

Blue Earth, Inc.
Form 10-Q
May 16, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
OR**

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-54669

BLUE EARTH, INC.

(Exact Name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

98-0531496
(I.R.S. Employer
Identification No.)

2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052

(Address of principal executive offices) (Zip Code)

N/A

(former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 7, 2014 the issuer had 63,951,292 outstanding shares of Common Stock

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PART I**ITEM 1. FINANCIAL STATEMENTS****BLUE EARTH, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

ASSETS

	March 31, 2014 (unaudited)	December 31, 2013
CURRENT ASSETS		
Cash	\$ 4,985,471	\$ 8,403,731
Accounts receivable, net	5,060,563	5,844,119
Costs and revenues in excess of billings	996,588	395,442
Inventory, net	348,301	383,799
Construction in progress	2,070,600	2,254,902
Other receivables	2,286,441	2,195,554
Prepaid expenses and deposits	1,770,099	1,936,743
Total Current Assets	17,518,063	21,414,290
PROPERTY AND EQUIPMENT, net	33,745,418	858,212
OTHER ASSETS		
Deposits	54,931	50,692
Long term receivables	913,741	-
Construction in progress	12,581,570	44,035,500
Contracts and technology, net	23,378,969	19,820,580
Assets of discontinued operations	-	251,492
Total Other Assets	36,929,211	64,158,264
TOTAL ASSETS	\$ 88,192,692	\$ 86,430,766

The accompanying notes are an integral part of these consolidated financial statements.

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2014 (unaudited)	December 31, 2013
CURRENT LIABILITIES		
Accounts payable	\$ 3,649,845	\$ 2,658,368
Current portion of notes payable	1,087,075	1,504,476
Related party payables	1,333,147	1,337,151
Billings in excess of revenues	-	438,952
Deferred revenues	10,311	11,993
Accrued expenses	338,808	422,456
Payroll expenses payable	64,337	125,052
Preferred dividends payable	463,450	403,690
Liabilities of discontinued operations	-	190,609
Total Current Liabilities	6,946,973	7,092,747
LONG TERM LIABILITIES		
Long term portion of notes payable	90,294	-
Total Liabilities	7,037,267	7,092,747
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock; 25,000,000 shares authorized at \$0.001 par value, 472,900 and 570,000 shares issued and outstanding, respectively	473	570
Common stock; 100,000,000 shares authorized at \$0.001 par value, 63,895,292 and 60,205,843 shares issued and outstanding, respectively	63,895	60,206
Additional paid-in capital	150,498,198	143,605,036

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Stock subscription receivable	(600,000)	(1,600,000)
Accumulated deficit	(68,807,141)	(62,727,793)
Total Stockholders' Equity	81,155,425	79,338,019
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 88,192,692	\$ 86,430,766

The accompanying notes are an integral part of these consolidated financial statements.

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited)

	For the Three Months Ended March 31,	
	2014	2013
REVENUES	\$ 3,234,217	\$ 2,163,330
COST OF SALES	1,788,309	1,443,607
GROSS PROFIT	1,445,908	719,723
OPERATING EXPENSES		
Depreciation and amortization	1,076,026	597,860
General and administrative	5,832,933	1,872,837
Total Operating Expenses	6,908,959	2,470,697
LOSS FROM OPERATIONS	(5,463,051)	(1,750,974)
OTHER INCOME (EXPENSE)		
Other income	940	-
Interest expense	(235,584)	(71,374)
Loss on settlement of debt	-	(11,148)
Gain on sale of assets	11,235	-
TOTAL OTHER INCOME (EXPENSE)	(223,409)	(82,522)
LOSS BEFORE INCOME TAXES	(5,686,460)	(1,833,496)
INCOME TAX EXPENSE	-	-
LOSS FROM CONTINUING OPERATIONS	(5,686,460)	(1,833,496)
LOSS FROM DISCONTINUED OPERATIONS,		
net of income taxes of \$0	-	(43,921)
NET LOSS	(5,686,460)	(1,877,417)
PREFERRED DIVIDENDS	(392,888)	(149,166)

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NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,079,348)	\$ (2,026,583)
BASIC AND DILUTED LOSS PER SHARE		
Continuing Operations	\$ (0.09)	\$ (0.09)
Discontinued Operations	-	(0.00)
Net Loss Per Share	\$ (0.09)	\$ (0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	61,928,226	21,302,469

The accompanying notes are an integral part of these consolidated financial statements.

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	For the Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net loss	\$ (5,686,460)	\$ (1,877,417)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock options and stock warrants issued for services	1,189,727	42,217
Loss on settlement of debt	-	11,148
Gain on sale of assets	(11,235)	-
Stock issued for services	670,542	8,201
Depreciation and amortization	1,076,026	598,697
Amortization of debt discount	-	20,917
Changes in operating assets and liabilities:		
Accounts receivable and billings in excess	(731,331)	(506,849)
Inventory	35,498	(103,897)
Construction in progress	184,302	(1,000)
Prepaid expenses and deposits	162,405	161,620
Accounts payable and accrued expenses	406,480	349,384
	Net Cash Used in Operating Activities	(2,704,046)
	Net Cash Used in Discontinued Operating Activities	(162,443)
INVESTING ACTIVITIES		
Other receivables	(887)	-
Purchase of property and equipment	(1,353,588)	-
	Net Cash Used in Investing Activities	(1,354,475)
	Net Cash Used in Discontinued Investing Activities	(17,882)
FINANCING ACTIVITIES		
	100,857	281,450

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Proceeds from common stock warrants and options exercised		
Proceeds from related party loans	-	290,000
Cash received on stock subscriptions	1,000,000	-
Proceeds from line of credit	-	1,500,000
Repayment of notes payable	(438,710)	(54,237)
Repayment of related party loans	(4,004)	(750,000)
Net Cash Provided by Financing Activities	658,143	1,267,213
Net Cash Used in Discontinued Financing Activities	-	(8,317)
NET INCREASE (DECREASE) IN CASH	(3,418,260)	(200,526)
CASH AT BEGINNING OF PERIOD	8,403,731	659,009
CASH AT END OF PERIOD	\$ 4,985,471	\$ 458,483

The accompanying notes are an integral part of these consolidated financial statements.

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(unaudited)

	For the Three Months Ended March 31,	
	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 97,292	\$ 30,518
Income taxes	-	-
NON CASH FINANCING ACTIVITIES:		
Common stock issued upon conversion of debt	\$ -	\$ 152,165
Common stock issued upon conversion of preferred stock	333,128	16,011
Common stock issued for acquisition of subsidiaries	4,602,500	-
Common stock issued for debt discount	-	24,500
Common stock issued for line of credit fee	-	100,000

The accompanying notes are an integral part of these consolidated financial statements.

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at March 31, 2014 and 2013, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2013 audited financial statements. The results of operations for the periods ended March 31, 2014 and 2013 are not necessarily indicative of the operating results for the full year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is recorded at the lower of cost or market (net realizable value) using the average cost method. The inventory on hand as of March 31, 2014 consists of solar panels, motors, controllers, miscellaneous refrigeration parts and raw gasket material at costs of \$348,301. The Company does not have any work in progress.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the

reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had nor is expected to have a material impact on the Company's financial position, or statements.

NOTE 3 - SIGNIFICANT EVENTS

Issuances of Common Stock

During the three months ended March 31, 2014 the Company issued 1,087,520 shares of its common stock upon the conversion of 97,100 shares of preferred stock and accrued dividends of \$333,128. On February 12, 2014 the Company issued an aggregate of 1,750,000 shares of its common stock (including 1,725,000 shares for personal goodwill) to acquire all of the outstanding shares of Kenmont Solutions Capital GP, LLC a company owned by Donald Kendall, Jr. Thereupon the Company formed Blue Earth Capital, Inc. to operate as its finance raising subsidiary. The shares were valued at \$2.63 per share. An additional 25,090 shares of Common Stock were issued to Mr. Kendall on February 18, 2014, under his employment agreement in satisfaction of expenses incurred. (See Note 5). The Company issued 591,839 common shares upon the exercise of warrants and options for cash of \$100,857 and collected \$1,000,000 of stock subscriptions receivable. The Company issued 260,090 common shares for services valued at \$670,542.

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 3 - SIGNIFICANT EVENTS (Continued)

Credit Line Payable

During the three months ended March 31, 2014 the Company repaid \$435,498 on the line of credit. The line of credit is for up to \$10,000,000 subject to approval of the use of proceeds by the lender. The line of credit accrues interest at 12% per annum and is secured by the Company's assets.

Related Party Notes Payable

During the three months ended March 31, 2014 the Company also repaid \$4,004 of principal on related party notes payable. The related party notes payable are due on demand, accrue interest at 12% per annum and are unsecured.

Loan Receivable

On August 30, 2013 the Company entered into a Strategic Partnership Agreement with Talesun Solar USA, Ltd. (Talesun) and New Generation Power LLC (NGP), as amended on October 23, 2013 which includes a commitment from Talesun to grant the Company engineering, procurement and construction contracts (EPC) for 18 MW of Talesun Solar PV projects. NGP granted the Company EPC contracts for a minimum of 147 MW of projects over the next 20 months. In addition, the Company has agreed to make a \$6.5 million loan in solar projects. \$2,000,000 was loaned as of December 31, 2013 and the balance as verbally extended was due by March 31, 2014, however the Company is negotiating a possible extension of the commitment. The loan is collateralized by safe harbored solar panels to be utilized on NGP's solar projects. NGP contracts with the Company to build the solar projects on a cost plus basis. The loan is to be repaid during the construction phase of the projects.

NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS

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A summary of the Company's warrant activity during the periods ended December 31, 2013 and March 31, 2014 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2012	19,807,876	\$ 1.63	7.04	\$ 32,194,216
Granted	3,600,000	1.18	10.00	
Granted	3,000,000	0.01	10.00	
Granted	2,400,000	1.18	10.00	
Granted	1,400,000	0.01	10.00	
Granted	1,000,000	1.00	10.00	
Granted	200,000	0.01	10.00	
Granted	200,000	2.00	5.00	
Granted	250,000	0.01	5.00	
Granted	2,300,000	0.01	10.00	
Granted	4,292,500	3.00	3.00	
Granted	4,029,154	6.00	3.00	
Granted	430,902	1.75	5.00	
Forfeited	(9,276,906)	(2.40)	--	
Exercised	(8,001,119)	(1.60)	--	
Balance Outstanding, December 31, 2013	25,632,407	1.69	6.52	\$ 40,983,200
Exercised	(567,989)	(0.78)	--	
Balance Outstanding March 31, 2014	25,064,418	\$ 1.63	6.27	\$ 40,847,219
Exercisable, March 31, 2014	18,014,418	\$ 2.30	5.15	\$ 41,376,719

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS (Continued)

A summary of the Company's option activity during the periods ended December 31, 2013 and March 31, 2014 is presented below:

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2012	960,761	\$ 1.58	8.2	\$ 1,520,695
Granted	10,000	2.30	10	
Granted	100,000	2.90	10	
Expired	(52,720)	1.37	--	
Exercised	(6,751)	1.57	--	
Balance Outstanding, December 31, 2013	1,011,290	1.85	8.22	\$ 1,851,695
Granted	1,500,000	2.00	10	
Granted	150,000	3.00	10	
Granted	52,720	1.37	10	
Forfeited	(90,002)	1.57	10	
Exercised	(77,720)	1.34	10	
Balance Outstanding, March 31, 2014	2,546,288	2.08	9.55	\$ 5,301,605
Exercisable, March 31, 2014	600,051	\$ 1.60	7.72	\$ 744,855

NOTE 5 - ACQUISITION

Effective January 31, 2014, Blue Earth Capital, Inc., BEC, a newly formed subsidiary of the Company, entered into a merger agreement with Kenmont Solutions Capital GP, LLC KSC wherein BEC purchased all of the issued and

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outstanding shares of KSC for 1,750,000 shares of restricted common stock of the Company issued to Donald R. Kendall, Jr. the founder of KSC. These shares were valued based on the quoted market price on the effective date of the transaction, at \$2.63 per share, or \$4,602,500. The cost of assets acquired was capitalized and is to be amortized over the estimated useful life of 3 years. The Company purchased KSC to gain access to the knowledge and lending base accumulated over the years by the founder of KSC.

Purchase Price	Shares	Price	Total
Kenmont Solutions Capital GP, LLC	1,750,000	\$2.63	\$ 4,602,500
Total Purchase Price			4,602,500
Tangible Assets Acquired			-
Total Liabilities Assumed			-
Lender base			\$ 4,602,500

The pro forma, consolidated balance sheets and statements of operations of Blue Earth, Inc. and Kenmont Solutions Capital GP, LLC are omitted because KSC had no operations prior to the acquisition by BEC.

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 6 - DISCONTINUED OPERATIONS

On January 24, 2014, the Company entered into an Acquisition Agreement (the "Agreement"). Pursuant to the Agreement, the buyers purchased from the Company, all of the issued and outstanding common stock of HVAC Controls Specialties, Inc. (HVAC), its wholly-owned subsidiary. The purchase price for HVAC was \$160,000 to be paid as follows: \$40,000 for the release of accrued compensation, \$30,000 for the assumption of the debts of HVAC and \$90,000 in the form of a promissory note. Accordingly, the Company's financial statements have been retroactively restated for all periods presented to reflect the assets, liabilities and operations of HVAC as discontinued.

NOTE 7 - PROPERTY AND EQUIPMENT

The major classes of assets as of March 31, 2014 and December 31, 2013 are as follows:

	2014		2013
Office and computer equipment	\$ 333,124	\$	323,185
Software	96,727		95,831
Manufacturing and installation equipment	405,772		402,063
Leasehold improvements	759,304		759,304
Cogeneration plants (under construction)	32,769,573		-
Vehicles	397,115		262,011
Sub Total	34,761,615		1,842,493
Accumulated Depreciation	(1,016,197)		(984,282)
Net	\$ 33,745,418	\$	858,212

Depreciation expense was \$31,915 and \$18,915, for the three months ended March 31, 2014 and 2013, respectively. Approximately \$993,316 of the Company's property and equipment serves as security against its long-term debt. Depreciation of the cogeneration plants will commence when the plants are placed in service during the latter part of 2014 and early 2015.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company has entered into equipment purchase agreements whereby it has committed to paying approximately \$19,356,424 for electrical co-generation equipment. The Company has made deposits of approximately 5% (\$1,282,035 included in construction in progress-short term) toward the purchase of the equipment. The balance of the purchase price will be due upon acceptance of the equipment by the Company in accordance with progress payments as set out in the purchase contracts.

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 9 - OPERATING SEGMENTS

Operating segments are defined as components of an enterprise about which separate and discreet financial information is available and is evaluated regularly by the chief operating decision-maker in assessing performance and determining how to best allocate Company resources. The Company's chief operating decision makers direct the allocation of resources to operating segments based on the profitability and cash flows of each respective segment.

The Company has two principal operating segments: (1) construction of alternative energy facilities and (2) energy efficiency remediation. These operating segments were delineated based on the nature of the products and services offered.

The Company evaluates the financial performance of the respective segments based on several factors, of which the primary measure is business segment income before taxes. All significant intercompany transactions and balances have been eliminated. The following tables show the operations of the Company's reportable segments for the years ended March 31, 2014 and 2013:

	Energy Efficiency	Construction and Maintenance	Corporate	Consolidated
<u>March 31, 2014</u>				
Revenues	\$ 1,355,049	\$ 1,826,309	\$ 52,859	\$ 3,234,217
Cost of sales	536,684	1,201,408	50,217	1,788,309
Depreciation and amortization	127,206	469,065	479,755	1,076,026
General and administrative	808,025	972,515	4,052,393	5,832,933
Other income (expense)	(5,577)	(541)	(217,291)	(223,409)
Net income (loss)	\$ (122,443)	\$ (817,220)	\$ (4,746,797)	\$ (5,686,460)
Total assets	\$ 1,294,429	\$ 7,201,300	\$ 79,696,963	\$ 88,192,692
	Energy Efficiency	Construction and Maintenance	Corporate	Consolidated

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March 31, 2013

Revenues	\$ 681,414	\$ 1,481,916	\$ -	\$ 2,163,330
Cost of sales	286,755	1,156,852	-	1,443,607
Depreciation and amortization	128,864	465,117	3,879	597,860
General and administrative	658,131	529,611	685,095	1,872,837
Other (expense)	(6,979)	-	(75,543)	(82,522)
Net income (loss)	\$ (399,315)	\$ (669,664)	\$ (764,517)	\$ (1,833,496)
Total assets	\$ 824,511	\$ 4,174,777	\$ 9,974,337	\$ 14,973,625

NOTE 10 - SUBSEQUENT EVENTS

In April 2014 the Company signed a binding asset purchase agreement to sell the Waianae Solar project in Hawaii for \$2,070,000. The closing is scheduled to occur in or about May 2014. Company had impaired the cost of the project as included in construction in progress at March 31, 2014 to the net realizable value of \$2,044,150 accordingly the sale will result in no gain or loss.

Subsequent to March 31, 2014 the Company issued 56,000 common shares upon the conversion of 5,000 Series C preferred stock and the related accrued dividends. The Company also issued 16,014 common share for legal services provided at \$2.81 per share.

In accordance with ASC 855-10, the Company's management has reviewed all material events there are no additional material subsequent events to report.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as believes, estimates, could, possibly, probably, anticipates, expects, may, will, or should or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

Company Overview

Blue Earth, Inc. and subsidiaries (the Company) is a comprehensive provider of energy efficiency and alternative/renewable energy solutions for small and medium sized commercial and industrial facilities. The Company also owns, manages and operates independent power generation systems constructed in conjunction with these services. The Company built and owned a 500,000 watt solar powered facility on the Island of Oahu, Hawaii, which it has contracted to sell and has also built, operates and manages seven solar powered facilities in California and is designing and permitting numerous other projects. Our turnkey energy solutions enable our customers to reduce or stabilize their energy related expenditures and lessen the impact of their energy use on the environment. Our services offered include the development, engineering, construction, operation and maintenance and in some cases, financing of small and medium scale alternative/renewable energy power plants including solar photovoltaic (PV), Combined Heat and Power (CHP) or on-site cogeneration and fuel cells. Although the Company has a limited operating history and limited revenues in comparison to the size of the projects it has undertaken, as a result of the Company's acquisitions, it is fully staffed with experienced personnel who have previously built many larger complex power plants. Our first CHP plant is expected to be completed in August 2014 with power revenues commencing thereafter.

We will build, own, operate and/or sell the power plants or build them for the customer to own. As we continue to expand our core energy services business as an independent power producer we intend to sell the electricity, hot water,

heat and cooling generated by the power plants that we own under long-term power purchase agreements to utilities, and long-term take or pay contracts to our industrial customers. The Company also finances alternative and renewable energy projects through industry relationships.

We provide our customers with a variety of measures to improve the efficiency of their facilities' energy consumption by designing, developing, engineering, installing, operating, maintaining and monitoring their major building systems, including refrigeration, lighting and heating, ventilation and air-conditioning.

We offer our utility customers, energy efficiency programs, such as our proprietary *Keep Your Cool* refrigeration program, adopted by 19 utilities, targeted to their small and medium-sized commercial customers. Our utility based, rate-payer incentive programs, are designed to help commercial businesses use less energy through the upgrade of existing equipment with new, more efficient equipment that helps reduce demand for electricity, lower energy bills and also enable utilities to satisfy state-mandated energy reduction goals. In addition to designing and administering the utility program, we perform the technical audits, sell the program to the commercial customer and in most instances, provide the installation of the equipment.

We have continued to expand our comprehensive energy solutions business through strategic acquisitions of companies that have been providing energy solutions to an established customer base or have developed a proprietary technology that can be utilized by our customers to improve equipment reliability, reduce maintenance costs and provide a better overall operating environment. The acquired companies' operational activities are being conducted through the following six business units: Blue Earth Solar; Blue Earth CHP; Blue Earth EMS; Blue Earth PPS, Blue Earth Capital and Blue Earth EPS. The primary strategic objective for the respective business units is to establish and build brand awareness about the comprehensive energy solutions provided by the Company to its existing and future customers. Each of the Company's five business units is generating revenue, although Blue Earth PPS and Blue Earth CHP have limited revenues, as described below.

Proprietary technologies owned by the Company are the PeakPower® System (PPS) and the UPStealth System. The PeakPower® System is a patented demand response, cloud based technology, that allows remote, wireless monitoring of refrigeration units, lighting and heating, ventilation and air conditioning in thousands of facilities such as super markets and food processing, restaurants and C-stores, drug and discount stores. Blue Earth EPS currently has several energy management systems operational in grocery stores. Revenues are expected to ramp up in 2014, as the Company is making some system changes before a major commercial roll out in 2014. The technology enables the Company's business unit, Blue Earth PPS, to provide energy monitoring and control solutions with real-time decision support to protect our customers' assets by preventing costly equipment failures and food product losses. Our PeakPower® System also serves as a platform to enter into long-term services agreements that allow most types of refrigeration equipment failures to be predicted, thereby enabling preventive servicing based on need rather than periodic, scheduled and costly service calls. The primary purpose of the acquisition of Intelligent Power on July 24, 2013 was to acquire the patent and other intellectual property rights in the above-described energy saving technology.

The patent pending UPStealth energy power solution (EPS) Management believes, based on its knowledge of the industry, is the only energy efficient, intelligent digital battery backup management system that was designed to power signalized intersections during loss of utility power. This system has been tested, approved and installed in several cities and municipalities throughout the United States. UPStealth is designed as an alternative to lead-acid battery backup systems, enabling the Company's business unit, Blue Earth EPS, to provide its customers with an environmentally friendly product that is completely recyclable with no issues of hazardous out-gassing, corrosion, flammable or explosive characteristics. The UPStealth battery backup management system can be formed in various configurations that allow the intelligent battery to bend around corners and fit into spaces that cannot be accessed by traditional battery backup systems. Compared to lead-acid battery backup systems, our innovative UPStealth energy power solution's cost of ownership is less, requires less maintenance, performs several years longer, and eliminates costly hazardous disposal issues. We also offer a finance program, which allows cities and municipalities to replace existing systems without capital expenditures.

There are several other market verticals where we believe both our proprietary technologies can be applied, separately, or in combination, as a viable, cost effective solution. Examples include: services for data centers, oil and natural gas wells, remote cell towers, risk management services, and demand response systems to decrease energy usage during peak load pricing periods charged by utilities.

Actual Results of Operations

Our revenues are derived from professional services contracts to provide energy service management and technology.

Three Months Ended March 31, 2014 Compared with Three Months Ended March 31, 2013 (Actual)

Revenues

The Company recognized \$3,234,217 of revenue for the three months ended March 31, 2014, as compared to \$2,163,330 in revenues for the three months ended March 31, 2013, an increase of \$1,070,887 or 49.5%. The current revenues represent sales from the Company's divisions, Blue Earth Solar (\$1,826,309) Blue Earth Energy Management Services (\$1,355,049) and Blue Earth Energy Power Solutions of (\$52,859). The prior year revenues represent sales from the Company's divisions Blue Earth Solar (\$1,481,916) and Blue Earth Energy Management Services (\$681,414). Blue Earth Energy Management Services sales include retrofitting refrigeration equipment with energy management systems and gasket sales. Blue Earth Solar's sales are from installation of alternative energy systems and installation and maintenance of HVAC systems. Blue Earth Energy Management Services revenues were affected by a new contract with a national chain of convenience stores. Blue Earth Solar's revenues increased due to the acquisition of EPC contracts for solar generation projects in Hawaii.

Cost of Sales and Gross Profit

Cost of sales for the three months ended March 31, 2014 were \$1,788,309 resulting in a gross profit of \$1,445,908 or 44.7% of revenues. Blue Earth Energy Management Services had a gross profit of \$818,366 or 60.4% compared to \$624,900 or 34.2% for Blue Earth Solar and Blue Earth Energy Power Solutions had a gross profit of \$1,984 or 3.8%. By comparison, during 2013 we had a cost of sales of \$1,443,607 with a gross profit of \$719,723 or 33.3%. Blue Earth Energy Management Services had a gross profit of \$394,660 or 57.9% compared to \$325,063 or 21.9% for Blue Earth Solar.

Operating Expenses

General and Administrative Expenses and Depreciation and Amortization Expense

Operating expenses were \$6,908,959 for the three months ended March 31, 2014 as compared to \$2,470,697 for the three months ended March 31, 2013, an increase of \$4,438,262 or 180%. In 2014 approximately \$812,318 (11.8%) of the expenses were from Blue Earth Energy Management Services and \$984,719 (14.3%) were from Blue Earth Solar. The balance of \$5,111,922 (73.9%) for 2014 was corporate administrative expense. Approximately \$1,960,697 (28.4%) of the general and administrative expenses was for payroll costs and \$1,602,807 (23.2%) was for consulting and professional fees in 2014.

In 2013 approximately \$658,131 (26.7%) of the expenses were from Blue Earth Energy Management Services and \$529,611 (21.4%) were from Blue Earth Solar. The balance of \$1,282,955 (51.9%) for 2013 was corporate administrative expense. Approximately \$757,794 (30.7%) of the general and administrative expenses was for payroll costs and \$320,552 (12.0%) was for professional fees in 2013.

In 2014, general and administrative expenses include stock compensation expense of \$1,860,269 (26.9%) compared to \$50,418 (2.0%) in 2013. We recorded depreciation and amortization expense of \$1,076,026 in 2014 compared to \$598,697 in 2013. The increase was due to the amortization of the purchase price of Millennium Power Solutions and Intelligent Power which were purchased during 2013 and Blue Earth Capital, Inc. which was purchased in 2014.

We expect our costs for personnel, consultants and other operating expenses to increase as we implement our business plan. Thus, our general and administrative expenses are likely to increase significantly in future reporting periods.

Other Income (Expense)

Total other income (expense) for the three months ended March 31, 2014 was \$(223,409) compared to \$(82,522) for the three months ended March 31, 2013. The increase was primarily attributable to interest expense which increased to \$235,584 in the first quarter of 2014 compared to \$71,374 in the first quarter of 2013 due to borrowings of related party notes payable and a line of credit.

Net loss was \$5,686,460 for the three months ended March 31, 2014 as compared with a net loss of \$1,877,417 for the three months ended March 31, 2013, an increase of \$3,809,043. Excluding the non cash expenses of common stock for services, amortization of intangible assets acquired for stock and stock options/warrants issued for services the loss would have been \$2,782,080 and \$1,247,225 for 2014 and 2013, respectively. The increase is attributable primarily to the warrants and options issued to management personnel issued in the previous year but vesting the current year. It also increased due to amortization of the assets acquired in the purchase of our new subsidiaries. The net loss attributed to common shareholders was \$6,079,348 in 2014 compared to \$2,026,583 in 2013 due to the dividends accrued on the Series C preferred stock and paid in common shares. The net loss translates to \$0.09 per share in 2014 compared to \$0.09 in 2013.

Pro Forma Results of Operations

Our revenues are derived from professional services contracts to provide energy service management and technology. The following pro forma results of operations are presented as though the acquisitions of IPS, MPS and IP took place on January 1, 2013.

Three Months Ended March 31, 2014 Compared with Three Months Ended March 31, 2013 (Pro Forma)

Pro Forma Revenues

The Company recognized \$3,234,217 of revenue for the three months ended March 31, 2014, as compared to \$2,246,086 in pro forma revenues for the three months ended March 31, 2013, an increase of \$988,131 or 44%. The current revenues represent sales from the Company's wholly-owned subsidiaries Blue Earth Solar (\$1,826,309) Blue Earth Energy Management Services (\$1,355,049) and Blue Earth Energy Power Solutions (\$52,859). The prior year pro forma revenues represent sales from the Company's divisions, Blue Earth Solar (\$1,481,916) and Blue Earth Energy Management Services (\$681,414) and Blue Earth Energy Power Solutions (\$82,756). Blue Earth Energy Management Services' sales include retrofitting refrigeration equipment with energy management systems and gasket sales. Blue Earth Solar's sales are from installation of alternative energy systems and installation and maintenance of HVAC systems. Blue Earth Energy Management Services' revenues were affected by a new contract with a national chain of convenience stores. Blue Earth Solar's revenues increased due to the acquisition of EPC contracts for solar generation projects in Hawaii.

Pro Forma Cost of Sales and Gross Profit

Cost of sales for the three months ended March 31, 2014 were \$1,788,309 resulting in a gross profit of \$1,445,908 or 44.7% of revenues. Blue Earth Energy Management Services had a gross profit of \$818,366 or 60.4% compared to \$624,900 or 34.2% for Blue Earth Solar and Blue Earth Energy Power Solutions had a gross profit of \$1,984 or 3.8%. By comparison, during 2013 we had a pro forma cost of sales of \$1,502,317 with a gross profit of \$743,769 or 33.1%. Blue Earth Energy Management Services had a gross profit of \$394,660 or 57.9% compared to \$325,063 or 21.9% for Blue Earth Solar.

Pro Forma Operating Expenses

General and Administrative Expenses and Depreciation and Amortization Expense

Operating expenses were \$6,908,959 for the three months ended March 31, 2014 as compared to pro forma \$2,693,504 for the three months ended March 31, 2013, an increase of \$4,215,455 or 156.5%. In 2014 approximately \$812,318 (11.8%) of the expenses were from Blue Earth Energy Management Services and \$984,719 (14.3%) were

from Blue Earth Solar. The balance of \$5,111,922 (73.9%) for 2014 was corporate administrative expense. Approximately \$1,960,697 (28.4%) of the general and administrative expenses was for payroll costs and \$1,602,807 (23.2%) was for consulting and professional fees in 2014.

In 2013 approximately \$658,131 (24.4%) of the expenses were from Blue Earth Energy Management Services and \$529,611 (19.7%) were from Blue Earth Solar. The balance of \$1,505,762 (55.9%) for 2013 was corporate administrative expense. Approximately \$933,351 (34.7%) of the general and administrative expenses was for payroll costs and \$324,510 (12.0%) was for professional fees in 2013.

In 2014, general and administrative expenses include stock compensation expense of \$1,860,269 (26.9%) compared to \$50,418 (2.0%) in 2013. We recorded depreciation and amortization expense of \$1,076,026 in 2014 compared to \$598,697 in 2013. The increase was due to the amortization of the purchase price of Millennium Power Solutions and Intelligent Power which were purchased during 2013 and Blue Earth Capital, Inc. which was purchased in 2014.

We expect our costs for personnel, consultants and other operating expenses to increase as we implement our business plan. Thus, our general and administrative expenses are likely to increase significantly in future reporting periods.

Pro Forma Other Income (Expense)

Total other income (expense) for the three months ended March 31, 2014 was \$(223,409) compared to pro forma \$(82,450) for the three months ended March 31, 2013. The increase was primarily attributable to interest expense which increased to \$235,584 in the first quarter of 2014 compared to \$71,374 in first quarter of 2013 due to borrowings of related party notes payable and a line of credit.

Pro Forma Net Loss

Net loss was \$5,686,460 for the three months ended March 31, 2014 as compared with a pro forma net loss of \$2,075,655 for the three months ended March 31, 2013, an increase of \$3,610,805. Excluding the non cash expenses of common stock for services, amortization of intangible assets acquired for stock and stock options/warrants issued for services the loss would have been \$2,782,080 and \$1,445,463 for 2014 and 2013, respectively. The increase is attributable primarily to the warrants and options issued to management personnel issued in the previous year but vesting the current year. It also increased due to amortization of the assets acquired in the purchase of our new subsidiaries. The net loss attributed to common shareholders was \$6,079,348 in 2014 compared to pro forma \$2,224,821 in 2013 due to the dividends accrued on the Series C preferred stock and paid in common shares. The net loss translates to \$0.09 per share in 2014 compared to pro forma \$0.10 in 2013.

Liquidity and Capital Resources as of March 31, 2014 compared with December 31, 2013

Net cash used in operating activities during the three months ended March 31, 2014 totaled \$2,704,046 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$5,686,460, we incurred an increase in accounts receivable and billings in excess of \$731,331 that was partially offset by common stock options and warrants granted for services expensed at \$1,189,727, common stock issued for services valued at \$670,542 and depreciation and amortization of \$1,076,026. We also increased our accounts payable and accrued expenses by \$406,480 due to costs incurred on construction in progress.

Net cash used in operating activities during the three months ended March 31, 2013 totaled \$1,296,979 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$1,877,417, we incurred an increase in accounts receivable and billings in excess of \$506,849 and an increase in inventory of \$103,897. These outflows were partially offset by common stock warrants and options granted for services expensed at \$42,217, common stock issued for services valued at \$8,201, depreciation and amortization of \$598,697, an increase in accounts payable and accrued expenses of \$349,384 and a decrease in prepaid expenses and deposits of \$161,620. We expect to continue with a negative cash flow from operations for the foreseeable future as we continue to build our business.

Net cash used in investing activities during the three months ended March 31, 2014 totaled \$1,354,475 which included \$1,353,588 for purchases of equipment. Net cash used in investing activities during the three months ended March 31, 2013 totaled \$-0-.

Net cash provided by financing activities during the three months ended March 31, 2014 totaled \$658,143 and resulted from \$1,000,000 of collections on stock subscriptions receivable and \$100,857 from the exercise of options and warrants. The cash inflows were offset by principal payments on notes payable and line of credit \$438,710 and notes payable to related parties of \$4,004. Net cash provided by financing activities during the three months ended March 31, 2013 totaled \$1,267,213. These inflows primarily came from \$281,450 of gross proceeds from the exercise of options and warrants, related party loans of \$290,000 and proceeds of the line of credit of \$1,500,000. The inflows were offset by payments on notes payable of \$54,237 and notes payable to related parties of \$750,000.

At March 31, 2014, we had working capital of \$10,571,090 including \$4,985,4