

Corporate Information

Directors

Robert J. Annells (Chairman)
Mark Miller (Managing Director)
John T. Kopcheff (Non-executive Director)
Robert L. King (Executive Director)

Company Secretary

Vicki M. Kahanoff

Registered Office

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Melbourne
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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

Address for Correspondence

P.O. Box 24
Collins Street West
Victoria 8007

Email: greenearth@greenearthenergy.com.au

Website: www.greenearthenergy.com.au

Legal Advisors

Baker & McKenzie
Level 19, CBW
181 William 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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Chairman's Report



Dear Shareholder,

As always it is a pleasure to have this opportunity to write to you and in doing so, on behalf of the board and management of Greenearth Energy, express my sincere thanks for your support during a year of almost unparalleled change.

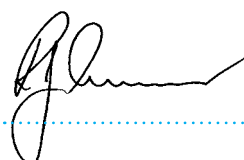
As you are no doubt aware we began our journey in 2008 under very different political and market conditions that exist today. Greenearth Energy began life with a single focus, the exploration and development of conventional Hot Sedimentary Aquifer (HSA) geothermal systems. We progressed well during our first year establishing Victoria's first and second inferred geothermal resources and subsequently applied for and won both Australian Government and State Government funding for our flagship domestic geothermal project, the Geelong Geothermal Power Project (GGPP) in late 2009. Continued global economic uncertainty and domestic challenges for renewable energy developers led us to the conclusion that in order to best position Greenearth Energy, aligned and complimentary renewable energy technologies that had the potential to deliver immediate and medium term results should be investigated and secured. As a result our diversification strategy began in earnest and today we believe we have positioned Greenearth Energy uniquely within the renewable energy market in Australia.

Specifically during this financial year just past we have consolidated our position in the growing waste heat recovery market and established strategic partnerships with world leading technology providers in the energy efficiency, combined heat and power solar, CO₂ to fuel conversion and biomass waste-to-energy gasification markets.

This strategic re-positioning of Greenearth Energy has established a suite of world class, aligned and complimentary technology applications and project opportunities designed to deliver clean energy solutions while reducing harmful emissions. Our portfolio now has the ability to provide all stakeholders with potential positive economic and environmental outcomes on an immediate, medium and long term basis.

Again we thank you for your support to date and look forward to your continued investment in our company's clean energy future.

Yours faithfully,



Robert J Annells
Chairman

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 2011 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

Mark Miller B.Sc (Managing 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. No other directorships of listed companies were held at any time during the three years prior to 30 June 2011.

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.

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 is also a director of Great Panther Silver Limited, where he has been a non executive director since August 2001. Mr Kopcheff is the Chairman of the Audit Committee.

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 is also a member of the Audit Committee of Greenearth Energy.

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 2011 the Directors of the company met six 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 | 6 | 6 | 2 | 2 |
| Mark Miller | 6 | 6 | - | - |
| John T. Kopcheff | 5 | 6 | 2 | 2 |
| Robert L. King | 6 | 6 | 2 | 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 | |
| | | 2011 | 2010 | 2011 | 2010 |
| R.J Annells | D | - | - | 1,000,000 | 1,000,000 |
| | I | 1,270,311 | 1,099,999 | - | 666,666 |
| M Miller | D | 1,100,000 | 100,000 | 2,000,000 | 3,000,000 |
| | I | - | - | - | - |
| J.T. Kopcheff | D | - | - | - | - |
| | I | 2,520,312 | 2,350,000 | 1,000,000 | 3,083,333 |
| R.L. King | D | - | - | - | - |
| | I | 853,646 | 683,334 | 1,000,000 | 1,583,334 |

Note:

D = direct ownership.

I = indirect ownership

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 24 to Financial Statements.

Auditor's Independence Declaration

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

Non-Audit Services

Non audit services are approved by resolution of the Board of Directors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

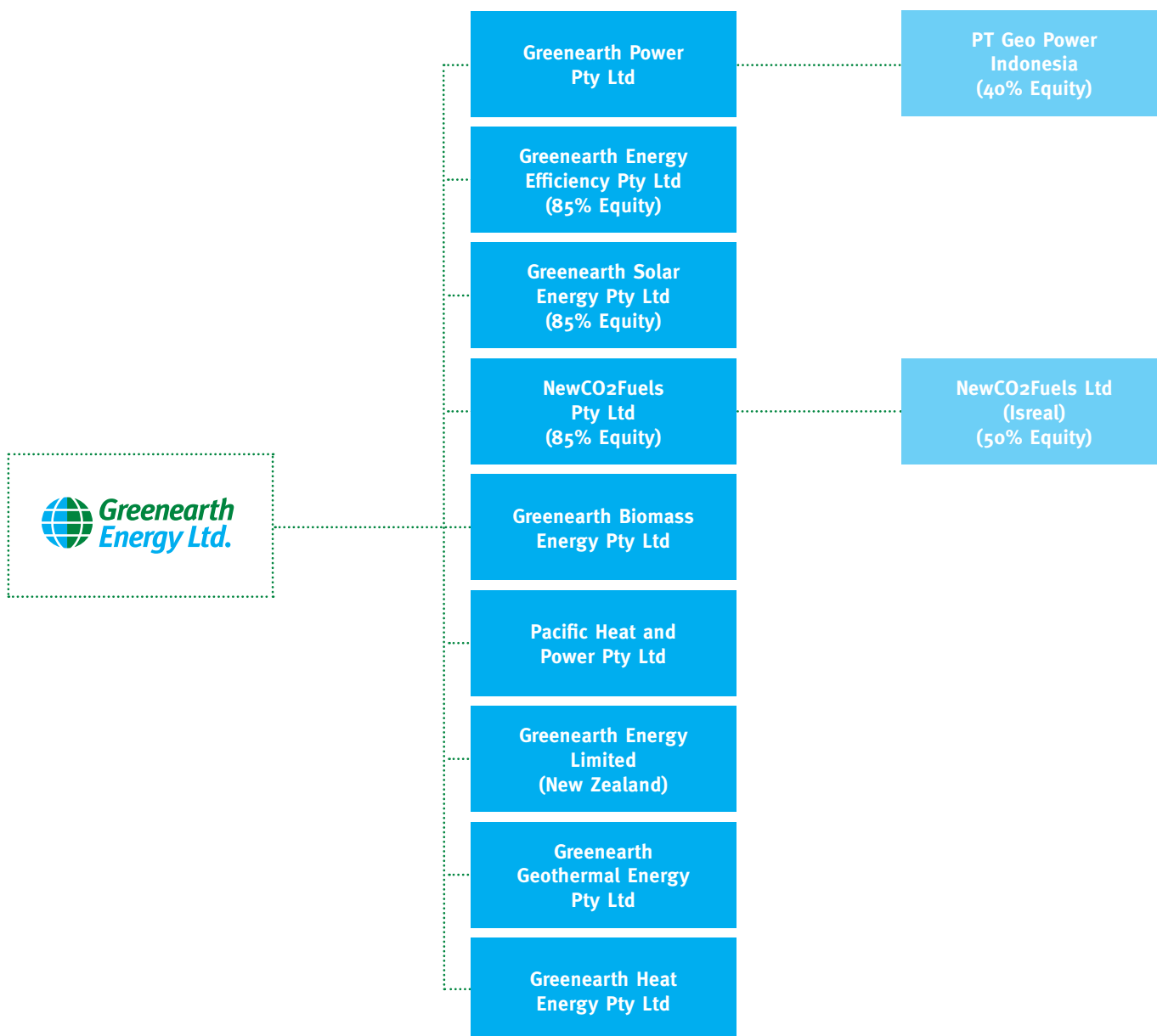
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2011:

| | 2011 | 2010 |
|----------------|---------------|--------------|
| | \$ | \$ |
| Tax compliance | 15,200 | 7,054 |
| | 15,200 | 7,054 |

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 2011.



Corporate Information (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

There were no significant changes in the state of affairs of the consolidated entity during the year.

Results and dividends

The operating loss of the company for the year ended 30 June 2011 was:

| | 2011 | 2010 |
|-------------------------------------------|------------------|-------------|
| Operating loss before income tax | 2,634,916 | 3,461,782 |
| Income tax attributable to operating loss | - | - |
| Operating loss after income tax | 2,634,916 | 3,461,782 |

During the year ended 30 June 2011, 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

No options over unissued shares or interests in the consolidated entity were granted during or since the end of the financial year.

Unissued shares

As at the date of this report 8,000,000 unissued ordinary shares of the company were under option (43,833,333 at 30 June 2010). Refer note 17 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 17.

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.

Review of Operations

CORPORATE DEVELOPMENTS

The 2010/2011 financial year has been a year where we continued our strategic expansion of our aligned technology offering to become a diversified renewable energy company with a number of nearer and medium term technology and project opportunities that will, in time, have the potential to deliver multiple revenue streams for the group as we continue to advance our core conventional geothermal energy projects.

In September 2010, Greenearth Energy completed the acquisition of Pacific Heat and Power (PHP), seeing it become a fully owned subsidiary. With an initial 33.06% investment made in 2009 and the undeniable fact that in most energy systems there is a significant amount of waste heat and energy losses which can be harnessed into useable energy, the decision to fully own PHP was a strategically sound one. PHP has a stable of technologies which turn losses and inefficiencies into valuable energy. An example of this savvy energy conversion technology was highlighted later in the year when PHP secured its first Australian Organic Rankine Cycle (ORC) turbine sale to Gympie Timber Mill assisting it to become a net exporter to the grid by way of converting low value waste heat in the form of sawmill residue into electricity.

In October 2010, Greenearth Energy Efficiency, an 85% owned subsidiary partnered with Metrolight Limited, an Israeli based organisation who manufacture SmartHID electronic ballasts that power High Intensity Discharge (HID) energy efficient lighting systems. The partnership is based on a commercial distribution agreement for Greenearth Energy Efficiency to deploy the Metrolight range of leading edge lighting efficiency products throughout Australia, New Zealand, Indonesia and selected Asian markets including the wider Pacific Rim. During the remainder of the financial year, a number of trials, new builds and energy efficient lighting system retrofits have been conducted installing the Metrolight SmartHID products resulting in outstanding energy efficiency savings being demonstrated as the Australian Market is exposed the substantial benefit these products can bring to business energy consumers.

With two smaller scale, near term implementation technology opportunities secured, that possess the potential to provide more immediate return on investment (ROI), the Directors of Greenearth Energy secured a medium term ROI potential technology, the ZenithSolar Z20 combined heat and power (CHP) solar technology. ZenithSolar Ltd, an Israeli based company developed and successfully deployed its Z20 CHP technology in Israel since 2009 have worked with 85% owned Greenearth Solar Energy to bring this state of the art technology to Australia. Greenearth Solar Energy plans to establish a demonstration site in Victoria to demonstrate the technology which produces dual power outputs from a single unit - DC electrical power (electricity) and thermal energy (hot water) using concentrated solar power harnessed by collectors mounted on dual axis tracker.

The technology arrived in Australia in May 2011 and most of the necessary preparatory work including obtaining council approval has been dealt with, allowing the design and construct phase to be the focus of late 2011/early 2012 demonstration of the technology, potentially the first outside Israel.

A final renewable technology application was added to the suite in late June 2011. Negotiations which had occurred over a twelve month period were concluded with the Yeda Research and Development Co, the commercial arm of Israel's Weizmann Institute of Science to secure an exclusive worldwide Research and License Agreement for a revolutionary technology that has the ability to convert CO₂ emissions to fuel.

The staged introduction of the above new technologies were conducted in parallel with the advancement of our Victorian geothermal assets in the Geelong/Surf Coast region (GEP10) and the Latrobe Valley/Onshore Gippsland region (GEP12&13).

Our domestic flagship geothermal project, the Geelong Geothermal Power Project (GGPP) continued in its development with the execution of the Geothermal Drilling Program (GDP) grant and a Memorandum of Intent (MOI) with Alcoa of Australia, Victoria's largest exporter. Unfortunately economic conditions had a marked impact on the entire Australian Geothermal energy industry due to in part to its nascent state resulting in limited support by investors. This risk averse investment environment coupled with stringent grant fulfilment guidelines meant that the majority of round two GDP recipient companies were unable to fulfil their grant funding obligations in the timeframes required, resulting in the mutual termination of the existing round two GDP funding deeds with the Australian Government.

Although this could be seen as a setback, the new Australian Government funding scheme, *Emerging Renewables* will allow companies to apply for replacement and further funding under a program that promotes greater flexibility and the ability for both the Government and recipient companies to work together to achieve successful renewable energy project outcomes.

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 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 2011 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°C -225 °C with uncertainty of ±15°C | Unknown | 188 °C | 157°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.

Review of Operations (continued)

GEP 10 - GEELONG AREA

Geelong Geothermal Power Project (GGPP)

The Geothermal Drilling Program (GDP) funding agreement was executed by Greenearth Energy and the Australian Centre for Renewable Energy (ACRE) acting on behalf of the Commonwealth Government in early September 2010.

The funding agreement governs the administration and appropriation of the \$7 million grant awarded to the Geelong Geothermal Power Project (GGPP). Upon execution, an initial funding amount was received to assist in planning activities. The agreement specified a number of conditions precedent and project milestones as well as dates by which these items needed to be delivered. Upon achievement of the condition precedent and each milestone, the remaining grant funds would be receivable in staged payments. Conditions Precedent include the securing of funding commitment for Stage 1 Proof of Concept as well as undertaking community consultation activities and meeting the first project milestones including detailed well designs.

Unfortunately in early August 2011, four geothermal companies including Greenearth Energy mutually executed Deeds of Termination with the Australian Government in relation to the Geothermal Drilling Program (GDP) grant funding. Regrettably, current economic conditions over the past year combined with the agreed construct of the GDP grant has limited project recipients' ability to attract project funding and thus fulfill all the requirements of their GDP grants in the timeframes stipulated.

Prior to the termination, the Australian Government announced its Clean Energy Future package which includes a funding component via the creation of the Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation, as well as a funding program *Emerging Renewables* which will have \$126 million funding to allocate on a more flexible basis designed to streamline the application process by employing a continuously open application model allowing companies to submit applications as and when they need to with no arbitrary cut off dates or set funding rounds. Greenearth Energy intends to submit an application for funds under *Emerging Renewables* for the GGPP project.

Negotiations with the Victorian state government continued throughout the year aiming to reach a suitable funding agreement for the \$5 million Energy Technology Innovation Strategy (ETIS) grant program attributable to Stage 1 Proof of Resource and a further \$20 million for Stage 2 Demonstration upon the successful completion of Stage 1.

In conjunction with the funding agreement negotiations Greenearth Energy has completed a geo-scientific prognosis to establish the geological characteristics of the proposed resource. The prognosis included the collation of production information, determination of expected well temperature and pressure profile as well as the identification of potential permeable geological structures and their expected properties. This geological profile is used to develop a detailed well design.

The detailed well design accords with NZS 2403:1991 Code of Practice for Deep Geothermal Wells and has been developed on the basis of a deviated well design to maximize the length of the

Figure 1: Community Information Day held 18 June 2011 regarding Geelong Geothermal Power Project (GGPP) site selection process.



geothermal reservoir intersected while minimizing above-ground footprint. The wells have been designed to be open over the reservoir interval expected to be encountered between 3,500 and 4,000m. The wells will be completed with an uncemented slotted liner. It is proposed that the production and injection wells will have a well head separation of 20m and a maximum lateral separation of 1,500m at total depth.

Throughout the period, Greenearth Energy has continued to engage with prospective investors and other parties who have an interest in this flagship Victorian Geothermal energy project. A joint announcement and media release on 15 November signified the culmination of an extended period of informal discussions with Alcoa of Australia, resulting in the agreement to commence formal discussions under the framework of a Memorandum of Intent (MOI).

Alcoa of Australia, Victoria's largest exporter, has operated a power station in Anglesea for over 40 years approximately 9km southeast of the Geelong Geothermal Power Project (GGPP). The MOI between Greenearth Energy and Alcoa of Australia identified five areas of potential collaboration to be investigated subject to a range of technical, commercial and legal parameters, and dependent on the continuing operation of Alcoa's Anglesea facility.

The areas of potential collaboration include:

- Identification of a site sufficient for the GGPP Stage 1 (Proof of Resource/Concept) and Stage 2 (Demonstration 12 MW_e) on land currently leased by Alcoa
- Grid connection of the GGPP via Alcoa infrastructure assets
- Base load renewable energy off-take as a result of a successful GGPP Stage 2 Demonstration 12 MW_e geothermal energy plant (PPA)
- Purchase of Renewable Energy Certificates (REC's) as a result of a successful GGPP Stage 2 Demonstration
- To work cooperatively towards evaluation and implementing other low-carbon technologies

Review of Operations (continued)

At an operational level, the site selection process in relation to an appropriate site sufficient for Stage 1 and Stage 2 of the GGPP progressed substantially. The company's aim is 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 geothermal energy demonstration plant.

A staged approach to eventual site selection was used, whereby the focus was on Crown and Commercial Private Land in the south of the resource area, taking in regard the commitments previously provided to the community in relation to developing the project. Potential sites were selected and a desktop study concluded to eliminate sites that were found to be unsuitable. Preliminary field assessments were also undertaken with the assistance from regulatory bodies and also input from key stakeholders who possessed intimate knowledge of the areas being considered. Further sites were found to be unsuitable which in turn ultimately led to a selection of ten sites found to be potentially viable. Subsequently detailed community and stakeholder feedback was sought in regards to the selection of a single site from the ten considered suitable.

Six assessment criteria were used to risk rate the individual sites to assess their suitability.

The six assessment criteria included reservoir thickness, environmental impact, cultural heritage, amenity issues, access to the site and commercial and financial impacts each site would have upon the successful development of the project. Each of the criteria was assigned a risk rating for each individual site, low representing a potential for low impact or risk to high, representing a potential for high impact or risk.

A community information day was held on June 18 to detail the process undertaken and introduce the selection sites which Greenearth Energy had considered suitable. The information day was well attended and site selection documents and feedback forms issued.

The company requested that feedback be completed by 8 July, which was subsequently extended in response to requests for more time from community members. The feedback received will be taken into consideration together with financial, geothermal resource and the regulatory framework requirements to make the selection of a single site for the purpose of stage 1 exploration.

Upon selection of the preferred site, an access agreement will be established, the preferred site announced and the formal regulatory process commenced.

The GGPP Community Reference Group (CRG) which was established early in the financial year has commenced its involvement with the project and met three times to date. The meetings have been well attended, with all members providing input. The CRG has provided a number of recommendations to the company, which have been welcomed and given due consideration. The GGPP CRG will continue to meet throughout 2011.

The GGPP CRG has decided to produce a GGPP CRG Communiqué, as a means of providing information in relation to its activities, which will be distributed within the community as well as placing the information in local newsletters. A copy of the communiqué can also be found on the Community Section of the Greenearth Energy website.

Greenearth Energy has and will continue with other community and stakeholder engagement activities including meeting with new stakeholders as they are identified. In addition to the outlined activities in relation to the GGPP and continued stakeholder engagement, Greenearth Energy will continue to seek cornerstone investors, seek to carry out capital raising in support of the GGPP as well as finalise all planning, regulatory, environmental and stakeholder requirements.

GEP 12/13 – GIPPSLAND AND LATROBE VALLEY

Magneto-telluric (MT) Survey

A Magneto-telluric (MT) geophysical survey was completed within both GEP 12 and GEP13 permit areas situated on Onshore Gippsland and the Latrobe Valley. The survey was carried out by Moombarriga Geoscience Pty Ltd with data recorded from approximately 40 survey points placed 1km apart, in line, running between Glengarry North and Willung South.

The MT geophysical method is a passive technique that uses a series of coils and electrodes buried at shallow depth (approximately 20cm below surface). The electrodes record naturally occurring electric currents that flow through the earth that are induced by natural variations in the earth's magnetic fields. These variations may be used to calculate the resistivity of the ground which may vary depending on the local geology. Recording at each station occurs for a period of approximately 24 hours, after which time the site is fully rehabilitated.

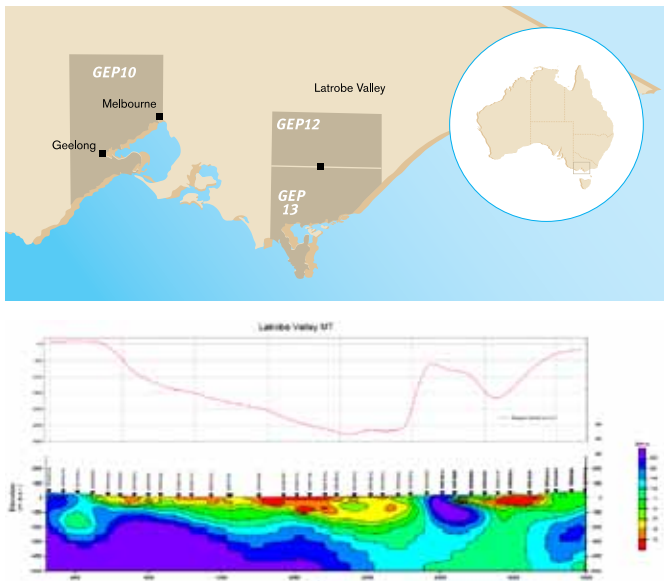
A traverse across the Latrobe Valley from the outcropping Paleozoic units at Glengarry North in the north to the uplifted Cretaceous, Strzelecki units sub-cropping over the Baragwanath anticline at Gormandale and Willung has enabled a full profile across the Latrobe Valley to be obtained.

The primary objectives of the MT survey were to assess the viability of using the MT method in this relatively high noise environment, to map the potential resistivity contrast between the Paleozoic basement and the overlying Cretaceous and Tertiary basin fill sediments as well as any controlling structures (faults), and to identify any anomalous response(s) that may be due to the presence of a geothermal reservoir at depth.

The results obtained from this survey were encouraging. Despite high noise levels, meaningful data was obtained that appears consistent with the inferred geological model for the area, and compared favorably with the overall geological architecture of the Latrobe Valley depression.

Modeling of the data using 2D inversion algorithms has shown low resistivity (<20 ohm.m) layering associated with the uppermost Latrobe Valley Group sediments. This sits atop a region of higher resistivity's (<100 ohm.m) which appears to map the Cretaceous Strzelecki Group, this in turn overlies high resistivity units (>100 ohm.m) interpreted as the Paleozoic basement. The section shows a gradual thickening of the basement from the north to approximately 3,000m at the Rosedale Fault in the south. A region of near surface high

Figure 2:
Greenearth Energy permit locations with 2D model of Magno-telluric (MT)
Survey results in GEP 12/13



Review of Operations (continued)
GEP 12/13 – GIPPSLAND AND LATROBE VALLEY (continued)
Magneto-telluric (MT) Survey (continued)

resistivity is evident consistent with the Baragwanath anticline although this interpretation is speculative given that this section of the line is in close proximity to the HVDC Bass Link line, which may be influencing the data at this location.

A zone of near surface low resistivity is again evident in the vicinity of Gormandale. This is likely due to Latrobe Valley Group sediments and coal. Whilst the deeper sections to the south of the Rosedale fault show resistivity in the order of 50 - 100 ohm.m, consistent with interpreted resistivity's for the Strzelecki Group, no clear relationship between this and basement can be established.

Following the relative success of the MT survey undertaken across the Latrobe Valley, Greenearth Energy may look to expand the coverage of MT survey data throughout the Latrobe Valley and onshore Gippsland area.

Seismic Refraction Survey

In Line with the Integrated Geophysical Project, Greenearth Energy is currently assessing the potential for a seismic refraction survey to be conducted across the Latrobe Valley. The thick coal deposits in Gippsland attenuate conventional seismic reflection signals and as such these methods are largely ineffectual at mapping deeper geological horizons.

Greenearth Energy is assessing whether a refraction survey with seismic sources grounded within Palaeozoic outcrop to the north of the valley may be able to image the lateral continuation of these units beneath the thick basin fill sediments and coals.

DUAL GEOTHERMAL SYSTEM FOR FRESH WATER PRODUCTION AND POWER GENERATION

The research and development project on a dual system for fresh water production and electricity generation from geothermal sources continues to make significant progress. The first stage of this collaborative project between Greenearth Energy and RMIT University started in mid 2010 and is due to be completed by the end of 2013. It is supported by an Australian Research Council (ARC) Linkage grant and is progressing well according to the planned schedule.

The postdoctoral researcher appointed last financial year has undertaken the preliminary literature research, prepared the experimental equipment, and completed preliminary testing of this equipment. He has also developed a method for the removal of non-condensable gases from geothermal waters to maintain the vacuum in the system, which in turn should assist in increasing the operational efficiency of the system.

A new pre-demonstration scale test unit has been designed and fabricated incorporating results achieved to date from this experimental equipment. At this stage this new test unit is undergoing final safety inspection and testing before it is commissioned at RMIT Bundoora East campus for lab testing by end of October 2011. It is expected that the new design will improve the performance of the reaction turbine at higher rotational speeds, thus enhancing the overall efficiency of the system.

INDONESIA

Greenearth Energy via its investment in Indonesian based geothermal exploration and development company PT Geopower Indonesia continues to have a presence in the Indonesian Geothermal industry.

PT Geopower Indonesia is currently working on assessing prospective conventional geothermal projects which have the ability to be advanced to power generation while providing all parties substantial return on investment potential. Three project opportunities remain under consideration.

Figure 3: Releasing steam from a conventional geothermal system typically found in Indonesia



Review of Operations (continued)

NON GEOTHERMAL OPERATIONS

ENERGY EFFICIENCY

In October 2010, Greenearth Energy Efficiency was established to focus on providing Australian industry with energy efficiency solutions. The initial focus of the company is on energy efficiency lighting solutions for the logistics, manufacturing, large retail and street lighting sectors.

A partnership established with Israeli based Metrolight Limited, cemented with a commercial distribution agreement, has provided Greenearth Energy Efficiency with a range of leading edge lighting efficiency products to deploy throughout Australia, New Zealand, Indonesia, selected Asian markets and the wider Pacific Rim.

Metrolight Limited manufactures SmartHID™ electronic ballasts that power High Intensity Discharge (HID) energy efficient lighting systems. Established in 1996, Metrolight Limited has successfully installed over 500,000 systems worldwide across multiple industry applications accumulating over 2 Billion operating hours.

As an introduction to the Australian environment, Greenearth Energy Efficiency with the assistance of Metrolight Limited conducted a successful trial in a NSW based warehouse. The trial highlighted the benefits achieved from a successful implementation of the Metrolight technology and the suitability of Metrolight products to the Australian environment.

Greenearth Energy Efficiency aims to offer a total energy efficiency lighting solution by way of an assessment of each client's facility and operation. The energy efficiency lighting solution package is tailored specifically for individual business needs. Beginning with a thorough analysis of the current facility and technology, identification of the level of energy efficiency and potential cost savings to be achieved, completion of a plan to deliver those savings as well as implementing and offering technical support post installation, a complete client solution is delivered.

Upon the identification of additional benefits which could be achieved by New South Wales based clients via the creation of Energy Saving Certificates (ESC's), Greenearth Energy Efficiency applied for and was awarded "Accredited Certificate Provider (ACP)" status under the New South Wales Energy Savings Scheme during May 2011.

The Energy Savings Scheme is a NSW based energy efficiency scheme with its principal objective being the creation of financial incentives to reduce the consumption of electricity through energy savings activities. The scheme places a mandatory obligation via NSW legislation on Scheme participants (e.g. electricity retailers) to obtain and surrender Energy Savings Certificates (ESC's), which represent eligible energy savings under the scheme. Scheme participants purchase the certificates from Accredited Certificate Providers, who create the certificates following the implementation of energy saving initiatives.

As a result of becoming an Accredited Certificate Provider, Greenearth Energy Efficiency is now able to produce energy saving certificates, manage the governance and administration requirements associated with the certificates as well as trade the created certificates to scheme participants for each eligible project and in doing so providing Greenearth Energy Efficiency client's with energy savings benefits.

Figure 4:
The Metrolight SmartHID products provide energy efficiency solutions for logistical, manufacturing, large retail and street lighting sectors



One Client to receive further value via the ability to generate ESC's was Diageo Australia, a leading premium drinks business. Diageo Australia engaged Greenearth Energy Efficiency to provide a smart lighting installation at their NSW Huntingwood facility. This facility will showcase the benefits of Greenearth Energy Efficiency's Metrolight commercial lighting technology, a flexible, smart, High Intensity Discharge (HID) lighting system that can 'harvest' the benefits of daylight in a warehouse, and provide significant energy savings. Modelling carried out by Greenearth Energy Efficiency suggests energy savings of up to 48% will be achieved through a combination of more efficient equipment, dimming with daylight, and implementation of 'smart' control systems.

The system was installed at the end of June 2011 and the 'smart' control system to be tailored to the facility individual specifications in early July 2011.

Hoping to enhance the value offered to Victorian based clients, Greenearth Energy Efficiency have provided a submission for the inclusion of its SmartHID electronic ballasts under the *Victorian Energy Efficiency Target (VEET)* scheme, a legislative requirement placed on energy retailers through the Victorian Energy Efficiency Target Act 2007.

The scheme, initially targeting residential energy efficiency measures has been expanded to include small to medium enterprises (SME's) and other businesses. Submissions in relation to potential new activities for businesses to be included in the scheme have been called for by the Department of Primary Industries, prompting Greenearth Energy Efficiency to prepare and deliver a submission in relation to including the installing of High Intensity Discharge (HID) lighting systems. The Department is currently reviewing submissions relating to potential new activities for businesses.

If this specific activity is included, Greenearth Energy Efficiency will be able to offer prospective small business clients in Victoria, a similar raft of additional benefits to those received by their NSW counterparts.

Figure 5:
280kW Purecycle ORC power system installed at Gympie Timber to convert sawmill residue into electricity



Review of Operations (continued)

NON GEOTHERMAL OPERATIONS (continued)

WASTE HEAT RECOVERY

The acquisition of Pacific Heat and Power (PHP) at the start of the financial year resulted in the company owning 100% of PHP. The Greenearth Energy Group with this technology suite in its stable is now in a position to offer prospective clients a technology solution that harnesses their low value waste heat and converts it to high value energy in the form of electricity. Many industrial processes emit substantial amounts of energy in the form of waste heat. With the right technology solution this low value waste energy can be converted resulting in supplementary income in the form of electricity generation while at the same time reducing harmful emissions.

PHP's product range includes the products from Turboden and Pratt & Whitney Power Systems (PWPS) including the Purecycle Organic Rankine Cycle (ORC) power system, which has been purchased by Gympie Timber Company, a renowned Queensland family owned business specializing in supplying the Australian market with high quality Australian Hardwood products.

The Purecycle ORC power system is a 280kW pre-engineered on-site power generation system that harnesses waste heat in the form of hot water, low pressure steam or thermal oil to generate electricity. Gympie Timber will connect the system to an existing thermal oil system used to heat their timber drying kilns. In conjunction with the thermal oil system, by utilizing sawmill residue (waste by-product) to create additional heat, the site will become a net exporter of electricity, create a secondary revenue stream and minimize the company's impact on the environment. Installation of the equipment is scheduled to occur in late October 2011.

Figure 6:
Conceptual Diagram of ZenithSolar demonstration site at 69 Fennell Street, Port Melbourne



SOLAR ENERGY

In conjunction with Israeli based ZenithSolar Ltd, Greenearth Solar Energy plans to introduce a unique, state of the art High Concentration Photovoltaic (HCPV) / Combined Heat and Power (CHP) solar technology, the ZenithSolar Z20.

Developed and successfully operating in Israel since 2009, the ZenithSolar Z20 (CHP) solar technology is currently producing and selling electricity to the national grid and producing hot water for 220 community residents located within Kibbutz Yavne. A single ZenithSolar Z20 unit features two 11m² collectors, mounted on dual axis tracker that concentrates incoming solar power onto a receiver which consists of a multi junction PV coupled to a heat exchanger that efficiently converts concentrated solar flux into DC electrical power and thermal energy. The DC electrical power is then converted into AC power and fed to either directly to a customer or the grid.

The thermal energy created by the ZenithSolar Z20 CHP solar technology can be pumped through a closed loop system located proximate to potential customer applications, including hospitals, aged care facilities, hotels, resorts, leisure centres, mine sites, universities and swimming pools.

Greenearth Energy plans to establish a demonstration site in Victoria to showcase the technology as well as gain an intimate understanding of how the technology operates under Australian conditions. A site for the demonstration of the technology has been secured. Centrally located at 69 Fennell Street, Port Melbourne, the site will allow potential investors, project developers and offtake customers' alike easy access to the technology.

The demonstration site will incorporate eight ZenithSolar Z20 units, which should produce a peak output of 88kW of thermal energy (hot water) and 36kW of electrical energy.

Mid May heralded the arrival of the eight ZenithSolar Z20 units in Melbourne. The necessary planning permits and associated documentation has been submitted with the Port Philip Council and the planning permit was granted in July 2011. Tender documentation and design specifications for the trial site have been prepared for the design and construction has been prepared and final discussions are being conducted prior to the engagement of the relevant contractors. It is anticipated that the demonstration site should be established and commissioned by the end of the first quarter 2012.

CO₂ TO FUEL CONVERSION TECHNOLOGY

The end of June witnessed the successful conclusion of over twelve months work in relation to negotiations with Yeda Research and Development Co Ltd, the commercial arm of Israel's Weizmann Institute of Science to secure an exclusive worldwide Research and License Agreement for a revolutionary technology that has the ability to convert CO₂ emissions to 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 (CO₂) to carbon monoxide (CO) and oxygen (O₂). The same system can also dissociate water (H₂O) to hydrogen (H₂) and oxygen (O₂), at the same time it dissociates the CO₂. The CO, or the mixture of CO and H₂ (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.

The key to delivering low cost clean fuel is a highly efficient process of converting solar radiation to chemical potential in the form of fuel. The technology process is aimed at achieving this goal. The source of carbon dioxide for the process could be existing power plants, cement factories and other emitting industries. The fuel produced could potentially be recycled back into the plant from which it was created (and used in these facilities and in doing so substantially reducing the CO₂ emissions footprint of these plants), or utilized as transportation fuel.

Greenearth Energy's 85% owned subsidiary company NewCO₂Fuels Pty Ltd will fund the development of the project from the laboratory into the field. Research will be performed under the supervision of Professor Jacob Karni, utilizing the Weizmann Institute's world class solar tower and solar field facilities to generate fuel with the energy input being concentrated solar energy.

Greenearth Energy has entered into an investment agreement to establish NewCO₂Fuels Ltd, a joint venture company in Israel, to support the research and be a vehicle for the future commercialisation of the technology. NewCO₂Fuels Pty Ltd, will hold 50% of the joint venture. The other shareholders in the joint venture include Yeda Research and Development Co Ltd and various scientists involved in the technology. Under the investment agreement, Greenearth Energy has agreed over a period of two years to provide US\$5.5 million to the joint venture to fund costs. The worldwide licence for the technology will be assigned to the joint venture subject to certain conditions precedent being satisfied.

Figure 7:
The Weizmann Institute of Science's Solar Tower and Field that are used in the CO₂ to Fuel Conversion Technology



To secure funding for the project, Greenearth Energy has entered into an option agreement with Erdi Fuels Pty Ltd. Under this agreement Erdi Fuels Pty Ltd has agreed to a placement of US\$1,000,000 for 8,991,654 Greenearth Energy shares as well as providing a further US\$4.5 million required for the joint venture funding. In return for the joint venture funding, all parties to the joint venture, including NewCO₂Fuels Pty Ltd, have granted Erdi Fuels Pty Ltd an option to acquire all of the shares in the joint venture. The option is exercisable in two years time should the research have progressed sufficiently to the commercialisation stage. If Erdi Fuels Pty Ltd exercise the option it is required to pay the joint venture partners a total of \$US20 million over 18 months as well as ongoing royalties on sales of products.

This project technology represents a substantial adjunct to Greenearth Energy's range of renewable energy and energy efficiency technologies and provides a potential viable alternative to CO₂ geo-sequestration. The CO₂ to fuel conversion technology if proven to be commercially viable has the potential to shift our thinking on how to deal with one of our greatest current day challenges. With 32,000 tonnes of CO₂ emitted into our atmosphere worldwide every 60 seconds* we believe that this new technology has the potential to make a marked impact on the global emissions challenge.

* UN Statistics Division Data

Significant events after balance date

On 5 August 2011, Greenearth Energy issued 157,142 ordinary shares at an issue price of 10.5 cents per share in consideration for consultancy services provided by Advance Publicity Pty Ltd.

On 8 August 2011, Greenearth Energy and the Australian Centre for Renewable Energy (ACRE) on behalf of the Australian Government executed a Mutual Deed of Termination in relation to the grant funding provided under the Geothermal Drilling Program (GDP).

A general meeting of shareholders was held on 12 August 2011, to approve the previous issue of Greenearth ordinary shares. Shareholder passed the resolution on a show of hands and the issue of 8,093,297 ordinary shares at an issue price of 11.71 cents per share to Erdi Fuels Pty Ltd as part of the transaction in relation to the CO₂ to fuel conversion technology was approved.

On 7 September 2011, Greenearth Energy announced the creation of a 100% owned subsidiary, Greenearth Biomass Energy Pty Ltd. It is intended that this subsidiary will hold the investment interest made in relation to a biomass waste-to-energy gasification technology opportunity which is currently under assessment.

On 9 September 2011, Greenearth Energy issued 898,357 ordinary share for nil consideration as part of the transaction associated with the CO₂ to fuel conversion technology. The shares were issued to Erdi Fuels Pty Ltd.

On 12 September 2011, Pacific Heat and Power (PHP), a 100% owned subsidiary announced its second sale in the Pacific Region. Two Purecycle Organic Rankine Cycle (ORC) turbines have been sold to American Samoa Power Authority to capture waste heat from diesel engines, the country's principle power generation source. Commissioning of the project is expected to occur in the first half of 2012.

On 14 September 2011, the Company announced its intention to raise capital via a non-renounceable rights issue. The non-renounceable rights issue will issue new shares on the basis on 1 New Share for every 2 Shares held at an issue price of 8 cents per new share. In addition, a non-listed Incentive Option will be issued for no additional consideration for every new share, exercisable at 5 cents each at any time during the period from 15 April 2012 to 15 October 2012. The rights issue if fully subscribed 45,040,886 New shares and 45,040,886 Incentive Options will be issued and \$3,603,270 raised.

Likely developments

During the next twelve months, Greenearth Energy will continue to advance its suit of renewable energy and energy efficiency technologies and projects to deliver our corporate strategy of establishing a position in a number of emerging renewable and energy efficiency market categories, while at the same time developing our longer lead time and substantial scale projects in both the conventional geothermal and CO₂ to fuel conversion markets.

The completion of the ZenithSolar Z20 CHP demonstration site at Port Melbourne is targeted to take place in the first quarter 2012 and in doing so will simultaneously showcase the technology to potential investors and system users as well as allow Greenearth Solar Energy to ensure that the technology is suited and potentially enhanced to achieve the most efficient results in the Australian environment.

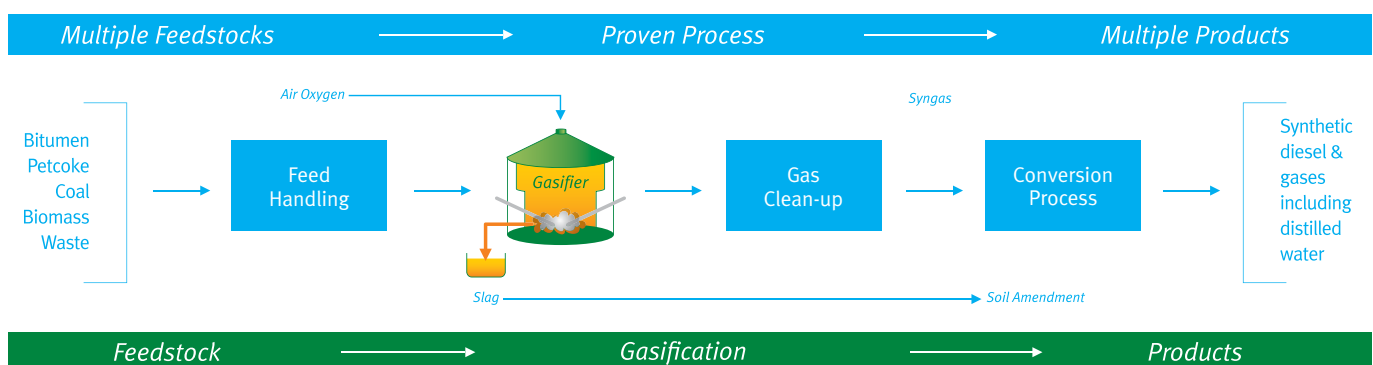
The coming year, should bear witness to the ground work laid during the previous twelve months in relation to the benefits which can be achieved in terms of harnessing waste heat and enhancing energy efficiency via our suite of Metrolight and PHP products. Continued sales and projects should be achieved building on the momentum and providing potential nearer term return on investment.

In relation to Greenearth Energy's geothermal assets, an Emerging Renewable application will be considered and submitted for both our prospective permit areas, one for the Geelong Geothermal Power Project (GGPP) and a separate application for our strategically important Latrobe Valley project.

Assessment of the company's Biomass waste-to-energy Gasification technology opportunity will continue resulting in, should the technology trial prove successful, Greenearth Biomass Energy making an investment and gaining an equity position in:

- (i) the specific Indonesian project targeted; and
- (ii) the resultant unique technology application.

Figure 8:
Biomass waste-to-energy gasification process



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.

Mr Mark Miller, the Managing Director has KPI's including 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. Ms Vicki Kahanoff, the Chief Financial Officer 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. Bonuses can be taken as cash, shares or a combination of both. The contracts for services between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Share-base remuneration is conditional upon continuing employment thereby aligning director and shareholder interests. The remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

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

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial period are provided above. 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 |

Remuneration Report (continued)

Directors' Remuneration

| | | Primary Benefits | | | Post Employment | | | Share Based Payments [^] | Total |
|------------------------------|-------------|----------------------------|------------|--------------|-----------------|----------------------|-----------------------------|-----------------------------------|----------------|
| | | Salary & Fees [#] | Cash Bonus | Non Monetary | Superannuation | Termination Benefits | Equity Options [*] | | |
| R.J. Annells ^A | 2011 | 35,000 | - | - | - | - | - | 13,625 | 48,625 |
| | 2010 | 76,954 | - | - | 3,375 | - | - | - | 80,329 |
| M. Miller | 2011 | 270,000 | - | 2,964 | 50,000 | - | - | 80,000 | 402,964 |
| | 2010 | 290,000 | - | 3,513 | 51,799 | - | - | 15,500 | 360,812 |
| J.T. Kopcheff | 2011 | - | - | - | - | - | - | 13,625 | 13,625 |
| | 2010 | 37,500 | - | - | 3,375 | - | - | - | 40,875 |
| R.L. King ^B | 2011 | 74,023 | - | - | - | - | - | 13,625 | 87,648 |
| | 2010 | 173,270 | - | - | 3,375 | - | - | - | 176,645 |
| S.R. Molesworth ^C | 2011 | - | - | - | - | - | - | 23,162 | 23,162 |
| | 2010 | 63,750 | - | - | 5,737 | - | - | - | 69,487 |
| Total Directors remuneration | 2011 | 379,023 | - | 2,964 | 50,000 | - | - | 144,037 | 576,024 |
| | 2010 | 641,474 | - | 3,513 | 67,661 | - | - | 15,500 | 728,148 |

[#] 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 2011.

^{*} 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.

^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 S.R Molesworth resigned 30 June 2010, effective 1 July 2010. The share based payments in 2011 relate to his tenure in 2010.

Executives' Remuneration

| | | Primary Benefits | | Post Employment | | | Share Based Payments [^] | Total |
|------------------------------|-------------|------------------|--------------|-----------------|----------------------|-----------------------------|-----------------------------------|----------------|
| | | Salary & Fees | Non Monetary | Superannuation | Termination Benefits | Equity Options [*] | | |
| V. Kahanoff | 2011 | 141,055 | 2,964 | 12,695 | - | - | 13,200 | 169,914 |
| | 2010 | 128,440 | 2,404 | 11,559 | - | - | - | 142,403 |
| C. Morgan | 2011 | 183,486 | - | 16,514 | - | - | - | 200,000 |
| | 2010 | 53,517 | - | 5,262 | - | - | - | 58,779 |
| Total Executive Remuneration | 2011 | 324,541 | 2,964 | 29,209 | - | - | 13,200 | 369,914 |
| | 2010 | 181,957 | 2,404 | 16,821 | - | - | - | 201,182 |

^{*} 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.

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 | 2011 % of Remuneration from Options | 2010 % of Remuneration from Options |
|------------------------------|-------------------------------------------|-------------------------------------------|
| Directors | | |
| R.J. Annells | - | - |
| M. Miller | - | - |
| J.T. Kopcheff | - | - |
| R.L. King | - | - |
| S.R. Molesworth ^c | n/a | - |
| Executives | | |
| V. Kahanoff | - | - |
| C. Morgan | - | - |

^c S.R. Molesworth resigned 30 June 2010, effective 1 July 2010.

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

| 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 |
| 2010 | Directors and Executives | 1 July 2009 | Value granted | Value exercised | Value lapsed | 30 June 2010 |
| | Directors | | | | | |
| | R.J. Annells | 60,000 | - | - | - | 60,000 |
| | M. Miller | 76,000 | - | - | - | 76,000 |
| | J.T. Kopcheff | 60,000 | - | - | - | 60,000 |
| | R.L. King | 60,000 | - | - | - | 60,000 |
| | S.R. Molesworth ^c | 90,000 | - | - | - | 90,000 |
| | Executives | | | | | |
| | V. Kahanoff | 53,000 | - | - | - | 53,000 |
| | C. Morgan | - | - | - | - | - |
| | Total | 309,000 | - | - | - | 309,000 |

^cS.R Molesworth resigned 30 June 2010, effective 1 July 2010.

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 2010, 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

| 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 | - |
| | | | | | | | | |
| 2010 | Balance 1 July 2009 | Granted as Remuneration | Options Exercised | Net Change Other (Purchases/ Expired) | Balance 30 June 2010 | Total vested 30 June 2010 | Total exercisable 30 June 2010 | Total unexercisable 30 June 2010 |
| Directors | | | | | | | | |
| R.J. Annells | 1,666,666 | - | - | - | 1,666,666 | 1,666,666 | 1,666,666 | - |
| M Miller | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 | 3,000,000 | - |
| J.T. Kopcheff | 3,083,333 | - | - | - | 3,083,333 | 3,083,333 | 3,083,333 | - |
| R.L. King | 1,583,334 | - | - | - | 1,583,334 | 1,583,334 | 1,583,334 | - |
| S.R. Molesworth ^C | 2,323,334 | - | - | - | 2,323,334 | 2,323,334 | 2,323,334 | - |
| Executives | | | | | | | | |
| V. Kahanoff | 1,083,333 | - | - | - | 1,083,333 | 1,083,333 | 1,083,333 | - |
| C. Morgan | - | - | - | - | - | - | - | - |
| Total | 12,740,000 | - | - | - | 12,740,000 | 12,740,000 | 12,740,000 | - |

^C S.R. Molesworth resigned 30 June 2010, effective 1 July 2010.

Directors' and Executives' Equity Holdings (continued)

(d) Number of shares held by key management personnel

| 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 | - |

[†] An additional 289,531 shares were issued in December 2010 to Mr S.R. Molesworth in relation to directors' duties performed during the 2010 financial year. Mr S.R. Molesworth retired 30 June 2010, effective 1 July 2010.

| 2010 | Balance 1 July 2009 | | Granted as Remuneration | | On Exercise of Options | | Net Change Other (Purchases) | | Balance 30 June 2010 | |
|---------------------------------|------------------------|----------|----------------------------|----------|---------------------------|----------|---------------------------------|----------|-------------------------|----------|
| | Ord | Pref | Ord | Pref | Ord | Pref | Ord | Pref | Ord | Pref |
| Directors | | | | | | | | | | |
| R. J. Annells | 1,099,999 | - | - | - | - | - | - | - | 1,099,999 | - |
| M Miller | - | - | 100,000 | - | - | - | - | - | 100,000 | - |
| J.T. Kopcheff | 2,350,000 | - | - | - | - | - | - | - | 2,350,000 | - |
| R.L. King | 683,334 | - | - | - | - | - | - | - | 683,334 | - |
| S.R. Molesworth [©] | 1,003,334 | - | - | - | - | - | - | - | 1,003,334 | - |
| Executives | | | | | | | | | | |
| V. Kahanoff | 83,333 | - | - | - | - | - | - | - | 83,333 | - |
| C. Morgan | - | - | - | - | - | - | - | - | - | - |
| Total | 5,220,000 | - | 100,000 | - | - | - | - | - | 5,320,000 | - |

[©] S.R. Molesworth resigned 30 June 2010, effective 1 July 2010.

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



Mark Miller
Managing Director

Signed at Melbourne, Victoria
29 September 2011

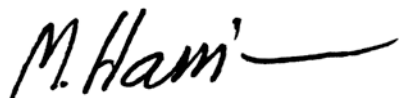


AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Greenearth Energy Ltd

In relation to the independent audit for the year ended 30 June 2011, 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

29 September 2011



PITCHER PARTNERS

Melbourne

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

| | Notes | CONSOLIDATED | |
|------------------------------------------------------------------------------------|-------|--------------------|-------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| Revenue | | | |
| Sales Revenue | | 191,418 | - |
| Other income | | 954,349 | 454,013 |
| | 4 | 1,145,767 | 454,013 |
| Less: Expenses | | | |
| Employee benefits expense | 5(a) | (1,109,485) | (808,810) |
| Inventories sold or used | | (21,360) | - |
| Depreciation expenses | 5(b) | (40,899) | (55,602) |
| Loss on disposal of fixed assets | | (570) | - |
| Finance costs | 5(d) | (2,483) | (2,363) |
| Exploration expenditure written off | 14 | (245,985) | (656) |
| Accounting and audit expenses | 23 | (75,255) | (56,629) |
| Professional fees | | (16,300) | (17,222) |
| Marketing and promotion expenses | | (59,645) | (126,190) |
| Rent and occupancy expenses | | (129,896) | (123,405) |
| Consulting expenses | | (346,070) | (843,788) |
| Lease payments | | (100,000) | - |
| Loss on fair value of investments | | - | (35,329) |
| Impairment loss on investments | 11 | - | (757,576) |
| Impairment (loss)/gain on investments in associates | 21 | 65,995 | (849) |
| Impairment of goodwill | 13 | (198,369) | - |
| Administrative expenses | 5(c) | (1,435,970) | (966,439) |
| Total expenses | | (3,716,292) | (3,794,858) |
| Share of associate loss accounted for using equity method | 28 | (64,391) | (120,937) |
| Loss before income tax | | (2,634,916) | (3,461,782) |
| Income tax expense | 6(a) | - | - |
| Loss from continuing operations | 5 | (2,634,916) | (3,461,782) |
| Loss for the year | | (2,634,916) | (3,461,782) |
| Other comprehensive income | | - | - |
| Total comprehensive income | | - | - |
| Loss attributable to the members of the parent | | (2,634,916) | (3,461,782) |
| Total comprehensive income/(loss) attributable to the members of the parent | | (2,634,916) | (3,461,782) |
| Basic loss per share from continuing operations (cents per share) | 20 | (3.63) | (5.12) |
| Diluted loss per share from continuing operations (cents per share) | 20 | (3.63) | (5.12) |

Consolidated Statement of Financial Position

As at 30 June 2011

| | Notes | CONSOLIDATED | |
|-------------------------------------------------------|-------|------------------|-------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 19(b) | 1,866,378 | 2,036,807 |
| Receivables | 7 | 496,207 | 350,797 |
| Financial assets at fair value through profit or loss | 9 | 54,958 | 43,181 |
| Inventory | 8 | 356,421 | - |
| Other financial assets | 11 | 54,124 | 51,793 |
| Other current assets | 10 | 2,847 | 492,966 |
| TOTAL CURRENT ASSETS | | 2,830,935 | 2,975,544 |
| NON-CURRENT ASSETS | | | |
| Investment in Associate | 28 | 9,419 | 2,773 |
| Property, plant and equipment | 12 | 79,693 | 111,114 |
| Deferred exploration, evaluation and development | 14 | 2,198,272 | 2,307,129 |
| TOTAL NON-CURRENT ASSETS | | 2,287,384 | 2,421,016 |
| TOTAL ASSETS | | 5,118,319 | 5,396,560 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 15 | 835,084 | 486,561 |
| Provisions | 16 | 134,741 | 101,517 |
| TOTAL CURRENT LIABILITIES | | 969,825 | 588,078 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 16 | 33,384 | 26,046 |
| TOTAL NON-CURRENT LIABILITIES | | 33,384 | 26,046 |
| TOTAL LIABILITIES | | 1,003,209 | 614,124 |
| NET ASSETS | | 4,115,110 | 4,782,436 |
| EQUITY | | | |
| Share capital | 17(a) | 13,350,876 | 11,383,286 |
| Other reserves | 18 | 410,400 | 519,000 |
| Accumulated losses | 18(d) | (9,646,166) | (7,119,850) |
| TOTAL EQUITY | | 4,115,110 | 4,782,436 |

Consolidated Statement of Changes in Equity

Year Ended 30 June 2011

| | Contributed Capital | Reserves | Retained Earnings | 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 |
| Capital raising costs | (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 |

Year Ended 30 June 2010

| | | | | |
|------------------------------------------------------------------------------|-------------------|----------------|--------------------|------------------|
| Balance at the beginning of the year | 11,366,786 | 545,500 | (3,684,568) | 8,227,718 |
| Loss for the year | - | - | (3,461,782) | (3,461,782) |
| Total comprehensive income for the year | - | - | (3,461,782) | (3,461,782) |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Contributions | 16,500 | - | - | 16,500 |
| Employee share scheme | - | (26,500) | 26,500 | - |
| Total transactions with owners in their capacity as owners: | 16,500 | (26,500) | 26,500 | 16,500 |
| Balance at the end of the year | 11,383,286 | 519,000 | (7,119,850) | 4,782,436 |

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

| | Note | CONSOLIDATED | |
|------------------------------------------------------------------------|-------|--------------------|--------------------|
| | | 2011 \$ | 2010 \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts | | 307,040 | 294,373 |
| Receipt from Grants | | 350,000 | - |
| Payments to suppliers and employees | | (2,552,810) | (3,462,522) |
| Payments for exploration and evaluation costs | | (380,916) | (339,522) |
| Interest received | | 66,447 | 95,713 |
| NET CASH FLOWS USED BY OPERATING ACTIVITIES | 19(a) | (2,210,239) | (3,411,888) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (10,048) | (2,893) |
| Payments for bonds and deposits | | (54,122) | (51,793) |
| Proceeds from matured bonds and deposits | | 52,537 | 93,208 |
| Proceeds from sale of shares in unlisted company | | 471,200 | - |
| NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES | | 459,567 | 38,522 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of ordinary shares | | 1,557,725 | - |
| Capital raising costs | | (30,500) | - |
| Advances to related parties | | (71,035) | (58,378) |
| NET CASH FLOWS PROVIDED BY / (USED IN) FINANCING ACTIVITIES | | 1,456,190 | (58,378) |
| NET DECREASE IN CASH HELD | | (294,482) | (3,431,744) |
| Foreign exchange differences on cash holdings | | 124,053 | - |
| Add opening cash brought forward | | 2,036,807 | 5,468,551 |
| CLOSING CASH CARRIED FORWARD | 19(b) | 1,866,378 | 2,036,807 |

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.

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 2011 of \$2,634,916 (2010: \$3,461,782) and at the reporting date total assets exceeded total liabilities by \$4,115,110 (2010: \$4,782,436).

The Directors have determined that there is a cash requirement of \$1,667,660 over the forthcoming 12 months to maintain the current level of operations. In order to finance this cash flow requirement the Company announced on 14 September 2011 a non renounceable rights issue that if fully subscribed, will raise \$3,603,270.

In the event that the equity raising is insufficient the Directors have developed contingency plans to reduce the level of activity to manage cash reserves until alternate financing can be arranged. The Directors have also begun to broaden the company's corporate strategy into other complimentary renewable technologies which have a shorter term revenue stream potential to assist in supplementing cash reserves.

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 have also employed consultants to assist in equity fundraising and currently have several potential cornerstone investors (joint venture partners) in detailed due diligence with the aim to secure significant investment into the GGPP. This investment funding will be required to undertake the project, fulfil the terms of the Government Grants and secure access to the Government funds.

In December 2009 the company was awarded Commonwealth and Victorian Government grants of \$7 million for Stage 1 Proof of Concept and \$5 million for Proof of Resource respectively for the GGPP. Upon a successful proof of resource the company has access to a further \$20 million grant from the Victorian government for the Stage 2 demonstration stage. The combined proof of resource and proof of concept stage (Stage 1) is expected to cost up to \$30 million. Upon execution of funding agreements an initial amount becomes available to assist in planning, the remaining grant funds are receivable upon achieving conditions precedent and established project milestones.

Note 1: Statement of significant Accounting Policies (continued)**(b) Going Concern (continued)**

The company has spent much of 2010 negotiating contract terms and conditions for the Commonwealth Grant and on 8 September 2010, the company signed a contract with the Commonwealth Government to secure \$7 million of funding for the GGPP subject to certain conditions.

The conditions of the Federal Grant require:

- the company to secure funding commitments for the remaining project cost; including
- the negotiation of the terms of the Victorian Government Grant
- the proof that the company has access to funds of a matching amount equal to certain milestone payments.

On 8 August 2011 the Commonwealth Grant funding agreement was mutually terminated due to the constraints of the construction of the funding agreement and the company's inability to source necessary project funding within the time constraints. The company plans to submit an application to the Australian Governments new funding initiative; however no guarantee can be given that Greenearth Energy will be successful in being awarded new funds.

Uncertainty exists regarding the ability of the Company to raise sufficient funds to finance Stage 1 of the project and be successful in negotiating the terms of the State Grant. The company is actively negotiating contract terms and conditions for the State Grant for \$5 million and expects to have this finalised by the end of calendar year 2011.

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 24.

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.

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.

Note 1: Statement of significant Accounting Policies (continued)

(f) Inventories

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

(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:

| | 2011 | 2010 |
|------------------------|----------------|----------------|
| 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.

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 is calculated using a straight-line method to allocate the cost of the intangible assets over their estimated useful lives, which range from 3 to 5 years. 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 cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

Payables to related parties are carried at 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.

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 period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

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

Deferred tax assets are recognised for 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 fair value of the options at grant date.

(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.

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. As at 30 June 2011 there were no available-for-sale investments.

Note 1: Statement of significant Accounting Policies (continued)**(r) Financial instruments (continued)***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.

(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 have not yet assessed the impact of these standards or interpretations.

Note 2: Critical Accounting Estimates and Judgements

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

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

(a) Income taxes

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

(b) Employee benefits

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

(c) Share based payments

Calculation of share based payments requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends 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.

(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.

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
- Mark or price risk

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

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 6%. The entity's exposure to interest rate risk at 30 June 2011 was 5.5%.

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 2011 the consolidated entity held \$1 million 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.

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 does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the entity. 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 | |
|--------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| +/- 10% price variation | | |
| Impact on Profit after tax | 5,495 | 4,318 |
| Impact on equity | 5,495 | 4,318 |

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 9 are classified as being instruments with quoted prices in active markets using fair value hierarchy.

Note 4: Revenue

| | CONSOLIDATED | |
|---------------------------------------------------------------|---------------------|---------|
| | 2011 | 2010 |
| | \$ | \$ |
| CONTINUING OPERATIONS | | |
| Revenue from continuing operations | | |
| Sale of goods | 66,024 | - |
| Rendering of services | 125,394 | - |
| | 191,418 | - |
| Other revenues | | |
| Interest - Other persons/corporations | 30,551 | 110,491 |
| Rendering of services – Management fee | - | 34,775 |
| Rental income | 10,227 | 19,500 |
| 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 | 70,162 | 289,247 |
| Government grant | 236,379 | - |
| | 954,349 | 454,013 |
| Total revenues from continuing operations | 1,145,767 | 454,013 |

Note 5: Loss From Continuing Operations

CONSOLIDATED

| 2011 | 2010 |
|------|------|
| \$ | \$ |

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

(a) Employee benefits expense

| | | |
|----------------------------------|------------------|---------|
| Wages and salaries | 817,419 | 601,952 |
| Superannuation costs | 112,767 | 102,825 |
| Expense of share based payments | 93,200 | - |
| Other employee related costs | 86,099 | 104,033 |
| Total employee benefits expenses | 1,109,485 | 808,810 |

(b) Depreciation of non-current assets

| | | |
|-----------------------------|---------------|--------|
| Office equipment | 557 | 661 |
| Computer equipment | 4,909 | 1,819 |
| Leasehold improvements | 35,433 | 53,122 |
| Total depreciation expenses | 40,899 | 55,602 |

(c) Other expenses from ordinary activities include:

| | | |
|--------------------------|------------------|---------|
| Travel and accommodation | 310,092 | 301,861 |
| Share registry costs | 61,239 | 44,835 |
| Legal fees | 181,394 | 70,494 |
| Directors fees | 185,000 | 235,000 |
| Insurance premiums | 89,370 | 48,259 |
| Office expenses | 608,875 | 265,990 |
| | 1,435,970 | 966,439 |

(d) Finance costs

| | |
|--------------|-------|
| 2,483 | 2,363 |
|--------------|-------|

(e) Specific items

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

Note 6: Income Tax

| | CONSOLIDATED | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (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 | (2,634,916) | (3,461,782) |
| Prima facie tax benefit on loss from ordinary activities | (790,475) | (1,038,535) |
| Tax effect of non-deductible expenses | | |
| Non-deductible expenses | (220,129) | 106,327 |
| Income tax benefit adjustment from prior year | 243,372 | - |
| Income tax benefit arising from current year | (767,232) | (932,208) |
| Add: | | |
| Benefit of tax losses not brought to account | 767,232 | 932,208 |
| 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. | 2,750,000 | 1,982,768 |

Note 7: Receivables

| | CONSOLIDATED | |
|----------------------------------------------------------------------------------------------------------------|---------------------|----------------|
| | 2011 | 2010 |
| | \$ | \$ |
| CURRENT | | |
| Trade Receivables | 69,344 | - |
| Other Receivables | 351,869 | 293,683 |
| GST receivable | 74,994 | 57,114 |
| | 496,207 | 350,797 |
| (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. | | |
| (b) Related Party Transactions | | |
| Details of the terms and conditions of related party transactions are set out in Note 24. | | |

Note 8: Inventories

| | | |
|----------------|----------------|---|
| CURRENT | | |
| Finished Goods | | |
| At cost | 356,421 | - |
| | 356,421 | - |

Note 9: Financial Assets

| | | |
|---------------------------------------------|---------------|--------|
| (a) Investments in listed securities | | |
| Greenpower Energy Ltd | 54,958 | 43,181 |
| | 54,958 | 43,181 |

Note 9: Financial Assets (continued)

(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 | | Investment | |
|--------------------------------------|--------------------------|---------------------------------------------------------------|--------|------------------|-------------|
| | | 2011 | 2010 | 2011 | 2010 |
| Greenearth Power Pty Ltd | Australia | 100% | 100% | 1 | 1 |
| Greenearth Solar Energy Pty Ltd | Australia | 85% | 100% | 1 | 1 |
| Greenearth Heat Energy Pty Ltd | Australia | 100% | 100% | 1 | 1 |
| Greenearth Geothermal Energy Pty Ltd | Australia | 100% | 100% | 1 | 1 |
| Greenearth Energy Limited (NZ) | New Zealand | 100% | 100% | 1 | 1 |
| Greenearth Energy Efficiency Pty Ltd | Australia | 85% | 85% | 17 | 17 |
| Pacific Heat and Power Pty Ltd | Australia | 100% | 33.06% | 199,624 | - |
| NewCO2Fuels Pty Ltd | Australia | 85% | - | 17 | - |
| Greenearth Biomass Energy Pty Ltd | Australia | 100% | - | 10 | - |
| | | | | 199,673 | 22 |
| Impairment | | | | (199,673) | (22) |
| Carrying value of Investment | | | | - | - |

Note 10: Other Current Assets

| | CONSOLIDATED | |
|-----------------------------|--------------|----------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Prepayment for drilling rig | - | 454,224 |
| Accrued Interest | 2,847 | 38,742 |
| | 2,847 | 492,966 |

Note 11: Other Financial Assets

CURRENT

| | | |
|-------------------------------------------|---------------|---------------|
| Security deposits for exploration permits | 54,124 | 51,793 |
| Global Geothermal Inc (unlisted) at cost | - | 757,576 |
| Less provision for impairment | - | (757,576) |
| | 54,124 | 51,793 |

Movements in available for sale financial assets

| | | |
|--------------------------------------------------------------------|-----------|-----------|
| Opening fair value balance of Global Geothermal Inc (unlisted) | - | 757,576 |
| Change in fair value of available for sale financial assets | 471,200 | (757,576) |
| 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.

Note 12: Property, Plant and Equipment

| | CONSOLIDATED | |
|----------------------------------|---------------------|----------------|
| | 2011 | 2010 |
| | \$ | \$ |
| <i>Office equipment</i> | | |
| At cost | 3,409 | 3,409 |
| Accumulated depreciation | (2,087) | (1,530) |
| | 1,322 | 1,879 |
| <i>Computer equipment</i> | | |
| At cost | 15,648 | 11,828 |
| Accumulated depreciation | (8,249) | (8,998) |
| | 7,399 | 2,830 |
| <i>Leasehold improvements</i> | | |
| At cost | 222,155 | 222,155 |
| Accumulated depreciation | (151,183) | (115,750) |
| | 70,972 | 106,405 |
| Total Plant and Equipment | 79,693 | 111,114 |

Reconciliations

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

| | | |
|-------------------------------|---------------|----------------|
| <i>Office equipment</i> | | |
| Carrying amount at beginning | 1,879 | 2,087 |
| Additions | - | 453 |
| Depreciation | (557) | (661) |
| | 1,322 | 1,879 |
| <i>Computer equipment</i> | | |
| Carrying amount at beginning | 2,830 | 2,209 |
| Additions | 10,048 | 2,440 |
| Depreciation | (4,909) | (1,819) |
| Disposals | (570) | - |
| | 7,399 | 2,830 |
| <i>Leasehold improvements</i> | | |
| Carrying amount at beginning | 106,405 | 159,527 |
| Additions | - | - |
| Depreciation | (35,433) | (53,122) |
| | 70,972 | 106,405 |

Note 13: Intangible Assets

| | CONSOLIDATED | |
|--------------------------------------------------------------------------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| GOODWILL | | |
| At Cost | 198,369 | - |
| Accumulated impairment loss | (198,369) | - |
| | - | - |
| Reconciliations | | |
| Carrying amount at beginning of year | - | - |
| Additions through business combination | 198,369 | - |
| Impairment charge | (198,369) | - |
| Carrying amount end of year | - | - |
| Impairment tests for CGU's containing goodwill | | |
| Goodwill with indefinite useful lives are allocated to the following cash generating unit (CGU): | | |
| Waste Heat Recovery | - | - |
| | - | - |

The goodwill recognised by the consolidated entity relates to goodwill recognised on acquisition of a business combination at the beginning of the financial year. This goodwill relates to the CGU category of Waste Heat Recovery which is a segment identified in segment reporting.

Impairments during the year

During the year, the consolidated entity recognised impairment losses with respect to Waste Heat Recovery CGU. The impairment resulted from an assessment of the CGU's current performance and expected likely future performance in key markets in which the CGU operates which in turn adversely impacted expected returns and estimated cash flows to be recovered through use. The consolidated entity impaired the carrying amount of goodwill by \$198,369.

Recoverable Amount

The recoverable amount of CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections and gross margin are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 5% for cash flows beyond the five year period and which is based on the historical average discount rate of 10% to determine value-in-use.

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

Note 14: Deferred Exploration, Evaluation and Development Costs

| | CONSOLIDATED | |
|------------------------------------------------------------------------------------------|---------------------|-----------|
| | 2011 | 2010 |
| | \$ | \$ |
| 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 | 2,307,129 | 1,830,889 |
| Add: net expenditure incurred during the year | 137,128 | 476,896 |
| Less: net expenditure written off during the year | (245,985) | (656) |
| Total exploration and evaluation costs carried forward | 2,198,272 | 2,307,129 |

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 15: Payables (Current)

| | | |
|-------------------------|----------------|---------|
| Trade creditors | 733,461 | 421,822 |
| Related party creditors | 37,500 | 38,218 |
| Other creditors | 64,123 | 26,521 |
| | 835,084 | 486,561 |

(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 24.

Note 16: Provisions

Current

| | | |
|-------------------|----------------|---------|
| Employee benefits | 134,741 | 101,517 |
|-------------------|----------------|---------|

Non current

| | | |
|-------------------------|----------------|---------|
| Employee benefits | 18,384 | 11,046 |
| Restoration costs | 15,000 | 15,000 |
| | 33,384 | 26,046 |
| Total Provisions | 168,125 | 127,563 |

Note 17: Contributed Equity

| | CONSOLIDATED | |
|-----------------------------------------------------------------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (a) Issued and paid up capital | | |
| Ordinary shares fully paid, 89,026,272 (2010: 67,798,062 ordinary shares fully paid) | 13,350,876 | 11,383,286 |

(b) Movements in shares on issue

| | 2011 | | 2010 | |
|-------------------------------------------------------|--------------------------------|-------------------|---------------------|------------|
| | Number of Shares | \$ | Number of Shares | \$ |
| Beginning of the financial year | 67,798,062 | 11,383,286 | 67,516,344 | 11,366,786 |
| Issued during the year | 15,718,297 ^A | 1,557,725 | - | - |
| Issued as share based payments | | | | |
| - issued as KMP Bonus | 1,965,467 ^B | 157,237 | - | - |
| - issued as consideration for business acquisition | 1,484,757 ^C | 133,628 | - | - |
| - issued as consideration for services received | 2,059,689 ^D | 149,500 | 281,718 | 16,500 |
| - less share issue costs | - | (30,500) | - | - |
| End of the financial year | 89,026,272 | 13,350,876 | 67,798,062 | 11,383,286 |

^A 8,093,297 shares were issued to Erdi Fuels Pty Ltd as per agreements relating to the securing of worldwide rights of the CO₂ to fuel conversion technology. Refer to Note 22.

^B 1,965,467 shares were issued in relation to KMP's and Directors fees in lieu of cash. Refer to Remuneration Report on Page 16 and 19 for details.

^C 1,484,757 shares were issued as consideration in the acquisition of Business Combination, Pacific Heat and Power Pty Ltd (PHP). Refer Note 21.

^D Represent value of shares issued as consideration for services rendered to the consolidated entity.

(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.

Note 17: Contributed Equity (continued)

(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 |
|-------------------|-------------|--------------|-------------|----------------|
| 4,500,000 | 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 |
| 1,000,000 | 3 Sep 2008 | 3 Dec 2008 | 30 Sep 2010 | 20 cents |
| 2,000,000 | 3 Sep 2008 | 1 Jul 2009 | 30 Sep 2012 | 20 cents |
| <u>8,500,000</u> | | | | |

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

The following options lapsed during the reporting period:

| Number of Options | Grant Date | Vesting Date | Expiry Date | Exercise Price |
|-------------------|------------|--------------|-------------|----------------|
| 1,500,000 | 1 Oct 2007 | 1 Oct 2007 | 30 Sep 2012 | 45 cents |
| 1,000,000 | 3 Sep 2008 | 3 Dec 2008 | 30 Sep 2010 | 20 cents |
| <u>2,500,000</u> | | | | |

V. Options as at the end of the reporting period

The following options held by directors and staff up to and including 30 June 2010:

| 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 |
| <u>6,000,000</u> | | | | |

VI. Valuation of options

No options were granted during the year.

Historically, options are valued using the Black-Scholes pricing model.

Note 17: Contributed Equity (continued)

(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 | <u>2,000,000</u> |

(b) Seed capital investors

Each option entitles the holder to acquire one fully paid ordinary share in the company at a price of 45 cents per share at anytime up to and including 30 September 2011 subject to standard terms and conditions attached to Greenearth Energy Ltd. options. Upon exercise of options, option holder will also be entitled to a further option to acquire one fully paid ordinary share in the company at a price of 60 cents per share at anytime up to and including 30 September 2012.

| | |
|---------------------------------|---------------------|
| Balance at start of year | 33,333,333 |
| Options expired during the year | <u>(33,333,333)</u> |
| Balance at end of year | <u>-</u> |

(c) 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.

Note 18: Reserves and Accumulated Losses

| | | CONSOLIDATED | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------|-------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| Third party options reserve | 16(a) | 120,000 | 120,000 |
| Employee equity benefits reserve | 16(b) | 290,400 | 399,000 |
| Asset Revaluation reserve | 16(c) | - | - |
| Accumulated losses | 16(d) | 9,646,166 | 7,119,850 |
| (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 17. | | | |
| (ii) Movement in reserve | | | |
| 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 15. | | | |
| (ii) Movement in reserves | | | |
| Opening balance | | 399,000 | 425,500 |
| Expiration of options to staff | | (108,600) | (26,500) |
| Closing balance | | 290,400 | 399,000 |
| (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 | | | |
| 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 | 519,000 |
| (d) Accumulated losses | | | |
| Balance at the beginning of the year | | 7,119,850 | 3,684,568 |
| Net loss attributable to members of Greenearth Energy Ltd. | | 2,634,916 | 3,461,782 |
| Transfer from Option Reserve | | (108,600) | (26,500) |
| Balance at the end of the year | | 9,646,166 | 7,119,850 |

Note 19: Statement of Cash Flows

| | CONSOLIDATED | |
|-------------------------------------------------------------------------------------------------|---------------------|--------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (a) Reconciliation of the operating loss after tax to the net cash flows from operations | | |
| Net loss | (2,634,916) | (3,461,782) |
| Non-cash items | | |
| Depreciation of property, plant and equipment | 40,899 | 55,602 |
| Exploration expenditure written off | 245,985 | 656 |
| Profit on sale of unlisted securities | (471,200) | - |
| Loss on fair value of investments held | (11,777) | 35,330 |
| Share of associates loss | 64,391 | 120,937 |
| Accrued interest | (2,847) | (38,742) |
| Disposal of fixed assets | 570 | - |
| Lease payments paid by shares | 100,000 | - |
| Exchange difference on translation of foreign currency | (124,053) | - |
| Impairment of goodwill | 198,369 | - |
| Impairment loss | (65,995) | 758,425 |
| Changes in Assets and Liabilities | | |
| Increase in exploration and evaluation costs carried forward | 108,857 | (476,240) |
| Increase in receivables | (145,410) | (282,629) |
| Decrease / (Increase) in other assets | 454,224 | (454,224) |
| Increase in inventory | (356,421) | - |
| Increase in payables | 348,523 | 260,189 |
| Increase in employee benefits | 40,562 | 70,590 |
| Net cash flows used in operating activities | (2,210,239) | (3,411,888) |
| (b) Reconciliation of Cash | | |
| Cash at bank | 1,856,878 | 941,938 |
| Cash on deposit | - | 1,094,369 |
| Cash on hand | 500 | 500 |
| Total cash | 1,866,378 | 2,036,807 |

Note 20: Loss per share

| | CONSOLIDATED | |
|----------------------------------------------------------------------------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Net loss from continuing activities | (2,634,916) | (3,461,782) |
| Adjustments | | |
| - nil | - | - |
| Loss used in calculating basic / diluted earnings per share | (2,634,916) | (3,461,782) |
| Weighted average number of ordinary shares on issue used in calculating basic earnings per share | 72,518,073 | 67,580,601 |
| Effect of Dilutive Securities | | |
| - Share options | | |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 72,518,073 | 67,580,601 |
| Basic loss per share (cents per share) | (3.63) | (5.12) |
| Diluted loss per share (cents per share) | (3.63) | (5.12) |

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 2010

Since the end of the financial year, no ordinary shares have been issued, from the exercise of bonus options.

Note 21: Business Combinations

On 2 September 2010, the consolidated entity acquired 66.94% of the share capital of Pacific Heat and Power Pty Ltd. Details of the transaction were:

| | \$ |
|-------------------------------------------------|----------------|
| Shares issued as consideration | 133,628 |
| Total Cost of combination | 133,628 |
| Fair value of previously held equity instrument | 65,995 |
| | 199,623 |

1,484,757 ordinary shares were issued as part of the consideration. The issue price of the \$133,628 was based on a price of \$0.09 per share at the date of the business combination.

Note 21: Business Combinations (continued)

Assets and Liabilities Acquired

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

| | Fair Value at Acquisition \$ | Carrying Value Prior to acquisition \$ |
|----------------------------|------------------------------------|----------------------------------------------|
| Cash | 1,254 | 1,254 |
| Net Assets acquired | 1,254 | 1,254 |
| Goodwill | 198,369 | - |
| | 199,623 | - |

The goodwill on acquisition is attributable to the knowledge and industry experience of the company.

Note 22: Expenditure Commitments & Contingencies

| | CONSOLIDATED | |
|--------------------------------------------------------------|------------------|----------------|
| | 2011 \$ | 2010 \$ |
| (a) Lease Expenditure Commitments | | |
| Operating property leases (non-cancellable) | | |
| Minimum lease payments | | |
| - not later than one year | 226,141 | 121,291 |
| - later than one year and not later than five years | 267,625 | 393,766 |
| Aggregate lease expenditure contracted for at balance date | 493,766 | 515,057 |
| (b) Bank Guarantees in relation to permits | | |
| Maximum amount bank may call | 45,000 | 45,000 |
| (c) Exploration, Technology and Corporate Commitments | | |
| - not later than one year | 3,110,000 | 100,000 |
| - later than one year and not later than five years | 2,586,000 | - |
| Aggregate lease expenditure contracted for at balance date | 5,696,000 | 100,000 |

The CO₂ 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 the 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 and represents the payment for an option to purchase the worldwide license to commercialise the technology if it is proven to be commercial.

Note 22: Expenditure Commitments & Contingencies (continued)

The company retains interests in exploration tenements via direct ownership. To continue these interests a work program is maintained in each tenement for various periods up to five years. The work programs have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain the permit.

The company estimates that the minimum funding required to be expended to fulfil its specified program over all interests is in the vicinity of \$1,890,000 over the next two years. 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 23: Auditor's Remuneration

| | CONSOLIDATED | |
|-----------------------------------------------------------|---------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Amounts paid or due and payable by Pitcher Partners. | | |
| An audit and review of the financial report of the entity | 60,055 | 49,575 |
| Other services in relation to the entity | | |
| • Tax compliance | 15,200 | 7,054 |
| | 75,255 | 56,629 |

Note 24: 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 | |
|--------------------------------------|--------------------------|---------------------------------------------------------------|-------------|
| | | 2011 | 2010 |
| Greenearth Power Pty Ltd | Australia | 100% | 100% |
| Greenearth Solar Energy Pty Ltd | Australia | 85% | 100% |
| 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% | 33.06% |
| NewCO2Fuels Pty Ltd | Australia | 85% | - |
| Greenearth Biomass Energy Pty Ltd | Australia | 100% | - |

(iii) Director transactions

During the year the following transactions occurred with key personnel:

- An amount of \$35,000 excluding GST (2010:\$39,455) 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 \$74,023 excluding GST (2010:\$135,770) 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.

Note 24: Related Party Disclosures (continued)

(iv) Wholly-owned group transactions

As at 30 June 2011, an amount of \$ 1,275,703 (2010:\$115,211) 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 \$153,353. As at 30 June 2011 an amount of \$37,500 (2010:\$38,218) was payable by Greenearth Energy Ltd.

Note 25: Parent Entity Disclosures

As at, and throughout the financial year 30 June 2011, the parent company of the economic entity was Greenearth Energy Limited.

(a) Parent Entity abridged financial statements

| | Parent Entity | |
|------------------------------------------------------------------------------------|--------------------|--------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Summarised Statement of comprehensive income | | |
| Loss for the year after tax | (1,900,737) | (3,498,909) |
| Other comprehensive income | - | - |
| Total comprehensive income | (1,900,737) | (3,498,909) |
| Summarised Statement of financial position of the parent entity at year end | | |
| Current assets | 2,410,012 | 2,760,038 |
| Non-current assets | 3,554,923 | 2,576,635 |
| Total Assets | 5,964,935 | 5,336,673 |
| Current liabilities | 969,825 | 530,964 |
| Non-current liabilities | 33,384 | 26,046 |
| Total Liabilities | 1,003,209 | 557,010 |
| Net Assets | 4,961,726 | 4,779,663 |
| Total equity of the parent entity comprising: | | |
| Share capital | 13,350,876 | 11,383,286 |
| Reserves | 410,400 | 519,000 |
| Accumulated Losses | (8,779,550) | (7,122,623) |
| Total Equity | 4,961,726 | 4,779,663 |

Note 26: 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.

Segment 1: Otway Basin

The Otway Basin extends along the Southern Margin across Victoria and South Australia. The Basin covers an area of approximately 150,000km² 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 km² of South Eastern Victoria, of which approximately 16,000km² 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.

Note 26: Segment Information (continued)

b) Segment Information

| 2011 | Otway Basin | Gippsland Basin | Indonesia | Energy Efficiency | Waste Heat Recovery | 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) |

Note 26: Segment Information (continued)

b) Segment Information (continued)

| 2010 | Otway Basin | Gippsland Basin | Indonesia | Energy Efficiency | Waste Heat Recovery | Other Projects | Total |
|------------------------------------------------------------------------------------------|------------------|------------------|------------------|-------------------|---------------------|------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment Revenue | | | | | | | |
| Total segment revenue | 289,247 | - | - | - | - | - | 289,247 |
| Intersegment revenue | - | - | - | - | - | - | - |
| Revenue from external source | 289,247 | - | - | - | - | - | 289,247 |
| Segment result | | | | | | | |
| Total segment result | 289,247 | - | (126,375) | (114,480) | (48,208) | (109,106) | (108,922) |
| Intersegment eliminations | - | - | - | - | - | - | - |
| Segment result from external source | 289,247 | - | (126,375) | (114,480) | (48,208) | (109,106) | (108,922) |
| Items included within segment result: | | | | | | | |
| Impairment of Goodwill | - | - | - | - | - | - | - |
| Exploration Written Off | - | - | - | - | - | (656) | (656) |
| Share of net losses of associates | - | - | (72,729) | - | - | - | (72,729) |
| Total segment assets | 862,957 | 1,444,172 | 2,773 | 356,421 | - | - | 2,666,323 |
| Total segment assets include: | | | | | | | |
| Investment in equity accounted associates & JV | - | - | 2,773 | - | - | - | 2,773 |
| Additions to non-current assets other than financial instruments and deferred tax assets | 442,342 | 34,551 | - | - | - | (656) | 476,237 |
| Total Segment Liabilities | (202,346) | (15,000) | - | - | - | - | (217,346) |

Note 26: Segment Information (continued)

b) Segment Information (continued)

| | CONSOLIDATED | |
|------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------|
| | 2011 \$ | 2010 \$ |
| (i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income. | | |
| Segment Revenue from External Source | 497,959 | 289,247 |
| Profit from sale of investments | 471,200 | - |
| Other revenue | 146,057 | 54,275 |
| Interest revenue | 30,551 | 110,491 |
| Total revenue | 1,145,767 | 454,013 |
| (ii) Reconciliation of segment result from the external source to the consolidated statement of comprehensive income. | | |
| Segment Result from External Source | (994,434) | (108,922) |
| Interest revenue | 30,551 | 110,491 |
| Interest expense | - | - |
| Depreciation and amortisation | (40,899) | (55,602) |
| Income tax expense | - | - |
| Unallocated expenses | (1,639,134) | (3,407,749) |
| Total loss before income tax | (2,643,916) | (3,461,782) |
| (iii) Reconciliation of segment assets to the consolidated statement of financial position | | |
| Segment Assets | 2,549,112 | 2,309,902 |
| Inter-segment eliminations | - | - |
| Cash and cash equivalents | 1,866,378 | 2,036,807 |
| Unallocated assets | 702,829 | 1,022,851 |
| Total Assets | 5,118,319 | 5,369,560 |
| (iv) Reconciliation of segment liabilities to the consolidated statement of financial position. | | |
| Segment Liabilities | 357,603 | 217,346 |
| Inter-segment eliminations | - | - |
| Unallocated liabilities | 645,606 | 369,778 |
| Total Liabilities | 1,003,209 | 614,123 |

Note 27: Subsequent Events

On 5 August 2011, Greenearth Energy issued 157,142 ordinary shares at an issue price of 10.5 cents per share in consideration for consultancy services provided by Advance Publicity Pty Ltd.

On 8 August 2011, Greenearth Energy and Australian Centre for Renewable Energy (ACRE) on behalf of the Australian Government executed a Mutual Deed of Termination in relation to the grant funding provided under the Geothermal Drilling Program (GDP).

A general meeting of shareholders was held on 12 August 2011, to approve the previous issue of Greenearth ordinary shares. Shareholders passed the resolution on a show of hands and the issue of 8,093,297 ordinary shares at an issue price of 11.71 cents per share to Erdi Fuels Pty Ltd as part of the transaction in relation to the CO₂ to fuel conversion technology was approved.

On 7 September 2011, Greenearth Energy announced the creation of a 100% owned subsidiary, Greenearth Biomass Energy Pty Ltd. It is intended that this subsidiary will hold the investment interest made in relation to a biomass waste to energy gasification technology opportunity which is currently under assessment.

On 9 September 2011, Greenearth Energy issued 898,357 ordinary shares for nil consideration as part of the transaction associated with the CO₂ to fuel conversion technology. The shares were issued to Erdi Fuels Pty Ltd.

On 12 September 2011, Pacific Heat and Power (PHP), a 100% owned subsidiary announced its second sale in the Pacific Region. Two Purecycle Organic Rankine Cycle (ORC) turbines have been sold to American Samoa Power Authority to capture waste heat from diesel engines, the country's principle power generation source. Commissioning of the project is expected to occur in the first half of 2012.

On 14 September 2011, the Company announced its intention to raise capital via a non-renounceable rights issue. The non-renounceable rights issue will issue new shares on the basis of 1 New Share for every 2 Shares held at an issue price of 8 cents per new share. In addition, a non-listed Incentive Option will be issued for no additional consideration for every new share, exercisable at 5 cents each at any time during the period from 15 April 2012 to 15 October 2012. The rights issue if fully subscribed 45,040,886 New shares and 45,040,886 Incentive Options will be issued and \$3,603,270 raised.

Note 28: Investments in Associates

During the financial year, Greenearth Energy, continued its investment in its associate, an Indonesian geothermal company, PT Geopower Indonesia. At the beginning of the year it held a 33.06% interest in Pacific, Heat and Power Pty Ltd. During the year, Greenearth Energy acquired the remaining 66.94% and it became a wholly owned subsidiary, with its result being accounted for in the consolidated financial statements. Details of the business combination are detailed in Note 21.

| | | | | CONSOLIDATED | |
|----------------------------------------------------------------------------------------|--------------------------|--------------|------------------------------------------------|---------------------|--------------|
| | | | | 2011 | 2010 |
| | | | | \$ | \$ |
| Investment in associates | | | | 9,419 | 2,773 |
| | | | | <hr/> | |
| (a) Interest in associate | Country of Incorporation | Balance Date | Ownership Interest held by Consolidated Entity | | |
| | | | 2011 | 2010 | |
| | | | % | | |
| | | | <hr/> | | |
| PT Geopower Indonesia | Indonesia | 30 June 2011 | 40.00% | 40.00% | |
| Pacific Heat and Power Pty Ltd | Australia | 30 June 2011 | 100.00% | 33.06% | |
| | | | | <hr/> | |
| | | | | CONSOLIDATED | |
| | | | | 2011 | 2010 |
| | | | | \$ | \$ |
| | | | | <hr/> | |
| (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 | | | | 6,510 | 5,301 |
| Non-current assets | | | | - | - |
| | | | | 6,510 | 5,301 |
| | | | | <hr/> | |
| Current liabilities | | | | (384) | (615) |
| Non-current liabilities | | | | - | - |
| Net Assets | | | | (6,126) | 4,686 |
| | | | | <hr/> <hr/> | |
| (iii) Share of associate's loss | | | | | |
| Loss before income tax | | | | (64,391) | (72,729) |
| Income tax expense | | | | - | - |
| Loss after income tax | | | | (64,391) | (72,729) |
| | | | | <hr/> <hr/> | |
| (iv) Carrying amount of Investment in associates | | | | | |
| Balance at the beginning of the year | | | | 2,773 | 22,479 |
| New investment during the financial year | | | | 71,037 | 53,023 |
| Share of associates' net (loss)/write back for the financial year | | | | (64,391) | (72,729) |
| Balance at the end of year | | | | 9,419 | 2,773 |
| | | | | <hr/> <hr/> | |

Note 28: Investments in Associates (continued)

| | CONSOLIDATED | |
|-----------------------------------------------------------------------------------------------|---------------------|---------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (b) Pacific Heat and Power Pty Ltd | | |
| (i) Principal activity | | |
| Pacific Heat and Power Pty Ltd principal activity is a clean technology distribution company. | | |
| (ii) Share of associate's balance sheet | | |
| Current assets | - | 22,454 |
| Non-current assets | - | - |
| | - | 22,454 |
| Current liabilities | - | (16,625) |
| Non-current liabilities | - | - |
| Net Assets | - | 5,829 |
| (iii) Share of associate's loss | | |
| Loss before income tax | - | 48,208 |
| Income tax expense | - | - |
| Loss after income tax | - | 48,208 |
| (iv) Carrying amount of Investment in associates | | |
| Balance at the beginning of the year | - | 49,057 |
| New investment during the financial year | - | - |
| Share of associates' net (loss)/write back for the financial year | - | (48,208) |
| Impairment to fair value | - | (849) |
| Balance at the end of year | - | - |

The directors declare that the financial statements and notes set out on pages 24 to 59 are in accordance with the Corporations Act 2001:

- (a) Complying with Accounting Standards and Corporations Regulations 2001: and
- (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 2011 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 2011.

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

Mark Miller

Managing Director



Signed at Melbourne, Victoria
29 September 2011



**GREENEARTH ENERGY LTD
ABN 62 120 710 625
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 2011, 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 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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



**GREENEARTH ENERGY LTD
ABN 62 120 710 625
AND CONTROLLED ENTITIES**

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

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 2011 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.

Material Uncertainty regarding continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the matters set in Note 1(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 2011 of \$2,634,916 (2010: \$3,461,782) and at the reporting date total assets exceeded total liabilities by \$4,115,110 (2010: \$4,782,46).

The Directors have determined that there is a net cash requirement of \$1,667,660 over the forthcoming 12 months to maintain the current level of operations. In order to finance this cash flow requirement the Company announced on 14 September 2011 a non renounceable rights issue that, if fully subscribed, will raise \$3,603,270.

In the event that the equity raising is insufficient the Directors have developed contingency plans to reduce the level of activity to manage cash reserves until alternate financing can be arranged. The Directors have also begun to broaden the company's corporate strategy into other complimentary renewable technologies which have a shorter term revenue stream potential to assist in supplementing cash reserves.

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.



**GREENEARTH ENERGY LTD
ABN 62 120 710 625
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 16 to 20 of the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the Corporations Act 2001.

M J HARRISON

Partner

29 September 2011

PITCHER PARTNERS

Melbourne

Compiled as at 21 September 2011

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

Substantial Shareholders

As disclosed in notices given to the Company.

| Name of Substantial Shareholder | Interest in Number of Shares Beneficial and Non-beneficial | Percentage of Shares (%) |
|---------------------------------------------------|------------------------------------------------------------|--------------------------|
| Lakes Oil N.L | 13,791,667 | 15.31 |
| Advance Publicity Pty Ltd <Izmar Family Fund A/C> | 11,857,142 | 13.16 |
| Erdi Fuels Pty Ltd | 8,991,654 | 9.98 |

Shareholder Distribution

The issued capital of the company comprised:

- (a) 90,081,771 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 | 38 | 6,341 | 0.01 |
| 1,001 - 5,000 | 107 | 406,355 | 0.45 |
| 5,001 - 10,000 | 494 | 4,120,667 | 4.57 |
| 10,001 - 100,000 | 458 | 15,076,778 | 16.74 |
| 100,001 - and over | 80 | 70,471,630 | 78.23 |
| Total on issue | 1,177 | 90,081,771 | 100.00 |

The number of shareholders that held less than a "marketable parcel" of shares (being 6,330 shares) was 172. These shareholders held a total of 569,929 fully paid ordinary shares in the company as at that date, representing approximately, 0.63% 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.

Twenty Largest Shareholders

| Rank | Shareholder | Shares held | Percentage of capital (%) |
|------|-----------------------------------------------------------------------------------------------------------------|-------------------|---------------------------|
| 1 | Lakes Oil N.L | 13,791,667 | 15.31 |
| 2 | Advance Publicity Pty Ltd | 11,857,142 | 13.16 |
| 3 | Erdi Fuels Pty Ltd | 8,991,654 | 9.98 |
| 4 | Mansia Nominees Pty Ltd <The Lasky Super Fund A/C> | 3,820,967 | 4.24 |
| 5 | Berenes Nominees Pty Ltd <Berenes Nominees Pty Ltd Super Fund A/C> | 2,083,333 | 2.31 |
| 6 | Somnus Pty Ltd <Somnus Superannuation A/C> | 2,000,000 | 2.22 |
| 7 | Marlion Nominees Pty Ltd <The LM Krongold Family A/C> | 1,750,000 | 1.94 |
| 8 | Mr Craig Andrew Morgan <The Morgan Family Trust> | 1,568,090 | 1.74 |
| 9 | Mr Ronald Prefontaine & Mrs Annabel Frances Prefontaine <Prefontaine Super Fund A/C> | 1,250,000 | 1.39 |
| 10 | Mr Mark Miller | 1,100,000 | 1.22 |
| 11 | PBL Investments Pty Ltd <Peter Begg Lawrence Super Fund A/C> | 1,000,000 | 1.11 |
| 12 | Penleigh Glen Pty Ltd <The Chas Jacobsen Super Fund A/C> | 1,000,000 | 1.11 |
| 13 | Mr Andrew Lindsay Fox | 992,656 | 1.10 |
| 14 | Cassif Pty Ltd <King Decorte Super Fund A/C> | 853,646 | 0.95 |
| 15 | Mr Philip Arthur Rogerson & Mrs Kathryn Gae Rogerson & Miss Christina Rogerson <The Rogerson Super Fund A/C> | 743,243 | 0.82 |
| 16 | GCC Asset Holding Pty Ltd | 666,667 | 0.74 |
| 17 | Mr Peter Charles Dunn | 666,666 | 0.74 |
| 18 | Encounter Bay Pty Ltd | 666,666 | 0.74 |
| 19 | Mr Simon Richard Molesworth | 656,198 | 0.73 |
| 20 | Yariv Pty Ltd <Fixler Super Fund A/C> | 625,000 | 0.69 |
| | | 56,074,595 | 62.25 |

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 | |
|-------------|-----------------------|-----------------------|----------------|------|
| | | | 2011 | 2010 |
| GEP 10 | Otway | Greenearth Energy Ltd | 100% | 100% |
| GEP 12 | Gippsland | Greenearth Energy Ltd | 100% | 100% |
| GEP 13 | Gippsland | Greenearth Energy Ltd | 100% | 100% |

Greenearth Energy Corporate Governance 2011

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.

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 three 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 Simon Molesworth was an independent non-executive chairman during the financial year and tendered his resignation effective 1 July 2010. The other non-executive directors were not considered to be independent during the financial year, however Mr John Kopcheff has since become independent upon resignation from the Victorian Petroleum N.L board. 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.

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. 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 trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy

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

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

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

Principle 4 Safeguard integrity of financial reporting

Recommendation 4.1 The board should establish an audit committee.

The Audit Committee was established in September 2007. The company listed in February 2008. The primary objective of the Audit Committee is to assist the Board in fulfilling the Board's responsibilities relating to accounting and reporting practices of the Company and its controlled entities.

The main functions of the Audit Committee are:

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

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

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

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

The Audit Committee comprises of Mr John Kopcheff (Chairman), Mr Robert Annells and Mr Robert King. All three directors are not 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 is authorised to make statements and representations on Greenearth Energy Ltd's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the

ASX, analysts, stockbrokers, shareholders, the media and the public.

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

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

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

Principle 6 Respect the rights of shareholders

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

Planned communications to shareholders are:

- The annual report is printed and distributed to shareholders free of charge to all shareholders. An electronic copy 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.

Recommendation 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed

effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

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

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

This recommendation was compiled with for this financial year.

Principle 8 Remunerate fairly and responsibly

Recommendation 8.1 The board should establish a remuneration committee.

Due to the limited size of the board, 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.

Glossary

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| Abatement | An activity that leads to a reduction in greenhouse gas emissions |
| Alternative Energy | Energy from non-traditional sources such as fossil fuels and nuclear fuels (e.g. solar, wind, geothermal, hydro, biomass) |
| Aquifer | A large permeable body of underground rock capable of yielding quantities of water to springs or wells. Underground aquifers of hot water and steam are called geothermal reservoirs |
| Baseload capacity | The power output that generating equipment can continuously produce under normal operation |
| Binary Cycle Geothermal Plant | A type of geothermal power plant that utilises a closed-loop heat exchange system in which hot geothermal fluid is used to heat a secondary fluid that, typically, has a lower boiling point than the geothermal fluid. The secondary fluid is vaporised and used to run a turbine and generate electricity |
| Biodegradable | Capable of decomposing rapidly under natural conditions |
| Biomass | Biomass is biological material from living, or recently living organisms. As an energy source, biomass can either be used directly, or converted into other energy products such as syngas |
| Brine | A geothermal fluid with dissolved sodium chloride and other salts |
| Carbon Dioxide (CO₂) | A colourless, odourless, non-poisonous gas that occurs naturally. Carbon dioxide is a by-product of burning fossil fuels such as oil, gas and coal. It is the principal greenhouse gas produced by man (although there are also natural sources) that affects the Earth's radiative balance. It is the reference gas against which other greenhouse gases are measured and therefore has a global warming potential of 1 |
| Carbon Footprint | Total set of greenhouse gas emissions caused directly and indirectly by an individual, business, event or product, usually expressed in equivalent tonnes of carbon dioxide emitted (CO ₂ e). Establishing the carbon footprint of an organisation can be the first step in a program to reduce the emissions it causes |
| Climate Change | Climate change refers to the change in the state of the climate that can be identified (e.g. by using statistical tests) by changes in the mean and/or variability in typical precipitation, temperature and humidity. The United Nations Framework Convention of Climate Change (UNFCCC) defines climate change as 'a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability over comparable time periods' |
| Cogeneration | The sequential production of electricity and useful thermal energy from a common fuel source. Rejected heat from industrial processes can be used to power an electric generator (bottoming cycle). Conversely, surplus heat from an electric generating plant can be used for industrial processes, or space and water heating purposes (topping cycle) |
| Combined Cycle | Two or more generation processes in series or in parallel, configured to optimise the energy output of the system, typically applied to a gas turbine/steam turbine combination where the heat output of the gas turbine is used to raise steam to drive a steam turbine |
| Competent Person | A person who completes or supervises the work undertaken to establish a geothermal resource or reserve which is contained in public reports by companies obliged to report in accordance with the Australian Geothermal Resource Reporting Code. A competent person must have a minimum of five years experience relevant to the type of geothermal play under consideration and to the activity that the person is undertaking |
| Concentrated Solar Power | Concentrated solar power involves the use of mirrors or lenses to concentrate a large area of sunlight, or solar thermal energy, onto a small area. Electrical power is produced when the concentrated light is converted to heat which drives a heat engine connected to an electrical power generator |
| Cooling Tower | A structure that cools hot fluids or condenses gas to liquids |
| Crust | The Earth's outermost layer of rock |
| Demonstration Plant | Plant to demonstrate the commercial feasibility and production of electricity power generation capability of the geothermal resource |

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| Deviated (Directional) Well | A well that is not vertical. The term usually indicates a well is intentionally drilled away from vertical |
| Electricity | Electric current used as a power source |
| Emissions | Gaseous and or aqueous emissions from a human activity |
| Energy | The ability to do work, such as making things move, create light and heat things up. Energy can take many forms, including electrical, chemical, radiant, mechanical, and heat |
| Energy Efficiency | The measure of the amount of energy which any technology can convert to useful work compared to the total amount employed by the system; technology with a higher energy efficiency will require less energy to do the same amount of work |
| Enhanced Geothermal Systems (EGS) | A process that uses rock fracturing, water injection, and water circulation technologies to produce heat and electricity from otherwise unproductive areas of existing geothermal fields or insufficient production areas |
| Flow Rate | The amount of water that moves through an area (usually pipe) in a given period of time often expressed as L/s |
| Fossil Fuel | Any of several types of combustible fuels formed from the decomposition of organic matter. Examples are natural gas, propane, fuel oil, oil and coal |
| Gasification | Gasification is a process that converts organic based carbonaceous materials into carbon monoxide, hydrogen, carbon dioxide and methane. This is achieved by reacting the material at high temperatures (>700C), without combustion, with a controlled amount of oxygen. The resulting gas mixture is called Syngas (from synthesis gas or synthetic gas) which is itself a fuel. The power derived from gasification of biomass and combustion of the resultant gas is considered to be a source of renewable energy |
| Geelong Geothermal Power Project (GGPP) | Greenearth Energy's flagship domestic geothermal exploration and development project. It is also referred to as the GGPP and has been awarded funding grants of \$7 million from the Australian Government and \$25 million from the Victorian Government. |
| Geothermal Energy | The Earth is constantly generating naturally occurring heat. This heat is known as geothermal energy, and can be used to produce electricity. Electricity produced from geothermal energy is environmentally friendly and renewable. Geothermal energy is the only renewable energy source that can provide long-term base load (continuous) power. |
| Geothermal Energy Plant | A facility which uses geothermal steam or heat to drive turbine-generators to produce electricity. Three different types make use of the various temperature ranges of geothermal resources: dry steam, flash and binary |
| Geothermal Exploration Permit | A specified area allocated to the permit holder which authorises the permit holder to carry out geothermal energy exploration in the permit area subject to and in accordance with the conditions of the permit |
| Geothermal Play | The term used as an informal qualitative descriptor for an accumulation of heat energy within the Earth's crust. It can apply to heat contained in rock and/or in fluid. It has no connotations as to permeability or the recoverability of energy. A Geothermal Play does not necessarily imply the existence of an exploitable Geothermal Resource or Reserve |
| Geothermal Reserve | The portion of an Indicated or Measured Geothermal Resource which is deemed to be economically recoverable after the consideration of both the geothermal resources parameters and modifying factors. Geothermal Reserves are sub-categorised into Probable and Proven |
| Geothermal Reservoir | In respect of a geothermal project, a particular subsurface body of rock at elevated temperatures having sufficient porosity and permeability to store and transmit fluids |
| Geothermal Resource | A geothermal play which exists in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. Geothermal Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories |
| Greenhouse Effect | A warming of the Earth and its atmosphere caused by greenhouse gases and water vapour trapping heat from the sun |
| Greenhouse Gas Emissions | Greenhouse gas emissions, specifically anthropogenic greenhouse gas emissions are the release of greenhouse gases into the atmosphere, covering direct releases of greenhouse gases and indirect releases of greenhouse gases from human activity |
| Grid | An electric utility's system for distributing power |
| Grid Connection | Connection from a plant that generates electric power to a utility electricity transmission or distribution system so that electricity can flow in either direction between the utility system and the plant |

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| Heat Exchanger | A device in which heat is transferred by conduction through a metal barrier from a hotter liquid or gas, to warm a cooler liquid or gas on the other side of the metal barrier. Types of heat exchangers include “shell and tube,” and “plate” |
| Inferred Geothermal Resource | Part of a geothermal resource for which Thermal energy in place can be estimated only with a low level of confidence. This category of geothermal resource is inferred from geological, geochemical and geophysical evidence and is assumed but not verified as to its extent or capacity to deliver geothermal energy |
| Indicated Geothermal Resource | Part of a geothermal resource which has been demonstrated to exist through direct measurements that indicate temperature and dimensions so that the Thermal energy in place can be estimated with a reasonable level of confidence. It is based on direct measurements and assessments of volumes of hot rock and possibly fluid, with sufficient indicators to characterise the temperature and chemistry |
| Injection Well | A well through which geothermal fluid is returned to an underground reservoir after use. Geothermal production and injection wells are constructed of pipes layered inside one another and cemented into the earth and to each other. This protects any shallow drinking water aquifers from mixing with deeper geothermal water |
| Kilowatt (kW) | A measure of electrical power equal to 1,000 Watts. 1 kW = 3,413 Btu/hr = 1.341 horsepower |
| Measured Geothermal Resource | Part of a geothermal resource for which Thermal energy in place can be estimated with a high level of confidence. It is based on direct measurements and assessments of drilled and tested volumes of rock and/or fluid within which well deliverability has been demonstrated, and which have sufficient indicators to characterise the temperature and chemistry |
| Megawatt (MW) | A unit of power, equal to a thousand kilowatts (kW) or one million watts (W). The watt is a unit of power (energy/time), the rate energy is converted from one form to another eg. electricity to motions |
| ORC (Organic Rankine Cycle) | A cycle that uses organic, high molecular mass fluid with a liquid vapour phase change or boiling point, occurring at a lower temperature than the water – steam phase change. The fluid allows Rankine Cycle heat recovery from lower temperature sources such as industrial waste heat, geothermal heat, solar thermal panels etc. Working fluid is pumped to a boiler where it is evaporated, passes through a turbine and is finally re-condensed |
| Permeable | A measure of a substance's ability to transmit water or other liquids; for example, rock with tiny passageways between holes |
| Porosity | The space within a rock that contains a fluid such as water, oil or gas |
| Porous | Indicating a material has a high level of porosity, eg. full of small holes (pores); able to be filled (permeated) by water, air, or other materials |
| Proof of Concept | Realisation of a certain method or idea to demonstrate its feasibility. For the Geelong Geothermal Power Project, Proof of Concept represents a production well, an injection well and an extended flow test |
| Proof of Resource | A program of exploration drilling and testing that proves the existence of a resource. For the Geelong Geothermal Power Project, Proof of Resource represents a production well and a short term flow test. |
| Renewable Energy | Energy obtained from sources that are essentially inexhaustible, unlike the fossil fuels, of which there is a finite supply. Renewable sources of energy include geothermal, wind, biomass, hydro and solar energy |
| Sustainable | Material or energy sources which, if managed carefully, will provide the needs of a community or society indefinitely, without depriving future generations of their needs |
| Syngas | Syngas (synthesis gas or synthetic gas) is the name given to a gas mixture that contains varying amounts of carbon monoxide and hydrogen. Syngas consists primarily of hydrogen, carbon monoxide and often carbon dioxide |
| Thermal Gradient | The rate of increase or decrease in the Earth's temperature relative to depth |
| Transmission Lines | Wires that transport electricity over long distances |
| Turbine | A machine for converting the heat energy in steam or high temperature gas into mechanical energy. In a turbine, a high velocity flow of steam or gas passes through successive rows of radial blades fastened to a central shaft |
| Watt (W) | A unit of power (Energy/Time) (ie. the rate of conversion (use or production) of energy) |
| Well Logging | A recording of the detailed record of the assessment of the geologic, engineering, and physical properties and characteristics of geothermal reservoirs with instruments placed in the wellbore |