

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**AND REPORT OF INDEPENDENT REGISTERED**  
**PUBLIC ACCOUNTING FIRM**

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Green States Energy, Inc.  
Short Hills, New Jersey

We have audited the accompanying consolidated balance sheets of Green States Energy, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Green States Energy, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

San Francisco, California  
March 27, 2015

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents . . . . .	\$ 897,657	\$ 906,154
Accounts receivable . . . . .	1,492,644	521,392
Deferred tax asset . . . . .	444,942	376,754
Prepaid expenses and other current assets . . . . .	29,625	7,125
Grants receivable . . . . .	—	2,083,824
Deferred costs, net . . . . .	227,800	656,464
<b>Total Current Assets . . . . .</b>	<u>3,092,668</u>	<u>4,551,713</u>
<b>Investment in Energy Property, net . . . . .</b>	<u>58,559,069</u>	<u>50,196,950</u>
<b>Other Assets</b>		
Intangible assets, net . . . . .	5,733,986	3,439,950
Deferred costs, net . . . . .	1,086,652	—
Restricted cash . . . . .	1,309,935	781,019
<b>Total Other Assets . . . . .</b>	<u>8,130,573</u>	<u>4,220,969</u>
<b>Total Assets . . . . .</b>	<u>\$69,782,310</u>	<u>\$58,969,632</u>

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

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable .....	\$ 986,231	\$ 234,123
Accrued expenses .....	849,551	1,724,489
Construction contract payable .....	—	9,895,001
Derivative liability—warrants .....	1,315,618	849,679
Development service fees payable, current portion .....	120,000	144,000
Notes payable, short-term .....	2,499,904	10,533,068
Deferred grant income, current .....	518,124	331,217
<b>Total Current Liabilities</b> .....	<u>6,289,428</u>	<u>23,711,577</u>
<b>Long-Term Liabilities</b>		
Notes payable, long-term .....	37,628,752	13,175,516
Development service fees payable, net of current portion .....	600,000	1,853,360
Deferred tax liability .....	444,942	376,754
Asset retirement obligation .....	488,352	266,038
Deferred grant income, net of current .....	14,029,013	9,021,441
Other accrued, long-term .....	432,867	—
<b>Total Long-Term Liabilities</b> .....	<u>53,623,926</u>	<u>24,693,109</u>
<b>Total Liabilities</b> .....	<u>59,913,354</u>	<u>48,404,686</u>
<b>Commitments and Contingencies (Note 12)</b>		
<b>Equity</b>		
Stockholder's Deficit		
Preferred stock, par value \$0.001, 40,000,000 shares authorized, 80,000 shares issued and outstanding .....	80	80
Common stock, par value \$0.001, 100,000,000 shares authorized, 18,461,488 and 18,711,488 shares issued and outstanding in 2014 and 2013, respectively .....	18,461	18,711
Additional paid-in capital .....	7,224,362	6,718,218
Accumulated deficit .....	(8,208,296)	(7,650,219)
Total Stockholder's Deficit .....	(965,393)	(913,210)
Noncontrolling interest .....	10,834,349	11,478,156
<b>Total Equity</b> .....	<u>9,868,956</u>	<u>10,564,946</u>
<b>Total Liabilities and Equity</b> .....	<u>\$69,782,310</u>	<u>\$58,969,632</u>

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

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Electricity .....	\$ 1,984,657	\$ 1,138,935
Solar renewable energy credits .....	3,911,785	2,240,439
<b>Total Revenues</b> .....	<b>5,896,442</b>	<b>3,379,374</b>
<b>Operating Expenses</b>		
Operations and maintenance expense .....	2,804,348	3,156,265
Depreciation, amortization and accretion .....	2,405,292	2,008,295
<b>Total Operating Expense</b> .....	<b>5,209,640</b>	<b>5,164,560</b>
<b>Operating Income (Loss)</b> .....	<b>686,802</b>	<b>(1,785,186)</b>
<b>Other Income (Expense)</b>		
Grant income .....	412,730	305,718
Bargain purchase gain .....	—	712,850
Gain on NCST settlement .....	1,283,360	—
Change in fair value of derivative liability—warrants .....	(465,939)	(740,455)
Interest expense .....	(2,941,741)	(1,966,007)
<b>Total Other Expense</b> .....	<b>(1,711,590)</b>	<b>(1,687,894)</b>
<b>Net Loss</b> .....	<b>(1,024,788)</b>	<b>(3,473,080)</b>
<b>Net (Loss) Income Attributable to Non-Controlling Interest</b> .....	<b>(466,711)</b>	<b>1,771,439</b>
<b>Net Loss Attributable to Green States Energy, Inc.</b> .....	<b>\$ (558,077)</b>	<b>\$(5,244,519)</b>
<b>Earnings per Share</b>		
Common Stock .....		
Basic and Diluted .....	<b>\$ (0.03)</b>	<b>\$ (0.27)</b>

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

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity (Deficit)	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount					
<b>Balance—December 31,</b>									
2012 .....	80,000	\$80	20,645,224	\$20,644	\$3,813,186	\$(2,405,700)	\$1,428,210	\$ 9,883,813	\$11,312,023
Common stock issuances, net of offering costs of \$26,732 .....	—	—	966,264	967	1,890,301	—	1,891,268	—	1,891,268
Stock surrender and retirement .....	—	—	(1,800,000)	(1,800)	1,800	—	—	—	—
Share-based compensation—Directors .....	—	—	300,000	300	63,731	—	64,031	—	64,031
Share-based compensation—non-employees .....	—	—	400,000	400	316,600	—	317,000	—	317,000
Share-based compensation—employees .....	—	—	—	—	614,400	—	614,400	—	614,400
Share-based compensation—issuance of warrants for services .....	—	—	—	—	16,400	—	16,400	—	16,400
Share-based compensation .....	—	—	(1,800,000)	(1,800)	1,800	—	—	—	—
Dividends declared .....	—	—	—	—	—	—	—	(177,096)	(177,096)
Net income (loss) .....	—	—	—	—	—	(5,244,519)	(5,244,519)	1,771,439	(3,473,080)
<b>Balance—December 31,</b>									
2013 .....	80,000	80	18,711,488	18,711	6,718,218	(7,650,219)	(913,210)	11,478,156	10,564,946
Common stock issuances, net of offering costs of \$26,000 .....	—	—	150,000	150	273,850	—	274,000	—	274,000
Share-based compensation—non-employees (converted to restricted shares) .....	—	—	(400,000)	(400)	400	—	—	—	—
Share-based compensation—employees .....	—	—	—	—	231,894	—	231,894	—	231,894
Dividends declared .....	—	—	—	—	—	—	—	(177,096)	(177,096)
Net loss .....	—	—	—	—	—	(558,077)	(558,077)	(466,711)	(1,024,788)
<b>Balance—December 31,</b>									
2014 .....	<u>80,000</u>	<u>\$80</u>	<u>18,461,488</u>	<u>\$18,461</u>	<u>\$7,224,362</u>	<u>\$(8,208,296)</u>	<u>\$ (965,393)</u>	<u>\$10,834,349</u>	<u>\$ 9,868,956</u>

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

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>		
Net loss .....	\$ (1,024,788)	\$ (3,473,080)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	2,382,739	2,008,295
Accretion expense .....	22,553	13,235
Amortization of grant income .....	(412,730)	(305,718)
Share-based compensation .....	231,894	1,011,831
Loss on sale of energy property, net of closing costs of \$21,169 .....	—	56,718
Change in fair value of warrants .....	465,939	740,455
Other .....	—	27,063
Bargain purchase gain .....	—	(712,850)
Changes in operating assets and liabilities:		
Accounts receivable .....	(971,252)	(186,229)
Prepaid expenses and other current assets .....	(22,500)	36,283
Accounts payable and accrued expenses .....	(937,725)	130,545
<b>Net Cash Used in Operating Activities</b> .....	<b>(265,870)</b>	<b>(653,452)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from grants .....	7,691,033	—
Acquisition of business .....	—	(6,700,000)
Purchase of energy property and equipment .....	(12,606,854)	(8,387,565)
Proceeds from sale of investment in energy property .....	—	525,000
Restricted cash .....	(528,916)	(56,029)
<b>Net Cash Used in Investing Activities</b> .....	<b>(5,444,737)</b>	<b>(14,618,594)</b>

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



**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Financing Activities</b>		
Payments on deferred developer fee .....	\$ (30,000)	\$ (144,000)
Payments of construction contract payable .....	(9,895,001)	—
Proceeds from notes payable .....	22,112,163	15,874,581
Payments on notes payable .....	(5,692,091)	(594,133)
Payment of deferred costs .....	(890,265)	(1,031,169)
Issuances of common stock, net of offering costs .....	274,400	1,891,268
Dividends to noncontrolling interest .....	(177,096)	(177,096)
<b>Net Cash Provided by Financing Activities</b> .....	<b>5,702,110</b>	<b>15,819,451</b>
<b>Net Change in Cash and Cash Equivalents</b> .....	<b>(8,497)</b>	<b>547,405</b>
<b>Cash and Cash Equivalents—Beginning</b> .....	<b>906,154</b>	<b>358,749</b>
<b>Cash and Cash Equivalents—Ending</b> .....	<b>\$ 897,657</b>	<b>\$ 906,154</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the year for interest .....	\$ 2,858,172	\$ 1,302,059
Additions to energy property in construction contract payable .....	\$ —	\$ 4,895,001
Non-cash investment activities—asset retirement obligation .....	\$ 199,761	\$ 124,729
Previously capitalized costs to development in progress written off .....	\$ 149,328	\$ —

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

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**Note 1—Organization and Nature of Operations**

***Organization and Principles of Consolidation***

Green States Energy, Inc. (GSE) was formed as a Florida corporation on June 3, 2010, and was re-incorporated in Delaware on December 9, 2011. The consolidated financial statements include the results of GSE, its consolidated subsidiaries, consisting of GSE Operations Company, LLC (GSEOPS), GSE NC1, LLC (GSENC), GSE NM1, LLC (GSENM1), GSE MA1, LLC (GSEMA1) and GSE MA2, LLC (GSEMA2), and its variable interest entity (VIE), GSE Development Company, LLC (GSEDEV) (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation.

***GSEOPS***

GSEOPS was formed as a Delaware limited liability company on December 21, 2011. GSEOPS provides the operations and maintenance as well as the administrative functions for GSE operating assets. GSEOPS is wholly-owned by GSE.

***GSENC***

GSENC was formed as a Delaware limited liability company on December 23, 2011. GSENC conducts its business through its wholly-owned subsidiaries. GSE is the Managing Member and holds all control rights from GSENC and, accordingly, consolidates GSENC. GSENC's wholly owned subsidiaries (collectively, the Subsidiaries) at December 31, 2014 and 2013, are as follows:

- Sunrise NC Alexander Lessee, LLC (Alexander Project)
- Sunrise NC Daughter Lessee, LLC (Daughter Project)
- Sunrise NC Hindsman Lessee, LLC (Hindsman Project)
- Sunrise NC Martin Lessee, LLC (Martin Project)
- Sunrise NC RKAN Lessee, LLC (RKAN Project)
- Sunrise NC Shields Lessee, LLC (Shields Project)

The Investor Member of GSENC is Red Stone Renewable Energy Fund, LLC. For the period from date of formation until the later of 61 months from the date the assets were placed in service or the last day of the quarter in which the Investor Member meets a targeted internal rate of return (the Flip Date), the allocation of income and losses of GSENC will be 99% to the Investor Member and 1% to the Managing Member. After the Flip Date, the allocation of income and losses will be 95% to the Managing Member and 5% to the Investor Member. As GSE is the Managing Member and holds all operational decision making authority, GSENC is consolidated by the Company.

***GSENM1***

GSENM1 was formed as a Delaware limited liability company in January 2013 for the purpose of acquiring certain investments in energy property in New Mexico (Note 3). GSENM1 conducts its business through its wholly-owned subsidiary, Sunrise Energy Ventures New Mexico, LLC (SEV NM). GSE is the managing member and holds all control rights for GSENM1 and, accordingly, consolidates GSENM1. GSENM1 is the Managing Member and owns 95% of SEV NM. The remaining 5% is owned by Krumland Solar Advantages, LLC (Krumland). On September 30, 2017, Krumland's interest will be automatically reduced to 1% and GSENM1's interest will be increased to 99%.

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**Note 1—Organization and Nature of Operations (Continued)**

***GSENM1 (Continued)***

Sunrise Energy Ventures New Mexico, LLC had the following consolidated subsidiaries at December 31, 2013:

Sunrise NM Bogle, LLC  
Sunrise NM Kerr, LLC  
Sunrise NM Lathrop, LLC  
New Mexico Green Initiatives LLC  
SEV NM Phase 2, LLC

SEV NM Phase 2, LLC (GSENM2) was formed as a Delaware limited liability company in December 2011. GSENM1 is the Managing Member and owns 95% of GSENM2. As of December 31, 2014, the remaining 5% is owned by Krumland. On March 31, 2018, Krumland's interest will be automatically reduced to 1% and GSENM2's interest increased to 99%.

***GSEMA1***

GSEMA1 was formed as a Delaware limited liability company in April 2013 for the purpose of developing energy producing assets in Massachusetts. GSEMA1 is the Managing Member and owns 100% of SLX Project 1170, LLC. GSEMA1 is 100% owned by GSE.

***GSEMA2***

GSEMA2 was formed as a Delaware limited liability company in January 2014 for the purpose of developing energy producing assets in Massachusetts. GSEMA2 is the Managing Member and owns 100% of SLX Project 1070, LLC. GSEMA1 is 100% owned by GSE.

***GSEDEV***

GSEDEV was formed in 2011 for the purpose of providing development services to GSE and its subsidiaries. It is owned by three individuals, consisting of two executives and one stockholder of GSE.

***Nature of Operations***

Through its consolidated subsidiaries, the Company engages in the development, construction, financing, ownership, operation, and acquisition of distributed generation and utility-scale solar photovoltaic (PV) facilities (solar energy facilities) in the United States. Financing of the acquisition or construction of solar energy facilities is done primarily through equity and third-party debt. The Company sells the solar energy generated by the solar energy facilities under pilot participation agreements (PPAs) to third-party customers, typically consisting of public utilities, energy cooperatives, municipalities, or private entities.

The cost of the facilities built in the United States of America may qualify for energy investment tax credits as provided under Section 48 of the Internal Revenue Code (IRC) (Section 48 Tax Credit) or alternatively, upon election, may be eligible for the United States Department of the Treasury (Treasury) grant payment for specified energy property in lieu of tax credits pursuant to Section 1603 of the American Recovery and Reinvestment Act of 2009 (Section 1603 Grant). The cost of the facilities built in the United States of America may also qualify for

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**Note 1—Organization and Nature of Operations (Continued)**

*Nature of Operations (Continued)*

various state tax incentives, including the energy investment tax credits as provided under North Carolina General Statute §105-129.16A. In addition, XCEL Energy Inc., as part of its Solar\*Rewards program, purchases Renewable Energy Credits (RECs) from GSE through GSENM1 and GSENM 2.

Massachusetts' renewables portfolio standard (RPS) requires each regulated electricity supplier/provider serving retail customers in the state to include in the electricity it sells 15% qualifying renewables by December 31, 2020. The RPS established a Renewable Energy Credit Program. Both the GSEMA1 and GSEMA2 projects sell RECs under this program.

**Note 2—Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 consolidated financial statements and reported amounts of revenues and expenses for the period presented. Actual results could differ from these estimates.

*Cash and Cash Equivalents*

The Company considers cash, demand deposits and highly liquid investments with original maturities of less than three months to be cash and cash equivalents. The Company maintains cash deposits with major banks, which may at times exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of loss to be remote.

*Restricted Cash*

At December 31, 2014, restricted cash consisted of \$45,108 related to the development of GSEMA1, \$254,827 related to the development of GSEMA2 as part of the required collateral related to the power purchase agreement and lease agreement, \$510,000 in debt service reserves at Bridge Bank for the financing of the New Mexico and Massachusetts Projects, and cash held in escrow at GSEDEV of \$500,000, which was required as part of the tax equity investment.

At December 31, 2013, restricted cash consisted of \$36,000 held in escrow related to the deferred development fee payable in conjunction with GSENC, \$45,019 related to the development of GSEMA1, \$200,000 in debt service reserves of Bridge Bank for the financing of the New Mexico Projects, and cash held in escrow at GSEDEV of \$500,000 which was required as part of the tax equity investment.

*Accounts Receivable*

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within that period.

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management establishes an allowance for doubtful customer accounts through a review of historical losses, specific customer balances, and industry economic conditions. Customer accounts are

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**Note 2—Summary of Significant Accounting Policies (Continued)**

*Accounts Receivable (Continued)*

charged off against the allowance for doubtful accounts when management determines that the likelihood of eventual collection is remote. At December 31, 2014 and 2013, management determined that no allowance for doubtful accounts was considered necessary.

The Company extends credit based on an evaluation of customers' financial conditions and determines any additional collateral requirements. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company considers invoices past due when they are outstanding longer than the stated term. Additionally, the Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

*Energy Property*

Acquired energy property is recognized at fair value at the date of acquisition, less depreciation. Energy property constructed by the Company is recognized at its cost, less depreciation. The Company provides for depreciation utilizing the straight-line method by charges to operations over estimated useful lives of 30 years for solar energy facilities. Expenditures during the construction of new solar energy facilities are capitalized to development in progress as incurred until achievement of the commercial operation date (COD). Expenditures for maintenance and repairs are charged to expense as incurred. Upon retirement, sale or other disposition of equipment, the cost and accumulated depreciation are removed from the accounts and the related gain or loss, if any, is reflected in the year of disposal.

When the Company abandons the anticipated construction of a new solar energy facility during the development phase, costs previously capitalized to development in progress are written off.

*Impairment of Long-Lived Assets*

The Company reviews its investment in energy property and PPAs for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When evaluating impairment, if the undiscounted cash flows estimated to be generated by the energy property are less than its carrying amount, the differential carrying amount is determined to be not recoverable. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment losses were recognized during the years ended December 31, 2014 and 2013.

*Deferred Costs*

Financing costs associated with the promissory note are amortized over the term of the loan. The Company utilized the straight-line method to amortize deferred costs. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. The following table summarizes deferred costs and accumulated amortization at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred costs . . . . .	\$1,697,911	\$ 807,646
Accumulated amortization . . . . .	(383,459)	(151,182)
Total deferred costs, net . . . . .	<u>\$1,314,452</u>	<u>\$ 656,464</u>

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Note 2—Summary of Significant Accounting Policies (Continued)**

*Deferred Costs (Continued)*

Amortization of deferred costs included in depreciation and amortization expense totaled \$232,277 and \$387,456 for the years ended December 31, 2014 and 2013, respectively. Included in the 2013 amortization expense was \$318,640 of costs that were fully amortized and written off from gross deferred costs and accordingly are not reflected in the accumulated amortization balance.

*Intangible Assets*

Intangible assets consist of PPAs acquired through the acquisition of solar energy facilities. For business combinations, intangible assets are initially recognized at their fair value and are amortized over the term of the related PPAs using the straight-line method. For solar energy facilities that are purchased and then put into construction intangible assets are recorded at cost, which typically approximates fair value and are amortized over the term of the related PPAs using the straight-line method. In 2014, GSE added \$1,550,000 of intangibles for GSEMA1 and \$1,080,000 for GSEMA2. Amortization of these intangibles totaled \$335,964 and \$381,283 in the years ended December 31, 2014 and 2013, respectively.

The following table summarizes intangible assets at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Intangible assets		
Pilot participation agreements .....	\$6,723,000	\$4,093,000
Accumulated amortization .....	(989,014)	(653,050)
Total intangible assets, net .....	<u>\$5,733,986</u>	<u>\$3,439,950</u>

Estimated amortization expense for each of the next five years and thereafter is as follows:

2015 .....	\$ 395,251
2016 .....	395,251
2017 .....	395,251
2018 .....	395,251
2019 .....	395,251
Thereafter .....	<u>3,757,731</u>
	<u>\$5,733,986</u>

*Asset Retirement Obligation*

In connection with the acquisition or development of solar energy facilities, the Company may have the legal requirement to remove long-lived assets constructed on leased property and to restore the leased property to its condition prior to the construction of the long-lived assets. This legal requirement is referred to as an asset retirement obligation (ARO). If the Company determines that an ARO is required for a specific solar energy facility, the Company records the present value of the estimated liability when the solar energy facility is placed in service. AROs recorded for owned facilities are recorded by increasing the carrying value of investment in energy property and depreciated over the solar energy facility's useful life, while an ARO recorded for a leasing arrangement is accounted for as a liability in the initial period recognized and amortized over the term of the solar energy facility's useful life. After initial recognition of the liability, the Company accretes the ARO to its future value over the solar energy facility's useful life (Note 10).

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**Note 2—Summary of Significant Accounting Policies (Continued)**

***Revenue Recognition and Grant Income***

The Company derives revenues from the sale of electricity and sale of solar renewable energy credits (SREC). The Company also receives other income through receipt of grants from government entities.

Energy generation revenue and solar renewable energy credits revenue are recognized as electricity is generated by the solar energy facility, delivered to the customers and when collectability is reasonably assured. Revenues are based on actual output and contractual sale prices set forth in long-term PPAs. The Company has a limited number of customers, generally of high credit quality.

When the Company is eligible for Section 1603 Grants (Note 1), the Company recognizes a receivable and corresponding deferred income for the grants when the application for the grant is submitted by the Company to the US Treasury department. Eligibility and collectability is determined based upon an analysis of the related solar energy facility's compliance with legal and regulatory requirements, and completion of related Section 1603 Grant applications. Deferred grant income is amortized using the straight-line method over the useful life of the related solar energy facility. These grants are based on the level of capital expenditures for qualifying projects. U.S. GAAP does not specifically address accounting for grants; hence International Accounting Standard (IAS) 20 is generally followed. IAS 20 allows two approaches—to reduce capitalized property, plant and equipment and recognize grant as reduced depreciation expense over useful life or record as deferred income and amortize using the straight-line method over the useful life of the asset.

Subsequent to its acquisition of the Subsidiaries and achievement of COD in December 2011, the Company became eligible and filed for the receipt of a Section 1603 Grant in the initial amount of \$7,852,668 for the GSENC project, which was received in 2012. The Company has filed for a Section 1603 Grant related to the solar energy facility held by GSENM2 in the amount of \$2,083,824, which it collected in April 2014. The Company filed and collected \$2,817,654 from the Section 1603 Grant for the GSEMA1 project. The Company filed and collected \$2,789,554 from the Section 1603 Grant for the GSEMA2 project. Income recognized from the amortization of deferred grants during the years ended December 31, 2014 and 2013 was \$412,730 and \$305,718, respectively.

***Variable Interest Entity***

The Company consolidates entities in which it has a controlling financial interest.

The Company follows the authoritative guidance included in generally accepted accounting principles on accounting for consolidation of VIEs. Such guidance applies to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

In the normal course of business, the Company enters into a variety of transactions with VIEs. The Company determines the primary beneficiary based on an evaluation of which party has both: (i) the power to direct the activities that most significantly impact the economic performance of the VIE; and (ii) has the obligation to absorb losses, or the right to receive benefits that potentially are significant to the VIE. The Company evaluates its relationships with other entities to identify whether those entities are VIEs and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is consolidated in the consolidated financial statements. The Company is the primary beneficiary for such a VIE, GSEDEV (Note 9).

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**Note 2—Summary of Significant Accounting Policies (Continued)**

***Stock Warrants***

The Company accounts for warrants issued with a fixed exercise price as equity instruments. Warrants issued with exercise prices based on the greater of a multiple of a future financing event or a fixed amount are accounted for as liability instruments in the consolidated balance sheets (Note 6), with changes in the fair value recognized in other income.

***Income Taxes***

The Company accounts for income taxes using the liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences arising between the tax bases of assets and liabilities and their reported amounts for financial reporting purposes (Note 11).

The Company records valuation allowances to reduce its deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, the Company considers a variety of factors including the scheduled reversal of deferred tax liabilities, future taxable income and prudent and feasible tax planning strategies.

The Company follows applicable authoritative guidance on accounting for uncertainty in income taxes, which, among other things, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, disclosure and transition. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of December 31, 2014 and 2013, the Company had no uncertain tax positions and no unrecognized tax benefits. Penalties and interest assessed by income tax authorities are included in general and administrative expenses. For the years ended December 31, 2014 and 2013, the Company did not incur any penalties or interest.

***Recently Issued Accounting Standards***

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-02, *Consolidation*, which affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-15 will be effective for companies' fiscal years and for interim periods within those fiscal years beginning after December 15, 2015 and for non-public companies beginning after December 16, 2016; early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement—Extraordinary and Unusual Items* to simplify income statement presentation requirements by eliminating the concept of extraordinary items. ASU 2015-01 will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-01 will have no impact on the Company's results of operations.



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**Note 2—Summary of Significant Accounting Policies (Continued)**

*Recently Issued Accounting Standards (Continued)*

In May 2014, the FASB issued ASU 2014-09, *Revenues from Contracts with Customers*, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance will be effective for the Company in the first quarter of its fiscal year ending December 31, 2017. The Company is currently in the process of evaluating the impact of this adoption of this ASU on the Company's consolidated financial statements.

**Note 3—Acquisition**

On February 23, 2013, the Company, through its subsidiary GSENM1, acquired a 95% interest in SEV NM, which owned a solar energy project with facilities located in and around Roswell, New Mexico. The acquired project consisted of two distinct and separate phases, with separate non-controlling interest holders in each phase. The purpose of the acquisition was to expand the Company's production capacity.

Phase 1 consisted of a fully-operational 2.9MW ground-mounted solar PV project consisting of 16 sites located in Roswell and Dexter, New Mexico. Phase 2 consisted of a planned 2.5 MW ground-mounted solar PV project located in Roswell, New Mexico. Management determined that Phase 1 constituted an acquisition of a business and accounted for the transaction as such. Phase 2 consisted primarily of certain intangible assets, which management determined did not constitute a business and accounted for it as an asset acquisition. Of the total purchase price of \$7,470,000 in cash, \$6,700,000 was allocated to the acquisition of Phase 1, and the remaining \$770,000 was allocated to the acquisition of Phase 2.

A summary of the purchase price allocation with respect to Phase 1 follows:

	<b>2013</b>	<b>Estimated Useful Life</b>
Assets acquired		
Cash .....	\$ 42,851	N/A
Energy property .....	6,700,000	30 years
Pilot participation agreements .....	1,200,000	20 years
	7,942,851	
Closing costs .....	(530,001)	
Cash purchase price .....	(6,700,000)	
Bargain purchase price .....	\$ 712,850	

A bargain purchase gain in the amount of \$712,850 was recognized at acquisition in 2013. The gain is the excess of the fair value of identifiable assets over total consideration. The gain was driven primarily by the financial distress of the seller and the Company's ability to leverage preexisting relationships with the contractor involved in the project.

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**Note 4—Investment in Energy Property**

Investment in energy property consists of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Solar energy facilities—operating .....	\$62,120,498	\$42,106,933
Asset retirement costs .....	445,014	245,253
Development in progress .....	—	10,036,711
	<u>62,565,512</u>	<u>52,388,897</u>
Accumulated depreciation .....	(4,006,443)	(2,191,947)
	<u>\$58,559,069</u>	<u>\$50,196,950</u>

In 2014, GSEMA1 and GSEMA2 were completed and the development in progress from prior year of \$10,036,711 was reclassified to operating assets. Depreciation expense was \$1,814,496 and \$1,234,555 for the years ended December 31, 2014 and 2013, respectively.

**Note 5—Notes Payable**

The following is a summary of the Company's indebtedness at December 31, 2014 and 2013:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Principal</u>	<u>December 31,</u>	
				<u>2014</u>	<u>2013</u>
Hunt Electric Corp.—NC1 .....	3/15/2014	12.00%	\$16,629,676	\$ 8,428,136	\$ 8,428,136
Hunt Electric Corp.—NM1 .....	9/1/2018	9.00%	1,271,795	1,134,650	1,134,650
Sunrise Energy Ventures—NM1 .....	9/30/2018	9.00%	134,650	134,650	134,650
Bridge Bank—NM1 Term Loan .....	2/11/2018	8.00%	6,197,797	5,419,052	5,846,054
Bridge Bank—NM2 Term Loan .....	6/12/2018	8.00%	6,165,227	5,776,793	6,060,162
Bridge Bank—NM2 1603 Loan .....	4/1/2014	8.00%	2,104,932	—	2,104,932
Bridge Bank—MA1 PPA Loan .....	7/3/2021	7.00%	5,224,000	5,181,883	—
Bridge Bank—MA1 SREC Loan .....	7/3/2021	7.75%	5,600,000	5,555,992	—
Bridge Bank—MA2 PPA Loan .....	10/15/2021	6.25%	2,700,000	2,700,000	—
Bridge Bank—MA2 SREC Loan .....	10/15/2021	7.00%	5,320,000	5,320,000	—
Empower Note .....	12/19/2019	3.00%	240,000	240,000	—
Altru Note .....	6/1/2016	2.50%	315,000	237,500	—
				<u>40,128,656</u>	<u>23,708,584</u>
Less current maturities .....				(2,499,904)	(10,533,068)
Long-term debt, net of current maturities ...				<u>\$37,628,752</u>	<u>\$ 13,175,516</u>

***Hunt Electric Corporation—GSENC Notes***

On December 23, 2011, each of the Subsidiaries entered into a promissory note with Hunt Electric Corporation, which is collateralized by the assets of the Subsidiaries. The notes bear interest at the greater of the Prime rate plus two percent or six percent per annum. Beginning on January 30, 2012, interest only payments began and were to continue until the maturity date on March 30, 2012, at which time all outstanding principal and interest was due unless extended. During 2012, the Company paid the necessary extension fees and the

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 5—Notes Payable (Continued)**

*Hunt Electric Corporation—GSENC Notes (Continued)*

maturity date of the loan was extended to January 4, 2013. In 2013, the Company amended the agreement again, extending the maturity date to March 15, 2014. The notes payable do not have any financial covenants; however, as of December 31, 2013 and 2014, the Company was in default on certain payment provisions, therefore the Company was required to pay a default rate of interest of 12.0%. As of December 31, 2014 and 2013, \$8,428,136 remained outstanding on these notes payable.

At both December 31, 2014 and 2013, the GSENC notes consisted of the following:

Daughter Project .....	\$1,626,598
Alexander Project .....	1,599,620
Hindsman Project .....	1,589,707
Martin Project .....	1,595,660
RKAN Project .....	1,013,573
Shields Project .....	<u>1,002,978</u>
	<u>\$8,428,136</u>

On February 5, 2015, the Company paid off the GSENC note payable to Hunt Electric Corporation through the issuance of a new loan with Bridge Bank. The new \$8,900,000 loan is collateralized by certain assets of GSENC. This loan bears fixed interest at 6.35%, requires monthly interest payments and quarterly principal payments, and matures on February 5, 2025 (Note 16).

*Hunt Electric Corporation—GSENM1*

On February 12, 2013, the Company, through a subsidiary, entered into a promissory note arrangement with Hunt Electric Corporation, collateralized by certain assets of GSENM1 and subordinated to the Bridge Bank loans. The promissory note had an initial principal amount of \$1,271,795 and bears fixed interest at 9.00% per annum. Interest is accrued monthly and paid annually; any unpaid principal and accrued interest is due September 1, 2018. Payments of principal are required prior to that date to the extent excess cash flows, as defined, exist after principal payments on the Bridge Bank loans are made.

*Sunrise Energy Ventures—GSENM1*

On February 12, 2013, the Company, through a subsidiary, entered into a promissory note arrangement with Sunrise Energy Ventures, LLC, collateralized by certain assets of GSENM1 and subordinated to the Bridge Bank loans. The promissory note had an original principal amount of \$134,650 and bears fixed interest at 9.00% per annum. Interest is accrued monthly and paid annually; any unpaid principal and accrued interest is due September 30, 2018. Payments of principal are required prior to that date to the extent excess cash flows, as defined, exist after principal payments on the Bridge Bank loans are made.

*GSENM1—Bridge Bank Loans*

On February 12, 2013, the Company, through a subsidiary, entered into the Senior Loan with Bridge Bank, collateralized by certain assets of GSENM1. The promissory note had an original principal amount of \$6,197,797 bears fixed interest at 8.00% per annum, and interest is paid monthly. The Loan requires quarterly principal payments and matures on February 12, 2018.

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**Note 5—Notes Payable (Continued)**

***GSENM2—Bridge Bank Loans***

On February 12, 2013, the Company, through a subsidiary, entered into the GSENM2 Term Loan and 1603 Loan with Bridge Bank, collateralized by certain assets of GSENM2. These loans had an original principal amount totaling \$8,270,159, bear fixed interest at 8.00% per annum and interest is paid monthly. The GSENM2 Term Loan requires quarterly principal payments and mature on June 12, 2018. The 1603 Loan was repaid in April of 2014.

***GSEMA1—Bridge Bank Loans***

On July 3, 2014, the Company, through a subsidiary, entered into a PPA Loan, SREC Loan, and 1603 Loan with Bridge Bank, collateralized by certain assets of GSEMA1. These loans had an original principal amount totaling \$13,537,164 and were used to retire the construction contract payable due for this project. The PPA and SREC Loan bear fixed interest at 7.00% and 7.75%, respectively; interest is paid monthly, require quarterly principal payments and mature on July 3, 2021. The 1603 Loan was repaid in November of 2014.

***GSEMA2—Bridge Bank Loans***

On October 15, 2014, the Company, through a subsidiary, entered into a PPA and SREC Loan with Bridge Bank, collateralized by certain assets of GSEMA2. These loans had an original principal amount totaling \$8,020,000, bear fixed interest at 6.25% and 7.00%, respectively, require quarterly principal payments, and mature on October 15, 2021.

Future maturities of notes payable are as follows for the years ended December 31,

<b>Note Principal Payment</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>	<b>Total</b>
Hunt Electric Corp.—							
NC1 .....	\$ 349,288	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,078,848
Bridge Bank—NM1 ..	461,085	498,026	538,079	3,921,862	—	—	5,419,052
Hunt/Sunrise—NM1 ..	—	—	—	1,269,300	—	—	1,269,300
Bridge Bank—NM2 ..	322,254	364,179	409,397	458,181	4,222,782	—	5,776,793
Bridge Bank—MA1 ..	678,923	635,937	637,687	735,031	790,238	7,260,059	10,737,875
Briege Bank—MA2 ..	481,864	515,594	551,686	590,304	631,625	5,248,927	8,020,000
Empower .....	48,000	48,000	48,000	48,000	48,000	—	240,000
Altru .....	158,490	79,010	—	—	—	—	237,500
	<u>\$2,499,904</u>	<u>\$2,140,746</u>	<u>\$2,184,849</u>	<u>\$7,022,678</u>	<u>\$5,692,645</u>	<u>\$12,508,986</u>	<u>\$40,128,656</u>

**Note 6—Stock Warrants**

During 2010 the Company issued warrants for 4,583,370 shares of common stock. The warrants vested immediately and have a term of five years from the grant date with a weighted-average exercise price of \$0.09. These warrants were accounted for as equity instruments.

During the year ended December 31, 2012, the Company issued warrants for 5,961,788 shares of the Company's common stock. These warrants can be exercised at any time at the lower of \$1.85 per share or 70%

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**Note 6—Stock Warrants (Continued)**

of the common stock offering price on an initial public offering. Because these warrants include a down-round provision, the fair value of the warrants is recognized as a liability at the balance sheet date. No warrants classified as liability instruments were issued during the year ended December 31, 2013 or 2014. The fair value of these warrants was estimated at the date of grant using the calculated-value method incorporating a Black-Scholes Option Pricing Model. Expected volatility is based on average volatilities of similar public entities. The risk-free interest rate for periods within the contractual life of the warrant is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life represents an estimate of the length of time the warrants are expected to remain outstanding. The warrants have a term of no greater than five years from the grant date and vested immediately. At December 31, 2014 and 2013, the fair value of warrants recognized as liabilities was \$1,315,618 and \$849,679, respectively.

Changes in the year-over-year fair value of warrants are recognized in other income (expense) in the consolidated statements of operations amounting to \$465,939 and \$740,455 in years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2013, the Company issued warrants for 628,070 shares of common stock at fixed exercise prices ranging from \$3.00 to \$3.70 per share. These warrants are classified as equity instruments. Included in these warrants are warrants for 99,460 shares of common stock in consideration for services, which resulted in share-based compensation expense of \$16,400, which is included in operation and maintenance expense in the accompanying consolidated statements of operations.

During the year ended December 31, 2014, the Company issued warrants for 576,890 shares of common stock for three years at a fixed exercise price of \$3.00 per share. These warrants are classified as equity instruments.

The following table presents the range of weighted-average assumptions used in the valuation of warrants accounted for as liability instruments:

	<u>2014</u>	<u>2013</u>
Risk-free interest rate .....	0.12%	0.22%
Dividend yield .....	—	—
Expected volatility .....	60.60%	52.00%
Expected life (years) .....	2.9	3.9

The table below summarizes warrant activity in 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Warrants</u>	<u>Average Exercise Price</u>	<u>Warrants</u>	<u>Average Exercise Price</u>
Balance—beginning of the year .....	11,669,022	\$1.16	11,040,952	\$1.05
Granted during the year .....	576,890	3.00	628,070	3.02
Balance—end of year .....	<u>12,245,912</u>	<u>\$1.25</u>	<u>11,669,022</u>	<u>\$1.16</u>
Exercisable—end of year .....	<u>12,245,912</u>	<u>\$1.25</u>	<u>11,669,022</u>	<u>\$1.16</u>

None of the warrants were exercised or forfeited.

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
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**Note 7—Fair Value Measurements**

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Company uses when measuring fair value:

- Level 1        Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2        Inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3        Inputs are unobservable inputs for the asset or liability that are typically based on an entity’s own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety. Warrants are valued using option pricing models that utilize both observable and unobservable inputs such as the Company’s common stock price, interest rates and price volatilities. The following table presents the Company’s financial instruments measured at fair value on a recurring basis at December 31, 2014 and 2013:

	<b>Fair value measurements</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
December 31, 2014				
Warrants .....	\$—	\$—	\$1,315,618	\$1,315,618
	<u>\$—</u>	<u>\$—</u>	<u>\$1,315,618</u>	<u>\$1,315,618</u>
December 31, 2013				
Warrants .....	\$—	\$—	\$ 849,679	\$ 849,679
	<u>\$—</u>	<u>\$—</u>	<u>\$ 849,679</u>	<u>\$ 849,679</u>

There were no transfers in or out of Level 3 for either of the years ended December 31, 2014 or 2013. All of the gains and losses related to the warrants are recorded in earnings.

**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
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**Note 7—Fair Value Measurements (Continued)**

The following table provides information regarding significant unobservable inputs utilized to value warrants:

As of December 31, 2014:

<u>Significant Unobservable Input</u>	<u>Range</u>	<u>Weighted Average</u>
GSE common stock price .....	\$0.61—\$0.65	\$0.63

As of December 31, 2013:

<u>Significant Unobservable Input</u>	<u>Range</u>	<u>Weighted Average</u>
GSE common stock price .....	\$0.91—\$0.96	\$0.94

Price volatilities used in the valuation were 60.6% and 52.0% for December 31, 2014 and 2013, respectively.

The fair value of the assets and liabilities are included at the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of cash, restricted cash, account receivables, grants receivable and accounts payables approximate the carrying value of the respective assets and liabilities due to the short-term nature of those instruments.

The following table shows the comparison and fair values of the Company's notes payable:

	<u>2014</u>		<u>2013</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Notes Payable .....	\$40,128,656	\$40,330,188	\$23,708,584	\$33,746,264

**Note 8—Operating Leases**

*Site Leases*

The Company, through its subsidiaries, has entered into various cancellable lease agreements for the sites where solar energy facilities have been constructed. Rent expense for GSENC is payable monthly based on a contractual rate per kilowatt-hour for each kilowatt-hour of electricity generated by the facilities. Rent expense for GSENM2 is payable monthly based on a contractual rate per kilowatt-hour for each kilowatt-hour of electricity generated by the facilities. Rent expense for GSENM1 is based on a stated rate, subject to offset for energy production used by the lessor. Rent expense totaled \$352,186 and \$204,479 for the years ended December 31, 2014 and 2013, respectively.

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**Note 8—Operating Leases (Continued)**

*Site Leases (Continued)*

Minimum rent payments for the next five years based on production estimates and thereafter, excluding potential offsets, are as follow:

2015 .....	\$ 394,272
2016 .....	395,233
2017 .....	396,238
2018 .....	397,287
2019 .....	398,381
Thereafter .....	<u>7,328,226</u>
	<u>\$9,309,637</u>

**Note 9—Variable Interest Entity**

*GSEDEV*

GSEDEV was formed in 2011 for the purpose of providing development services to GSE and its affiliates. GSEDEV is owned by three individuals, consisting of two executives and one stockholder of the Company.

The Company is the primary beneficiary of GSEDEV. As of December 31, 2014 and 2013, and for the years then ended, GSEDEV has been consolidated with the Company.

GSEDEV entered into an agreement with North Carolina Solar Trust (NCST) in December 2011 to pay NCST a finder's fee for their participation in the GSENC1 acquisition. In December 2014, GSEINC executed a settlement agreement with NCST for a total amount of \$750,000, resulting in a gain on forgiveness in the amount of \$1,283,360. An outstanding amount of \$720,000 was still due at December 31, 2014.

**Note 10—Asset Retirement Obligation**

The Company's ARO relates to its owned solar energy facilities. The lease and associated PPAs require that, upon the end of the period, the solar energy facility be removed from the host customer's site. The Company recognized an increase to investment in energy property and an asset retirement liability upon COD. Each period, the liability will be accreted to its future value while the aggregate capitalized cost of \$445,014 is depreciated over the life of the related assets. During the years ended December 31, 2014 and 2013 the Company established asset retirement obligations for projects placed in service during the year of \$199,761 and \$124,749, respectively. As of December 31, 2014 and 2013, the asset retirement obligation was \$488,352 and \$266,038, respectively. Accretion expense was \$22,553 and \$13,235 for the years ended December 31, 2014 and 2013, respectively, and is included in operations and maintenance expenses in the accompanying consolidated statements of operations.



**GREEN STATES ENERGY, INC. AND SUBSIDIARIES**  
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**Note 11—Income Taxes**

Under the liability method, a deferred tax asset or liability is measured based on the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates.

The following table presents a reconciliation of the statutory income tax rate to the Company's effective tax rate, as a percentage of income before taxes for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Federal tax rate .....	(34.00%)	(34.00%)
State tax rate .....	(2.79%)	(4.55%)
Tax exempt income .....	(10.28%)	0.16%
Non-deductible expenses .....	1.40%	0.15%
Preferred dividend .....	—%	0.04%
Tax credits .....	(2.18%)	0.35%
Effective tax rate change .....	13.69%	—%
Valuation allowance .....	<u>34.16%</u>	<u>37.85%</u>
Effective income tax rate .....	<u>—%</u>	<u>—%</u>

The Company's deferred income tax assets (liabilities) are as follows:

	<u>2014</u>	<u>2013</u>
Current		
Accruals .....	\$ 188,396	\$ 278,358
Stock warrant liability .....	483,297	327,585
Valuation allowance .....	<u>(226,751)</u>	<u>(229,189)</u>
	<u>\$ 444,942</u>	<u>\$ 376,754</u>
Noncurrent		
Net operating losses .....	\$ 9,389,837	\$ 7,661,593
Property and equipment .....	(1,181,363)	289,368
Investments in subsidiaries .....	(5,972,461)	(5,692,088)
Other .....	745,545	597,823
Valuation allowance .....	<u>(3,426,500)</u>	<u>(3,233,450)</u>
	<u>\$ (444,942)</u>	<u>\$ (376,754)</u>

The Company continues to evaluate unrecognized tax benefits as additional legislation and tax rulings are issued by the various tax authorities to which the Company is subject and as additional facts and circumstances develop.

The Company has federal and state net operating losses (pre-tax) of approximately \$26,251,675 and \$13,185,079, respectively, as of December 31, 2014. These net operating losses (NOLs) begin to expire in 2031.

Applicable authoritative accounting guidance requires that deferred tax assets be reduced by a valuation allowance if it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management

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**Note 11—Income Taxes (Continued)**

considers all available positive and negative evidence affecting specific deferred tax assets, including the Company's past and anticipated future performance, the reversal of deferred tax liabilities, the length of carryback and carry forward periods and the implementation of tax planning strategies.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of deferred tax assets when significant negative evidence exists. Allocations of income from GSENC and GSENM are expected to be sufficient to allow the Company to realize the benefit of a portion of its deferred tax assets, including NOLs. The Company has recognized a valuation allowance against the remaining deferred tax assets.

Management's judgment is required in determining tax provisions and evaluating tax positions. Although management believes its tax positions and related provisions reflected in the consolidated financial statements are fully supportable, it recognizes that these tax positions and related provisions may be challenged by various tax authorities. These tax positions and related provisions are reviewed on an ongoing basis and are adjusted as additional facts and information become available, including progress on tax audits, changes in interpretation of tax laws, developments in case law and closing of statute of limitations. The Company's tax provision includes the impact of recording reserves and any changes thereto. As of December 31, 2014, the Company has a number of open tax years with various taxing jurisdictions that range from 2010 to 2014.

**Note 12—Commitments and Contingencies**

As a condition to claiming Section 1603 Grants, the Company is required to maintain compliance with Section 48 of the IRC for a period of five years following COD. Failure to maintain compliance with the requirements of Section 48 could result in recapture of the amounts received, plus interest. The Company was in compliance with all relevant requirements of Section 48 at December 31, 2014 and 2013.

**Note 13—Pilot Participation Agreements**

The Company has entered into a 20-year PPA for the NC1 project with the Tennessee Valley authority, which provides for the receipt of payments in exchange for the sale of all solar-powered electric energy. The electricity payments are calculated based on the amount of electricity delivered at a designated delivery point at a fixed price equal to \$0.12 per kilowatt hour sold plus a variable rate, which has both a residential and commercial component. At December 31, 2014 and 2013, the residential rate was \$0.10357 and \$0.1022, respectively, and the commercial rate was \$0.12283 and \$0.1214, respectively, per kilowatt hour. The Company is dependent on this arrangement. Should the arrangement with the Tennessee Valley Authority be terminated or expire, the Company would be financially dependent on the stockholders.

Energy produced by Phase 1 and Phase 2 of the New Mexico projects is sold to Xcel Energy, a local electric utility serving the Roswell, New Mexico area. Phase 1 and Phase 2 also sell all excess electricity and related attributes, such as SREC, to Southwestern Public Service Company, at a rate of \$0.2000 and \$0.1700 per kilowatt hour, respectively.

Energy produced from GSEMA1 is sold to the Town of Sandwich in Massachusetts. The renewable energy credits are sold to XE MA REC AV, LLC, at a rate of \$195 per SREC.

Energy produced from GSEMA2 is sold to the Devens Utility in Shirley, MA. The renewable energy credits are sold to Devens SREC Funding, LLC, at a rate of \$200 per SREC.

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**Note 14—Share-Based Compensation Arrangement**

In 2012, the Company granted 1,800,000 non-vested shares to employees. The shares vest quarterly over a 2 year period starting on June 1, 2012. The non-vested shares are accounted for as equity awards with compensation expense measured on the grant date at the fair value of the Company's common shares. Compensation expense recorded in 2014 and 2013 was \$231,494 and \$614,400, respectively. This grant was modified in 2013 as disclosed below.

In 2013, the Company established a share-based compensation plan (the Plan) providing for restricted share awards to executives, board members and service providers. Awards under the plan include both a service condition, which is continuous employment over a four-year period, and a performance condition defined as a change in control or liquidity event, as defined. The Plan modified the 1,800,000 non-vested shares granted to employees in 2012, adding the vesting conditions. This modification did not result in incremental compensation expense as the modification changed the vesting of the shares to be not probable.

Additional restricted shares were issued to employees in 2013 under the Plan. As vesting of these shares is not probable, no compensation expense has been recognized for these awards. There was \$192,094 and \$67,876 of unrecognized compensation expense at December 31, 2014 and 2013, respectively, related to unvested restricted shares.

The following table is a summary of restricted shares granted to employees and the related grant date fair value:

	<u>2014</u>	<u>2013</u>
Restricted shares granted <sup>(a)</sup> .....	3,601,653	3,601,653
Grant date fair value .....	\$ 0.77	\$ 0.77

(a) None of the restricted shares have vested or been forfeited.

In 2013, the Company granted 300,000 restricted shares to directors as a consideration for each year of service. Accordingly, the Company recorded \$63,731 as compensation expense in 2013.

In 2013, the Company granted 400,000 non-vested shares to non-employees in connection with the preliminary development of GSEMA1, a project in Sandwich, Massachusetts. Accordingly, the Company recorded \$317,000 as compensation expense in 2013. In 2014, the Company modified the non-vested shares and converted to restricted shares. This modification did not result in incremental compensation expense as the modification changed the vesting of the shares to be not probable.

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**Note 15—Loss Per Share**

Basic and diluted earnings per share are calculated by dividing net loss by the average number of shares outstanding during each period.

The calculation of earnings per share is as follows:

	<b>Common Stock</b>	
	<b>2014</b>	<b>2013</b>
Numerator:		
Net loss—Basic and Diluted .....	\$ (558,077)	\$ (5,244,519)
Denominator:		
Weighted average shares outstanding—Basic and Diluted .....	18,546,103	19,266,669
Basic and Diluted loss per share .....	\$ (0.03)	\$ (0.27)

For 2014 and 2013, respectively, 878,412 and 301,052 warrants were excluded from diluted loss per share calculations because they would have been anti-dilutive in nature. All other warrants have been excluded from diluted loss per share calculations because due to the net losses they are anti-dilutive.

**Note 16—Subsequent Events**

Management evaluated the activity of the Company through March 27, 2015, the date the consolidated financial statements were available to be issued, and concluded that all subsequent events requiring recognition or disclosure in the consolidated financial statements have been recognized or disclosed in the consolidated financial statements or the notes to the consolidated financial statements.

On February 5, 2015, the Company paid off the GSENC note payable to Hunt Electric Corporation through the issuance of a new loan with Bridge Bank. The new \$8,900,000 loan is collateralized by certain assets of GSENC. This loan bears fixed interest at 6.35%, requires monthly interest payments and quarterly principal payments, and matures on February 5, 2025.

In March 2015, the Company entered into a merger agreement with LightBeam Electric Company (LightBeam) pursuant to which LightBeam will acquire the Company immediately prior to the completion of LightBeam's initial public offering.