CHINA EASTERN AIRLINES CORP LTD
Form 6-K
April 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the month of April 2012

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

Board Secretariat's Office

Kong Gang San Lu, Number 88

Shanghai, China 200335

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: x Form 20-F ¨ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: ¨ Yes x No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Eastern Airlines Corporation Limited
(Registrant)

Date April 27, 2012 By

/s/
Wang Jin
Name: Wang Jin
Title: Joint Company Secretary

Certain statements contained in this announcement may be regarded as "forward-looking statements" within the meaning of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The forward-looking statements included in this announcement represent the Company's views as of the date of this announcement. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company specifically disclaims any obligation to update these forward-looking statements, unless required by applicable laws. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this announcement.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 00670)

FIRST QUARTERLY REPORT 2012

This announcement is made by the Company pursuant to the disclosure requirement under Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements of the Company for the first quarter of 2012 were not audited, and were prepared in accordance with the PRC Accounting Regulations.

1.IMPORTANT NOTICE

This announcement is made by China Eastern Airlines Corporation Limited (the "**Company**") pursuant to the disclosure requirement under Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (which requires any issuer listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") whose securities are also listed on other stock exchange(s) to simultaneously inform the Stock Exchange of any information released to any of such other exchange(s) and to ensure that such information is released to the market in Hong Kong at the same time as it is released to the other market(s). At the request of the Shanghai Stock Exchange, a similar announcement of the even date is being made by the Company in Shanghai pursuant to the relevant provisions of the Shanghai listing rules and regulations.

This quarterly report was prepared in accordance with the regulations as prescribed by the China Securities Regulatory Commission (the "**CSRC**") in relation to disclosure of information in quarterly reports for listed companies, and is published simultaneously in Shanghai and Hong Kong. The financial statements of the Company for the first quarter of 2012 were not audited, and were prepared in accordance with the PRC Accounting Regulations.

The board of directors (the "**Board**") and the supervisory committee of the Company, and its directors, supervisors and senior management hereby confirm that the information set out in this report does not contain any false information, misleading statement or material omission, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the contents of this report.

All directors of the Company attended the meeting of the Board.

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This first quarterly report of the Company is unaudited.

Name of person-in-charge of the Company	Liu Shaoyong
Name of officer-in-charge of accounting	Ma Xulun
Name of officer-in-charge of the accounting department (accounting officer)	Wu Yongliang

Liu Shaoyong, the person-in-charge of the Company, Ma Xulun, the officer-in-charge of accounting of the Company, and Wu Yongliang, the officer-in-charge of the accounting department (accounting officer) of the Company, hereby confirm that the financial statements forming part of this quarterly report are true and complete.

2. BASIC PARTICULARS OF THE COMPANY

2.1 Main accounting data and financial indicators

Currency: RMB

	As at the end of the reporting period	**As at the end of last year**	**Increase/decrease as at the end of the reporting period compared with the end of last year** (%)
Total assets *(RMB'000)*	114,579,341.00	112,215,152.00	2.11
Owners' equity (or shareholders' equity) *(RMB'000)*	20,749,382.00	20,437,377.00	1.53
Net assets per share attributable to the shareholders of listed company *(RMB per share)*	1.8400	1.8124	1.52

	From the beginning of the year to the end of the reporting period	Increase/decrease compared with the same period last year

		(%)
Net cash flow generated from operating activities *(RMB’000)*	3,484,573.00	–1.19
Net cash flow generated from operating activities per share *(RMB per share)*	0.3090	–1.19

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	Reporting period	From the beginning of the year to the end of the reporting period	Increase/decrease for the reporting period compared with the same period last year (%)
Net profit attributable to shareholders of listed company *(RMB'000)*	266,527.00	266,527.00	–73.68
Basic earnings per share *(RMB per share)*	0.0236	0.0236	–73.78
Basic earnings per share after deducting non-recurring profit and loss *(RMB per share)*	0.0224	0.0224	–74.55
Diluted earnings per share *(RMB per share)*	0.0236	0.0236	–73.78
Weighted average return on equity *(%)*	1.30	1.30	Decrease by 4.99 percentage points
Weighted average return on equity after deducting non-recurring profit and loss *(%)*	1.23	1.23	Decrease by 4.94 percentage points

After deducting non-recurring profit and loss and relevant amounts:

Unit: '000

Currency: RMB

Item	Amount
Gains or losses from disposal of non-current assets	6,596
Non-operating incomes and expenses other than the above	11,145
Effect on income tax	–1,889
Effect on minority interests (net of tax)	–1,553
Total	14,299

2.2 The total number of the Company’s shareholders and the shareholdings of the 10 largest holders of shares not subject to selling moratorium as at the end of the reporting period

Unit: Shares

The total number of the Company’s shareholders as at the end of the reporting period	276,867

Shareholding of the 10 largest holders of circulating shares not subject to selling moratorium

Name of shareholders (in full)	Number of circulating shares not subject to selling moratorium held at the end of the period	Class
HKSCC NOMINEES LIMITED (including CES Global Holdings (Hong Kong) Limited)	2,040,815,299	Overseas listed foreign shares
Shanghai Alliance Investment Limited ( )	427,085,429	RMB ordinary shares
China National Aviation Fuel Holding Co. ( )	421,052,632	RMB ordinary shares
Aerospace Capital Holding Co. Ltd. ( )	99,088,580	RMB ordinary shares
Sinotrans Air Transportation Development Co. Ltd. ( )	83,157,894	RMB ordinary shares
Jin Jiang International Holdings Company Limited (江 際( ))	54,400,000	RMB ordinary shares
Bank of China – Harvest Services Value-added Industry Securities Investment Funds	25,552,714	RMB ordinary shares

Bank of China Group Investment Limited (銀)	21,997,755	RMB ordinar shares
輕工業對 經濟技術合&#2031	18,574,343	RMB ordinar shares
紡織( )	18,574,270	RMB ordinar shares

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3. IMPORTANT MATTERS

3.1 The details of and reasons for the substantial changes in main items of financial statements and financial indicators of the Company

x Applicable ¨ Not applicable

Item	Change (%)	Reasons for change
Finance Expenses	1,078.88	Primarily due to the net exchange gain of RMB330 million arising from the substantial appreciation of the Renminbi against the US Dollar during the same period last year, and as compared to the relatively steady level of the exchange rate of Renminbi against the US dollar this year.
Gain arising from changes in fair value	–91.26	Primarily due to the gain arising from changes in fair value of approximately RMB79.45 million arising from the crude oil hedging of the Company during the first quarter of 2011. All of the crude oil hedging transactions of the Company terminated at the end of 2011.
Investment income	30.05	Primarily due to the increase in the operating profit of associated companies accounted for using equity method of accounting during the first quarter of 2012 as compared to the same period in 2011.
Non-operating income	138.04	Primarily due to the increase in the operational financial and taxation subsidies received by the Company during the first quarter of 2012.
Net profit attributable to shareholders of listed company	–73.68	Primarily due to the decrease in net profit of the Company for the first quarter of 2012 as compared to the same period in 2011.

3.2 Analysis of the progress of other significant events and their effects and proposed solutions

¨ Applicable x Not applicable

3.3

The status of implementation of the matters undertaken by the Company, shareholders and the ultimate controller

¨ Applicable x Not applicable

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3.4 Warning of and reasons for any expected accumulated losses from the beginning of the year to the end of the following reporting period or substantial changes in profitability compared to the same period last year.

¨ Applicable x Not applicable

3.5 Implementation of cash dividend policy during the reporting period

In 2011, the parent company's net profit was RMB4,892 million, and the total accumulated losses of the parent company as at 31 December 2011 amounted to RMB4,503 million. According to the requirements of relevant laws and regulations, the Company shall make good its losses incurred in previous years with its profit for the year before any profit distribution to the shareholders. As such, no profit shall be distributed by the Company in respect of the year 2011 under the Company Law and the Articles. During the reporting period¸ no cash dividend was paid by the Company.

By order of the Board

CHINA EASTERN AIRLINES CORPORATION LIMITED Liu Shaoyong

Chairman

The Directors as at the date of this announcement are:

Liu Shaoyong	(Chairman)
Ma Xulun	(Vice Chairman, President)
Li Yangmin	(Director, Vice President)
Luo Zhuping	(Director)
Sandy Ke-Yaw Liu	(Independent non-executive Director)
Wu Xiaogen	(Independent non-executive Director)
Ji Weidong	(Independent non-executive Director)
Shao Ruiqing	(Independent non-executive Director)

Shanghai, the People's Republic of China

27 April 2012

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4. APPENDICES

4.1

Consolidated Balance Sheet

31 March 2012

Prepared by: China Eastern Airlines Corporation Limited

Amounts expressed in RMB'000

Unaudited

Item	**Balance at the end of the reporting period**	**Balance at the beginning of the year**
Current assets:		
Monetary capital	7,681,418	6,755,260
Settlement reserves fund	–	–
Deposits with banks and other financial institutions	–	–
Derivative financial assets	4,365	4,365
Notes receivable	–	–
Trade receivables	2,393,029	2,197,493
Prepayments	760,609	973,451
Premiums receivable	–	–
Receivables from reinsurers	–	–
Reinsurance deposits receivable	–	–
Interest receivable	798	21,333
Dividends receivable	–	–
Other receivables	2,123,796	1,722,644
Buying back the sale of financial assets	–	–
Inventory	1,612,999	1,555,544
Non-current assets due within one year	–	–
Other current assets	492,645	482,313
Total current assets	15,069,659	13,712,403

4.1

Consolidated Balance Sheet *(Cont'd)*

31 March 2012

Prepared by: China Eastern Airlines Corporation Limited

Amounts expressed in RMB'000

Unaudited

Item	**Balance at the end of the reporting period**	**Balance at the beginning of the year**
Non-current assets:		
Entrusted loans and advances	–	–
Financial assets available for sale	2,328	2,344
Held-to-maturity investments	–	–
Long-term receivables	–	–
Long-term equity investment	1,551,587	1,498,881
Properties held for investment	–	–
Fixed assets	72,755,713	71,565,372
Construction in progress	12,993,034	13,085,908
Construction materials	–	–
Disposal of fixed assets	–	–
Biological assets for production	–	–
Oil and gas assets	–	–
Intangible assets	1,897,433	1,898,953
Development expenses	–	–
Goodwill	8,509,030	8,509,030
Long-term deferred expenses	1,172,612	1,180,254
Deferred income tax assets	12,394	12,427
Other non-current assets	615,551	749,580
Total non-current assets	99,509,682	98,502,749
Total assets	114,579,341	112,215,152

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4.1

Consolidated Balance Sheet *(Cont'd)*

31 March 2012

Prepared by: China Eastern Airlines Corporation Limited

Amounts expressed in RMB'000

Unaudited

Item	Balance at the end of the reporting period	Balance at the beginning of the year
Current liabilities:		
Short-term borrowings	13,913,496	11,453,880
Borrowing from Central Bank	–	–
Deposits from customers and other banks	–	–
Advances from banks and other financial institutions	–	–
Derivative financial liabilities	279,704	332,984
Notes payable	47,746	47,746
Trade payables	12,294,959	10,267,531
Account collected in advance	2,441,554	3,664,673
Financial assets sold under agreements to repurchase	–	–
Handling charges and commissions payable	–	–
Staff remuneration payable	2,408,644	3,047,095
Tax payable	1,826,788	2,002,101
Interest payable	159,967	179,792
Dividends payable	740	740
Other payables	2,551,423	2,717,410
Amounts due to reinsurers	–	–
Insurance deposits payable	–	–
Securities trading agency fees	–	–
Securities underwriting fees	–	–
Non-current liabilities due within one year	8,333,308	9,950,619
Other current liabilities	–	–
Total current liabilities	44,258,329	43,664,571

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4.1

Consolidated Balance Sheet *(Cont'd)*

31 March 2012

Prepared by: China Eastern Airlines Corporation Limited

Amounts expressed in RMB'000

Unaudited

Item	-	81,382	
INVESTING ACTIVITIES			
Purchase of subsidiaries		(604,670)	-
Purchase of license		(100,000)	-
Purchase of property and equipment		(41,408)	-
	Net Cash Used in Investing Activities	(746,078)	-
	Net Cash Used in Discontinued Investing Activities	-	(24,418)
FINANCING ACTIVITIES			
Proceeds from related party loans		120,099	-
Proceeds from preferred stock		1,000,000	-
Collection of related party receivable		793	-
Cash received in purchase of subsidiaries		1,800,978	-
Repayment of notes payable		(1,585,341)	-
	Net Cash Provided by Financing Activities	1,336,529	-
	Net Cash Used in Discontinued Financing Activities	-	(50,642)
NET DECREASE IN CASH		(2,311,265)	(1,159,771)
CASH AT BEGINNING OF PERIOD		3,900,096	4,758,852
CASH AT END OF PERIOD		$ 1,588,831	$ 3,599,081
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
CASH PAID FOR:			
Interest (continuing operations)		$ 48,969	$ -
Income taxes (continuing operations)		-	2,529
NON CASH FINANCING ACTIVITIES:			
Reclassification of note payable-related party to note payable		$ -	$ 12,500
Purchase of subsidiary for debt and common stock		10,127,860	-
Purchase of license for common stock		177,000	-
Liability paid by officer on behalf of Company		-	8,467

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

BLUE EARTH, INC. AND SUBSIDIARIES

(fka Genesis Fluid Solutions Holdings, Inc.)

Notes to Condensed Consolidated

Financial Statements (Unaudited)

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2011, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The results of operations for the periods ended September 30, 2011 and 2010 are not necessarily indicative of the operating results for the full year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is recorded at the lower of cost or market (net realizable value) using the average cost method. The inventory on hand as of September 30, 2011 consists of motors, controllers, miscellaneous refrigeration parts and raw gasket material at costs of $506,347. An allowance for obsolete inventory has been recorded for $25,000, resulting in net inventory of $481,347. The Company does not have any work in progress.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

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

NOTE 3 - SIGNIFICANT EVENTS

Acquisition of Subsidiaries

Castrovilla, Inc.

On December 30, 2010, Castrovilla Energy, Inc., a recently formed California subsidiary of Blue Earth, Inc. entered into agreements, subject to final Board approval, to acquire substantially all of the assets of Humitech of Northern California, LLC (“Humitech”), a California limited liability company and its related company, Castrovilla, Inc. Founded in 2004, Castrovilla based in Mountain View, California, had audited revenues of $3,433,145 in 2010, which is more than twice its 2008 revenues. Castrovilla serves approximately 5,400 small commercial businesses in Northern California with its 30 employees. Castrovilla manufactures, sells and installs commercial refrigerator and freezer gaskets and sells and installs motors and controls.

Castrovilla participates in several ratepayer funded utility energy efficiency rebate programs, both through third-party programs and through its own small commercial business program, *Keep Your Cool.* In 2008, Castrovilla acquired the assets of Bay Area Refrigeration, a fully licensed commercial refrigeration contractor that has serviced the San Francisco Bay Area for nearly 30 years. Since 2009, Castrovilla has operated an online store to sell a variety of refrigeration products on both a wholesale and retail basis.

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 and the issuance of 267,857 shares of restricted Common Stock of Blue Earth, Inc. with an agreed upon value of $450,000, or $1.68 per share, the average closing price of the Company’s Common Stock from September 1-23, 2010 when the terms of the transaction were agreed to. The Company also assumed trade debt of approximately $121,000. Humitech will remain an unaffiliated non-operating entity in order to pay its other liabilities with the proceeds of the shares received from the Company, as well as from an inter-company note in the amount of $331,579 from Castrovilla, Inc.

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 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”). 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 $361,000 for the first six months after the Effective Date and $722,000 of EBITDA per year for each of the fiscal years ending 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

NOTE 3 - SIGNIFICANT EVENTS (CONTINUED)

Acquisition of Subsidiaries (Continued)

year and the audited financials for the fourth quarter of the year. If EBITDA is zero or negative, then no Guaranty is in effect for the next quarter and the number of the Company’s Shares which

could have been sold during such three-month period will not be covered by a Guaranty in the future. Accordingly, for the nine months ended September 30, 2011, the Company’s EBITDA was negative and therefore there is no guarantee in effect for the quarter ended December 31, 2011. Accordingly, no guarantees have been or will be in effect for all of fiscal 2011.

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, for the nine-months ended September 30, 2011, the Targeted EBITDA will be $361,000 plus $180,500 or $541,000; and for the 12-months ended December 31, 2011, would be $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 has been made and none is contemplated at this time. The Company does not anticipate any guaranty prior to April of 2012, due to the decision to expand Castrovilla's operations into several new states.

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 has 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,

NOTE 3 - SIGNIFICANT EVENTS (CONTINUED)

Acquisition of Subsidiaries (Continued)

building, implementing and servicing three cutting-edge alternative energy technologies: Solar PV, Geothermal and Fuel Cells.

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 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 proforma condensed consolidated statements of operations are presented below for comparative purposes and to provide additional information and disclosure to the reader.

Proforma Condensed Consolidated Statement of Operations

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenues	$ 2,546,673	$ 3,184,526	$ 6,784,063	$ 20,099,745
Cost of Sales	1,229,286	1,743,501	3,501,748	14,377,396
Gross Profit	1,317,387	1,441,025	3,282,315	5,722,349
Operating Expenses	3,302,330	2,534,598	8,903,898	6,445,590
Loss from Operations	(1,984,943)	(1,093,573)	(5,621,583)	(723,241)
Other Income (Expense)	55,015	(235,818)	64,347	(284,813)
Loss Before Income Taxes	(1,929,928)	(1,329,391)	(5,557,236)	(1,008,054)
Income Tax Expense	4,614	(40,952)	(7,476)	(68,902)

Net Loss	$	(1,925,314)	$	(1,370,343)	$	(5,564,712)	$	(1,076,956)
Basic and Diluted Loss per Share	$	(0.13)	$	(0.10)	$	(0.40)	$	(0.07)
Weighted Average Number of Common Shares								
Outstanding Basic and Diluted		14,986,329		13,952,870		14,053,860		16,475,490

NOTE 3 - SIGNIFICANT EVENTS (CONTINUED)

Additional Issuances of Common Stock (Continued)

On September 29, 2011 the Company issued 12,000 shares of its common stock to an executive officer for accrued compensation valued at $1.00 per share. On September 7, 2011 the Company issued 66,667 shares of common stock to certain key employees of Xnergy valued at $1.72 per share. On July 13, 2011 the Company issued 100,000 shares of common stock for investment advisory services valued at $1.09 per share. On May 16, 2011 the Company issued 150,000 shares for a license to certain light switching technology and paid $100,000 cash. The shares were valued at $1.15 per share. On May 24, 2011 the Company issued 100,000 shares for services valued at $1.16 per share. On March 21, 2011 the Company issued 72,813 shares, valued at $95,784, for the cancellation of 238,500 previously issued options. On February 13, 2011 the Company issued 100,000 shares, valued at $1.24 for director’s fees. One half of the shares vested immediately, the remainder vest one year from issuance. Also, on February 13, 2011 the Company issued 150,000 shares valued at $1.18 for compensation. On January 1, 2011 the Company issued 1,279,762 shares for the acquisition of its subsidiary, as described above.

Issuance of Preferred Stock

On September 29, 2011 the Company issued 100,000 shares of its Series A preferred stock at $10 per share for proceeds of $1,000,000. Each share of Series A preferred stock is convertible to 10 shares of common stock upon the Company’s common stock trading at $3.00 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.

The Warrants are substantially the same as the funding warrants authorized for all shareholders of record as of December 31, 2010. 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.mp (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; provide, however, if such date is not a Business Day, then on the Business Day immediately following such date.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

On March 1, 2011, the Board of Directors of Blue Earth, Inc. (the “Company”) amended the employment agreements of Dr. Johnny R. Thomas, Chief Executive Officer and John C. Francis, Vice President of Corporate Development and Investor Relations. 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 only 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.

Any warrants not vested for one milestone are added on a cumulative basis to the following increment for potential vesting at the next milestone. In the event that an officer is terminated without cause: (i) he shall receive a cash settlement of $75,000, and (ii) 50% of all unvested warrants issued under his employment agreement, as amended, shall vest immediately.

The Company entered into employment agreements as of September 1, 2011 with D. Jason Davis, as Chief Executive Officer of Xnergy, Inc. and Joseph Patalano, as Chief Operating Officer of Xnergy, Inc. The agreements terminate on August 31, 2016, unless terminated earlier and are automatically renewed for one year periods unless notice of termination is given by either party at least 90 days prior to expiration of the Initial Term and/or any renewal period. Mr. Davis’s base salary is $300,000 per annum and Mr. Patalano’s base salary is $140,000. Both are eligible to receive a cash bonus for the three fiscal years ending December 31, 2013, based on Xnergy’s performance on a stand-alone basis. The bonuses shall be paid based on 80% of the reasonable forecasted profits of Xnergy before negotiations commenced with the Company. Messrs. Davis and Patalano shall receive 33% in the aggregate of the recurring revenue from payments completed during the initial term of their employment contracts, provided: (i) Xnergy’s net income for the fiscal year exceeds the profit threshold; (ii) the respective employee is still employed by Xnergy; and (iii) this provision shall expire on June 30, 2016, unless extended in writing. If the Agreement is terminated for Cause (as defined) or the employee leaves without Good Reason (as defined) he shall only receive any accrued compensation but not be entitled to any bonus beyond the date of termination. If the employee’s contract is terminated other than for Cause or by the Employee for Good Reason, but not for death, disability or non-renewal, the employee shall receive the compensation stated above for the balance of the Term and any bonus generated from recurring profits from payments originated by the Employee until revenue under such agreements cease.

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NOTE 5 - STOCK PURCHASE WARRANTS AND OPTIONS

During February 2011, warrants to purchase 500,000 shares of common stock at $1.24 per share were issued to the Company’s Chairman of the Board and his designees for their services. During May 2011, the Company granted 100,000 and 60,000 warrants at $1.15 per share, respectively to two consultants for services rendered. On March 1, 2011, 2,000,000 warrants were granted to officers of the Company at $1.25 per share. The warrants vest based upon certain performance criteria which have not been met as of September 30, 2011. On September 30, 2011, 500,000 warrants at $3.00 were granted in connection with the Preferred Stock offering. No value was attributed to the warrants because they were out of the money when granted. The Company has recognized $220,282 of expense in connection with the warrants during the nine months ended September 30, 2011. A summary of the Company’s warrant activity during the periods ended September 30, 2011 and December 31, 2010 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2009	3,520,000	$ 1.98	--	$ --
Granted	8,427,616	2.45	--	
Exercised	--	--	--	
Forfeited	(77,500)	2.00	1.90	
Balance Outstanding, December 31, 2010	11,870,116	2.31	2.78	$ 2,210,625
Exercisable Warrants	10,536,782	2.48	--	$ 877,291
Exercised	(12,000)	--	--	--
Granted	3,160,000	1.52	5.00	
Forfeited	--	--	--	
Balance Outstanding September 30, 2011	15,018,116	$ 2.15	2.53	$ 2,129,741
Exercisable, September 30, 2011	10,809,782	$ 2.38	2.53	$ 343,407

Stock Incentive Plan and Stock Option Grants to Employees and Directors

On October 30, 2009, the Company’s board of directors and stockholders adopted the 2009 Equity Incentive Plan (the “2009 Plan”). The purpose of the 2009 Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons into our development and financial success. Under the 2009 Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Code, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and long-term incentive awards. The Company has reserved for issuance an aggregate of 4,542,000 shares of common stock under the 2009 Plan. The 2009 Plan will be administered by the Company’s board of directors until such time as such authority has been delegated to a committee of the board of directors.

NOTE 5 - STOCK PURCHASE WARRANTS AND OPTIONS (CONTINUED)

The material terms of each option granted pursuant to the 2009 Plan by the Company shall contain the following terms: (i) that the purchase price of each share purchasable under an incentive option shall be determined by the Committee at the time of grant, but shall not be less than 100% of the Fair Market Value (as defined in the 2009 Plan) of such common share on the date the option is granted, (ii) the term of each option shall be fixed by the Committee, but no option shall be exercisable more than 10 years after the date such option is granted and (iii) in the absence of any option vesting periods designated by the Committee at the time of grant, options shall vest and become exercisable as to one-third of the total number of shares subject to the option on each of the first, second and third anniversaries of the date of grant.

On October 30, 2009, the Company issued, pursuant to the 2009 Plan, ten-year options to purchase 1,972,000 shares in the Company in exchange for the return of 1,972,000 shares of common stock (see above).

On October 30, 2009, the Company granted, pursuant to the 2009 Plan, ten-year stock options to purchase 1,250,000 common shares of the Company, of which (i) 580,000 are exercisable immediately at $0.90 per share, (ii) 70,000 are exercisable on April 30, 2010 at $0.99 per share, and (iii) 600,000 vest based on performance milestones, as stipulated in the option, and are exercisable at $1.00 per share.

The total fair value of stock option awards (not including those issued in exchange for common stock returned to the Company) granted to employees during the year ended December 31, 2009 was $251,871, which is being recognized over the respective vesting periods. The Company recorded compensation expense of $233,900 for the year ended December 31, 2009 in connection with these stock options.

On June 12, 2010 the Company issued options to purchase 10,000 shares of the Company’s common stock to a consultant. The options are exercisable at a strike price of $1.00. The options expire ten years from the date of issuance.

On September 1, 2010 the Company issued warrants to purchase 2,000,000 shares of the Company’s common stock to two officers of the Company. The options are exercisable at a strike price of $1.00. The options expire ten years from the date of issuance. On the date of issuance, 200,000 of the warrants vested. On October 31, 2010, an additional 300,000 warrants vested. The remaining warrants vest equally over three years.

On December 14, 2010 the Company issued options to purchase 30,000 shares of the Company’s common stock to consultants. The warrants are exercisable at a strike price of $1.70. The options expire ten years from the date of issuance.

On December 27, 2010 the Company issued warrants to purchase 500,000 shares of the Company’s common stock to a consultant. The warrants are exercisable at a strike price of $1.74. The options expire two years from the date of issuance.

NOTE 5 - STOCK PURCHASE WARRANTS AND OPTIONS (CONTINUED)

The above-mentioned options and warrants were valued using the Black-Scholes option pricing model with the following assumptions: 4.32%-0.71% risk free rate, stock price on the date of issuance of $1.30-$2.50, stock price of $1.50-$1.74, and volatility of 216.67%. The total value for the 1,245,166 vested options and warrants expensed during the year ended December 31, 2010 was $1,575,768 and was recorded to consulting fees.

On December 7, 2010 the Company declared a distribution to all shareholders of record on December 31, 2010. Each shareholder is entitled to receive upon the effective date of a registration statement with the SEC one warrant to purchase the Company’s common stock at an exercise price of $3.00 that expire ten years after issuance. Due to the fact that the Company has an accumulated deficit, the distribution was accounted for as a return of capital and recorded as a reduction to additional-paid in capital.

The total fair value of stock warrant and option awards (not including those issued in exchange for common stock returned to the Company) granted to employees during the years ended December 31, 2010 and 2009 was $3,167,745 and $251,871, respectively, which is being recognized over the respective vesting periods. The Company recorded compensation expense of $1,532,803 and $233,900 for the years ended December 31, 2010 and 2009, respectively, in connection with these stock warrants and options.

During the nine months ended September 30, 2011, the Company granted 97,791 options to employees of Castrovilla at $1.68 per share.

The Company will recognize $107,699 over the term of the options. As of September 30, 2011, 4,384,209 shares were remaining under the 2009 Plan for future issuance.

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 options granted during the year ended December 31, 2010 and the nine months ended September 30, 2011:

NOTE 5 - STOCK PURCHASE WARRANTS AND OPTIONS (CONTINUED)

	September 30, 2011	December 31, 2010
Expected term (years)	5.0	1.0 - 10.0
Expected volatility	159%	216%
Weighted-average volatility	159%	216%
Risk-free interest rate	3.99%	0.71% - 4.32%
Dividend yield	0%	0%
Expected forfeiture rate	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 periods ended September 30, 2011 and December 31, 2010 is presented below:

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2009	3,222,000	$ 0.94	9.8	
Granted	298,500	1.26	10	
Exercised	—	—	—	
Forfeited	(3,222,000)	0.94	9.8	
Expired	—	—	—	
Balance Outstanding, December 31, 2010	298,500	1.26	10	$ 299,885
Granted	97,791	1.68	--	
Exercised	--	--	--	
Forfeited	(238,500)	0.94	9.8	
Expired	--	--	--	
Balance Outstanding, September 30, 2011	157,791	$ 1.55	9.5	$ 244,089

Exercisable, September 30, 2011	157,791	$	1.55	9.5	$	244,089

The weighted-average grant-date fair value of options granted to employees during the year ended December 31, 2010 was $1.68. The Company expects all non-contingent outstanding employee stock options to eventually vest.

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NOTE 6 - SUBSEQUENT EVENTS

On October 4, 2011 the Company issued the following shares and options: 16,805 shares of its common stock upon the exercise of 50,000 cashless private placement warrants at $1.25 per share; 15,000 shares of common stock for consulting services valued at $1.72; 450,000 incentive stock options: 150,000 vesting immediately, 150,000 to vest upon the billing of 500 petroleum sites and 150,000 to vest upon the billing of 1,000 additional petroleum sites; and 14,535 shares of its common stock for accrued legal services. During October 2011 the Company received an additional $690,000 from the issuance of 69,000 shares of Series A preferred stock.

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

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

Forward-Looking Statements

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

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

Company Overview

Blue Earth, Inc. is engaged in the clean tech industry in general with a focus on the rapidly growing, multi-billion dollar energy efficiency sector. Our industry classifications are as follows: Sector - Services; Industry-Diversified Services; and Subindustry-Management Services.

Blue Earth is engaged in a mergers and acquisition strategy to acquire, license, develop, market, install and monitor clean-tech related, innovative technologies and energy management systems. These technologies are designed to enable customers to reduce their energy consumption, lower their generating and maintenance costs and realize environmental benefits. The targeted technologies typically include various measures designed for a specific customer or facility in our target market of small commercial businesses and residences to improve the efficiency of building systems, such as heating, ventilation, air conditioning, lighting and refrigeration. Management also intends to accelerate introduction of the acquired technology/products by offering and installing them through energy management service 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 various types of agreements with these energy management service companies, including acquisition agreements and/or joint venture agreements, as may be appropriate, for each company and geographic territory.

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 5,400 small commercial businesses.

On May 16, 2011, Blue Earth obtained the exclusive private label license (the “License”) and manufacturing rights to an innovative and patented lighting controls technology from Switch Genie LLC and James F. Loughrey.

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 serves as a financing vehicle for Xnergy. Xnergy 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 as well as comprehensive maintenance and service programs.

As of August 31, 2010, the Company sold its wholly-owned subsidiary Genesis Fluid Solutions, Ltd. (GFS) to certain buyers including its former Chairman and interim CEO Michael Hodges as defined by the Stock Purchase Agreement.

Results of Operations

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

Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010 (Actual)

Revenues

The Company recognized $1,129,491 of revenue for the three months ended September 30, 2011, as compared to no revenue for the three months ended September 30, 2010 from continuing operations. The current revenue represents sales primarily from the Company’s wholly-owned subsidiary Castrovilla, Inc. was acquired as of January 1, 2011 whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales. The Company acquired Xnergy as of September 7, 2011 effective at the close of business on August 31, 2011 See Note 3 - Significant Events for pro forma condensed consolidated statements of operations to include the operations of Castrovilla and Xnergy.

Cost of Sales and Gross Profit

Cost of sales for the three months ended September 30, 2011 were $591,907 resulting in a gross profit of $537,584 or 47.6% of revenues.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were $2,389,711 for the three months ended September 30, 2011 as compared to $475,280 for the three months ended September 30, 2010, an increase of $1,914,431. Approximately $832,724 or 34.8% of the total expenses were from Castrovilla Inc., with $445,268, or 53.5% of Castrovilla’s expenses relating to payroll expenses. Approximately $289,697 or 12.1% of the total general and administrative expenses were from Xnergy with $133,029 or 45.9% of Xnergy’s expenses relating to payroll expense. On a consolidated basis, general and administrative expenses include stock compensation expense of $450,966, or 18.9% of total general and administrative expense, wages and salaries of $721,130, or 30.2% and professional fees of $363,879 or 15.2%.

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

Other Income (Expense)

Total other income (expense) for the three months ended September 30, 2011 was $115,094 compared to $(195,646) for the three months ended September 30, 2010. The change to net other income from net other expense was primarily attributable to a $134,978 change in the fair value of the warrant derivative liability. The fair value is recalculated quarterly based primarily on the remaining term of the warrants and stock price volatility.

Net Loss

Loss from continuing operations was $1,737,033 for the three months ended September 30, 2011 as compared with a loss from continuing operations (primarily from a change in fair value of warrant liability) of $672,655 for the three months ended September 30, 2010, a decrease in profits of $1,064,378. The decrease is attributable primarily to an increase in general and administrative expenses related to the operations of the newly acquired subsidiaries and the costs related to the ongoing implementation of our business plan. The consolidated net loss increased from $709,239 to $1,737,033 for the three months ended September 30, 2011 as compared to September 30, 2010, due primarily to the increase in general and administrative services. There was a net loss from discontinued operations recorded for the period ended September 30, 2010 of $36,584 and none in the 2011 period.

Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010 (Actual)

Revenues

The Company recognized $3,173,127 of revenue for the nine months ended September 30, 2011, as compared to no revenue for the nine months ended September 30, 2010 from continuing operations. The current revenue represents sales primarily from the Company’s, wholly-owned subsidiary Castrovilla, Inc. whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales.

Cost of Sales and Gross Profit

Cost of sales for the nine months ended September 30, 2011 were $1,344,210 resulting in a gross profit of $1,828,917, or 57.6% of revenues.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were $5,019,880 for the nine months ended September 30 , 2011 as compared to $734,685 for the nine months ended September 30, 2010, an increase of $4,285,195, or 583%. Approximately $2,136,904 or 42.6% of the total general and administrative expenses were from Castrovilla with $1,309,415, or 61.2% of Castrovilla’s expenses relating to payroll expense. Approximately $289,697 or 5.8% of the total general and administrative expenses were from Xnergy with $133,029 or 45.9% of Xnergy’s expenses relating to payroll expense. On a consolidated basis, general and administrative expenses include stock compensation expense of $1,314,929, or 26.2% of total general and administrative expense, wages and salaries of $1,705,361, or 34% and professional fees of $692,137 or 13.8%.

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

Other Income (Expense)

Total other income for the nine months ended September 30, 2011 was $151,165 compared to total other expenses of ($294,842) for the nine months ended September 30, 2010. The positive change was primarily attributable to a positive change in the fair value of the warrant derivative liability of $199,177 from a negative change of $238,379 in 2010. The fair value is recalculated quarterly based primarily on the remaining term of the warrants and stock price volatility.

Net Loss

Net loss from continuing operations was $3,039,798 an increase in loss from continuing operations of $2,007,742 or 195%, from $1,032,058 the nine months ended September 30, 2010. The increase is attributable primarily to an increase in general and administrative expenses related to the operations of the newly acquired subsidiaries and the costs related to the ongoing implementation of our business plan. The consolidated net loss increased from $1,997,219 to $3,039,798, or 52%.

Nine Months Ended September 30, 2011 Compared with Nine months Ended September 30, 2010 (Pro forma)

The Company acquired Castrovilla, Inc. effective January 1, 2011 and Xnergy, Inc. effective September 7, 2011. The following Managements’ Discussion and Analysis is prepared to provide an understanding of the Company’s business activities as though the acquisitions were effective January 1, 2010.

Revenues

The Company recognized $6,784,063 revenue for the nine months ended September 30 2011, as compared to $20,099,745 for the nine months ended September 30, 2010 from continuing operations. Revenue represents sales from the Company’s, wholly-owned subsidiary Castrovilla, Inc. whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales and from the Company’s, 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. Castrovilla’s sales for the nine months increased by 16%, while Xnergy’s sales declined by 66% ($13,315,682) for the nine month period. The decline in Xnergy sales was the direct result of allocating most of Xnergy’s resources to development of a pipeline of approximately $585 million in order to develop a recurring revenue business model. Assuming management develops project finance as anticipated, Xnergy’s revenues in 2012 should exceed 2010 revenues.

Cost of Sales and Gross Profit

Cost of sales for the nine months ended September 30, 2011 were $3,501,748, compared to $14,377,396, for the nine months ended September 30, 2010, resulting in a gross profit of $3,282,315, or 48.4% of revenues and $5,722,349, or 28.5% of revenues, respectively. Castrovilla’s new products have higher gross margins. Xnergy was unable to finance projects in 2011 prior to acquisition by the Company, resulting in a reduction of sales and the related cost of sales.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were $8,903,898 for the nine months ended September 30, 2011 as compared to $6,445,590 for the nine months ended September 30, 2010, an increase of $2,458,308. Approximately $2,136,904 of the total expenses for the nine months ended September 30, 2011 were from the operations of Castrovilla and $2,803,134 from Xnergy. Approximately $1,552,441 of the total expenses for the nine months ended September 30, 2010 were from the operations of Castrovilla and $2,719,631 from Xnergy.

Net Loss

The proforma net loss from continuing operations for the nine months ended September 30, 2011 was $5,621,583, a $4,898,342 or 677% increase over the $723,241 for the nine months ended September 30, 2010.

Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010 (Pro forma)

Revenues

The Company recognized $2,546,673 of revenue for the three months ended September 30 2011, as compared to $3,184,526, for the three months ended September 30, 2010 from continuing operations and Castrovilla, Inc. whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales. Revenue decreased $637,853 or 20%, primarily due to a decline in sales by Xnergy as a result of a lack of financing for the project pipeline, offset in part by an expanded product offering by Castrovilla, Inc.

Cost of Sales and Gross Profit

Cost of sales for the three months ended September 30, 2011 were $1,229,286, compared to $1,743,501, for the three months ended September 30, 2010, resulting in a gross profit of $1,317,387, or 51.7% of revenues and $1,441,025 or 45.2% of revenues, respectively. Castrovilla’s new products have higher gross margin.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were $3,302,330 for the three months ended September 30, 2011 as compared to $2,534,598 for the three months ended September 30, 2010, an increase of $767,732 or 30.3%. Approximately $531,456 of the total expenses for the three months ended September 30, 2010 were from the operations of Castrovilla and $1,071,001 from Xnergy.

Net Loss

The net loss from continuing operations for the three months ended September 30, 2011 was $1,984,943, a $891,370, or 81.5%, increase over the $1,093,573 for the three months ended September 30, 2010.

Liquidity and Capital Resources as of September 30, 2011

Net cash used in continuing operations during the nine months ended September 30, 2011 totaled $2,901,716 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of $3,039,798, the Company incurred a decrease in the warrant derivative liability of $199,177, an increase in accounts receivables of $170,934, and inventory of $355,070 and prepaid expenses and deposits $472,805 that was partially offered by common stock and options issued for services expensed at $757,452 and 557,477, respectively, an increase in accounts payable and accrued expenses of $191,457.

Net cash used in investing activities during the nine months ended September 30, 2011 totaled $746,078 and resulted from the purchase of Xnergy and Castrovilla, $100,000 for the purchase of the Switch Genie license and $41,408 for the purchases of property and equipment.

Net cash provided by financing activities during the nine months ended September 30, 2011 totaled $1,336,529 and resulted from $1,000,000 of proceeds from the sale of preferred stock, $1,800,978 of cash in the new subsidiaries offset by payments on notes payable of $1,585,341.

At September 30, 2011, we had a working capital deficit of $2,202,005 including $1,588,831 in cash and cash equivalents compared with working capital of $2,612,637 at December 31, 2010. We anticipate our revenue generating activities to continue and even increase as we seek and make acquisitions. Our consolidated financial statements were prepared assuming that we would continue as a going concern irrespective of our recurring losses, accumulated deficits and negative cash flows from operations. Our ability to continue as a going concern 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, and our efforts to continue as a going concern may not prove successful. 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 decrease in working capital was the result of the assumption of the negative working capital of Xnergy.

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. In September 2011, we completed a private placement of preferred Stock and warrants of $1,000,000 and an additional $690,000 in October 2011 which we believe will fund our operations at least through September 2012. Prior thereto, we completed a private placement, commencing October 30, 2009 through December 29, 2009, whereby we received net proceeds of $5,909,750. We do not have any lines of credit or borrowing facilities to meet our cash needs. It is reasonably possible that we will not be able to obtain sufficient financing to continue operations beyond the next 12 months. 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

No related party transactions had a material impact on our operating results for the nine months ended September 30, 2011.

New Accounting Pronouncements

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

Critical Accounting Estimates

Management’s discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed 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.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

N/A

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow time decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that material information we are required to disclose in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting. During the most recent quarter ended September 30, 2011, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. 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. There have been no substantive changes in any legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2010 and Quarterly Report on Form 10-Q for the period ended June 30, 2011; and we are not involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on the Company.

ITEM 1A. RISK FACTORS.

N/A

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On or about July 15, 2011, the Company issued 100,000 shares of Common Stock to Ladenberg Thalmann pursuant to Investment Banking Agreement dated July 13, 2011.

On September 7, 2011, the Company issued: (i) an aggregate of 4,500,000 shares of Common Stock to D. Jason Davis and Joseph Patalano, and (ii) 66,667 shares of Common Stock to key employees of Xnergy, Inc. pursuant to the terms and conditions of the Agreement and Plan of Merger dated September 7, 2011. In addition, an aggregate of 66,667 restricted shares were granted to non-officer employees of Xnergy, Inc.

On September 29, 2011, the Company issued 100,000 shares of Series A Convertible Preferred Stock with a face value of $10.00 per share and 500,000 Common Stock Purchase Warrants to one individual accredited investor.

The shares were issued in transactions that were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act, which exempts transactions by an issuer not involving a public offering and/or pursuant to Regulation D promulgated under the Securities Act. No commissions were paid and no underwriter or placement agent was involved in these transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. RESERVED.

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer and Principal Financial Officer

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUE EARTH, INC.

Date: November 16, 2011

By:

/s/ Johnny R. Thomas

Dr. Johnny R. Thomas

Chief Executive Officer (Principal Executive

Officer
and
Principal
Financial
Officer)