

Blue Earth, Inc.  
Form 10-K/A  
May 13, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**AMENDMENT NO. 4**

**FORM 10-K/A**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-54669**

**BLUE EARTH, INC.**

*(Exact Name of Registrant as specified in its charter)*

**Nevada**  
*(State or other jurisdiction)*

**8700**  
*(Primary Standard Industrial  
Classification Code Number)*

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

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*of incorporation or  
organization)*

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*(Address and telephone number of principal executive offices)*

Dr. Johnny R. Thomas, CEO

Blue Earth, Inc.

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*(Name, address and telephone number of agent for service)*

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 [X] 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 such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates or an aggregate of approximately 22,212,165 shares (based on 25,796,857 issued and outstanding) computed by reference to the \$2.71 per share price at which the common stock was last sold as of June 30, 2013, the last business day of the registrant's second fiscal quarter was \$60,194,697

As of February 24, 2014, there were 62,657,917 shares of Common Stock, par value \$0.001 per share, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's proxy statement for the 2014 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31,

2013.

**EXPLANATORY NOTE:**

Blue Earth, Inc. is filing this Amendment No.4 to reflect the fact that, because on June 30,2013, the last day of the registrant's second fiscal quarter, the market value of the common equity held by non-affiliates was only \$60,194,697, it was not required to file as an accelerated filer and was not subject to the filing requirements of an accelerated filer. The registrant voluntarily filed as an accelerated filer, as it subsequently met the requirements, however, has amended this Form 10-K/A to reflect the fact that it is still a smaller reporting company.

**BLUE EARTH, INC. AND SUBSIDIARIES**

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## PART I

### Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements relate to future events or future predictions, including events or predictions relating to our future financial performance, and are generally identifiable by use of the words "may," "will," "should," "expect," "plan," "anticipate," "believe," "feel," "confident," "estimate," "intend," "predict," "forecast," "potential" or "continue" or the negative of such terms or other variations on these words or comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described under "Risk Factors" that may cause the Company's or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In addition to the risks described in Risk Factors, important factors to consider and evaluate in such forward-looking statements include: (i) general economic conditions and changes in the external competitive market factors which might impact the Company's results of operations; (ii) unanticipated working capital or other cash requirements including those created by the failure of the Company to adequately anticipate the costs associated with acquisitions and other critical activities; (iii) changes in the Company's corporate strategy or an inability to execute its strategy due to unanticipated changes; (iv) the inability or failure of the Company's management to devote sufficient time and energy to the Company's business; (v) the failure of the Company to complete any or all of the transactions described herein on the terms currently contemplated; (vi) competitive factors in the industries in which we compete; (vii) changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); and (viii) other capital market conditions, including availability of funding sources. In light of these risks and uncertainties, many of which are described in greater detail elsewhere under Risk Factors, there can be no assurance that the forward-looking statements contained in this report will in fact transpire.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such statements. We do not undertake any duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or changes in our expectations.

### Item 1. Business.

#### 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 recently sold (see below) 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. As discussed below under Corporate Strategy - CHP or Cogeneration our first CHP power plant is expected to be completed in August 2014 with power revenues commencing soon 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 five business units: Blue Earth Solar; Blue Earth CHP; Blue Earth EMS; Blue Earth PPS 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 commencing in mid-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 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 effect 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.

## Corporate Strategy

Our strategic objective is to provide our customers with turnkey energy solutions and help them identify and maintain low cost or even no cost savings opportunities to reduce or stabilize their energy related expenditures and lessen the impact of their energy use on the environment.

Key components to our corporate strategy include the following:

Our primary focus in the near term is expected to be organic growth within our combined heat and power (CHP), solar engineering, procurement, and construction (EPC) solar and energy efficiency (EE)/technology business units; although we continue to evaluate and consider strategic acquisition opportunities. Our organic growth focus in each of these areas is summarized as follows.

1)

CHP or Cogeneration: Our business model is to construct and own, on a customer's site under a long term lease, CHP or cogeneration systems, selling the thermal power to the customer and the electricity to the customer and the utility grid under long term power purchase agreements (PPAs). We have targeted large companies within the food-processing sector. To date, the Company has signed a letter of intent with a large U.S. and international protein provider to design, build and operate seven (7) CHP plants. We have invested significant revenues into the feasibility and permitting of these projects, have designed and ordered equipment for these projects and are negotiating and finalizing the various operating contracts. The PPA agreements with our customers will be on a take or pay basis at a guaranteed discount rate from what they currently pay to their local utility providers. To date, Blue Earth CHP has received limited revenue from engineering work done for a large food processor. Revenues from the sale of electricity generated, which is the foundation of this business unit, are expected to commence in the third quarter of 2014, when the first power plant is scheduled to be completed. The Company raised adequate equity to build this first power plant through its \$12 million warrant exercise in November of 2013. In December 2013, the Company ordered generators, costing approximately \$6.1 million for two power plants for which the total cost is expected to be approximately \$17 million. The Company is making the equipment installment payments and construction costs from cash on hand, while selecting among several project debt financing options. The Company will install, own and operate the systems at two food-processing facilities selling thermal and electric power to the customer and the local utility under 20 year power purchase agreements, none of which have been signed. The units are modular, so construction is primarily assembly that is expected to be completed with power revenues commencing in or about August of 2014. In March 2014, the Company ordered generators costing approximately \$17.6 million for three power plants, for which the total cost is expected to be approximately \$67 million. These facilities are expected to be operational in the fourth quarter of 2014. Although these are the Company's first CHP power plants, Blue Earth team members have extensive experience building many, larger, more complex CHP power plants with prior employers. The Company also employs large engineering companies for selected engineering and procurement activities as budgeted and planned.

2)

Solar EPC: Our strategy is to joint venture with under-financed solar developers in order to gain EPC gross margins that exceed the 8-12% common within the industry. The Company is currently constructing 27 solar projects in Hawaii, has recently constructed seven (7) solar projects in California, and is designing and permitting numerous other projects. Our joint venture agreement with NGP and Talesun contractually commits them to use the Company exclusively as an EPC for over 150 MW of solar project construction. Under the terms of the joint venture agreement, the Company invested \$2.0 million in cash and signed a promissory note for \$4.5 Million. The 150 MW of committed projects represent approximately a \$300 million pipeline (as defined herein) of solar work as provided in the joint-venture Agreement with a contracted 20% gross margin on a cost plus basis. It is possible that the Company may reduce the gross margin in some select cases to accelerate conversion of pipeline to backlog, as defined below. Projects that have not yet been funded are considered to be pipeline. It is only when project financing is arranged that projects are moved from pipeline to backlog. The Company has not generated any revenues, to date, from the joint venture.

Historically, the Company's pipeline for acquisition was large and generally not realized for various reasons, including site control, permitting, engineering, interconnect, regulatory and an inability to obtain project financing. Specifically, the \$585 million pipeline announced in September 2011 in connection with the Company's acquisition of Xnergy, Inc. included in excess of 60 projects, which were not converted into significant revenues for all of the different reasons as described above and no longer exists. However, the Company's new solar management team has significant experience in converting pipeline into backlog and completing projects and is focused on converting the current \$300 million pipeline originating from the joint-venture projects and other projects under development by the Company into revenues.

3)

EE/Technology: Our historical EE business has focused on installing lighting, refrigeration and HVAC equipment for our customers, which, based on Management's knowledge of the industry, we believe can reduce our customer's costs by 25-60%. We based our projected savings on our having provided energy efficiency services to approximately 11,000 small to medium sized commercial customers. The Company has verified these savings through its monitoring of customer electricity bills and by using energy monitoring equipment that measures energy consumption between the old equipment and the new more effective energy efficient equipment. We anticipate cross-selling to our larger CHP food processor customers. Our two recent technology acquisitions provide us proprietary intelligent battery technology and low cost, cloud based energy management systems that are expected to give us a competitive edge with our commercial customers. The technology will be added to our proprietary Keep Your Cool utility program that has been accepted by 20 West Coast utilities, which is expected to facilitate the roll out of our utility program across the United States.

*Expand Scope of Product and Service Offerings.* We plan to continue to expand our offerings by including new types of energy efficiency services, products and improvements to existing products based on technological advances in energy savings strategies, equipment and materials. Through the acquisitions of Intelligent Power Inc. and Millennium Power Solutions, LLC we significantly expanded our offerings of proprietary energy management and energy power solutions, which have enhanced our capabilities to offer our customers comprehensive energy savings solutions.

*Meet Market Demand for Cost-Effective, Environmentally-Friendly Solutions.* Through our energy efficiency measures and products, we enable customers to conserve energy and reduce emissions of carbon dioxide and other pollutants. We plan to continue to focus on providing sustainable energy solutions that will address the growing demand for products and services that create environmental benefits for customers.

*Increase Recurring Revenue.* We intend to continue to seek opportunities to increase our sources of recurring revenue as we continue to expand our core energy services business to become an independent power producer, or IPP, by selling the electricity, hot water, heat and cooling generated by on-site power plants that we build and own under long term power purchase agreements, or PPA's.

*Utility Programs.* We intend to offer utilities energy efficiency programs such as our Keep Your Cool refrigeration program and broaden our utility program offerings to their small and medium-sized commercial and industrial customers.

*Strategic Acquisitions.* We will continue to identify and acquire energy management companies and technologies that will enable us to expand our capabilities in our alternative/renewable energy and energy efficiency products and services offerings.

## **Corporate History**

On October 30, 2009, the Company entered into an Agreement of Merger and Plan of Reorganization (the 2009 Merger ) with Genesis Fluid Solutions, Ltd. ( GFS ), a privately held Colorado corporation and upon closing of the transaction GFS, as the surviving corporation, became a wholly-owned subsidiary of the Company which changed its name to Genesis and the Company succeeded to the business of GFS as its sole line of business. GFS began operations in 1994 and is engaged in the design and development of water restoration and water remediation technology and equipment for the environmental, mining and paper industries.

As of August 31, 2010, Genesis completed a Stock Purchase Agreement (the SPA ) pursuant to which the Buyers who signed the SPA, including the then Chairman and Interim Chief Executive Officer of the Company, agreed to purchase from the Company on or before August 31, 2010, all of the issued and outstanding common stock of GFS then its wholly-owned subsidiary (the GFS Spin-off ). GFS had not generated sufficient revenues or earnings as a result of its activities. See Certain Relationships and Related Transactions and Director Independence for the terms of the GSF Spin-Off.

Effective October 21, 2010, Genesis Fluid Solutions Holdings, Inc. ( Genesis ) an operating Delaware corporation formed on March 30, 2007 under the name Cherry Tankers, Inc. merged with and into Blue Earth Inc., a Nevada corporation formed on October 6, 2010, solely as a reincorporation and name change.

Effective January 1, 2011, Blue Earth acquired Castrovilla, Inc. based in Mountain View California which manufactures, sells and installs commercial refrigeration and freezer gaskets and sells and installs motors and controls to approximately 11,000 small commercial businesses operating under our Blue Earth EMS division. See Castrovilla Acquisition below.

On September 7, 2011, Blue Earth acquired Xnergy, Inc., and its wholly owned subsidiary HVAC Controls & Specialties, Inc., a Carlsbad, California based energy services company. Simultaneously, the Company purchased ecoLegacy, LLC, which served as a financing vehicle for Xnergy. Xnergy, currently operating under our Blue Earth Solar division, provides a broad range of comprehensive energy solutions including the specialized mechanical engineering, the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management. See Xnergy Acquisition below.

Effective January 24, 2014, the Company sold HVAC Controls and Specialties to George Todd Peterson, its former owner who was a key employee during the Company's ownership of such subsidiary. The HVAC business unit was geographically isolated from the remainder of the energy efficiency and technology business units and was not expected to make significant contributions to the revenue growth of the Company as the larger projects of Blue Earth CHP and Blue Earth Solar units ramp up. The purchase price is \$160,000, consisting of \$70,000 of forgiveness of debt to buyer and buyer's promissory note to the Company for \$90,000. The note bears interest at 6% per annum. It is payable in monthly payments of \$1,757.10 over a five (5) year period, due March 1, 2019. The Company's financial statements have been retroactively restated for all periods presented to reflect the assets, liabilities and operations of HVAC, as discontinued. Accordingly, revenues for the discontinued operations have been eliminated and there will be no effect on the Company's financial statements for 2014.

Blue Earth entered into a Purchase and Sale Agreement dated as of July 26, 2012, with White Horse Energy, LLC for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company which is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction began in the first quarter of 2013 and is now in the commissioning process (producing power, but yet being paid). The Company has signed a letter of intent to sell this system for \$2,070,000. On August 3, 2012, Blue Earth announced it acquired the exclusive right to construct seven (now six) different solar PV projects totaling approximately 3.5 megawatt DC in Hawaii. These projects are located on the island of Oahu and are primarily ground mount solar systems. The Company intends to begin construction of two of these projects in the second quarter of 2014. See Hawaii Solar Energy Acquisitions below.

The construction of the Sunvalley solar PV projects located in California, began in the third quarter of 2012 and are completed and now Company owned. The Sunvalley Solar projects have signed engineering, procurement and construction (EPC) agreements with the owners of the businesses for each of the respective construction sites. All of the customers have agreed to assign to the Company cash grants they receive for placing in service certain renewable energy projects under Section 1603 of the American Recovery and Reinvestment Act of 2009. These utility incentives are an inducement for the utilities' customers to buy energy efficient products by providing sales tax exemptions, credits or rebates on qualified products. All of the projects are 1603 Grant eligible. Cash grants have been received on two of the projects with the balance expected to be received in the second quarter of 2014. Based on a seven (7) year anticipated revenue stream from these projects and the above-described tax grants, Management has valued these projects at approximately \$4 million.

On July 15, 2013, Blue Earth acquired IPS Power Engineering Inc. (IPS) an EPCM company (engineering, procurement construction and management) and an affiliated renewable energy company that specializes in the

combined heat and power ( CHP ) alternative energy space operating under our Blue Earth CHP division.

Management believes, based on its knowledge of the industry, that Blue Earth CHP will enable the Company to become a significant independent power producer. Blue Earth CHP plans to initially build seven power plants and sell the thermal and electric power to a large customer and the local utilities through long-term power purchase agreements. See [IPS Acquisition](#) below.

On July 24, 2013 Blue Earth acquired Intelligent Power Inc. ( IP ), which is now operating as our Blue Earth PPS division with patented demand response, cloud based technology, which 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 PPS s innovative PeakPower® System is a turnkey solution that monitors and controls energy and most of the equipment within the store. The Company holds an issued patent on the roll-lock snap-on current transformer. See Intelligent Power Acquisition below.

On August 23, 2013, Blue Earth acquired Millennium Power Solutions ( MPS ), an intelligent digital battery technology company. MPS designs and manufactures intelligent, digital, rechargeable battery products and backup systems with twice the energy of lead acid batteries in a smaller space operating under our Blue Earth EPS division. The environmentally friendly product is completely recyclable with no issues of hazardous out-gassing, corrosion, flammable or explosive characteristics. See Millennium Power Solutions Acquisition below.

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 approximately 150 MW of projects over the next 20 months. EPC contracts have been signed for several projects, but project financing has not occurred; therefore, they are still considered pipeline. The Company loaned NGP \$2,000,000, which was collateralized by safe harbored solar panels to be utilized on NGP s solar projects. NGP will contract 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 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.

As of January 31, 2014, Blue Earth purchased 100% of the equity interests in Kenmont Solutions Capital GP, LLC ( Kenmont ), a company owned by Donald R. Kendall, Jr. As CEO of Blue Earth Capital, Inc., Mr. Kendall will focus on sourcing equity and debt capital for the Company s combined heat and power or co-generation projects; its solar PV projects and energy efficiency projects. The capital formation entity will also source capital for strategic acquisition and joint development opportunities.

As described above, the acquired companies operational activities are being conducted through the following five divisions: Blue Earth EMS; Blue Earth Solar; Blue Earth CHP; Blue Earth PPS, and Blue Earth EPS. The primary strategic objective for the respective divisions or business units is to build brand awareness about our comprehensive energy solutions provided by the Company to its current and future customers.

Management also intends to accelerate introduction of our PeakPower® energy demand management system and the UPStealth digital battery backup system by offering and installing them through energy management service and distribution companies, which have an established base of customers at the local, state, regional and national levels. In order to accelerate product introduction, management expects to enter into varying types of agreements with these energy management service and distribution companies, including joint development, shared revenue, private label,

licensing and acquisition agreements, as may be appropriate, for each company and geographic territory.

Management has also identified several energy management and energy management service companies that have been successfully operating in the small and medium-sized commercial and industrial business segment of the energy efficiency and alternative/renewable energy sectors. These energy service companies specialize in three categories that address small commercial businesses energy efficiency needs: lighting, refrigeration and heating, ventilation and air conditioning (HVAC). The targeted acquisition candidates currently provide energy efficiency retrofit services to the small commercial and medium-sized businesses space. Management believes that these companies are ideal candidates from which to build a nationwide distribution, installation and service network through a combination of joint venture/associate relationships and/or acquisitions.

We generate all of our revenues from professional services contracts. The contracts are of three types: construction management, HVAC services and energy efficiency installation. Our customers are billed, according to individual agreements. Revenues from professional services are recognized on a completed-contract basis. Under the completed-contract basis, contract costs are recorded to a deferred asset account and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered complete when all costs except insignificant items have been incurred and final acceptance has been received from the customer. However, in the event a loss on a contract is foreseen, we recognize the loss as incurred. We do not manufacture any products. Our cost of sales is comprised of direct labor, parts purchased from third parties and other direct costs incurred in fulfilling the contracts.

## **Industry Overview**

The market for energy efficiency services has grown significantly, driven largely by rising and volatile energy prices, advances in energy efficiency and renewable energy technologies, governmental support for energy efficiency and renewable energy programs and growing customer awareness of energy and environmental issues. End-users, utilities and governmental agencies are increasingly viewing energy efficiency measures as a cost-effective solution for saving energy, renewing aging facilities and reducing harmful emissions.

The clean-tech industry is a multi-billion global industry comprising several market sectors as follows: energy efficiency, including green building; water and wastewater; recycling and waste; LED lighting; energy storage; alternative energies and renewables; batteries/storage; smart grid electrical distribution system; alternative transport; and various green business, research and financial services.

According to a Clean Energy Trends 2013 report by Clean Edge, a Clean-Tech market authority, the fundamental global economic drivers for clean technology remain largely intact. Intensifying resource constraints (everything from freshwater to energy feedstocks) cannot be ignored, especially with a global population exceeding seven billion. In the aftermath of unprecedented climate interruption in the U.S. and abroad, resiliency and adaptation are becoming critical business and policy drivers as organizations scramble to meet a literally changing landscape. In the U.S. President Obama has signaled a strong commitment to expanding clean energy and energy efficiency in his second term calling for a doubling of renewable power by 2020.

We are a comprehensive provider of energy efficiency and alternative/renewable energy solutions for small and medium-sized commercial and industrial facilities. Our turnkey energy solutions enable our customers to reduce or stabilize their energy related expenditures and lessen the impact of their energy usage on the environment.

## **Corporate Structure**

Our corporate structure for energy efficiency and alternative/renewable energy related acquisitions is designed to separate the acquired companies into five wholly owned subsidiaries/divisions of the Company, which are operated as separate business units in order to establish and build brand awareness about the comprehensive energy solutions provided by the Company.

Although our five subsidiaries operate independently, they will work in concert to develop, manage, implement and monitor our turnkey energy solutions for small and medium-sized commercial and industrial customers, as well as our specific programs developed for utilities.

We believe that the implementation and execution of our corporate strategy will benefit our shareholders and attract investors who are looking at two bottom lines: financial profitability and social or environmental benefits produced by the Company and its products and services.

## **Castroville Acquisition and Operations- part of our Blue Earth EMS Division**

On January 19, 2011, Castroville Energy, Inc., a recently formed California subsidiary of the Company, acquired substantially all of the assets of Humitech of Northern California, LLC ( Humitech ), a California limited liability company and its related company, Castroville, Inc. (collectively, with Humitech, the Castroville Acquisition ) with an Effective Date (as defined) of January 1, 2011. Founded in 2004, Castroville, doing business under our Blue Earth EMS division, based in Mountain View, California, had approximately \$3.4 million in audited revenues in 2010, which is more than twice its 2008 revenues. Blue Earth EMS currently serves approximately 11,000 small commercial businesses in Northern California with its 28 employees as of February 21, 2014. Blue Earth EMS manufactures, sells and installs commercial refrigeration gaskets and strip curtains, which it sells and installs alongside many other energy efficiency products, such as EC motors, LED lights and a variety of control technologies. Blue Earth EMS strategy is to sell energy efficiency bundled retrofits (refrigeration, lighting, HVAC), to its customer base.

Blue Earth EMS participates in several ratepayer funded utility companies energy efficiency rebate programs, both through third-party programs and through its own small commercial business program, *Keep Your Cool*. The *Keep Your Cool* program was created in response to a Request For Proposals put out by a local municipal utility, Silicon Valley Power. Castroville's proposal was accepted and the program funded several hundred thousand dollars. This eventually resulted in contracts with over a dozen municipal utilities throughout Northern California to provide turnkey program administration and implementation. In 2008, Castroville acquired the assets of Bay Area Refrigeration, a fully licensed commercial refrigeration contractor that has serviced the San Francisco Bay Area for some 30 years.

Blue Earth EMS has created a business model for sustainably generating and delivering kW and kWh that benefits both the utility and the end user. Blue Earth EMS provides energy efficiency services to small commercial businesses and delivers custom programs directly to utilities. The model is both expandable and scalable. Blue Earth EMS intends to become a statewide and regional service provider.

Since acquiring Bay Area Refrigeration and the C-38 refrigeration contractor's license, Blue Earth EMS is qualified to install Electronically Commutated (EC) motors, Evaporator Fan Controllers, Anti-Sweat Heater Controllers and LED Case Lighting and other technologies. This has made the Company's retrofit projects far more comprehensive, which is a significant competitive advantage over companies that target only a single measure. In fact the largest rebate programs require comprehensive retrofits to qualify for rebates.

In addition to energy efficiency retrofits, Blue Earth EMS also has on-going contracts to provide periodic maintenance to numerous restaurants and other refrigerated facilities throughout the San Francisco Bay Area. This includes 24 x 7 emergency refrigeration services.

In mid-2009 Blue Earth EMS opened an online-store ([www.bayarearefrigeration.com](http://www.bayarearefrigeration.com)) to sell manufactured gaskets and strip curtains on both a wholesale and retail basis. The web site also allows us to distribute refrigeration hardware,

plumbing fixtures, kitchen equipment, water filtration, electrical and tools and accessories.

On December 30, 2010, Castrovilla Energy, Inc. ( CEI ), a wholly-owned subsidiary of the Company's subsidiary, Blue Earth Energy Management Services, Inc. ( BEEMS ) entered into an Agreement and Plan of Merger (the Plan ) with Castrovilla, Inc. and the Stockholders of Castrovilla, Inc. with an Effective Date of January 1, 2011. CEI merged with and into Castrovilla, Inc. on January 21, 2011, which continued its existence as a wholly-owned California subsidiary of BEEMS. Under the Plan, the Company issued an aggregate of 1,011,905 shares of its Common Stock valued at \$1.68 per share, or \$1,700,000, to the stockholders of Castrovilla, Inc. in exchange for all of the outstanding capital stock of Castrovilla, Inc. All of the Company's shares issued in the Castrovilla Acquisition were subject to Lock-up/Leak-out and Guaranty Agreements, as amended, which have expired. No payments were made by the Company under the Guaranty.

The purchase price for Humitech, under the Asset Purchase Agreement ( APA ) was \$600,000. This consisted of the payment of \$150,000 of affiliated debt, the issuance of 267,857 shares of restricted Common Stock of Blue Earth, Inc. with an agreed upon value of \$508,928, or \$1.90 per share and the assumption of approximately \$121,000 of trade debt.

### **Blue Earth EMS Products and Services**

In 2013 and 2012, Blue Earth EMS's revenues were generated primarily from sales of parts and equipment for refrigeration and LED Case Lighting, refrigeration service, preventative maintenance, consulting, and on-line sales. Currently, the only materials that are purchased in large quantities are its gasket materials. All other inventory including EC motors, Anti-Sweat heaters (ASH) controllers, LED Case Lights and other hardware are kept in low quantities or purchased on an as needed basis.

Our Blue Earth EMS division accesses a variety of rebate programs, always choosing the best one for a given project. The funds that pay for the rebate programs utilized by Blue Earth EMS are the result of California Public Utilities Commission (CPUC) requirements that all utilities in the State of California collect a Public Benefits charge as a percentage of the total bill. These funds are required to be invested in energy savings programs. Several of these programs are provided through third-party programs, which are usually administered by ESCO and consulting companies and implemented by refrigeration, lighting, HVAC and solar companies. Each program has different eligibility requirements and/or is available in different areas. Participating in the programs in its market area allows us to provide the broadest coverage to our customers. Our financial statements reflect that revenues were negatively impacted during specific time periods. The utility rebate programs are typically three year programs. During the referenced reporting period, the utilities were in the transition period between the previous three year program and the new three year program. This transition period generally results in decreased funding for a few months. However, the new three year utility programs have more dollars allocated than the previous program. Therefore, the negative effects to our revenue were temporary and not material to our business going forward.

Our management believes that the key to sustaining and expanding its program is to take part in or take advantage of a constant stream of technological innovation. By identifying, evaluating and verifying the best new measures Blue Earth EMS is able to serve its approximately 11,000 small commercial customers and bring in new ones. In some cases Blue Earth EMS is introduced to customers through our work for other companies, which it can assimilate into Keep Your Cool.™

### **Xnergy Acquisition - part of our Blue Earth Solar Division**

On September 7, 2011, Blue Earth, Inc. acquired Xnergy, Inc. ( Xnergy ), a Carlsbad, California based energy services company (the Xnergy Acquisition ), which now operates as our Blue Earth Solar division. Blue Earth Solar provides a broad range of comprehensive energy solutions including specialized mechanical engineering the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power

generation and energy supply and risk management. The Solar EPC business unit benefits from tax incentive programs, which are in place through 2016. It is uncertain what the effect of the expiration of these tax incentive programs will have on the solar industry. Costs for solar projects, solar panels and other materials, have declined dramatically over the past few years due to the scale achieved by the solar industry. It is uncertain whether tax incentive programs will be extended and it is uncertain what the effect of the expiration will be if it occurs. Rising costs of power from traditional electric generation combined with economies of scale for solar make it difficult to predict the business consequences in 2017.

In order to maximize the effectiveness of any energy efficiency measures, the following steps should be taken:

## **Blue Earth Business Strategy - Energy Efficiency**

**Determine the energy efficiency goals and priorities.** Each company or organization has different priorities with regard to their energy efficiency goals.

**Reduce energy demand through Commissioning.** A thorough commissioning study will ensure that a building is performing to its design intent and will look at the following:

Lighting

Mechanical / HVAC systems and controls

Refrigeration

Equipment (office, process, and manufacturing)

Building Envelope (windows, foundation, walls, ceiling roof, and insulation)

Electrical Systems

**Energy audit.** Energy usage, history, and costs may be gathered from the utility company which will be helpful in determining what areas of the facility could improve the most by implementing certain energy efficiency measures.

**Recommend energy efficiency strategies to attain goals.** Some of these recommendations may be implemented under the second bullet above. Other energy-saving measures include more efficient equipment, self-generating systems, new controls and variable speed drives.

### ***Alternative Energy Systems / Distributed Generation.***

An alternative energy system needs to suit the facility and its owner's needs. The following are several systems that Blue Earth Solar has a great deal of experience with:

**Photovoltaics / Solar Power.** This popular method converts the sun's energy directly into electricity. Photovoltaics (PV) is a viable method of generating power and more panel manufacturers are constantly increasing the efficiency and effectiveness of their equipment.

**Fuel Cells.** Fuel Cells use hydrogen and oxygen, the molecules that create water, to produce electricity with no pollution. A fuel cell operates like a battery, however a fuel cell does not run or require recharging. It will produce energy in the form of electricity and last as long as fuel is supplied.

**Gas Turbines.** These are used for distributed generation of electricity. They are reliable and have minimal maintenance costs, and have control requirements to address air pollutants.

**Combined Heat & Power (CHP) using Fuel Cells or Other Technologies.** Waste heat from the power generation process is used to create either steam or hot water which can in turn be used for heat for the building.

#### *Energy Procurement / Finance Options / Incentives*

Along with the increasing demand for energy resources there are also more and more incentives to implement energy saving strategies for traditional and alternative energy systems. Along with these incentives there are some creative methods to attain and pay for power, all of which the Company uses:

**Power Purchase Agreements (PPAs).** This popular method is a long-term agreement to buy power from a source that produces electricity. Under a standard PPA, the power source assumes the risk of operating and managing the electricity. This method frees up capital that a company could use elsewhere in its business operations while still maintaining low electricity costs. Blue Earth Solar has established relationships with the financing sources and can find and broker the right deal for the facility.

**Synthetic Lease Agreements (SLA s).** This method enables a lessee to obtain equipment without having the debt on the company balance sheet. The lessee can still get all the tax benefits (and burdens) of ownership, including the asset depreciation.

**PV: California Solar Initiative (CSI) Incentive:** For photovoltaic/solar systems, the CSI provides an incentive - based on the system size - for a newly implemented PV system. Blue Earth Solar will help navigate the process and can assist in filling out the application and necessary paperwork needed in order to acquire the incentive.

**Tax Credits for Alternative Energy Implementation.** The federal government has extended the tax credits to companies upon the implementation of alternative energy systems. This credit can exceed 30%, depending on the tax bracket.

### **Xnergy Plan of Merger**

Pursuant to the terms and conditions of an Agreement and Plan of Merger (the **Plan**), the Company purchased all of the capital stock of Xnergy for a Purchase Price of \$15,012,010. The Company issued to the two shareholders of Xnergy, D. Jason Davis and Joseph Patalano (the **Xnergy Stockholders**) an aggregate of 4,500,000 shares of restricted Common Stock, valued at \$3.00 per share in the merger agreement. The Company also assumed payment to a former stockholder of the unpaid balance of \$1,415,088 for his shares which was paid in full when the former stockholder elected to convert the note into equity.

D. Jason Davis, as CEO of Xnergy, and Joseph Patalano as COO of Xnergy, entered into five-year employment agreements with the Company. Their employment agreements included a bonus plan based upon sharing a percentage of earnings above certain minimum thresholds for the three fiscal years ending December 31, 2013, none of which were met. As of February 17, 2014, Messrs. Davis and Patalano ceased to be officers, employees and directors of Xnergy and entered into a consulting agreement with the Company and the bonuses have been eliminated. They will focus their business time on project development, rather than construction of projects. They will be paid a percentage of gross profits on projects they develop. All of their shares are subject to a new lock up/leak out agreement, which will result in the 500,000 escrowed shares being released from escrow over a nine month period. Mr. Davis is permitted to sell 10,000 shares per week and Mr. Patalano is permitted to sell 3,000 shares per week through the nine month period. The 566,400 warrants held by Mr. Davis and 83,600 warrants held by Mr. Patalano were vested and the exercise price was reduced from \$1.16 per share to \$0.60 per share. The non-competition and non-solicitation agreement for Davis and Patalano extend until two years after voluntary separation from employment. All Xnergy

employees, other than Messrs. Davis and Patalano, are eligible to participate in the Company's employee stock option plan. Certain key employees, selected by Jason Davis, received a total 66,667 shares issuance based on a formula of years of services and salary and restricted shares of the Company's Common Stock.

### **Fiscal 2013 Acquisitions**

We have continued to expand our comprehensive energy solutions business through the strategic acquisitions of IPS Power Engineering Inc. ( IPS ), Intelligent Power Inc.( IP ) and Millennium Power Solutions LLC ( MPS ), during the third quarter of 2013. Our acquisition of IPS, whose operations are now conducted under our Blue Earth CHP division, expands our alternative energy services offerings to private sector commercial customers including upgrades to a facility's energy infrastructure and the design, construction, operation and maintenance of smaller-scale combined heat and power or CHP energy power plants. IP, whose operations are conducted through our Blue Earth PPS division, developed our patented PeakPower® energy management system, which enables us to offer our utility customers and our small to medium-sized commercial and industrial customers a turnkey solution that helps them achieve their respective energy reduction goals. MPS, whose operations are conducted through our Blue Earth EPS division, developed our proprietary UPStealth battery backup system, which we believe based on Management's knowledge of the industry, is the only lead-acid free, energy efficient, intelligent digital battery backup system designed to power signalized traffic intersections during loss of power.

### **IPS Power Engineering Acquisition - under our Blue Earth CHP division**

On July 15, 2013 Blue Earth completed an Agreement and Plan of Merger (the Agreement) with IPS Power Engineering Inc. (IPS), Global Renewable Energy Group, Inc. (GREG) and the Stockholders of IPS and GREG (the IPS Acquisition). IPS is operated as a wholly owned subsidiary of Blue Earth under our Blue Earth CHP division. Pursuant to the terms of the Agreement, an aggregate of 15,550,000 shares of Blue Earth Common Stock (the Merger Consideration) was issued to the former stockholders of IPS and GREG (the Stockholders). The Merger Consideration was determined by the parties based on the mutually agreed upon future revenues and earnings forecast prepared by management of IPS and GREG. The Merger Consideration consisted of: 5,000,000 Blue Earth shares issued at closing to the Stockholders, which were released immediately, but are subject to lock-up agreements; 150,000 Blue Earth shares issued as finders fees; and 10,500,000 Blue Earth shares issued at closing to the Stockholders, and held in escrow, and which will be released at the rate of 1,500,000 Blue Earth shares on the dates that the CHP or co-generation power plants as mutually agreed to by Blue Earth and IPS, commence producing commercial power.

### **Intelligent Power Acquisition - under our Blue Earth PPS division**

On July 24, 2013 Blue Earth completed an Agreement and Plan of Merger (the Agreement) with Intelligent Power, Inc. (IP), and the Stockholders of IP (the IP Acquisition). IP is operated as a wholly-owned subsidiary of Blue Earth under our Blue Earth EPS division. Pursuant to the terms of the Agreement, an aggregate of 1,383,400 shares of Blue Earth Common Stock was issued to the former stockholders of IP. The Merger Consideration was based on the ten-day average closing price of \$2.88 for Blue Earth shares through June 8, 2013 when the agreement in principle was reached.

### **Millennium Power Solutions Acquisition - under our Blue Earth EPS division**

On August 23, 2013, Blue Earth completed an Agreement and Plan of Merger (the Agreement) with Millennium Power Solutions, LLC (MPS) and the Key Members of MPS (the MPS Acquisition). MPS is operated as a wholly-owned subsidiary of Blue Earth under our Blue Earth EPS division. Pursuant to the terms of the Agreement, an aggregate of 3,694,811 shares of Blue Earth Common Stock was issued to the former members of MPS. In addition, the principals of MPS shall be entitled to receive a per-year earnout equal to ten (10%) percent of the profits of MPS as a separate wholly-owned subsidiary of Blue Earth payable in Blue Earth shares of Common Stock valued at the then current fair market value. The earnout is limited to a five year period and has an aggregate cap of \$3,572,199.

### **Hawaii Solar Energy Acquisitions**

Blue Earth entered into a Purchase and Sale Agreement (the "PSA") dated as of July 26, 2012, with White Horse Energy, LLC. The PSA provided for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company (the "SPE"). The SPE is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii.

Construction began in the first quarter of 2013 and is now in the commissioning process (producing power, but not yet being paid). The project was valued at approximately \$2 million and consists of a solar PV system mounted on the ground. The Company has signed a letter of intent to sell this facility for \$2,070,000; however, no sale has been completed. The SPE has a fully executed 20 year power purchase agreement with Hawaiian Electric Company ("HECO"). The power generated by the plant will be sold to HECO in the form of kilowatt-hours (electricity).

Hawaii has the largest Renewable Portfolio Standard in the US, requiring 40% of the state's energy be supplied by renewable energy by 2030. HECO's Feed-In-Tariff ("FIT") program is designed to encourage the addition of more renewable energy projects in Hawaii. Pre-established FIT rates and standardized FIT contract terms facilitate the process of selling renewable energy to HECO.

On August 3, 2012, Blue Earth announced that it acquired the exclusive rights to construct seven (now six, as amended) different solar PV projects totaling approximately 3.5 megawatts DC in Hawaii. The projects are located on the island of Oahu and are primarily ground mount solar systems. The Company intends to begin construction of two of the plants in the second quarter of 2014. Six projects acquired by BBLU meet the requirements of the Renewable Energy Feed-in Tariff offered by HECO. The Company uses local trade people during their construction. Blue Earth Solar, Inc. will provide the engineering procurement and construction ( EPC ) for the respective projects.

## **Market Size**

Blue Earth, Inc. is a comprehensive provider of energy efficiency and alternative/renewable energy solutions for small and medium sized commercial and industrial facilities. We also own, operate and manage independent power generation systems constructed (distributed solar PV generation systems and cogeneration systems) in conjunction with these services.

According to a July 2012 report from Pike Research titled *Energy Efficiency Retrofits for Commercial and Public Buildings*, the market for energy efficiency retrofits in commercial buildings will nearly double by 2020, reaching \$152 billion worldwide. Western Europe will remain the largest market for energy efficiency retrofits in commercial and public buildings, but its share of world revenues will drop from 41% in 2011 to 37% in 2020. Essentially equaling Western Europe, Asia Pacific, which represented 32% (\$26 billion) of the revenue stream in 2011, will increase to 36% (\$54.6 billion) by 2020. North American energy efficiency revenues will more than double over the remainder of the decade, increasing to \$35.3 billion by 2020.

As with other power sources, demand for solar power is driven by residential, commercial, and industrial electricity demand, which increases with population and economic growth. Additionally, growing concern over environmental and geopolitical issues surrounding fossil fuels has boosted interest in renewable energy sources such as solar. The revenue earned from distributed solar power sales is expected to reach \$112 billion annually by 2018, according to a 2013 report titled *Distributed Solar Energy Generation* report from cleantech market research firm Navigant Research.

Combined heat and power (CHP) systems, also known as cogeneration systems are used for the simultaneous generation of both electricity and heat energy. Driven by low natural gas prices, CHP for commercial buildings will surpass \$11 billion in market value by 2022, according to the above described report from Pike Research. Current installations of combined heat and power (CHP) systems in commercial buildings are mostly confined to developed markets in Europe, South Korea, Japan, and the United States. The market has been limited, until recently, by high upfront capital costs associated with CHP systems. Today, though, a growing number of commercial users - from hospitals to schools to business parks - are installing CHP systems as a means of reducing operating expenses, improving power reliability, and reducing carbon emissions.

## **Additional Market Drivers**

*Utility Rebate Programs.* In a number of markets throughout the U.S., local electrical utilities and related organizations are offering rebates for the purchase and installation of energy efficient products and systems. Ratepayer funded programs are offered by utilities to encourage load reductions by its customers. These incentives may be structured as one-time up-front rebates on energy efficient equipment or may consist of payments per measured kWh saved over a course of several years. Small commercial businesses can leverage the cost of retrofits with incentives received through ratepayer-funded energy efficiency programs.

Rebate incentives are typically used to buy down utility *retrofit* project costs for energy efficiency programs. The customer can receive the rebate directly from the utility, or the energy service company may assist in identifying programs that the small commercial business may qualify for and may collect the rebate on the customer's behalf.

Many utility companies employ demand side management programs to help reduce energy consumption. These regulated programs benefits the customer by subsidizing the first cost of capital improvements that provide long - term energy and operational cost savings. Currently, energy efficiency rebates are only offered by specific electrical utilities and the respective rebate programs and requirements change frequently.

*Aging and Inefficient Facility Infrastructure.* Many organizations continue to operate with an energy infrastructure that is significantly less efficient and cost-effective than what is now available through more advanced technologies applied to lighting, heating, cooling and other building systems. As these organizations explore alternatives for renewing their aging facilities, they often identify multiple areas within their facilities that could benefit from the implementation of energy efficiency measures, including the possible use of renewable sources of energy.

*Movement Toward Industry Consolidation.* As energy efficiency solutions continue to increase in technological complexity and customers look for service providers that can offer broad geographic and product coverage, we believe smaller niche energy efficiency companies will continue to look for opportunities to combine with larger companies such as the Company that can better serve their customers needs. Increased market presence and size of energy efficiency companies should, in turn, create greater customer awareness of the benefits of energy efficiency measures.

*Increased Use of Third-Party Financing.* Many organizations desire to use their existing sources of capital for core investments or do not have the internal capacity to finance improvements to their energy infrastructure. These organizations often require innovative structures to facilitate the financing of energy efficiency and renewable energy projects.

### **Blue Earth EMS Sales and Marketing**

Blue Earth EMS s key markets in 2013 and 2012 were third-party utility rebate programs, Keep Your Cool rebate program, restaurant and convenience store maintenance and service, consulting and wholesale and Internet sales. Blue Earth EMS services the San Francisco Bay Area, California s Central Valley region, Sacramento and San Diego, California and Spokane, Washington.

### **Blue Earth EMS Customers**

Blue Earth EMS s key customers, in 2013 were PECEI, City of Riverside Utilities, City of Pasadena Utilities, Asuza Power and Ecology Action in 2012; were KEMA, Keep Your Cool, Ecology Action-Right Lights utility program and the barefrigeration.com web site, and in 2011, the key customers were KEMA, Keep Your Cool, Ecology Action - Right Lights Program and PECEI - Energy Smart Jobs Program.

## **Blue Earth Solar Sales and Marketing**

Since Blue Earth Solar is a multi-faceted company with more service offerings than most, there are several unique sales and marketing strategies that are used. These can be both very positive to the business model while being challenging to properly implement. A summary of our sales approach for our varying capabilities is as follows:

As an ESCO, our sales and marketing approach is to offer customers customized and all-encompassing energy efficiency solutions tailored to meet their economic, operational and technical needs. The sales process for these opportunities can take up to 24 months, with public agency / governmental customers tending to require the longest sales processes. We identify project opportunities through referrals, conferences, warm leads, cold calls and occasionally through requests for proposals. Our direct sales force develops and follows up on customer leads and, in some cases, works with customers to develop their facility's energy strategies.

The Blue Earth Solar plan involves decreasing a facility's energy consumption and demand first through identification of Energy Conservation Measures (ECMs). Through our knowledge of the federal, state, local governmental and utility environment, we assess the availability of energy, utility or environmental-based incentives for usage reductions, which helps us optimize the economic benefits of a proposed project for a customer.

After we have identified and implemented these ECMs, the facility demand has been reduced and now we move on to the self-generation options that would benefit the customer. We can provide these projects turn-key to the customer. Depending on the particular scenario, we can engineer, install, commission, and maintain the system after it is installed. We also are able to offer financing options via lease or PPA's. Through a PPA, we would finance the project, then sell the power to the client at a rate less than and/or more consistent than what they get from the utility.

After the project has been completed our Operations & Maintenance group can service and maintain the equipment that was installed.

### *General Contractor*

Blue Earth Solar offers engineering, construction, and construction management services to a variety of industries. Blue Earth Solar has tradesmen that perform the majority of work for most projects. The trades which are most prevalent for us:

Mechanical Pipefitting / plumbing

Electrical Framing / drywall Concrete

Our ability to self-perform these trades enables us to keep costs down for our customers by not having the third-party markups adding margin into projects.

Having certain engineering and construction capabilities in-house enables us to provide turn-key projects to our clients. Having these abilities also makes it a natural fit for us to perform design-build projects, which save our customers money while also enabling the projects to have the minimum number of challenges/issues.

Knowing our strengths and the types of facilities that most benefit from our services allow us to concentrate sales and marketing efforts on industries such as life sciences, semi-conductor, and other high-technology organizations. We are active participants in associations that involve professionals from these target companies, and use these as networking opportunities to help increase sales leads.

*Service: Operations & Maintenance ( O & M )*

Blue Earth Solar offers O&M services for HVAC and energy systems. We offer traditional HVAC services including repairs, retrofits, and preventive maintenance contracts. These contracts can be year-to-year or multi-year. We also offer agreements which essentially provide the client warranty coverage if any of the components we are maintaining break down.

### *Commissioning*

Our sales and marketing approach for commissioning is similar to our General Construction and Service segments in terms of the target markets. The Blue Earth Solar commissioning group, labeled Benchmarcx®, performs energy audits, HVAC testing and balancing, and system start-up for all construction and energy projects. Benchmarcx® is able to target other general and mechanical contractors that do not have the in-house commissioning capabilities so Benchmarcx® can market itself to them. This is done through direct sales and marketing efforts. In addition to these targets, Benchmarcx® also focuses on the end-users directly. These include clients occupying space where commissioning is more critical, such as labs, clean rooms, and manufacturing suites.

### **Blue Earth EPS Sales and Marketing**

Blue Earth EPS's key market for its proprietary UPStealth™ intelligent digital battery backup system technology users is the traffic industry. For the traffic industry, Blue Earth EPS will be the manufacturer, offering inside sales and distribution support to authorized distributors. The Traffic UPStealth™ has been introduced to end users, such as Departments of Transportations, city and county agencies, agencies, design firms, contractors and distributors through over 200 webinars. We are also considering private labeling of our UPStealth™ products to large scale traffic equipment manufacturers through licensing agreements.

### **Blue Earth PPS Sales and Marketing**

Blue Earth PPS's marketing strategy for our patented PeakPower® energy management system is to use a concentrated segmentation strategy to focus primarily on large supermarket chains. Blue Earth PPS has a three pronged strategy with supermarket executives on its Advisory Board making direct sales introductions at high levels. We intend to leverage the large sales forces, and installed bases of major refrigeration equipment manufacturers by signing OEM deals with select companies and co-marketing. Then, given the geographic dispersion of the individual stores, Blue Earth PPS is establishing relationships with regional refrigeration contractors to assist with installation and become our first level of support.

Pricing strategy will include options for leasing, purchasing and a no-cost option that involves sharing energy savings with customers. A lynchpin of the marketing plan is the communications strategy. A combination of tools including PR, trade shows, digital, social, and advertising will be utilized to create awareness and solidify the PeakPower® brand.

The potential applications for our PeakPower® technology span numerous industries and apply globally. The following is a breakdown of the primary and secondary markets.

*Primary: Heavy users of refrigeration equipment-food industry*

Food Retailing (including convenience stores)

Food distribution and storage

Food processing

Refrigerated food transport (including fishing vessels)

Restaurants

*Secondary: Other users of refrigeration and heavy HVAC users*

Restaurants

Convenience Stores

Pharmaceutical manufacturing, storage and distribution

Commercial and Industrial HVAC (including data centers)

*Measurement and Verification* like LEED, Green Globes and Energy Star.

### **Blue Earth CHP Sales and Marketing**

There is a large opportunity for implementing co-generation systems if the systems are built and owned by the Company on land leased from the customer at the point of energy use. Selling expensive power plants that require the customer to make large capital expenditures in this economic environment is a much more difficult sale than providing the energy savings to the customer with no capital expenditures.. Companies that have not allocated budgets or do not want to spend capital on large co-generation projects, but want the lower electricity and lower heat generation costs that co-generation systems can provide are excellent candidates. This sales model gives companies the option to preserve capital to finance their core business while still realizing additional less quantifiable benefits including:

- 1) On -site electricity generator maintains power even if the power company grid fails.
- 2) Co-generating system provides more efficient production of steam/hot water with the current boiler systems in place as a backup.
- 3) Increased ability to meet sustainability objectives which are being incorporated in purchase agreements with greater frequency.

We implement our proprietary design procedure in order to properly size and provide redundant energy source solutions that have positive ROIs. In order to successfully market a co-generation system the base proposition to the manufacturer is that this is a rate change to lower utility rates, lower current maintenance labor, and eliminate maintenance parts costs by shutting down old inefficient systems and providing for redundant sources. BE CHP covers the cost of the equipment, system installation, and ongoing maintenance so there is no capital expenditure to the customer.

We are profiling customers that have large thermal (heat) loading processes that are part of their manufacturing process. Ideally, the customer will already have boilers that provide steam generation with the entire process infrastructure such as pipes, valves, and system controls in place and functioning within the original design specification. Because of the standard inefficiencies of boilers and furnaces, we can generate steam to match heat requirements and generate electricity the same fuel cost the customer is currently paying to only generate steam. In essence, the fuel required to run the turbine generator is free since the company is already paying to generate the heat from the fuel. This allows us to sell the electricity and heat to the end user at a lower rate than that they currently use. The net savings effect is between 8-20% lower utility costs, based on the Company's historical experience.

## Competition

### *Blue Earth EMS*

The clean-tech industry is highly competitive. The energy efficiency segment for small commercial businesses is also highly competitive. Blue Earth EMS competes with various types and sizes of companies ranging from local and national service providers, local refrigeration contractors, such as Egain and Energywise and rebate program administrators. Blue Earth EMS differentiates itself as the only fully-licensed, comprehensive contractor in Northern California which sells and installs energy efficiency projects through utility rebate programs, and which contracts directly with utilities, allowing it to perform retrofit services and secure rebates for its small and large customers who operate locations served by multiple utilities.

Few contractors in our market area actually participate in the third-party program process. The reluctance is attributable to the considerable amount of paperwork required for each project. Having completed thousands of applications, however, Blue Earth EMS is accustomed to preparing the appropriate documents. Because of the new comprehensiveness requirement for refrigeration projects, several of the previously participating companies are no longer qualified. Finally, both the utilities and the third-party administrators have become stricter about contractor participation requirements, which is actively removing unqualified and unscrupulous vendors. As a contractor who is regularly contacted by the utilities and the third-party program administrators to repair issues left behind by others.

We intend to compete based on the following:

*Comprehensive Service Provider.* We offer to our customers expertise in addressing almost all aspects of energy efficiency. Our staff from acquired companies is expected to provide the capability and flexibility to determine what energy efficiency measures are best suited to achieve the customer's energy efficiency and environmental goals.

*Independence.* We are an independent company with no affiliation to any equipment manufacturer, utility or fuel company. Unlike affiliated service companies, we have the freedom and flexibility to be objective in selecting particular products and technologies available from different acquisition candidates and suppliers in order to optimize our solutions for customer's particular needs.

*Experienced Management.* Our executive officers each has almost 30 years of experience in founding, acquiring and operating publicly held companies in diverse business sectors.

*Federal and State Qualifications.* The federal governmental program under which federal agencies and departments can enter into ESPCs requires that energy service providers have a track record in the industry and meet other specified qualifications. Over 20 states require similar qualifications. We intend to acquire companies which meet these qualifications. This will provide us with the opportunity to continue to grow our business with federal, state and other governmental customers and differentiates us from energy efficiency companies that have not been similarly qualified.

*Federal.* In 2007, the United States enacted the Energy Independence and Security Act which mandates that federal buildings reduce energy consumption by 30% by 2015 compared to their 2003 baseline and contains multiple provisions promoting long-term ESPCs. The U.S. Department of Energy also has a number of research, development, grant and financing programs - most notably the DOE Loan Guarantee Program - to encourage energy efficiency and renewable energy. Additionally, the United States has adopted federal incentives for renewable energy, including the production tax credit, investment tax credit and accelerated depreciation.

*State.* At the state level, the American Council for an Energy-Efficient Economy stated in its 2012 State Energy Efficiency Scorecard that significant measures to support energy efficiency have been implemented, including as of October 2012, the following:

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Annual savings from customer-funded energy efficiency programs topped 18 million MWh in 2010, a 40% increase over a year earlier. This is roughly equivalent to amount of electricity the State of Wyoming uses each year.

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Utility budgets for electric and natural gas efficiency programs rose to almost \$7 billion in 2011, a 27% increase over a year earlier. Of this amount \$5.9 billion went to electric efficiency programs, with the remaining \$1.1 billion for natural gas programs. These represent 29% and 18% increases, respectively, over 2010 budgets.

Twenty-four states have adopted and adequately funded an Energy Efficiency Resource Standard, which sets long-term energy savings targets and drives investments in utility-sector energy efficiency programs. The states with the most aggressive savings targets include Arizona, Hawaii, Maryland, Massachusetts, Minnesota, New York, Rhode Island and Vermont.

*Economic Stimuli.* Governments worldwide have allocated significant portions of economic stimuli to clean energy.

Recovery and Reinvestment Act of 2009 allocated \$67 billion to promote clean energy, energy efficiency and advanced vehicles. Additionally, the Emergency Economic Stabilization Act instituted a grant program that provides cash in lieu of the investment tax credit for eligible renewable energy generation sources which commence construction in 2010.

Key factors in the award of contracts include system and service performance, quality, price, design, reputation, technology, application engineering capability and energy management services. Competitors for contracts in the small commercial businesses marketplace include many local, regional, national and international companies with greater resources than we have.

The domestic energy services market for small commercial businesses is highly fragmented, which we believe, provides a viable point-of-entry for acquiring established, reputable, profitable energy services companies who are seeking access to growth capital and innovative, commercially proven, cost-effective energy efficient technologies.

There are three principal types of energy efficiency companies:

*Independent Energy Services Companies* - Energy efficiency companies such as the Company, which are not associated with an equipment manufacturer, utility or fuel company. Most of these companies are small and focus either on a specific geography or specific customer base.

*Utility-Affiliated Energy Services Companies* - Companies owned by regulated North American utilities, many of which were traditionally focused on the service territories of their affiliated utilities, but have since expanded their geographical markets. Examples include Constellation Energy Projects and Services and ConEdison Solutions.

*Equipment Manufacturers* - Companies owned by building equipment or controls manufacturers. Many of these companies have a national presence through an extensive network of branch offices. Examples include Honeywell, Johnson Controls and Siemens.

***Blue Earth Solar***

The energy services segment for non-residential customers and utility scale projects is highly fragmented and also highly competitive on a local, regional and national basis. Blue Earth Solar competes with various types and sizes of companies ranging from local energy and mechanical services providers including Pacific Rim Mechanical and Apex Mechanical and national energy services providers such as Johnson Controls, Inc. and Ameresco. Blue Earth Solar has only a few competitors in the Life Sciences portion of its business including Pacific Building Group and DBC Inc. on a local basis and DPR Construction on a regional and national basis. The competitors in the engineering, procurement and construction (EPC)/alternative energy segment of its business include AECOM, Chevron Energy Solutions on a national basis and solar project installers including Borrego Solar, Helio Power and Sullivan Solar among others on a local basis. Also, several Chinese solar panel manufacturers have begun to provide EPC services as part of their vertical market strategy. The competitors for our commissioning business activities include KEMA, Inc. and MBO, Inc.

Blue Earth Solar differentiates itself from its competitors in a number of ways, including providing its customers with an in-depth array of turnkey services and energy efficient products. Blue Earth Solar is technology neutral and diligently seeks to locate and provide its clients with the most beneficial technology that is currently available. We are unique in our capability to install solar, cogeneration, fuel cells, geothermal and wind-powered systems. The majority of our competitors specialize in designing or installing only one of these types of energy systems. Also in contrast to several of our competitors, we offer complete engineering and energy analysis (energy auditing or retro-commissioning) to ensure its clients are using their existing energy in the most efficient manner prior to designing an alternative energy option. We also differentiate ourselves by being fully licensed and self-performing most of the major and critical trades including electrical, piping, HVAC, plumbing and general construction work. Being vertically integrated with our Service Group allows us to offer complete after construction O & M services through the life of the energy asset.

### ***Blue Earth EPS***

The battery backup system market segment for traffic intersections is highly fragmented and is also highly competitive on a local, regional and national basis. Blue Earth EPS competes primarily with lead-acid based battery backup and uninterrupted power systems manufacturers including Alpha Technologies, Clary Corp, Sensata Technologies (Dimensions), Tesco and Meyers. The sales channel primarily consists of distributors/resellers of lead-acid based battery back and uninterrupted power systems. Blue Earth EPS differentiates itself by offering a nickel/zinc based battery with its proprietary UPStealth intelligent digital battery backup system.

### ***Blue Earth PPS***

The refrigeration controls market segment including compressor controller systems is highly competitive on a local regional and national basis. Blue Earth PPS competes primarily with refrigeration compressor controller systems manufacturers such as Emerson Einstein, E2, Novar (Honeywell) and Danfoss. The Blue Earth PPS patented PeakPower® system differentiates itself from its competitors products based on exacting performance criteria, pricing and ease of system installation. The PeakPower® system Thermal Sensors are simply placed at each end of coolers and freezers, much less complex than our competitors.

### ***Blue Earth CHP***

The combined heat and power (CHP) market segment is highly competitive on a local, regional and national basis. Competitors vary widely in terms of CHP developer engineering firms that only provide design and feasibility studies to full service ESCO companies that will design/build/maintain. Several are fringe competitors that provide just back-up generators and not full CHP solutions -- however, they do provide a distributed generation solution. IPS Power Engineering competes with the following as well as other companies: AltaGen Energy Corp., Concentric Power, Inc., FOG Energy Corporation, Green Tech Energy Solutions, LLC and Duke Energy Generation Services. National energy services providers such as Johnson Controls, Inc. and Ameresco. The competitors in the engineering,

procurement and construction (EPC)/alternative energy segment of its business include AECOM, Chevron Energy Solutions on a national basis and solar project installers including Borrego Solar, Helio Power and Sullivan Solar among others on a local basis. Also, several Chinese solar panel manufacturers have begun to provide EPC services as part of their vertical market strategy. The competitors for our commissioning business activities include KEMA, Inc. and MBO, Inc.

## **Government and Environmental Regulation**

### *Energy Efficiency*

Various regulations will affect the conduct of our business. Federal and state legislation and regulations enable us to enter into ESPCs with government agencies in the United States. The applicable regulatory requirements for ESPCs differ in each state and between agencies of the federal government.

Our projects must conform to all applicable electric reliability, building and safety, and environmental regulations and codes, which vary from place to place and time to time. Various federal, state, provincial and local permits are required to construct an energy efficiency project or alternate renewable energy plant.

### **Intellectual Property**

The Company owns an issued patent on its PeakPower® energy management and an issued patent for its roll-lock snap-on current transformer. The Company has several patents filed and in the pending stage. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, Management believes based on their knowledge of the industry that no single patent or group of patents is critical for the success of the business.

The Company has applied for trademark for the name ecoStation™. The Company has been issued a registered service mark in the name of Benchmarcx®. The Company was issued a registered service mark in the name of Peak-Power®. Trademarks have been applied for UPStealth™, Keep York Cool™ and ecoBlue™.

### **Employees**

As of February 21, 2014, Blue Earth, Inc. had six employees, consisting of three executive officers and three administrative persons at the parent level and 80 full-time employees on a Company-wide basis. Blue Earth EMS had 28 full-time, non-union employees, including its President, John Pink and two part-time employees. Blue Earth EMS employees include 2 key management, 7 in administration, 11 technicians who perform product installation and field service, 5 engaged in sales and marketing and 3 in shop/gasket manufacturing.

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Blue Earth Solar had 20 full-time non-union employees, and 9 part-time employees. Blue Earth Solar employees include 3 key management, including 2 in sales and business development, 6 in service operations, 9 in construction operations and 9 part-time employees.

Blue Earth CHP had 6 full-time employees and 1 part-time employee. Blue Earth CHP employees include 2 key management, 1 in administration, and 3 in engineering. Blue Earth PPS had 5 full-time employees and 3 part-time employees. Blue Earth PPS employees include 1 key management and 4 engineers.

Blue Earth EPS had 10 full time employees and 3 part time employees. Blue Earth EPS employees include 2 key management, 2 in administration, 1 technician, 3 in sales and marketing, 1 in engineering and 6 in manufacturing.

Blue Earth Capital had 1 full-time employee including 1 key management.

The Company expects to continue to use subcontractors and independent consultants until such time as further acquisitions are made.

**Item 1A. Risk Factors.**

**Risks Relating to Our Business**

*Since we have limited operating history, it is difficult for potential investors to evaluate our business.*

We completed our initial operating subsidiary acquisition as of January 1, 2011. Therefore, our limited operating history makes it difficult for potential investors to evaluate our business or prospective operations and your purchase of our securities. As an early stage company, we are subject to the risks inherent in the financing, expenditures, complications and delays inherent in a new business. Accordingly, our business and success faces risks from uncertainties faced by developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

*We are dependent upon key personnel whose loss may adversely impact our business.*

We rely heavily on the expertise, experience and continued services of Dr. Johnny Thomas, our Chief Executive Officer, Robert Potts, our President and Chief Operating Officer, as well as other executive employees. Although Dr. Thomas and Mr. Potts are employed under employment contracts, the loss of either of their services and the inability to replace either of them and/or attract or retain other key individuals, could materially adversely affect us. If Dr. Thomas, Mr. Potts or other key executive employees were to leave, we could face substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any successor obtains the necessary training and experience. We do not have key man life insurance policies on our management.

*We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all.*

As of December 31, 2013, we had \$8,403,731 cash on hand. On February 22, 2013, we entered into a credit agreement for a \$10 million line of credit, of which \$1,500,000 was funded on September 11, 2013 and \$4,000,000 is currently available upon our meeting the terms and conditions of the credit facility. Therefore, our short term liquidity needs have been satisfied and we have sufficient capital to fund our operations for the next 12 months. However, in view of our business plan we may not be able to execute our business plan and fund business operations long enough to achieve profitability. In such event, we would be forced to scale back our growth strategy and operations. Our ultimate success depends upon our ability to raise additional capital. We are pursuing sources of additional capital through various means, including joint venture projects and debt or equity financing. However, we expect to fund

much of our growth through project financing by using a combination of debt and equity financing which may not be available when needed. Future financing through equity investments is likely to be dilutive to existing stockholders. Also, the terms of securities we may issue in future capital transactions may be more favorable to new investors than our current investors. Newly issued securities may include preferences, superior voting rights, the issuance of warrants or other derivative securities, and the issuance of incentive awards under employee equity incentive plans, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition and results of operations. Our ability to obtain needed financing may be impaired by factors, including the condition of the economy and capital markets, both generally and specifically in our industry, and the fact that we are not profitable, which could impact the availability or cost of future financing. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, we may need to reduce our operations accordingly.

***We expect to incur a substantial amount of debt in order to build our initial combined heat and power plants.***

We are negotiating with alternative financing sources for debt project financing to construct our initial combined heat and power plants. It is expected that the initial seven(7) CHP plants which are in various stages of construction in progress may require in excess of \$100 million of debt. These seven (7) plants are scheduled to open during the third quarter of 2014 and are expected to be completed by the end of the first quarter of 2015. This debt will be allocated among each specific project, which will be the obligor, although initially the Company is expected to guarantee a portion of the debt. To date, the Company has used cash on hand and equity financing to order equipment and advance the projects on schedule. However, in view of the near tenn of this indebtedness, an event of default, if not cured or waived, may result in the acceleration of the maturity of the indebtedness. If the Company has guaranteed this indebtedness, it may not have sufficient funds on hand for repayment which may cause it to curtail its ongoing operations until it could satisfy such default. See "Management's Discussions and Analysis of Financial Condition and Results of Operations".

***Project development or construction activities may not be successful and proposed projects may not receive required permits or construction may not proceed as planned.***

The development and construction of our projects involves numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, legal, and other expenses before we can determine whether a project is feasible, economically attractive or capable of being built. Success in developing a particular project is contingent upon, among other things: (i) negotiation of satisfactory engineering, procurement and construction agreements; (ii) receipt of required governmental permits and approvals, including the right to interconnect to the electric grid on economically acceptable terms; (iii) payment of interconnection and other deposits (some of which may be non-refundable); (iv) obtaining construction financing; and (v) timely implementation and satisfactory completion of construction.

Successful completion of a particular project may be adversely affected by numerous factors, including: (i) delays in obtaining required government permits and approvals with acceptable conditions; (ii) uncertainties relating to land costs for projects; (iii) unforeseen engineering problems; (iv) construction delays and contractor performance shortfalls; (v) work stoppages; (vi) cost over-runs; (vii) equipment and materials supply; (viii) adverse weather conditions; and (ix) environmental and geological conditions.

***We may be unable to obtain governmental approvals, property rights and/or financing for the construction, development and operation of our non-regulated energy investments.***

Construction, development and operation of energy investments, such as natural gas storage facilities, pipeline transportation systems and solar energy projects, are subject to federal and state regulatory oversight and require certain property rights and approvals, including permits and licenses for such facilities and systems. We or our joint venture partnerships may be unable to obtain, in a cost-efficient or timely manner, all such needed property rights, permits and licenses in order to successfully construct and develop our non-regulated energy facilities and systems. Successful financing of our energy investments requires participation by willing financial institutions and lenders, as well as acquisition of capital at favorable interest rates. If we do not obtain the necessary regulatory approvals and financing, our equity investments could be impaired, and such impairment could have a materially adverse effect on our financial condition, results of operations or cash flows.

***Our investments in clean energy projects are subject to substantial risks.***

Commercial and residential solar energy projects, such as those in which we are investing, are relatively new and have been developed through advancement in technologies whose commercial application is limited, and which are unrelated to our core businesses. These projects are dependent upon current regulatory and tax incentives and there is uncertainty about the extent to which such incentives will be available in the future. These projects face the risk that the current regulatory regimes and tax laws may expire or be adversely modified during the life of the projects.

In addition, because these projects depend on technology outside of our expertise, there are risks associated with our ability to develop and manage such projects profitably, including logistical risks and potential delays related to construction, permitting, regulatory approvals, as well as the operational risk that the projects in service will not perform according to expectations due to equipment failure, suboptimal weather conditions or other factors beyond our control. All of the aforementioned risks could reduce the availability of viable solar energy projects for development. Furthermore, at the development or acquisition stage, because of the nascent nature of the renewable energy industry and the limited experience with the relevant technology, our ability to predict actual performance results may be hindered and the projects may not perform as predicted.

***The installation of our on-site combined heat and power (CHP) or cogeneration power plants may be affected by opposition from local utility companies.***

Utility policies and regulations in most states are not prepared to accommodate widespread on-site generation. These barriers erected by electric utility companies and unfavorable regulations, where applicable, make it more difficult or uneconomic for us to connect to the customer grid at customer sites and are an impediment to the growth of our business. Development of our on-site CHP or cogeneration business could be adversely affected by any slowdown or reversal in the utility deregulation process or by difficulties in negotiating backup power supply agreements with electric providers located in the different geographic areas of the country where we intend to conduct our business.

***The economic viability of our projects depends on the price spread between fuel and electricity thus the volatility of the prices of these components creates risk that our projects will be uneconomic.***

The economic viability of on-site CHP or cogeneration projects is dependent upon the price spread between fuel and electricity prices. Volatility of one component of the spread, the cost of natural gas and other fuels such as propane or distillate oil, can be managed by means of future contracts. However, the regional rates charged for both base load and peak electricity services may decline periodically due to excess capacity arising from over-building of utility power plants or recessions in economic activity. Any sustained weakness in electricity prices could significantly limit our market for our CHP or cogeneration on-site energy services.

***Our solar engineering, procurement and construction (EPC) growth strategy is dependent upon continued availability of third-party financing arrangements for our customers.***

Generally, our customers must enter into agreements to finance the construction and purchase of our solar photovoltaic (PV) projects. These structured finance arrangements are complex and rely heavily on the creditworthiness of the customer as well as required returns on investment of the financing companies. Depending on the status of financial markets for solar project funding and general economic conditions overall, financial institutions may be unwilling or unable to finance the cost of construction of the solar PV project. Lack of credit for our customers or restrictions on financial institutions extending such credit will severely limit our ability to grow our revenues. In addition, an increase in interest or lending rates or a reduction in the supply of project debt financing could reduce the number of solar projects that receive financing, making it difficult for our customers to secure the financing necessary to develop, build, purchase or install a solar PV facility on favorable terms, or at all, and thus lower demand for our EPC services which may limit our growth or reduce our net sales.

***If solar power technology is not suitable for widespread adoption or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our sales would decline and we would be unable to achieve or sustain profitability.***

The market for solar power products is emerging and rapidly evolving, and its future success is uncertain. Many factors will influence the widespread adoption of solar power technology and demand for solar power products, including:

Cost effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies; performance and reliability of solar power products as compared with conventional and non-solar alternative energy products; capital expenditures by customers that tend to decrease if the U.S. economy slows; and availability of government subsidies and incentives.

If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenue to achieve and sustain profitability. In addition, demand for solar power products in the markets and geographic regions we target may not develop or may develop more slowly than we anticipate.

***Compliance with environmental laws could adversely affect our operating results.***

Costs of compliance with federal, state, local and other foreign existing and future environmental regulations could adversely affect our cash flow and profitability. We will be required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in connection with energy efficiency products, and we may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted and new laws and regulations could be adopted or become applicable to us or our customers, and future changes in environmental laws and regulations could occur. These factors may impose additional expense on our operations.

In addition, private lawsuits or enforcement actions by federal, state, and/or foreign regulatory agencies may materially increase our costs. Certain environmental laws make us potentially liable on a joint and several basis for the remediation of contamination at or emanating from properties or facilities which we may acquire that arranged for the disposal of hazardous substances. Although we will seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liability relating to the remediation of contamination, including contamination we did not cause.

We may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals. A delay in obtaining any required environmental regulatory approvals or failure to obtain and comply with them could adversely affect our business and operating results.

***We will need to increase the size of our organization, and we may experience difficulties in managing growth.***

We are a small company with six (6) full-time employees, including four (4) executive officers, at the parent level and 78 full-time employees on a Company-wide basis, as of February 21, 2014. In addition to prospective employees hired from companies which we may acquire, we will need to expand our employee infrastructure for managerial, operational, financial and other resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively.

In order to manage our future growth, we will need to continue to improve our management, operational and financial controls and our reporting systems and procedures. All of these measures will require significant expenditures and will demand the attention of management. If we do not continue to enhance our management personnel and our operational and financial systems and controls in response to growth in our business, we could experience operating inefficiencies that could impair our competitive position and could increase our costs more than we had planned. If we

are unable to manage growth effectively, our business, financial condition and operating results could be adversely affected.

***Our corporate strategy will not be successful if demand for energy efficiency and renewable energy solutions does not develop.***

We believe, and our corporate strategy assumes, that the market for energy efficiency and renewable energy solutions will continue to grow, that we will increase our penetration of this market and that our revenue from selling into this market will continue to increase with future acquisitions. If our expectations as to the size of this market and our ability to sell our products and services in this market are not correct, our corporate strategy will be unsuccessful and our business will be harmed.

***Certain projects we may undertake for our customers may require significant capital, which our customers or we may finance through third parties, and such financing may not be available to our customers or to us on favorable terms, if at all.***

Certain energy efficiency projects are typically financed by third parties. The significant disruptions in the credit and capital markets in the last several years have made it more difficult for customers to obtain financing on acceptable terms or, in some cases, at all. Any inability by us or our customers to raise the funds necessary to finance our projects, or any inability by us to obtain a revolving credit facility, could materially harm our business, financial condition and operating results.

***Our business may be affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results.***

We expect that our business will be subject to seasonal fluctuations and construction cycles, particularly in climates that experience colder weather during the winter months, such as the northern United States and Canada, or at educational institutions, where large projects are typically carried out during summer months when their facilities are unoccupied. In addition, government customers, many of which have fiscal years that do not coincide with ours, typically follow annual procurement cycles and appropriate funds on a fiscal-year basis even though contract performance may take more than one year. Further, government contracting cycles can be affected by the timing of, and delays in, the legislative process related to government programs and incentives that help drive demand for energy efficiency and renewable energy projects. As a result, our revenue and operating income in the third quarter is expected to be typically higher, and our revenue and operating income in the first quarter is expected to be typically lower, than in other quarters of the year. As a result of such fluctuations, we may occasionally experience declines in revenue or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

***Our business depends, in part, on federal, state and local government support for energy efficiency and renewable energy, and a decline in such support could harm our business.***

We depend, in part, on government legislation and policies that support energy efficiency and renewable energy projects and that enhance the economic feasibility of our energy efficiency services and small-scale renewable energy projects. Many states offer incentives to offset the cost of solar power systems. These systems can take many forms, including direct rebates, state tax credits, system performance payments and Renewable Energy Credits (RECs). Moreover, the federal government currently offers a 30% tax credit for the installation of solar power systems. Businesses may also elect to accelerate the depreciation on their system over five years. Uncertainty about the introduction of, reduction in or elimination of such incentives or delays or interruptions in the implementation of favorable federal or state laws could substantially increase the cost of our systems to our customers, resulting in significant reductions in demand for our services, which would negatively impact our sales.

The U.S. government and several states support potential customers' investments in energy efficiency and renewable energy through legislation and regulations that authorize and regulate the manner in which certain governmental entities do business with companies like us, encourage or subsidize governmental procurement of our services, provide regulatory, tax and other incentives to others to procure our services and provide us with tax and other incentives that reduce our costs or increase our revenue. Current market conditions have caused various state, local or federal incentive programs which help drive the economics for these projects to be unexpectedly depleted or substantially changed by the administrators.

For example, U.S. legislation in 1992 authorized federal agencies to enter into energy savings performance contracts ( ESPCs ), such as those that we may enter into with customers at a later date. In 2007, three years after the expiration of the original legislation, new ESPC legislation was enacted without an expiration provision, and in the same year, the President of the United States issued an executive order requiring federal agencies to set goals to reduce energy use and increase renewable energy sources and use. In addition, the American Recovery and Reinvestment Act of 2009 ( ARRA ) allocated \$67 billion to promote clean energy, energy efficiency and advanced vehicles. Additionally, the Emergency Economic Stabilization Act of 2008 instituted the 1603 cash grant program, which may provide cash in lieu of an investment tax credit for eligible renewable energy generation sources for which construction commenced prior to the end of 2010 where the project is placed in service by various dates set out in the act. The Internal Revenue Code (the Code ), currently provides a production tax credit for the generation of electricity from wind projects and from landfill gas fueled power projects, and an investment tax credit or grant in lieu of such tax credits for investments in landfill gas fueled power projects, wind, biomass and solar power generation projects. Various state and local governments have also implemented similar programs and incentives, including legislation authorizing the procurement of ESPCs.

Prospective customers frequently depend on these programs to help justify the costs associated with, and to finance, energy efficiency and renewable energy projects. If any of these incentives are adversely amended, eliminated or not extended beyond their current expiration dates, or if funding for these incentives is reduced, it could adversely affect our ability to obtain project commitments from new customers. A delay or failure by government agencies to administer, or make procurements under, these programs in a timely and efficient manner could have a material adverse effect on our potential customers' willingness to enter into project commitments with us.

Changes to tax, energy and environmental laws could reduce our prospective customers' incentives and mandates to purchase certain kinds of services that we may supply, and could thereby adversely affect our business, financial condition and operating results.

***A significant decline in the fiscal health of federal, state, provincial and local governments could reduce demand for our energy efficiency and renewable energy projects.***

Recent significant declines in the fiscal health of federal, state and local governmental entities may make it difficult for them to enter into contracts for our services or to obtain financing necessary to fund such contracts.

***We are subject to governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits and certificates may result in substantial costs to us.***

We are subject to substantial regulation from federal, state and local regulatory authorities. We are required to comply with numerous laws and regulations and to obtain numerous authorizations, permits, approvals and certificates from

governmental agencies and tariff rates that the Company can charge its customers, rates of return, the authorized cost of capital, recovery of pipeline replacement and environmental remediation costs and relationships with its affiliates. These agencies regulate various aspects of our business, including customer rates, services and natural gas pipeline operations.

The Federal Energy Regulatory Commission ( FERC ) has regulatory authority over certain of our operations. Any Congressional legislation or agency regulation that would alter these or other similar statutory and regulatory structures in a way to significantly raise costs that could not be recovered in rates from customers, would reduce the availability of supply or capacity or that would reduce our competitiveness would negatively impact our earnings. In addition, the U.S. Senate has passed the Pipeline Transportation Safety Improvement Act and if enacted will increase federal regulatory oversight and could also increase administrative costs that may not be recovered in rates from customers, which could have an adverse impact on our earnings.

We cannot predict the impact of any future revisions or changes in interpretations of existing regulations or the adoption of new laws and applicable regulations. Changes in regulations or the imposition of additional regulations could influence our operating environment and may result in substantial costs to us.

Each state is responsible for regulating the sale, installation and interconnection of alternative energy within their state. The construction of power generation projects typically is regulated at the state and provincial levels, and the operation of these projects also may be subject to state and provincial regulation as utilities. At the federal level, the ownership, operation, and sale of power generation facilities may be subject to regulation under Public Utility Holding Company Act of 2005, or PUHCA, the Federal Power Act, or FPA, and Public Utility Regulatory Policies Act of 1978, or PURPA.

***New technologies may prove inappropriate and result in liability to us or may not gain market acceptance by customers.***

The solar power industry (and the alternative energy industry, in general) is subject to technological change. Our future success will depend on our ability to appropriately respond to changing technologies and changes in function of products and quality. If we adopt products and technologies that are not attractive to consumers, we may not be successful in capturing or retaining a significant share of our market. In addition, some new technologies are relatively untested and unperfected and may not perform as expected or as desired, in which event our adoption of such products or technologies may cause us to lose money.

***Existing regulations, and changes to such regulations, may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services.***

New government regulations or utility policies pertaining to solar power systems are unpredictable and may result in significant additional expenses or delays and, as a result, could cause a significant reduction in demand for solar energy systems and our services. For example, there currently exist metering caps in certain jurisdictions which effectively limit the aggregate amount of power that may be sold by solar power generators into the power grid.

***We plan to expand our business in part through future acquisitions, but we may not be able to identify or complete suitable acquisitions.***

Acquisitions are a significant part of our growth strategy. We plan to use acquisitions of companies or technologies to expand our project skill-sets and capabilities, expand our geographic markets, add experienced management and

increase our product and service offerings. However, we may be unable to implement this growth strategy if we cannot identify suitable acquisition candidates, reach agreement with acquisition targets on acceptable terms or arrange required financing for acquisitions on acceptable terms. In addition, the time and effort involved in attempting to identify acquisition candidates and consummate acquisitions may divert members of our management from the operations of our company.

***Our prior acquisition and any future acquisitions that we may make have and/or may disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.***

If we are successful in consummating acquisitions, those acquisitions could subject us to a number of risks, including, but not limited to: the purchase price we pay and/or unanticipated costs could significantly deplete our cash reserves or result in dilution to our existing stockholders; we may find that the acquired company or technologies do not improve market position as planned; we may have difficulty integrating the operations and personnel of the acquired company, as the combined operations will place significant demands on the Company's management, technical, financial and other resources; key personnel and customers of the acquired company may terminate their relationships with the acquired company as a result of the acquisition; we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting; we may assume or be held liable for risks and liabilities (including environmental-related costs) as a result of our acquisitions, some of which we may not be able to discover during our due diligence or adequately adjust for in our acquisition arrangements; our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises; we may incur one-time write-offs or restructuring charges in connection with the acquisition; we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings.

Historically, the \$585 million pipeline announced in September 2011 in connection with the Company's acquisition of Xnergy Inc. was not converted into significant revenues for various reasons, including site control, permitting, engineering, interconnect, regulatory and an inability to obtain financing.

We may not be able to realize the cost savings or other financial benefits we anticipated.

In addition, we may assume or be held liable for risks and liabilities (including environmental-related costs) as a result of our acquisitions, some of which we may not be able to discover during our due diligence or adequately adjust for in our acquisition arrangements; our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises; we may incur one-time write-offs or restructuring charges in connection with the acquisition; we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings; and

We may not be able to realize the cost savings or other financial benefits we anticipated.

We cannot assure you that we will successfully integrate or profitably manage any acquired business. In addition, we cannot assure you that, following any acquisition, our continued business will achieve sales levels, profitability, efficiencies or synergies that justify acquisition or that the acquisition will result in increased earnings for us in any future period. These factors could have a material adverse effect on our business, financial condition and operating results.

*A drop in the retail price of conventional energy or non-solar alternative energy sources may negatively impact our profitability.*

We believe that an end customer's decision to purchase or install solar power capabilities is primarily driven by the cost and return on investment resulting from solar power systems. Fluctuations in economic and market conditions that affect the prices of conventional and non-solar alternative energy sources, such as decreases in the prices of oil and other fossil fuels, could cause the demand for solar power systems to decline, which would have a negative impact on our profitability. Changes in utility electric rates or net metering policies could also have a negative effect on our business.

***Failure of third parties to manufacture quality products or provide reliable services in a timely manner could cause delays in the delivery of our services and completion of our projects, which could damage our reputation, have a negative impact on our relationships with our customers and adversely affect our growth.***

Our success depends on our ability to provide services and products in a timely manner, which, in part, depends on the ability of third parties to provide us with timely and reliable services and products, such as boilers, chillers, cogeneration systems, PV panels, lighting and other complex components. In providing our services we intend to rely on products that meet our design specifications and components manufactured and supplied by third parties, as well as on services performed by subcontractors. Warranties provided by third-party suppliers and subcontractors typically limit any direct harm we might experience as a result of our relying on their products and services. However, there can be no assurance that a supplier or subcontractor will be willing or able to fulfill its contractual obligations and make necessary repairs or replace equipment. In addition, these warranties generally expire within one to five years or may be of limited scope or provide limited remedies. If we are unable to avail ourselves of warranty protection, we may incur liability to our customers or additional costs related to the affected products and components, including replacement and installation costs, which could have a material adverse effect on our business, financial condition and operating results.

Moreover, any delays, malfunctions, inefficiencies or interruptions in these products or services - even if covered by warranties - could adversely affect the quality and performance of our solutions. This could cause us to experience difficulty retaining current customers and attracting new customers, and could harm our brand, reputation and growth. In addition, any significant interruption or delay by our suppliers in the manufacture or delivery of products or services on which we depend could require us to expend considerable time, effort and expense to establish alternate sources for such products and services.

***We may need to assume responsibility under customer contracts for factors outside our control, including the risk that fuel prices will increase.***

We do not expect to take responsibility under our proposed contracts for a wide variety of factors outside our control. However, we may sometimes need to assume some level of risk and responsibility for certain factors - sometimes only to the extent that variations exceed specified thresholds particularly with contracts for renewable energy projects.

Although we intend to structure our contracts so that our obligation to supply a customer with electricity, for example, does not exceed the quantity produced by the production facility, in some circumstances we may commit to supply a customer with specified minimum quantities based on our projections of the facility's production capacity. In such circumstances, if we are unable to meet such commitments, we may be required to incur additional costs or face penalties. Despite measures to mitigate risks under these and other contracts, such steps may not be sufficient to avoid the need to incur increased costs to satisfy our commitments, and such costs could be material. Increased costs that we are unable to pass through to our customers could have a material adverse effect on our operating results.

***Our business will depend on experienced and skilled personnel, and if we are unable to attract and integrate skilled personnel, it will be more difficult for us to manage our business and complete projects.***

The success of our business will depend on the skill of our personnel. Accordingly, it is critical that we maintain, and continue to build, a highly experienced and specialized workforce, including engineers, project and construction management, and business development and sales professionals. In addition, our construction projects require a significant amount of trade labor resources, and other skilled workers, as well as certain specialty subcontractor skills.

Competition for personnel, particularly those with expertise in the energy services and renewable energy industries, is high, and identifying candidates with the appropriate qualifications can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy given our anticipated hiring needs, or we may need to provide higher compensation or more training to our personnel than we currently anticipate.

In the event we are unable to attract, hire and retain the requisite personnel and subcontractors, we may experience delays in completing projects in accordance with project schedules and budgets, which may have an adverse effect on our financial results, harm our reputation and cause us to curtail our pursuit of new projects. Further, any increase in demand for personnel and specialty subcontractors may result in higher costs, causing us to exceed the budget on a project, which in turn may have an adverse effect on our business, financial condition and operating results and harm our relationships with our customers.

***We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.***

Our industry is highly competitive, with many companies of varying size and business models, many of which have their own proprietary technologies, compete for the same business as we do. Our competitors have longer operating histories and greater resources than us, and could focus their substantial financial resources to develop a competing business model, develop products or services that are more attractive to potential customers than what we offer or convince our potential customers that they should require financing arrangements that would be impractical for smaller companies to offer. Our competitors may also offer energy solutions at prices below cost, devote significant sales forces to compete with us or attempt to recruit our key personnel by increasing compensation, any of which could improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain customers, cause us to lower our prices in order to compete, and reduce our market share and revenue, any of which could have a material adverse effect on our financial condition and operating results. We can provide no assurance that we will continue to effectively compete against our current competitors or additional companies that may enter our markets.

In addition, we may also face competition based on technological developments that reduce demand for electricity, increase power supplies through existing infrastructure or that otherwise compete with our products and services. We also encounter competition in the form of potential customers electing to develop solutions or perform services internally rather than engaging an outside provider such as us.

***We may be unable to complete or operate our projects on a profitable basis or as we have committed to our customers.***

Development, installation and construction of energy efficiency and renewable energy projects, and operation of renewable energy projects, entails many risks, including:

Failure to obtain necessary project financing at various stages of the project, or failure to receive critical components and equipment that meet our design specifications and can be delivered on schedule; failure to obtain all necessary rights to land access and use; failure to receive quality and timely performance of third-party services; increases in the cost of labor, equipment and commodities needed to construct or operate projects; permitting and other regulatory issues, license revocation and changes in legal requirements; shortages of equipment or skilled labor; unforeseen engineering problems; failure of a customer to accept or pay for renewable energy that we supply; weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism; and accidents involving personal injury or the loss of life; labor disputes and work stoppages; mishandling of hazardous substances and waste; and other events outside of our control.

Any of these factors could give rise to construction delays and construction and other costs in excess of our expectations. This could prevent us from completing construction of projects, cause defaults under financing agreements or under contracts that require completion of project construction by a certain time, cause projects to be unprofitable for us, or otherwise impair our business, financial condition and operating results.

***Provisions in government contracts may harm our business, financial condition and operating results.***

In the event that we are able to secure contracts with the federal government and its agencies, and with state and local governments, these contracts customarily contain provisions that give the government substantial rights and remedies, many of which are not typically found in commercial contracts, including provisions that allow the government to:

Terminate existing contracts, in whole or in part, for any reason or no reason; reduce or modify contracts or subcontracts; decline to award future contracts if actual or apparent organizational conflicts of interest are discovered, or to impose organizational conflict mitigation measures as a condition of eligibility for an award; suspend or debar the contractor from doing business with the government or a specific government agency; and pursue criminal or civil remedies under the False Claims Act, False Statements Act and similar remedy provisions unique to government contracting.

Generally, government contracts contain provisions permitting unilateral termination or modification, in whole or in part, at the government's convenience. Under general principles of government contracting law, if the government terminates a contract for convenience, the terminated company may recover only its incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, the defaulting company is entitled to recover costs incurred and associated profits on accepted items only and may be liable for excess costs incurred by the government in procuring undelivered items from another source. The termination payment is designed to compensate us for the cost of construction plus financing costs and profit on the work completed.

In ESPCs for governmental entities, the methodologies for computing energy savings may be less favorable than for non-governmental customers and may be modified during the contract period. In the event we enter into ESPCs, we may be liable for price reductions if the projected savings cannot be substantiated.

In addition to the right of the federal government to terminate its contracts with us, federal government contracts are conditioned upon the continuing approval by Congress of the necessary spending to honor such contracts. Congress often appropriates funds for a program on a September 30 fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. If one or more of our government contracts were terminated or reduced, or if appropriations for the funding of one or more of our contracts is delayed or terminated, our business, financial condition and operating results could be adversely affected.

Government contracts normally contain additional terms and conditions that may increase our costs of doing business, reduce our profits and expose us to liability for failure to comply with these terms and conditions. These include, for example:

Specialized accounting systems unique to government contracting, which may include mandatory compliance with federal Cost Accounting Standards; mandatory financial audits and potential liability for adjustments in contract prices; public disclosure of contracts, which may include pricing information; mandatory socioeconomic compliance requirements, including small business promotion, labor, environmental and U.S. manufacturing requirements; and requirements for maintaining current facility and/or personnel security clearances to access certain government facilities or to maintain certain records, and related industrial security compliance requirements.

***Insurance and contractual protections may not always cover lost revenue, increased expenses or liquidated damages payments.***

Although we maintain insurance and intend to obtain warranties from suppliers, obligate subcontractors to meet certain performance levels and attempt, where feasible, to pass risks we cannot control to our customers, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenue, increased expenses or liquidated damages payments that may be required in the future.

***If the cost of energy generated by traditional sources does not increase, or if it decreases, demand for our services may decline.***

Decreases in the costs associated with traditional sources of energy, such as prices for commodities like coal, oil and natural gas, or electricity may reduce demand for energy efficiency and renewable energy solutions. Technological progress in traditional forms of electricity generation or the discovery of large new deposits of traditional fuels or international political developments, production and distribution policies of OPEC could reduce the cost of electricity generated from those sources and as a consequence reduce the demand for our solutions. Any of these developments could have a material adverse effect on our business, financial condition and operating results.

***Our activities and operations are subject to numerous health and safety laws and regulations, and if we violate such regulations, we could face penalties and fines.***

We are subject to numerous health and safety laws and regulations in each of the jurisdictions in which we will operate. These laws and regulations require us to obtain and maintain permits and approvals and implement health and safety programs and procedures to control risks associated with our projects. Compliance with those laws and regulations can require us to incur substantial costs. Moreover, if our compliance programs are not successful, we could be subject to penalties or to revocation of our permits, which may require us to curtail or cease operations of the affected projects. Violations of laws, regulations and permit requirements may also result in criminal sanctions or injunctions.

Health and safety laws, regulations and permit requirements may change or become more stringent. Any such changes could require us to incur materially higher costs than we currently have. Our costs of complying with current and future health and safety laws, regulations and permit requirements, and any liabilities, fines or other sanctions resulting from violations of them, could adversely affect our business, financial condition and operating results.

***Our credit facilities and debt instruments contain financial and operating restrictions that may limit our business activities and our access to credit.***

The Company and all of its wholly owned subsidiaries entered into a Credit Agreement, dated as of January 31, 2013 (the Credit Agreement ) and effective February 22, 2013, with TCA Global Credit Master Fund, LP (the Lender ). The material terms of the Credit Agreement are as follows:

The lender provided a credit facility of up to \$10,000,000 to Blue Earth, secured by a first priority security interest in all of the assets of Blue Earth. The initial tranche of the loan was in the amount of \$1,500,000 (the Initial Loan Draw ) and any additional requests for an increase in the revolving credit amount would be subject to the Lender s approval based upon the intended use of proceeds. In connection with Initial Loan Draw, Blue Earth paid the Lender, among other things, \$100,000 payable in common stock of Blue Earth, Inc. The Initial Loan Draw was repaid in full in accordance with the Lock Box Agreement that was entered into in conjunction with the Credit Agreement.

Subsequently, Blue Earth and the Lender entered into the First Amendment to the Credit Agreement, dated as of September 11, 2013 (the First Amendment ). The material terms of the First Amendment are as follows:

The Lender increased the revolving credit facility amount to \$4,000,000, of which \$2,500,000 would be funded to Blue Earth (the Second Loan Draw ), subject to the conditions of the First Amendment described below. The Second Loan Draw was comprised of two draws with the initial draw of \$1,500,000 being funded upon the execution and delivery of the First Amendment at an interest rate of 12% per annum, which loan is being repaid monthly. To date, the second draw has not been funded, as the Company raised money in November 2013 from the exercise of warrants and has not needed to draw down further on this facility.

In connection with the Second Loan Draw, of \$4,000,000 Blue Earth paid the Lender \$100,000 payable in common stock of Blue Earth, Inc. The repayment of the Second Loan Draw is being paid via the existing Lock Box Agreement described above. The Company anticipates paying the note in full during the second quarter as we enter into larger credit facilities that meet the Company s project finance plans as outlined herein.

Pursuant to the credit agreement, all of the Company s and our subsidiaries assets, other than excluded and future projects are secured with our senior lender. Provisions in our credit facilities and debt instruments impose restrictions on our and certain of our subsidiaries ability to, among other things:

Incur additional debt; pay cash dividends and make distributions; make certain investments and acquisitions; guarantee the indebtedness of others or our subsidiaries; redeem or repurchase capital stock; create liens or encumbrances; enter into transactions with affiliates; engage in new lines of business; sell, lease or transfer certain parts of our business or property; incur any obligations for capital expenditures of \$100,000 for any single transaction or \$200,000 in any fiscal year for existing projects; issue any additional capital stock of the Company or any subsidiary of the Company; and

merge or consolidate.

These agreements also contain other customary covenants, including covenants that require us to meet specified financial ratios and financial tests. We may not be able to comply with these covenants in the future. Our failure to comply with these covenants may result in the declaration of an event of default and cause us to be unable to borrow under our credit facilities and debt instruments. In addition to preventing additional borrowings under these agreements, an event of default, if not cured or waived, may result in the acceleration of the maturity of indebtedness outstanding under these agreements, which would require us to pay all amounts outstanding. If an event of default occurs, we may not be able to cure it within any applicable cure period, if at all. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us or at all. See Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

***If our subsidiaries default on their obligations under their debt instruments, we may need to make payments to lenders to prevent foreclosure on the collateral securing the debt.***

We have formed subsidiaries to own and operate acquired companies. These subsidiaries may incur various types of debt. This debt may be structured as non-recourse debt, which means it is repayable solely from the revenue of the subsidiary and is secured by such subsidiary's assets, and a pledge of our equity interests in such subsidiary. Although subsidiary debt is typically non-recourse to the Company, if a subsidiary of ours defaults on such obligations, then we may from time to time determine to provide financial support to the subsidiary in order to avoid the adverse consequences of a default. In the event a subsidiary defaults on its indebtedness, its creditors may foreclose on the collateral securing the indebtedness, which may result in our losing our ownership interest in the subsidiary. The loss of our ownership interest in a subsidiary or some or all of a subsidiary's assets could have a material adverse effect on our business, financial condition and operating results.

***Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations, and we do not expect these conditions to improve in the near future.***

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Concerns over energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, and the real estate market in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and a global recession. Domestic and international equity markets have been experiencing heightened volatility and turmoil. These events and the continuing market upheavals may have an adverse effect on our business. In the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses.

***We may be exposed to product liability risks.***

The Company's operations may expose it to potential product liability risks that are inherent in the sale of energy efficiency products. There can be no assurance that product liability claims will not be asserted against the Company.

We plan to have product liability insurance covering sales of any prospective products, which we believe will be adequate to cover any product liability exposure we may have. However, product liability insurance is expensive and we may be unable to obtain sufficient insurance coverage at a reasonable cost to protect us against losses. An individual may bring a product liability claim against us if one of our products causes, or is claimed to have caused, an injury or is found to be unsuitable for consumer use. Any product liability claim brought against us, with or without merit, could result in:

Liabilities that substantially exceed our product liability insurance, which we would then be required to pay from other sources, if available; an increase of our product liability insurance rates or the inability to maintain insurance coverage in the future on acceptable terms, or at all; damage to our reputation and the reputation of our products, resulting in lower sales; regulatory investigations that could require costly recalls or product modifications; litigation costs; and the diversion of management's attention from managing our business.

A successful product liability claim or series of claims brought against the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

***We may be sued by third parties who claim that our prospective products infringe on their intellectual property rights.***

We may be exposed to future litigation by third parties based on claims that our prospective products or activities infringe on the intellectual property rights of others or that we have misappropriated the trade secrets of others. Any litigation or claims against the Company, whether or not valid, could result in substantial costs, could place a significant strain on our financial and managerial resources, and could harm the Company's reputation. In addition, intellectual property litigation or claims could force us to do one or more of the following, any of which could have a material adverse effect on the Company or cause us to curtail or cease its operations:

The sale of a product material to our future operations; or obtain a license from the holder of the infringed intellectual property right, which could also be costly or may not be available on reasonable terms.

***We may be subject to damages resulting from claims that the Company or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

Upon completion of any acquisitions by the Company, we may be subject to claims that our acquired companies and their employees may have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of former employers or competitors. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain products, which could severely harm our business.

***Rapid technological change could make any products that the Company sells obsolete.***

Energy efficiency technologies have undergone rapid and significant change and the Company expects that they will continue to do so. Any products or technologies that we may acquire may become obsolete or uneconomical before the Company recovers the purchase price incurred in connection with their acquisition.

***The obligations associated with being a public company require significant resources and management attention, which may divert from our business operations.***

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition, proxy statement, and other information. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2012, were not effective in ensuring that material information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. During the year ended December 31, 2013 we hired additional financial reporting, internal controls and other financial personnel in order to develop and implement appropriate internal controls and reporting procedures. Specifically, we added a CFO and controller and developed appropriate policies and procedures which added to our general and administrative expenses. During 2013 our management performed an assessment of our internal controls and determined that our internal controls became effective during the quarter ended September 30, 2013. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements. We anticipate that these costs will materially increase our selling, general and administrative expenses.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act of 2002, then we may not be able to obtain the independent account certifications required by that act, which may preclude us from keeping our filings with the SEC current, and interfere with the ability of investors to trade our securities and our shares to continue to be quoted on the OTC QB or our ability to list our shares on any national securities exchange.

***If we fail to maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.***

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed.

With each prospective acquisition we may make we will conduct whatever due diligence is necessary or prudent to assure us that the acquisition target can comply with the internal controls requirements of the Sarbanes-Oxley Act.

Notwithstanding our diligence, certain internal controls deficiencies may not be detected. As a result, any internal control deficiencies may adversely affect our financial condition, results of operations and access to capital.

## **Risks Related to our Securities**

***Public company compliance may make it more difficult to attract and retain officers and directors.***

The Sarbanes-Oxley Act and rules implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, these rules and regulations increase our compliance costs and make certain activities more time consuming and costly. As a public company, these rules and regulations may make it more difficult and expensive for us to maintain our director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

***Our stock price may be volatile.***

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

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Our ability to execute our business plan and complete prospective acquisitions; changes in our industry; competitive pricing pressures; our ability to obtain working capital financing; additions or departures of key personnel;

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limited public float in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock; sales of our common stock (particularly following effectiveness of this resale registration statement); operating results that fall below expectations; regulatory developments;

economic and other external factors; period-to-period fluctuations in our financial results; and our inability to develop or acquire new or needed technologies.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

***We have not paid cash dividends in the past and do not expect to pay cash dividends in the future. Any return on investment may be limited to the value of our common stock.***

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at the time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price increases. The Board of Directors set December 31, 2010 as the record date to distribute one Series A Warrant for every two shares held of record by each shareholder on such date as a result of the spin-off of Genesis Fluid Solutions. While this warrant distribution is similar to a dividend as no investment decision is necessary on the part of stockholders, it is not a dividend.

***Our shares of common stock are thinly traded, the price may not reflect our value, and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.***

Our shares of common stock are thinly traded, our common stock is available to be traded and is held by a small number of holders, and the price may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We will take certain steps including utilizing investor awareness campaigns and firms, press releases, road shows and conferences to increase awareness of our business, and any steps that we might take to bring us to the awareness of investors may require we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business, and trading may be at an inflated price relative to the performance of the Company due to, among other things, availability of sellers of our shares.

If an active market should develop, the price may be highly volatile. Because there is currently a low price for our shares of common stock, many brokerage firms or clearing firms are not willing to effect transactions in the securities or accept our shares for deposit in an account. Many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans. Furthermore, our securities are traded on the OTC QB where it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about these companies, and (3) to obtain needed capital.

***Our common stock may be deemed a penny stock, which would make it more difficult for our investors to sell their shares.***

Our common stock is currently subject to the penny stock rules adopted under Section 15(g) of the Exchange Act. The penny stock rules generally apply to companies whose common stock is not listed on The Nasdaq Stock Market or another national securities exchange and trades at less than \$4.00 per share, other than companies that have had average revenues of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in these securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

If our stockholders sell substantial amounts of our common stock in the public market, including shares issuable upon the effectiveness of a registration statement, upon the expiration of any statutory holding period under Rule 144, or shares issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an overhang and, in anticipation of which, the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. On May 2, 2013, the post-effective amendment to our registration statement on Form S-1 (No. 333-181420) was declared effective by the SEC. An aggregate of 22,083,756 shares of Common Stock including 4,029,154 shares which have already been issued upon exercise of warrants were registered for resale under such registration statement. In addition, the 1,065,000 shares of common stock issued in the 2009 Merger to the former directors and the 6,872,500 shares of common stock issued in our 2009 Private Placement which are currently issued and outstanding, as well as other shares which were prohibited from being sold for a period of 12 months from when the Company lost its former shell status which ended in November, 2010 are all available for resale.

In general, a non-affiliated person who has held restricted shares for a period of six months, under Rule 144, may sell into the market our common stock all of their shares, subject to the Company being current in its periodic reports filed with the SEC. An affiliate may sell an amount equal to the greater of 1% of the outstanding shares or, if listed on Nasdaq or another national securities exchange, the average weekly number of shares sold in the last four weeks prior to such sale. Such sales may be repeated once every three months, and any of the restricted shares may be sold by a non-affiliate without any restriction after they have been held one year.

***Because our directors and officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of our other stockholders.***

Our directors and executive officers and/or their affiliates beneficially own or control approximately 20% of the issued and outstanding common stock and a larger percentage on a fully diluted basis. In addition, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders, may vote, including the following actions:

To elect or defeat the election of our directors; to amend or prevent amendment of our Certificate of Incorporation or By-laws; to effect or prevent a merger, sale of substantially all assets or other corporate transaction; and to control the outcome of any other matter submitted to our stockholders for vote.

In addition, these persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

***Exercise of options and warrants and conversion of preferred stock may have a dilutive effect on our common stock.***

If the price per share of our common stock at the time of exercise of any warrants, options, or any other convertible securities is in excess of the various exercise or conversion prices of these convertible securities, exercise or conversion of these convertible securities would have a dilutive effect on our common stock. The Company has no plans to issue additional warrants exercisable at \$0.01 per share or otherwise below market; however reserves the right to do so when it is deemed to be in the best interest of the Company and its Shareholders. As of February 1, 2014, we had outstanding options, warrants and reserved derivative securities, which if exercised would result in the issuance of 30,749,542 shares of Common Stock, consisting (i) outstanding incentive stock options to purchase 2,315,209 shares of our common stock; (ii) warrants issued to Management, consultants and vendors to purchase an aggregate of 17,983,333 shares of common stock, including approximately 6,152,000 warrants exercisable at \$0.01 per share; (iii) 740,000 shares of Series C Convertible Preferred Stock outstanding convertible into 7,400,000 shares of Common Stock; (iv) placement agent warrants to purchase 218,846 shares of Common Stock at an exercise price of \$1.75 per share and 57,500 shares of Common Stock at an exercise price of \$1.25 per share; (v) Class A Warrants to purchase 4,517,500 shares of common stock at an exercise price of \$3.00 per share issued in our Series C Preferred Stock Offering; (vi) Class B Warrants to purchase 4,029,154 shares of Common Stock at an exercise price of \$6.00 per share; and (vii) 888,000 shares of Common Stock issuable upon payment of dividends on Preferred Stock. Upon exercise of the outstanding 4,517,500 Class A Warrants, warrant holders will receive 4,517,500 Class B Warrants when combined with the outstanding 4,029,154 Class B Warrants are exercisable for an aggregate of 8,546,654 shares of common stock at an exercise price of \$6.00 per share. Upon exercise of the outstanding Class B Warrants, warrant holders will receive 8,546,654 Class C Warrants to purchase 8,546,654 shares of common stock at an exercise price of \$12.00 per share. Therefore, an additional 17,093,308 shares of Common Stock are issuable upon full exercise of the Series B and Class C Warrants. The Class B and C Warrants have not been registered for resale under this Registration Statement. Further, any additional financing that we secure may require the granting of rights, preferences or privileges senior to those of our common stock and which result in additional dilution of the existing ownership interests of our common stockholders.

***Automatic Conversion of Preferred Stock***

Each of the 740,000 shares of Series C Preferred Stock not previously converted as of February 1, 2014 by the holder shall be automatically converted by the Company at \$1.00 per share upon the first to occur: (i) the fourth anniversary date of the issuance of the Preferred, or (ii) the closing price of the Common Stock trades at least \$2.18 per share for 60 consecutive calendar days, provided there is an effective registration statement. In July 2013, the Company automatically converted the remaining Shares of Series A and Series B Preferred Stock when the Common Stock traded above \$2.25 and \$2.20 per share, respectively, for 60 consecutive calendar days.

The Company will continue to pay dividends in Common Stock up until the date of conversion. The shares issuable upon conversion, including accrued interest, shares will be registered with the SEC. However, there will be dilution to Common Stockholders from the conversion of the Preferred Stock. In addition, conversions to date, as well as upon automatic conversion by the Company may cause significant downward pressure on the price of our Common

Stock as holders who converted from Preferred Stock resell their Common Stock in the open market

*Redemption of Class A warrants.*

The Company may redeem each of the issued and outstanding Series A, B and C Warrants at \$.001 per warrant on 20 days prior written notice. On October 7, 2013, the Company issued a notice of redemption for an aggregate of 8,832,126 Class A Warrants included in the Company's Registration Statement on Form S-1 (No. 333-181420). An aggregate of 4,029,154 Class A Warrants were exercised by holders and Standby Purchasers and the balance were redeemed.

***Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.***

There may be risks associated with us becoming public through a reverse merger. Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will, in the future, want to conduct any offerings on behalf of our company.

***Our certificate of incorporation allows for our board of directors to create new series of preferred stock without further approval by our stockholders, which could act as an anti-takeover device.***

Our board of directors has the authority to fix and determine the relative rights and preferences of preferred stock. On September 28, 2011, the board of directors had authorized the issuance of up to 300,000 shares of Series A Preferred Stock convertible on a ten for one basis into common stock and 297,067 shares of Series A Preferred Stock were issued. On March 30, 2012, our Board of Directors authorized the issuance of up to 300,000 shares of Series B Preferred Stock convertible on a ten for one basis into Common Stock and 283,052 shares of Series B Preferred Stock were issued. On March 28, 2013, our Board of Directors authorized the issuance of up to 500,000 shares of Series C Preferred Stock convertible on a ten for one basis into Common Stock and subsequently amended our Certificate of Incorporation to provide for 910,000 shares and 903,500 shares of Series C Preferred Stock were issued. Our board of directors also has the authority to issue preferred stock without further stockholder approval. As a result, our board of directors could authorize the issuance of series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our board of directors could authorize the issuance of series of preferred stock that have greater voting power than our common stock or that are convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders. Unless the nature of a particular transaction and applicable statute require such approval, the Board of Directors has the authority to issue these shares without stockholder approval subject to approval of the holders of our preferred stock. The issuance of preferred stock may have the effect of delaying or preventing a change in control of the Company without any further action by the stockholders.

***Provisions in our charter documents and Nevada law could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.***

Provisions of our certificate of incorporation and by-laws, as well as provisions of Nevada law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

authorizing the issuance of blank check preferred that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt; prohibiting cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates; and advance notice provisions in connection with stockholder proposals that may prevent or hinder any attempt by our stockholders to bring business to be considered by our stockholders at a meeting or replace our board of directors

**Item 2. Properties.**

The Company's executive offices are located at 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052; Tel (702) 263-1808. The Company entered into a 37 month lease for the facility expiring December 31, 2016 at a monthly rental of \$3,000 for approximately 2,500 square feet of office space.

Blue Earth EMS's executive offices are located at 253 Polaris Avenue, Mountain View, California under a lease ending on June 30, 2014. The monthly rental is \$5,000 for approximately 7,300 square feet of space, which features one conference room and shop and can accommodate three crews per day manufacturing gaskets.

Blue Earth Solar's executive offices are located at 2721 Loker Avenue, West Carlsbad, CA 92010. The monthly rental is \$22,000 for approximately 19,332 square feet of manufacturing and office space. The Company is paying Jeff Gosselin, a co-founder of Xnergy \$22,000 per month for rent on its premises.

Blue Earth CHP's executive offices are located at 4778 N. 300 W., Suite 230, Provo, UT 84604 for approximately 3,400 square feet of space. The monthly rental is \$1,630 under a 36 month lease ending June of 2016.

Blue Earth PPS and EPS share executive offices located at 27120 SW 95<sup>th</sup> Street, Suite 3230, Wilsonville, OR 97010. The facility has 14,754 square feet of space. The monthly rental is \$8,331 under a five-year lease ending in 2018.

**Item 3. Legal Proceedings.**

From time to time, the Company may become involved in litigation relating to claims arising out of its operations in the normal course of business. Except as described below, no legal proceedings, government actions, administrative actions, investigations or claims are currently pending against us or involve the Company which, in the opinion of the management of the Company, could reasonably be expected to have a material adverse effect on its business or financial condition.

There are no proceedings in which any of the directors, officers or affiliates of the Company, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to that of the Company.

**Item 4. Mine Safety Disclosures**

Not applicable

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock has been quoted on the OTC Bulletin Board under the symbol BBLU.OB since October 29, 2010. Prior thereto, from November 23, 2009 through October 28, 2010, it was quoted under the symbol GSFL.OB. Prior to November 23, 2009, there was no active market for our common stock. As of February 6, 2014, there were 162 holders of record of our common stock.

The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

| <b>Period</b>                             | <b>High</b> | <b>Low</b> |
|-------------------------------------------|-------------|------------|
| <u>Year Ending December 31, 2014</u>      |             |            |
| January 1, 2014 through February 24, 2014 | \$ 3.05     | \$ 2.48    |
| <u>Year Ended December 31, 2013</u>       |             |            |
| October 1, 2013 through December 31, 2013 | \$ 3.44     | \$ 1.75    |
| July 1, 2013 through September 30, 2013   | \$ 3.50     | \$ 2.47    |
| April 1, 2013 through June 30, 2013       | \$ 3.74     | \$ 1.10    |
| January 1, 2013 through March 31, 2013    | \$ 1.27     | \$ 0.89    |
| <u>Year Ended December 31, 2012</u>       |             |            |
| October 1, 2012 through December 31, 2012 | \$ 1.50     | \$ 0.99    |
| July 1, 2012 through September 30, 2012   | \$ 1.70     | \$ 1.00    |
| April 1, 2012 through June 30, 2012       | \$ 1.45     | \$ 1.00    |
| January 1, 2012 through March 31, 2012    | \$ 1.50     | \$ 1.01    |

The last reported sales price of our common stock on the OTC Bulletin Board on February 27, 2014, was \$2.99 per share.

**Dividend Policy**

We have not declared nor paid any cash dividend on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers significant. The Board of Directors set December 31, 2010 as the record date to distribute one Class A Warrant for every two shares held of record by each shareholder on such date as a result of the spin-off of Genesis Fluid Solutions. While this warrant distribution is similar to a dividend as no investment decision is necessary on the part of stockholders, it is not a dividend.

### **Issuer Purchases**

None.

### **Securities Authorized for Issuance under Equity Compensation Plans.**

The Company has options outstanding under its 2009 Equity Incentive Plan (the 2009 Plan ), which was approved by shareholders in October 2009.

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The 2009 Plan is the Company's only equity compensation plan currently in effect. Under the 2009 Plan, 4,542,000 options were authorized for future grant. Options granted under the 2009 Plan are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire ten years after the date of grant.

The following is a summary of the securities issued and authorized for issuance under our 2009 Plan at December 31, 2013:

| Plan Category                                          | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights |     | (b) Weighted - average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------|-----|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by shareholders     | 1,011,290                                                                                       | (1) | \$1.85                                                                            | 3,408,128                                                                                                                                       |
| Equity compensation plans not approved by shareholders | 3,000,000                                                                                       | (2) | \$0.01                                                                            |                                                                                                                                                 |
| Total                                                  | 4,011,290                                                                                       |     | \$0.47                                                                            | 3,408,128                                                                                                                                       |

(1)

Of the 1,011,290 options outstanding on December 31, 2013, none were held by the Company's officers and directors.

(2)

The Company has issued warrants but has no equity compensation plan that was not approved by shareholders as of December 31, 2013.

**Item 6. Selected Financial Data.**

The following tables set forth a summary of our consolidated financial data as of and for the five fiscal years ended December 31, 2013. The selected financial data for the five fiscal years ended December 31, 2013, have been derived from our audited consolidated financial statements. The selected financial data presented below should be read in conjunction with our consolidated financial statements, related notes, other financial information included elsewhere in this report, including the information set forth in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. Certain items in prior years' information have been reclassified to conform to the current year's presentation. These tables have been restated for discontinued operations of HVAC for 2013, 2012 and 2011 and for discontinued operations of Genesis Fluid Solutions, Ltd. for 2013, 2012 and 2011.

(in thousands, except per share data)

| <b>Year Ended December 31,</b>                     | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|----------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue                                            | \$ 10,306   | \$ 8,467    | \$ 4,914    | \$ -        | \$ -        |
| Operating loss                                     | \$ (25,359) | \$ (11,311) | \$ (13,150) | \$ (2,670)  | \$ (223)    |
| Net loss                                           | \$ (25,473) | \$ (9,607)  | \$ (14,018) | \$ (3,588)  | \$ (2,248)  |
| Loss per share-continuing operations               | \$ (0.69)   | \$ (0.51)   | \$ (0.93)   | \$ (0.18)   | \$ (0.02)   |
| Loss per share                                     | \$ (0.70)   | \$ (0.51)   | \$ (0.93)   | \$ (0.24)   | \$ (0.19)   |
| Cash, cash equivalents, and short-term investments | \$ 8,404    | \$ 485      | \$ 505      | \$ 3,900    | \$ 4,759    |
| Total assets                                       | \$ 86,431   | \$ 14,947   | \$ 14,083   | \$ 3,952    | \$ 5,838    |
| Long-term obligations                              | \$ 0        | \$ 0        | \$ 0        | \$ 0        | \$ 0        |
| Stockholders equity                                | \$ 79,338   | \$ 8,278    | \$ 7,245    | \$ 2,627    | \$ 3,952    |

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under **Risk Factors**.

### **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. 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 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.

### **Results of Operations**

#### **Twelve Months Ended December 31, 2013 Compared with Twelve Months Ended December 31, 2012**

The following **Management's Discussion and Analysis** is prepared to provide an understanding of the **Company's** business activities. We acquired IPS Power Engineering, Inc. effective July 15, 2013, Intelligent Power, Inc. effective July 24, 2013 and Millennium Power Solutions effective August 23, 2013. The following **Management's Discussion and Analysis** is prepared to provide an understanding of the **Company's** business activities. We disposed of HVAC as of January 24, 2014 and have restated our financial statements. The following discussion excludes the discontinued operations of HVAC. We have also provided pro forma numbers as though the acquisitions were effective January 1, 2012 so that the numbers are comparable.

### **Revenues**

We recognized \$10,305,736 revenue for the twelve months ended December 31, 2013, as compared to \$8,466,965 for the twelve months ended December 31, 2011. Revenue represents sales from our, wholly-owned subsidiaries Castrovilla, whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales from our wholly-owned subsidiary Xnergy, Inc. which provides a wide range of energy solutions, including specialized mechanical engineering and the design, construction and implementation of energy savings products. During 2013, Castrovilla's sales (\$3,366,037) for the twelve months accounted for 32.7% of total revenues, while Xnergy's sales accounted for 64.6% (\$6,656,828) most of which is EPC work on solar projects and other sales accounted for 2.7% (\$282,871). During 2012, Castrovilla's sales (\$3,444,821) for the twelve months represented 40.7% of total revenues while Xnergy's sales accounted for 59.3% (\$5,022,144). The increase in Xnergy sales was the direct result of allocating most of Xnergy's resources to development of a pipeline of solar and alternative energy construction projects. Revenues for Xnergy are expected to increase in 2014 due to solar projects being constructed in HI and due to the signing of a solar finance partner to purchase solar projects at completion, which facilitates construction financing. Revenues for EPS are expected to increase in 2014 due to city and county agencies adopting the technology and a nationwide distribution network in place. Revenues for Castrovilla are expected to increase due to a new national service account and an increase in online sales.

### ***Pro Forma Revenues***

We recognized \$10,466,736 of pro forma revenue for the twelve months ended December 31 2013, as compared to pro forma \$8,566,660 for the twelve months ended December 31, 2012. Revenue represents sales from the Company's wholly-owned subsidiaries. Xnergy sales for the twelve months increased by 32.5% to \$6,656,828 (from \$5,022,144), Castrovilla's sales for the twelve months decreased by 2.3%, (from \$3,444,821 to \$3,366,037). The increase in Xnergy sales was the direct result of allocating most of Xnergy's resources to development of a pipeline of solar and alternative energy construction projects. Revenues for Xnergy are expected to increase in 2014 due to solar projects being constructed in HI and due to the signing of a solar finance partner to purchase solar projects at completion, which facilitates construction financing. Revenues for EPS are expected to increase in 2014 due to city and county agencies adopting the technology and a nationwide distribution network in place. Revenues for Castrovilla are expected to increase due to a new national service account and an increase in online sales.

***Cost of Sales and Gross Profit***

Cost of sales for the twelve months ended December 31, 2013 were \$7,166,464, compared to \$5,609,836, for the twelve months ended December 31, 2012, resulting in a gross profit of \$3,139,272, or 30.4% of revenues. Castrovilla's gross margin was \$1,828,288, or 54.3% of revenues while Xnergy's gross margin was \$1,122,074, or 16.9%. Castrovilla's energy efficiency projects have higher gross margins than Xnergy's construction projects.

***Pro Forma Cost of Sales and Gross Profit***

Pro forma cost of sales for the twelve months ended December 31, 2013 were \$7,313,368, compared to \$5,685,174 for the twelve months ended December 31, 2012, resulting in a gross profit of \$3,153,368, or 30.7% of revenues. In 2012 Castrovilla's gross margin was, \$1,291,127, or 37.5% of revenues while Xnergy's pro forma gross margin was \$1,566,002, or 31.2%. Castrovilla's energy efficiency products have higher gross margins than Xnergy's construction projects.

***Operating Expenses***

Operating expenses were \$28,497,962 for the twelve months ended December 31, 2013 as compared to \$14,167,889 for the twelve months ended December 31, 2012, an increase of \$14,330,073 or 101.1%, due to common stock, options and warrants granted to management and consultants. During the year ended December 31, 2013 we incurred \$17,106,843 of stock based compensation expense compared to \$4,805,023 during 2012. Approximately \$2,782,819 of our operating expenses for the twelve months ended December 31, 2013 were from the operations of Castrovilla and \$3,052,414 were from Xnergy with the balance of \$22,662,729 from our corporate administrative expenses. \$2,322,778 of the operating expenses for the twelve months ended December 31, 2012 were from the operations of Castrovilla and \$2,531,521 were from Xnergy with the balance of \$9,313,590 our administrative expenses. Our administrative expenses for 2013 include \$2,617,618 from the amortization of intangible assets acquired with Castrovilla, Xnergy, IP and MPS compared to \$2,319,095 for 2012.

***Pro Forma Operating Expenses***

Pro forma operating expenses were \$30,191,653 for the twelve months ended December 31, 2013 as compared to \$15,732,561 for the twelve months ended December 31, 2012, due to an increase of \$12,301,820 to common stock, options and warrants granted to management and consultants. During the year ended December 31, 2013 we incurred \$17,478,571 of stock based compensation expense compared to \$4,805,023 during 2012. Approximately \$2,782,819 of our operating expenses for the twelve months ended December 31, 2013 were from the operations of Castrovilla and \$3,052,414 were from Xnergy with the balance \$24,356,420 from our corporate administrative expenses. \$2,322,778 of the operating expenses for the twelve months ended December 31, 2012 were from the operations of

Castroville and \$2,531,521 were from Xenergy with the balance \$10,878,262 from our corporate administrative expenses. Our pro forma administrative expenses for 2013 include \$3,153,666 from the amortization of intangible assets acquired with Castroville, Xenergy, IP and MPS compared to \$3,153,078 for 2012.

***Net Loss***

The net loss from continuing operations for the twelve months ended December 31, 2013 was \$25,277,153, a \$15,636,575, or 162% increase from the \$9,640,578 for the twelve months ended December 31, 2012. This translates to a loss per share of \$0.69 from continuing operations in 2013 compared to \$0.51 in 2012.

***Pro Forma Net Loss***

The pro forma net loss from operations for the twelve months ended December 31, 2013 was \$27,151,643, a \$15,981,335 or 143% increase over the net loss of \$11,170,308 for the twelve months ended December 31, 2012. This translates to a pro forma loss per share of \$0.74 in 2011 compared to \$0.59 in 2012.

## **Results of Operations**

### **Twelve Months Ended December 31, 2012 Compared with Twelve Months Ended December 31, 2011**

The following Managements Discussion and Analysis is prepared to provide an understanding of the Company's business activities. We disposed of HVAC as of January 24, 2014 and have restated our financial statements. The following discussion excludes the discontinued operations of HVAC.

#### ***Revenues***

We recognized \$8,466,965 revenue for the twelve months ended December 31, 2012, as compared to \$4,914,118 for the twelve months ended December 31, 2011 an increase of 72.3%. Revenue represents sales from our, wholly-owned subsidiaries Castrovilla, whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales from the our wholly-owned subsidiary Xenergy, Inc. which provides a wide range of energy solutions, including specialized mechanical engineering and the design, construction and implementation of energy savings products. During 2012, Castrovilla's sales (\$3,444,821) for the twelve months represented 40.7% of total revenues while Xenergy's sales accounted for 59.3% (\$5,022,144). During 2011, Castrovilla's sales (\$3,861,534) for the twelve months accounted for 78.6% of total revenues, while Xenergy's sales accounted for 21.4% (\$1,052,584). Revenues increased from 2011 to due to management securing project financing for financing seven California solar projects and one Hawaiian solar project.

#### ***Cost of Sales and Gross Profit***

Cost of sales for the twelve months ended December 31, 2012 were \$5,609,836, compared to \$2,559,545, for the twelve months ended December 31, 2011, resulting in a gross profit of \$2,857,129, or 33.7% of revenues during 2012. Castrovilla's gross margin was \$1,291,127, or 37.5% of revenues while Xenergy's gross margin was \$1,566,002, or 31.2%. By way of comparison cost of sales for the twelve months ended December 31, 2011 were \$2,559,545, resulting in a gross profit of \$2,354,573, or 47.9%. Castrovilla's gross margin was \$2,268,235, or 58.7% of revenues while Xenergy's gross margin was \$86,338, or 8.2%. The decline in total gross margin percentage was due to the increase in Xenergy's revenues as a percentage of total revenues. Castrovilla's products have higher gross margins than Xenergy's construction projects.

#### ***Operating Expenses***

Operating expenses were \$14,167,889 for the twelve months ended December 31, 2012 as compared to \$15,504,604 for the twelve months ended December 31, 2011, a decrease of \$1,336,715 or 8.6%, due to cost cutting activities imposed by management. During the year ended December 31, 2012 we incurred \$4,805,023 of stock based compensation expense compared to \$7,774,692 during 2011 which accounts the majority of the cost reductions. \$2,322,778 of the operating expenses for the twelve months ended December 31, 2012 were from the operations of Castrovilla and \$2,531,521 were from Xnergy with the balance of \$9,313,590 were our administrative expenses. Approximately \$2,837,083 of our operating expenses for the twelve months ended December 31, 2011 were from the operations of Castrovilla and \$1,022,834 were from Xnergy with the balance \$11,644,687 from our corporate administrative expenses. Our administrative expenses for 2012 include \$2,319,095 from the amortization of intangible assets acquired with Castrovilla and Xnergy compared to \$1,209,769 for 2011 since Xnergy was acquired in August 2011.

***Net Loss***

The net loss from continuing operations for the twelve months ended December 31, 2012 was \$9,640,578, a \$4,359,770, or 31.1% decrease from the \$14,000,348 for the twelve months ended December 31, 2011. This translates to a loss per share of \$0.51 in 2012 compared to \$0.93 in 2011.

## Liquidity and Capital Resources as of December 31, 2013

Net cash used in continuing operations during the twelve months ended December 31, 2013 ( Fiscal 2013 ) totaled \$11,969,742 which 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 \$25,473,394, we recognized an increase in prepaid expenses and deposits of \$1,013,109, an increase in accounts receivable and billings in excess of costs of \$2,827,827 and an increase in construction in progress totaling \$1,548,859. These decreases were partially offset by stock based compensation expense of \$17,106,843 and \$2,745,126 of depreciation and amortization expense.

Net cash used in continuing operations during the twelve months ended December 31, 2012 totaled \$5,686,300 which 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 \$9,607,134, we incurred a decrease in the warrant derivative liability of \$2,037,325, an increase in billings in excess of costs of \$2,615,316. These decreases were partially offset by common stock, options and warrants issued for services expensed at \$4,805,023 and \$2,532,673 of depreciation and amortization expense.

Net cash used in continuing operations during the twelve months ended December 31, 2011 totaled \$3,921,516 which 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 \$14,018,986, we incurred an increase in inventory of \$347,174 and a decrease in accounts payable and accrued expenses of \$260,627. These decreases were partially offset by common stock, options and warrants issued for services expensed at \$8,672,945, an increase in the warrant derivative liability of \$749,166, and \$1,209,769 of depreciation and amortization expense.

Net cash used in investing activities during Fiscal 2013 totaled \$2,321,905. Of this amount, \$126,351 was used to purchase property and equipment and \$2,195,554 were loans made to unrelated parties to enhance our access to solar panels. Net cash used in continuing investing activities during Fiscal 2012 totaled \$10,188 and resulted from the purchase of property and equipment. Net cash used in continuing investing activities during Fiscal 2011 totaled \$1,403,181 and resulted from the purchase of property and equipment of \$117,789, a license to technology of \$100,000 and the acquisition of subsidiaries of \$1,185,392.

Net cash provided by continuing financing activities during Fiscal 2013 totaled \$22,138,931 and resulted from \$8,517,315 of net proceeds from the sale of preferred stock, \$12,396,321 from the exercise of warrants and options and \$3,000,000 in proceeds from a line of credit. These proceeds were offset, in part, by payments on notes payable of \$2,034,312 and related party loans of \$691,853. Included in the foregoing, on October 30, 2013, David Lies, a principal stockholder and selling stockholder of the Company, purchased 333,334 shares of Common Stock upon the exercise of Class A Warrants as a standby purchaser, for a purchase price of \$1,000,000 evidenced by a non-interest bearing promissory note due March 31, 2014 and the pledge of the underlying common stock. The underlying shares of common stock were purchased pursuant to an effective registration statement and the promissory note has been paid in full. A second standby purchaser, Firerock Capital, purchased 200,000 shares of registered common stock pursuant to a promissory note for \$600,000 due May 15, 2014, as extended.

Net cash provided by continuing financing activities during Fiscal 2012 totaled \$5,720,251 and resulted from \$3,598,388 of net proceeds from the sale of preferred stock, \$91,950 from the exercise of warrants, \$1,605,000 from related party loans and \$1,208,008 from the proceeds of notes payable. These inflows were offset, in part, by payments on notes payable of \$776,481 and payments on related party loans of \$6,614.

Net cash provided by continuing financing activities during Fiscal 2011 totaled \$2,113,549 and resulted from \$2,000,000 of proceeds from the sale of preferred stock, \$16,336 from related party loans and \$1,711,655 in cash received from the acquired subsidiaries. These inflows were offset, in part, by payments on notes payable of \$1,614,442.

At December 31, 2013, we had working capital of \$14,321,543 including \$8,403,731 in cash. At December 31, 2012, we had a working capital deficit of \$951,340, including \$485,366 in cash. The increase in working capital was the result of the completion of common stock warrant funding and the Series C preferred stock funding.

We anticipate our revenue generating activities to continue and even increase as we execute on our alternative/renewable energy and energy efficiency initiatives as well as from future acquisitions. Our ability to execute our business plan is subject to our ability to generate profits and/or obtain necessary funding from outside sources, including by the sale of our securities, or obtaining loans from lenders, where possible. Our continued net operating losses increase the difficulty of our meeting these goals. Nonetheless, the Company expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months. The Company's project financing requirements are separate and apart from our working capital needs. Historically, we have financed our working capital and capital expenditure requirements primarily from the sales of our equity securities. We may seek additional equity and/or debt financing in order to implement our business plan. During 2013, we completed private placements of Preferred Stock and warrants of \$20,913,636, which we believe will fund our operations at least through December 31, 2014.

On February 22, 2013, we entered into a credit agreement with a \$10 million line of credit of which \$1,500,000 was funded and repaid during 2013. \$4,000,000 is currently available upon our meeting the terms and conditions of the credit facility and a second draw of \$1,500,000 was subsequently borrowed by the Company. This outstanding loan of \$1,500,000 is being paid monthly with interest at 12% per annum, primarily from tax grant proceeds from five completed solar projects. The balance is expected to be fully paid during the second quarter ending June 30, 2014. Additional draws are subject to approval of the planned use of proceeds by the lender in order to borrow against the facility. The Company has elected to not draw down any additional funds at this time and expects to replace this credit facility with larger debt agreements that meet our ongoing project finance requirements. See Risk Factors -- Our credit facilities and debt instruments contain financial and operating restrictions that may limit our business activities and our access to credit.

We are seeking additional equity and/or debt financing in order to implement our business plan. During the fourth quarter of 2013, the Company raised approximately \$12 million (including \$1,600,000 payable through promissory notes) in equity capital through the exercise of approximately four million registered Class A warrants at \$3 per share. The primary use of the capital raise will be to provide the equity component of project financing of approximately \$130 million for up to seven initial combined heat and power ( CHP ) projects for a large U.S and International protein provider.

The Company is negotiating with alternative financing services for a various combination of equity and debt project financing. The Company has non-binding term sheets from an international bank and mezzanine debt providers that would result in approximately 8% equity and 92% project finance debt for our larger CHP power plants. To date, the Company is using cash on hand to advance the projects on schedule while negotiating with numerous alternative sources of funding. The Company intends to start signing financing agreements in time to match the debt and equity components to keep the project completion dates on target. While there can be no assurance the Company will be able to secure needed financing, Management believes it will be able to select the financing package needed to insure that all seven projects can be completed in the third quarter of 2014 through the first quarter of 2015. Any additional equity or convertible debt financing may be dilutive to existing shareholders and may involve preferential rights over common shareholders.

Between December 2013 and March 2014, the Company ordered generators for an aggregate of five of the initial seven power plant systems at a total cost of approximately \$23.7 million. The Company is funding the installment

equipment payments and construction activities from cash on hand until we select the best debt financing alternatives for each project or combination of projects. The Company believes the project financing needs will be met from a combination of warrant exercises and debt financings, none of which can be assured. Management's present estimate of timing and funding for the seven co-generation projects is as follows:

The cost of the initial 7 projects is \$5,000,000 to \$25,000,000 per project with a total estimated cost of \$130,000,000. Funding will through equity (generally 8-30%), senior debt (generally 60-70%) and mezzanine debt (generally 0-30%). The equity component is expected to be provided from cash on hand and the exercise of warrants. All seven projects are in the pre-construction phase (permitting, interconnect activities, site analysis, design engineering and procurement of equipment). The first project is expected to produce power in the third quarter of 2014, projects 2-5 are expected to produce power by late fourth quarter 2014 or early 2015 and projects 6-7 are expected to produce power in the first quarter of 2015. Furthermore, any additional equity or convertible debt financing will be dilutive to existing shareholders and may involve preferential rights over common shareholders. Debt financing, with or without equity conversion features, may involve restrictive covenants.

#### ***Related Party Transactions***

During the years ended December 31, 2013 and 2012 we borrowed \$420,000 and \$1,605,000 from a director. We repaid \$691,853 to the director during the year ended December 31, 2013.

#### **Off-Balance Sheet Arrangements**

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

### ***New Accounting Pronouncements***

See Note 2 to our audited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements.

### ***Use of Estimates***

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to valuation of accounts receivable and allowance for doubtful accounts, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

### ***Accounts Receivable***

The Company records accounts receivable related to its construction contracts based on billings or on amounts due under the contractual terms. Accounts receivable throughout the year may decrease based on payments received, credits for change orders, or back charges incurred.

Management reviews accounts receivable periodically to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, economic conditions, and our historical write-off experience, net of recoveries. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

### ***Revenue Recognition***

The Company generates revenues from professional services contracts. Customers are billed, according to individual agreements. Revenues from professional services are recognized on a completed-contract basis, in accordance with ASC Topic 605-35, Construction-Type and Production-Type Contracts. Under the completed-contract basis, contract costs are recorded to a deferred asset account and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered

complete when all costs except insignificant items have been incurred and final acceptance has been received from the customer. Corporate general and administrative expenses are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as incurred.

For uncompleted contracts, the deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified under current assets as Costs in excess of billings on uncompleted contracts. The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

### *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, Income Taxes. Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year, and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. A liability (including interest if applicable) is established in the consolidated financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Applicable interest is included as a component of income tax expense and income taxes payable.

**Contractual Obligations at December 31, 2013**

| Contractual Obligations                                                                  | Total              | Payments due by period |                  |                  |                      |
|------------------------------------------------------------------------------------------|--------------------|------------------------|------------------|------------------|----------------------|
|                                                                                          |                    | Less than<br>1 year    | 2-3<br>Years     | 4-5<br>years     | More than<br>5 years |
| Long-Term Debt Obligations                                                               | \$1,504,476        | \$1,504,476            | \$ -0-           | \$ -0-           | \$ -0-               |
| Capital Lease Obligations                                                                | \$ -0-             | \$ -0-                 | \$ -0-           | \$ -0-           | \$ -0-               |
| Operating Lease Obligations                                                              | \$5,438,760        | \$449,532              | \$829,284        | \$727,944        | \$3,432,000          |
| Purchase Obligations                                                                     | \$ -0-             | \$ -0-                 | \$ -0-           | \$ -0-           | \$ -0-               |
| Other Long-Term Liabilities<br>Reflected on the Registrant's<br>Balance Sheet under GAAP | \$ -0-             | \$ -0-                 | \$ -0-           | \$ -0-           | \$ -0-               |
| <b>Total</b>                                                                             | <b>\$6,943,236</b> | <b>\$1,954,008</b>     | <b>\$829,384</b> | <b>\$727,944</b> | <b>\$3,432,000</b>   |

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

None.

**Item 8. Financial Statements and Supplementary Data**

The Audited Financial Statements of the Company for the Fiscal Years Ended December 31, 2013, 2012 and 2011 are included following Item 14 of this Report.

**QUARTERLY INFORMATION (UNAUDITED)**

Selected financial data by calendar quarter were as follows

(In thousands, except per share amounts)

| Quarter Ended | March 31, | June 30, | September<br>30, | December<br>31, | Total |
|---------------|-----------|----------|------------------|-----------------|-------|
|---------------|-----------|----------|------------------|-----------------|-------|

## Fiscal Year 2013

|                                      |          |          |          |          |           |
|--------------------------------------|----------|----------|----------|----------|-----------|
| Revenue                              | \$ 2,163 | \$ 2,535 | \$ 2,268 | \$ 3,339 | \$ 10,305 |
| Gross profit                         | 718      | 838      | 1,177    | 406      | 3,139     |
| Net loss                             | (1,877)  | (5,341)  | (5,068)  | (13,187) | (25,473)  |
| Loss per share continuing operations | (0.10)   | (0.22)   | (0.08)   | (0.29)   | (0.69)    |
| Loss per share                       | (0.10)   | (0.22)   | (0.09)   | (0.29)   | (0.70)    |

## Fiscal Year 2012

|                                      |          |          |          |          |          |
|--------------------------------------|----------|----------|----------|----------|----------|
| Revenue                              | \$ 1,728 | \$ 1,364 | \$ 1,358 | \$ 4,017 | \$ 8,467 |
| Gross profit                         | 610      | 507      | 402      | 1,338    | 2,857    |
| Net loss                             | (2,310)  | (1,734)  | (1,633)  | (3,930)  | (9,607)  |
| Loss per share continuing operations | (0.15)   | (0.07)   | (0.08)   | (0.21)   | (0.51)   |
| Loss per share                       | (0.15)   | (0.07)   | (0.08)   | (0.21)   | (0.51)   |

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act), as of the period covered by this report. Disclosure controls and procedures are defined by as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon their evaluation, our management (including our Chief Executive Officer and Chief Financial Officer) concluded that our disclosure controls and procedures were effective as of December 31, 2013 based on the remediation of the material weaknesses defined below.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a set of processes designed by, or under the supervision of, a company's principal executive and principal financial officers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

.  
pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets,

.  
provide reasonable assurance our transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

.  
provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statement.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2013 based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control over Financial Reporting

During the Company's last fiscal quarter management implemented some internal controls which remediated material weaknesses identified during its initial assessment of the effectiveness of the internal controls. These controls included the hiring of an accounting manager to oversee the accounting staff of each subsidiary and the implementation of a reporting process to assure the timely completion of accounting data. The ultimate year end assessment of the controls which occurred after these procedures were implemented resulted in management's conclusion that the Company's internal controls over financial reporting are effective.

Our independent registered public accounting firm also attested to, and reported on, the effectiveness of internal control over financial reporting. The independent registered public accounting firm's attestation report is included with our 2013 financial statements.

**Item 9B. Other Information.**

None.



**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders to be filed not later than 120 days after December 31, 2013 and is incorporated herein by this reference.

**Item 11. Executive Compensation.**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders to be filed not later than 120 days after December 31, 2013 and is incorporated herein by this reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders to be filed not later than 120 days after December 31, 2013 and is incorporated herein by this reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders to be filed not later than 120 days after December 31, 2013 and is incorporated herein by this reference.

**Item 14. Principal Accounting Fees and Services.**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders to be filed not later than 120 days after December 31, 2013 and is incorporated herein by this reference.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Blue Earth, Inc. and Subsidiaries

Henderson, Nevada

We have audited Blue Earth, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Blue Earth, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Managements Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Blue Earth, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Blue Earth, Inc. and Subsidiaries and our report dated March 3, 2014 expressed an unqualified opinion.

/s/ HJ & Associates, LLC

Salt Lake City, Utah

March 3, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Blue Earth, Inc. and Subsidiaries

Henderson, Nevada

We have audited the accompanying consolidated balance sheets of Blue Earth, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Earth, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Blue Earth, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992, and our report dated March 3, 2014 expressed an unqualified opinion on the effectiveness of Blue Earth, Inc.'s internal control over financial reporting.

/s/ HJ & Associates, LLC

Salt Lake City, Utah

March 3, 2014

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**BLUE EARTH, INC. AND SUBSIDIARIES**  
Consolidated Balance Sheets

|                                                                                                                                           | <u>ASSETS</u>        |                      |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                           | December 31,<br>2013 | December 31,<br>2012 |
| <b>CURRENT ASSETS</b>                                                                                                                     |                      |                      |
| Cash                                                                                                                                      | \$ 8,403,731         | \$ 485,366           |
| Accounts receivable, net                                                                                                                  | 5,844,119            | 1,648,447            |
| Costs and revenues in excess of billings                                                                                                  | 395,442              | 1,724,543            |
| Inventory, net                                                                                                                            | 383,799              | 221,548              |
| Construction in progress                                                                                                                  | 2,254,902            | 706,043              |
| Other receivables                                                                                                                         | 2,195,554            | -                    |
| Prepaid expenses and deposits                                                                                                             | 1,936,743            | 921,917              |
| Total Current Assets                                                                                                                      | 21,414,290           | 5,707,864            |
| <br>                                                                                                                                      |                      |                      |
| PROPERTY AND EQUIPMENT, net                                                                                                               | 858,212              | 655,666              |
| <br>                                                                                                                                      |                      |                      |
| <b>OTHER ASSETS</b>                                                                                                                       |                      |                      |
| Deposits                                                                                                                                  | 50,692               | 52,408               |
| Construction in progress                                                                                                                  | 44,035,500           | -                    |
| Contracts and technology, net                                                                                                             | 19,820,580           | 8,250,495            |
| Assets of discontinued operations                                                                                                         | 251,492              | 280,513              |
| Total Other Assets                                                                                                                        | 64,158,264           | 8,583,416            |
| <br>                                                                                                                                      |                      |                      |
| <b>TOTAL ASSETS</b>                                                                                                                       | <b>\$ 86,430,766</b> | <b>\$ 14,946,946</b> |
| <br><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>                                                                                           |                      |                      |
| <b>CURRENT LIABILITIES</b>                                                                                                                |                      |                      |
| Accounts payable                                                                                                                          | \$ 2,658,368         | \$ 1,990,323         |
| Current portion of notes payable                                                                                                          | 1,504,476            | 458,831              |
| Related party payables                                                                                                                    | 1,337,151            | 1,976,995            |
| Billings in excess of revenues                                                                                                            | 438,952              | 674,971              |
| Deferred revenues                                                                                                                         | 11,993               | 17,004               |
| Accrued expenses                                                                                                                          | 422,456              | 513,414              |
| Payroll expenses payable                                                                                                                  | 125,052              | 438,831              |
| Preferred dividends payable                                                                                                               | 403,690              | 440,287              |
| Liabilities of discontinued operations                                                                                                    | 190,609              | 148,548              |
| Total Current Liabilities                                                                                                                 | 7,092,747            | 6,659,204            |
| <br>                                                                                                                                      |                      |                      |
| Total Liabilities                                                                                                                         | 7,092,747            | 6,659,204            |
| <br>                                                                                                                                      |                      |                      |
| Commitments and contingencies                                                                                                             |                      |                      |
| <br>                                                                                                                                      |                      |                      |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                               |                      |                      |
| Preferred stock; 25,000,000 shares authorized<br>at \$0.001 par value, 570,000 and 510,152<br>shares issued and outstanding, respectively | 570                  | 510                  |
| Common stock; 100,000,000 shares authorized                                                                                               |                      |                      |

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|                                                                                                |                      |                      |
|------------------------------------------------------------------------------------------------|----------------------|----------------------|
| at \$0.001 par value, 60,205,843 and 20,882,549<br>shares issued and outstanding, respectively | 60,206               | 20,883               |
| Additional paid-in capital                                                                     | 143,605,036          | 42,332,298           |
| Stock subscription receivable                                                                  | (1,600,000)          | -                    |
| Accumulated deficit                                                                            | (62,727,793)         | (34,065,949)         |
| Total Stockholders' Equity                                                                     | 79,338,019           | 8,287,742            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                              | <b>\$ 86,430,766</b> | <b>\$ 14,946,946</b> |

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

**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Statements of Operations

|                                                                      |                 | For the Year Ended |                 |  |
|----------------------------------------------------------------------|-----------------|--------------------|-----------------|--|
|                                                                      |                 | December 31,       |                 |  |
|                                                                      | 2013            | 2012               | 2011            |  |
| REVENUES                                                             | \$ 10,305,736   | \$ 8,466,965       | \$ 4,914,118    |  |
| COST OF SALES                                                        | 7,166,464       | 5,609,836          | 2,559,545       |  |
| GROSS PROFIT                                                         | 3,139,272       | 2,857,129          | 2,354,573       |  |
| OPERATING EXPENSES                                                   |                 |                    |                 |  |
| Depreciation and amortization                                        | 2,745,126       | 2,532,673          | 1,209,769       |  |
| General and administrative                                           | 25,752,836      | 11,635,216         | 14,294,835      |  |
| Total Operating Expenses                                             | 28,497,962      | 14,167,889         | 15,504,604      |  |
| LOSS FROM OPERATIONS                                                 | (25,358,690)    | (11,310,760)       | (13,150,031)    |  |
| OTHER INCOME (EXPENSE)                                               |                 |                    |                 |  |
| Gain (loss) on derivative valuation                                  | -               | 2,037,325          | (749,166)       |  |
| Other income                                                         | 612             | 1                  | 957             |  |
| Interest expense                                                     | (556,171)       | (179,344)          | (47,108)        |  |
| Loss on settlement of license                                        | -               | (164,667)          | -               |  |
| Gain (loss) on settlement of debt                                    | 637,096         | (23,133)           | -               |  |
| Liquidated damages expense                                           | -               | -                  | (55,000)        |  |
| TOTAL OTHER INCOME (EXPENSE)                                         | 81,537          | 1,670,182          | (850,317)       |  |
| LOSS BEFORE INCOME TAXES                                             | (25,277,153)    | (9,640,578)        | (14,000,348)    |  |
| INCOME TAX EXPENSE                                                   | -               | -                  | -               |  |
| LOSS FROM CONTINUING OPERATIONS                                      | (25,277,153)    | (9,640,578)        | (14,000,348)    |  |
| GAIN (LOSS) FROM DISCONTINUED OPERATIONS, net of income taxes of \$0 | (196,241)       | 33,444             | (18,638)        |  |
| NET LOSS                                                             | (25,473,394)    | (9,607,134)        | (14,018,986)    |  |
| PREFERRED DIVIDENDS                                                  | (3,188,450)     | (545,020)          | (89,357)        |  |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                         | \$ (28,661,844) | \$ (10,152,154)    | \$ (14,108,343) |  |

**BASIC AND DILUTED LOSS PER SHARE**

|                         |    |        |    |        |    |        |
|-------------------------|----|--------|----|--------|----|--------|
| Continuing Operations   | \$ | (0.69) | \$ | (0.51) | \$ | (0.93) |
| Discontinued Operations |    | (0.01) |    | 0.00   |    | (0.00) |
| Net Loss Per Share      | \$ | (0.70) | \$ | (0.51) | \$ | (0.93) |

**WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED**

|  |            |            |            |
|--|------------|------------|------------|
|  | 36,463,197 | 18,961,099 | 15,109,401 |
|--|------------|------------|------------|

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

**BLUE EARTH, INC. AND SUBSIDIARIES**  
Consolidated Statements of Stockholders' Equity

|                                                                                                | Preferred Stock<br>Shares | Preferred Stock<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Stock<br>Subscription<br>Receivable | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|------------------------------------------------------------------------------------------------|---------------------------|---------------------------|------------------------|------------------------|----------------------------------|-------------------------------------|------------------------|----------------------------------|
| Balance,<br>December 31,<br>2010                                                               | -                         | \$ -                      | 11,855,232             | \$ 11,855              | \$ 12,420,166                    | \$ -                                | \$ (9,805,452)         | \$ 2,626,569                     |
| Common stock<br>issued for options<br>cancellation                                             | -                         | -                         | 72,813                 | 73                     | 95,712                           | -                                   | -                      | 95,785                           |
| Common stock<br>issued for license                                                             | -                         | -                         | 150,000                | 150                    | 176,850                          | -                                   | -                      | 177,000                          |
| Common stock<br>issued for<br>acquisition of<br>subsidiaries                                   | -                         | -                         | 5,779,762              | 5,780                  | 10,164,229                       | (2,632,192)                         | -                      | 7,537,817                        |
| Common stock<br>issued for<br>consulting services                                              | -                         | -                         | 743,903                | 744                    | 972,406                          | -                                   | -                      | 973,150                          |
| Common stock<br>issued for<br>employee<br>incentives                                           | -                         | -                         | 66,667                 | 66                     | 114,601                          | -                                   | -                      | 114,667                          |
| Common stock<br>issued for exercise<br>of options                                              | -                         | -                         | 34,805                 | 35                     | 17,965                           | -                                   | -                      | 18,000                           |
| Stock option and<br>warrant expense                                                            | -                         | -                         | -                      | -                      | 7,809,893                        | -                                   | -                      | 7,809,893                        |
| Preferred shares<br>and warrants<br>issued for cash                                            | 200,000                   | 200                       | -                      | -                      | 1,999,800                        | -                                   | -                      | 2,000,000                        |
| Net loss attributed<br>to common<br>shareholders for<br>the year ended<br>December 31,<br>2011 | -                         | -                         | -                      | -                      | -                                | -                                   | (14,108,343)           | (14,108,343)                     |

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|                                                                                             |          |      |            |        |             |             |              |           |
|---------------------------------------------------------------------------------------------|----------|------|------------|--------|-------------|-------------|--------------|-----------|
| Balance,<br>December 31,<br>2011                                                            | 200,000  | 200  | 18,703,182 | 18,703 | 33,771,622  | (2,632,192) | (23,913,795) | 7,244,538 |
| Common stock<br>issued upon<br>conversion of debt                                           | -        | -    | 1,220,501  | 1,221  | 1,463,092   | -           | -            | 1,464,313 |
| Common stock<br>issued upon<br>conversion<br>of preferred stock<br>and accrued<br>dividends | (70,750) | (71) | 790,417    | 790    | 105,448     | -           | -            | 106,167   |
| Common stock<br>issued for<br>acquisition of<br>project rights                              | -        | -    | 366,529    | 366    | 486,284     | -           | -            | 486,650   |
| Common stock<br>issued for<br>consulting services                                           | -        | -    | 370,741    | 371    | 497,058     | -           | -            | 497,429   |
| Common stock<br>cancelled for<br>technology                                                 | -        | -    | (75,000)   | (75)   | (89,175)    | -           | -            | (89,250)  |
| Common stock<br>cancelled for<br>exercise of options                                        | -        | -    | (84,180)   | (84)   | 84          | -           | -            | -         |
| Common stock<br>cancelled for stock<br>subscription<br>receivable                           | -        | -    | (877,364)  | (877)  | (2,631,315) | 2,632,192   | -            | -         |
| Common stock<br>issued upon<br>exercise of<br>warrants and<br>options                       | -        | -    | 467,723    | 468    | 128,143     | -           | -            | 128,611   |
| Preferred shares<br>and warrants<br>issued for cash and<br>services                         | 380,902  | 381  | -          | -      | 3,598,007   | -           | -            | 3,598,388 |
| Stock option and<br>warrant expense                                                         | -        | -    | -          | -      | 4,892,060   | -           | -            | 4,892,060 |

|                                                                                 |         |     |            |        |            |   |              |              |
|---------------------------------------------------------------------------------|---------|-----|------------|--------|------------|---|--------------|--------------|
| Derivative attached to preferred stock                                          | -       | -   | -          | -      | 110,990    | - | -            | 110,990      |
| Net loss attributed to common shareholders for the year ended December 31, 2012 | -       | -   | -          | -      | -          | - | (10,152,154) | (10,152,154) |
| Balance, December 31, 2012                                                      | 510,152 | 510 | 20,882,549 | 20,883 | 42,332,298 | - | (34,065,949) | 8,287,742    |

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

**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Statements of Stockholders' Equity (Continued)

|                                                                                   | Preferred Stock |        | Common Stock |        | Additional         | Stock                      | Accumulated  | Total                   |
|-----------------------------------------------------------------------------------|-----------------|--------|--------------|--------|--------------------|----------------------------|--------------|-------------------------|
|                                                                                   | Shares          | Amount | Shares       | Amount | Paid-In<br>Capital | Subscription<br>Receivable | Deficit      | Stockholders'<br>Equity |
| Balance,<br>December 31,<br>2012                                                  | 510,152         | 510    | 20,882,549   | 20,883 | 42,332,298         | -                          | (34,065,949) | 8,287,742               |
| Preferred shares<br>and warrants<br>issued for cash                               | 903,500         | 904    | -            | -      | 8,516,411          | -                          | -            | 8,517,315               |
| Common stock<br>cancelled for<br>assets                                           | -               | -      | (458,644)    | (458)  | (1,291,288)        | -                          | -            | (1,291,746)             |
| Common stock<br>issued for<br>equipment                                           | -               | -      | 64,263       | 64     | 195,295            | -                          | -            | 195,359                 |
| Common stock<br>issued for<br>subsidiaries                                        | -               | -      | 20,578,211   | 20,578 | 58,898,806         | -                          | -            | 58,919,384              |
| Common stock<br>issued upon<br>conversion of<br>debt                              | -               | -      | 389,358      | 389    | 573,159            | -                          | -            | 573,548                 |
| Common stock<br>issued upon<br>exercise of<br>warrants and<br>options             | -               | -      | 8,007,870    | 8,008  | 13,988,313         | (1,600,000)                | -            | 12,396,321              |
| Common stock<br>issued upon<br>conversion<br>of preferred<br>stock and<br>accrued | (843,652)       | (844)  | 9,631,853    | 9,632  | 3,216,259          | -                          | -            | 3,225,047               |

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dividends

Common stock  
issued for  
services

- - 1,110,383 1,110 2,767,127 - - 2,768,237

Stock option and  
warrant expense

- - - - 14,408,656 - - 14,408,656

Net loss  
attributed to  
common  
shareholders for  
the year ended  
December 31,  
2013

- - - - - - (28,661,844) (28,661,844)

Balance,  
December 31,  
2013

570,000 \$ 570 60,205,843 \$60,206 \$143,605,036 \$(1,600,000) \$(62,727,793) \$ 79,338,019

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

|                                                                                               | For the Year Ended<br>December 31, |                   |                   |
|-----------------------------------------------------------------------------------------------|------------------------------------|-------------------|-------------------|
|                                                                                               | 2013                               | 2012              | 2011              |
| <b>OPERATING ACTIVITIES</b>                                                                   |                                    |                   |                   |
| Net loss                                                                                      | \$ (25,473,394)                    | \$ (9,607,134)    | \$ (14,018,986)   |
| Adjustments to reconcile net loss to net cash used in operating activities:                   |                                    |                   |                   |
| Stock options and stock warrants issued for services                                          | 14,408,656                         | 4,307,594         | 7,809,893         |
| (Gain) loss on derivative valuation                                                           | -                                  | (2,037,325)       | 749,166           |
| Derivative attached to preferred stock                                                        | -                                  | 110,990           | -                 |
| (Gain) loss on settlement of debt                                                             | (637,096)                          | 23,133            | -                 |
| Loss on settlement of license                                                                 | -                                  | 164,667           | -                 |
| Stock issued for services                                                                     | 2,698,187                          | 497,429           | 863,052           |
| Depreciation and amortization                                                                 | 2,745,126                          | 2,532,673         | 1,209,769         |
| Amortization of debt discount                                                                 | 58,366                             | 37,306            | -                 |
| Changes in operating assets and liabilities:                                                  |                                    |                   |                   |
| Accounts receivable and billings in excess                                                    | (2,827,827)                        | (2,615,316)       | 126,032           |
| Inventory                                                                                     | (53,920)                           | 251,903           | (347,174)         |
| Construction in progress                                                                      | (1,548,859)                        | (401,886)         | -                 |
| Prepaid expenses and deposits                                                                 | (1,013,109)                        | 303,819           | (17,439)          |
| Accrued dividends payable                                                                     | -                                  | (240,921)         | (35,202)          |
| Accounts payable and accrued expenses                                                         | (325,872)                          | 986,768           | (260,627)         |
| <br>Net Cash Used in Operating Activities                                                     | <br>(11,969,742)                   | <br>(5,686,300)   | <br>(3,921,516)   |
| Net Cash Provided by (Used in) Discontinued Operating Activities                              | 108,653                            | 5,539             | (236,374)         |
| <b>INVESTING ACTIVITIES</b>                                                                   |                                    |                   |                   |
| Purchase of license                                                                           | -                                  | -                 | (100,000)         |
| Acquisition of subsidiaries                                                                   | -                                  | -                 | (1,185,392)       |
| Other receivables                                                                             | (2,195,554)                        | -                 | -                 |
| Purchase of property and equipment                                                            | (126,351)                          | (10,188)          | (117,789)         |
| <br>Net Cash Used in Investing Activities                                                     | <br>(2,321,905)                    | <br>(10,188)      | <br>(1,403,181)   |
| Net Cash Used in Discontinued Investing Activities                                            | (2,924)                            | -                 | (21,738)          |
| <b>FINANCING ACTIVITIES</b>                                                                   |                                    |                   |                   |
| Proceeds from common stock warrants and options exercised, net of \$421,553 of offering costs | 12,396,321                         | 91,950            | -                 |
| Proceeds from related party loans                                                             | 420,000                            | 1,605,000         | 16,336            |
| Proceeds from preferred stock,<br><br>net of \$517,685 of offering costs                      | <br><br>8,517,315                  | <br><br>3,598,388 | <br><br>2,000,000 |
| Cash received from subsidiary                                                                 | 531,460                            | -                 | 1,711,655         |
| Proceeds from notes payable                                                                   | 3,000,000                          | 1,208,008         | -                 |
| Repayment of notes payable                                                                    | (2,034,312)                        | (776,481)         | (1,614,442)       |

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|                                                                  |              |            |             |
|------------------------------------------------------------------|--------------|------------|-------------|
| Repayment of related party loans                                 | (691,853)    | (6,614)    | -           |
| Net Cash Provided by Financing Activities                        | 22,138,931   | 5,720,251  | 2,113,549   |
| Net Cash Provided by (Used in) Discontinued Financing Activities | (34,648)     | (49,306)   | 74,534      |
| NET INCREASE (DECREASE) IN CASH                                  | 7,918,365    | (20,004)   | (3,394,726) |
| CASH AT BEGINNING OF YEAR                                        | 485,366      | 505,370    | 3,900,096   |
| CASH AT END OF YEAR                                              | \$ 8,403,731 | \$ 485,366 | \$ 505,370  |

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows (Continued)

|                                                          | For the Year Ended |              |            |
|----------------------------------------------------------|--------------------|--------------|------------|
|                                                          | December 31,       |              |            |
|                                                          | 2013               | 2012         | 2011       |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b> |                    |              |            |
| <b>CASH PAID FOR:</b>                                    |                    |              |            |
| Interest                                                 | \$ 187,999         | \$ 83,625    | \$ 49,324  |
| Income taxes                                             | -                  | -            | -          |
| <b>NON CASH FINANCING ACTIVITIES:</b>                    |                    |              |            |
| Common stock issued upon conversion of debt              | \$ 573,548         | \$ 1,441,180 | \$ -       |
| Common stock issued upon conversion of preferred stock   | 3,225,047          | 708          | -          |
| Common stock cancelled for assets                        | (1,291,746)        | (253,917)    | -          |
| Common stock issued for acquisition of subsidiaries      | 58,919,384         | -            | 10,170,009 |
| Common stock issued for license                          | -                  | -            | 177,000    |
| Common stock issued for equipment                        | 195,359            | -            | -          |
| Common stock cancelled for subscription                  | -                  | (2,632,192)  | -          |
| Common stock cancelled                                   | -                  | (84)         | -          |
| Cashless exercise of warrants                            | -                  | 147          | -          |
| Initial debt discounts on notes payable                  | -                  | 71,172       | -          |
| Interest reclassification to notes payable               | -                  | 7,853        | -          |
| Preferred dividends declared                             | 3,188,450          | 545,020      | 89,357     |
| Warrant vesting recognized as a prepaid expense          | -                  | 513,294      | -          |
| Warrants exercised for accrued wages                     | -                  | 36,660       | -          |
| Shares issued for construction in progress costs         | -                  | 486,650      | -          |

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 1 - DESCRIPTION OF BUSINESS**

Blue Earth, Inc. and subsidiaries (the Company), a Nevada Corporation headquartered in Henderson, Nevada, 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's 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. The Company's services 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. The Company provides its 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.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require management to make certain estimates, judgments and assumptions. Management believes that the estimates, judgments and assumptions upon which they rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. The consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Significant estimates include the estimates of depreciable lives and valuation of property and equipment, valuation and amortization periods of intangible assets, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

**Principles of Consolidation**

The consolidated financial statements for 2013 reflect the financial position and operations of the Company and its wholly- owned subsidiaries, Blue Earth Tech, Inc. (BET), Castrovilla, Inc. (Castrovilla), Blue Earth Energy Management, Inc. (BEEM), Blue Earth Energy Partners, LLC. (BEEP), Ecolegacy Gas & Power, LLC (Eco), Xnergy, Inc. (Xnergy), Blue Earth Energy Management Services, Inc. (BEEMS), Blue Earth Finance, Inc. (BEF), IPS Power Engineering, Inc. (IPS), Intelligent Power, Inc. (IP), and Millennium Power Solutions, LLC (MPS) . The consolidated financial statements for 2012 reflect the financial position and operations of the Company and its wholly-owned subsidiaries, Blue Earth Tech, Inc. (BET), Castrovilla, Inc., (Castrovilla), Blue Earth Energy Management, Inc. (BEEM), Ecolegacy Gas & Power, LLC (Eco), Xnergy, Inc. (Xnergy), Blue Earth Energy Management Services, Inc. (BEEMS) and Blue Earth Finance, Inc. (BEF). For the year ended December 31, 2011, the consolidated financial statements included the accounts of Blue Earth Tech, Inc, Castrovilla, Inc. and Blue Earth Energy Management, Inc. The 2011 consolidated financial statements also include the accounts of Ecolegacy, LLC and Xnergy, Inc. from September 1, 2011. The Company s subsidiary HVAC Controls and Specialties, Inc. was disposed of subsequent to December 31, 2013 and is classified as discontinued operations in all periods presented.

### **Intangible Assets**

The Company records the purchase of intangible assets not purchased in a business combination in accordance with the ASC Topic 350 and records intangible assets acquired in a business combination in accordance with ASC Topic 805. In connection with the purchases of IP, MPS, Castrovilla. and Xnergy, the Company has recorded \$26,501,859 as the value of customer contracts and technology. These amounts are being amortized over their estimated useful lives of 5 years for customer contracts and 17 years for technology. The Company recorded amortization expense of \$2,617,618, \$2,342,178 and \$1,100,798 during the years ended December 31, 2013, 2012 and 2011, respectively. Annual amortization expense will be \$3,153,666 through 2016 when it will fall to \$834,571 through 2030.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable**

The Company records accounts receivable related to its construction contracts based on billings or on amounts due under the contractual terms. Accounts receivable throughout the year may decrease based on payments received, credits for change orders, or back charges incurred.

Management reviews accounts receivable periodically to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, economic conditions, and our historical write-off experience, net of recoveries. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company's allowance for doubtful accounts was \$63,709, \$27,427 and \$171,176 as of December 31, 2013, 2012 and 2011, respectively.

**Cash and Cash Equivalents**

The Company considers all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2013, 2012 and 2011.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets per the following table. Expenditures for additions and improvements are capitalized while repairs and maintenance are expensed as incurred.

| <u>Category</u>               | <u>Depreciation Term</u>  |
|-------------------------------|---------------------------|
| Leasehold improvements        | 39 years or term of lease |
| Computer and office equipment | 3-5 years                 |
| Equipment and tools           | 5-10 years                |
| Vehicles                      | 5 years                   |

### **Long-Lived Assets**

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets in accordance with ASC Topic 360, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period of time, and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair market value of the assets.

### **Fair Value Measurements**

On January 1, 2008, the Company adopted the provisions of ASC Topic 820 Fair Value Measurements and Disclosures. ASC Topic 820 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Excluded from the scope of ASC Topic 820 are certain leasing transactions accounted for under ASC Topic 840, Leases. The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction, but measured pursuant to other pronouncements within the scope of ASC Topic 820.

### **Reserve for Warranty**

The Company has accrued a reserve for the estimated cost of completing warranted services. The reserve is \$65,590, \$1,717 and \$25,241 as of December 31, 2013, 2012 and 2011 respectively.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Advertising**

The Company conducts advertising for the promotion of its services. In accordance with ASC Topic 720-35-25, advertising costs are charged to operations when incurred. Advertising costs aggregated \$111,495, \$107,215 and \$300,927 for the years ended December 31, 2013, 2012 and 2011, respectively.

**Revenue Recognition**

The Company generates revenues from professional services contracts. Customers are billed, according to individual agreements. Revenues from professional services are recognized on a completed-contract basis, in accordance with ASC Topic 605-35, Construction-Type and Production-Type Contracts. Under the completed-contract basis, contract costs are recorded to a deferred asset account and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered completed when all costs except insignificant items have been incurred and final acceptance has been received from the customer. Corporate general and administrative expenses are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as incurred. For uncompleted contracts, the deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified under current assets as costs in excess of billings on uncompleted contracts. The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, Income Taxes. Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year, and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. A liability (including interest if applicable) is established in the consolidated financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Applicable interest is

included as a component of income tax expense and income taxes payable.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax benefits. As of December 31, 2013, the tax years 2010 through 2013 remain open for IRS audit. The Company has received no notice of audit from the Internal Revenue Service for any of the open tax years. The provisions of ASC Topic 740-10-25-09, provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term *effectively settled* replaces the term *ultimately settled* when used to describe recognition, and the terms *settlement* or *settled* replace the terms *ultimate settlement* or *ultimately settled* when used to describe measurement of a tax position under ASC Topic 740. Topic 740-10-25-09 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basic and Diluted Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the periods presented. Diluted net loss per common share is computed using the weighted average number of common shares outstanding for the period, and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible preferred stock or other common stock equivalents. Options to purchase 1,011,290, 960,761 and 607,791 common shares and warrants to purchase 25,632,407, 19,807,876 and 16,020,366 common shares were outstanding at December 31, 2013, 2012 and 2011, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. These options and warrants may dilute future earnings per share.

**Stock-Based Compensation**

The Company recognizes compensation expense for stock-based compensation in accordance with ASC Topic No. 718. For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes method for stock options; the expense is recognized over the service period for awards expected to vest. For non-employee stock-based awards, the Company calculates the fair value of the award on the date of grant in the same manner as employee awards, however, the awards are revalued at the end of each reporting period and the pro rata compensation expense is adjusted accordingly until such time the nonemployee award is fully vested, at which time the total compensation recognized to date shall equal the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient's performance is complete.

The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

**Comprehensive Income**

The Company has no items of other comprehensive income as of December 31, 2013, 2012 and 2011.

### **Accounting for Derivatives**

The Company evaluates its options, warrants, preferred stock, or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, *Derivatives and Hedging*. The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.

### **Research and Development**

In accordance with ASC Topic 730, *Research and Development*, expenditures for research and development of the Company's products and services are expensed when incurred, and are included in operating expenses. The Company recognized research and development costs of \$252,597, \$582 and \$14,230, for the years ended December 31, 2013, 2012 and 2011, respectively.

### **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 December 31, 2013, 2012 and 2011 (zero) and consists of motors, controllers, miscellaneous refrigeration parts and raw gasket material at costs of \$383,799 (net of \$-0- allowance), \$221,548 (net of \$-0- allowance) and \$473,451 (net of \$25,000 allowance), respectively. The Company does not have any work in progress.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements**

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company's financial position or its financial statements.

**NOTE 3 - PREPAID EXPENSES AND DEPOSITS**

The components of the Company's prepaid expenses as of December 31, are as follows:

|                                   | 2013         | 2012       | 2011       |
|-----------------------------------|--------------|------------|------------|
| Consulting fees (term 1-9 months) | \$ 1,680,818 | \$ 696,868 | \$ 440,038 |
| Rent ( term 1 month)              | 14,534       | -          | -          |
| Insurance (term 11 months)        | 147,321      | 42,555     | 29,000     |
| Deposits (term 1 month)           | 94,070       | 182,494    | 71,213     |
| Total prepaid expenses            | \$ 1,936,743 | \$ 921,917 | \$ 540,251 |

**NOTE 4 - TECHNOLOGY LICENSE**

On May 16, 2011, the Company purchased a license to energy conservation technology known as SwitchGenie. The purchase price was \$100,000 and 150,000 shares of the Company's common stock valued at \$1.18 per share, which was the market price on the transaction closing date. The license also requires the Company to pay a royalty based upon SwitchGenie sales. The Company had prepaid \$68,213 in royalties against the license as of December 31, 2011 which was included in prepaid expenses. The Company was amortizing the cost of the license over the expected life of 5 years and has recorded \$13,850 and \$-0- of amortization expense during the year ended December 31, 2012 and 2011, respectively. During the year ended December 31, 2012 the Company returned the technology license to the licensor in exchange for 75,000 shares of common stock and terminated the exclusive license and entered into a non-exclusive license and supply agreement.

**NOTE 5 - PROPERTY AND EQUIPMENT**

The major classes of assets as of December 31, are as follows:

|                                          | 2013       | 2012       | 2011       |
|------------------------------------------|------------|------------|------------|
| Office and computer equipment            | \$ 323,185 | \$ 395,281 | \$ 395,281 |
| Software                                 | 95,931     | -          | -          |
| Manufacturing and installation equipment | 402,063    | 149,434    | 149,434    |
| Leasehold improvements                   | 759,304    | 759,304    | 759,304    |
| Vehicles                                 | 262,011    | 213,940    | 230,879    |
| Sub Total                                | 1,842,493  | 1,517,959  | 1,534,898  |
| Accumulated Depreciation                 | (984,282)  | (862,293)  | (698,025)  |
| Net                                      | \$ 858,212 | \$ 655,666 | \$ 836,873 |

Depreciation expense was \$127,508, \$213,633 and \$105,985, for the years ended December 31, 2013, 2012 and 2011, respectively. Approximately \$858,212 of the Company's property and equipment serves as security against its long-term debt.

**NOTE 6 - INTANGIBLE ASSETS**

The major classes of assets as of December 31, are as follows:

|                                    | 2013          | 2012         | 2011          |
|------------------------------------|---------------|--------------|---------------|
| Cost:                              |               |              |               |
| Castroville customer base          | \$ 2,533,164  | \$ 2,533,164 | \$ 2,533,164  |
| Xnergy customer base               | 9,137,225     | 9,137,225    | 9,137,225     |
| Intelligent Power patents          | 4,147,832     | -            | -             |
| Millenium Power battery technology | 10,039,872    | -            | -             |
| Total Cost                         | 25,858,093    | 11,670,389   | 11,670,389    |
| Accumulated Amortization:          |               |              |               |
| Castroville customer base          | (1,474,950)   | (983,300)    | (491,650)     |
| Xnergy customer base               | (4,264,038)   | (2,436,594)  | (609,148)     |
| Intelligent Power patents          | (101,663)     | -            | -             |
| Millenium Power battery technology | (196,860)     | -            | -             |
| Total Accumulated Amortization     | (6,037,513)   | (3,419,894)  | (1,100,799)   |
| Net                                | \$ 19,820,580 | \$ 8,250,495 | \$ 10,569,590 |

The Company recorded amortization expense of \$2,617,618, \$2,342,178 and \$1,100,798 during the years ended December 31, 2013, 2012 and 2011, respectively. Annual amortization expense will be \$3,153,666 through 2016

when it will fall to \$834,571 through 2030.

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**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 7 - OTHER RECEIVABLES**

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 is due by March 31, 2014, unless extended by the parties. 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 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company follows the provisions of ASC 820 for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s own assumptions used to measure assets and liabilities at fair value. An asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The Company had no nonfinancial assets and nonfinancial liabilities as of December 31, 2013 and 2012. Liabilities measured at fair value on a recurring and non-recurring basis consisted of the following at December 31, 2013 and 2012:

| Total<br>Carrying | (Level 1) | (Level 2) | (Level 3) |
|-------------------|-----------|-----------|-----------|
| Value at          |           |           |           |

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December  
31,  
2012/2013

Liabilities:

|                              |    |   |    |   |    |   |    |   |
|------------------------------|----|---|----|---|----|---|----|---|
| Warrant derivative liability | \$ | - | \$ | - | \$ | - | \$ | - |
|------------------------------|----|---|----|---|----|---|----|---|

The following is a summary of activity of Level 3 liabilities for the years ended December 31, 2012 and 2011:

|                              |    |             |
|------------------------------|----|-------------|
| Balance at December 31, 2010 | \$ | 1,288,159   |
| Change in fair value 2011    |    | 749,166     |
| Balance at December 31, 2011 |    | 2,037,325   |
| Change in fair value 2012    |    | (2,037,325) |
| Balance at December 31, 2012 |    | -           |
| Change in fair value 2013    |    | -           |
| Balance at December 31, 2013 | \$ | -           |

The Company estimates the fair value of the warrant derivative liability utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected warrant term, expected volatility of our stock price over the expected warrant term, expected risk-free interest rate over the expected warrant term, and the expected dividend yield rate over the expected warrant term. The Company believes this valuation methodology is appropriate for estimating the fair value of the warrant derivative liability. The warrants expired unexercised in December 2012. The following table summarizes the assumptions the Company utilized to estimate the fair value of the warrant derivative liability at December 31, 2011:

| <u>Assumptions</u>      | December 31, 2011 |
|-------------------------|-------------------|
| Expected term (years)   | 1.8 -9.7          |
| Expected volatility     | 152%              |
| Risk-free interest rate | 0.71% - 4.13%     |
| Dividend yield          | 0.00%             |

The expected warrant term is based on the remaining contractual term. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related warrant at the valuation date. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the fair value would increase if a higher expected volatility was used, or if the expected dividend yield increased.



**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

There were no changes in the valuation techniques during the years ended December 31, 2013 and December 31, 2012. The estimated fair value of certain financial instruments, including cash and cash equivalents and current liabilities, are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Employment Agreements**

On March 1, 2011, the Board of Directors of the Company amended the employment agreements of Dr. Johnny R. Thomas and John C. Francis. Each of their employment agreements provide for annual salaries of \$174,000 and \$150,000, respectively.

On May 16, 2013, the Company entered into employment agreements with its Chief Operating Officer and with its Chief Financial Officer which pay each of them \$300,000 per year. They agreed to a reduced salary of \$120,000 each for the first year.

**Legal Matters**

The Company is subject to litigation in the normal course of business. The Company records a liability for legal settlements when the amount is estimable and determined to be likely.

**Operating Leases**

The Company leases office and manufacturing facilities from unrelated parties under non-cancellable operating leases. The leases are typically five years. As of December 31, 2013, future minimum lease payments are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2014        | \$ 449,532    |
| 2015        | 419,532       |
| 2016        | 409,752       |
| 2017        | 363,972       |
| 2018        | 363,972       |
| Thereafter  | 3,432,000     |
| Total       | \$ 5,438,760  |

## **NOTE 10 - STOCKHOLDERS EQUITY**

### **Preferred Stock**

The Company is authorized to issue up to 25,000,000 shares of preferred stock having a par value of \$0.001 per share.

During 2013 the Company issued 903,500 shares of its Series C preferred stock at \$10 per share for gross proceeds of \$9,035,000. Each share of Series C preferred stock was convertible into 10 shares of the Company's common stock and is subject to automatic conversion upon the Company's common stock trading at least \$2.18 per share for 60 consecutive calendar days. The Series C preferred stock provides for an 8% dividend if paid in cash or a 12% dividend if paid in shares of common stock. The Holder of the Series C preferred stock received common stock purchase warrants to purchase one share for every two shares of common stock issuable upon conversion of Series C Preferred Stock.

During 2012 the Company issued 283,052 shares of its Series B preferred stock at \$10 per share for proceeds of \$2,830,520. Each share of Series B preferred stock is convertible into 10 shares of the Company's common stock and was subject to automatic conversion upon the Company's common stock trading at least \$2.20 per share for 60 consecutive days. The Series B preferred stock provides for an 8% dividend if paid in cash or a 12% dividend if paid in shares of common stock. The Holder of the Series B preferred stock received common stock purchase warrants to purchase one share for every two shares of common stock issuable upon conversion of Series B Preferred Stock.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 10 - STOCKHOLDERS EQUITY (Continued)**

During 2011 the Company issued 200,000 shares of its Series A preferred stock at \$10 per share for proceeds of \$2,000,000. During the year ended December 31, 2012 the Company issued an additional 97,067 shares of Series A preferred stock for proceeds of \$970,670. Each share of Series A preferred stock was convertible into 10 shares of common stock and automatic conversion upon the Company's common stock trading at least \$2.25 per share for 60 consecutive days. The Series A preferred stock also provides for an 8% dividend if paid in cash or a 12% dividend if paid in shares of common stock. The Holder of the Series A preferred stock received common stock purchase warrants to purchase one share for every two shares of common stock issuable upon conversion of Series A Preferred Stock.

During the year ended December 31, 2013, 129,250 shares of the Series A, 380,902 shares of the Series B and 333,500 shares of the Series C preferred stock with the related accrued dividends were converted into 9,631,853 shares of common stock. During the year ended December 31, 2012, 70,750 shares of the Series A preferred stock with the related accrued dividends were converted into 790,417 shares of common stock.

The Company has accrued a preferred dividend payable of \$403,690 and \$440,287 on the preferred stock as of December 31, 2013 and 2012, respectively.

The Warrants attached to the Series A, B and C preferred stock are substantially the same. Upon the exercise of a Class A Warrant for the \$3.00 Exercise Price, the Holder shall receive one share of Common Stock and a Class B Common Stock Purchase Warrant ( Class B Warrant ) to purchase one share of Common Stock at \$6.00 per share, subject to redemption and/or temporary reduction by the Company.

The Class B Warrant shall be exercisable into shares of Common Stock at any time, or from time-to-time, up to and including 5:00 p.m. (Pacific Coast Time) on the third anniversary date from the date of the last issuance of the Class B Warrants, unless previously called or extended by the Company on thirty (30) days prior written notice; provided, however, if such date is not a Business Day, then on the Business Day immediately following such date. Upon the exercise of the Class B Warrant for the \$6.00 Exercise Price, the Holder shall receive one share of Common Stock and a Class C Common Stock Purchase Warrant ( Class C Warrant ) to purchase one share of Common Stock at \$12.00 per share, subject to redemption and/or temporary reduction by the Company.

The Class C Warrant shall be exercisable into shares of Common Stock at any time, or from time-to-time, up to and including 5:00 p.m. (Pacific Coast Time) on the third anniversary date from the date of the last issuance of the Class C Warrants, unless previously called or extended by the Company on thirty (30) days prior written notice; provided, however, if such date is not a Business Day, then on the Business Day immediately following such date. The Company will determine the value of the Class B Warrant when the Class A Warrants are exercised and the value of the Class C Warrant when the Class B Warrants are exercised.

### **Common Stock**

The Company is authorized to issue up to 100,000,000 shares of common stock having a par value of \$0.001 per share, of which 60,205,843 and 20,882,549 shares were issued and outstanding at December 31, 2013 and 2012, respectively.

During the year ended December 31, 2013 the Company issued 389,358 shares of its common stock upon the conversion of \$573,548 of debt. The Company issued 9,631,853 shares of its common stock upon the conversion of 843,652 shares of preferred stock and accrued dividends of \$3,225,047. The Company issued 64,263 shares of common stock for manufacturing equipment valued at \$195,359 and issued 20,578,211 shares of common stock for construction projects and energy storage and monitoring technologies. The Company issued 1,110,383 shares for consulting services valued at \$2,768,237 and 8,007,870 shares upon the exercise of warrants and options for cash of \$12,396,321 and notes receivable of \$1,600,000. The Company cancelled 92,115 common shares previously issued as consideration for a line of credit valued at \$298,453 and 366,529 common shares which were issued for rights to certain solar projects.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 10 - STOCKHOLDERS EQUITY (Continued)**

During the year ended December 31, 2012 the Company issued 1,220,501 shares of its common stock upon the conversion of \$1,464,313 of debt. The Company issued 790,417 shares of its common stock upon the conversion of 70,750 shares of preferred stock and accrued dividends of \$111,924. The Company issued 366,529 shares of common stock for certain solar project rights valued at \$486,650 and cancelled 75,000 shares of common stock for the termination of rights to technology valued at \$253,917. The Company issued 370,741 shares for consulting services valued at \$497,429 and 467,723 shares upon the exercise of warrants and options valued at \$128,611. The Company cancelled 84,180 common shares as consideration for the exercise of warrants and 877,364 common shares in exchange for a stock subscription receivable.

**Incentive Stock Option and Warrant Grants to Consultants and Employees**

**2009 Incentive Stock Option Plan**

During the year ended December 31, 2013 the Company granted 110,000 stock purchase options to its employees under its 2009 Incentive Stock Option Plan. The options have a 10 year exercise period (1 year upon termination of employment) and are exercisable at prices ranging from \$2.30 to \$2.90 per share.

During the year ended December 31, 2012 the Company granted 372,970 stock purchase options to its employees under its 2009 Incentive Stock Option Plan. The options have a 10 year exercise period and are exercisable at \$1.23 to \$1.72 per share.

As of December 31, 2013, 3,480,128 shares were remaining under the 2009 Plan for future issuance.

**Stock Purchase Warrants**

During the year ended December 31, 2013 the Company granted 10,500,000 stock purchase warrants to executive employees. The warrants have a 10 year exercise period and are exercisable at prices ranging from \$0.01 to \$2.15 per share. The Company also granted 3,850,000 stock purchase warrants to consultants. The warrants have a 1 to 10 year exercise period and are exercisable at prices ranging from \$0.01 to \$2.90 per share. The Company granted 430,902

stock purchase warrants to the placement agents on its Class C preferred stock. The warrants have a 5 year exercise period and are exercisable at \$1.75 per share. The Company also issued 4,292,500 A warrants to the purchasers of the Class C preferred stock with an exercise period of 1 year and an exercise price \$3.00. The Company also issued 4,029,154 B warrants to the exercisers of the A warrants attached to the Class A and B preferred stock with an exercise period of 1 year and an exercise price \$6.00.

During the year ended December 31, 2012 the Company granted 2,112,500 stock purchase warrants to a director (1,212,500) and executive employees (900,000). The warrants have a 5 to 10 year exercise period and are exercisable at \$0.01 to \$1.16 per share. The Company also granted 4,035,000 stock purchase warrants to consultants. The warrants have a 1 to 10 year exercise period and are exercisable at \$0.01 to \$1.39 per share. The Company also granted 146,750 stock purchase warrants to the placement agents on its Class B preferred stock. The warrants have a 5 year exercise period and are exercisable at \$1.75 per share. The Company also reset the exercise price for 3,597,500 options from \$1.00 to \$1.24 per share to \$0.01 per share and recognized \$467,271 of expense due to the reset. The Company also issued 1,415,260 A warrants to the purchasers of the Class B preferred stock with an exercise period of 1 year and an exercise price \$3.00.

The Company recorded compensation expense of \$14,408,741 and \$4,307,594 for the years ended December 31, 2013 and 2012, respectively, in connection with these stock warrants and options.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of our stock price over the expected option term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock warrants and options granted during the years ended December 31,:

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 10 - STOCKHOLDERS EQUITY (Continued)**

|                             | 2013           | 2012          | 2011   |
|-----------------------------|----------------|---------------|--------|
| Expected term (years)       | 5.0 - 10.0     | 5.0 - 10.0    | 5.0-10 |
| Expected volatility         | 101.49-103.25% | 94.45-116.86% | 160%   |
| Weighted-average volatility | 101.49-103.25% | 94.45-116.86% | 160%   |
| Risk-free interest rate     | 3.64-3.99%     | 0.23-1.53%    | 3.99%  |
| Dividend yield              | 0%             | 0%            | 0%     |
| Expected forfeiture rate    | 0%             | 0%            | 0%     |

The expected life is computed using the simplified method, which is the average of the vesting term and the contractual term. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased. A summary of the Company's stock option activity during the years ended December 31, 2013, 2012 and 2011 is presented below:

|                                        | No. of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------------|-------------------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Balance Outstanding, December 31, 2010 | 298,500           | \$ 1.00                                  | 9.8                                                     |                                 |
| Granted                                | 97,791            | 1.68                                     | 5.0                                                     |                                 |
| Granted                                | 450,000           | 1.72                                     | 10                                                      |                                 |
| Forfeited                              | (238,500)         | 0.94                                     | 9                                                       |                                 |
| Balance Outstanding, December 31, 2011 | 607,791           | 1.63                                     | 9.8                                                     | 1,018,089                       |
| Granted                                | 52,720            | 1.37                                     | 10.0                                                    |                                 |
| Granted                                | 10,000            | 1.23                                     | 10                                                      |                                 |
| Granted                                | 175,000           | 1.27                                     | 10                                                      |                                 |
| Granted                                | 135,250           | 1.72                                     | 10                                                      |                                 |
| Exercised                              | (20,000)          | 0.90                                     | 9.8                                                     |                                 |
| 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                                     | --                                                      |                                 |

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|                                        |           |    |      |      |              |
|----------------------------------------|-----------|----|------|------|--------------|
| Exercised                              | (6,751)   |    | 1.57 | --   |              |
| Balance Outstanding, December 31, 2013 | 1,011,290 | \$ | 1.85 | 8.22 | \$ 1,851,695 |
| Exercisable, December 31, 2013         | 465,053   | \$ | 1.60 | 7.97 | \$ 744,885   |

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## BLUE EARTH, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013, 2012 and 2011

## NOTE 10 - STOCKHOLDERS EQUITY (Continued)

A summary of the Company's warrant activity during the years ended December 31, 2013, 2012 and 2011 is presented below:

|                                        | No. of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------------|--------------------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Balance Outstanding, December 31, 2010 | 11,870,116         | \$ 2.31                                  |                                                         | \$ 27,457,223                   |
| Granted                                | 2,660,000          | 2.53                                     | 5.00                                                    |                                 |
| Forfeited                              | (18,000)           | 1.00                                     | --                                                      |                                 |
| Granted                                | 1,489,250          | 3.00                                     | 1.00                                                    |                                 |
| Forfeited                              | (50,000)           | 1.25                                     | --                                                      |                                 |
| Granted                                | 69,000             | 1.75                                     | 5.00                                                    |                                 |
| Balance Outstanding, December 31, 2011 | 16,020,366         | 2.53                                     | 2.78                                                    | 33,801,473                      |
| Granted                                | 900,000            | 1.16                                     | 5.00                                                    |                                 |
| Granted                                | 700,000            | 1.33                                     | 5.00                                                    |                                 |
| Granted                                | 660,000            | 0.01                                     | 8.00                                                    |                                 |
| Granted                                | 75,000             | 0.10                                     | 10.00                                                   |                                 |
| Granted                                | 2,400,000          | 1.00                                     | 5.00                                                    |                                 |
| Granted                                | 1,415,260          | 3.00                                     | 1.00                                                    |                                 |
| Granted                                | 1,412,500          | 0.01                                     | 10.00                                                   |                                 |
| Granted                                | 146,750            | 1.75                                     | 5.00                                                    |                                 |
| Forfeited                              | (3,495,000)        | (1.96)                                   | --                                                      |                                 |
| Exercised                              | (427,000)          | (0.47)                                   | (6.31)                                                  |                                 |
| 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                                                    |                                 |

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|                                       |             |    |        |      |               |
|---------------------------------------|-------------|----|--------|------|---------------|
| 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 |
| Exercisable, December 31, 2013        | 18,582,407  | \$ | 2.23   | 5.40 | \$ 41,512,700 |

The Company expects all non-contingent outstanding employee stock options to eventually vest. As of December 31, 2013, there were total unrecognized compensation costs related to non-vested share-based compensation arrangements of \$17,597,601 which is expected to be recognized over the respective vesting periods which extend through 2016. As of December 31, 2012, there were total unrecognized compensation costs related to non-vested share-based compensation arrangements of \$1,328,375, which is expected to be recognized over the respective vesting periods which extend through 2015.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 11 - INCOME TAXES**

The Company files a consolidated U.S. income tax return. The amounts provided for income taxes are as follows for the years ended December 31:

|                                                                           | 2013  | 2012  | 2011  |
|---------------------------------------------------------------------------|-------|-------|-------|
| Current (benefit) provision: federal                                      | \$ -- | \$ -- | \$ -- |
| Current (benefit) provision: state                                        | --    | --    | --    |
| Total current provision                                                   | --    | --    | --    |
| Deferred (benefit) provision                                              | --    | --    | --    |
| Deferred (benefit) provision relating to reduction of valuation allowance | --    | --    | --    |
| Total deferred provision                                                  | --    | --    | --    |
| Total provision (benefit) for income taxes from continuing operations     | \$ -- | \$ -- | \$ -- |

Significant items making up the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

|                                             | 2013         | 2012         | 2011         |
|---------------------------------------------|--------------|--------------|--------------|
| Deferred tax assets:                        |              |              |              |
| Net operating loss carry forward            | \$ 6,806,200 | \$ 3,736,000 | \$ 1,973,400 |
| Capital loss carryover                      | 381,600      | 381,600      | 381,600      |
| Allowance for doubtful accounts             | 39,600       | 24,600       | 81,500       |
| Related party accruals                      | 58,100       | 17,800       | --           |
| Accrued vacation                            | 25,900       | 28,100       | 30,000       |
| Depreciation                                | 43,600       | 35,800       | --           |
| Allowance for obsolete inventory            | --           | --           | 10,600       |
|                                             | 7,355,000    | 4,223,900    | 2,477,100    |
| Less: valuation allowance                   | (7,355,000)  | (4,223,900)  | (2,477,100)  |
| Total deferred tax assets                   | --           | --           | --           |
| Total deferred tax liabilities              | --           | --           | --           |
| Total net deferred tax assets (liabilities) | \$ --        | \$ --        | \$ --        |

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance was established in 2013, 2012 and 2011 for the full amount of our deferred tax assets due to the uncertainty of realization. Management believes that based upon its projection of future taxable operating income for the foreseeable future, it is more likely than not that the Company will not be able to realize the benefit of the deferred tax asset at December 31, 2013. The net changes in the valuation allowance during

the year was an increase of \$3,131,100 in 2013 and increase of \$1,796,800 in 2012.

At December 31, 2013, the Company had \$16,121,000 of net operating loss carry forwards which will expire in various years through 2033. Under the provision of the Tax Reform Act of 1986, when there has been a change in an entity's ownership of 50 percent or greater, utilization of net operating loss carry forwards may be limited. As a result of the Company's equity transactions, the Company's net operating losses may be subject to such limitations and may not be available to offset future income for tax purposes. Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change provisions of the Internal Revenue Code of 1986, as amended.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 11 - INCOME TAXES (Continued)**

The annual limitation may result in the expiration of net operating losses and credits before utilization and in the event we have a change of ownership, utilization of the carry forwards could be restricted. The Company's effective income tax expense (benefit) differs from the statutory federal income tax rate of 34% as follows for the years ended December 31,:

|                                                      | 2013   | 2012   | 2011   |
|------------------------------------------------------|--------|--------|--------|
| Federal tax rate applied to loss before income taxes | 34.0%  | 34.0%  | 34.0%  |
| State income taxes, net of federal benefit           | 3.5%   | 3.5%   | 3.5%   |
| Permanent differences                                | -0.5%  | -0.9%  | -0.9%  |
| Change in valuation allowance                        | -23.1% | -39.4% | -39.4% |
| Other                                                | -13.9% | 2.8%   | 2.8%   |
| Income tax expense (benefit)                         | 0.0%   | 0.0%   | 0.0%   |

**NOTE 12 - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in the local currency in three financial institutions in the United States. The balance, at any given time, may exceed Federal Deposit Insurance Corporation insurance limits. As of December 31, 2013 and 2012, there was \$7,214,159 and \$57,405, respectively, in excess of insurable limits.

**NOTE 13 - CONSTRUCTION IN PROGRESS*****Construction in Progress-Short Term***

The short-term construction in progress represents costs accumulated on several solar and co-generation projects at various stages of completion. Included in materials and labor is the cost of the Waianae PV-02 project which was

purchased on July 26, 2013 as a partially completed project and which it substantially completed by December 31, 2013. The construction in progress is classified as short-term because the projects are expected to be completed within one year. A summary of construction in progress-short term as of December 31, are as follows:

|                        | 2013         | 2012       | 2011  |
|------------------------|--------------|------------|-------|
| Materials and Labor    | \$ 2,044,150 | \$ 376,386 | \$ -- |
| Designs and Permitting | 210,752      | 329,657    | --    |
| Total                  | \$ 2,254,902 | \$ 706,043 | \$ -- |

The Company intends to sell the solar projects. The Company will charge to cost of sales the construction costs of the projects it sells.

### ***Construction in Progress-Long Term***

The long-term construction in progress represents the costs accumulated on 7 gas to steam/electricity co-generation projects in the United States and Canada. The co-generation projects were purchased in the acquisition of IPS and GREG. The costs are classified as long-term because the projects are expected to take more than one year to complete.

A summary of construction in progress-long term as of December 31, are as follows:

|                                    | 2013          | 2012 | 2011 |
|------------------------------------|---------------|------|------|
| Designs for co-generation projects | \$ 44,035,500 | \$ - | \$ - |
| Total                              | \$ 44,035,500 | \$ - | \$ - |

The Company intends to hold the co-generation projects to generate revenues as an energy producer. The Company will depreciate the construction costs for the projects it does not sell over the 20 year term of the energy purchase contract upon commencement of revenues. The terms of the co-generation contracts provide that the Company will sell electricity and steam to the meat processing plants connected to the co-generation plants and will sell the excess electricity to the electrical utility adjacent to the property.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 14 - RELATED PARTY TRANSACTIONS**

**Employment Contracts**

On March 1, 2011, the Board of Directors of the Company amended the employment agreements of Dr. Johnny R. Thomas and John C. Francis. Each of their employment agreements dated September 1, 2010 were amended effective February 1, 2011, to increase their annual salaries by \$75,000. Johnny R. Thomas's salary increased from \$99,000 to \$174,000 and John Francis's salary from \$75,000 to \$150,000.

Johnny R. Thomas and John C. Francis were each awarded five-year performance warrants to purchase 1,000,000 shares each at an exercise price of \$1.25 per share. The warrants will vest if and when the Company achieves certain revenues, net income and/or EBITDA milestones for four trailing quarters. For each executive officer, a total of 412,500 warrants vest upon four different milestones when annual revenues exceed revenue milestones increasing from \$50 to \$200 million. Achieving net income levels in excess of \$0.20/share to more than \$0.50/share will vest 262,500 warrants upon four different milestones. The remaining 325,000 warrants will vest upon four different milestones when the Company's EBITDA performance exceeds \$0.40/share to more than \$1.00 per share. Mr. Thomas and Mr. Francis also have the right to vest the warrants by exercising the warrants; accordingly, the value of the warrants has been expensed in the financial statements. In November 2012 the warrant exercise price was reduced to \$0.01 per share, the term of warrants were extended to 10 years and the vesting criteria was amended to remove the milestone criteria and to effectively vest immediately. The Company recognized \$277,037 of compensation expense due to the modification of the warrants.

**Stock Subscription Receivables**

On June 17, 2008, two of Xnergy Inc.'s former stockholders agreed to purchase the shares of another shareholder for \$2,486,850. Concurrent with this agreement, Xnergy, Inc. agreed to issue a promissory note for the payment for the stock. The liability was recorded along with notes receivable from the purchasing stockholders. The notes receivable were assumed by the Company in the purchase of Xnergy, Inc. and have no repayment terms, are non-interest bearing and are unsecured accordingly they are classified as stock subscription receivables. As of December 31, 2011, the receivables totaled \$2,632,192. During the year ended December 31, 2012 the Company received and cancelled 877,364 shares of its common stock as satisfaction of the stock subscription receivables. As of December 31, 2013 the Company had stock subscriptions receivable of \$1,600,000.

**Related Party Payables**

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In connection with the purchase of Castrovilla and Xenergy, the Company entered into promissory notes to pay outstanding liabilities to the former shareholders. During the year ended December 31, 2013 the Company borrowed \$420,000 from and repaid \$691,853 to a director. During the year ended December 31, 2013 the Company issued 238,480 shares of common stock in satisfaction of \$271,871 of related party debt. During the year ended December 31, 2012 the Company borrowed \$1,605,000 from a director. The notes payable are secured by certain of the Company's construction projects, due upon demand and bear interest at 12% per annum. A summary of the maturity of the related party payables is as follows:

| <u>Year</u> | Amount of Principal<br>Payments Due |
|-------------|-------------------------------------|
| 2014        | \$ 1,337,151                        |
| 2015        | -                                   |
| 2016        | -                                   |
| 2017        | -                                   |
| 2018        | -                                   |
| Thereafter  | -                                   |
| Total       | \$ 1,337,151                        |

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 15 - ACCRUED EXPENSES**

A summary of accrued expenses as of December 31, are as follows:

|                          | 2013       |  | 2012       |  | 2011       |
|--------------------------|------------|--|------------|--|------------|
| Sales Tax Payable        | \$ 11,802  |  | \$ 95,104  |  | \$ 178,224 |
| Credit Cards Payable     | 85,015     |  | 173,263    |  | 181,318    |
| Accrued Interest Payable | 188,419    |  | 57,187     |  | -          |
| Payroll Taxes Payable    | 11,852     |  | 155,464    |  | 19,348     |
| Other                    | 125,368    |  | 32,396     |  | 8,000      |
| Total                    | \$ 422,456 |  | \$ 513,414 |  | \$ 386,890 |

**NOTE 16 - LONG TERM DEBT****Credit Line Payable**

During the year ended to December 31, 2013 the Company received \$3,000,000 in proceeds from a line of credit. The Company repaid the line \$1,500,000 during the year ended December 31, 2013. 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.

**Promissory Notes Payable**

The Company assumed promissory notes payable in connection with the purchase of Xenergy, Inc. and its subsidiary HVAC Controls, Inc. During the year ended December 31, 2012 the Company issued 1,185,389 shares of its common stock upon the conversion of \$1,391,188 of debt. During the year ended December 31, 2012 the Company received \$1,208,008 from subordinated promissory notes payable. The notes accrue interest at 10% per annum, are unsecured and are due from 6 months to 5 years from the date of issuance. The Company repaid \$534,312 and \$776,481 of promissory notes payable during the years ended December 31, 2013 and 2012. The Company has no promissory notes payable as of December 31, 2013.

**Automobile Contracts Payable**

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The Company has entered into purchase contracts for its vehicles. The contracts bear interest at an average interest rate of approximately 5% per annum, are secured by the vehicles. The composition of these automobile contracts payable are

summarized in the table below:

|            | Amount of Principal Payments Due |       |
|------------|----------------------------------|-------|
| 2014       | \$                               | 4,476 |
| 2015       |                                  | -     |
| 2015       |                                  | -     |
| 2017       |                                  | -     |
| 2018       |                                  | -     |
| Thereafter |                                  | -     |
| Total      | \$                               | 4,476 |

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 17 - ACQUISITION OF SUBSIDIARIES**Castroville, Inc.

Effective January 1, 2011, Castroville Energy, Inc., Energy, a newly formed subsidiary of Blue Earth Energy Management Services, Inc., which is a subsidiary of Blue Earth, Inc, entered into a merger agreement with Castroville, Inc. wherein Energy purchased all of the issued and outstanding shares of Castroville, Inc. for 1,011,095 shares of restricted common stock of Blue Earth, Inc. These shares were valued based on the quoted market price on the effective date of the transaction, January 1, 2011, at \$1.90 per share, or \$1,921,081.

Immediately after the transaction, Energy ceased to exist and Castroville, Inc. became the surviving corporation, a wholly owned subsidiary of Blue Earth Energy Management Services, Inc.. Simultaneous with this purchase, Energy entered into an asset purchase agreement with Humitech of NC, LLC, Humitech, whereby the assets of Humitech and certain related liabilities were sold to Energy for \$150,000 cash and 267,857 restricted common shares of Blue Earth, Inc. valued based on the quoted market price on the effective date of the transaction, January 1, 2011, at \$1.90 per share or \$508,928. The purchase resulted in a distributorship asset and customer base of \$2,458,250. The reason for the purchase was to expand the Company's energy efficiency operations. According to the purchase method of accounting, the acquisition was recorded as follows:

| Purchase Price                        | Shares    | Price   | Total        |
|---------------------------------------|-----------|---------|--------------|
| Castroville                           | 1,011,095 | \$ 1.90 | 1,921,081    |
| Humitech                              | 267,857   | \$ 1.90 | 508,928      |
| Cash                                  |           |         | 150,000      |
| Total Purchase Price                  |           |         | \$ 2,580,009 |
| Assets at Fair Value                  |           |         |              |
| Cash                                  |           |         | \$ 466,620   |
| Accounts receivable                   |           |         | 325,199      |
| Inventory                             |           |         | 150,627      |
| Property and equipment                |           |         | 53,088       |
| Other assets                          |           |         | 115,804      |
| Distributorship and customer base     |           |         | 2,458,250    |
| Total Assets                          |           |         | \$ 3,569,588 |
| Liabilities Assumed at Fair Value     |           |         |              |
| Accounts payable and accrued expenses |           |         | \$ 414,314   |
| Notes payable                         |           |         | 575,265      |
| Cash                                  |           |         | 150,000      |
| Equity                                |           |         | 2,430,009    |

Total Liabilities and Equity \$ 3,569,588

The Company has recognized revenues of \$3,858,020 for the year ended December 31, 2011 for Castrovilla. The Company has recognized a net loss \$608,367 for the year ended December 31, 2011 for Castrovilla.

In the acquisition the Company issued an aggregate of 1,011,095 shares of its Common Stock, initially valued at \$1.68 per share or \$1,700,000 on the date the agreement was made, to the stockholders of Castrovilla, Inc. in exchange for all of the outstanding capital stock of Castrovilla, Inc. All of the 1,279,762 shares issued in the Castrovilla Acquisition (collectively, the Company Shares ) are subject to Lock-up/Leak-out and Guaranty Agreements, as amended. The two Castrovilla, Inc. stockholders, John Pink, who continues as President of Castrovilla, Inc. and Adam Sweeney, together with Humitech (the Stockholders ) could not sell any of the Company Shares for a six-month period beginning on the Effective Date of the Plan of January 1, 2011 and ending on June 30, 2011. Thereafter and ending June 30, 2013, the three stockholders may sell up to 2,461 Company Shares per trading day in the aggregate until all Company Shares are sold (the Lock-up Period ).

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 17 - ACQUISITION OF SUBSIDIARIES (Continued)**

The Company contingently guaranteed (the Guaranty ) to the Stockholders the net sales price of \$1.68 per share, provided the Stockholders are in compliance with the terms and conditions of the Lock-up Agreement and the hereinafter described performance criteria are met.

A number of shares equal in value to fifty percent (50%) of the profits, if any, from the sale of shares above \$3.36 per share during the Lock-up Period will be returned to the Company. Any deficit from sales below \$1.68 per share shall be paid (i) 50% in cash, and (ii) the remaining 50% in either cash or shares of Common Stock of the Company provided certain Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) performance criteria are achieved as discussed in the next paragraph (at their then current fair market value, or any combination thereof, at the sole discretion of the party making the payment).

In the event that Castrovilla Inc.'s EBITDA during the Lock-up Period is less than the budgeted amount of \$722,000 of EBITDA per year for each of the years ended December 31, 2012 and 2013, the \$1.68 per share guaranteed price shall be decreased by the same percentage decrease that EBITDA is below the projected \$722,000 of EBITDA. All of such calculations will be in accordance with GAAP and derived from the Company's reviewed financial statements for the first three fiscal quarters of the fiscal year and audited financial statements for the full year. The targeted EBITDA for the 12-month period from July 1, 2011 to June 30, 2012 is \$722,000, or \$180,500 per quarter (the quarterly rate of \$180,500 is a constant for each quarter through to the end of the Lock-up/Guarantee period). Therefore, the Targeted EBITDA for the 12-months ended December 31, 2011, was \$722,000. The targeted EBITDA for each subsequent 12 month period shall be \$722,000, which shall be compared to the actual performance for the most recent 12 month reporting period as illustrated above and multiplied times \$1.68 to arrive at the guaranteed share price, if any. These targeted amounts may be reduced if a majority of the Board of Directors agree on budget changes which require an acceleration of expenses thereby affecting a current year's budgeted EBITDA. No adjustment in the targeted amounts for guarantee purposes will be made.

In addition, under the Plan, the Company paid \$50,000 to an unaffiliated third party for an existing obligation of Castrovilla, Inc. The above described Castrovilla Acquisition was completed on January 19, 2011, with an effective date of January 1, 2011. Pursuant to the terms and conditions of the Plan described above, Castrovilla Energy, Inc., a wholly-owned subsidiary of the Company, was merged with and into Castrovilla, Inc., the Surviving Corporation, on January 21, 2011.

Xnergy, Inc. and Subsidiary

On September 7, 2011 the Company acquired 100% of the outstanding common stock of Xnergy, Inc. and its wholly-owned subsidiary HVAC Controls & Specialties, Inc., a Carlsbad, California based energy services company ( Xnergy ). Simultaneously, the Company purchased all of the membership interests of ecoLegacy, LLC ( eco ), a California limited liability company, which serves as a financing vehicle for Xnergy. Xnergy provides a broad range of energy solutions including specialized mechanical engineering and the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management. Xnergy also provides comprehensive maintenance and service programs, including every aspect of heating, ventilation and air-conditioning (HVAC), mechanical systems for design-build to repair and retrofit services.

Xnergy had an alternative energy project pipeline opportunity of approximately \$585 million. The projects are all located in California and the target clients are those that have a premium credit rating and have large energy needs. These candidates include hotels/casinos, industrial manufacturing, life sciences, telecommunications, medical, churches, pharma and public facilities. The \$585 million alternative energy project pipeline is comprised of designing, building, implementing and servicing three cutting-edge alternative energy technologies: Solar PV, Geothermal and Fuel Cells, all of which is subject to obtaining project financing.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 17 - ACQUISITION OF SUBSIDIARIES (Continued)**

The Company issued 4,500,000 shares of its common stock for all of the outstanding shares of Xnergy valued at \$3.00 per share in the merger agreement. However, the common shares were subsequently valued at \$1.72 per share for accounting purposes based upon the average closing price of the Company's common stock from September 8, 2011 through trading on September 26, 2011. The Company also assumed the obligation of \$1,415,088 due to a former shareholder of Xnergy for the purchase of his shares by the exchanging shareholders of Xnergy. The Company assumed \$143,681 of debt as the consideration for the purchase of ecoLegacy, a California limited liability company. Hence, for valuation purposes, the proper price/share for accounting purposes is \$1.72/share or \$7,740,000 for the shares plus the cash component as stated above.

The purchase resulted in a distributorship asset and customer base of \$9,137,225. The reason for the purchase was to expand the Company's energy efficiency operations. According to the purchase method of accounting, the acquisition was recorded as follows:

| Purchase Price                                     | Shares    | Price   | Total         |
|----------------------------------------------------|-----------|---------|---------------|
| Xnergy, Inc. and HVAC Controls & Specialties, Inc. | 4,500,000 | \$ 1.72 | \$ 7,740,000  |
| Assets at Fair Value                               |           |         |               |
| Cash                                               |           |         | \$ 1,442,319  |
| Receivables                                        |           |         | 710,437       |
| Other current assets                               |           |         | 150,278       |
| Property and equipment                             |           |         | 86,548        |
| Related party receivable                           |           |         | 2,632,192     |
| Customer base                                      |           |         | 9,137,225     |
| Total Assets                                       |           |         | \$ 14,158,999 |
| Liabilities Assumed at Fair Value                  |           |         |               |
| Accounts payable                                   |           |         | \$ 379,227    |
| Accrued liabilities                                |           |         | 1,606,074     |
| Notes payable                                      |           |         | 4,433,698     |
| Equity                                             |           |         | 7,740,000     |
| Total Liabilities and Equity                       |           |         | \$ 14,158,999 |

The Company has recognized revenues of \$1,457,643 for the four months ended December 31, 2011 for Xnergy and HVAC. The Company has recognized a net loss \$962,723 for the four months ended December 31, 2011 for Xnergy and HVAC.

The table below presents, on a retroactive basis the condensed consolidated statements of operations for the periods presented to include the operations of Castrovilla and Xnergy. In the above referenced acquisitions Castrovilla and Xnergy were not considered the predecessor for accounting purposes. The pro forma condensed consolidated statements of operations are presented below for comparative purposes and to provide additional information and disclosure to the reader.

*Pro forma Condensed Consolidated Statement of Operations*

|          | December 31,<br>2011 |             |
|----------|----------------------|-------------|
| Revenues | \$                   | 8,682,109   |
| Net Loss | \$                   | (7,244,198) |

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 17 - ACQUISITION OF SUBSIDIARIES (Continued)***IPS Power Engineering, Inc.*

As of July 15, 2013, the Company, together with its wholly-owned subsidiary IPS Acquisition Corp., simultaneously entered into and completed an Agreement and Plan of Merger (the Agreement) dated as of July 15, 2013, with IPS Power Engineering Inc. (IPS), Global Renewable Energy Group, Inc. (GREG) and the Stockholders of IPS and GREG (the Acquisitions). IPS is an EPCM company (engineering, procurement, construction and management) and GREG is an affiliated renewable energy company, which companies specialize in the combined heat and power (CHP) alternative energy space. The Company plans to build seven power plants and sell the thermal and electric power generated to one large customer and to local utilities through long-term power purchase agreements. Pursuant to the terms of the Agreement, an aggregate of 15,550,000 shares of Blue Earth Common Stock (the Merger Consideration) was issued to the former stockholders of IPS and GREG (the Stockholders). The Merger Consideration was determined by the parties based on the mutually agreed upon future revenues and earnings forecast prepared by management of IPS and GREG. The Merger Consideration consists of: 5,000,000 Blue Earth shares issued at closing to the Stockholders, which vested immediately but are subject to lock-up agreements; 150,000 Blue Earth shares issued as a finder's fees; and 10,500,000 Blue Earth shares issued at closing to the Stockholders, and held in escrow, and which will be released at the rate of 1,500,000 Blue Earth shares per Initial Project (as defined) on the date that each of the Initial Projects or substituted similar value as mutually agreed to by Blue Earth and IPS, commences producing commercial power subject to the terms and conditions of the Lock-Up Agreements. At the Closing the Stockholders exchanged 100% of the outstanding shares of IPS and GREG for the Merger Consideration. Through the Agreement, IPS Acquisition Corp. and GREG merged with and into IPS, with IPS as the surviving entity, in accordance with the Utah Revised Business Corporation Act. IPS will be operated as a wholly-owned subsidiary of the Company. The common shares were valued at \$2.84 per share for accounting purposes based upon the 10 day average closing price of the Company's common stock preceding the closing of the transaction. Also, in connection with employment agreements entered into with the officers of IPS, the Company granted an aggregate of 6,000,000 warrants with an exercise price of \$1.18 per share and term of 10 years. 400,000 of these warrants vest upon the commencement of power production for each of the first seven cogeneration plants with 125,000 additional warrants vesting upon the commencement of power production for each subsequent plant. Accordingly, the expense related to these warrants will be recorded when they vest.

The purchase resulted in a construction in progress asset of \$44,029,229. The reason for the purchase was to expand the Company's energy efficiency operations. According to the purchase method of accounting, the acquisition was recorded as follows:

| Purchase Price                                                    | Shares     | Price   | Total         |
|-------------------------------------------------------------------|------------|---------|---------------|
| IPS Power Engineering, Inc. and Global Renewal Energy Group, Inc. | 15,500,000 | \$ 2.84 | \$ 44,035,500 |

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|                                       |               |
|---------------------------------------|---------------|
| Assets at Fair Value                  |               |
| Cash                                  | \$ 2,733      |
| Accounts receivable                   | 2,500         |
| Prepaid expenses                      | 665           |
| Property and equipment                | 3,725         |
| Construction in progress              | 44,029,229    |
| Total Assets                          | \$ 44,038,852 |
| Liabilities Assumed at Fair Value     |               |
| Accounts payable and accrued expenses | \$ 3,352      |
| Equity                                | 44,035,500    |
| Total Liabilities and Equity          | \$ 44,038,852 |

The Company has recognized revenues of \$11,444 for the year ended December 31, 2013 for IPS and GREG. The Company has recognized a net loss \$319,931 for the year ended December 31, 2013 for IPS and GREG.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 17 - ACQUISITION OF SUBSIDIARIES (Continued)***Intelligent Power, Inc.*

As of July 24, 2013 the Company, together with its wholly-owned subsidiary Intelligent Power Acquisition, Inc. simultaneously entered into and completed an Agreement and Plan of Merger (the Agreement), with Intelligent Power, Inc. (IP), and the Stockholders of IP (the Acquisition). IP owns patented demand response, cloud based, real-time energy management technology. Pursuant to the terms of the Agreement, an aggregate of 1,383,400 shares of the Company's Common Stock (the Merger Consideration) was issued to the former stockholders of IP (the Stockholders). At the Closing the Stockholders exchanged 100% of the outstanding shares of IP for the Merger Consideration. Through the Agreement, Intelligent Power Acquisition, Inc. merged with and into IP, with IP as the surviving entity, in accordance with the Oregon Business Corporations Act. IP will be operated as a wholly-owned subsidiary of the Company. The common shares were valued at \$2.88 per share for accounting purposes based upon the 10 day average closing price of the Company's common stock preceding the closing of the transaction.

The purchase resulted in a patent and technology asset of \$4,147,832. The reason for the purchase was to expand the Company's energy efficiency operations. According to the purchase method of accounting, the acquisition was recorded as follows:

| Purchase Price                    | Shares    | Price   | Total        |
|-----------------------------------|-----------|---------|--------------|
| Intelligent Power, Inc.           | 1,383,400 | \$ 2.88 | \$ 3,984,192 |
| Assets at Fair Value              |           |         |              |
| Cash                              |           |         | \$ 911       |
| Prepaid expenses                  |           |         | 2,000        |
| Property and equipment            |           |         | 3,464        |
| Patent costs                      |           |         | 48,442       |
| Technology                        |           |         | 4,147,832    |
| Total Assets                      |           |         | \$ 4,202,649 |
| Liabilities Assumed at Fair Value |           |         |              |
| Accounts payable                  |           |         | \$ 14,600    |
| Accrued liabilities               |           |         | 203,857      |
| Equity                            |           |         | 3,984,192    |
| Total Liabilities and Equity      |           |         | \$ 4,202,649 |

The Company has recognized revenues of \$-0- for the year ended December 31, 2013 for IP. The Company has recognized a net loss \$556,775 for the year ended December 31, 2013 for IP.

Millennium Power Solutions, LLC

As of August 23, 2013, the Company, together with its wholly-owned subsidiary MPS Acquisition Corp., simultaneously entered into and completed an Agreement and Plan of Merger (the Agreement) Millennium Power Solutions LLC ( MPS ) and the Key Members of MPS (the Acquisition ). MPS designs and manufactures intelligent, digital, rechargeable battery products and backup systems with twice the energy of lead acid batteries in a smaller space. The environmentally friendly product is completely recyclable with no issues of hazardous out-gassing, corrosion, flammable or explosive characteristics. The initial, patent pending, intelligent Battery Backup System designed and manufactured by MPS was created for signalized intersections when loss of utility power occurs. The UltraPower Stealth Battery Backup System (UPStealth™ ) 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. Pursuant to the terms of the Agreement, an aggregate of 3,694,811 shares of the Company s common stock (the Merger Consideration ) was issued to the former members of MPS (the Members ). In addition, the principals of MPS are entitled to receive a per-year earn-out equal to ten (10%) percent of the profits of MPS as a separate wholly-owned subsidiary of the Company payable in shares of the Company s common stock valued at the then current fair market value. The earn-out is limited to a five year period and has an aggregate cap of \$3,572,199. At the closing the stockholders exchanged 100% of the outstanding membership interests of MPS for the Merger Consideration. Through the Agreement, MPS Acquisition Corp. was merged with and into MPS, with MPS as the surviving entity, in accordance with the Oregon Business Corporations Act.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 17 - ACQUISITION OF SUBSIDIARIES (Continued)**

| Purchase Price                    | Shares    | Price   | Total         |
|-----------------------------------|-----------|---------|---------------|
| Millennium Power Solutions, LLC   | 3,694,811 | \$ 2.95 | \$ 10,899,692 |
| Assets at Fair Value              |           |         |               |
| Cash                              |           |         | \$ 531,460    |
| Receivables                       |           |         | 35,019        |
| Inventory                         |           |         | 113,138       |
| Property and equipment            |           |         | 203,756       |
| Battery technology                |           |         | 10,039,872    |
| Total Assets                      |           |         | \$ 10,923,245 |
| Liabilities Assumed at Fair Value |           |         |               |
| Accounts payable                  |           |         | \$ 21,894     |
| Accrued liabilities               |           |         | 1,659         |
| Equity                            |           |         | 10,899,692    |
| Total Liabilities and Equity      |           |         | \$ 10,923,245 |

The common shares were valued at \$2.95 per share for accounting purposes based upon the 10 day average closing price of the Company's common stock preceding the closing of the transaction.

The Company has recognized revenues of \$107,253 for the year ended December 31, 2013 for MPS. The Company has recognized a net loss \$236,014 for the year ended December 31, 2013 for MPS.

The table below presents, on a retroactive basis the condensed consolidated statements of operations for the periods presented to include the operations of IPS, GREG, IP and MPS. In the above referenced acquisitions IPS, GREG, IP and MPS were not considered the predecessor for accounting purposes. The pro forma condensed consolidated statements of operations are presented below for comparative purposes and to provide additional information and disclosure.

*Pro forma Condensed Consolidated Statement of Operations*

December 31,

|          | 2013 |              |
|----------|------|--------------|
| Revenues | \$   | 10,466,736   |
| Net Loss | \$   | (26,615,595) |

  

|          | December 31,<br>2012 |              |
|----------|----------------------|--------------|
| Revenues | \$                   | 8,566,660    |
| Net Loss | \$                   | (11,170,308) |

The Company determined the acquisition date fair value of the assets acquired in the preceding transactions based upon the discounted future cash flows of the construction in progress or technology acquired.

#### **NOTE 18 - 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.

**BLUE EARTH, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2013, 2012 and 2011****NOTE 18 - OPERATING SEGMENTS (Continued)**

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. The accounting policies of the business segments are the same as those described in Note 2: Significant Accounting Policies. 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 December 31, 2013, 2012 and 2011:

|                               | Energy<br>Efficiency | Construction and<br>Maintenance | Corporate       | Consolidated    |
|-------------------------------|----------------------|---------------------------------|-----------------|-----------------|
| December 31, 2013             |                      |                                 |                 |                 |
| Revenues                      | \$ 3,366,037         | \$ 6,656,828                    | \$ 282,871      | \$ 10,305,736   |
| Cost of sales                 | 1,537,749            | 5,534,754                       | 93,961          | 7,166,464       |
| Depreciation and amortization | 517,973              | 1,888,059                       | 339,094         | 2,745,126       |
| General and administration    | 2,756,496            | 2,991,800                       | 20,004,540      | 25,752,836      |
| Other income (expense)        | (29,191)             | (1,697)                         | 112,425         | 81,537          |
| Net income (loss)             | \$ (1,475,372)       | \$ (3,759,482)                  | \$ (20,042,299) | \$ (25,277,153) |
| Total assets                  | \$ 915,612           | \$ 6,610,949                    | \$ 78,904,205   | \$ 86,430,766   |

|                               | Energy<br>Efficiency | Construction and<br>Maintenance | Corporate      | Consolidated   |
|-------------------------------|----------------------|---------------------------------|----------------|----------------|
| December 31, 2012             |                      |                                 |                |                |
| Revenues                      | \$ 3,444,821         | \$ 5,022,144                    | \$ -           | \$ 8,466,965   |
| Cost of sales                 | 2,153,694            | 3,456,142                       | -              | 5,609,836      |
| Depreciation and amortization | 511,981              | 1,876,904                       | 143,788        | 2,532,673      |
| General and administration    | 2,302,447            | 2,482,062                       | 6,850,707      | 11,635,216     |
| Other (expense)               | (34,023)             | 12,466                          | 1,691,739      | 1,670,182      |
| Net income (loss)             | \$ (1,557,324)       | \$ (2,780,498)                  | \$ (5,302,756) | \$ (9,640,578) |
| Total assets                  | \$ 865,746           | \$ 3,713,170                    | \$ 10,368,030  | \$ 14,946,946  |

|                               | Energy<br>Efficiency | Construction and<br>Maintenance | Corporate       | Consolidated    |
|-------------------------------|----------------------|---------------------------------|-----------------|-----------------|
| December 31, 2011             |                      |                                 |                 |                 |
| Revenues                      | \$ 3,861,534         | \$ 1,052,584                    | \$ -            | \$ 4,914,118    |
| Cost of sales                 | 1,593,299            | 966,246                         | -               | 2,559,545       |
| Depreciation and amortization | 542,110              | 629,148                         | 38,511          | 1,209,769       |
| General and administration    | 2,786,623            | 1,022,834                       | 10,505,378      | 14,294,835      |
| Other (expense)               | (39,519)             | (7,589)                         | (803,209)       | (850,317)       |
| Net income (loss)             | \$ (1,100,017)       | \$ (1,553,233)                  | \$ (11,347,098) | \$ (14,000,348) |

|              |    |           |    |           |    |            |    |            |
|--------------|----|-----------|----|-----------|----|------------|----|------------|
| Total assets | \$ | 1,281,437 | \$ | 1,518,422 | \$ | 11,282,926 | \$ | 14,082,785 |
|--------------|----|-----------|----|-----------|----|------------|----|------------|

**NOTE 19 - 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.

Revenues of the discontinued operations were \$2,252,245, \$1,499,108 and \$405,059 during the years ended December 31, 2013, 2012 and 2011, respectively.

**BLUE EARTH, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013, 2012 and 2011**

**NOTE 20 - SUBSEQUENT EVENTS**

Issuances of Common Stock

On January 2, 2014 the Company issued 150,000 shares of its common stock to consultants for services valued at \$2.53 per share. On January 16, 2014 the Company issued 135,520 shares of common stock upon the conversion of 12,100 shares of its Series C preferred stock and accrued dividends of \$38,356. On January 17, 2014 the Company issued 100,000 shares upon the exercise of warrants for cash of \$1,000. On January 29, 2014 the Company issued 89,600 shares of common stock upon the conversion of 8,000 shares of its Series C preferred stock and accrued dividends of \$16,552. On February 3, 2014 the Company issued 33,600 shares of common stock upon the conversion of 3,000 shares of its Series C preferred stock and accrued dividends of \$17,217. On February 12, 2014 the Company issued 50,000 shares of its common stock to consultants for services valued at \$2.63 per share. On February 13, 2014 the Company issued 56,000 shares of common stock upon the conversion of 5,000 shares of its Series C preferred stock and accrued dividends of \$17,275. On February 18, 2014 the Company issued 25,090 shares of its common stock to a consultant for services valued at \$2.69 per share. On February 19, 2014 the Company issued 62,264 shares upon the exercise of warrants per the terms of the consulting agreement.

On January 31, 2014, the Company entered into a two-year employment agreement with Donald R. Kendall, Jr. which shall be automatically extended for one-year periods unless terminated by either party on at least thirty (30) days prior written notice. There is no specific time requirement under the contract. Mr. Kendall is being compensated at the rate of \$120,000 per annum. He received an aggregate of 1,300,000 stock options under his employment contract (plus 200,000 shares for his personal goodwill) exercisable at \$2.00, the fair market value of the Company's common stock, when the purchase price was agreed to on December 4, 2013. The Company agreed to negotiate in good faith success fees for transactions he introduces or for which Kendall is actively involved. Mr. Kendall is entitled to a year's severance pay, plus earned bonuses if his contract is terminated by him for good reason (as defined) or if he is terminated without cause (as defined). Kendall is subject to a non-compete and non-solicitation for the longer of the period he is employed by the Company or for two years from the execution of his employment agreement.

Acquisitions

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.

Dispositions

The above-described sale of HVAC was completed effective January 24, 2014.

In accordance with ASC 855, the Company evaluated subsequent events through the date these financial statements were issued. There were no additional material subsequent events that required recognition or additional disclosure in these financial statements.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                              |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                | Agreement and Plan of Merger, dated as of October 30, 2009, by and among Genesis Fluid Solutions Holdings, Inc., Genesis Fluid Solutions, Ltd. and Genesis Fluid Solutions Acquisition Corp.(1) |
| 2.2                | Certificate of Merger, dated October 30, 2009 merging Genesis Fluid Solutions Acquisition Corp. with and into Genesis Fluid Solutions, Ltd.(1)                                                  |
| 2.3                | Plan of Merger for Genesis Solutions Holdings, Inc. into Blue Earth, Inc.(6)                                                                                                                    |
| 2.4                | Asset Purchase Agreement effective January 1, 2011, by and among Castrovilla Energy Inc., Blue Earth Inc. and Humitech of Northern California, LLC(8)                                           |
| 2.5                | Agreement and Plan of Merger by and among Castrovilla Energy, Inc., Blue Earth, Inc. and the Stockholders of Castrovilla Inc.(7)                                                                |
| 3.1                | Articles of Incorporation(15)                                                                                                                                                                   |
| 3.2                | Bylaws(5)                                                                                                                                                                                       |
| 3.3                | Certificate of Designations and Preferences for Series A Convertible Preferred Stock (9)                                                                                                        |
| 3.4                | Certificate of Designation and Preferences for Series B Convertible Preferred Stock (15)                                                                                                        |
| 3.5                | Certificate of Designation and Preferences for Series C Convertible Preferred Stock (28)                                                                                                        |
| 4.1                | Specimen Stock Certificate(11)                                                                                                                                                                  |
| 4.2                | Form of Performance Warrant(14)                                                                                                                                                                 |
| 10.1               | Form of Subscription Agreement(1)                                                                                                                                                               |
| 10.3               | Form of Registration Rights Agreement(1)                                                                                                                                                        |
| 10.4               | Form of Lockup Agreement(1)                                                                                                                                                                     |
| 10.5               | Form of Placement Agent Warrant(1)                                                                                                                                                              |
| 10.6               | Form of Directors and Officers Indemnification Agreement(1)                                                                                                                                     |
| 10.7               | Blue Earth, Inc. 2009 Equity Incentive Plan(8)                                                                                                                                                  |
| 10.8               | Form of 2009 Incentive Stock Option Agreement(1)                                                                                                                                                |
| 10.9               | Form of 2009 Non-Qualified Stock Option Agreement(1)                                                                                                                                            |
| 10.10              | Consulting Agreement, dated May 11, 2009, between Genesis Fluid Solutions and Liviakis Financial Communications, Inc.(1)                                                                        |
| 10.11              | Amendment to Consulting Agreement, dated October 20, 2009, between Genesis Fluid Solutions and Liviakis Financial Communications, Inc.(1)                                                       |
| 10.12              | Employment Agreement, effective as of September 1, 2010 by and between Genesis Fluid Solutions Holdings, Inc. and Dr. Thomas.(6)                                                                |
| 10.13              | Employment Agreement, effective as of September 1, 2010 by and between Genesis Fluid Solutions Holdings, Inc. and Mr. Francis.(6)                                                               |
| 10.14              | Form of Series C Funding Warrant dated December 31, 2010.(11)                                                                                                                                   |
| 10.15              | Form of Class B Funding Warrant.(11)                                                                                                                                                            |
| 10.16              | Form of Class C Funding Warrant.(11)                                                                                                                                                            |
| 10.17              | Form of Management Warrant issued to Johnny R. Thomas and John C. Francis designees.(11)                                                                                                        |
| 10.18              | Amendment to Consulting Agreement dated as of December 21, 2010 by and between Blue Earth, Inc. and Liviakis Financial Communications, Inc. (11)                                                |
| 10.19              | Warrant issued to Liviakis Financial Communications, Inc. as of December 21, 2010.(11)                                                                                                          |

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- 10.20 Warrant issued to Laird Cagan dated February 24, 2011. (11)
- 10.21 Consulting Agreement dated February 24, 2011 by and between Cagan MacAfee Capital Partners, LLC and Blue Earth, Inc. (11)
- 10.22 Employment Agreement, dated as of January 1, 2011 by and between Castrovilla Inc. and John Pink. (7)
- 10.23 Lock-Up Agreement, dated as of December 30, 2010, by and among John Pink, Adam Sweeney and Humitech of Northern California, LLC, Castrovilla Inc. and Blue Earth, Inc.(7)
- 10.24 Guaranty Agreement, dated as December 29, 2010, by and among John Pink, Adam Sweeney, Castrovilla Energy and Blue Earth, Inc.(7)

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                            |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.25              | Termination and Release Agreement dated as of October 1, 2010 by and among Genesis Fluid Solutions Holdings, Inc., Genesis Fluid Solutions, Ltd., Michael Hodges and Sichenzia Ross Friedman Ference LLP. (11)                                |
| 10.26              | Form of Subscription Agreement issued in 2011 Preferred Stock Offering (9)                                                                                                                                                                    |
| 10.27              | Form of Series C Warrant issued in 2011 Preferred Stock Offering (9)                                                                                                                                                                          |
| 10.28              | Finance Agreement, dated as of December 19, 2011, by and between Blue Earth, Inc. and US Energy Affiliates, Inc.(10)                                                                                                                          |
| 10.29              | Capital Stock Purchase and Lease Agreement.(13)                                                                                                                                                                                               |
| 10.30              | Promissory Note, issued by the Company to Jeff Gosselin, in the principal amount of \$1,357,358.41.(13)                                                                                                                                       |
| 10.31              | Mutual Hold Harmless and Indemnification Agreement.(13)                                                                                                                                                                                       |
| 10.32              | Purchase and Sale Agreement dated as of July 26, 2012, by and between White Horse Energy, LLC, as Seller and Blue Earth, Inc. as Buyer. (16)                                                                                                  |
| 10.33              | Settlement Agreement and Release of Claims effective on July 30, 2012, by and between SwitchGenie, LLC (d/b/a Logica Lighting Controls, LLC), Blue Earth, Inc., Blue Earth Energy Management, Inc., James F. Loughrey and Kaye Loughrey. (16) |
| 10.34              | Non-Exclusive License and Supply Agreement made July 30, 2012 by and among Logica Lighting Controls, LLC (formerly SwitchGenie LLC), James F. Loughrey, and Blue Earth, Inc. (16)                                                             |
| 10.35              | Secured Promissory Note dated October 30, 2012 to Laird Q. Cagan.(17)                                                                                                                                                                         |
| 10.36              | Independent Consulting Agreement dated November 6, 2012 by and between Blue Earth, Inc. and Laird Cagan.(18)                                                                                                                                  |
| 10.37              | Secured Promissory Note dated December 12, 2012 from the Company to Laird Cagan.(20)                                                                                                                                                          |
| 10.38              | Security Agreement dated as of December 12, 2012 from Blue Earth to Laird Cagan.(20)                                                                                                                                                          |
| 10.39              | Common Stock Purchase Warrant dated as of December 12, 2012 from Blue Earth to Laird Cagan. (20)                                                                                                                                              |
| 10.40              | Credit Facility Agreement, dated as of January 31, 2013 and effective February 22, 2013, by and among the Company, the Lender and the Subsidiaries.(21)                                                                                       |
| 10.41              | Revolving Line of Credit Note, issued by the Company and the Subsidiaries to the Lender, issued as of January 31, 2013 and effective February 22, 2013.(21)                                                                                   |
| 10.42              | Employment Agreement between Blue Earth and Robert Potts dated as of May 16, 2013. (22)(30)                                                                                                                                                   |
| 10.43              | Employment Agreement between Blue Earth and Brett Woodard dated as of May 16, 2013 (22)(30)                                                                                                                                                   |
| 10.44              | Agreement and Plan of Merger by and between the Company and IPS Power Engineering Inc. dated as of July 15, 2013. (23)(29)                                                                                                                    |
| 10.45              | Agreement and Plan of Merger by and between the Company and Intelligent Power dated as of July 23, 2013.(24)(29)                                                                                                                              |
| 10.46              | Agreement and Plan of Merger dated as of August 23, 2013 by and between the Company and Millennium Power Solutions LLC. (25)(29)                                                                                                              |
| 10.47              | Strategic Agreement dated as of August 30, 2013, by and among the Company and New Generation Power LLC & Telesun Solar U.S.A., Ltd. (26)(30)                                                                                                  |
| 10.48              | Notice of Redemption (27)                                                                                                                                                                                                                     |
| 10.49              | Form of Series C Preferred Stock Subscription Agreement (28)                                                                                                                                                                                  |
| 10.50              | Form of Class A Warrant issued in connection with Series C Preferred Stock Offering (28)                                                                                                                                                      |
| 10.51              | Lease dated December 20, 2011 by and between the Company & CJ3, LLC for Xnergy office                                                                                                                                                         |
| 10.52              | Employment Agreement dated May 16, 2013 between Blue Earth and Ray Lundberg (30)                                                                                                                                                              |
| 10.53              | Consulting Agreement dated July 15, 2013 by and between Blue Earth and Broadway Family Group LLC (30)                                                                                                                                         |
| 10.54              |                                                                                                                                                                                                                                               |

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- Consulting Agreement dated July 15, 2013 by and between Blue Earth and Green Planet Consultants LLC (30)
- 10.55 Blocking Amendment dated June 20, 2013 by and between the Company and David Lies
- 10.56 Promissory Note dated as of October 30, 2013 from David Lies to the Company
- 10.57 Pledge Agreement dated as of October 30, 2013 from David Lies to the Company
- 10.58 Strategic Agreement dated as of October 10, 2013 by and among New Generation Power, LLC, Blue Earth, Inc. and Talesun Solar USA, Ltd. (30)
- 10.59 Promissory Note dated February 22, 2013 from Blue Earth , Inc. to Laird Q. Cagan

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                           |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.60              | Employment Agreement dated January 31, 2014 by and between Blue, Earth, Inc. and Donald R. Kendall, Jr. (32)                                                 |
| 10.61              | Equity Exchange Agreement dated January 31, 2014 by and among Blue Earth, Inc., Kenmont Solutions Capital GP, LLC and Donald R. Kendall, Jr. (32)            |
| 10.62              | Sale of Goodwill Agreement dated as of January 31, 2014 by and between Blue Earth, Inc. and Donald R. Kendall, Jr. (32)                                      |
| 16.1               | Letter from Davis Accounting Group P.C. (12)                                                                                                                 |
| 21.1               | List of Subsidiaries (31)                                                                                                                                    |
| *23.1              | Consent of HJ & Associates, LLC.                                                                                                                             |
| *31.1              | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.     |
| *32.1              | Certificate of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley of 2002.                     |
| *32.2              | Certificate of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(21)             |
| 101INS             | XBRL Instance Document                                                                                                                                       |
| 101.SCH            | XBRL Taxonomy Extension Schema Document                                                                                                                      |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                        |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                         |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document                                                                                                              |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                       |

\* Filed with this Report

(1) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on November 5, 2009, as amended on November 16, 2009 and December 14, 2009.

(2) Incorporated herein by reference to the copy of such document included as Exhibit 10.1 to our Current Report on Form 8-K filed on December 21, 2009.

(3) Incorporated herein by reference to the copy of such documents included as Exhibit 10.1 and Exhibit 10.2 to our Current Report on Form 8-K filed on December 24, 2009.

(4) Incorporated herein by reference to the copy of such document included as an exhibit to our Annual Report on Form 10-K filed on April 15, 2010.

(5) Incorporated by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on October 29, 2010.

(6) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on August 31, 2010

(7) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on January 24, 2011

(8) Incorporated herein by reference to the copy of such document included as an exhibit to our Annual Report on Form 10-K filed on March 31, 2011

(9) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K/A filed on September 29, 2011

(10) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on December 23, 2011

(11) Incorporated by reference to the copy of such document included as an exhibit to our Current Report on Form 10-K for March 31, 2010 filed on March 31, 2010

(12) Incorporated herein by reference to the copy of such document included as Exhibit 16.1 to our Current Report on Form 8-K filed on January 28, 2010.

(13) Incorporated herein by reference to the copy of such document included as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2011 filed on April 16, 2012.

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(14) Incorporated by reference herein to the copy of such document filed as an exhibit to or Registration Statement on Form S-8 filed on April 27, 2012.

(15) Incorporated by reference to the copy of such document included as Exhibit 3.1 to our Current Report on Form 8-K filed on April 10, 2012.

(16) Incorporated by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on August 1, 2012.

(17) Incorporated by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on November 2, 2012.

(18) Incorporated by reference to the copy of such document included as an exhibit to our Quarterly Report on Form 10-Q filed on November 13, 2012.

(19) INTENTIONALLY OMITTED

(20) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K/A Amendment NO. 1 filed on December 20, 2012.

(21) Incorporated herein by reference to the copy of such document included as an exhibit to our Current Report on Form 8-K filed on February 28, 2013.

(22) Incorporated by reference to the copy of such document included as an Exhibit to our Current Report on Form 8-K for May 16, 2013 filed on May 22, 2013.

(23) Incorporated by reference to the copy of such document included as an Exhibit to our Current Report on Form 8-K for July 15 2013 filed on July 19, 2013.

(24) Incorporated by reference to the copy of such document included as an Exhibit to our Current Report on Form 8-K for July 24, 2013, filed on July 29, 2013.

(25) Incorporated by reference to the copy of such document included as an Exhibit to our Current Report on Form 8-K for August 23, 2013, filed on August 29, 2013.

(26) Incorporated by reference to the copy of such document included as an Exhibit to our Current Report on Form 8-K for August 30, 2013, filed on September 5, 2013.

(27) Incorporated by reference to the copy of such document included as an Exhibit to a Current Report on Form 8-K for October 7, 2013, filed on October 7, 2013.

(28) Incorporated by reference to the copy of such document included as an exhibit to Amendment No. 1 to a Current Report on Form 8-K for July 3, 2013, filed on January 9, 2014.

(29) The schedules to this exhibit have not been filed with this registration statement as they contain due diligence information which the Registrant does not believe is material to an investment decision and which is otherwise described in the Registration Statement. Summaries of the information have been included and the Company hereby agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

(30) Certain information in the schedules and exhibits to this exhibit has been omitted and confidential treatment has been requested.

(31) Filed with Amendment No. 1 to this Registration Statement on December 13, 2013.

(32) Incorporated by reference to the copy of such documents included as an Exhibit to our Current Report on Form 8-K for January 31, 2014, filed on February 6, 2014.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this amendment to annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Henderson, State of Nevada on the 12th day of May, 2014.

BLUE EARTH, INC.

By: /s/ Johnny R. Thomas  
 Name: Johnny R. Thomas  
 Title: Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of Section 13 or 15(d) the Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

| <b>Signature</b>                                                             | <b>Title</b>                                                            | <b>Date</b>  |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------|
| <u>/s/ Laird Q. Cagan</u><br>Laird Q. Cagan                                  | Chairman of the Board                                                   | May 12, 2014 |
| <u>/s/ Johnny R. Thomas</u><br>Johnny R. Thomas                              | Chief Executive Officer and Director<br>(Principal Executive Officer)   | May 12, 2014 |
| <u>/s/ Brett Woodard</u><br>Brett Woodard                                    | Chief Financial Officer (Principal<br>Financial and Accounting Officer) | May 12, 2014 |
| <u>/s/ Robert Potts</u><br>Robert Potts                                      | President, Chief Operating Officer<br>and Director                      | May 12, 2014 |
| <u>/s/ Governor William Richardson</u><br>Governor William (Bill) Richardson | Director                                                                | May 12, 2014 |
| _____<br>Michael W. Allman                                                   | Director                                                                |              |
| _____<br>James A. Kelly                                                      | Director                                                                |              |



**EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                       |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 23.1       | Consent of HJ and Associates, LLC.                                                                                                                                                       |
| 31.1       | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2       | Certificate of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                               |
| 32.1       | Certificate of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley of 2002.                                                 |
| 32.2       | Certificate of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley of 2002.                                                 |

