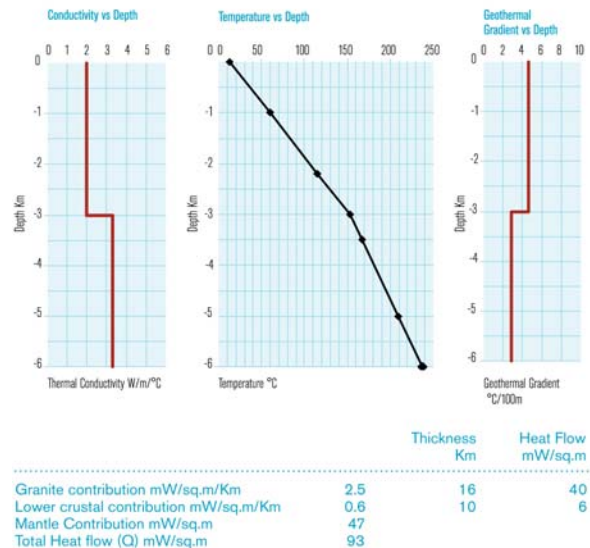
In the Gippsland Permits, GEP 12 and GEP 13, Greenearth Energy Ltd. participated in the drilling of 3 deep wells jointly with Lakes Oil NL, since its inception (two in 2007, one in 2008). In addition, the company progressed planning for an integrated geophysical program to image the geology beneath the Latrobe Valley.

Greenearth Energy Ltd. also reviewed the potential for direct heat application of geothermal energy in the area. The review concluded that hydrothermal resources ranging between 95°C and 150°C could be used to preheat brown coal fired power station boiler feedwater or pre-dry brown coal as an indirect means of generating electric power. It could increase power production, station efficiency and in doing so reduce carbon emissions. The study noted electric power can be produced using the Kalina Cycle or the Organic Rankine Cycle based upon technology commercially proven elsewhere around the world. There are various industries that could benefit from a renewable source of hot water in the Latrobe Valley area. Greenearth Energy Ltd. commenced discussions with a number of these industries.

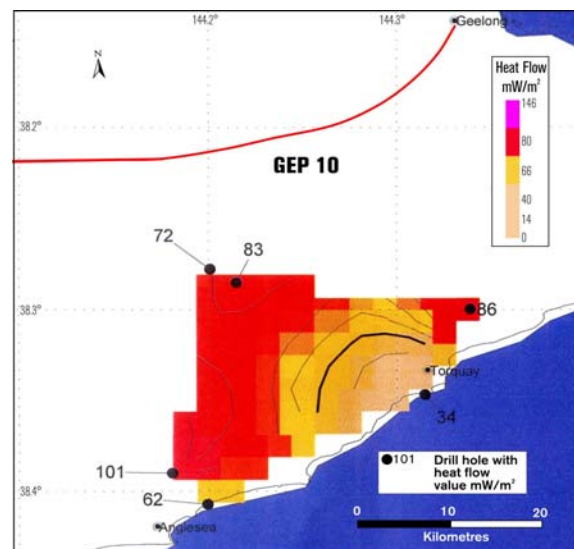
GEP 10 - GEELONG AREA

Our work to date predicts that temperatures of over 150°C will be encountered below 4000m towards the southern coastline and below 3000m to the north in the Hindhaugh Creek area. Sandy sedimentary layers are likely to occur in this depth window which may have hot sedimentary aquifer geothermal potential. In addition, in the Geelong area, the basement may well be granite. If it occurs in the Hindhaugh Creek area, temperatures are estimated increasing from over 150°C at around 3000m to 209°C at 5km. In addition the stress regime is favourable for the production of horizontal artificial fractures, necessary for any EGS development.

MANTLE CONTRIBUTION + CRUSTAL HEAT GENERATION
(Sedimentary Basin - Otway Style - Hindhaugh Creek Area)

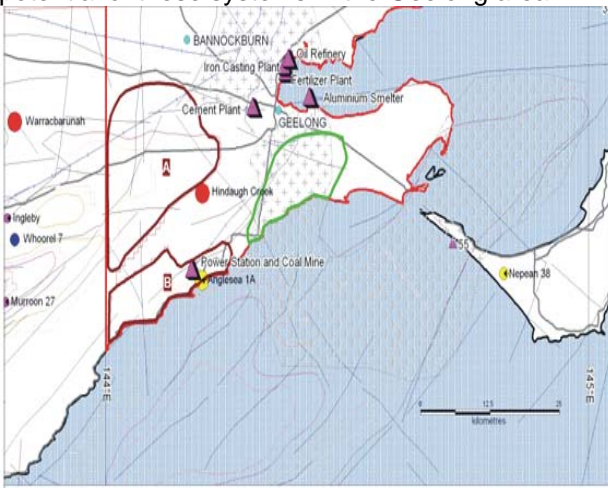


Greenearth Energy Ltd. carried out phase 1 heat flow mapping in the permit that showed the area southwest of Geelong has heat flows significantly higher than the Australian average.



Directors' Report (continued)

This work was followed up by a preliminary assessment of the Geelong area for its EGS potential as the area has thick basin sediments over brittle rock. The study identified three "Areas of Interest" that offer the potential for over 650 Mw located close to major energy consuming industries and the electricity transmission network. The study also noted the possibility of hot sedimentary aquifers at shallower depths and Greenerth Energy Ltd. has commenced a companion study on the potential of these systems in the Geelong area.



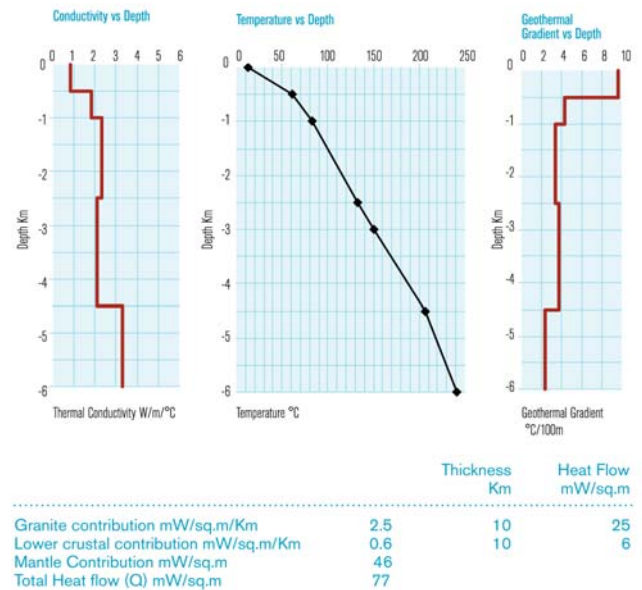
Greenerth Energy Ltd. successfully re-entered the petroleum well Bellarine 1, drilled by lakes Oil NL in 2005. Over a 15 hour period a temperature of 58.2°C was recorded at 808m in Cretaceous sediments. This equates to an average geothermal gradient to that depth of 56°C per km, with a modelled heat flow of 83mw/m², confirming this area has generally high geothermal gradients at elevated heat flow.

GEP 12 - GIPPSLAND

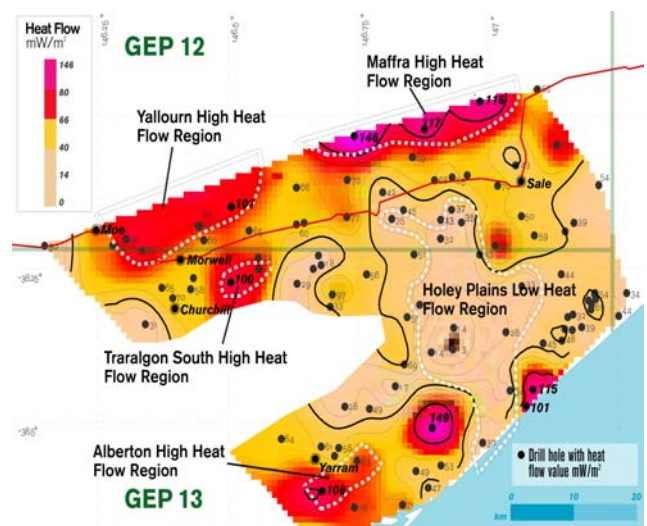
Geothermal modelling was carried out indicating that temperatures over 150°C will be encountered below 3000m in or at the base of the sedimentary pile. These projections are consistent with well measurements in the area. In the eastern part of the permit this temperature will be encountered from 3250m to 3700m.

With respect to temperatures suitable for EGS/HDR investigation, the modelled profile for the Latrobe Valley area indicates temperatures increasing from 151°C at 3000m to 220°C at 5000m. Gravity was interpreted to identify potential buried granites in the east of the permit area, which may present EGS/HFR targets while the regional stress regime would aid artificial fracturing necessary for this type of resource.

MANTLE CONTRIBUTION + CRUSTAL HEAT GENERATION (Sedimentary Basin Gippsland Style - Latrobe Valley Area)



A Phase One program of heat flow mapping was completed with thermal conductivity measurements on core from 7 wells in GEP 12. Lakes Oil NL provided core from four of its petroleum wells. A total of 16 samples of core were analysed for thermal conductivity. The heat flow modelling used the new thermal conductivity data, plus the temperature data from 104 wells across GEPs 12 and 13 to produce a heat flow map for the area.



Greenerth Energy Ltd. participated in the drilling of the Boola Boola 1 well which was completed in July 2007. Costs were shared jointly with Lake Oil NL. The well intersected Strzelecki Group at 582m Kelly Bush (KB) below Tertiary brown coals and sediments. The Strzelecki Group consisted of predominantly fine grained sediments.

Directors' Report (continued)

The well reached 1887m but was plugged back to 1715m as the drilling string became stuck. As a consequence the geothermal target at the base of the sedimentary pile was not able to be reached.

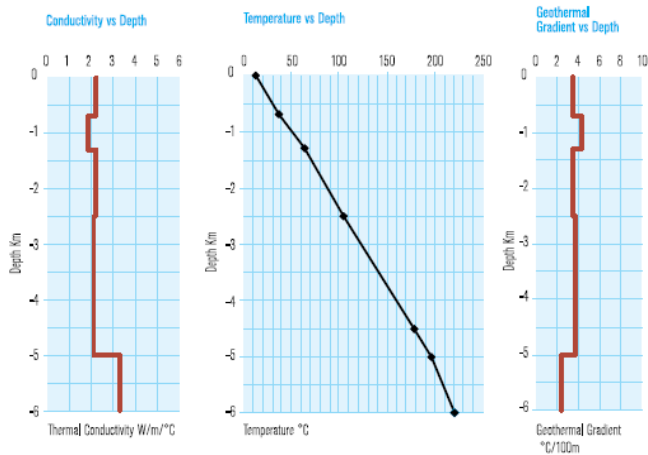
Four temperature measurements were taken and a horner plot showing an estimated stabilized temperature of 83.3°C at a depth of 1715 m. Core was taken for thermal conductivity testing with values of 2.47 and 2.55 W/mK obtained. Heat flow for the area is calculated at 71 mW/m²

Following logging to 1715 m the well was left to allow for possible later re-entry and diversion around the blocked zone.

GEP 13 - GIPPSLAND

Geothermal modelling was carried out and indicates that temperatures over 150°C will be encountered below 3000m in or at the base of the sedimentary section. In the Seaspray area models show a rise in temperature from 150°C, at an average 3500m, to 200°C or more at a 5000m basement. Should granite form basement within this depth range, the stress regime would aid artificial fracturing necessary for EGS/HFR development.

MANTLE CONTRIBUTION + CRUSTAL HEAT GENERATION (Sedimentary Basin - Gippsland Style - Seaspray Depression - Wombat Area)



	Thickness Km	Heat Flow mW/sq.m
Granite contribution mW/sq.m/Km	2.5	25
Lower crustal contribution mW/sq.m/Km	0.6	6
Mantle Contribution mW/sq.m	46	
Total Heat flow (Q) mW/sq.m	77	

Phase one of a program of heat flow mapping was completed with thermal conductivity measurements carried out on core from 8 wells in GEP 13. Lakes Oil NL provided core from four of its petroleum wells and a total of 16 samples of core were analysed for thermal conductivity. Two areas generally above 80 mW/m² have been defined and named:

- Traralgon South High Heat Flow Region: The average heat flow for this region is 95

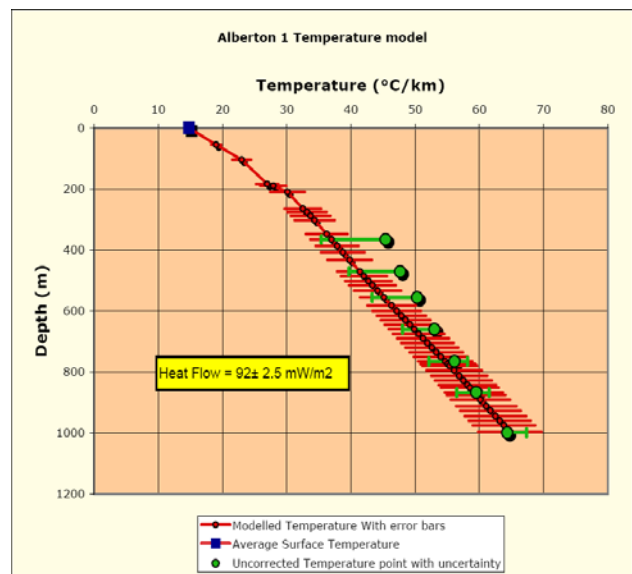
mW/m². Coal beds are common in these wells. The region is open towards the south and with current knowledge is up to 5.5 km in lateral extent; and

- Alberton High Heat Flow Region; the average heat flow is 95 mW/m². The region is open towards the west where heat flow appears to increase in the Alberton East well and is up 8 km in lateral extent from current understanding.

Greenearth Energy Ltd. participated in the drilling of the Hazelwood 1 and Alberton 1 wells sharing costs jointly with Lake Oil NL. Hazelwood 1 was drilled to 2095m. A full suite of logs was obtained. Due to drilling problems associated with well deviation and possible loss of tools only two temperature runs were possible. The horner projection indicates a stabilized temperature of 76.6 °C at 2095m.

The upper part of the well encountered interbedded sandstone, brown coal and basalt of Tertiary aged Latrobe Group. The Strzelecki Group in Hazelwood 1 was encountered at 545m (KB) consisting of claystone, shale and thin feldspathic sandstone.

Alberton 1 was drilled over the Alberton high heat flow zone sharing costs jointly with Lake Oil NL. The well was drilled to 1001m. Bottom hole temperatures were recorded with a stabilized temperature at 1001m of 64°C. Measurement on two cores taken in the Strzelecki Group yielded thermal conductivity of 2.26 and 2.15 W/mK.



Directors' Report (continued)

Significant events after balance date

On 5 August 2008, 2 bonus options were exercised to raise a total of \$0.60.

On 3 September 2008, Mr Mark Miller was engaged in the capacity of Managing Director. Mr Miller's remuneration package is \$320,000 (including superannuation), a bonus of up to 30% of base package on the successful fulfilment of specified key performance indicators (KPIs). A long term incentive in the form of options as 1 million options granted at an exercise price of 20 cents per option to vest 6 months after commencement and expire 30/9/2010 and 2 million options to vest on successful renewal of employment contract, which will expire 30/9/2012.

On 19 August 2008, Greenerth Energy subscribed for shares in a London-based unlisted company, Global Geothermal. An amount of £350,000 (\$750,000) was paid to acquire 46,667 seed capital shares.

No other events of significance have occurred since 30 June 2008.

Likely developments and expected results

Greenerth Energy Ltd. will carry out Phase 2 heat flow mapping across GEPs 10, 12 & 13 during the later part of 2008. This work is required to validate some of the 2007 Phase 1, mapping as well as extend our heat flow mapping into areas where data was previously absent.

Greenerth Energy Ltd. has developed a comprehensive package of geophysical methods to explore the Latrobe Valley area in GEPs 12 and 13. These methods consist of micro-earthquake monitoring, seismic refraction and magnetotelluric survey. The company is pursuing opportunities with various potential partners to carry out the full suite of exploration in the area. In the interim the company has commenced planning for a micro-earthquake trail in the Loy Yang 1 well that is owned by Lakes Oil NL. A geophone will be placed in the well at 1400 m depth in the second quarter. It is expected the trial will aid in the mapping of deeper geology in the vicinity of this site.

In the Geelong area, in GEP 10, a magnetotelluric survey will be carried out in the latter half of 2008. It will run from the Hindhaugh Creek area to Queenscliff, a distance of approximately 80 km.

The study of Engineered Geothermal Systems/ Hot Fractured Rock potential in GEP 10, completed in early 2008, noted the likelihood of the area for deeper sandy sequences in the area. As a result the area to the southwest of Geelong will be reviewed

for its Hot Sedimentary Aquifer potential in the latter part of 2008.

It is expected that Greenerth Energy Ltd. will make application for the Federal Government's Geothermal Drilling fund.

Directors' Report (continued)

Remuneration Report

Directors' Remuneration

Remuneration policy

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 emoluments 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 emolument in a variety of forms including cash and fringe benefits such as expenses payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

For directors and staff, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. The contracts for services between the company and specified directors and executives are on a continuing basis the terms of which are not expected

employment thereby aligning director and shareholder interests. The 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.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration for directors by resolution.

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial period is provided above. The position of Managing Director was filled on 3 September 2008 by Mr Mark Miller. Prior to his appointment the position of Managing Director was vacant. There were only two executives in the company who received remuneration for the financial period

Executive	Position
Mark Miller	Managing Director (Appointed 3 September 2008)
Enrico Bombardieri	General Manager (Resigned 11 April 2008 - position remains vacant)
Vicki Kahanoff	Company Secretary

Compensation by Category

	2008	2007
	\$	\$
Short term employment benefits	865,423	79,239
Post employment benefits	26,757	-
Termination benefits	125,001	-
Share based payments	323,000	-
	1,340,181	79,239

Directors' Remuneration

		Primary Benefits		Post Employment			Total	
		Salary & Fees	Non Monetary	Super - annuation	Termination Benefits	Equity Options*		Other Benefits
S.R. Molesworth	2008	77,918	-	7,012	-	90,000	-	174,930
	2007	-	-	-	-	-	-	-
R.J. Annells ^A	2008	207,665	-	3,749	-	60,000	-	271,414
	2007	-	-	-	-	-	-	-
J.T. Kopcheff	2008	41,665	-	3,750	-	60,000	-	105,415
	2007	-	-	-	-	-	-	-
R.L. King ^B	2008	170,834	-	3,749	-	60,000	-	234,583
	2007	70,905	-	-	-	-	-	70,905
Total Directors remuneration	2008	498,082	-	18,260	-	270,000	-	786,342
	2007	70,905	-	-	-	-	-	70,905

* The values shown in the column headed 'equity options' represents the non-cash notional value of the options.

^AThe values shown represent payment made as a director and as a consultant (paid to Arc de Triomphe Securities Pty Ltd)

^BThe values shown represent payment made as a director and as chief geologist (paid to Rob King and associates)

Directors' Report (continued)

Executives' Remuneration

		Primary Benefits		Post Employment			Total
		Salary & Fees	Non Monetary	Super - annuation	Termination Benefits	Equity Options*	
E. Bombardieri [#]	2008	272,922	-	-	125,001	-	397,923
	2007	8,334	-	-	-	-	8,334
V. Kahanoff [^]	2008	94,419	-	8,497	-	53,000	155,916
	2007	-	-	-	-	-	-
Total Executive Remuneration	2008	367,341	-	8,497	125,001	53,000	553,839
	2007	8,334	-	-	-	-	8,334

* The values shown in the column headed 'equity options' represents the non-cash notional value of the options.

[#] E. Bombardieri resigned on the 11 April 2008.

[^] V. Kahanoff was employed on 1 August 2007 – 2007 comparatives not applicable

Remuneration as options and options with no performance criteria

The percentage of each director and executive remuneration which comprises options is shown in the table below:

Directors and Executives	2008 % of Remuneration from Options	2007 % of Remuneration from Options
Directors		
S.R. Molesworth	51.5%	-
R.J. Annells	22.1%	-
J.T. Kopcheff	56.9%	-
R.L. King	25.6%	-
Executives		
E. Bombardieri [^]	-	-
V. Kahanoff	34.0%	-

[^] E. Bombardieri resigned on 11 April 2008

Options granted as remuneration that have been exercised or lapsed during the financial period

Directors and Executives	1 July 2007	Value granted	Value exercised	Value lapsed	30 June 2008
Directors					
S.R. Molesworth	-	90,000	-	-	90,000
R.J. Annells	-	60,000	-	-	60,000
J.T. Kopcheff	-	60,000	-	-	60,000
R.L. King	-	60,000	-	-	60,000
Executives					
E. Bombardieri [^]	-	-	-	-	-
V. Kahanoff	-	53,000	-	-	53,000
Total	-	323,000	-	-	323,000

[^] E. Bombardieri resigned on 11 April 2008

Directors' and Executives' Equity Holdings

(a) Compensation options: granted and vested during the year

During the financial period 5,500,000 options were granted as equity compensation benefits to directors and executives. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of 45 cents. The options may be exercised at any stage after the grant date.

Directors' Report (continued)

2008*	Grant Number	Grant Date	Terms and Conditions for each grant			
			Value per Option at Grant Date	Exercise Price per Share	First Exercise Date	Last Exercise Expiry Date
Directors						
S.R. Molesworth	1,500,000	1 Oct 2007	0.06	0.45	1 Oct 2007	30 Sep 2012
R.J. Annells	1,000,000	1 Oct 2007	0.06	0.45	1 Oct 2007	30 Sep 2012
J.T. Kopcheff	1,000,000	1 Oct 2007	0.06	0.45	1 Oct 2007	30 Sep 2012
R.L. King	1,000,000	1 Oct 2007	0.06	0.45	1 Oct 2007	30 Sep 2012
Executives						
E. Bombardieri	-	-	-	-	-	-
V. Kahanoff	1,000,000	18 Mar 2008	0.053	0.45	18 Mar 2008	30 Sep 2012

* No compensation options were issued in 2007

(b) Share issued on exercise of compensation options

No shares have been issued on exercise of compensation options by any director or executive specified.

(c) Number of Options held by Key Management Personnel

2008	Balance 1 July 2007	Granted as Remuneration	Options Exercised	Net Change Other (Purchases)	Balance 30 June 2008	Total vested 30 June 2008	Total exercisable 30 June 2008	Total unexercisable 30 June 2008
Directors								
S.R. Molesworth	-	1,500,000	-	1,167,779	2,667,779	2,667,779	2,667,779	-
R.J. Annells	333,333	1,000,000	(333,333)	1,033,332	2,033,332	2,033,332	2,033,332	-
J.T. Kopcheff	416,667	1,000,000	(416,667)	2,777,777	3,777,777	3,777,777	3,777,777	-
R.L. King	166,667	1,000,000	(166,667)	811,112	1,811,112	1,811,112	1,811,112	-
Executives								
E. Bombardieri	-	-	-	-	-	-	-	-
V. Kahanoff	-	1,000,000	-	83,333	1,083,333	1,083,333	1,083,333	-
Total	916,667	5,500,000	(916,667)	5,873,333	11,373,333	11,373,333	11,373,333	-

(d) Number of shares held by key management personnel

2008	Balance 1 July 2007		Granted as Remuneration		On Exercise of Options		Net Change Other (Purchases)		Balance 30 June 2008	
	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors										
S.R. Molesworth	-	-	-	-	-	-	1,003,334	-	1,003,334	-
R. J. Annells	333,333	-	-	-	333,333	-	433,333	-	1,099,999	-
J.T. Kopcheff	416,667	-	-	-	416,667	-	1,249,999	-	2,083,333	-
R.L. King	166,667	-	-	-	166,667	-	350,000	-	683,334	-
Executives										
E. Bombardieri *	-	-	-	-	-	-	-	-	-	-
V. Kahanoff	-	-	-	-	-	-	83,333	-	83,333	-
Total	916,667	-	-	-	916,667	-	3,119,999	-	4,953,333	-

* E. Bombardieri resigned 11 April 2008

Directors' Report (continued)

All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Signed in accordance with a resolution of the directors

A handwritten signature in blue ink that reads "Robert L. King". The signature is written in a cursive style with a large, stylized loop at the end of the word "King".

ROBERT L. KING

Director

Signed at Melbourne, Victoria on 30 September 2008

Auditor's Independence Declaration



To the Directors of Greenerth Energy Ltd.

In relation to the independent audit for the period ended 30 June 2008, to the best of my knowledge and belief there have been:

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

A handwritten signature in black ink, appearing to read 'M W Pringle', with a large, stylized flourish at the end.

M W PRINGLE
Partner

A handwritten signature in black ink, appearing to read 'Pitcher Partners', with a large, stylized flourish at the end.

PITCHER PARTNERS
Melbourne

30 September 2008

Income Statement

For the year ended 30 June 2008

	Note	2008 \$	2007 \$
Revenue			
Other income	4	<u>293,274</u>	<u>111,939</u>
Employee benefits expense	5(a)	(564,343)	-
Loss on Fair Value of Investments		(50,000)	(15,071)
Depreciation expenses	5(b)	(5,053)	(17)
Finance costs	5(d)	(14,164)	-
Accounting and audit expenses	20	(57,421)	(10,000)
Professional fees		(6,131)	-
Marketing and promotion expenses		(60,864)	(7,378)
Rent and occupancy expenses		(28,188)	-
Consulting expenses		(801,953)	(154,132)
Administrative expenses	5	<u>(500,005)</u>	<u>(55,504)</u>
Total expenses		<u>(2,088,122)</u>	<u>(242,102)</u>
(Loss) before income tax		(1,794,848)	(130,163)
Income tax expense	6(a)	-	-
(Loss) from continuing operations	5	<u>(1,794,848)</u>	<u>(130,163)</u>
(Loss) for the year		<u>(1,794,848)</u>	<u>(130,163)</u>
(Loss) attributable to the members of the parent		<u>(1,794,848)</u>	<u>(130,163)</u>
Basic loss per share (cents per share)	18	(3.67)	(1.31)
Diluted loss per share (cents per share)	18	(3.67)	(1.31)

Balance Sheet

As at 30 June 2008

	Note	2008 \$	2007 \$
CURRENT ASSETS			
Cash and cash equivalents	17(b)	8,310,446	561,365
Receivables	7	81,119	10,520
Financial assets at fair value through profit or loss	8	150,000	57,695
Other financial assets	10	45,000	-
Other current assets	9	99,834	-
TOTAL CURRENT ASSETS		8,686,399	629,580
NON-CURRENT ASSETS			
Plant and equipment	11	5,417	3,550
Exploration, evaluation and development	12	1,313,599	671,662
TOTAL NON-CURRENT ASSETS		1,319,016	675,212
TOTAL ASSETS		10,005,415	1,304,792
CURRENT LIABILITIES			
Trade and other payables	13	167,315	684,955
Provisions	14	15,133	-
TOTAL CURRENT LIABILITIES		182,448	684,955
NON-CURRENT LIABILITIES			
Provisions	14	32,367	-
TOTAL NON-CURRENT LIABILITIES		32,367	-
TOTAL LIABILITIES		214,815	684,955
NET ASSETS		9,790,600	619,837
EQUITY			
Share capital	15(a)	11,246,111	750,000
Other Reserves	16	469,500	-
Accumulated Losses	16	(1,925,011)	(130,163)
TOTAL EQUITY		9,790,600	619,837

Statement of Changes in Equity

For the year ended 30 June 2008

	2008 \$	2007 \$
TOTAL EQUITY AT THE BEGINNING OF THE YEAR	619,837	-
Share based payments for third parties	120,000	-
Employee share options	349,500	-
Net Income recognised directly in equity	469,500	-
(Loss) for the year	(1,794,848)	(130,163)
Total recognised expense for the period	(1,325,348)	(130,163)
Attributable to:		
Members of the parent	(1,794,848)	(130,163)
	(1,794,848)	(130,163)
Transactions with equity holders in their capacity as equity holders:		
Contributions	11,284,228	750,000
Capital Raising Costs	(788,117)	-
	10,496,111	750,000
TOTAL EQUITY AT THE END OF THE YEAR	9,790,600	619,837

Statement Of Cash Flow

For the year ended 30 June 2008

	<i>Note</i>	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		9,338	-
Payments to suppliers and employees		(1,708,790)	(192,947)
Payments for exploration and evaluation costs		(1,223,153)	(31,294)
Interest received		247,731	11,228
NET CASH FLOWS USED IN OPERATING ACTIVITIES			
	17(a)	(2,674,874)	(213,013)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of listed securities		(200,000)	(3,567)
Purchase of plant and equipment		(6,920)	-
Payments for bonds and deposits		(45,000)	-
Proceeds from sale of shares In listed company		59,764	527,945
NET CASH FLOWS (USED IN) / PROVIDED BY INVESTING ACTIVITIES			
		(192,156)	524,378
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		11,284,228	250,000
Payment of share issue costs		(668,117)	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES			
		10,616,111	250,000
NET INCREASE IN CASH HELD			
		7,749,081	561,365
Add opening cash brought forward		561,365	-
CLOSING CASH CARRIED FORWARD			
	17(b)	8,310,446	561,365

Notes To Financial Statements

Note 1: Basis of Preparation

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

The financial report covers Greenerth Energy Ltd. as an individual entity. Greenerth Energy Ltd. is a company limited by shares, incorporated and domiciled in Australia.

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

The following is a summary of material accounting policies adopted by Greenerth Energy Ltd. 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

Compliance with IFRS

Australian Accounting Standards include Australian Equivalent to International Financial Reporting Standards. Compliance with Australian equivalent International Financial Reporting Standards, ensures compliance with International Financial Reporting Standards (IFRS).

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 as described in the accounting policies.

(b) Principles of Consolidation

The Greenerth Energy Ltd. group consists of Greenerth Energy Ltd., the parent entity and two fully owned subsidiaries. Refer to Note 21. The two subsidiary companies have been and are currently inactive, with no assets, liabilities, revenue or expenditure. Due to this fact, the financial report has not been prepared or disclosed on consolidation principles for this financial year. When the subsidiaries become active, consolidation will occur accordingly.

(c) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at banks, short term deposits with an original maturity of three months or less held at call with financial institutions.

(d) Investments

Financial assets at fair value through profit or loss

Investments in listed securities are carried at fair value through profit and 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 the profit and loss of the current period. Fair values of listed investments are based on current bid prices.

(e) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may 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 AASB6. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(f) Plant and equipment

Each class of plant and equipment are stated at cost less depreciation and any accumulated impairment loss.

The carrying amount of plant and equipment is reviewed annually for impairment by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to note 1(e).

Depreciation

The depreciable amounts of plant and equipment are provided on a diminishing value basis.

The useful lives for each class of assets are:

	2008	2007
Computer equipment	3 years	3 years
Office equipment	6 years	6 years

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

(g) 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. However, the directors believe 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.

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

Costs on production areas are amortised over the life of the area of interest to which such costs relate on the production output basis. 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.

(h) Leases

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

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the period in which they are incurred.

Finance leases

The group currently has no finance leases.

(i) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

Payables to related parties are carried at the principal amount.

(j) Contributed equity

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.

(k) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Control of the right to receive the interest payment.

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

Sale of Investment

In respect of sales of fixed assets or investments, the proceeds arising from their sale are recognised when control of the asset is passed to the buyer.

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

(l) Taxes

Income tax losses

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.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when 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.

(m) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Share-based payments

There is no formal share option plan. However, from time to time share options are granted to directors, employees and consultants on a discretionary basis. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

(n) Third Party Share-based Payments

From time to time share options are granted to third parties on a discretionary basis for services rendered. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the services were provided.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

(o) Financial Instruments

Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Financial assets at fair value through profit or loss

Investments in listed securities are carried at fair value through profit and 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 the profit and loss of the current period. Fair values of listed investments are based on current bid prices.

Loans and Receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

Financial Liabilities

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

(p) Comparatives

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

(q) New Accounting Standards and Interpretations

A number of accounting standards and Interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

Note 2: Critical Accounting Estimates and Judgements

Estimates and judgements are based on management's expectation for the future.

The company makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below.

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) 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.

(c) 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.

(d) 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(e) and 1(g).

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.

(e) 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.

Note 3: Financial Risk Management

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable. The main purpose of non-derivative financial instruments is to raise finance for company operations.

The company does not have any derivative instruments.

Notes To Financial Statements (continued)

Note 3: Financial Risk Management (continued)

Financial Risks

The main risks the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk. The Company's investment activity is not significant and given maintained minimal level of investment there is minimal market and price risk.

Interest rate risk

The company does not currently have any interest bearing debt. Cash deposits attract interest at the prevailing floating interest rate of 7.8%. The entity's exposure to interest rate risk at 30 June 2008 was 7.8%.

All other financial assets and liabilities are not exposed to interest rate risk.

Foreign currency risk

The group is not exposed to any material fluctuations in foreign currencies.

Liquidity risk

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

Credit risk

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 balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the entity.

Fair values

The net fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the Balance Sheet and Notes to the Financial Statements.

2008	2007
\$	\$

Note 4: Revenue

CONTINUING OPERATIONS

Other revenues

Interest - Other persons/corporations	281,865	11,228
Gain on sale of listed securities	2,071	100,711
Rendering of services – Management Fee	9,338	-
	<hr/>	<hr/>
Total revenues from continuing operations	293,274	111,939

Notes To Financial Statements (continued)

	2008	2007
	\$	\$
	<hr/>	<hr/>
Note 5: Loss From Continuing Operations		
Loss from continuing operations before income tax has been determined after the following specific expenses:		
(a) Employee benefits expense		
Wages and salaries	144,362	-
Superannuation costs	31,255	-
Expense of share – based payments	349,500	-
Other employee related costs	39,226	-
Total employee benefits expenses	<hr/> 564,343	<hr/> -
(b) Depreciation of non-current assets		
Office equipment	407	12
Computer equipment	4,646	5
Total depreciation expenses	<hr/> 5,053	<hr/> 17
(c) Other expenses from ordinary activities include:		
Travel and accommodation	57,445	30,708
Share registry costs	30,978	-
Legal fees	69,417	14,275
Directors fees	202,914	-
Insurance premiums	49,872	-
Office expenses	89,379	10,337
Miscellaneous expenses	-	184
	<hr/> 500,005	<hr/> 55,504
(d) Finance Costs	14,164	-

(e) Specific items

There are no additional revenues or expenses whose disclosure is relevant in explaining the financial performance of the entity

Notes To Financial Statements (continued)

2008	2007
\$	\$

Note 6: Income Tax

(a) The components of tax expense:

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

(b) Income tax benefit

The prima facie tax, using tax rates applicable in the country of operation, on profit/(loss) differs from the income tax provided in the financial statements as follows:

Loss from ordinary activities	<u>(1,794,848)</u>	(130,163)
Prima facie tax benefit on loss from ordinary activities	<u>(538,454)</u>	(39,049)
Tax effect of non-deductible expenses		
Non-deductible expenses	<u>42,154</u>	29,329
Income tax benefit arising from current year	<u>(496,300)</u>	(68,378)
Add:		
Benefit of tax losses not brought to account	<u>496,300</u>	68,378
Income tax expense attributable to ordinary activities	<u>-</u>	<u>-</u>
Income tax losses		
Deferred tax assets arising from tax losses of the economic entity not brought to account at balance date as realisation of the benefit is not probable.	<u>564,678</u>	68,378

Note 7: Receivables

CURRENT

Related party receivables	<u>19,583</u>	3,280
GST receivable	<u>61,536</u>	7,240
	<u>81,119</u>	10,520

Note 8: Financial Assets at Fair Value Through Profit Or Loss

Lakes Oil N.L.	-	16,695
Victoria Petroleum N.L.	-	35,000
Victoria Petroleum N.L – Listed Options	-	6,000
Greenpower Energy Ltd.	<u>150,000</u>	-
	<u>150,000</u>	57,965

Notes To Financial Statements (continued)

	2008	2007
	\$	\$
Note 9: Other Current Assets		
Prepayments	65,700	-
Accrued Interest	34,134	-
	<u>99,834</u>	<u>57,965</u>

Note 10: Other Financial Assets

CURRENT

Security deposits for exploration permits	45,000	-
	<u>45,000</u>	<u>-</u>

Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Security deposits for exploration permits are interest bearing, the deposits are refunded upon the exploration permits being relinquished.

Note 11: Property, Plant and Equipment

<i>Office equipment</i>		
At fair value	1,909	308
Accumulated depreciation	(419)	(12)
	<u>1,490</u>	<u>296</u>
<i>Computer equipment</i>		
At fair value	8,578	3,259
Accumulated depreciation	(4,651)	(5)
	<u>3,927</u>	<u>3,254</u>
Total Plant and Equipment	<u>5,417</u>	<u>3,550</u>

Reconciliations

Reconciliation of the carrying value of plant and equipment at the beginning and end of the current and previous financial year.

Office equipment

Carrying amount at beginning	296	-
Additions	1,601	308
Depreciation	(407)	(12)
	<u>1,490</u>	<u>296</u>

Computer Equipment

Carrying amount at beginning	3,254	-
Additions	5,319	3,259
Depreciation	(4,646)	(5)
	<u>3,927</u>	<u>3,254</u>

Notes To Financial Statements (continued)

	2008 \$	2007 \$
Note 12: Deferred Exploration, Evaluation and Development Costs		
Exploration and evaluation costs carried forward in respect of mining areas of interest:		
Pre-production		
- exploration and evaluation phases		
Balance at the beginning of the year brought forward	671,662	-
Add: net expenditure incurred during the year	641,937	671,662
Less: net expenditure written off during the year	-	-
	<hr/>	<hr/>
Total exploration and evaluation costs carried forward	1,313,599	671,662

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective permit areas.

Note 13: Payables (Current)

Trade creditors	121,106	44,474
Related Party Creditors	32,716	640,481
Other creditors	13,493	-
	<hr/>	<hr/>
	167,315	684,955

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and normally are settled on 30 day terms.

(b) Related party payables

Details of the terms and conditions of related party payables are set out in Note 21.

Note 14: Provisions

Current

Employee benefits	15,133	-
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Non current

Employee benefits	2,367	-
Restoration costs	30,000	-
	<hr/>	<hr/>
	32,367	-

Total Provisions	47,500	-
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Notes To Financial Statements (continued)

Note 15: Contributed Equity

	2008		2007	
	\$		\$	
(a) Issued and paid up capital				
Ordinary shares fully paid, 66,780,760 (2007: 37,500,000 ordinary shares fully paid)	11,246,111		750,000	
(b) Movements in shares on issue				
	2008		2007	
	Number of Shares	\$	Number of Shares	\$
Beginning of the financial year	37,500,000	750,000	-	-
Issued during the year				
- share consolidation on 1:3 basis	(25,000,000)	-	-	-
- options exercised	8,333,335	500,001		
- public equity raising	45,947,425	10,784,227	37,500,000	750,000
- less share issue costs	-	(788,117)	-	-
End of the financial year	66,780,760	11,246,111	37,500,000	750,000

(c) Terms and condition of contributed equity

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

(1) Issued to Directors and Staff

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.

I. Options held at beginning of the reporting period

There were no options held at the beginning of the period

II. Options granted during the period

The following options were granted by Greenerth Energy Ltd. during the year to directors and staff:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
4,500,000	1 Oct 2007	1 Oct 2007	30 Sep 2012	45 cents
1,500,000	18 Mar 2008	18 Mar 2008	30 Sep 2012	45 cents
6,000,000				

III. Options exercised

Directors exercised a total of 916,667 options as disclosed in the Remuneration Report in the Directors report.

IV. Options lapsed

No options lapsed during the financial year

V. Options as at the end of the reporting period

The following options held by directors and staff up to and including 30 June 2008:

Notes To Financial Statements (continued)

Note 15: Contributed Equity (cont)

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
4,500,000	1 Oct 2007	1 Oct 2007	30 Sep 2012	45 cents
1,500,000	18 Mar 2008	18 Mar 2008	30 Sep 2012	45 cents

VI. Valuation of Options

Options are valued using the Black – Scholes pricing model using the following inputs:

	2008	2007
Weighted average fair value of options granted during the year (at grant date)	5.65 cents	-
Weighted average exercise price	\$0.45	-
Volume weighted average share price during the year	19.2 cents	-
Weighted average expected share volatility	70%	-
Weighted average risk free interest rate	5.83%	-
Expected dividends	-	-
Average option life	4.5 years	-

(2) Issued to third parties

(a) Tolhurst Limited

Each option entitles the holder to acquire one fully paid ordinary share in the company at a price of 45 cents per share at any time up to and including 30 September 2012 subject to standard terms and conditions attached to Greenerth Energy Ltd. options.

Balance at start of year	-
Granted during year	2,000,000
Balance at end of year	<u>2,000,000</u>

(b) Seed capital investors

Each option entitles the holder to acquire one fully paid ordinary share in the company at a price of 45 cents per share at anytime up to and including 30 September 2010 subject to standard terms and conditions attached to Greenerth Energy Ltd. options. Upon exercise of options, option holder will also be entitled to a further option to acquire one fully paid ordinary share in the company at a price of 60 cents per share at anytime up to and including 30 September 2012.

Balance at start of year	12,500,000
Exercised during the year	(8,333,333)
Lapsed during the year	(4,166,667)
Granted during year	33,333,333
Balance at end of year	<u>33,333,333</u>

(c) Bonus listed options

Each option entitles the holder to acquire one fully paid ordinary share in the company at a price of 30 cents per share at anytime up to and including 15 April 2009 subject to standard terms and conditions.

Balance at start of year	0
Granted during the year	22,260,118
Exercised during year	(2)
Balance at end of year	<u>22,260,116</u>

Notes To Financial Statements (continued)

		2008 \$	2007 \$
Note 16: Reserves and Accumulated Losses			
Third party options reserve	16(a)	120,000	-
Employee equity benefits reserve	16(b)	349,500	-
Accumulated losses	16(c)	1,925,011	130,163
		<u>2,394,511</u>	<u>130,163</u>
(a) Reserves			
Third party options reserve			
<i>(i) Nature and purpose of reserve</i>			
This reserve represents the fair value of options granted to third parties as detailed in Note 15.			
<i>(ii) Movement in reserve</i>			
Balance at beginning of year		-	-
Share Based Payments		120,000	-
Balance at end of year		<u>120,000</u>	<u>-</u>
(b) Employee equity benefits reserve			
<i>(i) Nature and purpose of reserve</i>			
This reserve represents the fair value of options that is attributable up to 30 June 2008 granted to staff and directors as detailed in Note 15.			
<i>(i) Movement in reserves</i>			
Opening balance		-	-
Share based payments		349,500	-
Closing balance		<u>349,500</u>	<u>-</u>
Total Reserves		<u>469,500</u>	<u>-</u>
(c) Accumulated losses			
Balance at the beginning of the year		130,163	-
Net loss attributable to members of Greenerth Energy Ltd.		1,794,848	130,163
Balance at the end of the year		<u>1,925,011</u>	<u>130,163</u>

Notes To Financial Statements (continued)

	2008 \$	2007 \$
Note 17: Statement of Cash Flows		
(a) Reconciliation of the operating loss after tax to the net cash flows from operations		
Net loss	(1,794,848)	(130,163)
Non-Cash Items		
Depreciation of plant and equipment	5,053	17
(Profit)/loss on sale of listed securities	(2,071)	(100,711)
(Gain)/loss on fair value of investments held	50,000	15,071
Employee equity share based payments	349,500	-
Accrued interest	(34,134)	-
Changes in assets and liabilities		
Increase in exploration and evaluation costs carried forward	(641,937)	(671,622)
Increase in receivables	(70,599)	(10,520)
Increase in other assets	(67,500)	-
Decrease in payables	(515,838)	(684,955)
Increase in employee entitlement provisions	17,500	-
Increase in restoration costs provision	30,000	-
Net cash flows used in operating activities	(2,674,874)	(213,013)
(b) Reconciliation of cash		
Cash at bank	3,310,446	561,365
Cash on deposit	5,000,000	-
Total cash	8,310,446	561,365

Note 18: Loss per Share

Net loss	(1,794,848)	(130,163)
Adjustments:		
- nil	-	-
Loss used in calculating basic / diluted earnings per share	(1,794,848)	(130,163)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	48,935,030	9,932,648
Effect of dilutive securities:		
- Share options		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	48,935,030	9,932,648
Basic loss per share (cents per share)	(3.67)	(1.31)
Diluted loss per share (cents per share)	(3.67)	(1.31)

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

Conversion, calls, subscriptions or issues after 30 June 2008

Since the end of the financial year, 2 ordinary shares have been issued, from the exercise of bonus options.

Notes To Financial Statements (continued)

	2008 \$	2007 \$
Note 19: Expenditure Commitments & Contingencies		
(a) Lease expenditure commitments		
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	112,140	-
- later than one year and not later than five years	<u>631,682</u>	<u>-</u>
Aggregate lease expenditure contracted for at balance date	<u><u>743,822</u></u>	<u><u>-</u></u>
(b) Fit out of Premises commitments		
Non-cancellable agreement for the fit out of premises		
- not later than one year	153,300	-
- later than one year and not later than five years	<u>-</u>	<u>-</u>
Aggregate lease expenditure contracted for at balance date	<u><u>153,300</u></u>	<u><u>-</u></u>
(c) Exploration Commitments		
- not later than one year	274,000	281,000
- later than one year and not later than five years	<u>-</u>	<u>-</u>
Aggregate lease expenditure contracted for at balance date	<u><u>274,000</u></u>	<u><u>281,000</u></u>

The company retains interests in exploration tenements via direct ownership. To continue these interests a work program is maintained in each tenement for various periods up to five years. The work programs 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 the permit. The company estimates that the minimum funding required to be expended to fulfil its specified program over all interests is in the vicinity of \$3,450,000 over the next four years. In addition to meeting these minimum requirements, other voluntary payments may be paid by the company to advance its various projects.

(d) Contingent Liabilities

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

Note 20: Auditor's Remuneration

Amounts paid or due and payable by Pitcher Partners.

An audit and review of the financial report of the entity	25,000	10,000
Other services in relation to the entity		
• Tax compliance	3,505	-
• Accounting advice and assistance	7,000	-
• Investigating accountants' report (IPO Process)	<u>21,916</u>	<u>-</u>
	<u><u>57,421</u></u>	<u><u>10,000</u></u>

Notes To Financial Statements (continued)

Note 21: Related Party Disclosures

(i) Other related party transactions

Receivables

During this financial period, Greenerth Energy Ltd. settled accounts with consultants and contractors on behalf of Lakes Oil N.L. totalling \$19,583. As at 30 June 2008 an amount of \$19,583 (2007: \$3,280) was receivable by Greenerth Energy Ltd.

(ii) Payables

Greenerth Energy Ltd. participated in a joint drilling program with Lakes Oil N.L in the Gippsland Basin where the two companies' permits overlap. Lakes Oil N.L pays for the cost in the first instance on behalf of Greenerth Energy Ltd. which is to be repaid at a later date. An amount of \$32,716 is payable to Lakes Oil N.L who are a major shareholder in Greenerth Energy Ltd.

(iii) Director transactions

During the year the following transactions occurred with key personnel:

- An amount of \$166,000 excluding GST (2007: Nil) was paid by Greenerth Energy Ltd. to Arc de Triomphe Securities Pty Ltd; a company associated with Mr R.J. Annells, a Director of the company, in respect of consulting services provided by him to the company.
- An amount of \$129,169 excluding GST (2007: 79,239) was paid by Greenerth Energy Ltd. to Rob King and Associates; a company associated with Mr R.L. King, a director of the company in respect of consulting services provided by him to the company.

All amounts paid to Director-related entities were charged on commercial and arms –length terms and conditions.

(iv) Loans to key management personnel

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

(v) Controlled Entities

Greenerth Energy Ltd. has two fully owned subsidiaries, Greenerth Energy (NZ) Limited and Greenerth Power Pty Ltd. These subsidiaries have not incurred any expenditure or revenue and hold no assets or liabilities.

Note 22: Segment Information

Segment locations

The entity's operating company is organised and managed separately according to the location of the investment.

Geographically, the company operates in one predominant segment, being Australia. The head office and all investment activity takes place in Australia.

Segment accounting policies

The group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

Segment accounting policies are the same as the entity's accounting policies described in Note 1. During the financial period there were no changes in segment accounting policies that had a material effect on the segment information.

SEGMENT INFORMATION – PRIMARY SEGMENT

Business segment

The economic entity operates in the industry of oil and gas exploration and investment.

Notes To Financial Statements (continued)

Note 22: Segment Information – Primary Segment (continued)

	Exploration		Investment		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Segment revenue	291,203	11,228	2,071	100,711	293,274	111,939
Segment expenses	(2,038,122)	(242,102)	(50,000)	-	(2,088,122)	(242,102)
Segment results	(1,746,919)	(230,874)	(47,929)	100,711	(1,794,848)	(130,163)
Segment assets	9,855,415	1,247,097	150,000	57,695	10,005,415	1,304,792
Segment liabilities	(214,815)	(684,955)	-	-	(214,815)	(684,955)
Other segment information						
Acquisition of property plant and equipment, and other non-current assets.	648,857	675,212	-	-	648,857	675,212

SPECIMENT INFORMATION – SECONDARY SEGMENT

Geographic segment

The economic entity operates solely in one geographic areas being Australia.

Note 23: Subsequent Events

On 5 August 2008, 2 bonus options were exercised to raise a total of \$0.60.

On 3 September 2008, Mr Mark Miller was engaged in the capacity of Managing Director. Mr Miller's remuneration package is \$320,000 (including superannuation), a bonus of up to 30% of base package on the successful fulfillment of specified Key Performance Indicators (KPI's). A long term incentive in the form of options as follows, 1 million options granted at an exercise price of 20 cents per option to vest 6 months after commencement and expire 30/9/2010 and 2 million options to vest on succesful renewal of employment contract, which will expire on 30/9/2012.

On 19 August 2008 Greenearth Energy subscribed for shares in an London-based unlisted company, Global Geothermal. An ammount of £350,000 (\$750,000) was paid to acquire 46,667 seed capital shares.

No other events of significance has occurred since 30 June 2008.

The directors declare that the financial statements and notes set out on pages 15 to 34 are in accordance with the Corporations Act 2001:

- (a) complying with Accounting Standards and *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the company as at 30 June 2008 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the Greenearth Earth 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 sections 295A of the Corporations Act 2001 for the financial year ending 30 June 2008.

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

A handwritten signature in blue ink that reads "Robert L King". The signature is written in a cursive style with a large, sweeping loop at the end of the word "King".

ROBERT L KING
Executive Director

Signed at Melbourne, Victoria
30 September 2008

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GREENEARTH ENERGY LTD.

We have audited the accompanying financial report of Greenearth Energy Ltd., which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Statement of Cash Flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the financial report 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 entity'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 opinions.

Independence

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GREENEARTH ENERGY LTD.**

Auditor's Opinion

In our opinion,

- (a) the financial report of Greenearth Energy Ltd. is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 13 of the directors' report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Greenearth Energy Ltd. for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.



M W PRINGLE
Partner

30 September 2008



PITCHER PARTNERS
Melbourne

Shareholder and Other Information

Compiled as at 23 September 2008

The following information is provided pursuant to Australian Stock Exchange Limited ("ASX") Listing Rule 4.10.

Substantial Shareholders

As disclosed in notices given to the Company.

Name of Substantial Shareholder	Interest in Number of Shares Beneficial and Non-beneficial	Percentage of Shares
Lakes Oil N.L	11,666,667	17.47%
Victoria Petroleum NL	8,333,334	12.48%
Wasabi Energy Limited	4,833,334	7.24%

Shareholder Distribution

The issued capital of the company comprised:

- (a) 42,714,098 fully paid ordinary shares
- (b) 24,066,664 fully paid ordinary shares subject to voluntary escrow period of two years from listing (4 February 2010)
- (c) 14,237,893 bonus options listed, which entitle the holder to acquire one fully paid ordinary share at 30 cents per share at any time up to and including 15 April 2009, subject to certain terms and conditions.
- (d) 8,022,221 bonus options subject to voluntary escrow, which entitle the holder to acquire one fully paid ordinary share at 30 cents per share at any time up to and including 15 April 2009 subject to certain terms and conditions.
- (e) 33,333,333 unlisted options which entitle the holder to acquire one fully paid ordinary share at 45 cents per share at any time up to and including 30 September 2010, subject to terms and conditions.
- (f) 2,000,000 unlisted options which entitle the holder to acquire one fully paid ordinary share at 45 cents per share at any time up to and including 30 September 2012, subject to certain terms and conditions.
- (g) 6,000,000 unlisted options to Directors and Staff which entitle the holder to acquire one fully paid ordinary share at 20 cents per share from 3 March 2009 and up to and including 30 September 2010, subject to certain terms and conditions.
- (h) 1,000,000 unlisted options which entitle the holder to acquire one fully paid share at 20 cents per share from 3 March 2009 and up to and including 30 September 2010, subject to certain terms and conditions.
- (i) 2,000,000 unlisted options which will vest upon the Managing Director renewing his employment contract. The options entitle the holder to acquire one fully paid ordinary share at 20 cents per share up to and including 30 September 2012 once vested, subject to certain terms and conditions.

Distribution of Ordinary Shares

Number of shareholders by size of holding and total number of shares on issue:

Category of shareholders	Number of shareholders	Number of shares held	Percentage of total
1 - 1,000	5	3,178	0.00
1,001 - 5,000	45	164,005	0.24
5,001 - 10,000	550	4,591,614	6.88
10,001 - 100,000	401	11,925,382	17.86
100,001 - and over	62	50,096,583	75.02
Total on issue	1,063	66,780,762	100.00%

63 holders holding 241,277 shares held less than a marketable parcel of ordinary shares.

Shareholder and Other Information (continued)

Compiled as at 23 September 2008

Voting Rights

Subject to the rights or restrictions attached to any shares, on a show of hands every Member present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote.

Quotation of Securities

The company's fully paid ordinary shares are included on the Official List of the Australian Stock Exchange Limited (code: GER).

Tax Status

The company is taxed as a public company.

Twenty Largest Shareholders

Rank	Shareholder	Shares held	Percentage of capital
1	Lakes Oil N.L	11,666,667	17.47
2	Wasabi Energy Ltd	8,333,334	12.48
3	Victoria Petroleum N.L	4,166,667	6.24
4	Berenes Nominees Pty Ltd <Berenes Nominees Pty Ltd Super Fund A/C>	2,083,333	3.12
5	Mr Ronald Prefontaine <Prefontaine Super Fund A/C>	1,250,000	1.87
6	Mrs Clara Elizabeth Haldane	1,000,000	1.50
7	Mr Timothy Hoops	1,000,000	1.50
8	Mr Douglas Jendry <D & J Super Fund A/C>	1,000,000	1.50
9	Penleigh Glen Pty Ltd <The Chas Jacobsen Super Fund A/C>	1,000,000	1.50
10	PBL Investments Pty Ltd <Peter Begg Lawrence Super Fund A/C>	833,334	1.25
11	Equity Trustees Limited <SGH Tiger A/C>	833,333	1.25
12	Falcon Resources Pty Ltd	833,333	1.25
13	National Nominees Ltd	769,999	1.15
14	Cassif Pty Ltd <King Decorte Super Fund A/C>	683,334	1.02
15	GCC Asset Holdings Pty Ltd	666,667	1.00
16	Whitewood Nominees Pty Ltd	666,667	1.00
17	Mr Peter Charles Dunn	666,666	1.00
18	Encounter Bay Pty Ltd	666,666	1.00
19	Sommus Pty Ltd <Super Fund A/C>	666,666	1.00
20	Mr John Joseph Byrne & Mrs Maritza Ivonne Byrne <John Byrne Private Super Fund A/C>	583,333	0.87
		39,369,999	58.97

Shareholder and Other Information (continued)

Compiled as at 23 September 2008

Permit Information

The permits in which the Greenerth Energy Ltd. had an interest are as follows:

Permit Name	Location (Basin Name)	Registered Holder	Group Interest	
			2008	2007
GEP 10	Otway	Greenerth Energy Ltd.	100%	100%
GEP 12	Gippsland	Greenerth Energy Ltd.	100%	100%
GEP 13	Gippsland	Greenerth Energy Ltd.	100%	100%

Corporate Governance

Greenearth Energy – Corporate Governance 2008

ASX Listing Rule 4.10.3 requires Greenearth Energy Ltd. to disclose the extent to which it has followed the recommendations of the ASX Corporate Governance Council ('Council') during the financial year. There are 8 principles reported on below. Each principle includes one or more recommendations as well as a guide to reporting.

Greenearth Energy Ltd. corporate governance principles and policies are structured with reference to the Corporate Governance Council's best practice recommendations as outlined in the revised ASX Corporate Governance Principles and Recommendation issued in August 2007.

Principle 1 – Lay Solid foundations for management and oversight.

Recommendation 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

The Greenearth Energy Ltd. board retains responsibility for the following items:

- Setting and monitoring objectives, goals and strategic direction for management with a view to maximising shareholder wealth
- Approving an annual budget and the monitoring of financial performance
- Ensuring adequate internal controls exist and are appropriately monitored for compliance
- Ensuring significant business risks are identified and appropriately managed
- Approving acquisitions
- Ensuring compliance with statutory requirements
- Selecting and appointing new Directors and
- Maintaining the highest business standards and ethical behaviour.

The board has delegated authority within the following areas to the Executive team:

- Monitoring performance of the business
- Ensuring that the business processes in relation to risk management and assurance are met; and
- Approving capital expenditure (except acquisitions) within delegated authority levels.

Recommendation 1.2 Companies should disclose the process for evaluating the performance of senior executives

Executives who have distinct responsibilities have within their employment contract, provision for the establishment of Key Performer Indicators (KPIs). Evaluation will occur against these KPIs and is performed annually.

Principle 2 – Structure of the board to add value

Recommendation 2.1 The majority of the board should be independent directors.

The Board of Greenearth Energy Ltd. comprises of four non-executive directors and one executive director. The non-executive directors are considered independent by the Board under the definitions provided in the Council's recommendations, thus satisfying this recommendation.

Recommendation 2.2 The chair should be an independent director.

The chairman of the Board of Directors is Mr Simon R Molesworth. He is considered to be an independent under the Council's definition.

Recommendation 2.3 The roles of the chairperson and chief executive officer should not be exercised by the same individual.

Mr Simon R Molesworth performs the role of chairperson, while Mr Robert L King carried out the role of Chief Executive Officer (CEO) during the financial year. This recommendation is satisfied.

Recommendation 2.4 The board should establish a nomination committee.

Due to the limited size of the board, Greenearth Energy has not complied with this recommendation. This role is retained by the full board.

Principle 3 – Promote ethical and responsible decision making

Recommendation 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to :

- *The practices necessary to maintain confidence in the company's integrity;*
- *The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders*
- *The responsibility and accountability of individuals for reporting and investigating reports of unethical practice.*

Corporate Governance (continued)

Principle 3 – Promote ethical and responsible decision making (continued)

Directors, management and staff are expected to act ethically and responsibly and in accordance with the company's Code of Conduct. All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as directors.

Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as directors.

Additionally, terms and conditions of employment provide detailed instructions as to the acceptable standards of behaviour.

A copy of the code of conduct policy can be viewed at the companies' website.

Recommendation 3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy

The Company has a policy concerning trading in the Company's securities by Directors, management and staff. Trading in the Company's shares by Directors, Executives and Staff of the Company should only occur in circumstances where the market is considered to be fully informed of the Company's activities. This policy requires that Directors, Executives and Staff discuss their intention to trade in the Company's shares with the Executive Chairman of the Company prior to trading. The Board recognises that it is the individual responsibility of each Director and employee to carry this policy through.

Pursuant to the ASX Listing Rule 3.19B agreements that the company has in place with each director, if there is a change in the direct or indirect share holding of a director, they are required to notify the Company Secretary so that the appropriate disclosures can be made to the ASX.

A copy of the securities trading policy can be viewed at the companies' website.

Principle 4 – Safeguard integrity of financial reporting.

Recommendation 4.1 The board should establish an audit committee.

The Audit Committee was established in September 2007. The company listed in February 2008. The primary objective of the Audit Committee is to assist

the Board in fulfilling the Board's responsibilities relating to accounting and reporting practices of the Company and its controlled entities.

The main functions of the Audit Committee are:

- To act as a committee of the Board of Directors in discharging the Board's responsibilities as they relate to financial reporting policies and practices, accounting policies and management and internal controls;
- To provide through meetings a forum for communication between the Board, senior financial management and external auditors,
-

The responsibilities of the Audit Committee include monitoring compliance with requirements of the Corporations Act 2001, Stock Exchange Listing Rules, Australian Securities Commission, taxation legislation and other laws as they apply to the subject matter of the Audit Committee's functions

Recommendation 4.2 the audit committee should be structured so that it:

- Consists only of non-executive directors,
- Consists of a majority of independent directors
- Is chaired by an independent chair, who is not the chair of the board
- Has at least three members.

The Audit Committee comprises of Mr Robert J Annells (Chairman), Mr Simon R Molesworth and Mr John Kopcheff. All three directors are considered to be independent.

The Company secretary acts as the Committee secretary assisting members. The Company's external auditors are invited to attend the Committee's meetings. In addition, the Committee is able to seek and obtain input from external consultants as required.

Recommendation 4.3 The audit Committee should have a formal operating charter.

The Audit Committee Charter was adopted in September 2007. A copy of the Charter is publicly available on request.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1 Companies should establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at senior management level for that compliance and disclose those policies or a summary of those policies.

Corporate Governance (continued)

The Board adopted a Disclosure policy in September 2007. Greenearth Energy Ltd. recognises that it has a legal and moral obligation to immediately disclose to the market any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The directors and senior management personnel of Greenearth Energy acknowledge that they each have an obligation to identify and immediately disclose information that may be regarded as material to the price or value of the Company's securities.

The Chairman and Chief Executive Officer is authorised to make statements and representations on Greenearth Energy Ltd.'s behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public.

The Directors and senior management personnel must ensure that the Company Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, the media and the public.

Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market must be the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received may the information be presented. Such subject material will also be placed on the company's website.

If information that would otherwise be disclosed comprises matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of the Company's securities is unknown, Greenearth Energy Ltd. may request that the ASX grant a trading halt or suspend its securities from quotation. Management of Greenearth Energy Ltd. may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1 Companies should design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings and disclose their policy or a summary of that policy.

Planned communications to shareholders are:

- The annual report is printed and distributed to shareholders free of charge to all

shareholders. An electronic company is also placed on the company's website. The board ensures that the annual report includes relevant information about the operation of the company during the year, changes in the state of affairs of the Company and details of future development, in addition to the other disclosures required by the Corporations Act;

- The half-year report contains summarised financial information and a review of operations of the Company during the period. The half-year financial report is prepared in accordance with the requirements of Accounting standards and the Corporations Act and is lodged with the ASX;
- The Company's internet website (www.greenearthenergy.com.au) is regularly updated and provides details of all announcements by the Company to the ASX, annual reports and general information on the company and its business.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. The company invites its external auditors to attend the meeting for the purpose of answering shareholders questions.

Principle 7 – Recognise and manage risk

Recommendation 7.1 Companies should establish policies for the oversight and management of material business risk and disclose a summary of those policies.

The Board has responsibility for managing risk and internal control and acknowledges that risk management is a core principle of sound Corporate Governance. The financial viability, reputation and future of the company are materially dependent on the manner in which risk is managed.

The Board's strategy covers the areas of Financial Risk, Operational Risk, Insurance and Internal Control. The company has not appointed a Risk Management Committee due to the importance the Board places on risk mitigation. In addition, the small size of the Board makes it appropriate for the full board to manage this area.

Corporate Governance (continued)

Financial Risk

The Board receives regular financial reports which measure performance and trends against budget. The reports are discussed at Board Meetings and the Chief Financial Officer answers questions posed by the Directors. Any variations from budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Greenerth Energy Ltd. In addition to monthly financial reporting, the company has in place policies to manage credit, foreign exchange and other business risks. Non-executive Directors meets at appropriate times with the external auditor in order to fulfil its Charter.

Operational Reporting

Projects are approved only after extensive review by a highly qualified technical staff, and consultants and by submissions to the Board through the Chief Executive Officer. The operations of the company consist of a search for geothermal resources and projects are only considered after a review and evaluation of all technical data on record. Outside consultants are engaged as required to enhance the chances of success. Environmental considerations are factors in the consideration of every new project and are fully evaluated and reported before approval by the Board.

Insurance

The Board recognises the value of insurance as a risk mitigation strategy and works with a leading insurance broker to ensure that appropriate insurance cover is in place at all times. Contacts with contractors are drawn up or reviewed by solicitors prior to the company entering into any commitment.

Internal Control

In a small company, an extensive internal control system is not possible; however there is a natural control as a consequence of being small. The Board works very closely with the staff and, because the transactional volume is small, the Directors have a detailed knowledge of the working of the company. The Directors believe the system of internal control is appropriate to the size of the company and to its level of potential risk.

Recommendation 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Board works very closely with the staff and, because the company and its transactional volume is small, the Directors have a detailed knowledge of the workings of the company. It is through the informal and formal (via scheduled board meetings) communications of all areas of the business, that the board is reported to the risks of the business and how effectively they are being managed.

Recommendation 7.3 The board should disclose whether it has received assurance from the Chief Executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

This recommendation was compiled with for this financial year.

Principle 8 – Remunerate Fairly And Responsibly

Recommendation 8.1 The board should establish a remuneration committee.

Due to the limited size of the board, Greenerth Energy Ltd. has not complied with this recommendation. This role is conducted by the full board.

Recommendation 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Non-executive directors are remunerated for their services from the maximum aggregated amount approved by shareholders for that purpose. Their compensation is reviewed by the Board. There are no termination benefits for non-executive directors appointed since listing.

The executive director and senior executives are employed under a contract detailing their remuneration, service period and non-competition clauses. They may be entitled to termination benefits as stipulated in their employment contracts and in accordance with relevant state laws governing long service leave and superannuation. Generally, executives have an element of their remuneration at risk. The key performance Indicators (KPIs) which will entitle them to access the at risk portion of their remuneration are set at commencement of employment and will be reviewed through the annual business planning and review process.