BLUE SPHERE CORP.
Form 10-Q
August 19, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the transition period from _________ to ________

Commission File No.**333-147716**

**Bluesphere Corp.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **98-0550257** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**35 Asuta Street, Even Yehuda, Israel 40500**
(Address of principal executive offices) (zip code)

**972-9-8917438**
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: **As at August 18, 2014, there were 38,113,810 shares of common stock, par value $0.001 per share, outstanding.**

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Forward Looking Statements

This quarterly report contains forward-looking statements. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “con negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks set out below, any of which may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, without limitation, (i) uncertainties regarding our ability to obtain adequate financing on a timely basis including financing for specific projects, (ii) the financial and operating performance of any our projects, (iii) uncertainties regarding the market for and value of carbon credits and other environmental attributes, (iv) political and governmental risks associated with the countries in which we may operate, (v) unanticipated delays associated with project implementation including designing, constructing and equipping projects, as well as delays in obtaining required government permits and approvals, (vi) the development stage of our business and (vii) our lack of operating history.

This list is not an exhaustive list of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements.

Forward looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars (U.S. $) and are prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”). In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars.

As used in this quarterly report, the terms “we”, “us”, “our”, “Blue Sphere” or the “Company” mean Bluesphere Corporation a its wholly-owned subsidiary, Eastern Sphere, Ltd., unless the context clearly requires otherwise.

BLUE SPHERE CORP.

(A development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

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BLUE SPHERE CORP.

(A development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

IN U.S. DOLLARS

UNAUDITED

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BLUE SPHERE CORP.

(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands except share and per share data)

| | June 30, 2014 Unaudited | September 30, 2013 Audited |
|---|---|---|
| Assets | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 258 | $ 46 |
| Other current assets | 61 | 286 |
| Total current assets | 319 | 332 |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation | 1 | 3 |
| PAYMENT ON ACCOUNT OF PROJECT | 341 | 271 |
| Total assets | $ 661 | $ 606 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long term loan | $ 154 | $ 12 |
| Accounts payables | 11 | 16 |
| Other accounts payable | 951 | 420 |
| Debentures, notes and loans | 528 | 587 |
| Total current liabilities | 1,644 | 1,035 |
| LONG TERM BANK LOAN | 120 | 53 |
| STOCKHOLDERS' DEFICIT: | | |
| Common shares of $0.001 par value each: | | |
| Authorized: 1,750,000,000 shares at June 30, 2014 and September 30, 2013, Issued and outstanding: 31,381,500 shares and 9,621,210 shares at June 30, 2014 and September 30, 2013, respectively | 1,107 | 1,086 |
| Proceeds on account of shares | 223 | - |
| Additional paid-in capital | 30,328 | 26,998 |
| Accumulated deficit during the development stage | (32,761 ) | (28,566 ) |
| Total Stockholders' Equity (Deficit) | (1,103 ) | (482 ) |
| Total liabilities and Stockholders' Equity (Deficit) | $ 661 | $ 606 |

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

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BLUE SPHERE CORP.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(U.S. dollars in thousands except share and per share data)

| | Nine months ended June 30 2014 (Unaudited) | 2013 | Three months ended June 30 2014 (Unaudited) | 2013 | Cumulative from July 17, 2007 through June 30 2014 Unaudited |
|---|---|---|---|---|---|
| OPERATING EXPENSES - | | | | | |
| General and administrative expenses * | $4,074 | $1,348 | $1,271 | $435 | $ 32,436 |
| FINANCIAL EXPENSES (INCOME), net | 121 | 108 | 40 | 38 | 295 |
| | 4,195 | 1,456 | 1,311 | 473 | 32,731 |
| Other losses | - | - | - | - | 30 |
| NET LOSS FOR THE PERIOD | $4,195 | $1,456 | $1,311 | $473 | $ 32,761 |
| Net loss per common share - basic and diluted | $(0.253) | $(0.317) | $(0.056) | $(0.069) | |
| Weighted average number of common shares outstanding during the period - basic and diluted | 16,566,790 | 4,595,150 | 23,539,223 | 6,854,123 | |

* In the nine months period ended June 30, 2014 and 2013 - includes $316 thousand and $113 thousand, respectively of share-based compensation.

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

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BLUE SPHERE CORP.

(A development stage company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(U.S. dollars in thousands, except share and per share data)

| | Common Stock, $0.001 Par Value | | Additional paid-in | Accumulated deficit during the development | Proceeds on account of | Total Stockholders' |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | stage | Shares | Equity (deficit) |
| COMMON STOCK ISSUED, JULY 17, 2007 (DATE OF INCEPTION) | 16,815 | $ 2 | $ 67 | $ - | $ - | $ 69 |
| CHANGES DURING THE PERIOD FROM JULY 17, 2007 THROUGH SEPTEMBER 31, 2013 (audited): | | | | | | |
| Issuance of common stock, net of issuance expenses | 3,602,402 | 407 | 702 | - | - | 1,109 |
| Share split of 35:1 | 571,682 | 65 | (65) | - | - | - |
| Common stock issued as direct offering costs | 17,700 | 2 | 995 | - | - | 997 |
| Share based compensation | 141,820 | 16 | 18,917 | - | - | 18,933 |
| Exercise of Options | 220,936 | 24 | (16) | - | - | 8 |
| Share based compensation for services | 2,168,388 | 244 | 6,254 | - | - | 6,498 |
| Issuance of common stock in respect of issuance of convertible notes | 2,881,467 | 326 | 144 | - | - | 470 |
| Net loss for the period | - | - | - | (28,566) | - | (28,566) |
| BALANCE AT SEPTEMBER 30, 2013 (audited) | 9,621,210 | 1,086 | 26,998 | (28,566) | - | (482) |
| CHANGES DURING THE PERIOD OF NINE MONTHS ENDED JUNE 30, 2014 (unaudited): | | | | | | |
| Proceeds on account of shares | - | - | - | - | 223 | 223 |
| Share based compensation | - | - | 1,149 | - | - | 1,149 |
| Issuance of common stock, net of issuance expenses | 5,973,015 | 6 | 624 | - | - | 630 |
| Issuance of shares for services | 8,299,533 | 8 | 1,205 | - | - | 1,213 |
| Issuance of common stock in respect of issuance of convertible notes | 7,487,742 | 7 | 352 | - | - | 359 |
| Net loss for the period | - | - | - | (4,195) | - | (4,195) |
| | 31,381,500 | $ 1,107 | $ 30,328 | $ (32,761) | 223 | $ (1,103) |

BALANCE AT JUNE 30, 2014
(Unaudited)

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

BLUE SPHERE CORP.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

| | Nine months ended June 30 2014 (Unaudited) | Nine months ended June 30 2013 | For the period From July 17, 2007 through June 30, 2014 (Unaudited) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Profit (Net loss) for the period | $ (4,195 ) | $ (1,456 ) | $ (32,761 ) |
| Adjustments required to reconcile net loss to net cash used in operating activities: | | | |
| Share based compensation expenses | 316 | 105 | 19,249 |
| Depreciation | 2 | 1 | 7 |
| Expenses in respect of Convertible notes and loans | 59 | 70 | 177 |
| Issuance of shares for services | 2,050 | 526 | 8,549 |
| Issuance of shares in respect of issuance of Convertible notes | - | - | 52 |
| Decrease (increase) in other current assets | 225 | (152 ) | 124 |
| Increase (decrease) in accounts payables | (5 ) | 1 | 108 |
| Increase (decrease) in other account payables | 526 | 175 | 849 |
| Net cash used in operating activities | (1,022 ) | (730 ) | (3,646 ) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Payments on account of project | (70 ) | (285 ) | (341 ) |
| Short term investments | - | (7 ) | (7 ) |
| Payment for purchasing of fixed assets | - | - | (9 ) |
| Net cash used in investing activities | (70 ) | (292 ) | (357 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from options exercise | - | - | 8 |
| Proceeds on account of shares | 223 | 74 | 223 |
| Loan granted | - | - | (30 ) |
| Loans received | 1,029 | 564 | 1,725 |
| Loan origination fee | - | - | (178 ) |
| Loans repaid | (578 ) | (180 ) | (761 ) |
| Proceeds from issuance of convertible debenture | - | - | 321 |
| Proceeds from stock issued for cash | 630 | 765 | 2,953 |
| Net cash provided by financing activities | 1,304 | 1,223 | 4,261 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 212 | 201 | 258 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 46 | 22 | - |

| | | | |
|---|---|---|---|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 258 | $ 223 | $ 258 |

**The accompanying notes are an integral part of the consolidated financial statement**

**BLUE SPHERE CORP.**

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis, as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position and results of operations of Blue Sphere Corp. ("the Company"). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements included in its Annual Report on Form 10-K for the year ended September 30, 2013, as filed with the Securities and Exchange Commission. The results of operations for the nine months ended June 30, 2014 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 - GENERAL

The Company was incorporated in the state of Nevada on July 17, 2007 and was originally in the business of developing and promoting automotive internet sites. During the second quarter of 2010 the management of the Company decided to change its business focus to that of project integrator in the clean energy production and waste to energy markets.

The Company is currently focusing on five projects for which it has signed agreements, term sheets or memoranda to own and implement such projects and which are in various stages of development:

United States

- Charlotte, NC Waste to Energy Anaerobic Digester 5.2 MW Plant
- Johnston, RI Waste to Energy Anaerobic Digester 3.2 MW Plant

Ghana

- Oti Sanitary Landfill Waste to Energy 1 MW Plant
- Accra Transfer Station Waste to Energy Anaerobic Digester 10MW Plant

On November 26, 2013, the Company amended and restated its Articles of Incorporation to authorize the issuance of 500,000,000 shares of preferred stock, $0.001 par value, in one or more series and with such rights, preferences and privileges as its Board of Directors may determine and to effect a 1 for 113 reverse stock split of the Company's outstanding common stock. In addition, the Amended and Restated Articles of Incorporation provide, among other things, for indemnification and limitations to the liability of the Company's officers and directors.

As a result of the reverse stock split, which became effective on December 4, 2013, every 113 shares of the Company's outstanding common stock prior to the effect of that amendment was combined and reclassified into one share of the Company's common stock, and the number of outstanding shares of the Company's common stock was reduced from 1,292,103,309 to 11,434,611 shares.

All share, stock option and per share information in these condensed consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

**BLUE SPHERE CORP.**

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 2 – GENERAL (continue)

Construction Financing Agreement

On October 29, 2013, Orbit Energy Charlotte, LLC ("OEC"), Tipping, LLC ("Tipping") and Caterpillar Financial Services Corporation ("Caterpillar") entered into a Construction Financing Agreement (the "Construction Financing Agreement") in respect of the 5.2MW anaerobic digester project in Charlotte, NC (the "Project") that the Company expects to acquire from Orbit Energy, Inc., the project's current owner.

The Construction Financing Agreement is the agreement pursuant to which Caterpillar Financial Service Corporation ("CAT") has agreed, subject to the fulfillment of certain conditions, including, but not limited to the receipt and expenditure of the Equity Finance ( as defined below ), to provide up to $17,785,720 in debt financing (the "Debt Finance") in respect of the Project.

The Debt Finance is to be divided into two phases: (i) a construction loan and (ii) a term loan. The term of the Debt Finance shall be 10 years. Interest on the construction loan component of the Debt Financing is based on LIBOR for deposits in dollars for a term of three months plus a variable-rate spread the minimum of which can be 5.32%. Interest on the term loan component of the Debt Finance will be fixed 60 days prior to the conversion of the construction loan into a term loan (based on CAT's proprietary cost of funds). Prepayment of the construction loan is not permitted, but prepayment of the term loan is permitted subject to the payment of a fee the amount of which depends, in part, on the timing of the prepayment.

On June 6, 2014, OEC, Tipping and Caterpillar amended and restated the Construction Financing Agreement to reflect (i) a reduction in the Debt Finance amount from $17,785,720 to $13,800,000 and (ii) an increase in the initial term loan interest rate from 6.96% to 7.88%.

REF Bluesphere Joint Venture

On October 30, 2013, the Company had entered into an Operating Agreement (the “Operating Agreement”) with REF Investments Ltd. (“REF”) with respect to the formation of REF Bluesphere LLC (the “JV”). The JV is a company set up to own and manage OEC and Tipping through certain intermediary companies. Pursuant to the Operating Agreement, REF has, subject to the fulfillment of certain conditions, agreed to invest $6,000,000 in cash plus $1,500,000 in a letter of credit in the form of equity financing for the Project (the “Equity Finance”). In exchange for the Equity Finance, REF will receive a 50% ownership stake in the JV leaving the Company with a 50% ownership stake in the JV. Until REF receives a 20% internal rate of return after taxes (the “Minimum Return”) on its investment of the Equity Finance of the Project, REF will receive 85% of the EBITDA of the Project and the Company will receive 15%. Once REF has received the Minimum Return, the allocation of net revenue shall become 50% to REF and 50% to the Company.

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**BLUE SPHERE CORP.**

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 - INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements as of June 30, 2014 and for the nine months then ended, have been prepared in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014.

The September 30, 2013 Condensed Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2013.

**NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the annual financial statements of the Company as of September 30, 2013, are applied consistently in these financial statements.

**NOTE 5 - GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of June 30, 2014, the Company had approximately $258 thousand in cash and cash equivalents, approximately $1,325 thousand in negative working capital, a stockholders' deficit of approximately $1,103 thousand and an accumulated deficit during development stage of approximately $32,761 thousand. Management anticipates that their business will require substantial additional investments that have not yet been secured. The Company anticipates that the existing cash will not be sufficient to continue its operations through the next 12 months.

Management is continuing in the process of fund raising in the private equity markets as the Company will need to finance future activities and general and administrative expenses. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

These financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent on its ability to obtain additional financing as may be required and ultimately to attain profitability.

**NOTE 6 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS:**

In June 2014, the FASB issued ASU 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted. The Company intends to adopt ASU 2014-10 in the annual financial statements as of September 30, 2014

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

**NOTE 6 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS (continue)**

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively. We do not currently have any revenue. As such, ASU 2014-09 will not have any effect on our results of operations and financial position. If we begin generating revenue prior to the effective date of ASU 2014-09, we will evaluate the effect that ASU 2014-09 will have on our results of operations and financial position.

NOTE 7 – COMMON SHARES:

On October 13, 2013 non-US investor converted $87,000 principal loan for 384,956 shares of the Company.

On October 13, 2013 non-US investor converted $37,000 principal loan for 163,717 shares of the Company.

During October 2013, holders of $47,878 of principal amount of Asher convertible notes converted their notes into 402,276 shares of the Company's common stock.

On October 8, 2013, the Company issued 88,496 shares of common stock for consulting services.

On November 5, 2013, the Company’s subsidiary, Eastern Sphere, Ltd., entered into an agreement with an investor providing for the issuance of 491,642 shares of the Company’s common stock in consideration for $100,000.

On November 14, 2013, the Company's subsidiary, Eastern Sphere, Ltd., entered into an agreement with an investor providing for the issuance of 146,016 shares of the Company's common stock in consideration for $29,107.

On December 4, 2013, the Company entered into an agreement with an investor that agreed to provide collateral in the amount of 353,200 Euro ($480,000) to enable the Company to receive a letter of credit in respect of the Company's North Carolina Project. In consideration for providing the collateral, the investor shall be entitled to a 4% ownership stake in the North Carolina project companies and was issued, 44,248 shares of the Company's common stock. Mr. Shlomi Palas personally guaranteed the Company's obligations under the agreement with the investor. In addition, in accordance with the agreement, the Company issued to the investor a convertible note due on March 4, 2014 in the principal amount of 353,200 Euro bearing interest at 1% per month, payable on a monthly basis. On or after March 4, 2014, any outstanding and unpaid principal under the convertible note is convertible into the Company's shares of common stock based on the then applicable market price of the Company's shares. The Company and the investor have verbally agreed to extend the maturity of such convertible note indefinitely and, in the meantime, the Company continues to make 1% interest payments on a monthly basis.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 7 – COMMON SHARES (continue):

On December 13, 2013 the Board of Directors of the Company approved the issuance of 424,779 shares of the Company to its Chief Executive officer, 353,982 shares to the Chairman of the Board, 353,982 shares to the Executive Vice-President and 283,186 shares to the Chief Carbon Officer and general counsel of the Company. Such shares were issued at January 9, 2014.

On December 15, 2013, the Company agreed to issue 600,000 shares of common stock to a consultant providing investor relation services. The shares are to be issued in three tranches of 200,000 each, the first within 10 days of entering into the agreement, the second on the four month anniversary of the agreement and the final on the eight month anniversary of the agreement. The first tranche of 200,000 shares was issued on January 9, 2014.

On January 9, 2014, the Company issued 265,486 shares of common stock for $25,000 in cash.

On January 9, 2014, the Company issued 345,132 shares of common stock for consulting services.

On January 9, 2014, the Company issued 17,700 shares of common stock for consulting services.

On January 26, 2014, the Company signed a subscription agreement with the non-US investor pursuant to which such investor agreed to invest an aggregate of $400,000 into the Company for the sale of 1,739,130 shares of common stock. The Company obligated to issue the non-US investor additional shares of the Company, if, six months from the date of the agreement her ownership in the Company would be reduced below 12.3%. In addition, the Company guaranteed that if on the first anniversary of the agreement, the share price of the Company common stock 0.23$ per share, the Company shall transfer the non-US investor such amount necessary to make the non-US investor whole and reimburse for any loss due to her investment.

On February 7, 2014, the Company issued an aggregate of 1,200,000 shares of our common stock to CTW – Changing the World Technologies, Ltd. ("CTW") in exchange for (i) an investment of $77,000 (for which CTW received 385,000 shares of common stock) and (ii) the provision of financial engineering services (for which CTW received 815,000 shares of common stock).

On March 10, 2014 the Board of Directors of the Company approved the issuance of 250,000 shares of the Company to its Chief Executive officer, 220,000 shares to the Chairman of the Board, 200,000 shares to the Executive Vice-President and 180,000 shares to the Chief Carbon Officer and general counsel of the Company.

During the third quarter of 2014 the Company signed several investing agreements according to which the Company issued 880,000 shares of common stock the Company for total consideration of $109,721 in cash. In addition, the Investors received options to purchase 822,500 shares of common stock of the Company for an exercise price of 0.10 cent per share.

During the third quarter of 2014 the Company signed several investing agreements according to which the Company issued 759,041 shares of common stock the Company for total consideration of $77,127 in cash. In addition, the Investors received options to purchase 759,041 shares of common stock of the Company for an exercise price of 0.10 cent per share and 759,041 shares of common stock of the Company for an exercise price of 0.13 cent per share.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 7 – COMMON SHARES (continue):

During the third quarter of 2014 the Company signed several investing agreements according to which the Company issued 352,805 shares of common stock the Company for total consideration of $98,784 in cash. In addition, the Investors received options to purchase 352,805 shares of common stock of the Company for an exercise price of 0.60 cent per share.

On June 1, 2014 the Company signed investing agreements with a third party according to which the Company issued 179,856 shares of common stock the Company for total consideration of $28,874 in cash. In addition, the Investor received options to purchase 179,856 shares of common stock of the Company for an exercise price of 0.25 cent per share.

During the third quarter of 2014 the Company signed several investing agreements according to which the Company issued 199,039 shares of common stock the Company for total consideration of $19,904 in cash. In addition, the Investors received options to purchase 199,039 shares of common stock of the Company for an exercise price of 0.13 cent per share and 199,039 shares of common stock of the Company for an exercise price of 0.16 cent per share.

On May 1, 2014 the Company signed an agreement with a consultant according to which the consultant would provide investor relations services for a period of 12 month. Based on the agreement the Company issued the consultant 300,000 shares of the Company and 1,500,000 options to purchase shares of the Company at an exercise price of 0.10 cent per share. The options expire after 5 years. In addition, the Company agreed to issue 500,000 additional shares upon fulfillment of other conditions set in the agreement. The Company evaluated the Value of the 300,000 shares and 1,500,000 options issued at $90,000 and $151,434, respectively.

On May 2, 2014 the Company signed an agreement with a consultant according to which the consultant would provide investor relations services for a period of 12 month. Based on the agreement the Company issued the consultant 211,084 shares of the Company. The Company evaluated the Value of the 211,084 shares at $41,518.

On May 25, 2014 the Company signed an agreement with a consultant according to which the consultant would provide investor relations services for a period of 6 month. Based on the agreement the Company issued the consultant 350,000 shares of the Company and 350,000 warrants to purchase shares of the Company at an exercise price of 0.20 cent per share. The options expire after 6 month. In addition, the Company agreed to issue 150,000 additional shares after 6 month from the date of the agreement for no consideration and additional 150,000 shares for $0.20 per share, and pay the consultant NIS 18,000 per month during the agreement term. The Company evaluated the Value of the 300,000 shares at $54,600. In addition the company recorded an expense related to the warrants issued of $28,310.

On March 5, 2014 Eastern Institutional Funding, LLC purchased $68,750 of our 20% notes due one year from such date that are convertible into shares of our common stock at a discount of 50% from the lowest trade price over the last 20 days from the date of conversion. On March 21, 2014, Capitoline Ventures II, LLC purchased $68,750 of our 20% notes due one year from such date that are convertible into shares of our common stock at a discount of 50% from the lowest trade price over the last 20 days from the date of conversion. As of June 30, 2014 the Company issued 5,114,073 shares of common stock in respect of the above notes and the remaining 1,320,000 shares were issued after balance sheet date.

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(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 7 – COMMON SHARES (continue):

On April 22, 2014 the Company signed a Consulting Services Agreement with a non-US person pursuant to which, the Company agreed to issue 4,000,000 shares of its common stock in exchange for consulting services to include, but not be limited to, advice on investor relations, public relations, transaction structuring, ongoing introductions to investors and strategic initiatives. The agreement is effective for one year commencing September 1, 2013. During the third quarter of 2014, the Company issued 3,350,000 shares of common stock in the Company in transactions not involving a public offering under such agreement.

Reverse stock split

On November 26, 2013, the Company amended and restated its Articles of Incorporation to authorize the issuance of 500,000,000 shares of preferred stock, $0.001 par value, in one or more series and with such rights, preferences and privileges as its Board of Directors may determine and to effect a 1 for 113 reverse stock split of the Company's outstanding common stock. In addition, the Amended and Restated Articles of Incorporation provide, among other things, for indemnification and limitations to the liability of the Company's officers and directors.

As a result of the reverse stock split, which became effective on December 4, 2013, every 113 shares of the Company's outstanding common stock prior to the effect of that amendment was combined and reclassified into one share of the Company's common stock, and the number of outstanding shares of the Company's common stock was reduced from 1,292,103,309 to 11,434,611 shares.

All share, stock option and per share information in these consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

On June 18, 2014 the Company signed an advisory board agreement with an accredited investor according to which the investor will serve on the Company's advisory board for a period of one year from the date of the agreement unless otherwise extended by the parties. For his services, the advisor shall receive 150,000 shares of the Company's common stock. 75,000 of such shares vest on the date of agreement and then in three quarterly 25,000 shares, beginning 90 days from the date of the agreement. In addition the advisor shall receive 150,000 warrants of the Company's common stock. The warrants shall vest in 4 equal amounts over a period of twelve (12) months, the initial amount vesting on the agreement date. The warrants will allow the director to purchase the common stock of the Company for a period of 3 years from the agreement date. The warrants shall be exercisable in the following amounts: 1/3 at .30 a share, 1/3 at .40 a share, and 1/3 at .50 a share. In the event the advisor ceases to be a member of Board at any time during the vesting period for any reason, then any unvested warrants or unvested shares shall be irrefutably forfeited. On July 10, 2014 the Company issued 75,000 shares on account of such agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

**NOTE 8 – DEBENTURES AND NOTES:**

Asher Notes

On March 20, 2013, the Company signed a securities purchase agreement with Asher Enterprises Inc., a Delaware corporation with a head office in New York ("Asher"), pursuant to which Asher purchased an aggregate amount of U.S. $47,500 of the Company's 8% convertible notes. The notes are convertible into shares of common stock of the Company from time to time, and at any time, beginning September 19, 2013 and ending, absent any condition of default, on December 26, 2013, subject to the limitations and conditions set forth in the notes. The Company has the right to prepay the notes under the certain conditions for 180 days following the issue date. On October 7, 2013 the Company repaid $18,248 principal amount of such notes and the remaining $29,252 principal amount of the notes was converted into 250,580 shares of the Company's common stock.

On May 9, 2013, Asher purchased an additional $42,500 of the Company's 8% convertible notes. On November 15, 2013 the Company repaid $29,630 principal amount of such notes and the remaining $12,870 principal amount of the notes was converted into 151,696 shares of the Company's common stock.

On September 3, 2013, Asher purchased an additional $42,500 of the Company's 8% convertible notes.

On October 24, 2013 Asher purchased an additional $32,500 of the Company's 8% convertible notes.

On February 18, 2014 Asher purchased an additional $63,000 of the Company's 8% convertible notes.

On March 25, 2014 Asher purchased an additional $32,500 of the Company's 8% convertible notes.

During March and April 2014, Asher converted $32,500 principal amount out of the September 3, 2013 notes for 844,663 shares of the Company common stock .

On April 11, 2014, the Company issued to Asher Enterprises Inc., $42,500 of our 8% convertible notes. The note matures on September 4, 2014 and bears interest at 8% per annum increasing to 22% in the case of default. The note is convertible into shares of common stock of the Company after 180 days at a 58% discount of the average of the lowest three closing price in the ten days prior to conversion. If the Company issues shares at a price lower than the conversion price then the conversion price shall reduce to the lower price.

During April and May 2014, Asher and a non-US investor converted Asher's $32,500 principal amount out of the October 24, 2013 notes for 578,057 shares of the Company common stock.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

<u>Other Notes</u>

On November 5, 2013, the Company entered into agreements with three investors each providing for a bridge loan of $50,000 of which $25,000 is payable under certain conditions within 30 days of the agreement and a further $27,500 is payable on the 180th day of the date of the agreement. $25,000 of the loan amount is convertible into shares of the Company's common stock at $0.1695 per share. As part of each agreement, the Company issued 66,371 shares of its common stock to each investor and further agreed to register 294,985 shares of common stock in the name of each investor. Mr. Shlomi Palas personally guaranteed the obligations of the company under each agreement. On July 24, 2014 the investors elected to convert their loan balance into Company's shares and the Company issued 183,333 shares to each of the investors.

In addition, on November 5, 2013, the Company entered into an agreement with an investor providing for a bridge loan of $20,000 of which $10,000 is payable under certain conditions within 30 days of the agreement and a further $11,000 is payable on the 180th day of the date of the agreement. $10,000 of the loan amount is convertible into shares of the Company's common stock at $0.1695 per share. As part of each agreement, the Company issued 26,548 shares of its common stock to the investor and further agreed to register 117,994 shares of common stock in the name of the investor. Mr. Shlomi Palas personally guaranteed the obligations of the company under each agreement.

**NOTE 9 – SUBSEQUENT EVENTS:**

On July 3, 2014 the Company issued 1,250,000 shares of common stock the Company for total cash consideration of $75,000.

On July 29, 2014 the Company issued 144,054 shares of common stock the Company for total cash consideration of $35,522. In addition, the Investor received options to purchase 144,054 shares of common stock of the Company for an exercise price of 0.32 cent per share.

During July 2014, the Company issued a non-US investor 543,371 shares of common stock of which 190,000 were issued pursuant to a convertible loan agreement dated June 2013. The balance, 353,371, were issued to such investor by mistake. The Company is taking action to remedy this mistake.

During July 2014, the Company issued a non-US investor 1,070,000 shares of common stock of which 650,000 were issued pursuant to the April 22, 2014 Consulting Services Agreement signed with the non-US person. The balance, 420,000, were issued to such investor by mistake. The Company is taking action to remedy this mistake.

At April and June 2014 the Company signed three agreements with a no-US investor who provided the Company with several loans amounted to $110,000, according to which the investor will convert his balance of loans into 990,762 shares of common stock of the Company. Such shares have not yet been issued.

On July 24, 2014 the Company issued a consultant, 400,000 shares of common stock of the Company under his September 10, 2013 consulting agreement. In addition, on July 24, 2014 the Company issued 159,294 shares of common stock of the Company under its December 13, 2013 the Board resolution.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

**NOTE 9 – SUBSEQUENT EVENTS (continue)**

Between August 4, 2014 and August 18, 2014, we issued convertible promissory notes (the “Notes”) to accredited investors in an aggregate principal amount of $807,750 for an aggregate purchase price of $760,250, net of expenses incurred in connection of such notes.

The Notes mature one-year from the date of issuance and accrue interest at rates ranging from 8% to 12% per annum and in an event of default, the Notes bear interest at rates ranging from 12% to 22% per annum. The Notes may generally be converted into shares of our common stock at conversion prices ranging from 42% to 45% discounts to our lowest closing prices during periods in proximity to the time of conversion except that in the case of Notes in the principal amount of $235,250, the discount increases to 52% in the case of a DTC “chill”.

The Notes include customary default provisions related to payment of principal and interest and bankruptcy or creditor assignment. In addition, it shall constitute an event of default under certain of the Notes if the Company are delinquent in its filings with the Securities and Exchange Commission, cease to be quoted on the OTCQB, its common stock is not DWAC eligible or if it have to restate its financial statements in any material respect. In the event of an event of default the Notes may become immediately due and payable at premiums to the outstanding principal. The Notes also provide that if shares issuable upon conversion of the Notes are not timely delivered in accordance with the terms of the Notes then we shall be subject to certain cash or share penalties that increase proportionally to the duration of the delinquency up to certain maximums.

The Notes may be prepaid at premiums to the outstanding principal during the term of the Notes except that the Notes in the principal amount of $235,250 may not be prepaid after six months from issuance.

The Company paid aggregate commissions of $42,000 to Carter Terry & Company (“Carter Terry”), a registered broker-dealer, in connection with the issuance of Notes in the aggregate principal $572,500. In addition, Carter Terry is entitled to receive 100,000 shares of our common stock and a further amount of shares of our common stock equal to 4% of capital raised by them divided by the closing price of our common stock on the date of close.

Additional covenants, representations, and warranties between the parties are included in the Notes and accompanying Securities Purchase Agreements that were entered into.

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

**OVERVIEW**

***Summary of Current Operations***

We are a project integrator in the clean energy production and organics to energy markets. We aspire to become a key player in these global markets, working with enterprises with clean energy, organics to energy and related by-product potential to generate clean energy, soil amendments, compost and other by-products. We believe that these markets have tremendous potential insofar as there is a virtually endless supply of waste and organic material that can be used to generate power and valuable by-products. Not only is there a virtually endless supply of waste and organic material, but in most, if not all cases, disposing of such waste and material in most parts of the world today is a costly problem with an environmentally-damaging solution, such as landfilling. We seek to offer a cost-effective, environmentally-safe alternative.

We are currently focusing on four projects for which we have signed agreements, term sheets or memoranda of understanding to own and implement such projects and which are in various stages of development:

*United States*

- Charlotte, NC Waste to Energy Anaerobic Digester 5.2 MW Plant
- Johnston, RI Waste to Energy Anaerobic Digester 3.2 MW Plant

*Ghana*

- Oti Sanitary Landfill Waste to Energy 1 MW Plant
- Accra Transfer Station Waste to Energy Anaerobic Digester 10MW Plant

***Results of Operations***

*Revenue*

We have recorded no revenue since inception.

*General and administrative expenses*

General and administrative expenses for the nine-month period ended June 30, 2014 were $4,074,000 as compared to $1,348,000 for the nine-month period ended June 30, 2013. The increase is mainly attributable to the increase in share-based compensation for employees and service providers and our continues investment and development expenses incurred in connection with our North Carolina and Rhode Island projects.

*Net Loss*

As a result of the above, we incurred a net loss of $4,195,000 for the nine-month period ended June 30, 2014, as compared to a net loss of $1,456,000 for the nine-month period ended June 30, 2013.  We anticipate losses in future periods. The increase is mainly attributable to the increase in share-based compensation for employees and service providers and our continuous investment and development expenses incurred in connection with our North Carolina and Rhode Island projects.

*Inflation*

Our results of operations have not been materially affected by inflation and management does not expect that inflation risk would cause material impact on its operations in the future.

*Seasonality*

Our results of operations are not materially affected by seasonality and we do not expect seasonality to cause any material impact on our operations in the near future.

***Critical Accounting Policies***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements. No new accounting standards have been adopted since the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 was filed.

***Liquidity***

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As at June 30, 2014, we had cash of $258,000 compared to $46,000 as of June 30, 2013. As at June 30, 2014, we had a working capital deficit of $1,325,000 compared to $703,000 as of June 30, 2013.

Net cash used in operating activities was $1,022,000 for the nine months ended June 30, 2014, compared to $730,000 for the same period ended June 30, 2013. The increase of $292,000 in cash used in operating activities was primarily due to development expenses incurred in connection with our North Carolina and Rhode Island projects. Currently operating costs exceed revenue. We have not generated any revenue to-date.

Net cash flows used in investing activities was $70,000 for the nine months ended June 30, 2014 as compared to $292,000 for the same period ended June 30, 2013. The net decrease in cash used in investing activities was due to payments made during the nine months ended June 30, 2013 for our operations in our US projects as detailed above.

Net cash flows provided by financing activities was $1,304,000 for the nine months ended June 30, 2014 as compared to $1,223,000 for the same period ended June 30, 2013. The increase in cash provided by financing activities was due to an increase in equity financing and loans received from third-parties. To date we have principally financed our operations through the sale of our common stock and the issuance of debt.

The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended September 30, 2013 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions and future sales.

Management anticipates that existing cash resources, including the proceeds of the equity placements subsequent to June 30, 2014 described below will not be sufficient to fund our planned operations during the next 12 months. We estimate that, in order to fund our continued existence, we will require $1,000,000 in cash over the next 12 months. This does not include amounts we will have to invest in the implementation of our projects. Assuming we finance each project with 25% equity and 75% debt, we will require approximately $22,000,000 in additional capital to make equity investments in each of our projects. There is no assurance that we will be successful in financing our projects with 25% equity and 75% debt (such amounts could be more or less) and, even if successful, there is no assurance that we will raise such capital at all or in a timely manner.

In addition to requiring capital to fund our corporate activities, the capital needs of our project development activities will be significant and will likely require equity investment on our part. As a result, we are seeking to raise additional funds and any meaningful equity financing will likely result in significant dilution to our existing shareholders. There can be no assurance that additional funds will be available on terms acceptable to us, or at all.

***Off-Balance Sheet Arrangements***

As at June 30, 2014, we had no off-balance sheet arrangements of any nature.

*Market Risk and Contingent Liabilities*

We are seeking to operate in the developing world (i.e. Ghana), making us susceptible to changes in the economic, political, and social conditions therein. The developing world has experienced political, economic and social uncertainty in recent years, including an economic crisis characterized by increased inflation, high domestic interest rates, in some cases, negative economic growth, reduced consumer purchasing power and high unemployment. Currently, many of the countries in the developing world have been pursuing economic stabilization policies, including the encouragement of foreign trade and investment and other reforms. In the last year, there was an overall improvement in the world (and, consequently, developing world) economic environment. Nevertheless, no assurance can be given that the countries in which we currently or will operate will continue to pursue these policies, that these policies will be successful if pursued or that these policies will not be significantly altered. In case of a decline in the world economy, political or social problems or a reversal of foreign investment policies, it is likely that any such change will have an adverse effect on our results of operations and financial condition. Additionally, inflation may lead to higher wages and salaries for local employees and increases in the cost of materials, which would adversely affect the Company's profitability.

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Risks inherent in foreign operations include nationalization, war, terrorism, and other political risks and risks of increases in foreign taxes or changes in U.S. tax treatment of foreign taxes paid and the imposition of foreign government royalties and fees.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable.

**ITEM 4. CONTROLS AND PROCEDURES.**

***Evaluation of Disclosure Controls and Procedures***

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. 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 officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the nine-months ended June 30, 2014. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2014 due to the Company’s limited internal resources and lack of ability to have multiple levels of transaction review.

Management is in the process of determining how best to change our current system and implement a more effective system to insure that information required to be disclosed in this nine-month report on Form 10-Q has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this issue, and intends to developed procedures to address them to the extent possible given limitations in financial and manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

***Changes in Internal Controls***

Our management, with the participation our CEO and CFO, performed an evaluation to determine whether any change in our internal controls over financial reporting occurred during the nine month period ended June 30, 2014. Based on that evaluation, our CEO and our CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended June 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this item.

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

On March 5, 2014 Eastern Institutional Funding, LLC purchased $68,750 of our 20% notes due one year from such date that are convertible into shares of our common stock at a discount of 50% from the lowest trade price over the last 20 days from the date of conversion. These notes were fully converted into shares of our common stock during the third quarter of 2014.

On March 21, 2014, Capitoline Ventures II, LLC purchased $68,750 of our 20% notes due one year from such date that are convertible into shares of our common stock at a discount of 50% from the lowest trade price over the last 20 days from the date of conversion. These notes were fully converted into shares of our common stock by July 8, 2014.

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On April 11, 2014, we issued to Asher Enterprises Inc., $42,500 of our 8% convertible notes. The note matures on September 4, 2014 and bears interest at 8% per annum increasing to 22% in the case of default. The note is convertible into shares of our common stock after 180 days at a 58% discount of the average of the lowest three closing price in the ten days prior to conversion. If we issue shares at a price lower than the conversion price then the conversion price shall reduce to the lower price. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act since, among other things, the transaction did not involve a public offering.

On April 22, 2014, the Company signed a consulting services agreement with a non-US person pursuant to which the Company agreed issue to 4,000,000 shares of its common stock in exchange for consulting services to include, but not be limited to, advice on investor relations, public relations, transaction structuring, ongoing introductions to investors and strategic initiatives. The agreement is effective for one year commencing September 1, 2013. All 4,000,000 shares under such agreement have been issued to-date in transactions not involving a public offering.

On May 1, 2014, the Company signed an agreement with a consultant pursuant to which the consultant would provide investor relations services for a period of 12 months. Pursuant to the agreement, the Company issued the consultant 300,000 shares and 1,500,000 options to purchase shares of the Company at an exercise price of 0.10 cent per share. The options expire after 5 years.

On May 2, 2014, the Company signed an agreement with a consultant pursuant to which the consultant agreed to provide investor relation services for a period of 12 months. Based on the agreement, the Company issued the consultant 211,084 shares of common stock.

On May 19, 2014, the Company issued a non-US person 291,666 shares of common stock for cash consideration of $35,000 in a transaction not involving a public offering.

On May 25, 2014, the Company signed an agreement with a consultant pursuant to which the consultant agreed to provide investor relation services for a period of 6 months. Pursuant to the agreement, the Company issued the consultant 350,000 shares of common stock and 350,000 warrants to purchase shares of common stock at an exercise price of $0.20 per share. The warrants expire after 6 month. In addition, the Company agreed to issue 150,000 additional shares after six months from the date of the agreement for no consideration and 150,000 for $0.20 per share, and pay the consultant NIS 18,000 plus VAT per month during the term of the agreement to be paid in one lump sum at the end of the term of the agreement. The Company has the option to convert NIS 36,000 of the total amount payable into shares of common stock of the Company at the price per common share on the OTCBB on the date of conversion.

On June 1, 2014, the Company issued to certain non-US persons 2,470,125 warrants to purchase common shares at a strike price of $0.10 valid for six months from the date thereof in a transaction not involving a public offering.

On June 1, 2014, the Company issued to certain non-US persons 970,125 warrants to purchase common shares at a strike price of $0.13 valid for one year from the date thereof in a transaction not involving a public offering.

On June 1, 2014, the Company issued to certain non-US persons 880,000 warrants to purchase common shares at a strike price of $0.10 valid for one year from the date thereof in a transaction not involving a public offering.

On June 1, 2014, the Company signed investment agreements with third-parties pursuant to which the Company issued 179,856 shares of its common stock for total consideration of $28,874 in cash. In addition, the investors received options to purchase 179,856 shares of common stock of the Company at an exercise price of 0.25 cent per share.

On June 1, 2014, the Company issued a non-US person 119,875 shares of common stock for cash consideration of $14,327 in a transaction not involving a public offering.

On June 2, 2014, the Company issued to a non-US person 109,039 common shares for cash consideration of $10,904 in a transaction not involving a public offering.

On June 2, 2014, the Company issued to a non-US person 90,000 common shares for cash consideration of $9,000 in a transaction not involving a public offering.

On June 2, 2014, the Company issued to a non-US person 160,000 common shares for cash consideration of $12,800 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 10,325 shares of common stock and 10,325 warrants to purchase 10,325 shares of common stock at a strike price of $0.60 valid for one year to a non-US person in exchange for cash consideration of $2,889.

On June 9, 2014, the Company issued to a non-US person 15,468 shares of common stock and 15,468 warrants to purchase 15,468 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $4,334.

On June 9, 2014, the Company issued to a non-US person 35,715 shares of common stock and 35,715 warrants to purchase 35,715 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $10,000.

On June 9, 2014, the Company issued to a non-US person 80,000 warrants to purchase 80,000 shares of common stock at a strike price of $0.10 valid for one year in exchange for cash consideration of $10,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 15,357 shares of common stock and 15,357 warrants to purchase 15,357 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $4,300 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 18,000 shares of common stock and 18,000 warrants to purchase 18,000 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $5,040 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 10,314 shares of common stock and 10,314 warrants to purchase 10,314 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $2,888 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 17,858 shares of common stock and 17,858 warrants to purchase 17,858 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $5,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 15,000 shares of common stock and 15,000 warrants to purchase 15,000 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $4,200 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 35,714 shares of common stock and 35,714 warrants to purchase 35,714 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $10,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 14,285 shares of common stock and 14,285 warrants to purchase 14,285 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $4,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 14,285 shares of common stock and 14,285 warrants to purchase 14,285 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $,4000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 10,321 shares of common stock and 10,321 warrants to purchase 10,321 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $2,890 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 17,857 shares of common stock and 17,857 warrants to purchase 17,857 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $5,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 17,857 shares of common stock and 17,857 warrants to purchase 17,857 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $5,000 in a transaction not involving a public offering.

On June 9, 2014, the Company issued to a non-US person 10,000 shares of common stock and 10,000 warrants to purchase 10,000 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $2,800 in a transaction not involving a public offering.

On June 18, 2014, the Company issued to a non-US person 80,000 warrants to purchase 80,000 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $22,400 in a transaction not involving a public offering.

On June 18, 2014, the Company issued to a non-US person 4,125 shares of common stock and 4,125 warrants to purchase 4,125 shares of common stock at a strike price of $0.60 valid for one year in exchange for cash consideration of $1,155 in a transaction not involving a public offering.

On June 18, 2014, the Company signed an advisory board agreement with an accredited investor according to which the investor will serve on the Company's advisory board for a period of one year from the date of the agreement unless otherwise extended by the parties. For such services, the advisor shall receive 150,000 shares of the Company's common stock. 75,000 of such shares vest on the date of the agreement and then 25,000 shares per quarter over three quarters starting 90 days from the date of the agreement. In addition the advisor received 150,000 warrants of the Company's common stock. The warrants shall vest in four equal amounts over a period of twelve (12) months with the initial amount vesting on the agreement date. The warrants will allow the director to purchase the common stock of the Company for a period of three years from the agreement date. The warrants shall be exercisable in the following amounts: 1/3 at .30 a share, 1/3 at .40 a share, and 1/3 at .50 a share. In the event the advisor ceases to be a member of Board at any time during the vesting period for any reason, then any unvested warrants or unvested shares shall be forfeited. On July 10, 2014 the Company issued 75,000 shares pursuant to such agreement.

On July 9, 2014, the Company issued to a non-US person 5,327 shares of common stock for cash consideration of $1,500 in a transaction not involving a public offering

On July 9, 2014, the Company issued to a non-US person 183,333 shares of common stock for cash consideration of $27,800 in a transaction not involving a public offering

On July 9, 2014, the Company issued to a non-US person 144,054 shares of common stock for cash consideration of $34,522 in a transaction not involving a public offering.

On July 15, 2014, the Company issued to a non-US person 183,333 shares of common stock for cash consideration of $27,800 in a transaction not involving a public offering.

During July 2014, the Company issued a non-US investor 543,371 shares of common stock of which 190,000 were issued pursuant to a convertible loan agreement dated June 2013. The balance of 353,371 was issued to such investor by mistake. The Company plans on taking action to remedy this mistake.

During July 2014, the Company issued a non-US investor 1,070,000 shares of common stock of which 650,000 were issued pursuant to an April 22, 2014 consulting services agreement signed with such non-US person. The balance of 420,000 was issued to such investor by mistake. The Company plans on taking action to remedy this mistake.

At April and June 2014, the Company signed three agreements with a non-US investor who provided the Company with several loans amounting to $110,000. Such investor has the right to convert his balance of loans into 990,762 shares of common stock of the Company. Such shares have not yet been issued.

On July 24, 2014, the Company issued a consultant 400,000 shares of common stock of the Company under a September 10, 2013 consulting agreement.

In July 2014, the Company issued a non-US person 1,250,000 shares of common stock for cash consideration of $75,000 in a transaction not involving a public offering.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

In May 2014, the Company appointed Yigal Brosh director.

**Subsequent Events Disclosure**

Between August 4, 2014 and August 18, 2014, the Company issued convertible promissory notes to accredited investors in an aggregate principal amount of $807,750 for an aggregate purchase price of $760,250.

The following disclosure would have otherwise been filed on Form 8-K under the heading “Item 1.01 Entry into a Material Definitive Agreement”, “Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant” and “Item 3.02 Unregistered Sales of Equity Securities”:

Between August 4, 2014 and August 18, 2014, we issued convertible promissory notes (the “Notes”) to accredited investors in an aggregate principal amount of $807,750 for an aggregate purchase price of $760,250.

The Notes mature one-year from the date of issuance and accrue interest at rates ranging from 8% to 12% per annum and in an event of default, the Notes bear interest at rates ranging from 12% to 22% per annum. The Notes may generally be converted into shares of our common stock at conversion prices ranging from 42% to 45% discounts to our lowest closing prices during periods in proximity to the time of conversion except that in the case of Notes in the principal amount of $235,250, the discount increases to 52% in the case of a DTC “chill”.

The Notes include customary default provisions related to payment of principal and interest and bankruptcy or creditor assignment.  In addition, it shall constitute an event of default under certain of the Notes if we are delinquent in our filings with the Securities and Exchange Commission, cease to be quoted on the OTCQB, our common stock is not DWAC eligible or if we have to restate our financial statements in any material respect. In the event of an event of default the Notes may become immediately due and payable at premiums to the outstanding principal. The Notes also provide that if shares issuable upon conversion of the Notes are not timely delivered in accordance with the terms of the Notes then we shall be subject to certain cash or share penalties that increase proportionally to the duration of the delinquency up to certain maximums.

The Notes may be prepaid at premiums to the outstanding principal during the term of the Notes except that the Notes in the principal amount of $235,250 may not be prepaid after six months from issuance.

We paid aggregate commissions of $42,000 to Carter Terry & Company (“Carter Terry”), a registered broker-dealer, in connection with the issuance of Notes in the aggregate principal $572,500. In addition, Carter Terry is entitled to receive 100,000 shares of our common stock and a further amount of shares of our common stock equal to 4% of capital raised by them divided by the closing price of our common stock on the date of close.

Additional covenants, representations, and warranties between the parties are included in the Notes and accompanying Securities Purchase Agreements that were entered into.

The foregoing are summaries of certain terms and agreements discussed herein. These summaries do not purport to be complete and are qualified in their entirety by reference to the full text of the Securities Purchase Agreements and Notes, which will be filed as exhibits to our Form 10-K for the 12 months ending September 30, 2014.

The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

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**ITEM 6.**

| No. | Description |
|---|---|
| 10.1 | Form of subscription agreement* |
| 10.2 | Form of warrant agreement* |
| 10.3 | $42,500 Convertible Note to Asher Enterprises, Inc. dated April 11, 2014 |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications (ii) Rule 13a-14/15d-14 Certification Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certifications (ii) Rule 13a-14/15d-14 Certification Chief Financial Officer |
| 32.1 | Section 1350 Certification Chief Executive Officer |
| 32.2 | Section 1350 Certification Chief Financial Officer |

*The subscription agreements and warrant agreements were identical in form and substance except for the amounts of shares and warrants to be issued and the amount of payment therefor, which are disclosed above.

**SIGNATURES**

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

**BLUE SPHERE CORP.**

By: /s/Shlomi Palas
President, Chief Executive Officer, Secretary and Director (Principal Executive Officer)
Date: August 18, 2014

By: /s/ Shlomo Zaki
Chief Financial Officer and Treasurer

(Principal Accounting Officer and Principal Financial Officer)
Date: August 18, 2014

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