

AMENDED ATTACHMENT G5

FINANCIAL QUALIFICATIONS – CALCULATION OF 10% OF REVENUE

Revenue = 205 million dollars x 10% = 20.5 million dollars. Please reference page F-20 on the attached pages of the Prospectus. See the attached pages F-17 through F-43 for financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF REGIONAL ENERGY HOLDINGS, INC.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Regional Energy Holdings, Inc.

We have audited the accompanying consolidated financial statements of Regional Energy Holdings, Inc., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and 2010 and the period from March 17, 2009 (inception) to December 31, 2009, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Regional Energy Holdings, Inc. as at December 31, 2011 and 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 and the period from March 17, 2009 (inception) to December 31, 2009 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) Ernst & Young LLP
Hartford, Connecticut
November 2, 2012

REGIONAL ENERGY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of U.S. dollars)

	<u>Notes</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
ASSETS			
Current			
Cash and cash equivalents		\$12,029	\$ 893
Restricted cash and cash equivalents		—	4,660
Collateral deposits		128	2,168
Accounts receivable		24,309	17,156
Income tax receivable		—	137
Other current assets		<u>237</u>	<u>351</u>
		36,703	25,365
Property and equipment	7	194	236
Intangible assets	8	339	460
Deferred tax assets	12	995	—
Other assets		<u>12</u>	<u>12</u>
		<u>\$38,243</u>	<u>\$26,073</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Current			
Trade and other payables		\$22,829	\$22,737
Income tax payable	12	2,108	—
Series A convertible preferred stock	9	7,700	—
Other current financial liabilities	10	<u>468</u>	<u>559</u>
		33,105	23,296
 Long-term liabilities			
Series A convertible preferred stock	9	—	2,357
Warrant liability	9, 10	256	30
Other long-term liabilities		<u>33</u>	<u>24</u>
		289	2,411
 Shareholders' equity			
Share capital	13	1	1
Paid-in capital		8,441	7,784
Deficit		<u>(3,593)</u>	<u>(7,419)</u>
		4,849	366
		<u>\$38,243</u>	<u>\$26,073</u>
 Commitments	 20		

See accompanying notes to the consolidated financial statements.

REGIONAL ENERGY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of U.S. dollars)

	Notes	Year ended		March 17, 2009 (inception) to December 31, 2009
		December 31, 2011	December 31, 2010	
Revenue		\$205,458	\$56,615	\$ 2,240
Cost of sales		163,552	45,090	1,893
Gross margin		41,906	11,525	347
Expenses				
Selling expenses		10,980	3,309	127
General and administrative expenses		19,784	7,926	5,131
Depreciation and amortization	7, 8	339	209	30
		31,103	11,444	5,288
Operating income (loss)		10,803	81	(4,941)
Other income (expense)				
Finance costs		(5,665)	(1,955)	(45)
Change in fair value of derivative instruments	10	(42)	(559)	—
Income (loss) before income taxes		5,096	(2,433)	(4,986)
Provision for income taxes	12	1,270	—	—
Net income (loss) and total comprehensive income (loss) ..		\$ 3,826	\$ (2,433)	\$(4,986)

See accompanying notes to the consolidated financial statements.

REGIONAL ENERGY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of U.S. dollars)

	Notes	Common Stock		Paid-in Capital	Deficit	Total
		Shares	Par Value			
Balance, March 17, 2009 (inception)		—	\$ —	\$ —	\$ —	\$ —
Issuance of common stock		200,000	1	999	—	1,000
Stock-based compensation	11	800,000	—	4,000	—	4,000
Net loss and total comprehensive loss		—	—	—	(4,986)	(4,986)
Balance, December 31, 2009		1,000,000	1	4,999	(4,986)	\$ 14
Issuance of common stock	11	158,548	—	2,000	—	2,000
Stock-based compensation	11	—	—	785	—	785
Net loss and total comprehensive loss		—	—	—	(2,433)	(2,433)
Balance, December 31, 2010		1,158,548	1	7,784	(7,419)	366
Issuance of warrants	9, 10	—	—	657	—	657
Net income and total comprehensive income		—	—	—	3,826	3,826
Balance, December 31, 2011		1,158,548	\$ 1	\$8,441	\$(3,593)	\$ 4,849

See accompanying notes to the consolidated financial statements.

REGIONAL ENERGY HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Notes	Year ended		March 17,
		December 31, 2011	December 31, 2010	2009 (inception) to December 31, 2009
Net inflow (outflow) of cash related to the following activities				
Operating				
Net income (loss)		\$ 3,826	\$(2,433)	\$(4,986)
Add (deduct) items not affecting cash				
Depreciation of property and equipment	7	109	43	—
Amortization of intangibles	8	230	131	30
Change in fair value of derivative instruments	10	42	559	—
Deferred income taxes	12	(995)	—	—
Bad debt expense		512	68	—
Finance costs		85	37	—
Stock-based compensation		—	785	4,000
		<u>3,809</u>	<u>(810)</u>	<u>(956)</u>
Net change in operating assets and liabilities	14	<u>2,028</u>	<u>(1,785)</u>	<u>119</u>
		<u>5,837</u>	<u>(2,595)</u>	<u>(837)</u>
Investing				
Purchase of property and equipment	7	(67)	(279)	—
Purchase of intangible assets	8	(109)	(459)	(162)
		<u>(176)</u>	<u>(738)</u>	<u>(162)</u>
Financing				
Issuance of common stock	11	—	2,000	1,000
Series A convertible preferred stock	9	5,475	2,225	—
		<u>5,475</u>	<u>4,225</u>	<u>1,000</u>
Net cash inflow		<u>11,136</u>	<u>892</u>	<u>1</u>
Cash and cash equivalents, beginning of year		893	1	—
Cash and cash equivalents, end of year		<u>\$12,029</u>	<u>\$ 893</u>	<u>\$ 1</u>
Supplemental cash flow information				
Interest paid		4,331	1,559	45
Income taxes paid		20	137	—

See accompanying notes to the consolidated financial statements.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, unless otherwise stated)

1. NATURE AND ORGANIZATION

Regional Energy Holdings, Inc. (“REH”) is an independent energy marketer of retail electricity and natural gas to residential and commercial customers. REH is a holding company that operates through its wholly-owned operating subsidiaries: Viridian Energy Inc., Viridian Energy PA LLC, Viridian Energy NY LLC, Cincinnati Bell Energy LLC (formerly, Viridian Energy NJ LLC), FairPoint Energy LLC (formerly Viridian Energy MD LLC), Viridian Network LLC and FTR Energy Services LLC (formerly Viridian Energy NG, LLC).

REH and its subsidiaries (collectively, the “Company”) provide retail electricity to its customers in the Connecticut, Illinois, Maryland, New Jersey, New York, Ohio and Pennsylvania markets. The Company is licensed by the Federal Energy Regulatory Commission (“FERC”) as a power marketer. In addition to the states in which the Company currently operates, the Company is also licensed, certified, or otherwise qualified by applicable state agencies to supply retail electricity in Maine, New Hampshire, Massachusetts and the District of Columbia and to supply retail natural gas in New Jersey, New York, Pennsylvania and Ohio.

The Company was incorporated and commenced operations on March 17, 2009 (inception) and is domiciled in the United States of America and the address of its registered office is 64 North Main Street Norwalk, Connecticut, USA. The consolidated financial statements include the accounts of REH and its subsidiaries.

2. OPERATIONS

The Company’s business involves the sale of electricity to residential and commercial customers under variable-priced contracts. The Company derives its gross margin from the difference between the price at which it sells the commodities to its customers and the price at which it purchases the associated volumes from its suppliers.

3. BASIS OF PRESENTATION

Basis of presentation and adoption of IFRS

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company adopted IFRS from March 17, 2009 (inception), and thus there was no impact on the opening period.

The consolidated financial statements are presented in U.S. dollars, the functional currency of the Company, and all values are rounded to the nearest thousands. The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for certain financial assets and liabilities which are stated at fair value.

Principles of consolidation

The consolidated financial statements include the accounts of REH and its subsidiaries as at December 31, 2011. Subsidiaries are consolidated from the date of acquisition and control, and continue to be consolidated until the date that such control ceases. All intercompany balances, income, expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these financial statements requires the use of estimates and assumptions to be made in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, at the date of the financial statements, and the reported income and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. As the basis for its judgments, management uses estimates and related assumptions which are based on previous experience and various commercial, economic and other factors that are considered reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual outcomes may differ from these estimates under different assumptions and conditions.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Judgments, made by management in the application of IFRS that have a significant impact on the consolidated financial statements relate to the following:

Revenue recognition

Accounts receivable includes an unbilled receivables component, representing the amount of electricity consumed by customers as at the end of the period but not yet billed. Unbilled receivables are estimated by the Company based on the number of units of electricity consumed but not yet billed, based on estimates using usage data available, multiplied by the current customer average sales price per unit.

Accounts receivable

The Company reviews its accounts receivables at each reporting date to assess whether an allowance needs to be provided to reflect estimated amounts that will not be collected from customers. In particular, judgment by management is required in the estimation of the amount and timing of collectability of accounts receivable, based on financial conditions, the aging of the receivables, customer and industry concentrations, the current business environment and historical experience. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Fair value of financial instruments

Determining the value of derivative instruments requires judgment and is based on market prices or management's best estimates if there is no market and/or if the market is illiquid. Where the fair value of financial instruments recorded cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair value of derivative instruments is significantly influenced by the variability of forward spot energy.

Impairment

In assessing the value of intangible assets for potential impairment, assumptions are made regarding future cash flows. These calculations require the use of estimates. If these estimates change in the future, the Company may be required to record impairment charges related to intangible assets.

Deferred taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax-planning strategies.

Useful life of property and equipment and intangible assets

The amortization method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company.

5. SIGNIFICANT ACCOUNTING POLICIES

Cash and equivalents

Cash and cash equivalents consists of cash with financial institutions and includes highly liquid investments with original maturities of three months or less. At any time, cash in banks may exceed federally insured limits.

Restricted cash and cash equivalents

Restricted cash and cash equivalents are pledged as collateral for energy purchase and other obligations as required under the Company's Supplier Agreement with Macquarie Energy LLC (note 9).

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collateral deposits

Collateral deposits represent cash which is posted with State regulatory entities, independent system operators (“ISO”), utilities or other counterparties as collateral for assurance bonds, required collateral in order to operate in certain markets or for other financial assurance programs. They are classified as current or long-term depending on the duration and nature of the deposit requirements.

Accounts receivable

The Company delivers electricity to its customers through local distribution companies (“LDCs”), many of which guarantee amounts due from customers for consumed electricity. Accounts receivable primarily represents amounts due for electricity consumed by customers net of an allowance for estimated amounts that will not be collected from customers.

Credit risk and allowance for doubtful accounts

The Company exclusively operates in electric utility markets which have purchase of receivables (“POR”) programs in place under which the utilities assume the credit risk associated with the customer billings. Consequently, the company’s exposure to credit risk concentration is limited primarily to those local utilities that collect and remit receivables on a daily or monthly basis. The Company’s customers are individually insignificant and geographically dispersed. The Company regularly monitors the financial condition of each such local utility and currently believes that its susceptibility to an individually significant write-off as a result of concentrations of customer accounts receivable with those LDCs is remote.

In the New Jersey market, the POR program is a limited recourse POR program. In this market, after customers have been delinquent with the utilities for an extended period, receivables are billed and collected by the Company. The Company bears the credit risk on these accounts and records an appropriate allowance for doubtful accounts to reflect any losses due to non-payment by customers. The Company maintains an allowance for doubtful accounts, which represents management’s estimates of probable losses inherent in the accounts receivable balance based on known troubled accounts, historical experience, account aging and other current available information.

Property and equipment

Property and equipment are recognized at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, to bring the asset to a working condition for its intended use. The commencement date for capitalization of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. Maintenance and repairs are charged to expense as incurred. When significant parts of an item included in fixed assets have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful life on a straight-line basis.

Estimated useful lives are as follows:

<u>Asset category</u>	<u>Depreciation method</u>	<u>Useful life</u>
Office furniture and equipment	Straight line	3 years
Computer hardware	Straight line	3 years
Leasehold improvements	Straight line	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net income in the period the item is derecognized.

Intangible assets

Intangible assets are measured at cost at their initial recognition and are carried at cost less any accumulated amortization and any accumulated impairment losses.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization method and useful life of an intangible asset with a finite useful life is reviewed at least once annually. Changes in the expected life or pattern of consumption of future economic benefits are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimate and recorded on a prospective basis. The amortization expense related to intangible assets with finite lives is recognized in the consolidated statement of comprehensive income (loss) in depreciation and amortization expense.

Intangible assets consist of computer related software.

Gains and losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of comprehensive income (loss) when the asset is derecognized.

<u>Asset category</u>	<u>Amortization method</u>	<u>Useful life</u>
Computer software	Straight line	3 years

Impairment of non-financial assets

At each statement of financial position date, the Company reviews the carrying amounts of its finite life non-financial assets, including property and equipment and intangibles to determine whether there is any indication of impairment.

For the purposes of reviewing finite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU").

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently.

The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in profit and loss in the period in which they occur. Where impairment, other than for goodwill, subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in profit and loss in the period in which they occur.

Provisions

Provisions are recognized to the extent that we determine it is probable that the Company will be required to settle a present obligation (legal or constructive) and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of the reporting periods presented, the Company has no material provisions.

Finance Costs

Finance costs are primarily incurred on the Company's Supplier Agreement and the Series A convertible preferred stock, which is expensed in the period in which it is incurred (note 9).

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingencies

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized accordingly.

Liabilities associated with Series A convertible preferred stock

On December 15, 2010, the Company raised capital by issuing Series A convertible preferred shares. Given the fixed dividend component and the redemption obligation which is outside the control of the Company, the instrument does not meet the criteria to be recorded as equity. Accordingly, the preferred shares have been recorded as a liability and the distributions accrued and paid under this instrument are recorded as finance costs.

Stock based compensation

All transactions involving stock-based payments are recognized as an expense over the vesting period. The cost of stock-based compensation is measured by reference to the fair value of the award on the date when it was granted. Awards are valued at the grant date and are not adjusted for changes in the prices of the underlying shares and other measurement assumptions.

The cost of equity-settled transactions are recognized, together with the corresponding increase in equity, over the period in which the performance or service conditions are fulfilled, ending on the date on which the grantee becomes fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of awards that will ultimately vest. When the options are exercised or exchanged, the amounts credited to paid in capital are reversed and credited to share capital.

Income taxes

Income tax expense consists of current and deferred tax expense.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the Company's financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income and loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Revenue recognition

Energy sales

Revenue is recognized based on consumption. Sales of electricity are billed based upon information received from the local utilities. The billing cycles for customers do not coincide with the accounting periods used for financial reporting purposes. Electricity that has been consumed by a customer, but not yet billed to that customer, is estimated on an accrual basis and included in revenue during the period in which it was consumed. Such estimates are refined in subsequent periods upon obtaining customer billing information from the utilities. Changes in these estimates are reflected in revenue in the period they are refined.

The Company's operations are seasonal. Electricity consumption is typically highest in January, February, July and August. Electricity consumption is lowest in October through December and April through June.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost of sales

Direct energy costs are recognized concurrently with the related energy sales. Direct energy costs include the commodity cost of purchased electricity, costs associated with energy delivery fees incurred from various energy related service providers, the cost of Renewable Energy Certificates and fees and charges from the ISOs and the LDCs. The Company estimates and accrues for these fees based on invoices, activity levels, preliminary settlements and other available information. Final determination and settlements of these charges may take up to several months following the month of delivery and are adjusted as information become available.

Fee revenue

Fee revenue primarily consists of sign-up fees and other monthly fees received from the Company's independent contractor sales associates in the Viridian Network sales channel. The sign-up fees component of fee revenues is recognized over the one year term of the agreement with the individual contractor and the monthly fees are recognized on a monthly basis.

Collection of sales tax

Sales tax is added to customer bills for many markets served by the Company. Sales tax collected from customers on behalf of governmental entities is recorded on a net basis. Such amounts are excluded from the Company's revenues and are recorded in trade and other payables on the consolidated statement of financial position until they are remitted to the appropriate governmental entities.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled.

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss," "loans and receivables," "available-for-sale," "held-to-maturity" or "financial liabilities measured at amortized cost."

Financial assets and financial liabilities classified as fair value through profit or loss are either classified as held for trading or designated at fair value through profit or loss and are measured at fair value with changes in those fair values recognized in profit or loss.

Financial assets classified as loans and receivables, held-to-maturity and financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method of amortization.

Financial assets classified as available-for-sale are measured at fair value, with changes in fair value recognized in accumulated other comprehensive income (loss).

All derivative instruments are classified as held for trading.

The Company's financial assets and financial liabilities are classified and measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Derivative contracts	Held for trading	Fair value
Accounts receivable	Loans and receivable	Amortized cost
Collateral deposits	Held for trading	Fair value
Trade and other payables	Other financial liabilities	Amortized cost
Series A convertible preferred stock	Other financial liabilities	Amortized cost
Warrant liability	Other financial liabilities	Fair value

The Company has not classified any financial assets as available-for-sale.

Fair values are determined based on the quoted market values where available from active markets. If the financial asset is not traded in an active market, the Company establishes the fair value through valuation techniques taking into account external market inputs where possible.

Gains and losses on fair value of derivative instruments are recognized in net income in the period in which they are incurred.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transaction costs are capitalized to the carrying amount of the instrument and amortized using the effective interest method, other than those related to financial instruments measured at fair value through net income, which are expensed as incurred.

Impairment of financial instruments

Financial assets, other than those classified as fair value through profit or loss, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net income.

With the exception of available-for-sale instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed through net income. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Comprehensive income (loss)

The Company is required to report total comprehensive income (loss) and its components in the financial statements. The Company has no items impacting other comprehensive income (loss) and, accordingly, the Company's net income (loss) equals total comprehensive income (loss).

6. FUTURE ACCOUNTING PRONOUNCEMENTS

The IASB amended IFRS 7 "Financial Instruments: Disclosure" and IAS 32 "Financial Instruments: Presentation" to enhance disclosure requirements and clarify the requirements for the offsetting of financial assets and liabilities. The amendments are effective for years beginning on or after January 1, 2013 and January 1, 2014, respectively. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB issued IFRS 9 "Financial Instruments: Classifications and Measurement". This is the first part of a new standard on the classification and measurement of financial assets that will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is at fair value through profit or loss. IFRS 9 was also updated to include guidance on financial liabilities and derecognition of financial instruments. This guidance is similar to the guidance included in IAS 39 relating to financial liabilities and derecognition of financial instruments. IFRS 9 is effective for years beginning on or after January 1, 2015. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

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6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

The IASB issued IFRS 10 "Consolidated Financial Statements", which replaces portions of IAS 27, "Consolidated and Separate Financial Statements" and interpretation SIC-12 "Consolidation — Special Purpose Entities". The new standard requires consolidated financial statements to include all controlled entities under a single control model. As required by this standard, control is reassessed as facts and circumstances change. All facts and circumstances must be considered to make a judgment about whether the Company controls another entity; there are no clear lines. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights, and principal-agency relationships (including removal rights), all of which may differ from current practice. IFRS 10 is effective for years beginning on or after January 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB issued IFRS 11 "Joint Arrangements", which applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting. IFRS 11 is effective for years beginning on or after January 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB issued IFRS 12 "Disclosure of Interests in Other Entities", which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities, and replaces existing disclosure requirements. Due to this new standard, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and nature of the risks associated with interests in other entities. IFRS 12 is effective for years beginning on or after January 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB issued IFRS 13 "Fair Value Measurements," which provided guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the standard will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for years beginning on or after January 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB reissued IAS 27 "Separate Financial Statements", to reflect the change as the consolidation guidance has recently been included in IFRS 10.

In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. IFRS 27 is effective for years beginning on or after April 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB amended IAS 28 "Investments in Associates and Joint Ventures" as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 28 has been amended and will further provide the accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not include control or joint control of those policy decisions. When it has been determined that the Company has an interest in a joint venture, the Company will recognize an investment and will account for it using the equity method in accordance with IAS 28. IAS 28 is effective for years beginning on or after April 1, 2013. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB amended IAS 1 "Presentation of Financial Statements" to expand on the disclosures required of items within other comprehensive income (loss). The revised standard requires that an entity distinguishes between those items that are recycled to profit and loss versus those items that are not recycled. Retrospective application is required and the standard is effective for annual periods beginning on or after July 1, 2012. The Company has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

The IASB amended IAS 12 "Income Taxes" in December 2010, in certain areas applicable to the measurement of deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The amendment states that an entity may presume, for purposes of calculating deferred income taxes associated with temporary differences relating to investment properties, that the carrying amount of an investment property is recovered entirely through its sale, as opposed to presuming that the properties are held with the objective to consume substantially all of the economic benefits of the investment property over time. This amendment

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6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

replaces SIC-21 and is effective for annual periods beginning on or after January 1, 2012. The adoption of this amendment will have no impact on the Company.

IAS 19 Employee Benefits was issued by the IASB in June 2011. IAS 19 amends the existing standard to eliminate options to defer the recognition of gains and losses in defined benefit plans, requires re-measurement of a defined benefit plan's assets and liabilities to be presented in other comprehensive income (loss) and increases the disclosure. This amended standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this amendment will have no impact on the Company.

7. PROPERTY AND EQUIPMENT

<u>2011</u>	<u>Computer hardware</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost				
Balance as at January 1, 2011	\$ 20	\$ 73	\$186	\$ 279
Additions	<u> </u>	<u>41</u>	<u>26</u>	<u>67</u>
Balance as at December 31, 2011	<u>20</u>	<u>114</u>	<u>212</u>	<u>346</u>
Accumulated depreciation and impairment				
Balance as at January 1, 2011	(6)	(12)	(25)	(43)
Depreciation	<u>(6)</u>	<u>(35)</u>	<u>(68)</u>	<u>(109)</u>
Balance as at December 31, 2011	<u>(12)</u>	<u>(47)</u>	<u>(93)</u>	<u>(152)</u>
Net book value — December 31, 2011	<u>\$ 8</u>	<u>\$ 67</u>	<u>\$119</u>	<u>\$ 194</u>
<u>2010</u>	<u>Computer hardware</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost				
Balance as at January 1, 2010	\$—	\$—	\$—	\$—
Additions	<u>20</u>	<u>73</u>	<u>186</u>	<u>279</u>
Balance as at December 31, 2010	<u>20</u>	<u>73</u>	<u>186</u>	<u>279</u>
Accumulated depreciation and impairment				
Balance as at January 1, 2010	—	—	—	—
Depreciation	<u>(6)</u>	<u>(12)</u>	<u>(25)</u>	<u>(43)</u>
Balance as at December 31, 2010	<u>(6)</u>	<u>(12)</u>	<u>(25)</u>	<u>(43)</u>
Net book value — December 31, 2010	<u>\$14</u>	<u>\$ 61</u>	<u>\$161</u>	<u>\$236</u>

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8. INTANGIBLE ASSETS

<u>2011</u>	<u>Computer Software</u>
Cost	
Balance as at January 1, 2011	\$ 621
Additions	<u>109</u>
Balance as at December 31, 2011	<u>730</u>
Accumulated amortization and impairment	
Balance as at January 1, 2011	(161)
Amortization	<u>(230)</u>
Balance as at December 31, 2011	<u>(391)</u>
Net book value — December 31, 2011	<u>\$ 339</u>
<u>2010</u>	<u>Computer Software</u>
Cost	
Balance as at January 1, 2010	\$ 162
Additions	<u>459</u>
Balance as at December 31, 2010	<u>621</u>
Accumulated amortization and impairment	
Balance as at January 1, 2010	(30)
Amortization	<u>(131)</u>
Balance as at December 31, 2010	<u>(161)</u>
Net book value — December 31, 2010	<u>\$ 460</u>

At December 31, 2011, the remaining amortization period was 0.9 years (2010 — 2.3 years).

9. FINANCING

Macquarie Energy Supplier Agreement

In September 2010, the Company entered into several agreements (the “Supplier Agreement”) with Macquarie Energy LLC (“Macquarie Energy”) for the exclusive supply of the Company’s wholesale energy needs and hedging requirements for a term of three years. Under the Supplier Agreement, Macquarie Energy assumes the responsibility for meeting all the credit and collateral requirements with each ISO. Under the Supplier Agreement, the local utilities serving the Company’s customers are directed to remit all customer payments into a designated restricted bank account, (the “Lockbox”), and the funds in that account are used to pay Macquarie Energy for the energy supplied and other fees and interest due under the Supplier Agreement. The trade payables are secured by funds pledged in the Lockbox, accounts receivable and all other assets in the Company. The funds in the Lockbox were subject to a minimum balance requirement of \$1,000 for the term of the agreement.

Macquarie Energy extends trade credit to the Company to buy wholesale energy supply, with all amounts due being payable in the month following delivery of the energy. The credit extended under the Supplier Agreement was limited to a twelve month megawatt hour cap of 2,000,000 MWh, is subject to certain standard financial covenants, and is limited to a calculated credit base based on restricted cash in the Lockbox and billed and unbilled receivables. The Company incurs a volumetric fee based on the wholesale energy delivered, which is included in finance costs in the statement of comprehensive income. The Supplier Agreement contained a deferred payment provision under which payables can be extended for an additional month subject to the lower of the available credit base and a deferred payment cap. The deferred payment cap was \$6,500 for the first six months of the term and the lesser of \$10,000 or 30% of the credit base for the remainder of the term. In addition, the deferred payment provision contained a limited cash line of credit facility for the first six months of the term for funding of the Company’s operating expenses. Under this cash line, the Company could draw cash to cover its monthly operating expenses subject to various criteria including credit base restrictions, the prior months operating expenses and the cumulative deferred payment cap. All deferred payments under this line are subject to an annual interest rate of 13% and all amounts drawn were repayable in full the following month. The Supplier Agreement contained minimum annual payment requirements over the term of the agreement aggregating \$525 as well as certain customary financial covenants. The Company was in compliance with

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9. FINANCING (Continued)

these minimum annual payment requirements and covenants as at December 31, 2011. The Company is able to terminate the Supplier Agreement by prior written notice and the payment of certain minimum termination fees.

During 2011, the Company and Macquarie Energy amended the terms of the Supplier Agreement to provide a number of enhancements to the facility. In February 2011, a letter of credit facility of up to the lesser of \$10,000 or 20% of the calculated credit base was added. Letters of credit issued under this line are subject to an annual interest rate of 8%. In December 2011, the following amendments were made to the Supplier Agreement: the 2,000,000 MWh cap was removed; the overall facility limit was set at \$100,000; a working capital facility including a cash advance facility and a letter of credit facility was established with a sub-limit of \$25,000 to replace the existing letter of credit facility and deferred payments facility with letters of credit at an annual interest rate of 8% and with cash advances at an annual interest rate of LIBOR plus 8%; the term of the Supplier Agreement was extended to December 2014, the \$1,000 minimum cash balance in the Lockbox was removed; the minimum annual payments were removed; the ability to market natural gas to customers and procure natural gas and hedge these purchases was added and the ability to sell fixed price contracts to customers and to hedge these sales through forward purchases was added.

As at December 31, 2011, Macquarie Energy had extended trade credit to the Company totalling \$13,042 (2010 — \$16,936), under the Supplier Agreement, including deferred payments in 2010 of \$6,074. At December 31, 2011, letters of credit totalling \$3,600 and no cash advances were drawn under the working capital facility. Total interest paid under the working capital facility for letters of credit and under the deferred payment provision totaled \$362 (2010 — \$152).

As at December 31, 2011, the availability under the Supplier Agreement was \$1,745 (2010 — \$1,403).

Warrants issued to Macquarie Energy

In conjunction with the expansion of the Supplier Agreement in December 2011, the Company issued 163,532 warrants to Macquarie Energy (the “**Macquarie Warrants**”), each exercisable for one share of the Company’s common stock at any time through November 30, 2017. Each of the Macquarie Warrants had an exercise price equal to \$61.15 per share, subject to standard adjustments.

The fair value of the Macquarie Warrants was estimated using the Black-Scholes valuation model as at the date of the grant and is amortized over the term of the supplier agreement. The unamortized value of the Macquarie Warrants is included in trade and other payables in the consolidated statement of financial position and amortization is included in finance costs, in the consolidated statement of comprehensive income (loss). The Black-Scholes value calculated is \$4.02 per warrant.

Series A convertible preferred stock

The Company issued 89,510 and 39,316 shares of Series A convertible preferred stock (“**Series A**”) during 2011 and 2010, respectively, for consideration of \$5,350 and \$2,350, respectively, or \$59.77 per share. The Series A stock ranks senior to common stock as to dividends and upon a liquidation event. The Series A stock has a fixed dividend which is payable monthly by the Company in cash at the annual rate of 23% of the purchase price. The Series A stock is convertible immediately, in whole or in part, into an equivalent number of shares of common stock, subject to standard adjustments, at the option of the holder. The Series A convertible stock is redeemable in cash at the option of the Company at any time after, December 2011, the first anniversary of the original date of issuance, and at the option of the holder at any time after, December 2013, the third anniversary of the original date of issuance. The Series A convertible stock is recorded as a liability and the distributions under the instrument are recorded as finance costs.

Warrants related to the Series A convertible preferred stock

As partial inducement to purchase the Series A convertible preferred stock, the Company issued to the holders, in proportion to their Series A holdings, 44,755 and 19,658 detachable warrants (“**Series A Warrants**”) during 2011 and 2010, respectively, exercisable for one share of the Company’s common stock at any time through the fifth anniversary of the date of issuance. Each of the warrants has an exercise price equal to \$74.71 per share, subject to standard adjustments. Additionally, the warrants contain a down-round protection provision under which the exercise price is adjusted downward if common stock is subsequently issued for a lower price. The exercise price on the warrants was adjusted downward in December 2011 to \$61.15 per share as a result of the issuance of additional warrants to Macquarie Energy.

The Company accounts for the Series A Warrants as liabilities on the consolidated statement of financial position at fair value. At each reporting period end, the Company remeasures the fair value of the Series A Warrant liability and any gains or losses are recorded as a component of change in fair value of derivative instruments in the consolidated statement of comprehensive income (loss). For the year ended December 31, 2011, there was a loss of \$133 (2010 — \$0) recorded in relation to changes in the Series A Warrant liability.

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9. FINANCING (Continued)

Financing costs were as follows:

	Year ended		March 17, 2009 (inception) to December 31, 2009
	December 31, 2011	December 31, 2010	
Supplier Agreement	\$4,249	\$ 847	\$—
Series A convertible preferred stock	1,418	56	—
Montage credit facility	—	1,055	45
Interest and dividend income	(2)	(3)	—
	<u>\$5,665</u>	<u>\$1,955</u>	<u>\$45</u>

10. FINANCIAL INSTRUMENTS

Fair value

Fair value is the estimated amount that the Company would pay or receive to dispose of financial instruments in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Management has estimated the fair value of electricity swaps using a method that employs market forward curves that are either directly sourced from third parties or are developed internally based on third party market data. These curves can be volatile thus leading to volatility in the mark to market with no impact to cash flows. Due to their short-term nature, the carrying amount of the Company's other current asset and current liabilities approximates their fair value.

The Company's retail marketing activities expose it to a variety of market risks, principally from fluctuating commodity prices. The Company has established risk management policies and procedures designed to reduce the potentially adverse effects of price volatility on operating results. The Company's risk management activities include the use of derivative instruments such as swaps, forwards and options. The Company maintains commodity price risk management strategies that use derivative instruments, within approved risk tolerances to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility.

Supplying electricity to retail customers requires the Company to match customers' projected demand and commodity purchases. These retail marketing activities expose the Company to a variety of market risks, principally from fluctuating electricity prices. In order to mitigate these risks, management engages in hedging activities designed to reduce the potentially adverse effects that the price volatility of these markets may have on its operating activities.

The following table illustrates gains/(losses) related to the Company's derivative financial instruments classified as held-for-trading and recorded in the consolidated statements of comprehensive income (loss):

	Year ended		March 17, 2009 (inception) to December 31, 2009
	December 31, 2011	December 31, 2010	
Fixed-for-floating electricity swaps	\$ 91	\$(559)	\$—
Series A convertible preferred share warrants	(133)	—	—
Change in fair value of derivative instruments	<u>\$ (42)</u>	<u>\$(559)</u>	<u>\$—</u>

The following table summarizes the fair value of the financial assets and liabilities recorded in the consolidated financial statements at December 31, 2011:

	<u>Other current financial liabilities</u>	<u>Warrant Liability</u>
Fixed-for-floating electricity swaps	\$(468)	—
Warrant liability	—	(256)
	<u>\$(468)</u>	<u>\$(256)</u>

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10. FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the fair value of the financial assets and liabilities recorded in the consolidated financial statements as at December 31, 2010.

	<u>Other current financial liabilities</u>	<u>Warrant Liability</u>
Fixed-for-floating electricity swaps	\$(559)	—
Warrant liability	<u>—</u>	<u>(30)</u>
	<u>\$(559)</u>	<u>\$(30)</u>

The following table summarizes financial instruments which are classified as held-for-trading as at December 31, 2011 and 2010:

	<u>Notional Volume</u>	<u>Total Remaining Volume</u>	<u>Maturity Date</u>	<u>Fixed Price</u>	<u>Fair Value (unfavorable)</u>	<u>Notional Value</u>
2011						
Fixed-for-floating electricity swaps	1-200 Megawatts	314,603 MWh	1-3 months	\$33.55 to \$71.62	(468)	13,945
2010						
Fixed-for-floating electricity swaps	6-57 Megawatts	119,256 MWh	1 month	\$56.62 to \$76.37	(559)	7,841

Fair value ("FV") hierarchy

Level 1

The fair value measurements are classified as Level 1 in the FV hierarchy if the fair value is determined using quoted, unadjusted market prices. The Company values its cash and cash equivalents, restricted cash, collateral deposits, accounts receivable, trade and other payable under level 1.

Level 2

Fair value measurements that require inputs other than quoted prices in Level 1, either directly or indirectly, are classified as Level 2 in the FV hierarchy. This could include the use of statistical techniques to derive the FV curve from observable market prices. However, in order to be classified under Level 2, inputs must be substantially observable in the market. Derivatives liabilities included in Level 2 are valued using multiple prices quoted by market participants other than exchanges, industry pooling, and other inputs that are derived principally from, or collaboratively by, observable market data.

Level 3

Fair value measurements that require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs are classified as Level 3 in the FV hierarchy. The Company's policy is to recognize transfers in and out as at the end of the reporting period.

During the year ended December 31, 2011 and 2010, there were no significant transfers between levels.

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10. FINANCIAL INSTRUMENTS (Continued)

The following table illustrates the classification of financial assets/(liabilities) in the FV hierarchy as at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Cash and cash equivalents	\$ 12,029	\$—	\$—	\$ 12,029
Collateral deposits	128	—	—	128
Accounts receivable	24,309	—	—	24,309
Derivative financial assets	—	138	—	138
Financial liabilities				
Trade and other payables	(22,829)	—	—	(22,829)
Series A convertible preferred stock	(7,700)	—	—	(7,700)
Warrant liability	—	—	(256)	(256)
Derivative financial liabilities	—	(606)	—	(606)

The following table illustrates the classification of financial assets/(liabilities) in the FV hierarchy as at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Cash and cash equivalents and restricted cash	\$ 5,553	\$—	\$—	\$ 5,553
Collateral deposits	2,168	—	—	2,168
Accounts receivable	17,156	—	—	17,156
Derivative financial assets	—	—	—	—
Financial liabilities				
Trade and other payables	(22,737)	—	—	(22,737)
Series A convertible preferred stock	(2,357)	—	—	(2,357)
Warrant liability	—	—	(30)	(30)
Derivative financial liabilities	—	(559)	—	(559)

Changes in Level 3 financial liabilities, during the years ended December 31, 2011 and 2010:

	<u>Warrant liability</u>
Liability at January 1, 2010	\$—
Issuances	(30)
Liability at December 31, 2010	(30)
Net unrealized loss included in profit or loss	(133)
Issuances	(93)
Liability at December 31, 2011	<u><u>\$(256)</u></u>

The Warrant liability included in Level 3 represents the fair value of the Series A Warrants outstanding as at December 31, 2011 and 2010, which was estimated using a Monte Carlo simulation based valuation model. The net unrealized losses for the warrant liabilities are included in change of fair value of derivative instruments in the consolidated statement of comprehensive income (loss).

Classification of financial assets and liabilities

As at December 31, 2011 and 2010 the carrying amounts of the financial assets and liabilities, except for derivative liabilities and warrants, approximated their fair value. The derivative liabilities and warrants are recorded at fair value.

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10. FINANCIAL INSTRUMENTS (Continued)

Management of risks arising from financial instruments

The risks associated with the Company's financial instruments are as follows:

Market risk

Market risk is the potential loss that may be incurred as a result of changes in the market or fair value of a particular instrument or commodity. Components of market risk to which the Company is exposed are discussed below.

Interest rate risk

The Company is exposed to interest rate risk on certain advances within the Supplier Agreement with Macquarie Energy. The Company has not utilized any such advances under the Supplier Agreement and therefore has not been exposed to interest rate risk. The Company's current exposure to interest rates does not economically warrant the use of derivative instruments and the Company does not currently believe that it is exposed to material financial risks.

Commodity price risk

The Company is exposed to market risks associated with commodity prices and market volatility where estimated customer requirements do not match actual customer requirements. Management actively monitors these positions on a daily basis in accordance with its Risk Management Policy. This policy sets out a variety of limits, most importantly thresholds for open positions in the electricity portfolios. The Company's exposure to market risk is affected by a number of factors, including accuracy of estimation of customer commodity requirements, commodity prices, volatility and liquidity of markets. The Company enters into derivative instruments in order to manage exposures to changes in commodity prices. The inability or failure of the Company to manage and monitor the above market risks could have a material adverse effect on the operations and cash flow of the Company.

The fair values of the Company's financial instruments are significantly influenced by the variability of forward spot prices for electricity. Period to period changes in forward spot prices could cause significant changes in the marked to market valuation ("MTM valuation") of these contracts, as shown below:

Percentage change in the forward spot price at December 31, 2011	Electricity	
Percentage change in the forward spot price at December 31, 2011	Percent change in MTM Valuation	Dollar change in MTM Valuation
+/- 1%	+/- 28.9%	+/- \$135
+/- 5%	+/- 144.6%	+/- \$677
+/- 10%	+/- 289.2%	+/- \$1,354

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk in two specific areas: customer credit risk and counterparty credit risk.

Customer credit risk

In New Jersey, the Company is exposed to customer credit risk and, therefore, credit review processes have been implemented to perform credit evaluations of customers and manage customer default. If a significant number of customers were to default on their payments, it could have a material adverse effect on the operations and cash flows of the Company.

For the Company's remaining markets, the LDCs provide collection services and assume the risk of any bad debts owing from the Company's customers for a fee. Management believes that the risk of the LDCs failing to deliver payment to the Company is minimal. There is no assurance that the LDCs that provide these services will continue to do so in the future.

As at December 31, 2011, accounts receivable for the New Jersey non-POR market where the Company is exposed to credit risk is \$612 (2010 — \$68).

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10. FINANCIAL INSTRUMENTS (Continued)

A reconciliation of the beginning and ending amounts of the Company's allowance for doubtful accounts is as follows:

	<u>2011</u>	<u>2010</u>
Balance at the beginning of the period	\$ 68	\$—
Additional amounts provided for during the period	512	68
	<u>\$580</u>	<u>\$68</u>

As at December 31, 2011, there are no amounts past due that are not impaired.

Counterparty credit risk

Counterparty credit risk represents the loss that the Company would incur if a counterparty fails to perform under its contractual obligations. This risk would manifest itself in the Company replacing contracted supply at prevailing market rates, thus impacting the related customer margin. Counterparty risk is limited to Macquarie Energy for all wholesale supply positions. However, the failure of the counterparty to meet its contracted obligations could have a material adverse effect on the operations and cashflows of the Company.

As at December 31, 2011 and 2010, the maximum counterparty credit risk exposure amounted to \$138 (2010 — \$—) representing the risk relating to its derivative financial assets.

Liquidity risk

Liquidity risk is the potential inability to meet financial obligations as they fall due. The Company manages this risk by monitoring cash flow forecasts for the next 12 months to ensure adequate and efficient use of cash resources and credit facilities.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2011.

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>
Trade and other payables	\$22,829	\$22,829	\$22,829	\$—	—
Operating leases	—	158	82	76	—
Series A convertible preferred stock	7,700	7,700	7,700	—	—
Derivative instruments	468	468	468	—	—
	<u>\$30,997</u>	<u>\$31,155</u>	<u>\$31,079</u>	<u>\$76</u>	<u>—</u>

During July 2012, the Company entered into a sub-lease agreement to lease office premises in Stamford, Connecticut for a term of four years with an initial base rent of \$34 per month with annual rent escalations of approximately 5%.

Supplier risk

The Company purchases its electricity delivered to its customers through contracts entered into with Macquarie Energy. The Company has an exposure to supplier risk as the ability to continue to deliver electricity to its customers is reliant upon the ongoing operations of this supplier and its contractual obligations.

11. STOCK BASED COMPENSATION

In February 2010, the Company granted 120,000 non-qualified stock options to officers and directors, which were fully vested on the grant date. During the year ended December 31, 2011, non-cash compensation expense recorded in general and administrative expenses for stock option grants was \$0 (2010 — \$785, 2009 — \$0), and no stock options were granted, exercised, cancelled or forfeited.

The status of the Company's stock option plan as at December 31, 2011 is shown below:

	<u>Stock options outstanding and exercisable</u>			
	<u>Stock options outstanding</u>	<u>Weighted average Exercise price</u>	<u>Weighted average remaining Contractual Life</u>	<u>Grant date fair value</u>
Beginning of period	120,000	\$10.00	10-Yrs	\$6.45
Granted	—	—	—	—
Cancelled	—	—	—	—
December 31, 2011	<u>120,000</u>	<u>\$10.00</u>	<u>8-Yrs</u>	—

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

11. STOCK BASED COMPENSATION (Continued)

The fair value of each stock option granted was estimated as at the grant date using the Black-Scholes option pricing model. The following assumptions were used in arriving at the grant-date fair value associated with stock options for which compensation costs were recognized.

Risk-free interest rate	3.59%
Expected life in years	10 years
Expected dividends	0%
Expected forfeitures per year	0%
Volatility	25.09%

The Company had no unrecognized compensation expense at December 31, 2011 and 2010.

The Company issued 800,000 shares of common stock to its founders during the period ended December 31, 2009 for no consideration. A stock based compensation charge of \$4,000 was recognized in general and administration expenses during 2009 for the fair value of shares issued.

12. INCOME TAXES

Tax expense

The major components of the provision for income taxes for the years ended December 31, 2011, 2010 and the period from March 17, 2009 (inception) to December 31, 2009 are:

	<u>Year ended</u>		<u>March 17,</u>
	<u>December 31,</u>	<u>December 31,</u>	<u>2009 (inception)</u>
	<u>2011</u>	<u>2010</u>	<u>to December 31,</u>
			<u>2009</u>
Current income tax:			
Current income tax charge	\$ 2,265	—	—
Deferred income tax:			
Origination and reversal of temporary differences	324	—	—
Benefit of previously unrecognized tax loss and temporary differences	(1,319)	—	—
Total deferred income tax	(995)	—	—
Total tax expense	<u>\$ 1,270</u>	<u>—</u>	<u>—</u>

Reconciliation of effective tax rate

The provision for income taxes represents an effective tax rate different than the combined federal and state statutory tax rate as follows:

	<u>Year ended</u>		<u>March 17,</u>
	<u>December 31,</u>	<u>December 31,</u>	<u>2009 (inception)</u>
	<u>2011</u>	<u>2010</u>	<u>to December 31,</u>
			<u>2009</u>
Income (loss) before income taxes	\$ 5,096	\$ (2,433)	\$ (4,986)
Combined statutory federal and state income tax rate	39.3%	39.3%	39.3%
Income tax expense (recovery) based on statutory rate	2,002	(956)	(1,959)
Increase (decrease) in income taxes resulting from:			
Non-deductible expenses for tax purposes:			
Interest on Series A convertible preferred stock	572	7	—
Stock based compensation	—	—	1,572
Other permanent items	15	3	15
Benefit (cost) of tax losses and other temporary differences not recognized	(1,319)	946	372
Total provision for income taxes	<u>\$ 1,270</u>	<u>\$ —</u>	<u>\$ —</u>

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. INCOME TAXES (Continued)

Recognized deferred tax assets and liabilities

Recognized deferred tax assets and liabilities are attributed to the following:

	December 31, 2011
Deferred tax assets:	
Mark to market losses on commodity swaps	\$ 184
Mark to market losses on Series A Warrants	52
Stock based compensation	308
Allowance for doubtful accounts	229
Incentive compensation	259
Total deferred tax assets	1,032
Deferred tax liabilities:	
Depreciation and amortization	(37)
Total deferred tax liabilities	(37)
Total net deferred tax assets	\$ 995

Movement in deferred tax balances

	Balance January 1, 2011	Recognized in statement of comprehensive income	Balance December 31, 2011
Mark to market losses on commodity swaps	—	\$184	\$184
Mark to market losses on Series A Warrants	—	52	52
Stock based compensation	—	308	308
Allowance for doubtful accounts	—	229	229
Incentive compensation	—	259	259
Depreciation and amortization	—	(37)	(37)
Total net deferred tax assets	—	\$995	\$995

There are no net deferred tax assets recognized as at December 31, 2010 on the basis that management did not believe that the Company would realize the benefits of the deferred tax assets.

Unrecognized deferred tax assets

There are no unrecognized deferred tax assets as at December 31, 2011. Deferred tax assets not recognized as at December 31, 2010 are as follows:

	December 31, 2010
Net operating losses	703
Mark to market losses on commodity swaps	220
Stock based compensation	308
Allowance for doubtful accounts	27
Incentive compensation	93
Depreciation and amortization	(32)
Total unrecognized net deferred tax assets	1,319

As at December 31, 2011 the Company had no net operation loss carry forwards for Federal and State tax purposes.

13. SHAREHOLDERS' EQUITY

Authorized

The Company has authorized 299,925,000 common shares with a par value of \$0.001 per share.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

13. SHAREHOLDERS' EQUITY (Continued)

Issued

	Common Shares	\$
Share capital at December 31, 2009	1,000,000	1
Share capital at December 31, 2010	1,158,548	1
Share capital at December 31, 2011	1,158,548	1

Paid-in capital

The net increase in paid-in capital from 2010 to 2011 of \$657 relates to the issuance of warrants to Macquarie Energy (note 9).

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

The inflows (outflows) of net change in operating assets and liabilities is as follows:

	Year ended		March 17, 2009 (inception) to December 31, 2009
	December 31, 2011	December 31, 2010	
Accounts receivable	\$(7,665)	\$(15,435)	\$(1,789)
Trade and other payables	92	19,655	3,082
Collateral deposits	2,040	(1,668)	(500)
Income tax payable/receivable	2,245	(137)	—
Restricted cash and cash equivalents	4,660	(3,987)	(674)
Other	656	(213)	—
	\$ 2,028	\$ (1,785)	\$ 119

15. EMPLOYEE BENEFITS

Employee benefit expense

	Year ended		March 17, 2009 (inception) to December 31, 2009
	December 31, 2011	December 31, 2010	
Salaries and other short term benefits	\$5,014	\$1,882	\$ 270
Post employment benefits	90	23	—
Stock based compensation	—	785	4,000
	\$5,104	\$2,690	\$4,270

16. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company's key management personnel are comprised of the Board of Directors and members of the executive team of the Company. Compensation of key management personnel that is directly attributable to the Company is as follows:

	Year ended		March 17, 2009 (inception) to December 31, 2009
	December 31, 2011	December 31, 2010	
Wages, salaries and other short-term employee benefits	\$2,371	\$ 893	\$ 180
Post-employment benefits	32	8	—
Stock based compensation	—	785	4,000
	\$2,403	\$1,686	\$4,180

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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17. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011, the Company recorded \$375 (2010 — \$0, 2009 — \$20), of executive compensation expense to two of the members of the Company's board of directors for services rendered, which is included in general and administrative expense in the consolidated statements of comprehensive income (loss).

In October 2009, the Company entered into a Loan and Security Agreement with Montage LLC (the "Montage Credit Facility") to provide revolving credit loans for energy procurement, working capital and general corporate purposes. The Montage Credit Facility was funded by several Regional Energy equity holders. The Montage Credit Facility was cancelled and replaced by the Supplier Agreement with Macquarie Energy in September 2010. During the period ended December 31, 2010, the financing costs under the Montage Credit Facility were \$1,055 (2009 — \$45), which were included in financial costs.

Regional Energy did not complete any other material transactions with any individuals or companies that are not considered independent of Regional Energy.

18. CAPITAL DISCLOSURES

For capital management purposes, the Company defines capital as the aggregate of its shareholders' equity and Series A preferred stock. The Company's principal objectives in managing capital are:

- ensure sufficient liquidity to adequately fund the ongoing operations of the business;
- provide flexibility to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to shareholders;
- maintain a strong capital base so as to maintain client, investor, creditor and market confidence;
- provide returns and generating predictable cash flow for distributions to shareholders;
- comply with financial covenants required under its commodity supply facility.

The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable and profitable growth. The Company is not subject to externally imposed capital requirements other than financial covenants in the Supplier Agreement. At December 31, 2011 all these covenants have been met.

19. REPORTABLE BUSINESS SEGMENT

The Company's business operations are comprised of a single segment, retail electricity marketing.

The Company's revenue consists of the following:

	Year ended		March 17,
	December 31, 2011	December 31, 2010	2009 (inception) to December 31, 2009
Electricity	\$199,751	\$54,582	\$2,217
Fees	5,707	2,033	23
Total	<u>\$205,458</u>	<u>\$56,615</u>	<u>\$2,240</u>

Geographic information

All of the Company's sales from external customers and assets are located in the United States of America. The Company does not have any key customers. The Company operates in three states which together comprise 87.3% of revenues (2010 — 2 states comprising 85.9%, 2009 — 1 state comprising 100%).

20. COMMITMENTS

Surety bonds

As at December 31, 2011, the Company has surety bonds issued of \$1,750 (2010 — \$1,050) to the various state regulatory commissions and LDCs.

REGIONAL ENERGY HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands of U.S. dollars, unless otherwise stated)

20. COMMITMENTS (Continued)

Operating leases

The Company leases its corporate office facility under a non-cancelable operating lease which contains fixed escalation clauses and is subject to extension at the option of the Company. The Company takes into account escalation clauses when determining the amount of future minimum lease payments. All future minimum lease payments are recognized on a straight-line basis over the minimum lease term. For the year ended December 31, 2011, rent expense under its operating lease of \$66 (2010 — \$45, 2009 — \$0) was incurred and these costs are included in the consolidated statements of comprehensive income (loss) and the associated deferred rent liability is included within other long-term liabilities on the consolidated statement of financial position.

Employee defined contribution plan

The Company has a 401(k) retirement plan in which substantially all full-time employees may participate. The Company matches employee contributions up to a maximum of 4% of each participant's annual salary. During the period ended December 31, 2011, employer contributions totaled \$90 (2010 — \$23, 2009 — \$0).

Regulatory proceedings

The Company is an independent energy marketer of retail electricity to residential and commercial customers across numerous states. Market rules and regulations locally, regionally and state to state change periodically. These changes will likely have an impact on the Company's business; some may be material and others may not. Some changes may lead to new or enhanced business opportunities, some changes may result in a negative impact on the Company's business. As such, there is no way to impute an exact effect through a cost benefit analysis, because there are many variables. The regulatory process does allow for some participation, and the Company engages in that participation, however, such participation provides no assurance as to the outcome of such proceedings. The Company does not expect proceedings to have a material adverse effect on the Company's financial condition or results of operations.

Litigation and other claims

The Company is involved in various disputes and litigation. In the opinion of management, the resolution of these disputes against the Company will not have a material effect on the consolidated earnings, cash flows or financial position of the Company.

21. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Company were authorized for issue on November 2, 2012 by the Board of Directors.

22. SUBSEQUENT EVENTS

In February 2012, the Company redeemed 64,413 or 50% of the total outstanding Series A convertible preferred shares from the holders for total cash consideration of \$3,850, at the price of \$59.77 per share. In May, 2012, the Company redeemed an additional 63,367 Series A convertible preferred shares for total cash consideration of \$3,787 at the price of \$59.77 per share and 1,046 of the Series A convertible preferred stock were converted into common stock at the price of \$59.77 per share. At May 31, 2012, there were no Series A convertible preferred shares outstanding.

On September 18, 2012, the Company entered into a business combination (the "Combination") with Public Power, LLC ("PP") which entailed a transaction whereby ownership interests and shares in PP and the Company were contributed by the owners to a new entity, Crius Energy, LLC ("CE"), in exchange for membership interests in CE.

On September 18, 2012, in conjunction with the Combination, certain Series A and Macquarie Warrants were exchanged for membership interests in CE. The remaining Series A Warrants were canceled or exercised.

On September 18, 2012, CE granted membership units to certain officers and employees of the Company and the associated non-cash share based compensation expense will be recognized and included within general and administrative expenses of the Company.

On September 18, 2012, the Company entered into an amended and restated supplier agreement with Macquarie Energy to replace the existing Supplier Agreement. This agreement was extended with an expiration date of October 1, 2017 and incorporated the following amendments: an increase to the overall limit to \$200,000, reduced volumetric fees as well as a reduction in the interest rates on the working capital facility from LIBOR plus 8% to LIBOR plus 5.5%, and the agreement was expanded to include CE and all of its subsidiaries to reflect the Combination.

On November 2, 2012, Crius Energy Trust agreed to acquire an approximate 26.8% membership interest in CE. In conjunction therewith, CE agreed to issue a note to the Company for \$32,358 with interest due monthly at 10% and principal due 10 years from the closing of the offering. The Company will use the proceeds from the note and issuance of CE membership interests to repurchase approximately 290,000 common shares at \$163 per share and 45,000 stock options will be net settled for \$153 per share as grossed up for taxes owed. The remaining 75,000 stock options will be canceled.