Greenearth Energy Ltd.
A.C.N 120 710 625

Annual Report 2012

Corporate Information

Directors	Robert J. Annells (Chairman) Samuel R. Marks (Managing Director) Mark Miller (Non-executive Director) John T. Kopcheff (Non-executive Director) Leslie Erdi (Non-executive Director)
Company Secretary	Vicki M. Kahanoff
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Legal Advisors	Baker & McKenzie Level 19, CBW 181 William Street Melbourne Victoria 3000
Auditors	Pitcher Partners Level 19 15 William Street Melbourne Victoria 3000
Bankers	Westpac Banking Corporation 360 Collins Street Melbourne Victoria 3000
Securities Exchange	Australian Securities Exchange Limited Level 45, South Tower, Rialto 525 Collins Street Melbourne Victoria 3000
Share Registry	Computershare Investor Services Pty. Limited Yarra Falls 452 Johnston Street Abbotsford Victoria 3067
ASX code	GER

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

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Directors' Report

The Directors present their report together with the financial report of Greenearth Energy Ltd and the entities it controlled for the financial year ended 30 June 2012 and Auditors Report thereon.

This Financial Report has been prepared in accordance with Australian Accounting 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

Samuel R Marks CA, B.Bus. *(Managing Director)*
Mr Marks was appointed as Managing Director on 1 July 2012. Mr Marks has over 16 years global commercial experience across accounting, consulting, corporate finance and corporate roles. He commenced his career with Coopers & Lybrand (PwC) in the Middle Market team, followed by Arthur Anderson (now KordaMentha) in their advisory/insolvency team. Prior to founding the Toroso Group in 2009, Mr Marks completed 7 years within General Electric based in Australia and the United States and was responsible for leading and executing projects across the US, UK, Europe, Australia, China and Hong Kong. Mr Marks is a Chartered Accountant with a Bachelor of Business and is Six Sigma qualified through General Electric. Mr Marks has not held any other directorships of listed companies during the three year period prior to 30 June 2012.

Robert J. Annells CPA, F.Fin. *(Chairman)*
Mr Annells was appointed Chairman on 1 July 2010. He has held a seat on the board as a non executive director since the company's inception 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 three years, Mr Annells held the positions of Chairman of ASX listed mining company Minotaur Exploration Limited from February 2005 until February 2010, and Non Executive Director of London based company Xtract Energy Plc, from October 2004 and resigning on 31 December 2009. Mr Annells currently fulfils the positions of as Executive Chairman of ASX listed oil and gas exploration company Lakes Oil N.L. and has since January 1984 and is a Non executive Director of Rum Jungle Uranium being in this position since its inception in October 2006. Mr Annells is also a member of the Audit Committee of Greenearth Energy.

Mark Miller B.Sc (Non Executive Director)
Mr Miller was appointed to the Board on 3 September 2008. He has had extensive senior management experience across a number of industries both domestically and internationally including downstream oil marketing, consumer products manufacturing and distribution, banking and finance as well as environmental technology. Mr Miller resigned as Managing Director on the 30 June 2012, effective 1 July 2012 to become a director on the Greenearth Energy Board and a member of the Audit Committee. No other directorships of listed companies were held at any time during the three years prior to 30 June 2012.

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

Leslie Erdi OAM, HonLLD *(Non Executive Director)*
Dr. Erdi was appointed to the Board on 1 July 2012. Dr. Erdi arriving in Australia in 1954, established himself as an innovative leader in the Melbourne property development and retailing scene. Dr. Erdi currently owns and manages eight hotels in Victoria, New South Wales and Queensland. Dr. Erdi has a proven track record of heritage building restoration in Melbourne as well as being involved in a number of high profile community projects ranging from street widening and city streetscape design to sporting and aged care facility design and development. Dr. Erdi has been a contributor to Melbourne and Monash Universities as well as Melbourne's Peter McCallum Cancer Institute. Internationally Dr. Erdi has and continues to support a range of projects and charities in Israel. Dr. Erdi has been recognised for his contributions to community by being awarded a Order of Australia and Monash University has recognised his contributions to medical research with an Honorary Doctorate of Laws.

Dr. Erdi is the owner of Erdi Fuels, who has invested in Greenearth Energy's joint venture NewCo2Fuels Limited. Dr. Erdi has held no other directorships of listed companies in the three years prior to 30 June 2012

Directors' Report (continued)

Directors (continued)

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 Victorian 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 served on it board from 2005 until March 2010. Mr King resigned from the Board and Audit Committee on 30 June 2012, effective 1 July 2012 however continues to provide consulting services to the Company when required.

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. She assisted in the successful sale of Victorian Plantations 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 N.L. These roles have involved overseeing all of the accounting functions as well as assisting in company secretarial functions.

Directors' Meetings

During the year ended 30 June 2012 the Directors of the company met eleven 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		Audit Committee Meetings	
	Attended	Eligible to attend	Attended	Eligible to attend
Robert J. Annells	11	11	2	2
Mark Miller	11	11	-	-
John T. Kopcheff	11	11	2	2
Robert L. King	10	11	1	2

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	
		2012	2011	**2012**	2011
R.J Annells	D	**-**	-	**1,000,000**	1,000,000
	I	**3,665,740**	1,270,311	**301,823**	-
S.R Marks	D	**-**	-	**-**	-
	I	**-**	-	**-**	-
M Miller	D	**2,350,000**	1,100,000	**2,050,000**	2,000,000
	I	**-**	-	**-**	-
J.T. Kopcheff	D	**1,096,238**	-	**-**	-
	I	**2,666,667**	2,520,312	**1,133,334**	1,000,000
L Erdi	D	**-**	-	**-**	-
	I	**16,500,000**	-	**7,508,346**	-

Note: D = direct ownership. I = indirect ownership

Directors' Report (continued)

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 26 to Financial Statements.

Auditor's Independence Declaration

The directors have received a declaration of independence from our auditors, Pitcher Partners as required under Section 307C of the *Corporations Act 2001* in relation to the audit of this financial year. This 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 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

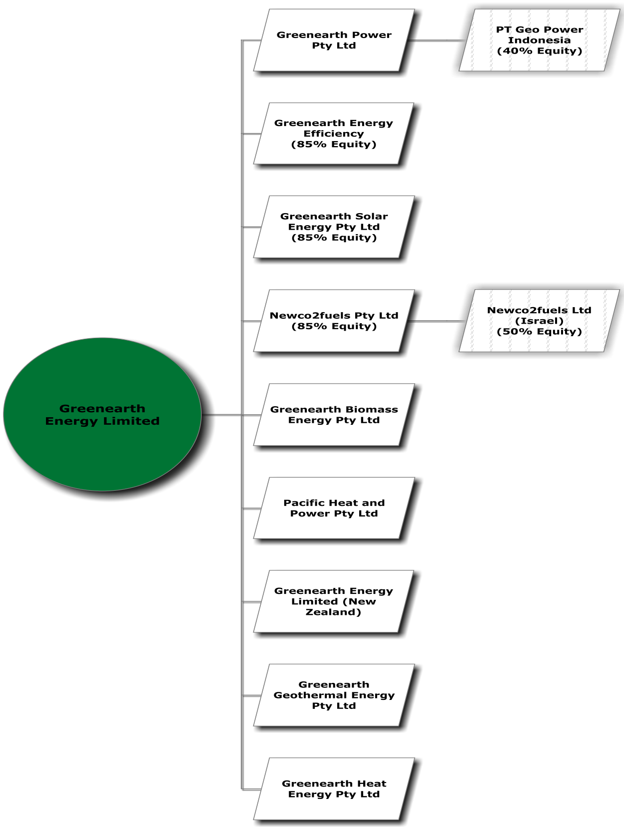
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2012:

	2012 **$**	2011 $
Tax compliance	**11,880**	15,200
	11,880	**15,200**

Corporate Information

Corporate Structure

Greenearth Energy Ltd. is a company limited by shares, incorporated and domiciled in Australia. It is the ultimate parent entity and as such has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure. The group had two Associates at 30 June 2012.



* Pacific Heat and Power Pty Ltd is a discontinued operation, which will be sold in 2013 Financial Year

Directors' Report (continued)

Principal Activity

The principle activities of the consolidated entity during the financial year were geothermal exploration and investment in other renewable energy and energy efficiency technologies.

Significant Changes in the State of Affairs

During the financial year, the company issued a total of 23,324,408 shares via a rights issue and in relation to various services performed as detailed in Note 20.

The company also entered into an Option deed in connection with the funding and development of technology for making fuel from CO_2 in June 2011. This Option deed was amended in June 2012, to allow for an advance on the fee owing to Greenearth Energy upon exercise of the purchase option.

Results and dividends

The operating loss of the company for the year ended 30 June 2012 was:

	2012	2011
Operating loss before income tax	**2,836,199**	2,634,916
Income tax attributable to operating loss	**-**	-
Operating loss after income tax	**2,836,199**	2,634,916

During the year ended 30 June 2012, 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

15,300,901 options over unissued shares or interests in the consolidated entity were granted during the financial year. Refer to Note 20 of the financial statements for further details.

Unissued shares

As at the date of this report 23,300,901 unissued ordinary shares of the company were under option (8,000,000 at 30 June 2011). Refer note 20 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 no shares issued during this financial year as a result of exercising of bonus options. Refer to Note 20.

Environmental Regulation and Performance

The company holds interests in geothermal exploration permits and licenses in Victoria. All of these permits and licences impose regulations regarding environmental issues. Similarly, a number of our renewable technology projects are subject to planning regulations and approvals which incorporate appropriate environmental regulations. There have been no known breaches of the environmental regulations during the year.

Directors’ Report (continued)

Review of Operations

The first quarter for the 2011/2012 financial year began with the company looking further into renewable energy technology opportunities while attempting to maintain and develop its geothermal assets and projects against a context of a cautious financial and investment market as well as a declining world economy.

The company’s capital raising activities involved a non-renounceable rights issue, providing shareholders with the opportunity to subscribe for 1 new share for every 2 held at an issue price of 8 cents per share. Shareholders who subscribed for new shares also received 1 non-listed incentive option for every new share they subscribe for no additional consideration, exercisable at 5 cents each at any time during the period from 15 April 2012 to 15 October 2012. The rights issue raised a total of $1,224,071.

In early November the company announced it had successfully concluded negotiations with the Victorian State Government and executed the $25 million funding agreement for the company’s flagship conventional geothermal energy project, the Geelong Geothermal Power Project (GGPP).

In the fourth quarter, Mr. Robert King, a founding board member, resigned as an Executive Director of Greenearth Energy on 30 June 2012, effective 1 July 2012, while Dr. Leslie Erdi OAM (Melbourne based businessman, philanthropist and founder of Erdi Fuels Pty Ltd) took up a position on the Board effective 1 July 2012. The Board wishes to extend its thanks to Mr. King for his work on the Board and more specifically with respect to the company’s geothermal exploration activities domestically and internationally.

Mr. Mark Miller, after serving as Managing Director since September 2008 stepped down effective 30 June 2012 to take a seat on the Board of Greenearth Energy effective 1 July 2012 and Mr. Samuel Marks was appointed to the role of Managing Director, Greenearth Energy effective 1 July 2012.

The Greenearth Energy Board of Directors wishes to express its sincere thanks and appreciation to Mark Miller for his outstanding contribution to the Company over the last 4 years, driving its transition post IPO from a single focus geothermal exploration and development entity to a diversified renewable energy company with interests in domestic conventional geothermal projects. Additionally Mark led the execution and introduction to the Australian market of several world leading technology applications.

The 2011/2012 year was concluded with the Company taking the opportunity to complete a diagnostic review of all aspects of its product range, market opportunities and the go-to-market strategy of these products. The board and management of Greenearth Energy are looking to effectuate a number of these changes outlined in this external review in the upcoming financial year.

Directors' Report (continued)

Review of Operations (continued)

GEOTHERMAL OPERATIONS

RESERVES AND RESOURCES

Greenearth Energy Ltd has Inferred Geothermal Resources for two distinct areas, Geelong/Anglesea Region and the onshore Gippsland inclusive of the Latrobe Valley and Wombat Geothermal play situated near Seaspray. Additional work has also been undertaken targeting a specific area of the Geelong/Anglesea Area, which has been defined as the Geelong Geothermal Power Project (GGPP).

The Inferred Geothermal Resources were announced in the 2009 Financial Year. While work has been undertaken to continually revise and advance the category of our reserves and resources, they have not materially changed during the 2012 Financial Year.

The following table provides a summary of the Company's Inferred Resources:

	Geelong/Anglesea Area (GEP 10) GER 100%	**Geelong/Anglesea Area (GEP 10) GER 100%**	**Geelong Geothermal Power Project (GEP 10) GER 100%**	**Wombat Geothermal Play (GEP13) GER 100%**
Geothermal Resource Estimation Category Achieved	Inferred	Inferred	Inferred	Inferred
Geothermal Resource Type	Hot Sedimentary Aquifer (HSA)	Enhanced Geothermal System (EGS)	Hot Sedimentary Aquifer (HSA)	Hot Sedimentary Aquifer (HSA)
Estimated Thermal Energy	40,000 PJ	220,000 PJ	17,000 PJ	3,600 PJ
Heat Flow	90mW/m^2	90mW/m^2		
Estimated Volume of Target Reservoir	107 km^3	549 km^3	55 km^3	14.8 km^3
Average Temperature	150^{0}C -225 ^{0}C with uncertainty of ±15^{0}C	Unknown	188 ^{0}C	157^{0}C

Competent Persons

Anglesea (Geelong) and Wombat regions

The information in this report that related to Geothermal Resources in the Geelong Anglesea (GEP 10) and the Wombat Geothermal Play near Seaspray, Gippsland (GEP 13) has been compiled by Dr Graeme Beardsmore, an employee of Hot Dry Rocks Pty Ltd (HDRPL). The resource estimate for the Geelong Geothermal Power Project, just north of Anglesea draws upon a series of reports for Greenearth Energy by HDRPL.

Dr Beardsmore has over 15 years experience in the determination of crustal temperatures relevant to the style of geothermal play under consideration, is a member of the Australian Society of Exploration Geophysicists and abides by the Code of Ethics of that organization.

Dr Beardsmore qualifies as a Competent Person, as defined in the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition). Dr Beardsmore consents to the public release of this report in the form and context in which it appears.

Geelong Geothermal Power Project

The information in this report that relates to Geothermal Resource estimation for the Geelong Geothermal Power Project (GGPP) is based upon a report compiled by James Vincent Lawless, an employee and Principal of Sinclair Knight Merz Limited (SKM). He is a Fellow of the Australasian Institute of Mining and Metallurgy and holds Chartered Geologist status with that body. SKM has been engaged as Consultant by Greenearth Energy but holds no financial interest in the project or in Greenearth Energy.

Mr Lawless is a Competent Person as defined by the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves (2008 Edition), and consents to the public release of this report in the form and context in which it appears.

GEP 10 - GEELONG AREA

Geelong Geothermal Power Project (GGPP)

The main focus of the 2011/2012 financial year in relation to the Company's flagship geothermal project, the Geelong Geothermal Power Project (GGPP) has been to finalise grant funding agreements and attempt to secure the necessary funding via either a contribution of further grant funding or via private investment into the project, to commence the exploration drilling phase of the project.

On 8 August 2011, four Australian geothermal companies, including Greenearth Energy advised that they, in conjunction with the Commonwealth Government, had mutually executed deeds of termination for their Geothermal Drilling Program (GDP) grant funding. Regrettably economic conditions over the past 18 months combined with the agreed construct of the GDP grant limited project recipients' ability to attract project funding and thus fulfill all the requirements of the GDP grant in the timeframes stipulated.

Review of Operations (continued)
GEP 10 - GEELONG AREA (continued)
Geelong Geothermal Power Project (GGPP) (continued)

At an operational level, the site selection process to identify an appropriate site sufficient for Stage 1 and Stage 2 of the GGPP moved forward, with the company's aim being to identify a potential site which has been assessed as a viable location for both the Stage 1 Proof of concept drilling and if this proved successful, the development of the Stage 2 $12MW_e$ grid connected, geothermal energy demonstration plant.

Detailed community and stakeholder feedback was sought during the second half of 2011, in regards to the selection of a single site from the ten originally considered. Each site was assessed against six criteria including environmental, cultural, access and amenity impact as well as resource, commercial and financial considerations. An appropriate number of responses were received, from both individual community members as well as representative stakeholder groups. Constructive feedback was given with clear identification of the issues which were seen to be most important and least important when assessing a site for its suitability as the Stage 1 and Stage 2 project location.

Stakeholder feedback clearly identified two sites as preferred locations, one being on public crown land and the other on privately held land zoned for extractive industries. Given that the number of preferences was evenly weighted between both locations, Greenearth Energy decided to further investigate the regulatory, environmental and cultural issues which may affect the project's development before making a selection on a single site.

On 3 November 2011 Greenearth Energy announced it had successfully concluded negotiations with the Victorian State Government and executed the $25 million funding agreement for the company's flagship conventional geothermal energy project, the Geelong Geothermal Power Project (GGPP).

The $25 million Victorian Government grant funding was awarded in December 2009 under the State government's Energy Technology Innovation Strategy (ETIS) program. The funding was awarded to assist two stages of the GGPP development, the first being $5 million towards establishing Proof of Resource, with a further $20 million awarded for Stage 2 being a grid connected $12MW_e$ geothermal energy demonstration plant upon a successful Proof of Concept.

Proof of Resource will involve the drilling of an initial deep geothermal well to a depth of approximately 4,000m and conducting a short term flow test to analyse the results in terms of temperature, geothermal fluid flow rate and formation permeability. The $5 million grant funding will be applied to assist the completion of this stage.

Upon the establishment of suitable resource parameters, a second deep geothermal well will be drilled to produce a well "couplet" and establish Proof of Concept and allow for an extended flow test to carry out extensive analysis of the commercial viability of the resource and potential future construction of a $12MW_e$ grid connected geothermal energy demonstration plant.

The $20 million portion of the Victorian Government ETIS grant will contribute to the development of the demonstration stage being the $12MW_e$ grid connected geothermal energy demonstration plant.

The separate tranches of the ETIS funding are paid on the achievement of set milestones and are subject to a number of conditions precedent including securing necessary project funding and approvals to complete each project stage.

On 3 May 2012 the company announced that the proposed site for Victoria's flagship geothermal energy project, the Geelong Geothermal Power Project (GGPP), had been selected. The proposed Stage 1 exploration stage and the Stage 2, $12MW_e$ demonstration stage of the project will be located on the Holcim (Australia) Pty Ltd Moriac quarry site, 8.5 km north-northwest of the Alcoa brown coal-fired power station at Anglesea, Victoria. The company advised that a preliminary Memorandum of Intent (MoI) regarding the use of the site has been signed by both parties and as the project progresses, relevant site and access agreements will be entered into.

The company advised the market that in selecting this site, Greenearth Energy has sought to address many of the topics raised via the site selection process. Being located in an industrial extractive industry zone, in an existing operating quarry, close to established infrastructure attempts to ensure that any environmental and amenity impact of a geothermal operation will be significantly minimised.

Directors' Report (continued)

Review of Operations (continued)

GEP 10 - GEELONG AREA (continued)

Geelong Geothermal Power Project (GGPP) (continued)

In order to commence with the exploration stage of the project, and drill the first deep geothermal well, Greenearth Energy has sought assistance from the Australian Government's Emerging Renewable Program. Underpinning this application to the Commonwealth is the Victorian Government's $5m grant towards initial exploration drilling. This $5m is part of a $25m funding arrangement via the State Government's Energy Technology Innovation Strategy (ETIS) program for exploration drilling and for a 12 MW_e geothermal power plant demonstration.

GGPP funding activities continue in order to commence the exploration stage of Victoria's flagship geothermal project.

GEP 12/13 – GIPPSLAND AND LATROBE VALLEY

A consortium involving Greenearth Energy (as the exploration permit holder), the University of Melbourne and Intrepid Geophysics has been formed to investigate the geothermal potential of the Latrobe Valley. It is also supported by experts from the University of Adelaide, ANU and the Institute of Earth Science and Engineering (IESE), University of Auckland New Zealand.

The Latrobe Valley is an exciting geothermal prospect as thick insulating coals overlay hot sediments. An innovative geoscience program will integrate advanced and emerging geological, geophysical and petrophysical technologies to understand the potential native productivity and the potential to enhance this through stimulation. Matrix, fracture and fault permeability will be differentiated. An advanced uncertainty analysis will be developed to quantify uncertainties and risk, a major factor facing the Australian geothermal industry.

Success has the potential to lead to greater exploration success for the Australian geothermal industry as a whole and a decision regarding the future location of a potential deep well in the Latrobe Valley.

The Emerging Renewables Program (ERP) from 1 July 2012 comes under the newly formed Australian Renewable Energy Agency (ARENA), and as, such new guidelines for participation in the program have recently been released, which the consortium is reviewing with an intention to apply for funding.

At the time of writing this report, Greenearth Energy is considering widening participation in the Latrobe Valley geothermal project to include another leading Melbourne based University, along with the Victorian Government and a Victorian Coal Fired power generator.

INDONESIA

Greenearth Energy continued to have an interest in the Indonesian Geothermal environment, via its interest in the Joint Venture PT Geopower Indonesia. These opportunities were reviewed during the year and are monitored on a regular basis.

NON GEOTHERMAL OPERATIONS

ENERGY EFFICIENCY

Greenearth Energy Efficiency, the subsidiary company which introduced a unique, and energy efficient High Intensity Discharge (eHID) lighting solution to the Australian market, continued to deliver substantial energy efficiency savings to its clients. An example of which was a 12 month review post implementation for Ambulance Victoria. Conservative estimates of energy savings of 65% have been achieved through an eHID lighting equipment upgrade and optimisation trial at Ambulance Victoria's depot in the western suburbs.

As a converted factory, the Ambulance Victoria depot had a simple garage lighting system that was inefficient and costly to run. The Greenearth Energy Efficiency upgrade provided a core technology upgrade (flexible and highly efficient lights) combined with a simple and smart control system that delivered light in the most optimal quantities, in the right areas and at the right time of the day. This review of performance 12 months after implementation showed a reduction in lamp power from 440w to 250w, double the lamp-life and a 55% reduction in the number of fittings / luminaries required.

Review of Operations (continued)
NON GEOTHERMAL OPERATIONS (continued)
ENERGY EFFICIENCY (continued)

Greenearth Energy Efficiency was also involved in consultation with the Department of Primary Industries with regards to a discussion paper in relation to widening the Victorian Energy Efficiency Target (VEET) scheme which is a legislative requirement placed on energy retailers through the Victorian Energy Efficiency Target Act 2007 to include small to medium enterprises (SMEs) and other businesses.

In June 2012, the scheme expanded to include the installation of energy efficient High Intensity Discharge (HID) lighting systems. Greenearth Energy Efficiency is subsequently applying to become accredited and will be able to offer Victorian Energy Efficiency Certificates (VEEC's) to clients in Victoria, a similar raft of additional benefits to those received by their New South Wales (NSW) counterparts. Greenearth Energy Efficiency is an accredited Energy Saving Certificate (ESC's) creator in NSW which is proving to be of substantial benefit to customers due to this added offering. ESC's and VEEC's directly reduce the implementation costs and assist in reducing the pay-back period of systems to client project partners.

The final quarter of the 2011/12 financial year saw additional sales achieved along with the finalisation of a number of high profile trial site negotiations. The Management team is currently in discussions with a number of these "blue-chip" customers to prepare documentation which can be released to the public showing the impressive savings and reductions in CO_2. Further discussions with key OEM's and installers continue to generate sales opportunities and expand the interest across the product range.

Further product development is also underway from the R&D team at Metrolight Israel who have successfully trialed LED High-bay options in Europe and the USA. This is an impressive step forward in the technologies development and will likely lead to further domestic and regional opportunities in the Asian market for Greenearth Energy Efficiency.

The 2012 financial year saw the development of a strong platform for growth in 2013 for this product. The number of sites that the eHID equipment has now been installed into has begun to generate interest and seen proven results with savings and performance.

WASTE HEAT RECOVERY

The company announced that early in September 2011, Pacific Heat and Power (PHP) sold two PureCycle Organic Rankine Cycle (ORC) Turbines to the American Samoa Power Authority. The sale was achieved via Service Engineers Limited, a New Zealand based partner who won a turnkey contract for capturing waste heat from diesel engines owned by the American Samoa Power Authority, and will provide both an additional $300kW_e$ net, base load zero emissions power as well as reducing total emissions levels.

America Samoa, like most of its neighbors in the Pacific Rim has a high dependency on diesel fuel as its primary power generation source. Despite the relatively small scale of many of these Pacific Island generators, pre-engineered systems reduce the costs of implementing small scale waste heat recovery projects allowing communities to reduce their generation costs while at the same time positively impacting on their emission levels. The project is scheduled to be commissioned in the second half of 2012.

In November 2011 Pacific Heat and Power Pty Ltd (PHP) was awarded a services contract with Newcrest Mining's Lihir operations for geothermal brine testing services during the quarter. PHP has taken a lead coordination role between international equipment suppliers and local geothermal experts to evaluate the low temperature brine using a specially designed test rig that is currently under-utilised. The project is part of Newcrest's efforts to maximise the value from the geothermal heat resources that are available to them on Lihir Island. The results of the project will provide critical information to assess the viability of a major equipment purchase such as a Turboden Organic Rankine Cycle (ORC) system that has the potential to maximise geothermal power production whilst minimising maintenance requirements and ensuring high reliability.

During an external review partaken in the last quarter of 2012, it was concluded that even though there is a growing demand for waste heat recovery technology, Greenearth Energy due to long project establishment leadtimes and low margins, has taken a strategic decision to divest of its interest in PHP in the 2013 financial year.

Directors' Report (continued)

Review of Operations (continued)
NON GEOTHERMAL OPERATIONS (continued)
SOLAR ENERGY

Early in the new financial year Greenearth Energy Solar's ZenithSolar Z20 demonstration project received planning approval. During the second quarter 2012 the company commenced the task of identifying and securing potential collaboration partners in the development of the Greenearth Energy Solar's ZenithSolar Z20 demonstration project.

Each ZenithSolar Z20 unit features two $11m^2$ collectors, mounted on dual axis tracker that concentrates incoming solar power onto a receiver that efficiently converts concentrated solar flux into DC electrical power and thermal energy. DC electrical power is then converted into AC power and fed to either directly to the grid or a specific customer.

However due to the limited funds raised via the rights issue and the prevailing market conditions the company has yet to deploy the Melbourne ZenithSolar Z20 demonstration.

CO_2 TO FUEL CONVERSION TECHNOLOGY

The company announced on 30 June 2011 the successful conclusion of over twelve months of negotiations with Yeda Research and Development Co Ltd, the commercial arm of Israel's Weizmann Institute of Science, it had secured an exclusive worldwide Research and License Agreement for a revolutionary technology that has the ability to convert CO_2 emissions into fuel.

The technology concept successfully developed in Israel by Professor Jacob Karni and his group at the Weizmann Institute of Science, and proven in laboratory trials, involves a new method of using concentrated solar energy for the dissociation of carbon dioxide (CO_2) to carbon monoxide (CO) and oxygen (O_2). The same system can also dissociate water (H_2O) to hydrogen (H_2) and oxygen (O_2), at the same time it dissociates the CO_2. The CO, or the mixture of CO and H_2 (called Syngas) can then be used as gaseous fuel (e.g. in power plants), or converted to liquid fuel (e.g. methanol or other transportation fuels), which has the potential to be stored, transported and used in motor vehicles. The oxygen produced can be used in the combustion of the clean fuel, or elsewhere.

Professor Karni and his team have started to advance the project from technology proven in the laboratory to technology proven at a field trial level at the beginning of the financial year. Funds have been advanced to facilitate the purchase of the necessary equipment to commence this next developmental stage.

Product development advanced as planned with the reactor preliminary conceptual design underway and simulations in support of the design carried out. In conjunction with the simulations, laboratory experiments have been conducted to provide information to support further design activities.

A number of market studies were also undertaken to further fine tune the project teams understanding of the market potential, cost and price parameters and competitive technologies status. Patent applications have been assessed and increased to ensure all prospective territories have been appropriately protected.

During the third quarter the NewCO2Fuels Ltd (NCF) team in Israel reported that the design and development of the CO_2 dissociation reactor is progressing as planned with critical components within the reactor receiving the most concentrated effort at this time.

Supply partnerships for a number of components have commenced and the NCF team is working to finalise with potential supplier's delivery requirements in terms of performance and timing of availability. It is expected that tests of those components will commence during the second half of the 2012 calendar year.

The reactor design approach has been revisited based on new findings relating to potential future improvements. The new concept, currently under evaluation, has the potential of simplifying the system design and improving its performance.

Advanced simulation tools were purchased by NCF and a modeling program is under development with the objective of simulating components and overall system configuration performance.

NCF test facilities have been expanded with the new laboratory set-up for testing and evaluating reaction cells near completion. This new facility will be added to the existing infrastructure for cell testing and sample analyses.

Directors' Report (continued)

Review of Operations (continued)
NON GEOTHERMAL OPERATIONS (continued)
BIOMASS

In September 2011 Greenearth Energy announced the establishment of an additional subsidiary, Greenearth Biomass Energy Pty Ltd.

The purpose of this newly created subsidiary was to house a substantial market and technology opportunity that is currently being assessed by the company. This technology is a biomass waste-to-energy gasification process.

Biomass waste-to-energy gasification has the ability to convert municipal and other waste into electric power or other valuable products such as fertilizers and syngas. Gasifying biomass and other waste streams generates positive economic and environmental outcomes for governments, participating communities and investors alike.

During the quarter an initial investment in the project technology was made with further investment at this stage subject to ongoing assessment of the project technology and the outcome of the current capital raising activities.

Throughout the balance of 2011 Greenearth Biomass Energy assessed this technology and market opportunity. While the project initially focuses on Indonesia, the unique technology solution is universal in its application potential.

As a result of the 2011 year end capital raising shortfall the company decided against further investment in this substantial technology opportunity at this time.

Significant events after balance date

The company made the decision to divest 100% owned subsidiary, Pacific Heat and Power Pty Ltd. A sale agreement was entered into on 11 July 2012 for a sale price of $78,405. The carrying of this investment at 30 June 2012 was nil.

On 7 August 2012 12,507 shares were issued due to the exercise of options. This raised the company a total of $625.35.

The company informed option holders, that the unlisted incentive options allocated as part of rights issue expire on 15 October 2012. The options are exercisable at a price of $0.05 per option.

Likely developments

In May 2012, the Board of Directors commissioned an external diagnostic review of the entire operations of Greenearth Energy Ltd. During this review it was found that there was a requirement to re-focus the business on the strengths within the portfolio, board of directors and management team. This would include a consolidation of the current businesses, including potential rationalisation of businesses which were no-longer in-line with the long-term strategy of the company. The report also noted that there was an opportunity to hire key staff for the new and developing energy efficiency business.

Based on the feedback in this review, the initial 3 months of the 2013 financial year have been focused on successfully executing these recommendations. This has included the divestment of the PHP business, the marked reduction in expenses and the hiring of a successful and proven executive to lead the Energy Efficiency business, starting 1 October.

The 2013 year will be focused on building the Energy Efficiency business to a stage where it is generating a positive cashflow, assisting the Greenearth Energy group by alleviating the strain on capital raising, contributing to our domestic geothermal project financial requirements and assisting the sibling businesses within the group to continue to focus on their revenue targets and various tollgates.

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. Bonuses are issued when Key Performance Indicators (KPI's), which are stipulated within services agreements, are met in part or full, as assessed appropriate by Board. The remuneration policy is not 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.

The company has entered into service agreements with the following key management personnel:

Mr Mark Miller

Mr Mark Miller, the Managing Director for the 2011/2012 has a 3 year service agreement expiring at 30 June 2012. The service agreement is able to be terminated by the company with 6 months' notice or by the executive by 3 months notice. Termination payments comprise the base salary payment comparable to the notice period applicable and any statutory entitlements such as outstanding annual leave entitlements. By mutual agreement, Mr Miller's services agreement was extended and Mr Miller became a non executive director, effective 1 July 2012. The service agreement includes KPI's such as Capital raising (including Government Contracts), attracting joint venture partners to major geothermal development projects and demonstrating good business management. If all KPI's are achieved a performance bonus representing 30% of base salary may be achieved. The performance bonus is not related to the company's performance. Bonuses can be taken as cash, shares or a combination of both.

Mr Samuel Marks

Mr Samuel Marks, the new Managing Director is yet to enter into a formal remuneration package. It is anticipated that this will occur early in the 2012/2013 financial year and the services agreement will include an appropriate KPI performance bonus, termination clause and payments, which are yet to be agreed.

Ms Vicki Kahanoff

Ms Vicki Kahanoff, the Chief Financial Officer has a service agreement which specifies ongoing employment, which can be terminated by 1 months notice by either the company or the executive. Termination payments comprise the base salary payment of 1 month plus any statutory entitlements owing, such as outstanding annual leave entitlements. Ms Kahanoff has KPI's in relation to meeting all mandatory and regulatory reporting requirements, cash management, budgeting and forecasting objectives and capital raising. If all KPI's are achieved a performance bonus representing 20% of base salary may be achieved. The performance bonus is not related to company's performance. Bonuses can be taken as cash, shares or a combination of both.

Directors' Report (continued)

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial period are provided below. There were two executives in the company who received remuneration for the financial period.

Directors	Position
Robert J Annells	Chairman
Mark Miller	Managing Director
Robert L King	Executive Director
John T Kopcheff	Non-Executive Director

Executive	Position
Vicki Kahanoff	Company Secretary & Chief Financial Officer
Craig Morgan	Business Development Manager

Directors' Remuneration

		Primary Benefits			Post Employment				
		Salary & Fees#	Cash Bonus	Non Monetary	Superannuation	Termination Benefits	Equity Options*	Share Based Payments^	Total
R.J. Annells[A]	**2012**	**32,000**	-	-	-	-	-	**92,650**	**124,650**
	2011	35,000	-	-	-	-	-	13,625	48,625
M. Miller	**2012**	**282,500**	-	**2,964**	**37,500**	-	-	**64,800**	**387,764**
	2011	270,000	-	2,964	50,000	-	-	80,000	402,964
J.T. Kopcheff	**2012**	-	-	-	-	-	-	**54,500**	**54,500**
	2011	-	-	-	-	-	-	13,625	13,625
R.L. King[BC]	**2012**	**46,110**	-	-	**-**	-	-	**54,500**	**100,610**
	2011	74,023	-	-	-	-	-	13,625	87,648
Total Directors remuneration	**2012**	**360,610**	-	**2,964**	**37,500**	-	-	**266,450**	**667,524**
	2011	379,023	-	2,964	50,000	-	-	144,037	576,024

The directors decided to defer payment of directors' fees to conserve the company' cash reserves and will seek approval from shareholders to have their outstanding directors fees paid via the issue of Greenearth Energy ordinary shares at the company's Annual General Meeting (AGM) in November 2012.
* The values shown in the column headed 'equity options' represents the non-cash notional value of the options.
^ Share based payments represent either bonuses paid to the Managing Director or Executive Management via the issue of shares or Directors Fees and associated superannuation paid via the issue of shares.
[A] The values shown represent payment made as a director and as a consultant (paid to Arc de Triomphe Securities Pty Ltd).
[B] The values shown represent payment made as a director and as chief geologist (paid to Rob King and associates).
[C] R King resigned 30 June 2012, effective 1 July 2012.

Executives' Remuneration

		Primary Benefits		Post Employment				
		Salary & Fees	Non Monetary	Superannuation	Termination Benefits	Equity Options*	Share Based Payments^	Total
V. Kahanoff	**2012**	**101,147**	**2,964**	**9,103**	**-**	**-**	**-**	**113,214**
	2011	141,055	2,964	12,695	-	-	13,200	169,914
C. Morgan[D]	**2012**	**164,223**	**-**	**14,780**	**-**	**-**	**-**	**179,003**
	2011	183,486	-	16,514	-	-	-	200,000
Total Executive Remuneration	**2012**	**265,370**	**2,964**	**23,883**	**-**	**-**	**-**	**292,217**
	2011	324,541	2,964	29,209	-	-	13,200	369,914

* The values shown in the column headed 'equity options' represents the non-cash notional value of the options.
^ Share based payments represent either bonuses paid to the Managing Director or Executive Management via the issue of shares or Directors Fees paid via the issue of shares.
[D] C. Morgan resigned on 10 May 2012.

Total Performance based Remuneration

The percentage of each director and executive remuneration which includes bonuses received as share based payments is shown in the table below:

Directors and Executives	2012 % of Performance based Remuneration	2011 % of Performance based Remuneration
Directors		
R.J. Annells	**-**	-
M. Miller	**16.71**	19.85
J.T. Kopcheff	**-**	-
R.L. King[C]	**-**	-
Executives		
V. Kahanoff	**-**	7.76
C. Morgan[D]	**-**	-

[C] R. King resigned 30 June 2012, effective 1 July 2012.
[D] C. Morgan resigned on 10 May 2012.

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	2012 % of Remuneration from Options	2011 % of Remuneration from Options
Directors		
R.J. Annells	**-**	-
M. Miller	**-**	-
J.T. Kopcheff	**-**	-
R.L. King[C]	**-**	-
Executives		
V. Kahanoff	**-**	-
C. Morgan[D]	**-**	-

[C] R. King resigned 30 June 2012, effective 1 July 2012.
[D] C. Morgan resigned on 10 May 2012.

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

2012	Directors and Executives	1 July 2011	Value granted	Value exercised	Value lapsed	30 June 2012
	Directors					
	R.J. Annells	60,000	-	-	-	60,000
	M. Miller	57,400	-	-	-	57,400
	J.T. Kopcheff	60,000	-	-	-	60,000
	R.L. King[C]	60,000	-	-	-	60,000
	Executives					
	V. Kahanoff	53,000	-	-	-	53,000
	C. Morgan[D]	-	-	-	-	-
	Total	**290,400**	**-**	**-**	**-**	**290,400**

2011	Directors and Executives	1 July 2010	Value granted	Value exercised	Value lapsed	30 June 2011
	Directors					
	R.J. Annells	60,000	-	-	-	60,000
	M. Miller	76,000	-	-	18,600	57,400
	J.T. Kopcheff	60,000	-	-	-	60,000
	R.L. King	60,000	-	-	-	60,000
	Executives					
	V. Kahanoff	53,000	-	-	-	53,000
	C. Morgan	**-**	-	-	-	-
	Total	**309,000**	**-**	**-**	**18,600**	**290,400**

[C] R. King resigned 30 June 2012, effective 1 July 2012.
[D] C.Morgan resigned 10 May 2012.

Directors' Report (continued)

Directors' and Executives' Equity Holdings

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

During the financial period no options were granted as equity compensation benefits to directors and executives. This was also the case for the financial period ending 30 June 2011, with no options being granted as equity compensation benefits to directors and executives.

(b) Share issued on exercise of compensation options

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

(c) Number of Options held by Key Management Personnel

2012	Balance 1 July 2011	Granted as Remuneration	Options Exercised	Net Change Other (Purchases/ Expired)	Balance 30 June 2012	Total vested 30 June 2012	Total exercisable 30 June 2012	Total unexercisable 30 June 2012
Directors								
R.J. Annells	1,000,000	-	-	301,823	1,301,823	1,301,823	1,301,823	-
M Miller	2,000,000	-	-	50,000	2,050,000	2,050,000	2,050,000	-
J.T. Kopcheff	1,000,000	-	-	133,334	1,133,334	1,133,334	1,133,334	-
R.L. King[C]	1,000,000	-	-	250,000	1,250,000	1,250,000	1,250,000	-
Executives								
V. Kahanoff	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
C. Morgan[D]	-	-	-	-	-	-	-	-
Total	**6,000,000**	**-**	**-**	**735,157**	**6,735,157**	**6,735,157**	**6,735,157**	**-**

2011	Balance 1 July 2010	Granted as Remuneration	Options Exercised	Net Change Other (Purchases/ Expired)	Balance 30 June 2011	Total vested 30 June 2011	Total exercisable 30 June 2011	Total unexercisable 30 June 2011
Directors								
R.J. Annells	1,666,666	-	-	(666,666)	1,000,000	1,000,000	1,000,000	-
M Miller	3,000,000	-	-	(1,000,000)	2,000,000	2,000,000	2,000,000	-
J.T. Kopcheff	3,083,333	-	-	(2,083,333)	1,000,000	1,000,000	1,000,000	-
R.L. King	1,583,334	-	-	(583,334)	1,000,000	1,000,000	1,000,000	-
Executives								
V. Kahanoff	1,083,333	-	-	(83,333)	1,000,000	1,000,000	1,000,000	-
C. Morgan	-	-	-	-	-	-	-	-
Total	**10,416,666**	**-**	**-**	**(4,416,666)**	**6,000,000**	**6,000,000**	**6,000,000**	**-**

[C] R. King resigned 30 June 2012, effective 1 July 2012.
[D] C.Morgan resigned 10 May 2012.

Directors' Report (continued)

Directors' and Executives' Equity Holdings (continued)

(d) Number of shares held by key management personnel

2012	Balance 1 July 2011		Granted as Remuneration		On Exercise of Options		Net Change Other (Purchases)		Balance 30 June 2012	
	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors										
R. J. Annells	1,270,311	-	1,715,740	-	-	-	679,689	-	3,665,740	-
M Miller	1,100,000	-	1,200,000	-	-	-	50,000	-	2,350,000	-
J.T. Kopcheff	2,520,312	-	1,009,259	-	-	-	233,334	-	3,762,905	-
R.L. King[C]	853,646	-	1,009,259	-	-	-	250,000	-	2,112,905	-
Executives										
V. Kahanoff	248,333	-	-	-	-	-	-	-	248,333	-
C. Morgan[D]	1,568,090	-	-	-	-	-	-	-	1,568,090	-
Total	**7,560,692**	**-**	**4,934,258**	**-**	**-**	**-**	**1,213,023**	**-**	**13,707,973**	**-**

2011	Balance 1 July 2010		Granted as Remuneration		On Exercise of Options		Net Change Other (Purchases)		Balance 30 June 2011	
	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors										
R. J. Annells	1,099,999	-	170,312	-	-	-	-	-	1,270,311	-
M Miller	100,000	-	1,000,000	-	-	-	-	-	1,100,000	-
J.T. Kopcheff	2,350,000	-	170,312	-	-	-	-	-	2,520,312	-
R.L. King	683,334	-	170,312	-	-	-	-	-	853,646	-
Executives										
V. Kahanoff	83,333	-	165,000	-	-	-	-	-	248,333	-
C. Morgan	-	-	-	-	-	-	1,568,090	-	1,568,090	-
Total	**4,316,666**	**-**	**1,675,936**	**-**	**-**	**-**	**1,568,090**	**-**	**7,560,692**	**-**

[C] R. King resigned 30 June 2012, effective 1 July 2012.
[D] C.Morgan resigned 10 May 2012.

All equity transactions with 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

Samuel Marks
Managing Director
Signed at Melbourne, Victoria on 28 September 2012

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Greenearth Energy Ltd

In relation to the independent audit for the year ended 30 June 2012, 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.

M J HARRISON

Partner

28 September 2012

PITCHER PARTNERS

Melbourne

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	CONSOLIDATED 2012 $	2011 $
Revenue			
Sales Revenue		**323,215**	66,024
Other income		**157,155**	954,349
	4	**480,370**	1,020,373
Less: Expenses			
Employee benefits expense	5(a)	**(814,709)**	(1,059,485)
Inventories sold or used		**(334,662)**	(21,360)
Depreciation expenses	5(b)	**(28,109)**	(40,899)
Loss on disposal of fixed assets		**-**	(570)
Finance costs	5(d)	**(4,042)**	(2,483)
Exploration expenditure written off	15	**-**	(245,985)
Accounting and audit expenses	25	**(81,425)**	(75,255)
Professional fees		**-**	(16,300)
Marketing and promotion expenses		**(46,447)**	(53,493)
Rent and occupancy expenses		**(129,560)**	(129,896)
Consulting expenses		**(254,478)**	(269,924)
Lease payments		**(100,000)**	(100,000)
Loss on fair value of investments		**(23,554)**	-
Impairment loss on investments		**(46,563)**	-
Impairment (loss)/gain on investments in associates	29	**-**	65,995
Impairment of goodwill	14	**-**	(198,369)
Administrative expenses	5(c)	**(1,004,764)**	(1,383,839)
Total expenses		**(2,868,313)**	(3,531,863)
Share of associate loss accounted for using equity method	30	**(384,018)**	(64,391)
Loss before income tax		**(2,771,961)**	(2,575,881)
Income tax expense	6(a)	**-**	-
Loss from continuing operations	5	**(2,771,961)**	(2,575,881)
Loss from discontinued operations	7	(64,238)	(59,035)
Loss for the year		**(2,836,199)**	(2,634,916)
Other comprehensive income		**-**	-
Total comprehensive income		**-**	-
Loss attributable to:			
Members of the parent		**(2,593,368)**	(2,634,916)
Non-controlling interest		**(242,831)**	-
		(2,836,199)	(2,634,916)
Earnings per share for loss from continuing operations attributable to equity holders of the parent entity:			
Basic loss per share (cents per share)	23	**(2.46)**	(3.55)
Diluted loss per share (cents per share)	23	**(2.46)**	(3.55)
Earnings per share for loss attributable to equity holders of the parent entity:			
Basic loss per share (cents per share)	23	**(2.52)**	(3.63)
Diluted loss per share (cents per share)	23	**(2.52)**	(3.63)

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

Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
CURRENT ASSETS			
Cash and cash equivalents	*22(b)*	**406,860**	1,866,378
Receivables	*8*	**1,478,195**	496,207
Financial assets at fair value through profit or loss	*10*	**31,404**	54,958
Inventory	*9*	**344,844**	356,421
Other financial assets	*12*	**54,124**	54,124
Other current assets	*11*	**28,660**	2,847
TOTAL CURRENT ASSETS		**2,344,087**	2,830,935
NON-CURRENT ASSETS			
Receivables	*8*	**850,000**	-
Investment in Associate	*30*	**2,008,510**	9,419
Property, plant and equipment	*13*	**51,584**	79,693
Deferred exploration, evaluation and development	*15*	**2,111,965**	2,198,272
TOTAL NON-CURRENT ASSETS		**5,022,059**	2,287,384
TOTAL ASSETS		**7,366,146**	5,118,319
CURRENT LIABILITIES			
Trade and other payables	*16*	**654,671**	835,084
Purchase Option	*17*	**1,610,921**	-
Advance on Purchase Option	*18*	**2,000,000**	-
Provisions	*19*	**132,373**	134,741
TOTAL CURRENT LIABILITIES		**4,397,965**	969,825
NON-CURRENT LIABILITIES			
Provisions	*19*	**29,548**	33,384
TOTAL NON-CURRENT LIABILITIES		**29,548**	33,384
TOTAL LIABILITIES		**4,427,513**	1,003,209
NET ASSETS		**2,938,633**	4,115,110
EQUITY			
Share capital	*20(a)*	**15,010,591**	13,350,876
Other reserves	*21*	**410,400**	410,400
Accumulated losses	*21(d)*	**(12,239,534)**	(9,646,166)
Equity attributable to owners of Greenearth Energy		**3,181,457**	4,115,110
Non-controlling Interests		**(242,824)**	-
TOTAL EQUITY		**2,938,633**	4,115,110

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

Consolidated Statement of Changes in Equity

Year Ended 30 June 2012

	Contributed Capital	Reserves	Retained Earnings	Non-controlling Interest	Total
Balance at the beginning of the year	13,350,876	410,400	(9,646,166)	-	4,115,110
Loss for the year	-	-	(2,593,368)	(242,831)	(2,836,199)
Total comprehensive income for the year	-	-	(2,593,368)	(242,831)	(2,836,199)
Transactions with equity holders in their capacity as equity holders:					
Contributions	1,669,715	-	-	7	1,669,722
Capital raising costs	(10,000)	-	-	-	(10,000)
Total transactions with owners in their capacity as owners:	1,659,715	-	-	7	1,659,722
Balance at the end of the year	**15,010,591**	**410,400**	**(12,239,534)**	**(242,824)**	**2,938,633**

Year Ended 30 June 2011

	Contributed Capital	Reserves	Retained Earnings	Non-controlling Interest	Total
Balance at the beginning of the year	11,383,286	519,000	(7,119,850)	-	4,782,436
Loss for the year	-	-	(2,634,916)	-	(2,634,916)
Total comprehensive income for the year	-	-	(2,634,916)	-	(2,634,916)
Transactions with equity holders in their capacity as equity holders:					
Contributions	1,998,090	(108,600)	108,600	-	1,998,090
Employee share scheme	(30,500)	-	-	-	(30,500)
Total transactions with owners in their capacity as owners:	1,967,590	(108,600)	108,600	-	1,967,590
Balance at the end of the year	**13,350,876**	**410,400**	**(9,646,166)**	**-**	**4,115,110**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Note	CONSOLIDATED 2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**369,921**	307,040
Receipt from grants		**-**	350,000
Payments to suppliers and employees		**(2,243,314)**	(2,552,810)
(Payments)/Rebates received for exploration and evaluation costs		**62,882**	(380,916)
Interest received		**4,432**	66,447
NET CASH FLOWS USED BY OPERATING ACTIVITIES	*22(a)*	**(1,806,079)**	(2,210,239)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**-**	(10,048)
Purchase of unlisted securities		**(46,563)**	-
Payments for bonds and deposits		**(54,124)**	(54,122)
Proceeds from matured bonds and deposits		**57,271**	52,537
Proceeds from sale of shares in unlisted company		**-**	471,200
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(43,416)**	459,567
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**1,225,572**	1,557,725
Proceeds from Issue of option		**1,610,921**	-
Advance from Issue of option		**150,000**	-
Capital raising costs		**(10,000)**	(30,500)
Advances to related parties		**(2,567,554)**	(71,035)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		**408,939**	1,456,190
NET DECREASE IN CASH HELD		**(1,440,556)**	(294,482)
Foreign exchange differences on cash holdings		**(18,962)**	124,053
Add opening cash brought forward		**1,866,378**	2,036,807
CLOSING CASH CARRIED FORWARD	*22(b)*	**406,860**	1,866,378

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

Notes to the Financial Statements

Note 1: Statement of significant Accounting Policies

The following is a summary of material accounting policies adopted by Greenearth 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

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 Greenearth Energy Ltd and controlled entities as a consolidated entity. Greenearth Energy Ltd. is a company limited by shares, incorporated and domiciled in Australia. Greenearth Energy Ltd is a for-profit entity for the purpose of preparing the financial statements.

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

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

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

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

(b) Going Concern

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

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2012 of $2,836,199 (2011: $2,634,916) and at the reporting date total assets exceeded total liabilities by $2,938,633 (2011: $4,115,110).

The Directors have determined that there is a cash requirement of $1,200,000 over the forthcoming 12 months to maintain operations. In order to finance this cash flow requirement the Directors agreed to a discounted figure of $2,000,000 from Erdi Fuels to be paid over a 21 month period from June 2012 for the disposal of an option right instead of the previous arrangement, effectively changing a possible future payment for a fixed advanced, funding stream, however maintaining future possible royalty income, if a successful outcome is achieved. This arrangement was announced on 22 June 2012.

In the event that proceeds from the disposal of the option and trading activity are insufficient, the Directors continue to develop their other renewable technologies and are focussing on expanding their revenues streams in conjunction with seeking to raise additional capital.

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

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

The Directors also recognise that additional funding is required over the next 2 to 3 years to further develop current geothermal projects in particular its flagship domestic geothermal project, the Geelong Geothermal Power Project (GGPP). Additional funding will be available through access to Commonwealth and Victorian Government Grants as discussed below. The Directors continue to seek potential cornerstone investors (joint venture partners) at a project level. This investment funding will be required to undertake the project, fulfil the terms of the Government Grants and secure access to the Government funds.

On 3 November 2011, Greenearth Energy and the Victorian Government executed the funding agreement in relation to the awarding of $25 million funding grant that is receivable subject to meeting Government pre-conditions. $5 million of the grant relates to the Proof of Resources stage with the remaining $20 million to be contributed towards demonstration stage upon a successful Proof of Concept stage. The proof of resources stage is expected to cost $19 million with the combined proof of resource and proof of concept stage is expected to cost up to $32 million.

Notes to the Financial Statements (continued)

Note 1: Statement of Accounting Policies (continued)

(b) Going Concern (continued)

The directors are also in the process of applying for funding via the Australian Government's Emerging Renewable program. To allow the Company time to undertake this process while maintaining the Victorian Government Grant the Company has requested a time extension from the Victorian Government, to allow a suitable application to be submitted while maintaining a significant funding contribution towards the Proof of Resource phase. The majority of funding sought, if obtained will be used to supplement funds for completing the Proof of Resource stage. There is no guarantee the Company will be successful in securing this funding.

The consolidated entity does not have any material commitments in relation to the GGPP or other permits it holds as at balance date or the date of signing this financial report.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Greenearth Energy Ltd., the parent entity and all entities which Greenearth Energy Ltd., controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the company has control. Details on the controlled entities are detailed in note 26.

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

All intercompany balance and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

(d) Revenue

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

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

In respect of sales of investments and creation of options the proceeds arising from sale are recognised when control of the asset is passed to the acquirer.

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

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

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

(e) 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.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. No goods are manufactured by the company.

Notes to the Financial Statements (continued)

Note 1: Statement of significant Accounting Policies (continued)

(g) 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.

(h) Property, plant and equipment

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

The carrying amount of property, 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(g).

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

The useful lives for each class of assets are:

	2012	2011
Computer equipment	3 years	3 years
Office equipment	6 years	6 years
Leasehold improvements	the lease term	the lease term

(i) Exploration and evaluation costs

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

Exploration expenses are recognised on a net basis, after offsetting grant income and exploration expenditure written off.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Amortisation

The entity does not currently have any production areas.

Restoration costs

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

Notes to the Financial Statements (continued)

Note 1: Statement of significant Accounting Policies (continued)

(j) 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.

(k) Business combinations

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

The consideration transferred is determined as the aggregate of fair value of assets given, equity issued and liabilities assumed in exchange for control.

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred and the acquisition date fair value of the acquirer's previously held equity interest, less the fair value of identifiable assets acquired and liabilities assumed.

Acquisition related costs are expensed as incurred.

(l) Intangibles

Goodwill

Goodwill is initially measured as described in Note 1(k).

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Research and development

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

Expenditure on development activities is capitalised only when technical feasibility studies demonstrate that the project will deliver future economic benefits and these benefits can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation commences when the intangible asset is available for use.

Other development expenditure is recognised as an expense when incurred.

(m) Payables

Liabilities for trade creditors and other amounts are carried at 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 amortised cost.

(n) 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.

Notes to the Financial Statements (continued)

Note 1: Statement of significant Accounting Policies (continued)

(o) Taxes

Income tax losses

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

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 deductible 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.

(p) 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 Statement of Comprehensive Income 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 value of services provided.

(q) 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.

(r) 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.

Unlisted investments for which fair value cannot be reliably measured are carried at cost and tested for impairment.

Notes to the Financial Statements (continued)

Note 1: Statement of significant Accounting Policies (continued)

(r) Financial instruments (continued)

Available -for-sale

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

Loans and receivables

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

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.

(s) Comparatives

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

(t) Investments in associates

An associate is an entity in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The financial statements include the entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influences ceases.

The entity's carrying value of the investment is reduced to nil where the entity's share of losses exceeds its interest in an associate. Recognition of further losses are discontinued except to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates are carried at cost less any impairment loss. In determining any impairment loss the fair value of investments in listed shares of associates is their current market value at the balance sheet date.

(u) Foreign currency translations and balances

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

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

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

Notes to the Financial Statements (continued)

Note 1: Statement of significant Accounting Policies (continued)

(v) 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 assessment of the impact of these standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 Financial Instruments improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The standard is not applicable until 1 January 2013* but is available for early adoption.

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

The consolidated entity does not have any financial liabilities that are designated at fair value through profit or loss. The new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. Therefore, there will be no impact on the consolidated entity's accounting for financial liabilities. The consolidated entity has decided not to early adopt AASB 9 at 30 June 2012.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The standard fundamentally changes the way control is defined for the purpose of identifying those entities to be included in the consolidated financial statements. It focuses on the need to have power over the investee, rights or exposure to variable returns and ability to use the power to affect the amount of its returns. Returns must vary and can be positive, negative or both. There is also new guidance on substantive rights versus protective rights and on agent versus principal relationships. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the accounting for consolidation.

AASB 11 does not focus on the legal structure of joint arrangements, but rather on how and what rights and obligations are shared between parties. If the parties share the right to the net assets of the joint arrangement, these parties are parties to a joint venture. A joint venturer accounts for an investment in the arrangement using the equity method, and the choice to proportionately consolidate will no longer be permitted. If the parties share the right to the separate assets and obligations for the liabilities of the joint arrangement, these parties are parties to a joint operation. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement by recognising their share of interest in each item.

While the consolidated entity does not expect AASB 10 and AASB 11 to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 12 sets new minimum disclosures requirements for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard will affect the type of information disclosed in relation to the consolidated entity's investments as the new standard requires extensive new disclosures regarding the nature of risk associated with the entity's interest in other entities and the effect of those interest on its financial position, financial performance and cash flows.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest if an investment a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The consolidated entity is still assessing the impact of these amendments.

The consolidated entity does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

Notes to the Financial Statements (continued)

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.

Deferred tax assets arising from tax losses of the economic entity are not brought to account at balance date as realisation of the benefit is not probable.

(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 and are calculated using the Black Scholes method.

(d) Impairment of goodwill

Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on current financial forecasts and projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using a growth rate of 5% to project current management forecasts for a five year period and a discount value of 10% to determine value-in-use. In 2011 the company fully impaired goodwill in relation to cash generating unit, Pacific Heat and Power.

(e) 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(i) and 1(l).

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.

(f) 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 consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable and payable. The company does not have any derivative instruments.

Financial risks

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

- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Credit risk
- Market or price risk

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

Notes to the Financial Statements (continued)

Note 3: Financial Risk Management (continued)

Interest rate risk

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

The company does not currently have any interest bearing debt. Cash deposits attract interest at the prevailing floating interest rate of 4.5%. The entity's exposure to interest rate risk at 30 June 2012 was 4.5%.

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At 30 June 2012 the consolidated entity held $112,000 in foreign bank accounts

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

Liquidity risk

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

The group manages liquidity risk by forecasting and monitoring cash flows on a continuing basis. The group expects to settle its financial liabilities within 90 days.

For clarity Directors emphasise that amounts disclosed at Notes 17 & 18 are deferred revenue and not future cash obligations.

Credit risk

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

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

The consolidated entity's only material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the entity is $1.85 million due from Erdi Fuels Pty Ltd and is disclosed in Note 8. This risk is managed by ensuring the group only trades with parties that are able to trade on the group's credit terms. Additionally cash at bank is held with a major Australian bank.

Market or price risk

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

Investments in listed securities at fair value through profit and loss are measured at fair value at reporting date based on current bid prices. If security prices were to increase/decrease by 10% from fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is below. This risk is managed by monitoring security prices on a regular basis.

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

	CONSOLIDATED	
	2012	2011
	$	$
+/- 10% price variation		
Impact on Profit after tax	**3,140**	5,495
Impact on equity	**3,140**	5,495

Fair values

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

All financial assets at fair value through profit or loss as disclosed in Note 10 are classified as being instruments with quoted prices in active markets using fair value hierarchy.

Notes to the Financial Statements (continued)

Note 4: Revenue

	CONSOLIDATED 2012 $	2011 $
CONTINUING OPERATIONS		
Revenue from continuing operations		
Sale of goods	**323,215**	66,024
	323,215	66,024
Other revenues		
Interest - Other persons/corporations	**7,493**	30,551
Rental income	**9,727**	10,227
Gains on fair value of investments	**-**	11,777
Profit from sale of investments	**-**	471,200
Exchange difference on translation of foreign currency assets	**-**	124,053
Research and development tax concession rebate	**139,935**	70,162
Government grant	**-**	236,379
	157,155	954,349
Total revenues from continuing operations	**480,370**	1,020,373
Revenues from discontinued operations		
Commission received	**33,960**	-
Rendering of services	**227,327**	125,394
	261,287	125,394

Note 5: Loss From Continuing Operations

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

	2012 $	2011 $
(a) Employee benefits expense		
Wages and salaries	**725,546**	817,419
Superannuation costs	**88,304**	112,767
Expense of share based payments	**-**	93,200
Other employee related costs	**36,659**	86,099
Employee benefits included in discontinued business	**(35,801)**	(50,000)
Total employee benefits expenses	**814,709**	1,059,485
(b) Depreciation of non-current assets		
Office equipment	**386**	557
Computer equipment	**4,089**	4,909
Leasehold improvements	**23,634**	35,433
Total depreciation expenses	**28,109**	40,899
(c) Other expenses from ordinary activities include:		
Travel and accommodation	**136,360**	310,092
Share registry costs	**117,707**	61,239
Legal fees	**119,722**	181,394
Directors fees	**185,000**	185,000
Insurance premiums	**114,898**	89,370
Office expenses	**331,077**	556,744
	1,004,764	1,383,839
(d) Finance costs	**4,042**	2,483

(e) Specific items

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

Notes to the Financial Statements (continued)

	CONSOLIDATED	
	2012	2011
	$	$

Note 6: Income Tax

(a) The components of tax expense

Current tax	**-**	-
Deferred tax	**-**	-
Under (over) provision in prior years	**-**	-
Total income tax expenses	**-**	-

(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	**(2,836,199)**	(2,634,916)
Prima facie tax benefit on loss from ordinary activities	**(850,860)**	(790,475)
Tax effect of non-deductible expenses		
Non-deductible expenses	**(633,553)**	(220,129)
Income tax benefit adjustment from prior year	**-**	243,372
Income tax benefit arising from current year	**(217,307)**	(767,232)
Add: Benefit of tax losses not brought to account	**217,307**	767,232
Income tax expense attributable to ordinary activities	**-**	-

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.	**3,198,054**	2,750,000

Note 7: Discontinued Operation

Following the completion of a diagnostic review of all aspects of the company, it was concluded that even though there is a growing demand for waste heat recovery technology, due to long project establishment leadtimes and low margins the business unit, Pacific Heat and Power held no strategic value for the company.

The company entered into a sale agreement on 11 July 2012 with a sale price of $78,405, which is still receivable at the date of this report. The gain on sale will be recognised in the financial report for the 2013 financial year.

The results of the discontinued operation for the period until disposal are presented below:

	CONSOLIDATED	
	2012	2011
	$	$
(i) Financial performance information		
Revenue	**261,287**	125,394
Expenses	**(325,525)**	(184,429)
Loss before income tax	**(64,238)**	(59,035)
Income tax expense	**-**	-
Loss after income tax of discontinued operation	**(64,238)**	(59,035)
(ii) Cash Flow Information		
Net cash provided by (used in) operating activities	**(70,790)**	(86,035)
Net cash provided by/(used in) investing activities	**-**	-
Net cash provided by/(used in) financing activities	**-**	-
Net cash flow	**(70,790)**	(86,035)
(iii) Carrying amount of assets and liabilities		
Assets		
Cash	**-**	-
Receivables	**55,000**	29,700
Assets classified as held for sale	**55,000**	29,700
Liabilities		
Payables	**(21,448)**	(2,700)
Liabilities directly associated with non-current asset classified as held for sale	**(21,448)**	(2,700)
Net assets attributable to discontinued operation	**33,552**	27,000

(iv) Details of discontinued operation disposed

On the 11 July 2012 an agreement was entered into with regards to the sale of Pacific Heat and Power Pty Ltd. As at the date of the report no funds have been received, however a sale price of $78,405 has been set.

Notes to the Financial Statements (continued)

Note 8: Receivables

	CONSOLIDATED 2012 $	2011 $
CURRENT		
Trade receivables	**214,581**	69,344
Other receivables	**1,253,734**	351,869
GST receivable	**9,880**	74,994
	1,478,195	496,207
NON CURRENT		
Other receivables	**850,000**	-
	850,000	-

(a) Terms and Conditions

Terms and conditions relating to the above financial instruments

(i) Trade Debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry Debtors and other receivables are non-interest and have repayment terms of between 30 and 90 days.

(iii) Other receivables includes amounts due from Erdi Fuels Pty Ltd, the collection terms are identified in Note 18.

(b) Related Party Transactions

Details of the terms and conditions of related party transactions are set out in Note 26.

Trade and other receivables ageing analysis at 30 June is:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	**1,967,256**	**-**	114,638	-
Past due 31-60 days	**5,042**	**-**	29,700	-
Past due 61-90 days	**245,500**	**-**	351,869	-
Past due more than 91 days	**110,397**	**-**	-	-
	2,328,195	**-**	496,207	-

Note 9: Inventories

	2012	2011
CURRENT		
Finished Goods		
At cost	**344,844**	356,421
	344,844	356,421

Notes to the Financial Statements (continued)

Note 10: Financial Assets

(a) Investments in listed securities

Greenpower Energy Ltd	**31,404**	54,958
	31,404	54,958

(b) Investments in controlled entities unlisted and valued at cost comprise

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity	
		2012	2011
Greenearth Power Pty Ltd	Australia	100%	100%
Greenearth Solar Energy Pty Ltd	Australia	85%	85%
Greenearth Heat Energy Pty Ltd	Australia	100%	100%
Greenearth Geothermal Energy Pty Ltd	Australia	100%	100%
Greenearth Energy Limited (NZ)	New Zealand	100%	100%
Greenearth Energy Efficiency Pty Ltd	Australia	85%	85%
Pacific Heat and Power Pty Ltd	Australia	100%	100%
NewCo2Fuels Pty Ltd	Australia	85%	85%
Greenearth Biomass Energy Pty Ltd	Australia	100%	100%

	CONSOLIDATED	
	2012	2011
	$	$

Note 11: Other Current Assets

Prepayment for Stock	**25,899**	-
Accrued Interest	**2,761**	2,847
	28,660	2,847

Note 12: Other Financial Assets

CURRENT

Security deposits for exploration permits	**54,124**	54,124
	54,124	54,124

Movements available for sale financial assets		
Opening fair value balance of Global Geothermal Inc (unlisted)	-	-
Change in fair value of available for sale financial assets	-	471,200
Disposal recognised on sale of available for sale financial assets	-	(471,200)
Closing Balance	-	-

Terms and conditions
Terms and conditions relating to the above financial instruments
Security deposits for exploration permits are interest bearing, the deposits are refunded upon the exploration permits being relinquished.

Notes to the Financial Statements (continued)

Note 13: Property, Plant and Equipment

	CONSOLIDATED 2012 $	2011 $
Office equipment		
At cost	**3,409**	3,409
Accumulated depreciation	**(2,473)**	(2,087)
	936	1,322
Computer equipment		
At cost	**15,648**	15,648
Accumulated depreciation	**(12,338)**	(8,249)
	3,310	7,399
Leasehold improvements		
At cost	**222,155**	222,155
Accumulated depreciation	**(174,817)**	(151,183)
	47,338	70,972
Total Plant and Equipment	**51,584**	79,693

Reconciliations

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

	2012 $	2011 $
Office equipment		
Carrying amount at beginning	**1,322**	1,879
Additions	**-**	-
Depreciation	**(386)**	(557)
	936	1,322
Computer equipment		
Carrying amount at beginning	**7,399**	2,830
Additions	**-**	10,048
Depreciation	**(4,089)**	(4,909)
Disposals	**-**	(570)
	3,310	7,399
Leasehold improvements		
Carrying amount at beginning	**70,972**	106,405
Additions	**-**	-
Depreciation	**(23,634)**	(35,433)
	47,338	70,972

Notes to the Financial Statements (continued)

	CONSOLIDATED 2012 $	2011 $

Note 14: Intangible Assets

GOODWILL

	2012 $	2011 $
At Cost	**-**	198,369
Accumulated impairment loss	**-**	(198,369)
	-	-

Reconciliations

	2012 $	2011 $
Carrying amount at beginning of year	**-**	-
Additions through business combination	**-**	198,369
Impairment charge	**-**	(198,369)
Carrying amount end of year	**-**	-

Note 15: Deferred Exploration, Evaluation and Development Costs

	2012 $	2011 $
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	**2,198,272**	2,307,129
Add: net expenditure incurred during the year	**19,258**	411,994
Less: net expenditure written off during the year	**-**	(245,985)
Less: offsets from rebates and grants	**(105,565)**	(274,866)
Total exploration and evaluation costs carried forward	**2,111,965**	2,198,272

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 16: Payables

	2012 $	2011 $
Trade creditors	**415,213**	733,461
Related party creditors	**154,101**	37,500
Other creditors	**85,357**	64,123
	654,671	835,084

(a) Terms and conditions
Terms and conditions relating to the above financial instruments:
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 26.

Notes to the Financial Statements (continued)

	CONSOLIDATED	
	2012	2011
	$	$

Note 17: Purchase Option

Purchase Option (deferred revenue)	**1,610,921**	-
	1,610,921	-

An Option deed has been entered into by Greenearth Energy, its joint venture partner and Erdi Fuels Pty Ltd in connection with the funding and development of technology for making fuel from CO_2. The underlying asset is presented as an investment in associate, NewCo2fuels Ltd (Note 30(b)) within the financial reports of Greenearth Energy.

In consideration of the payment by Erdi Fuels Pty Ltd of US$4.5 million over the period required to develop the technology, Erdi Fuels Pty Ltd has been granted the option to acquire all the equity in the Israeli based Joint Venture Company NewCo2fuels Limited. The option is exercisable 2 years from the commencement of the technology development should the research and development activities have progressed sufficiently to Alpha Proof, the commercialisation stage. The receipt for granting of the option is presented as a current liability within the financial reports of Greenearth Energy however represents deferred revenue for which there is no recourse if the purchase option is not exercised. The option exercise price is $100. For clarification it is noted that the $4.5 million development payments identified above flow directly to the joint venture company and are not retained by Greenearth Energy.

In addition to the option payments, an ongoing royalty stream will be paid on sales to be shared by Greenearth Energy (via its 85% owned subsidiary, NewCo2fuels Pty Ltd) and the Joint Venture partners.

Note 18: Advance on Purchase Option

Advance on Purchase Option (deferred revenue)	**2,000,000**	-
	2,000,000	-

In June 2012 Greenearth Energy and Erdi Fuels Pty Ltd agreed to an advance on the fee owing to Greenearth Energy upon exercise of the purchase option in relation to the acquiring of all the equity in the Israeli based Joint Venture Company, NewCo2fuels Limited. The option fee payable to Greenearth Energy has been discounted from a possible $US8.5 million if the purchase option is exercised to an advance amount of $2 million, payable in instalment over a 21 month period commencing with an amount of $150,000 received in June 2012 and a Debtor recognised for the outstanding $1,850,000 within the Financial Statements. The advance has no impact on the ongoing royalty payable on sale of products as specified in the Option Agreement and there is no recourse if the purchase option is not exercised within the specified timeframe when the technology development has progressed sufficiently to through the Alpha stage.

Note 19: Provisions

Current		
Employee benefits	**132,373**	134,741
Non current		
Employee benefits	**14,548**	18,384
Restoration costs	**15,000**	15,000
	29,548	33,384
Total Provisions	**161,921**	168,125

	CONSOLIDATED 2012 $	2011 $

Note 20: Contributed Equity

(a) Issued and paid up capital

	2012 $	2011 $
Ordinary shares fully paid, 112,350,680 (2011: 89,026,272 ordinary shares fully paid)	**15,010,591**	13,350,876

(b) Movements in shares on issue

	2012 Number of Shares	**2012** $	2011 Number of Shares	2011 $
Beginning of the financial year	**89,026,272**	**13,350,876**	67,798,062	11,383,286
Issued during the year	**15,319,650**	**1,225,572**	15,718,297	1,557,725
Issued as share based payments				
- issued as KMP Bonus	**4,934,258**	**266,450**	1,965,467	157,237
- issued as consideration for business acquisition	**898,357**	**-**	1,484,757	133,628
- issued as consideration for services received	**2,172,143**	**177,693**	2,059,689	149,500
- less share issue costs	**-**	**(10,000)**	-	(30,500)
End of the financial year	**112,350,680**	**15,010,591**	89,026,272	13,350,876

(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

The following options were held at the beginning of the reporting period:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
3,000,000	1 Oct 2007	1 Oct 2007	30 Sep 2012	45 cents
1,000,000	18 Mar 2008	18 Mar 2008	30 Sep 2012	45 cents
2,000,000	3 Sep 2008	1 Jul 2009	30 Sep 2012	20 cents
6,000,000				

Notes to the Financial Statements (continued)

Note 20: Contributed Equity (continued)

II. Options granted during the period

No options were granted by Greenearth Energy Ltd. during the year to directors and staff.

III. Options exercised

No options were exercised during the reporting period.

IV. Options lapsed

No options lapsed during the reporting period.

V. Options as at the end of the reporting period

The following options held by directors and staff up to and including 30 June 2012:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
3,000,000	1 Oct 2007	1 Oct 2007	30 Sep 2012	45 cents
1,000,000	18 Mar 2008	18 Mar 2008	30 Sep 2012	45 cents
2,000,000	3 Sep 2008	1 Jul 2009	30 Sep 2012	20 cents
6,000,000				

VI. Valuation of options

No options were granted during the year.
Historically, options are valued using the Black-Scholes pricing model.

(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 Greenearth Energy Ltd. options.

Balance at start of year	2,000,000
Balance at end of year	2,000,000

(b) Shareholders who participated in rights issue

Shareholders who participated in the right issue conducted by the company during the year, obtained 1 unlisted incentive options with every share subscribed to. The options have an exercise price of 5 cents per option and expire on 15 October 2012. The option holder is entitled to one share for every option exercised. A total of 15,300,901 options were granted.

(b) Capital management

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

Notes to the Financial Statements (continued)

		CONSOLIDATED 2012 $	CONSOLIDATED 2011 $

Note 21: Reserves and Accumulated Losses

		2012 $	2011 $
Third party options reserve	*20(a)*	**120,000**	120,000
Employee equity benefits reserve	*20(b)*	**290,400**	290,400
Available for sale financial asset reserve	20(c)	**-**	-
Accumulated losses	*20(d)*	**12,239,534**	9,646,166

(a) Third party options reserve

(i) Nature and purpose of reserve

This reserve represents the fair value of options granted to third parties as detailed in Note 20.

(ii) Movement in reserve

	2012 $	2011 $
Balance at beginning of year	**120,000**	120,000
Balance at end of year	**120,000**	120,000

(b) Employee equity benefits reserve

(i) Nature and purpose of reserve

This reserve represents the fair value of options that is attributable up to 30 June 2011 granted to staff and directors as detailed in Note 20.

(ii) Movement in reserves

	2012 $	2011 $
Opening balance	**290,400**	399,000
Expiration of options to staff	**-**	(108,600)
Closing balance	**290,400**	290,400

(c) Available for sale financial asset reserve

(i) Nature and purpose of reserve

This reserve is used to record unrealised movements in fair values of financial assets classified as available-for-sale and not distributable

(ii) Movement in reserves

	2012 $	2011 $
Opening balance	**-**	-
Change in fair value of available for sale financial assets, net of tax	**-**	471,200
Gain on disposal recognised in profit or loss	**-**	(471,200)
Closing balance	**-**	-
Total Reserves	**410,400**	410,400

(d) Accumulated losses

	2012 $	2011 $
Balance at the beginning of the year	**9,646,166**	7,119,850
Net loss attributable to members of Greenearth Energy Ltd.	**2,593,368**	2,634,916
Transfer from Option Reserve	**-**	(108,600)
Balance at the end of the year	**12,239,534**	9,646,166

Note 22: Statement of Cash Flows

	CONSOLIDATED 2012 $	2011 $
(a) Reconciliation of the operating loss after tax to the net cash flows from operations		
Net loss	**(2,836,199)**	(2,634,916)
Non-cash items		
Depreciation of property, plant and equipment	**28,109**	40,899
Exploration expenditure written off	**-**	245,985
Profit on sale of unlisted securities	**-**	(471,200)
Loss on fair value of investments held	**23,554**	(11,777)
Share of associates loss	**384,018**	64,391
Bad Debts	**7,700**	-
Accrued interest	**(2,928)**	(2,847)
Disposal of fixed assets	**-**	570
Share based payments	**344,150**	-
Lease payments paid by shares	**100,000**	100,000
Exchange difference on translation of foreign currency	**18,962**	(124,053)
Impairment of goodwill	**-**	198,369
Impairment loss	**46,563**	(65,995)
Changes in Assets and Liabilities		
Decrease in exploration and evaluation costs carried forward	**86,307**	108,857
Increase in receivables	**(1,831,988)**	(145,410)
Decrease / (Increase) in other assets	**-**	454,224
Decrease / (Increase) in inventory	**11,577**	(356,421)
Increase / (Decrease) in payables	**(179,700)**	348,523
Increase / (Decrease) in employee benefits	**(6,204)**	40,562
Increase in Other liabilities impacting operations	**2,000,000**	-
Net cash flows used in operating activities	**(1,806,079)**	(2,210,239)
(b) Reconciliation of Cash		
Cash at bank	**406,343**	1,856,878
Cash on hand	**517**	500
Total cash	**406,860**	1,866,378

Notes to the Financial Statements (continued)

	CONSOLIDATED	
	2012	2011
	$	$

Note 23: Loss per share

	2012 $	2011 $
Net loss from continuing activities attributable to equity holders of the parent entity	**(2,529,130)**	(2,575,881)
Adjustments		
- nil	**-**	-
Loss used in calculating basic / diluted earnings per share	**(2,529,130)**	(2,575,881)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	**102,968,741**	72,518,073
Effect of Dilutive Securities		
- Share options		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**102,968,741**	72,518,073
Basic loss per share (cents per share)	**(2.46)**	(3.55)
Diluted loss per share (cents per share)	**(2.46)**	(3.55)

	2012 $	2011 $
Net loss attributable to the equity holders of the parent entity	**(2,593,368)**	(2,634,916)
Adjustments		
- nil	**-**	-
Loss used in calculating basic / diluted earnings per share	**(2,593,368)**	(2,634,916)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	**102,968,741**	72,518,073
Effect of Dilutive Securities		
- Share options		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**102,968,741**	72,518,073
Basic loss per share (cents per share)	**(2.52)**	(3.63)
Diluted loss per share (cents per share)	**(2.52)**	(3.63)

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 2012

Since the end of the financial year, 12,507 ordinary shares have been issued, from the exercise of bonus options, resulting in the receipt of $625.35.

Notes to the Financial Statements (continued)

	CONSOLIDATED 2012 $	2011 $

Note 24: Expenditure Commitments & Contingencies

(a) Lease Expenditure Commitments

	2012 $	2011 $
Operating property leases (non-cancellable)		
Minimum lease payments		
- not later than one year	**131,186**	226,141
- later than one year and not later than five years	**136,438**	267,625
Aggregate lease expenditure contracted for at balance date	**267,624**	493,766

(b) Bank Guarantees in relation to permits

	2012 $	2011 $
Maximum amount bank may call	**45,000**	45,000

(c) Exploration, Technology and Corporate Commitments

	2012 $	2011 $
- not later than one year	4,151,646	3,110,000
- later than one year and not later than five years	-	2,586,000
Aggregate lease expenditure contracted for at balance date	4,151,646	5,696,000

The CO_2 to fuel conversion technology secured by the Greenearth Energy Group involves agreement through which the next stage of the technology's development is funded by Greenearth Energy to the value of US$5.5M. These commitments have been included above. In parallel, an investment agreement has been executed with Erdi Fuels Pty Ltd who has committed to invest US$5.5M over the two year period to fund this development of a field trial in Israel. The investment agreement is broken into two distinct investments – US$1M for Greenearth Energy shares. This transaction occurred during last financial year with US$1M received by the company and 8,991,654 ordinary shares issued. The remaining US$4.5M will be received in stages ($2,348,354 received to date) and represents the payment for an option to purchase the worldwide license to commercialise the technology if it is proven to be commercial.

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. During the financial year the company request the work program and permit be suspended due to the lack substantial financial resources required to fulfil the work program and to allow the company to seek grant funding to advance work in the permit areas. The Department of Primary Industries, approved the request, effectively suspending the work program for a 12 month period and extending the initial 5 year permit period for a further 12 months so the permits expire on the 12 May 2013. The company estimates that the minimum funding required to be expended to fulfil its specified program over all interests is in the vicinity of $1,890,000 over the next year. In additions to meeting these 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 25: Auditor's Remuneration

Amounts paid or due and payable by Pitcher Partners.

	CONSOLIDATED 2012 $	2011 $
An audit and review of the financial report of the entity	**69,545**	60,055
Other services in relation to the entity		
• Tax compliance	**11,880**	15,200
	81,425	75,255

Note 26: Related Party Disclosures

(i) Ultimate parent

Greenearth Energy Ltd is the ultimate Australian Parent entity.

(iii) Controlled entities

The consolidated financial statements include the financial statements of Greenearth Energy and its controlled entities listed below:

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity	
		2012	2011
Greenearth Power Pty Ltd	Australia	**100%**	100%
Greenearth Solar Energy Pty Ltd	Australia	**85%**	85%
Greenearth Heat Energy Pty Ltd	Australia	**100%**	100%
Greenearth Geothermal Energy Pty Ltd	Australia	**100%**	100%
Greenearth Energy Limited (NZ)	New Zealand	**100%**	100%
Greenearth Energy Efficiency Pty Ltd	Australia	**85%**	85%
Pacific Heat and Power Pty Ltd	Australia	**100%**	100%
NewCo2Fuels Pty Ltd	Australia	**85%**	85%
Greenearth Biomass Energy Pty Ltd	Australia	**100%**	100%

(iii) Director transactions

During the year the following transactions occurred with key personnel:

- An amount of $32,000 excluding GST (2011:$35,000) was paid by Greenearth Energy Ltd to Arc de Triomphe Securities Pty Ltd; a company associated with Mr R.J. Annells, the chairman of the company, in respect of consulting services provided by him to the company.

- An amount of $46,110 excluding GST (2011:$74,023) was paid by Greenearth Energy 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) Wholly-owned group transactions

As at 30 June 2012, an amount of $3,173,401 (2011:$1,275,703) was receivable by Greenearth Energy Ltd., from its various controlled entities. The loans are unsecured and interest free.

(v) Loans to key management personnel

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

(vi) Other related party transactions Payables

During this financial period, Lakes Oil N.L., settled accounts with consultants and contractors on behalf of Greenearth Energy Ltd. totalling $191,601. As at 30 June 2012 an amount of $154,101 (2011:$37,500) was payable by Greenearth Energy Ltd.

Leslie Erdi controls Erdi Fuels Pty Ltd. Details of transactions with this company are identified in Note 17 and 18. The Directors believe these transactions to be on an arms-length basis and note that Leslie Erdi's appointment as a director was a consequence of these transactions.

Notes to the Financial Statements (continued)

Note 27: Parent Entity Disclosures

As at, and throughout the financial year 30 June 2012, the parent company of the economic entity was Greenearth Energy Limited.

(a) Parent Entity abridged financial statements

	Parent Entity	
	2012	2011
	$	$
Summarised Statement of comprehensive income		
Loss for the year after tax	**(2,229,567)**	(1,900,737)
Other comprehensive income	**-**	-
Total comprehensive income	**(2,229,567)**	(1,900,737)
Summarised Statement of financial position of the parent entity at year end		
Current assets	**649,832**	2,410,012
Non-current assets	**4,528,178**	3,554,923
Total Assets	**5,178,010**	5,964,935
Current liabilities	**756,581**	969,825
Non-current liabilities	**29,548**	33,384
Total Liabilities	**786,129**	1,003,209
Net Assets	**4,391,881**	4,961,726
Total equity of the parent entity comprising:		
Share capital	**15,010,598**	13,350,876
Reserves	**410,400**	410,400
Accumulated Losses	**(11,029,117)**	(8,799,550)
Total Equity	**4,391,881**	4,961,726

Note 28: Segment Information

a) Description of Segments

The group has six reportable segments. The Greenearth Energy Group holds, or is interested in geothermal acreage or projects which operate in different geographical settings. These settings can be clearly identified by the country they are situated in, or if they exist within Australia, the geological basin they are contained in. A brief description of each identified segment is detailed below. Corporate head office and administration costs are not allocated to segments.

Note 28: Segment Information (continued)

Segment 1: Otway Basin

The Otway Basin extends along the Southern Margin across Victoria and South Australia. The Basin covers an area of approximately 150,000km^2 of which 35% is onshore. Greenearth Energy's GEP10 is contained within the Otway Basin.

Segment 2: Gippsland Basin

The Gippsland Basin covers approximately 56,000 km^2 of South Eastern Victoria, of which approximately 16,000km^2 lies onshore. Greenearth Energy's GEP 12 and 13 permits are located within the Basin.

Segment 3: Indonesia

Greenearth Energy Group is exploring the possibility of geothermal development projects within the country of Indonesia. Indonesia is a widely recognised geothermal province.

Segment 4: Energy Efficiency

Greenearth Energy Group via its subsidiary, Greenearth Energy Efficiency has entered into a distribution agreement with Metrolight Ltd, to introduce its energy efficient lighting solution to the Australian and Pacific Rim. During the financial period, revenue has been received by this segment and market interest is increasing.

Segment 5: Waste Heat Recovery

A suite of technologies that are proven world class technologies that provide clients with increased energy productivity, energy reliability, operational savings, and lower greenhouse gas emissions. These technologies are distributed via Greenearth Energy subsidiary Pacific Heat and Power.

Segment 6: Other Projects

This segment includes other non-geothermal investments or projects, which Greenearth Energy has either invested in but have not been fully expanded into a distinct business segment, or technologies or project that are currently being considered.

b) Segment Information

2012	Otway Basin	Gippsland Basin	Indonesia	Energy Efficiency	Waste Heat Recovery (discontinued operation)	Other Projects	Total
	$	$	$	$	$	$	$
Segment Revenue							
Total segment revenue	139,935	-	-	323,215	261,287	-	724,437
Intersegment revenue	-	-	-	-	-	-	-
Revenue from external source	**139,935**	**-**	**-**	**323,215**	**261,287**	**-**	**724,437**
Segment result							
Total segment result	139,935	-	(40,058)	(335,575)	(64,238)	(975,500)	(1,275,436)
Intersegment eliminations	-	-	-	-	-	-	-
Segment result from external source	**139,935**	**-**	**(40,058)**	**(335,575)**	**(64,238)**	**(975,500)**	**(1,275,436)**
Items included within segment result:							
Impairment of Goodwill	-	-	-	-	-	-	-
Exploration Written Off	-	-	-	-	-	-	-
Share of net losses of associates	-	-	(40,058)	-	-	(343,960)	(384,018)
Total segment assets	**611,351**	**1,500,613**	**4,116**	**655,157**	**55,000**	**3,966,423**	**6,792,660**
Total segment assets include:							
Investment in equity accounted associates & JV	-	-	4,116	-	-	2,004,394	2,008,510
Additions to non-current assets other than financial instruments and deferred tax assets	20,393	(1,134)	-	-	-	-	19,259
Total Segment Liabilities	**-**	**-**	**-**	**(31,969)**	**(22,465)**	**(3,610,921)**	**(3,665,355)**

Notes to the Financial Statements (continued)

Note 28: Segment Information (continued)

b) Segment Information (continued)

2011	Otway Basin	Gippsland Basin	Indonesia	Energy Efficiency	Waste Heat Recovery (discontinued operation)	Other Projects	Total
	$	$	$	$	$	$	$
Segment Revenue							
Total segment revenue	306,541	-	-	66,024	125,394	-	497,959
Intersegment revenue	-	-	-	-	-	-	-
Revenue from external source	306,541	-	-	66,024	125,394	-	497,959
Segment result							
Total segment result	96,542	-	(80,846)	(200,105)	(257,405)	(552,620)	(994,434)
Intersegment eliminations	-	-	-	-	-	-	-
Segment result from external source	96,542	-	(80,846)	(200,105)	(257,405)	(552,620)	(994,434)
Items included within segment result:							
Impairment of Goodwill	-	-	-	-	(198,369)	-	(198,369)
Exploration Written Off	(209,999)	-	-	-	-	(35,985)	(245,984)
Share of net losses of associates	-	-	(64,391)	-	-	-	(64,391)
Total segment assets	696,524	1,486,748	9,419	356,421	-	-	2,549,112
Total segment assets include:							
Investment in equity accounted associates & JV	-	-	9,419	-	-	-	9,419
Additions to non-current assets other than financial instruments and deferred tax assets	108,431	42,576	-	-	-	-	151,007
Total Segment Liabilities	(61,463)	-	-	(220,789)	(41,798)	(33,552)	(357,603)

	CONSOLIDATED	
	2012	2011
	$	$

(i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income.

	2012 $	2011 $
Segment Revenue from External Source	**724,437**	497,959
Profit from sale of investments	**-**	471,200
Other revenue	**9,727**	146,057
Interest revenue	**7,493**	30,551
Total revenue	**741,657**	1,145,767

(ii) Reconciliation of segment result from the external source to the consolidated statement of comprehensive income.

	2012 $	2011 $
Segment Result from External Source	**(1,275,436)**	(994,434)
Interest revenue	**7,493**	30,551
Interest expense	**-**	-
Depreciation and amortisation	**(28,109)**	(40,899)
Income tax expense	**-**	-
Unallocated expenses	**(1,540,147)**	(1,639,134)
Total loss before income tax	**(2,836,199)**	(2,643,916)

Note 28: Segment Information (continued)

b) Segment Information (continued)

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

	CONSOLIDATED 2012 $	2011 $
Segment Assets	**6,792,660**	2,549,112
Inter-segment eliminations	**-**	-
Cash and cash equivalents	**169,998**	1,866,378
Unallocated assets	**403,488**	702,829
Total Assets	**7,366,146**	5,118,319

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

	CONSOLIDATED 2012 $	2011 $
Segment Liabilities	**3,665,355**	357,603
Inter-segment eliminations	**-**	-
Unallocated liabilities	**762,158**	645,606
Total Liabilities	**4,427,513**	1,003,209

Note 29: Subsequent Events

The company made the decision to divest 100% owned subsidiary, Pacific Heat and Power Pty Ltd. A sale agreement was entered into on 11 July 2012 for a sale price of $78,405. The carrying value of the investment at 30 June 2012 was nil.

On 7 August 2012 12,507 shares were issued due to the exercise of options. This raised the company a total of $625.35.

The company informed option holders, that the unlisted incentive options allocated as part of rights issue expire on 15 October 2012. The options are exercisable at a price of $0.05 per option.

Notes to the Financial Statements (continued)

Note 30: Investments in Associates

During the financial year, Greenearth Energy, continued its investment in its associate, an Indonesian geothermal company, PT Geopower Indonesia and acquired an interest in NewCo2fuels Limited.

	CONSOLIDATED	
	2012	2011
	$	$
Investment in associates	**2,008,510**	**9,419**

(a) Interest in associate	Country of Incorporation	Balance Date	Ownership Interest held by Consolidated Entity 2012	2011 %
PT Geopower Indonesia	Indonesia	30 June 2012	**40.00%**	40.00%
NewCo2Fuels Limited	Israel	30 June 2012	**50.00%**	-

	CONSOLIDATED	
	2012	2011
	$	$
(a) PT Geopower Indonesia		
(i) Principal activity PT Geopower Indonesia's principal activity is a clean technology distribution company.		
(ii) Share of associate's balance sheet		
Current assets	**3,687**	6,510
Non-current assets	**-**	-
	3,687	6,510
Current liabilities	**(406)**	(384)
Non-current liabilities	**-**	-
Net Assets	**3,281**	6,126
(iii) Share of associate's loss		
Loss before income tax	**(40,058)**	(64,391)
Income tax expense	**-**	-
Loss after income tax	**(40,058)**	(64,391)
(iv) Carrying amount of Investment in associates		
Balance at the beginning of the year	**9,419**	2,773
New investment during the financial year	**34,755**	71,037
Share of associates' net (loss)/write back for the financial year	**(40,058)**	(64,391)
Balance at the end of year	**4,116**	9,419

Notes to the Financial Statements (continued)

Note 30: Investments in Associates (cont)

	CONSOLIDATED 2012 $	2011 $
(b) NewCo2Fuels Limited		
(i) Principal activity		
NewCo2Fuels Limited principal activity is the development of technology which focuses on the conversion of Co2 to Fuel.		
(ii) Share of associate's balance sheet		
Current assets	**1,066,009**	-
Non-current assets	**957,002**	-
	2,023,011	-
Current liabilities	**94,003**	-
Non-current liabilities	**-**	-
Net Assets	**1,929,008**	-
(iii) Share of associate's loss		
Loss before income tax	**(343,960)**	-
Income tax expense	**-**	-
Loss after income tax	**(343,960)**	-
(iv) Carrying amount of Investment in associates		
Balance at the beginning of the year	**-**	-
New investment during the financial year	**2,348,354**	-
Share of associates' net (loss)/write back for the financial year	**(343,960)**	-
Impairment to fair value	**-**	-
Balance at the end of year	**2,004,394**	-

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 21 to 54 are in accordance with the *Corporations Act 2001*:

(a) Complying with Accounting Standards and *Corporations Regulations 2001*: and other mandatory professional reporting requirements;

(b) As stated in note 1, the consolidated financial statements also comply with International Reporting Standards; and

(c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2012 and of its performance 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 2012.

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

Samuel Marks
Managing Director

Signed at Melbourne, Victoria
28 September 2012

PITCHER PARTNERS

GREENEARTH ENERGY LTD
ABN 60 120 710 625
AND CONTROLLED ENTITIES

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

Report on the Financial Report

We have audited the accompanying financial report of Greenearth Energy Ltd and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

GREENEARTH ENERGY LTD
ABN 60 120 710 625
AND CONTROLLED ENTITIES

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

Independence

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

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 consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

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

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2012 of $2,836,199 (2011: $2,634,916) and at the reporting date total assets exceeded total liabilities by $2,938,633 (2011: $4,115,110).

The Directors have determined that there is a cash requirement of $1,200,000 over the forthcoming 12 months to maintain operations. In order to finance this cash flow requirement the Directors agreed to a discounted figure of $2,000,000 from Erdi Fuels to be paid over a 21 month period from June 2012 for the disposal of an option right instead of the previous arrangement, effectively changing a possible future payment for a fixed advanced, funding stream, however maintaining future possible royalty income, if a successful outcome is achieved. This arrangement was announced on 22 June 2012.

In the event that proceeds from the disposal of the option and trading activity are insufficient, the Directors continue to develop their other renewable technologies and are focussing on expanding their revenues streams in conjunction with seeking to raise additional capital.

GREENEARTH ENERGY LTD
ABN 60 120 710 625
AND CONTROLLED ENTITIES

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

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

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

The Directors also recognise that additional funding is required over the next 2 to 3 years to further develop current geothermal projects in particular its flagship domestic geothermal project, the Geelong Geothermal Power Project (GGPP). Additional funding will be available through access to Commonwealth and Victorian Government Grants as discussed below. The Directors continue to seek potential cornerstone investors (joint venture partners) at a project level. This investment funding will be required to undertake the project, fulfil the terms of the Government Grants and secure access to the Government funds.

On 3 November 2011, Greenearth Energy and the Victorian Government executed the funding agreement in relation to the awarding of $25 million funding grant that is receivable subject to meeting Government pre-conditions. $5 million of the grant relates to the Proof of Resources stage with the remaining $20 million to be contributed towards demonstration stage upon a successful Proof of Concept stage. The proof of resources stage is expected to cost $19 million with the combined proof of resource and proof of concept stage is expected to cost up to $32 million.

The directors are also in the process of applying for funding via the Australian Government's Emerging Renewable program. To allow the Company time to undertake this process while maintaining the Victorian Government Grant the Company has requested a time extension from the Victorian Government, to allow a suitable application to be submitted while maintaining a significant funding contribution towards the Proof of Resource phase. The majority of funding sought, if obtained will be used to supplement funds for completing the Proof of Resource stage. There is no guarantee the Company will be successful in securing this funding.

The consolidated entity does not have any material commitments in relation to the GGPP or other permits it holds as at balance date or the date of signing this financial report.

PITCHER PARTNERS

GREENEARTH ENERGY LTD
ABN 60 120 710 625
AND CONTROLLED ENTITIES

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 19 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Greenearth Energy Ltd and controlled entities for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

M Harrison

M J HARRISON
Partner

28 September 2012

Pitcher Partners

PITCHER PARTNERS
Melbourne

ASX Supplementary Information

Compiled as at 20 September 2012

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 (%)
Advance Publicity Pty Ltd <Izmar Family Fund A/C>	16,500,000	14.68
Erdi Fuels Pty Ltd	16,500,000	14.68
Lakes Oil N.L	13,791,667	12.27

Shareholder Distribution

The issued capital of the company comprised:

(a) 112,363,187 fully paid ordinary shares

(b) 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

(d) 4,000,000 unlisted options to Directors and Staff which entitle the holder to acquire one fully paid ordinary share at 45 at any time up to and including 30 September 2012, subject to certain terms and conditions

(e) 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	43	7,586	0.01
1,001 - 5,000	92	349,566	0.31
5,001 - 10,000	381	3,186,293	2.84
10,001 - 100,000	555	18,146,965	16.15
100,001 - and over	90	90,672,777	80.70
Total on issue	**1,161**	**112,363,187**	**100.00**

The number of shareholders that held less than a "marketable parcel" of shares (being 11,364 shares) was 563. These shareholders held a total of 4,040,257 fully paid ordinary shares in the company as at that date, representing approximately, 3.59% of the total issued share capital of the company as at that date.

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.

ASX Supplementary Information

Compiled as at 20 September 2012 (continued)

Twenty Largest Shareholders

Rank	Shareholder	Shares held	Percentage of capital (%)
1	Advance Publicity Pty Ltd <Izmar Family Fund A/c>	16,500,000	14.68
2	Erdi Fuels Pty Ltd	16,500,000	14.68
3	Lakes Oil N.L	13,791,667	12.27
4	Mansia Nominees Pty Ltd <The Lasky Super Fund A/c>	3,820,967	3.40
5	Robert John Annells <RJ Annells Super Fund A/c>	2,665,740	2.37
6	Mr Mark Miller	2,350,000	2.09
7	Cassif Pty Ltd <King De Corte S/F A/c>	2,112,905	1.88
8	Berenes Nominees Pty Ltd <Berenes Nominees Pty Ltd Super Fund A/c>	2,083,333	1.85
9	Marlion Nominees Pty Ltd <The LM Krongold Family A/c>	1,750,000	1.56
10	Mr Craig Andrew Morgan <The Morgan Family A/c>	1,568,090	1.40
11	Mr Ronald Prefontaine + Mrs Annabel Frances Prefontaine <Prefontaine Super Fund A/c>	1,250,000	1.11
12	Mr John Trifon Kopcheff	1,096,238	0.98
13	PBL Investments Pty Ltd <Peter Begg Lawrence S/F A/c>	1,062,500	0.95
14	Encounter Bay Pty Ltd	1,000,000	0.89
15	Penleigh Glen Pty Ltd <The Chas Jacobsen S/F A/c>	1,000,000	0.89
16	Somnus Pty Ltd <Somnus Superannuation A/c>	983,163	0.87
17	Gregory Young Pty Ltd <Young Family Disc A/c>	800,000	0.71
18	Mr Philip Arthur Rogerson + Mrs Kathryn Gae Rogerson + Miss Christina Rogerson <The Rogerson Super Fund A/c>	734,243	0.65
19	Riverina Pty Limited <Superannuation Fund A/c>	700,000	0.62
20	GCC Asset Holdings Pty Ltd	666,667	0.59
		72,435,513	**64.47**

Permit Information

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

Permit Name	Location (Basin Name)	Registered Holder	Group Interest	
			2012	2011
GEP 10	Otway	Greenearth Energy Ltd	**100%**	100%
GEP 12	Gippsland	Greenearth Energy Ltd	**100%**	100%
GEP 13	Gippsland	Greenearth Energy Ltd	**100%**	100%

Corporate Governance

Greenearth Energy – Corporate Governance 2012

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
- 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
- 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.

Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.

A performance review for the Managing Director has taken place during the reporting period. The evaluation occurred against the KPIs stipulated in his service agreement. No other senior executive had a review during the financial period.

Principle 2 – Structure of the board to add value

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

During the financial year the Board of Greenearth Energy Ltd. comprises of two non-executive directors and two executive directors. The skills, experience and expertise relevant to the position each director hold is detailed in the Directors Report of the Annual Report. Mr Robert King was an executive director during the financial year and tendered his resignation effective 1 July 2012. The only director considered to be independent during the financial year, was Mr John Kopcheff. Given the majority of the board are not considered independent under the definitions provided in the Council's recommendations, this recommendation has not been satisfied.

The Board believes even though it does not satisfy this recommendation, it does possess the appropriate level of industry experience and business skills. Directors acknowledge the need to act in good faith and in the interests of all shareholders.

Recommendation 2.2 The chair should be an independent director.

Mr Robert Annells is the chair of the board and is not considered to be an independent director. This recommendation has not been satisfied.

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

Mr Robert Annells performs the role of chairperson, while Mr Mark Miller carried out the role of Managing Director or Chief Executive Officer (CEO) during the financial year. Mr Samuel Marks was appointed as Managing Director on 1 July 2012, while Mr Mark Miller becomes a non-executive director. 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. New Directors are recruited according to the company's needs from time to time. The company has no formal policy in regard to nomination of new Directors.

Re-election of Directors is done in accordance with the Listing Rules and the company's Constitution.

Recommendation 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Board of Greenearth Energy Ltd currently does not have a process for evaluation the performance of the board, its committees and individual directors.

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.*

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 diversity and disclose the policy or a summary of that policy. The policy should establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The Board continues to review for best practice and is aware that it has not yet formalised a Diversity Policy, however the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds.

Recommendation 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and the progress towards achieving them.

The Board will, when formalizing a Diversity Policy ensure that this recommendation is considered and measurable objectives are identified with the intention that they be disclosed in annual reports going forward.

Recommendation 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

At 30 June 2012 the Company had one woman employee out of a total of three employees, with Ms Vicki Kahanoff holding a senior executive position. There are no women on the Board.

Recommendation 3.5 Companies should provide the information indicated in the Guide to reporting Principle 3.

The Board upon adopting a formal diversity policy, will ensure the policy is available on the website of the company.

Corporate Governance (continued)

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 during the financial year comprised of Mr John Kopcheff (Chairman), Mr Robert Annells and Mr Robert King. Since Mr King's resignation and Mr Miller's appointment as a non-executive director, Mr Miller has been appointed to the Audit Committee. Mr Kopcheff and Mr Miller are considered to be independent under the Council's definition.

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.

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 are 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 it's 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.

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 Greenearth 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.

Corporate Governance (continued)

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 it 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, Greenearth 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.