GREEN STATES ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

GREEN STATES ENERGY, INC. AND SUBSIDIARIES

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Green States Energy, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying financial statements of Green States Energy, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Green States Energy, Inc. and Subsidiaries as of December 31, 2015, and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Pronouncement

As discussed in Note 2 to the consolidated financial statements, the Company has adopted new accounting guidance ASU 2015-17, *Income Taxes – Balance Sheet Classification of Deferred Taxes*. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of Green States Energy, Inc. and Subsidiaries as of December 31, 2014, were audited by other auditors whose report dated March 27, 2015, expressed an unmodified opinion on those statements.

Marcum LLP

Hartford, CT
June 22, 2016

GREEN STATES ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 743,559	$ 897,657
Accounts receivable	1,475,901	1,492,644
Prepaid expenses and other current assets	82,599	29,625
Total Current Assets	2,302,059	2,419,926
Investment in Energy Property, net	56,503,339	58,559,069
Other Assets		
Intangible assets, net	5,345,142	5,733,986
Deferred costs, net	1,509,195	1,314,452
Restricted cash	1,414,520	1,309,935
Total Other Assets	8,268,857	8,358,373
Total Assets	$ 67,074,255	$ 69,337,368

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

GREEN STATES ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2015 AND 2014

	2015	2014
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 1,021,907	$ 986,231
Accrued expenses	504,058	849,551
Derivative liability - warrants	1,058,217	1,315,618
Development service fees payable, current portion	120,000	120,000
Deferred grant income, current	518,124	518,124
Notes payable, short-term	3,191,302	2,499,904
Total Current Liabilities	6,413,608	6,289,428
Long-Term Liabilities		
Notes payable, long-term	36,496,464	37,628,752
Development service fees payable, net of current portion	480,000	600,000
Asset retirement obligations	541,859	488,352
Deferred grant income, net of current	13,510,889	14,029,013
Accrued expenses, long-term	326,226	432,867
Total Long-Term Liabilities	51,355,438	53,178,984
Total Liabilities	57,769,046	59,468,412
Equity		
Stockholders' 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, 18,661,588 and 18,461,488 shares issued and outstanding in 2015 and 2014, respectively	18,661	18,461
Additional paid-in capital	7,324,212	7,224,362
Accumulated deficit	(9,244,807)	(8,208,296)
Total Stockholder's deficit	(1,901,854)	(965,393)
Noncontrolling interest	11,207,063	10,834,349
Total Equity	9,305,209	9,868,956
Total Liabilities and Equity	$ 67,074,255	$ 69,337,368

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, 2015 AND 2014

	2015	2014
Revenues		
Electricity	$ 2,233,568	$ 1,984,657
Solar renewable energy credits	4,587,437	3,911,785
Total Revenues	6,821,005	5,896,442
Operating Expenses		
Operations and maintenance expense	2,852,698	2,804,348
Depreciation, amortization and accretion	2,798,017	2,405,292
Total Operating Expense	5,650,715	5,209,640
Operating Income	1,170,290	686,802
Other Income (Expense)		
Grant income	518,124	412,730
Developer fee	60,000	--
Gain on NCST settlement	--	1,283,360
Loss on BBR settlement	(100,000)	--
Preferred redemption expense	(86,400)	--
Change in fair value of derivative liability - warrants	257,401	(465,939)
Interest expense	(2,684,700)	(2,941,741)
Total Other Expense	(2,035,575)	(1,711,590)
Net Loss	(865,285)	(1,024,788)
Net Income (Loss) Attributable to Noncontrolling Interest	171,226	(466,711)
Net Loss Attributable to Green States Energy, Inc.	$ (1,036,511)	$ (558,077)

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, 2015 AND 2014

	Preferred Stock		Common Stock		Additional	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Stockholder's Deficit	Interest	Equity
Balance - December 31, 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 paid	--	--	--	--	--	--	--	(177,096)	(177,096)
Net loss	--	--	--	--	--	(558,077)	(558,077)	(466,711)	(1,024,788)
Balance - December 31, 2014	80,000	80	18,461,488	18,461	7,224,362	(8,208,296)	(965,393)	10,834,349	9,868,956
Redemption of warrants	--	--	200,100	200	99,850	--	100,050	--	100,050
Contributions	--	--	--	--	--	--	--	387,095	387,095
Dividends paid	--	--	--	--	--	--	--	(185,607)	(185,607)
Net Loss	--	--	--	--	--	(1,036,511)	(1,036,511)	171,226	(865,285)
Balance - December 31, 2015	80,000	$ 80	18,661,588	$ 18,661	$ 7,324,212	$ (9,244,807)	$ (1,901,854)	$ 11,207,063	$ 9,305,209

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, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Net loss	$ (865,285)	$ (1,024,788)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,766,680	2,382,739
Accretion expense	31,337	22,553
Write off of deferred costs	227,800	--
Amortization of grant income	(518,124)	(412,730)
Share-based compensation	--	231,894
Change in fair value of warrants	(257,401)	465,939
Changes in operating assets and liabilities:		
Accounts receivable	16,743	(971,252)
Prepaid expenses and other current assets	(52,974)	(22,500)
Accounts payable and accrued expenses	(416,458)	(937,725)
Net Cash Provided by (Used in) Operating Activities	932,318	(265,870)
Cash Flows from Investing Activities		
Proceeds from grants	--	7,691,033
Purchase of energy property and equipment	(53,650)	(12,606,854)
Restricted cash	(104,585)	(528,916)
Net Cash Used in Investing Activities	(158,235)	(5,444,737)

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, 2015 AND 2014

	2015	2014
Cash Flows from Financing Activities		
Payments on deferred developer fee	$ (120,000)	$ (30,000)
Payments of construction contract payable	--	(9,895,001)
Proceeds from notes payable	11,903,675	22,112,163
Payments on notes payable	(12,344,565)	(5,692,091)
Payment of deferred costs	(668,829)	(890,265)
Proceeds from warrant conversion	100,050	--
Contributions from noncontrolling interest	387,095	--
Issuances of common stock, net of offering costs	--	274,400
Dividends to noncontrolling interest	(185,607)	(177,096)
Net Cash (Used in) Provided by Financing Activities	(928,181)	5,702,110
Net Change in Cash and Cash Equivalents	(154,098)	(8,497)
Cash and Cash Equivalents - Beginning	897,657	906,154
Cash and Cash Equivalents - Ending	$ 743,559	$ 897,657
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 2,811,232	$ 2,858,172
Non-cash investment activities - asset retirement obligation	$ 22,170	$ 199,761
Previously capitalized costs to development in progress written off	$ --	$ 149,328

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

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 (GSENC1), 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.

GSENC1

GSENC1 was formed as a Delaware limited liability company on December 23, 2011. GSENC1 conducts its business through its wholly-owned subsidiaries. GSE is the Managing Member and holds all control rights of GSENC1 and, accordingly, consolidates GSENC1. GSENC's wholly owned subsidiaries (collectively, the Subsidiaries) at December 31, 2015 and 2014, 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 GSENC1 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 GSENC1 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, GSENC1 is consolidated by GSE.

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

GSENM1

GSENM1 was formed as a Delaware limited liability company in December 2012 for the purpose of acquiring certain investments in energy property in New Mexico. 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%.

Sunrise Energy Ventures New Mexico, LLC had the following consolidated subsidiaries at December 31, 2015:

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, 2015, 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.

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

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 of America. 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 may also qualify for 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 GSENM2.

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 periods presented. The most significant estimates with regard to these statements relate to the assumptions utilized in the calculation of the derivative liability, asset retirement obligations and impairment of long-lived assets. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

The Company considers cash, demand deposits and highly liquid investments with maturities of less than three months when purchased to be cash and cash equivalents. The Company maintains cash and cash equivalents with major financial institutions, 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, 2015, restricted cash consisted of $45,199 related to the development of GSEMA1, $269,321 related to the development of GSEMA2 as part of the required collateral related to the power purchase agreement and lease agreement, $600,000 in debt service reserves at Bridge Bank for the financing of the North Carolina, 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, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

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

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 charged off against the allowance for doubtful accounts when management determines that the likelihood of eventual collection is remote.

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. At December 31, 2015 and 2014, management determined that no allowance for doubtful accounts was considered necessary.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014.

VARIABLE INTEREST ENTITY

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

The Company follows the authoritative guidance included in U.S. GAAP 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 8).

DEFERRED COSTS

Financing costs associated with the notes payable are amortized over the term of the loan. The Company utilized the straight-line method to amortize deferred costs, which is not materially different from the results that would have been obtained under the effective yield method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table summarizes deferred costs and accumulated amortization at December 31, 2015 and 2014:

	2015	2014
Deferred costs	$ 1,918,699	$ 1,697,911
Accumulated amortization	(409,504)	(383,459)
Total deferred costs, net	$ 1,509,195	$ 1,314,452

Amortization of deferred costs included in depreciation and amortization expense totaled $246,286 and $232,777 for the years ended December 31, 2015 and 2014, respectively. During 2015, $220,241 of costs that were fully amortized were written off from gross deferred costs and accumulated amortization. In 2015, the Company wrote off $227,800 in deferred costs related to financing not obtained, which is included within the operations and maintenance expense line of the accompanying consolidated statement of operations.

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.

The following table summarizes intangible assets at December 31, 2015 and 2014:

	2015	2014
Intangible assets		
Pilot participation agreements	$ 6,723,000	$ 6,723,000
Accumulated amortization	(1,377,858)	(989,014)
Total intangible assets, net	$ 5,345,142	$ 5,733,986

Amortization of these intangible assets totaled $388,844 and $335,964 in the years ended December 31, 2015 and 2014, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2016	$ 388,843
2017	388,843
2018	388,843
2019	388,843
2020	388,843
Thereafter	3,400,927
	$ 5,345,142

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 future 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 9).

REVENUE RECOGNITION AND GRANT INCOME

The Company derives revenues from the sale of electricity and the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the grant as reduced depreciation expense over its life or record as deferred income and amortize using the straight-line method over the its 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 GSENC1 project, which was received in 2012. The Company filed for a Section 1603 Grant related to the solar energy facility held by GSENM2 in the amount of $2,083,824, which was received in April 2014. In 2014, the Company filed and collected $2,817,654 from the Section 1603 Grant for the GSEMA1 project and $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, 2015 and 2014 was $518,124 and $412,730, respectively.

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 accompanying consolidated balance sheets (Note 5), 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 10).

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and disclosure. 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, 2015 and 2014, the Company had no uncertain tax positions and no unrecognized tax benefits. Penalties and interest assessed by income tax authorities would be included in general and administrative expenses. For the years ended December 31, 2015 and 2014, the Company did not incur any penalties or interest.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17, *Income Taxes – Balance Sheet Classification of Deferred Taxes*, which is part of ASC 740: Income Taxes. The guidance requires that all deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The guidance was adopted retrospectively which resulted in a reclassification of the deferred tax assets to non-current on the accompanying balance sheets. There was no impact on results of operations or cash flows as a result of the adoption of this guidance.

RECLASSIFICATIONS

Certain items from the prior year have been reclassified to conform to the current year presentation on the accompanying balance sheets. This reclassification has no impact on the consolidated financial position or results of operations on the prior year.

NOTE 3 – INVESTMENT IN ENERGY PROPERTY

Investment in energy property consists of the following as of December 31:

	2015	2014
Solar energy facilities - operating	$ 62,228,840	$ 62,175,190
Asset retirement costs	467,184	445,014
	62,696,024	62,620,204
Accumulated depreciation	(6,192,685)	(4,061,135)
	$ 56,503,339	$ 58,559,069

Depreciation expense was $2,131,550 and $1,814,496 for the years ended December 31, 2015 and 2014, respectively.

NOTE 4 – NOTES PAYABLE

The following is a summary of the Company's indebtedness at December 31:

	Maturity Date	Interest Rate	December 31, 2015	December 31, 2014
Hunt Electric Corp. - NC1	3/15/2014	12.00%	$ --	$ 8,428,136
Hunt Electric Corp. - NM1	9/1/2018	9.00%	--	1,134,650
Sunrise Energy Ventures - NM1	9/30/2018	9.00%	--	134,650
Bridge Bank - NC1 Term Loan	2/5/2025	6.35%	8,307,200	--
Bridge Bank - NM1 Term Loan	10/31/2021	6.50%	5,351,357	5,419,052
Bridge Bank - NM2 Term Loan	10/31/2021	6.50%	5,326,512	5,776,793
Bridge Bank - MA1 PPA Loan	10/31/2021	6.50%	7,020,429	5,181,883
Bridge Bank - MA1 SREC Loan	10/31/2021	6.50%	5,580,734	5,555,992
Bridge Bank - MA2 PPA Loan	10/31/2021	6.50%	2,825,460	2,700,000
Bridge Bank - MA2 SREC Loan	10/31/2021	6.50%	4,934,952	5,320,000
Empower Note	12/19/2019	3.00%	192,802	240,000
Altru Note	6/1/2016	2.50%	148,320	237,500
			39,687,766	40,128,656
Less current maturities			(3,191,302)	(2,499,904)
Long-term debt, net of current maturities			$ 36,496,464	$ 37,628,752

NOTE 4 – NOTES PAYABLE (CONTINUED)

HUNT ELECTRIC CORPORATION – GSENC1 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. 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, 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, $8,428,136 remained outstanding on these notes payable.

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		1,002,978
	$	8,428,136

GSENC1 – BRIDGE BANK LOANS

On February 5, 2015, the Company paid off the GSENC1 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 GSENC1. This loan bears fixed interest at 6.35%, requires monthly interest payments and quarterly principal payments, and matures on February 5, 2025.

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 bore fixed interest at 9.00% per annum. Interest was accrued monthly and paid annually; any unpaid principal and accrued interest is due September 1, 2018. Payments of principal were required prior to that date to the extent excess cash flows, as defined, exist after principal payments on the Bridge Bank loans are made. On October 30, 2015, in conjunction with the refinancing of the GSENM1 – Bridge Bank Loans, and the new GSENC loan with Bridge Bank, the Company repaid the Hunt Electric Corporate loan in full in the amount of $1,134,650.

NOTE 4 – NOTES PAYABLE (CONTINUED)

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 bore fixed interest at 9.00% per annum. Interest was accrued monthly and paid annually; any unpaid principal and accrued interest was 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. On October 30, 2015, in conjunction with the refinancing of the GSENM1 – Bridge Bank loans and the GSENC1 – Bridge Bank loans, the Company repaid the Sunrise Energy Ventures loan in full in the amount of $134,650.

GSENM1 - BRIDGE BANK LOANS

On February 12, 2013, the Company, through a subsidiary, entered into a senior loan with Bridge Bank, collateralized by certain assets of GSENM1. The promissory note had an original principal amount of $6,197,797 and bore fixed interest at 8.00% per annum. The loan required monthly interest payments and quarterly principal payments and with a maturity date of February 12, 2018. On October 30, 2015, the Company refinanced the loan with Bridge Bank, providing additional principal of $239,188, and adjusted the interest rate to 6.5% per annum, with interest paid monthly. The refinanced loan requires quarterly principal payments and matures in October 2021.

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. The 1603 Loan was repaid in April of 2014. The loan had an original principal amount totaling $8,270,159 and bore fixed interest at 8.00% per annum. The GSENM2 Term Loan required monthly interest payments and quarterly principal payments, with a maturity date of June 12, 2018. The 1603 Loan was repaid in April of 2014.

On October 30, 2015, the Company refinanced the Term Loan with Bridge Bank, requiring a payment of $270,446 funded through the new GSENC1 – Bridge Bank Loans. The refinanced loan adjusted the interest rate to 6.5% per annum, with interest paid monthly. The refinanced loan requires quarterly principal payments and matures in October 2021.

NOTE 4 – NOTES PAYABLE (CONTINUED)

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 1603 Loan was repaid in November of 2014. The PPA and SREC Loans bore fixed interest at 7.00% and 7.75%, respectively, per annum. The GSEMA1 loan required monthly interest payments and quarterly principal payments with a maturity date of July 3, 2021.

On October 30, 2015, the Company refinanced the loans with Bridge Bank, providing additional principal of $2,542,211 and adjusting the interest rate to 6.5% per annum with interest paid monthly. The refinanced loan requires quarterly principal payments and matures in October 2021.

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, bore fixed interest at 6.25% and 7.00%, respectively, per annum, required quarterly principal payments with a maturity date of October 15, 2021.

On October 30, 2015, the Company refinanced the loans with Bridge Bank, providing an additional principal of $222,276, and adjusted the interest rate to 6.5% per annum with interest paid monthly. The refinanced loan requires quarterly principal payments and matures in October 2021.

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

Note Principal Payment	2016	2017	2018	2019	2020	Thereafter	Total
Bridge Bank - NC1	$ 620,444	$ 649,842	$ 784,126	$ 874,740	$ 924,820	$ 4,453,228	$ 8,307,200
Bridge Bank - NM1	688,745	733,740	783,082	835,829	915,927	1,394,034	5,351,357
Bridge Bank - NM2	385,630	409,567	435,950	464,159	535,031	3,096,175	5,326,512
Bridge Bank - MA1	763,722	807,913	869,635	935,746	1,112,635	8,111,512	12,601,163
Bridge Bank - MA2	536,441	569,713	600,849	634,070	702,389	4,716,950	7,760,412
Empower	48,000	48,000	48,000	48,802	--	--	192,802
Altru	148,320	--	--	--	--	--	148,320
	$ 3,191,302	$ 3,218,775	$ 3,521,642	$ 3,793,346	$ 4,190,802	$ 21,771,899	$ 39,687,766

NOTE 5 – 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 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% 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 years ended December 31, 2015 and 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, 2015 and 2014, the fair value of warrants recognized as liabilities was $1,058,217 and $1,315,618, 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 $257,401 and $(465,939) for the years ended December 31, 2015 and 2014, respectively.

During the years ended December 31, 2015 and 2014, the Company issued warrants for 16,563 and 576,890 shares of common stock, respectively, for three years at a fixed exercise price of $3.00 per share. These warrants are classified as equity instruments and the grant date fair value of these warrants were considered nominal to the financial statements taken as a whole and therefore not recorded.

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

	2015	2014
Risk-free interest rate	0.65%	0.12%
Dividend yield	--	--
Expected volatility	41.70%	60.60%
Expected life (years)	1	2.9

NOTE 5 – STOCK WARRANTS (CONTINUED)

The table below summarizes warrant activity:

	2015			2014		
	Warrants		Average Exercise Price	Warrants		Average Exercise Price
Balance - beginning of the year	12,245,912	$	1.25	11,669,022	$	1.16
Excercised during the year	(199,998)		0.50	--		--
Granted during the year	16,563		3.00	576,890		3.00
Balance - end of year	12,062,477	$	1.25	12,245,912	$	1.25
Exercisable - end of year	12,062,477	$	1.25	12,245,912	$	1.25

No warrants were forfeited during the years ended December 31, 2015 and 2014.

NOTE 6 – 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 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.

NOTE 6 – FAIR VALUE MEASUREMENTS (CONTINUED)

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.

There were no transfers in or out of Level 3 for the years ended December 31, 2015 and 2014. All of the gains and losses related to the warrants are recorded in earnings.

The following table presents the Company’s financial instruments measured at fair value on a recurring basis at December 31, 2015 and 2014:

	Fair value measurements			
	Level 1	Level 2	Level 3	Total
December 31, 2015				
Warrants	$ --	$ --	$ 1,058,217	$ 1,058,217
	$ --	$ --	$ 1,058,217	$ 1,058,217
December 31, 2014				
Warrants	$ --	$ --	$ 1,315,618	$ 1,315,618
	$ --	$ --	$ 1,315,618	$ 1,315,618

Changes in Level 3 derivative liability – warrants consisted of the change in fair value in the amounts of $257,401 and ($465,939) for the years ended December 31, 2015 and 2014, respectively, which has been recorded within the accompanying consolidated statements of operations

NOTE 6 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

As of December 31, 2015		
Significant Unobservable Input	Range	Weighted Average
GSE common stock price	\$0.50 - \$0.55	\$0.53

As of December 31, 2014		
Significant Unobservable Input	Range	Weighted Average
GSE common stock price	\$0.61 - \$0.65	\$0.63

Price volatilities used in the valuation were 41.7% and 60.6% for December 31, 2015 and 2014, respectively.

NOTE 7 – 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 GSENC1 and 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, GSEMA1, and GSEMA2 is based on a stated rate, subject to offset for energy production used by the lessor. Rent expense totaled $370,848 and $352,186 for the years ended December 31, 2015 and 2014, respectively.

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

2016	$ 402,068
2017	403,039
2018	404,054
2019	405,115
2020	406,221
Thereafter	8,522,915
	$ 10,543,412

NOTE 8 – VARIABLE INTEREST ENTITY

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, 2015 and 2014, 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 $600,000 and $720,000 was still due at December 31, 2015 and 2014, respectively, which is included in development service fees payable on the accompanying consolidated balance sheets.

All of the variable interest entity's assets can only be used to settle obligations of their own obligations. Liabilities recognized as a result of consolidating these variable interest entity do not represent additional claims on the Company's general assets, unless specifically guaranteed.

Summarized below is the information related to the consolidated variable interest entity's assets and liabilities as of December 31, 2015 and 2014, respectively:

	2015	2014
Current assets	$ 5,807,867	$ 5,911,723
Total assets	6,307,867	6,411,723
Current liabilities	3,331,078	3,545,538
Total liabilities	3,331,038	3,545,538
Total equity	2,976,829	2,866,185

For the years ended December 31, 2015 and 2014, the financial performance of the variable interest entity reported in the Company's consolidated statement of operations includes revenues of $112,395 and $0, respectively, and operating and maintenance expense of $1,751 and $27,590, respectively.

NOTE 9 – ASSET RETIREMENT OBLIGATION

The Company's ARO relates to its owned solar energy facilities. The leases and associated PPAs require that, upon the end of the lease 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 $467,184 is depreciated over the life of the related assets. During the years ended December 31, 2015 and 2014, the Company established asset retirement obligations for projects placed into service during the year of $22,170 and $199,761, respectively. As of December 31, 2015 and 2014, the asset retirement obligation was $541,859 and $488,352, respectively. Accretion expense was $31,337 and $22,553 for the years ended December 31, 2015 and 2014, respectively, and is included in operations and maintenance expenses in the accompanying consolidated statements of operations.

NOTE 10 – 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:

	2015	2014
Federal tax rate	(34.00 %)	(34.00 %)
State tax rate	(3.17 %)	(2.79 %)
Tax exempt income	(7.93 %)	(10.28 %)
Non-deductible expenses	0.43 %	1.40 %
Tax credits	(1.01 %)	(2.18 %)
Effective tax rate change	3.93 %	13.69 %
Valuation allowance	41.75 %	34.16 %
Effective income tax rate	-- %	-- %

NOTE 10 – INCOME TAXES (CONTINUED)

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

	2015	2014
Deferred tax assets		
Accruals	$ 168,810	$ 188,396
Stock warrant liability	392,577	483,297
Net operating losses	13,920,008	9,389,837
Other	764,758	745,545
Deferred tax liabilities		
Property and equipment	(4,381,296)	(1,181,363)
Investments in subsidiaries	(6,711,372)	(5,972,461)
Valuation allowance	(4,153,485)	(3,653,251)
	$ --	$ --

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 $59,293,095 and $48,922,732 as of December 31, 2015 and 2014, respectively. These net operating losses (NOLs) begin to expire in 2032.

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 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 carryforward 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, GSENM1 and GSENM2 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.

NOTE 10 – INCOME TAXES (CONTINUED)

Management's judgment is required in determining 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.

NOTE 11 – 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, 2015 and 2014.

NOTE 12 – 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, 2015 and 2014, the residential rate was $0.10491 and $0.10357, respectively, and the commercial rate was $0.12432 and $0.12283, 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, 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.

NOTE 13 – SHARE-BASED COMPENSATION ARRANGEMENT

In 2012, the Company granted 1,800,000 non-vested shares to employees. The shares vested quarterly over a two 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 fair value. Compensation expense recorded in 2014 was $231,894. There was no compensation expense for 2015. 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 of unrecognized compensation expense at both December 31, 2015 and 2014, related to unvested restricted shares. There were no restricted shares issued in 2015.

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

	2014
Restricted shares granted (a)	3,601,653
Average grant date fair value	$ 0.77

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

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. 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.

NOTE 14 – RELATED PARTY TRANSACTIONS

In 2015, GSE accrued $100,000 as part of a probable settlement agreement with Buckman, Buckman, and Reed (BBR). An officer and director of the Company holds a minority interest in BBR.

NOTE 15 – SUBSEQUENT EVENTS

Management evaluated the activity of the Company through June 22, 2016, 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.