

# **BLUE EARTH RESOURCES, INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED AUGUST 31, 2016 AND YEAR ENDED  
FEBRUARY 29, 2016**

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BLUE EARTH RESOURCES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	Aug 31, 2016	<u>Feb 29, 2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 3	\$ 8,316
Accounts Receivable		0
Prepaid Expenses		<u>0</u>
<b>Total Current Assets</b>	<u>3</u>	<u>8,316</u>
<b>Property and Equipment</b>		
Property and equipment, at cost	81,852	37,048
Less accumulated depreciation	<u>10,519</u>	<u>9,634</u>
<b>Property and equipment, net</b>	71,333	27,414
<b>Other Assets</b>		
Notes Receivable	400,000	400,000
Investment in restaurant and cleaning products	210,000	0
PRO Assets	295,580	295,580
Investment in Texas Wyoming Drilling	<u>-</u>	<u>3,500</u>
<b>Total Other Assets</b>	<u>905,580</u>	<u>699,080</u>
<b>TOTAL ASSETS</b>	<u><b>976,916</b></u>	<u><b>734,810</b></u>
<b>LIABILITIES &amp; EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable and accrued expenses	12,839	14,907
Short Term Loan	<u>30,000</u>	<u>38,600</u>
<b>Total Current Liabilities</b>	42,839	<u>53,507</u>
<b>Long Term Liabilities</b>		
<b>Total Liabilities</b>	<u>42,839</u>	<u>53,507</u>
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock - Series A	395	395
Preferred Stock - Series B		
Preferred Stock - Series C	1,899	1,899
Preferred Stock - Series D	1,949	1,949
Common Stock - (\$.004 Par), 200,000,000 shares authorized; 5,765,766 outstanding as of February 29, 2016 and 14,615,766 shares as of August 31, 2016	58,463	23,063
Additional Paid-in Capital	9,613,343	9,340,898
Accumulated Deficit	<u>(8,741,972)</u>	<u>(8,686,901)</u>
<b>Total Stockholder Equity</b>	<u>934,077</u>	<u>681,303</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><b>\$ 976,916</b></u>	<u><b>\$ 734,810</b></u>

BLUE EARTH RESOURCES, INC.  
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

	Six Months Ended August 31, 2016	Year Ended February 29, 2016
<b>REVENUES</b>	\$ 0	\$ 0
Cost of goods sold	<u>0</u>	<u>14,181</u>
<b>GROSS PROFIT</b>	0	(14,181)
<b>EXPENSES:</b>		
Executive Compensation	8,629	
Director Compensation	18,000	
Depreciation	885	
Stock Transfer and OTC Market Fees	4,888	
Insurance	726	
Legal and Accounting Fees	6,118	
Bank Charges	20	
Office Supplies and Telephone	556	
Travel and Lodging	2,295	
General and Administrative Expenses	<u>9,454</u>	<u>23,178</u>
Total operating expenses	<u>51,571</u>	<u>23,178</u>
<b>OPERATING INCOME(LOSS)</b>	<u>(51,571)</u>	<u>(37,359)</u>
<b>OTHER INCOME (LOSS)</b>		
Gain (Loss) on sale of fixed assets		2,384
Impairment Loss	(3,500)	
Total Other Income (loss)	<u>(3,500)</u>	<u>2,384</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(55,071)	(34,975)
Income Tax Benefit (Expense)	<u>-</u>	<u>-</u>
<b>NET INCOME (LOSS)</b>	(55,071)	-34,975
Other Comprehensive income (loss)	<u>-</u>	<u>-</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ (55,071)</u>	<u>\$ (34,975)</u>

BLUE EARTH RESOURCES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED AUGUST 31, 2016  
(UNAUDITED)

**Cash flows from operating activities:**

Net Income (loss)	\$	(55,071)
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Adjustments to reconcile net income to net

**cash flows from operating activities:**

Issuance of common stock for services		24,358
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Impairment loss - Texas Wyoming Drilling Inc		3,500
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Depreciation Expense		1,180
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Increase (decrease) in accounts payable/accrued expenses		(2,068)
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Net Cash (Used In) provided by Operations		<u>(28,101)</u>
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**Cash Flows from Investing Activities:**

Acquisition of 100% of restaurant development, cleaning products		(210,000)
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Purchase of company truck		(44,804)
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Issuance of common stock for acquisition		<u>210,000</u>
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Net Cash Provided (Used) By Investing Activities		<u>(44,804)</u>
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**Cash Flows from Financing Activities:**

Proceeds from short-term loans		26,000
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Payments on short-term loans		(4,000)
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Proceeds from Long-term loans		44,804
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Payments on long-term loans		<u>(2,218)</u>
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Net Cash Provided(Used) By Financing Activities		<u>64,586</u>
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Net (Decrease) Increase in Cash		(8,319)
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Cash at Beginning of Period		<u>8,316</u>
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Cash at End of Six Month Period	\$	<u><u>(3)</u></u>
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**BLUE EARTH RESOURCES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
SIX MONTHS ENDED AUGUST 31, 2016 AND YEAR ENDED FEBRUARY 29, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER INFORMATION**

Blue Earth Resources, Inc. (the “Company”) was incorporated under a former name on March 15, 1984 under the laws of the State of Utah. The common stock of the Company has been traded publicly on the national OTC market for many years, with its symbol currently being “BERI.” The Company over the past few years was engaged in purchasing and holding many small royalty and non-operated working interests in producing onshore oil and gas leases in mid-continental USA, as well as operating certain oil production leases in northwestern Louisiana. The Company also owns the rights to a patented technology for the inspection and cleaning of diesel fuel tanks, commercially known as CamVacUSA technology.

In 2015, the Company sold its remaining oil and gas properties in order to focus on seeking and acquiring a high growth business unrelated to the petroleum industry. This change in business strategy recently resulted in acquiring the majority interest in a restaurant development concept and in certain industrial cleaning products formerly sold under the Eco Source brand. In June 2016, the Company acquired the remaining interest in the restaurant concept and the Eco Source product rights.

The Company purchased its restaurant development and Eco Source product rights from its current CEO through the issuance to him and his affiliated parties a total of Six Million (6,000,000) shares of common stock of the Company. Incident to this transaction, all former officers and directors resigned and the current CEO and two appointees are now the Board of Directors of the Company.

**CURRENT BUSINESS STRATEGY** – The Company is currently raising capital to support opening of its first restaurant in Austin, Texas under the name of “Hotties Sports Bar & Grill”. The site selection, design, operational business plan, menus and other items have been developed and completed over the past years by the current CEO of the Company. All necessary food, liquor, restaurant equipment and other supply vendors have been sourced to open its Austin restaurant.

The second planned restaurant for the Company will be located in a suburb of Houston Texas and it is planned to open soon after opening the first location in Austin.

**Franchising Operation** – After the Austin and Houston restaurants have attained positive cash flows, the Company intends to target various other high growth cities in Texas and other States to aggressively market the restaurant concept as a franchise opportunity.

**BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)**

**Note 1 (continued)**

The Company recently changed the name of its industrial cleaning products from “Eco Source” to “Blue Earth Cleaners”. As soon as possible after the commencement of the restaurant business and franchising venture, the Company will begin to manufacture and market the cleaning products which have been sold for many years under the old brand.

Principles of Consolidation-The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, PetroResources, Inc. All material intercompany transactions and balances were eliminated in consolidation.

Basis of Accounting - The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash Equivalents - For purposes of reporting cash flows, cash equivalents include investment instruments purchased with maturity of three months or less. There were no cash equivalents in 2016.

Revenue Recognition - Incident to its restaurant development after becoming commercial, all revenues from restaurant operations will be recognized when received.

Stock-Based Consideration - The Company recognizes compensation cost using a fair value based method whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company uses the Black-Scholes pricing model to calculate the fair value of options and warrants issued to both employees and non-employees. Stock issued for compensation is valued using the market price of the stock on the date of the related agreement.

Comprehensive Income - FASB ASC 220-10-20: Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income and its components which will be presented in association with a company's financial statements. Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such foreign currency translation adjustments and unrealized gains or losses on available-for-sale-securities. It includes all changes in equity during a period except those resulting from investments by or distributions to owners. A reconciliation of net income and comprehensive income is provided in the accompanying financial statements.

#### **BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)**

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives of five to seven years. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

Long-Lived Assets - In accordance with ASC 360-10, Accounting For The Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the Company reviews its long-lived assets and intangibles related to those assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets outstanding with estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An impairment loss would be measured by comparing the amount by which the carrying value exceeds

the fair value of the long-lived assets and intangibles. Management determined that no impairment of long-lived assets existed in 2016.

Earnings (Loss) Per Share - Basic earnings (loss) per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per common share, in addition to the weighted average determined for basic earnings per shares, would include potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Concentrations, Risks and Uncertainties -

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Continuing Operations: The Company's future success is subject to various contingencies beyond management's control. These contingencies include: general economic and political conditions; availability of capital resources, competition and governmental regulatory changes.

**BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)**

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial reporting carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in 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 operating results in the period of enactment. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has evaluated for uncertain tax positions and feels there are none. Federal and state taxing authorities generally have the right to examine returns for three years from the date of filing. Any interest or penalties incurred by the Company would be included in operating expenses in the accompanying financial statements. No interest or penalties are reflected in the accompanying financial statements.

**NOTE 2 - GOING CONCERN**

The Company has incurred net losses and negative cash flows from the operations since the acquisition of oil and gas operations commencing December 9, 2009. Currently the Company does not generate sufficient cash flows to cover general corporate activities. The Company currently does not have sufficient capital resources and will need to raise either debt or equity financing. If the Company is unsuccessful it might not be able to

continue as a going concern. No estimate can be made of the range of loss that is reasonably possible should the Company be unsuccessful in acquiring needed material capital resources.

### NOTE 3 - FAIR VALUE DISCLOSURES

The following methods and assumptions were used in estimating the fair value of the Company's financial instruments:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 assets and liabilities include cash and cash equivalents, and exchange-traded investments.

Level 2 – Inputs other than quoted prices included within Level 1 - directly or indirectly observable inputs such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and other inputs that are observable or can be substantially corroborated by observable market data by correlation or other means. Level 2 assets and liabilities include the Company's oil and gas interests.

### BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities.

The following tables set forth the Company's assets and liabilities by level that were accounted for at fair value as of August 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
CamVacUSA Technology/Assets Held for Sale	-0-	-0-	\$295,580
Note Receivable from sale of LA oil & gas leases	-0-	-0-	\$400,000
Liabilities ;			
Notes Payable	-0-	-0-	\$ 30,000

### NOTE 4 - RELATED PARTY TRANSACTIONS

In April 2016 the Company issued 3,000,000 shares of restricted common stock to John Kemp, CEO of the Company in consideration for 51% of his restaurant concept development and 51% of marketing and manufacturing rights to Eco Source cleaning products valued at \$90,000. Mr. Kemp became the Chief Executive Officer and the Company issued 100,000 restricted common shares to each of its two former directors.

In April 2016, the Company obtained a short-term loan from Bradley Capital Group, Inc. ("Bradley") of \$25,000. Bradley is owned by John Lai, former CEO of the Company.

In May 2016, two new directors, Michael Shoemaker and Charles Brister, were appointed and each was granted 100,000 shares of restricted common stock.



In May 2016, the Company satisfied the \$25,000 loan and \$15,000 of other obligations owed to Bradley with a cash payment of \$3,000 and issuance of 1,400,000 restricted common shares.

In June 2016, the Company acquired the remaining 49% interest in the restaurant concept and the Eco Source Cleaning products from Mr. Kemp in exchange for an additional 3,000,000 restricted common shares.

## **BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)**

### **NOTE 5 – IMPAIRMENT OF TEXAS WYOMING DRILLING INC**

The Company has taken an impairment loss of 100% of its carrying value of \$3,500 during 2016 due to no perceived market value.

### **NOTE 6 – NOTE RECEIVABLE**

The Company holds a note receivable of \$400,000 related to the sale of the Louisiana oil and gas leases formerly owned by the Company. The Company intends to enforce its right to collect the note when it becomes due.

### **NOTE 7 - SHAREHOLDERS' EQUITY**

**Common Stock** – During the six months ended August 31, 2016, the Company issued a total of 7,850,000 shares of restricted common stock, including 6,000,000 shares to John Kemp and shareholders of J.G.K. Consulting Group Inc. to acquire 100% interest in its restaurant development and cleaning products, 1,400,000 shares to satisfy outstanding liabilities owed to Bradley Capital Group, Inc., 400,000 shares to former and current directors (100,000 each), and 50,000 shares for legal services.

**Preferred Stock** – The Company has outstanding 98,838 shares of Series A Preferred Stock, 474,707 shares of Series C Preferred Stock, and 487,207 shares of Series D Preferred Stock.

Preferred stock is convertible into common stock as follows:

- One share of Series A preferred stock can be converted into 1.058 shares of common

- One share of Series B preferred stock can be converted into shares of common stock at \$.01 per share

- One share of Series C preferred stock can be converted into 1.5 shares of common

- One share of Series D preferred stock can be converted into .5 shares of common (2 shares of Series D preferred stock converts into one share of common stock).

Series C preferred stock is entitled to dividends. No other preferred stock series is entitled to dividends.

No Series B preferred stock is currently outstanding. Shares of Series A, C and D preferred stock were outstanding at February 29, 2016 and August 31, 2016.

No preferred stock was converted into common stock during the six months ended August 31, 2016.

**BLUE EARTH RESOURCES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont)**

Options and Warrants – The Company does not have any outstanding stock options or warrants since the exercise terms of all former warrants and stock options have expired.

**NOTE 8 – DEFERRED OFFERING COSTS**

Offering costs in connection with a private placement of common stock now being offered to a limited group of private investors have been deferred. These deferred costs will be charged and offset against the proceeds received by the Company from the private offering.

**NOTE 9 – SUBSEQUENT EVENTS** Subsequent events have been evaluated through October 10, 2016, which is the date the financial statements were available to be issued.