

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

Current Report

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): February 15, 2013

Integrated Electrical Services, Inc.

(Exact name of registrant as specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-13783
(Commission
File Number)

76-0542208
(I.R.S. Employer
Identification Number)

5433 Westheimer Road, Suite 500, Houston, Texas 77056
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (713) 860-1500

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

Item 2.01. Completion of Acquisition or Disposition of Assets

On February 15, 2013, pursuant to that certain Asset Purchase Agreement, dated February 8, 2013, by and among IES Renewable Energy, LLC, a Delaware limited liability company (“IES Renewable”), an indirect wholly-owned subsidiary of Integrated Electrical Services, Inc., a Delaware corporation (the “Company”), and a group of entities operating under the name of Acro Energy: Residential Renewable Technologies, Inc., Energy Efficiency Solar, Inc. and Lonestar Renewable Technologies Acquisition Corp., successor by way of amalgamation with Acro Energy Technologies Corp. (collectively, “Acro”), IES Renewable closed its previously announced acquisition of certain assets and liabilities from Acro, in connection with the Acro’s turn-key residential solar integration business.

The foregoing description of the Asset Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Asset Purchase Agreement, which is attached as Exhibit 2.1 to the Company’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 14, 2013.

This Current Report on Form 8-K/A amends the Company’s Current Report on Form 8-K filed on February 19, 2013. This amendment is being filed solely to furnish pro forma information with respect to the Company’s acquisition of certain assets and liabilities from Acro.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements of Lonestar Renewable Technologies Corp., as of December 31, 2012 and 2011 and for each of the years then ended, the notes thereto and the related independent auditors’ report of Calvetti, Ferguson & Wagner, P.C., are filed as Exhibit 99.1 to this Current Report on Form 8-K/A.

The audited consolidated financial statements of Acro Energy Technologies Corp., as of December 31, 2011 and 2010 and for each of the years then ended, the notes thereto and the related independent auditors’ report of Calvetti, Ferguson & Wagner, P.C., are filed as Exhibit 99.2 to this Current Report on Form 8-K/A.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined statements of operations data for the year ended September 30, 2012 and for the three months ended December 31, 2012 and the unaudited pro forma condensed combined balance sheet data as of December 31, 2012, and the notes related thereto, are filed as Exhibit 99.3 to this Current Report on Form 8-K/A.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 23.1	Consent of Calvetti, Ferguson & Wagner, P.C.
Exhibit 23.2	Consent of Calvetti, Ferguson & Wagner, P.C.
Exhibit 99.1	Audited consolidated financial statements of Lonestar Renewable Technologies Corp., as of December 31, 2012 and 2011 and for each of the years then ended, the notes thereto and the related independent auditors' report of Calvetti, Ferguson & Wagner, P.C.
Exhibit 99.2	Audited consolidated financial statements of Acro Energy Technologies Corp., as of December 31, 2011 and 2010 and for each of the years then ended, the notes thereto and the related independent auditors' report of Calvetti, Ferguson & Wagner, P.C.
Exhibit 99.3	Unaudited Pro Forma Condensed Combined Financial Statements of Integrated Electrical Services, Inc.

SIGNATURES

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

INTEGRATED ELECTRICAL SERVICES, INC.

Date: May 1, 2013

/s/ Gail D. Makode

Gail D. Makode

Senior Vice President and General Counsel

EXHIBIT INDEX

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use of our report dated April 24, 2013 relating to the consolidated financial statements of Lonestar Renewable Technologies Corp. for the years ended December 31, 2012 and 2011, in Integrated Electrical Services, Inc. Form 8-K/A to be filed with the United States Securities and Exchange Commission on May 1, 2013.

We are unaware of any events that would require any modifications to our report.

/s/ Calvetti, Ferguson & Wagner, P.C.

Calvetti, Ferguson & Wagner, P.C.
Certified Public Accountants
Houston, Texas
May 1, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use of our report dated June 18, 2012 relating to the consolidated financial statements of Acro Energy Technologies Corp. for the years ended December 31, 2011 and 2010, in Integrated Electrical Services, Inc. Form 8-K/A to be filed with the United States Securities and Exchange Commission on May 1, 2013.

These consolidated financial statements have been presented in accordance with Canadian generally accepted accounting principles, specifically International Accounting Standard 1, Presentation of Financial Statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as prescribed by the International Accounting Standards Board (IASB), including IFRS 1 First-time Adoption of International Financial Reporting Standards.

We are unaware of any events that would require any modifications to our report.

/s/ Calvetti, Ferguson & Wagner, P.C.

Calvetti, Ferguson & Wagner, P.C.
Certified Public Accountants
Houston, Texas
May 1, 2013

LONESTAR RENEWABLE TECHNOLOGIES CORP.

**Audited Consolidated Financial Statements For
the years ended December 31, 2012 and 2011**

(Stated in US Dollars)

LONESTAR RENEWABLE TECHNOLOGIES CORP.
Consolidated Financial Statements

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Certified Public
Accountants and
Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Lonestar Renewable Technologies Corp.
Houston, Texas:

We have audited the accompanying consolidated financial statements of Lonestar Renewable Technologies Corp. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of loss and comprehensive loss, changes in equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation 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 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 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 auditor's 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 auditor considers internal controls 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 controls. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lonestar Renewable Technologies Corp. as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, had a net capital deficiency, and subsequent to December 31, 2012, sold certain operating assets to a third-party, which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Calvetti, Ferguson & Wagner, P.C.

Calvetti, Ferguson & Wagner, P.C.
Certified Public Accountants
Houston, Texas
April 24, 2013

LONESTAR RENEWABLE TECHNOLOGIES CORP.
CONSOLIDATED BALANCE SHEETS
(Stated in US dollars)

	<u>As of</u> <u>December 31, 2012</u>	<u>As of</u> <u>December 31, 2011</u>
ASSETS		
Current:		
Cash	\$ 6,455	\$ 229,478
Accounts receivable, net	592,588	1,225,321
Work-in-progress	—	36,777
Prepaid job costs	229,242	320,450
Prepaid expenses and deposits	<u>154,524</u>	<u>179,258</u>
Total current assets	<u>982,809</u>	<u>1,991,284</u>
Property and equipment, net	39,190	52,571
Other assets	14,377	14,377
Intangibles	<u>—</u>	<u>19,873</u>
Total non-current assets	<u>53,567</u>	<u>86,821</u>
TOTAL ASSETS	<u>\$ 1,036,376</u>	<u>\$ 2,078,105</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current:		
Accounts payable	5,101,630	2,968,637
Accrued expenses	1,756,732	1,605,868
Deferred revenues	605,886	443,759
Due to related party	186,902	—
Current portion of long-term debt	<u>7,333,887</u>	<u>3,167,043</u>
Total current liabilities	<u>14,985,037</u>	<u>8,185,307</u>
Long-term debt	<u>—</u>	<u>3,004,454</u>
Total liabilities	<u>14,985,037</u>	<u>11,189,761</u>
Commitments and contingencies	<u>—</u>	<u>—</u>
SHAREHOLDERS' EQUITY (DEFICIT)		
Preferred stock, no par value, unlimited authorized, 34,134,615 outstanding	5,951,435	5,937,250
Additional paid-in capital	1,710,554	1,655,080
Accumulated comprehensive income	9,966	16,666
Accumulated deficit	<u>(21,620,616)</u>	<u>(16,720,652)</u>
Total shareholders' equity (deficit)	<u>(13,948,661)</u>	<u>(9,111,656)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	<u>\$ 1,036,376</u>	<u>\$ 2,078,105</u>

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

LONESTAR RENEWABLE TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Stated in US dollars)

	<u>Year ended</u> <u>December 31, 2012</u>	<u>Year ended</u> <u>December 31, 2011</u>
Revenue	\$ 14,204,852	\$ 16,333,626
Cost of sales	9,628,889	10,658,974
Gross profit	<u>4,575,963</u>	<u>5,674,652</u>
Expenses:		
Sales and marketing	3,343,488	2,771,501
General and administrative	4,806,537	4,962,036
Bad debt expense	54,415	350,987
Depreciation and amortization	33,254	140,872
Goodwill Impairment	—	7,297,411
Total expenses	<u>15,522,807</u>	<u>15,522,807</u>
Total operating loss	<u>8,237,694</u>	<u>(9,848,155)</u>
Interest expense	947,622	652,063
Loss on sale of assets	—	73,517
Loss on settlement	333,804	—
Gain on debt restructuring	—	(153,603)
Other, net	(44,793)	(316)
Total other (income) expense:	<u>1,236,633</u>	<u>571,661</u>
Loss before income taxes	(4,898,364)	(10,419,816)
Income tax expense :		
Current	(1,600)	(1,600)
NET LOSS	(4,899,964)	(10,421,416)
Other comprehensive income (loss)		
Gain (loss) on currency translation	(6,700)	4,170
TOTAL COMPREHENSIVE LOSS	<u>\$ (4,906,664)</u>	<u>(10,417,246)</u>

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

LONESTAR RENEWABLE TECHNOLOGIES CORP. CONSOLIDATED
STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Stated in US dollars, except share amounts)

	Common Shares	Common Stock	Preferred Shares	Preferred Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance, December 31, 2010	32,595,280	\$ 5,937,250	—	\$ —	\$ 1,601,103	\$ 12,496	\$ (6,299,236)	\$ 1,251,613
Total comprehensive loss for the period								
Net Loss	—	—	—	—	—	—	(10,421,416)	(10,421,416)
Currency translation	—	—	—	—	—	4,170	—	4,170
Total comprehensive loss for the period	—	—	—	—	—	4,170	(10,421,416)	(10,417,246)
Shareholder transaction								
Stock-based compensation	—	—	—	—	53,977	—	—	53,977
Total shareholder transactions	—	—	—	—	53,977	—	—	53,977
Balance, December 31, 2011, Acro Energy Technologies, Corp. common shares	32,595,280	\$ 5,937,250	—	\$ —	\$ 1,655,080	\$ 16,666	\$ (16,720,652)	\$ (9,111,656)
Total comprehensive loss for the period								
Net Loss	—	—	—	—	—	—	(4,899,964)	(4,899,964)
Currency translation	—	—	—	—	—	(6,700)	—	(6,700)
Total comprehensive loss for the period	—	—	—	—	—	(6,700)	(4,899,964)	(4,906,664)
Shareholder transaction								
Exchange of outstanding of Acro Energy Technologies Corp. common stock	(23,085,004)	(4,204,947)	23,085,004	4,204,947	—	—	—	—
Exchange of outstanding of Acro Energy Technologies Corp. common stock	(9,510,276)	(1,732,303)	9,510,276	1,529,727	—	—	—	(202,576)
Issuance of Lonestar Renewable Technologies Corp. Stock-based compensation	—	—	1,539,335	216,761	—	—	—	216,761
Total shareholder transactions	(32,595,280)	(5,937,250)	34,134,615	5,951,435	55,474	—	—	69,659
Balance, December 31, 2012	—	—	34,134,615	\$5,951,435	\$ 1,710,554	\$ 9,966	\$ (21,620,616)	\$ (13,948,661)

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

LONESTAR RENEWABLE TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US dollars)

	Year ended December 31, 2012	Year ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (4,899,964)	\$ (10,421,416)
Adjustments to reconcile net loss to cash from operating activities:		
Goodwill impairment	—	7,297,411
Depreciation and Amortization	33,254	140,872
Bad debt expense	68,551	350,987
Loss on sale of assets	—	73,517
Stock-Based Compensation	55,474	53,977
Loss on settlement	333,804	—
Gain on restructuring of debt	—	(153,603)
Gain (loss) on currency translation	(6,700)	4,170
Increase in long-term debt principal recorded as interest expense	600,000	—
Change in non-cash working capital balances:		
Accounts receivable	564,182	(445,259)
Other receivables	—	23,248
Work-in-progress	36,777	1,100,118
Inventory	—	659,959
Prepaid job costs	91,208	(320,450)
Prepaid expenses and deposits	24,734	85,040
Accounts payable and accrued expenses	2,534,123	2,918,482
Deferred revenues	162,127	(234,389)
Net cash from (used in) operating activities	<u>(402,430)</u>	<u>1,132,664</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	—	(53,903)
Sale of Assets	—	130,871
Net cash from (used in) investing activities	<u>—</u>	<u>76,968</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	216,761	—
Repurchase of capital stock	(202,576)	—
New borrowings	1,129,036	2,591,061
Payments on loans	(963,814)	(3,706,836)
Payments on capital leases	—	(22,874)
Net cash from (used in) financing activities	<u>179,407</u>	<u>(1,138,649)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(223,023)	70,983
CASH AND CASH EQUIVALENTS, beginning of period	229,478	158,495
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 6,455</u>	<u>\$ 229,478</u>

Supplemental Cash Flow Information (Note 14)

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

LONESTAR RENEWABLE TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US dollars)
For the years ended December 31, 2012 and 2011

Note 1. Nature and Continuance of Operations

Lonestar Renewable Technologies Corp. (the “Company”) is incorporated under the provisions of the Business Corporations Act (British Columbia). The Company is focused on the consolidation and growth of renewable energy companies, primarily in the United States residential solar energy installation market. The Company’s head office is located in Houston, Texas.

These consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business as they come due. There is substantial doubt about the Company’s ability to continue as a going concern. The Company had a net loss of \$4,899,964 and \$10,421,416 for the years ended December 31, 2012 and 2011, respectively, and a capital deficiency of \$13,948,661 and \$9,111,656, as of December 31, 2012 and 2011, respectively. The Company has sustained substantial losses in recent years and its ability to continue as a going concern is dependent on the Company’s ability to generate cash flows and satisfy its obligations. Management’s plan to obtain sufficient cash flow is dependent on the success of its ability to generate positive cash flows from selling assets and discharging liabilities with vendors and creditors. Substantially all of the Company’s assets were sold in 2013. See Note 15.

However, there can be no assurances that management will be successful in meeting the obligations and providing sufficient cash flows to the Company on acceptable terms. The Company may have to seek bankruptcy protection if management’s plan is not successful.

The consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern, and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

On October 24, 2011, the Company held a Special Meeting of shareholders, at which the shareholders approved a resolution authorizing the Company’s directors to apply for the voluntary delisting of the Company’s common shares from the TSXV. The application was approved by the TSXV on October 27, 2011, and effective at the close of business on November 11, 2011, the common shares of the Company were voluntarily delisted from the TSXV.

Effective December 15, 2011, Lonestar Renewable Technologies Corp., a Delaware corporation (“Lonestar Renewable”), Lonestar Renewable Technologies Acquisition Corp., a British Columbia corporation (“Lonestar Acquisition”), and a number of the shareholders of Acro Energy Technologies Corp. (“Acro-BC”) (“Selling Shareholders”) entered into a Share Exchange Agreement, under which the Selling Shareholders sold their Common Shares in Acro-BC to Lonestar Acquisition in return for an equal number of shares in Lonestar Renewable. As of February 28, 2012, Lonestar Acquisition had acquired an aggregate of 23,085,004 of Acro-BC’s Common Shares pursuant to the Share Exchange Agreement.

At a special meeting of the shareholders of Acro-BC held on March 27, 2012, a special resolution was adopted approving the amalgamation of Acro-BC and Lonestar Acquisition, a wholly-owned subsidiary of the Company. Pursuant to the terms of the special resolution, each issued and outstanding common share of Acro-BC, other than those held by Lonestar Acquisition, (totaling 9,510,276 shares) would be exchanged for one Redeemable Preferred Share in the capital of the resulting amalgamated company. Effective April 11, 2012, Acro-BC and Lonestar Acquisition were amalgamated as one company under the name Lonestar Renewable Technologies

LONESTAR RENEWABLE TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US dollars)
For the years ended December 31, 2012 and 2011

Acquisition Corp. All shareholders of Acro-BC, other than Lonestar Acquisition, have been or will be paid, upon delivery of the certificates representing their common shares in Acro-BC, a cash amount equal to the Redemption Price, being \$0.04 Canadian per Redeemable Preferred Share. The consideration to be paid on the redemption of the Redeemable Preferred Shares has been fully funded by the Company and forwarded to a depository for distribution.

Note 2. Significant Accounting Policies

a) Basis of presentation and consolidation

The consolidated financial statements were prepared in accordance with GAAP. All amounts are expressed in US dollars. These consolidated financial statements include the accounts of Lonestar Renewable Technologies Corp. and its subsidiaries Lonestar Renewable Technologiesx Acquisition Corp., Acro Energy Technologies Corp., Acro Energy Technologies, LLC, Acro Energy Technologies, Inc. (formerly Acro Electric, Inc.) and Energy Efficiency Solar, Inc, all of which are wholly owned by the Company. All significant intercompany transactions and balances have been eliminated upon consolidation.

b) Foreign currency translation

The Company's only revenue producing activities are within the United States and conducted in US dollars. Although the Company's corporate domicile is in Canada, the transactions conducted in Canadian dollars are minimal.

As indicated, most of the Company's activities have been transacted and maintained in the accounting records in US dollars so no translation adjustments are necessary. Canadian dollar transactions are translated into US dollars using the temporal method.

c) Cash

The Company maintains cash which consist principally of demand deposits with high credit quality financial institutions. At certain times, such amounts exceed federal insurance limits.

d) Allowance for Doubtful Accounts

We establish provision for losses on accounts receivables if it is determined that collection of all or a part of an outstanding balance is not probable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using the credit worthiness of the customer, delinquency of the receivable and the customer's disposition to pay. The allowance for doubtful accounts was \$128,941 and \$146,761 at December 31, 2012 and 2011, respectively.

e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repairs are charged to operations when incurred.

LONESTAR RENEWABLE TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US dollars)
For the years ended December 31, 2012 and 2011

The estimated useful lives for depreciation purposes are:

	<u>Estimated Useful Lives</u>
Tools, machinery and equipment	5 – 7 Years
Office furniture, equipment and computers	7 Years
Vehicles	5 Years
Leasehold improvements	Lease term

f) Impairment of long-lived assets

Management reviews long-lived assets to be held and used for impairment annually or more frequently if circumstances indicate that an impairment condition may exist (that is, when the carrying value of long-lived assets exceeds its fair value). An impairment of long-lived assets is recognized only if the carrying value of long-lived assets exceeds its fair value and is not recoverable (the carrying value exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset). An impairment loss, measured as the amount by which the carrying value of the long-lived asset exceeds its fair value, is recorded in the consolidated statement of operations and is not allowed to be restored in later periods.

g) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at fair value. The assigned values of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to the individual assets acquired based on fair value. Intangible assets consist of non-competition agreements and are amortized over the estimated life of the contracts which are three years. Intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. The net carrying amount of these intangibles was \$0 and \$19,873 at December 31, 2012 and December 31, 2011, respectively.

h) Corporate transaction costs

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs related to shares not yet issued are recorded as prepaid capital costs and are included in prepaid expenses and deposits. These costs are considered prepaid until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

i) Income taxes

The tax expense for the period comprises current state income tax.

Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically

LONESTAR RENEWABLE TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US dollars)
For the years ended December 31, 2012 and 2011

evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Authoritative guidance for accounting for uncertainty in income taxes requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an examination. Management has reviewed the Company's tax positions and determined there were no uncertain tax positions requiring recognition in the consolidated financial statements.

j) Revenue recognition

Revenue from sales of products is recognized using the completed contract method. We recognize revenue on completed contracts when the project is substantially complete and billable to the customer.

Deferred revenue includes amounts that have been invoiced but not yet recognized as revenue.

k) Job costs

Job costs consist of costs incurred for which system installation has not been completed. When system installation is complete, these amounts will be recorded as cost of sales as the corresponding revenue is recognized.

l) Manufacture and installation warranties

For installations prior to November 1, 2011, the Company provides a 10 year warranty on labor and incidental supplies other than the solar panels and inverters covered under the manufacturer's warranty. The manufacturer of the solar panels and inverters provide warranties ranging from 10-25 years. The Company assists the customer in processing warranty claims with the manufacturer in the event that a defective panel or inverter needs replacement. The warranty reserve was \$134,302 and \$0 at December 31, 2012 and December 31, 2011, respectively.

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m) Stock-based compensation

The Company uses the fair value method of accounting for its stock options and other stock-based payments. Under this method, compensation cost is measured at fair value using the Black-Scholes option pricing model at the date of grant and expensed over the vesting period of the option for employees and over the earlier of the provision of services or the vesting period for non-employees with a corresponding increase to contributed surplus. Compensation cost is not recognized for awards that are forfeited.

Stock-based compensation relating to warrants granted to share placement agents is treated as share issuance cost.

n) Use of estimates

The preparation of financial statements in accordance with GAAP requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant estimates include, but are not limited to the valuation of future tax assets, the purchase price allocation for business acquisitions and assumptions used in stock-based compensation.

o) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation. These changes had no effect on the Company's consolidated financial position, results of operations or cash flows.

p) Subsequent Events Evaluation

Management has evaluated subsequent events through April 24, 2013, the date the financial statements were available to be issued. See Note 16.

Note 3. Adoption of New Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance related to fair value measurements and disclosures. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other

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comprehensive income. The amendments to authoritative guidance associated with comprehensive income were effective for the Company on October 1, 2012 and have been applied retrospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In September 2011, the FASB issued guidance that amends and simplifies the rules related to testing goodwill for impairment. The revised guidance allows an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination whether it is more likely than not that the fair value of reporting unit is less than its carrying amount. The results of this assessment will determine whether it is necessary to perform the currently required two-step impairment test. Under this update, an entity also has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the two-step goodwill impairment test. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Other recent accounting pronouncements issued by the FASB or other authoritative standards groups with future effective dates are either not applicable or are not expected to be significant to the consolidated financial statements of the Company.

Note 4. Prepaid and Other Assets

The components of prepaid and other assets as December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
Insurance	\$ 29,986	\$ 27,537
Rent	22,609	24,625
Commissions	38,500	87,599
Software licenses	39,815	18,872
Other	23,614	20,625
	<u>\$ 154,524</u>	<u>\$ 179,258</u>

Note 5. Property and Equipment

A detail of the components of property and equipment as of December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
Property and equipment, cost	\$ 94,713	\$ 94,713
Accumulated depreciation	(55,523)	(42,142)
	<u>\$ 39,190</u>	<u>\$ 52,571</u>
Net book value:		
Vehicles	7,108	9,424
Leasehold improvements	20,333	23,333
Office furniture and equipment	11,749	19,814
	<u>\$ 39,190</u>	<u>\$ 52,571</u>

Depreciation expense was \$13,381 and \$58,787 for the year ended December 31, 2012 and 2011.

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Acro Energy established a \$1,000,000 line of credit with Encore Bank on May 14, 2010. On December 21, 2010 this line of credit was increased to \$2,000,000. In connection with the renewal of this line of credit, on May 13, 2011, the Company granted collateral security on all of the assets of the Company and its subsidiaries, Acro Energy Technologies, LLC and Energy Efficiency Solar Inc., to the four individuals who signed as co-borrowers on the Encore line of credit including the Company's CEO and another Company executive (the "Secured Parties"). On September 26, 2011, a Financing Statement covering the assets was filed in California on behalf of the Secured Parties. On June 15, 2012, the Secured Parties provided notice of intention to foreclose on the assets covered by the security interest. On June 19, 2012, the Secured Parties assigned their rights under the security agreement to Residential Renewable Energy Technologies, Inc., a related party. On June 19, 2012, the Company made a general assignment of assets to Residential Renewable Energy Technologies, Inc. in return for the agreement by Residential Renewable Energy Technologies, Inc. to lease the physical assets back to Energy Efficiency Solar, Inc. and allow Energy Efficiency Solar, Inc. to use of the Acro Energy trademark for a monthly lease payment of \$1.00. On June 25, 2012, Residential Renewable Energy Technologies, Inc. filed in California a UCC Financing Statement covering all assets of the Company and its subsidiaries, Acro Energy Technologies, LLC and Energy Efficiency Solar Inc.

Note 6. Intangible Assets

Listed below are the identifiable intangible assets, solely non-compete agreements, recognized upon the acquisition of the Acro Electric, Inc. and Energy Efficiency Solar, Inc. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable but at least on an annual basis. Intangible assets were fully amortized during the year ended December 31, 2012. Intangible assets consist of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Non-compete agreements	\$ 223,104	\$ 223,104
Accumulated amortization	(223,104)	(203,231)
	<u>\$ —</u>	<u>\$ 19,873</u>

Amortization expense was \$19,873 and \$82,087 for the year ended December 31, 2012 and 2011.

Note 7. Debt

The Company established a \$1,000,000 line of credit with Cadence Bank (formerly known as Encore Bank) on May 14, 2010. On December 21, 2010 this line of credit was increased to \$2,000,000. The interest rate on funds advanced under this line is the greater of prime rate plus 1% or 6% (6% for the years ended December 31, 2012 and 2011). This credit facility has a maturity date of March 31, 2013 and the outstanding balance at December 31, 2012 and 2011 was \$1,999,667 and 1,199,999, respectively. Management is currently in discussions with the bank in regards to the expiration of the line.

As part of the consideration given for the acquisition of Acro Electric, Inc. in 2008, the Company issued an unsecured convertible demand promissory note for \$2,939,034 to the seller, Steve Vella, a former majority shareholder in the Company. Following the Company being joined in a lawsuit against Mr. Vella, referenced in Note 9, the Company suspended payment on the promissory note. During 2011, the promissory note was reported at \$2,061,921 net of remaining discount of \$601,542. On November 23, 2011, the Company and Mr. Vella reached a *Settlement Agreement and Release* in which the Company issued a promissory note which superseded

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the unsecured convertible demand promissory note for \$2,500,000 due on November 23, 2016 with interest payments due monthly with and interest rate between 7.2% and 10.8% per annum. The new agreement resulted in a \$153,603 non-cash gain in the Consolidated Statement of Operations. In June 2012, the company stopped making the required interest payments. Under the terms of the agreement, when payments are not made, an additional principal balance of \$100,000 is added to the balance for each month the payment is missed, up to a maximum of six months. At December 31, 2012, the balance was \$3,100,000, which included the original principal due and the additional principal amounts noted above. The interest rate in effect at December 31, 2012 and 2011 was 7.2%.

The Company had an unsecured interest-bearing loan payable to an individual related to a major shareholder. The loan bears interest of 7.49% per annum and matured in December 2025. Principal and interest payment of \$1,670 were made monthly. During 2011, the Company restricted the note and shortened the term. At December 31, 2012 and 2011, the balance of the loan was \$0 and \$55,440, respectively.

As part of the consideration given for the business acquisition of Energy Efficiency Solar, Inc. in 2009, \$740,700 in the form of a promissory note was issued by the Company to the seller. On June 16, 2010 this note along with an addition \$100,000 line of credit from the seller was restructured with a 3.25% per annum interest rate. In accord with the revised terms of the note, \$262,500 of the note was repaid in December 2010 and an additional \$87,500 was repaid in March 2011. The balance of the note is due in February 2013. The balance of this note at December 31, 2012 and 2011 was \$504,454.

The Company established a short-term note with a 6.0% per annum interest rate with a former supplier in January 2012 for \$1,807,598 which established a payment plan for items purchased for inventory in late 2011. On May 1, 2012, that supplier filed a complaint against Acro Energy Technologies, Inc. and Acro Energy Technologies Corp. for breach of contract and common counts based on an alleged failure on timely payment. On May 23, 2012, that supplier filed a first amended complaint based on the same transaction. Effective August 31, 2012, a settlement agreement was reached to resolve the claim. The outstanding principal at the time of the settlement was \$1,532,598, and the settlement reduced the total debt amount to \$1,200,000. The Company paid \$200,000 of the settlement balance as of December 2012. On January 15, 2013, the Company defaulted on the settlement agreement. Based on the terms of the settlement agreement, the supplier claimed for a total amount due of \$1,729,766. In March 2013, a judgment was made against Acro Energy Technologies Corp. for the total claim amount. The accompanying consolidated financial statements were adjusted as of December 31, 2012 to reflect the balance due of \$1,729,766. To record the increase in the principal balance, accrued interest of \$63,364 was reclassified to the principal balance of the note, and the remaining increase of \$333,804 was recorded as a loss on settlement.

The Company had a \$700,000 no interest line of credit facility with the Company's former CEO for which the balances at December 31, 2012 and December 31, 2011 were \$ 0 and \$104,338, respectively.

Note 8. Related Party Transactions and Loans

The Company established a \$1,000,000 line of credit with Encore Bank on May 14, 2010. On December 21, 2010 this line of credit was increased to \$2,000,000. In connection with the renewal of this line of credit, the Company granted collateral security on the assets of the Company and its subsidiaries, Acro Energy Technologies, LLC and Energy Efficiency Solar Inc., to four individuals who signed as co-borrowers on this line of credit including the Company's former CEO and another Company executive.

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The Company also had borrowed \$186,902 in 2012 from certain shareholders including the Company's former CEO and another Company executive to fund its operation. This is a non-interest bearing note without formal repayment terms.

With the exception of the item noted above and the debt transactions discussed in Note 7, the Company did not have material related party transaction for the year ended December 31, 2012 and 2011.

Note 9. Commitments and Contingencies

Operating Leases

The Company leases property under both month-to-month and non-cancellable operating lease arrangements. For the years ended December 31, 2012 and 2011, the Company recorded rent expense under operating leases of \$94,016 and \$165,997.

The following table summarizes our future minimum payments under existing operating property leases:

Year	
2013	\$158,899
2014	120,117
2015	69,000
2016	46,000
2017	—
Total	<u>\$394,016</u>

Earn Out

As part of the Acro Electric, Inc. acquisition, the Company is obligated to pay an earn out to the seller for each of the calendar years through 2011, in which the earnings before interest, tax, depreciation and amortization ("EBITDA") of the acquired entity exceed the EBITDA of the acquired entity for calendar year 2008. The earn out shall be equal to twenty percent (20%) of the excess EBITDA earned in such calendar year with the total potential earn-out capped at a maximum of \$1,600,000. No amounts were due under the contingent earn out obligation for the years ended December 31, 2011.

Legal

The Company and its subsidiaries are involved in certain legal proceedings arising in the ordinary course of business. The Company's wholly owned subsidiary, Acro Energy Technologies, Inc. (formerly Acro Electric, Inc.) was added to a lawsuit against Steve Vella, the former owner of Acro Electric, Inc., arising from a 2007 transaction between Mr. Vella and a former shareholder of Acro Electric, Inc. that predates the Company's acquisition. On November 4, 2009, Mr. Vella was removed from the position of Chief Operations Officer of the Company. On October 25, 2010, the Company terminated the employment of Steve Vella, as Director of Business Development. On December 7, 2010, Mr. Vella filed suit in the Superior Court of Stanislaus County, California against Acro Energy Technologies, LLC, the Company's wholly owned subsidiary, claiming breach of his employment agreement and breach of the Stock Purchase Agreement for the purchase of Acro Electric, Inc. Effective November 23, 2011, an agreement was reached to resolve the claims between Vella and the Company.

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On January 13, 2012, Mr. Vella made an offer to compromise all claims. One of the terms of the offer to compromise was that any and all claims against Acro Energy Technologies, Inc. shall be fully and finally resolved, terminated, discharged, waived and released. On February 14, 2012, the attorneys for the former shareholder accepted Mr. Vella's offer to compromise without condition.

On May 1, 2012, a supplier of solar modules and related materials filed a complaint against Acro Energy Technologies, Inc. and Acro Energy Technologies Corp. for breach of contract and common counts based on an alleged failure to timely pay for materials. On May 23, 2012, that supplier filed a first amended complaint based on the same transaction and asserted a claim for alter ego against a director and officer of the Company. Effective August 31, 2012, a settlement agreement was reached to resolve the claim. On January 15, 2013, the Company defaulted on the settlement agreement. Based on the terms of the settlement agreement, the supplier claimed for a total amount due of \$1,729,766. In March 2013, a judgment was made against the Company for the total claim amount. See Note 7.

Note 10. Capital Stock

Share Repurchase Agreement

On January 20, 2012, Lonestar Acquisition made an offer to purchase all of the remaining issued and outstanding Common Shares of Acro-BC (the "Offer"). The Offer was open for acceptance until February 27, 2012. A total of 3,576,110 Common Shares of Acro-BC were deposited in response to the Offer and acquired by Lonestar Acquisition.

Effective February 27, 2012, Acro-BC and Lonestar Acquisition entered into an Amalgamation Agreement under which Acro-BC and Lonestar Acquisition would amalgamate and continue as "Lonestar Renewable Technologies Acquisition Corp." Pursuant to the terms of the Amalgamation Agreement, on the Effective Date, each issued and outstanding Common Share of Acro-BC, other than those held by Dissenting Shareholders and Lonestar Acquisition, would be exchanged for one Lonestar Acquisition Redeemable Preferred Share. Following the Amalgamation, the Lonestar Acquisition Redeemable Preferred Shares will be immediately redeemed at the Redemption Price by Lonestar Acquisition, such that Lonestar Acquisition will then own, directly and indirectly, all of the outstanding Common Shares of Lonestar Acquisition. All Shareholders, other than the Dissenting Shareholders and Lonestar Acquisition, will be paid, upon delivery of the certificates representing their Common Shares, a cash amount equal to the Redemption Price, being \$0.04 Canadian per Lonestar Acquisition Redeemable Preferred Share.

On March 27, 2012, Acro-BC held a Special Meeting of shareholders, at which the shareholders approved a special resolution ratifying the Amalgamation Agreement and authorizing the Amalgamation of Acro-BC and Lonestar Renewable Technologies Acquisition Corp. pursuant to the provisions of Section 269 of the Business Corporations Act (British Columbia) and upon the terms and conditions set forth in the Amalgamation Agreement. No shareholder exercised their dissent rights under the provisions of Section 238 of the Business Corporations Act (British Columbia).

On April 11, 2012, an Amalgamation Application was filed with the British Columbia Registrar of Corporations. The amalgamation took effect at the time that the Amalgamation was filed with the Registrar. Upon the completion of the Amalgamation, the Company has filed a Notice under Instrument 11-502 with the British Columbia Securities Commission and ceased to be a reporting issuer (or equivalent) in all the provinces of Canada in which Acro-BC was previously a reporting issuer (or equivalent).

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Authorized and Issued Shares

At December 31, 2012, Lonestar Renewable Technologies Corp. has an unlimited number of no value preferred shares authorized. At December 31, 2011, Acro Energy Technologies Corp. had an unlimited number of no par value common shares authorized.

Stock Options

On May 15, 2009, the Company received acceptance from the TSX Venture Exchange for the adoption of the Company's rolling 10% stock option plan (the "Stock Option Plan") which provided that the Board of Directors of the Company may grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares. Stock options granted under the Stock Option Plan had a maximum term of five years from the date of grant and had an exercise price that is not less than the last closing price of the shares before the date of the grant less the maximum discount permitted under the policies of the Exchange. The vesting schedule of each option is determined at the discretion of the Board of Directors.

Pursuant to the amalgamation described above, the stock option plan was effectively terminated on the effective date of the amalgamation on April 11, 2012 and all of the outstanding options were expired as they were not exercised. The following summarizes stock options activity for the years ended December 31, 2012 and 2011:

	Number of options	Weighted average exercise price (\$CAD)
Outstanding at December 31, 2010	3,210,000	0.34
Granted	1,160,000	0.13
Forfeited or expired	1,865,383	0.31
Outstanding at December 31, 2011	2,504,617	\$ 0.26
Forfeited or expired	2,504,617	0.26
Outstanding at December 31, 2012	—	\$ 0.00

Options outstanding and exercisable as at December 31, 2011 are summarized below:

Exercise price (\$CAD)	Options Outstanding			Options Exercisable		
	Number of options	Weighted average exercise price (\$CAD)	Weighted average life years	Number of options	Weighted average exercise price (\$CAD)	Weighted average life years
0.10 – 0.25	1,674,617	0.15	4.07	692,617	0.14	2.42
> 0.25	830,000	0.46	3.52	795,000	0.47	3.48
	2,504,617	0.25	3.88	1,487,617	0.32	2.99

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The Company recorded stock-based compensation expense of \$55,474 and \$53,977 for the years ended December 31, 2012 and 2011. The fair value of common share options granted was estimated on the date of grant using the Black-Scholes option pricing model using the assumptions noted below for the years ended December 31, 2012 and 2011:

Expected life of stock options (years)	5.00
Volatility (weighted average)	100%
Risk-free rate of return (weighted average)	3.0%
Expected dividend yield	0%

Note 11. Income Taxes

As at December 31, 2012, the Company had accrued \$0 for current US taxes payable.

The actual income tax expense reflected in the accompanying consolidated statements of operations for the year ended December 31, 2012 and 2011 differs from the "expected" tax expense (computed by applying the U.S. Federal corporate tax rate of 34% to income before taxes) as follows:

	2012	2011
Expected tax at Federal statutory rate	\$(1,665,988)	\$(3,543,281)
Other permanent items	(31,174)	(95,878)
State income taxes	1,600	1,600
Valuation allowance	1,697,162	3,639,159
Income tax provision	\$ 1,600	\$ 1,600

The tax effects of temporary differences that give rise to the Company's future tax assets and liabilities as at December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets:		
Net operating loss carryforward	\$ 4,009,130	\$ 2,712,545
Stock-based compensation	—	96,353
Allowance for bad debt	45,129	51,366
Deferred compensation	89,149	14,269
Various Reserves	302,424	—
Intangibles	126,052	130,224
Property	16,676	16,676
Total deferred income tax assets	4,588,560	3,021,433
Valuation allowance	(4,588,560)	(3,021,433)
Net deferred income tax assets	\$ —	\$ —

A valuation allowance is provided when it is more likely than not that some portion of the future tax assets will not be realized. The Company established a 100% valuation allowance due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and other future tax assets. At December 31, 2012, the

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Company had net operating loss carryforwards expiring at various dates between 2028 and 2032 of approximately \$10.4 million for U.S federal taxes, \$1.2 million for Canadian taxes and \$10.1 million for state income tax purposes.

The Company's tax returns filed since its inception and those filed since 2008 by Acro Electric, Inc. and Energy Efficiency Solar, Inc. prior to their acquisition by the Company, are subject to examination by taxing authorities. Generally, the applicable statutes of limitations are three to four years from filing of the returns.

Note 12. Significant Suppliers

As of November 1, 2011, the Company has entered into an exclusive agreement with an external organization for installation services. The agreement provides for payment of services based upon specific milestones of each installation. The agreement term is one year, with an automatic renewal feature for an additional year. The agreement was automatically renewed upon expiration in November 2012.

Note 13. Employee Retirement Savings Plans

The Company adopted a 401(k) savings plan for its employees. The plans cover all employees of our subsidiaries in California. Under the terms of the plans, employees may contribute up to a maximum of 15%, subject to Internal Revenue Code ("IRC") limitations, of their salaries to the plan plus any catch-up contributions permitted under the IRC. The Company does not match employee contributions but has a discretionary profit sharing option. No Company contributions were made for the year ended December 31, 2012 and 2011.

The Company terminated the plan in February 2013.

Note 14. Supplemental Cash Flow Information

Cash paid for taxes for the years ended December 31, 2012 and 2011 were \$69,249 and \$179,192, respectively.

Cash paid for interest for the years ended December 31, 2012 and 2011 were \$251,122 and \$432,439, respectively.

Note 15. Subsequent Events

On February 8, 2013, Residential Renewable Technologies, Inc., Energy Efficiency Solar, Inc. and Lonestar Renewable Technologies Acquisition Corp (collectively, the "Acro Group") entered into an Asset Purchase Agreement (the "Agreement") with IES Renewable Energy, LLC ("IES Renewable"). Pursuant to the terms of the Asset Purchase Agreement, IES has agreed to acquire certain assets in connection with the Acro Group's turn-key residential solar integration business (the "Acquired Assets"). The Acquired Assets include, but are not limited to, assets relating to the Acro Group's solar installation sales and marketing platform and the backlog of contracts entered into by Acro Energy with residential solar customers, which provide for the payment of sales and marketing fees in connection with the sale, installation and third-party financing of residential solar equipment. The Asset Purchase Agreement transaction closed on February 15, 2013 (the "Closing Date").

Total consideration to be received by the Acro Group for the Acquired Assets consists of (i) IES Residential's release of the amounts owed by the Acro Group to IES Residential (an amount not less than \$3,700,000 per the

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agreement), (ii) payment by IES Renewable to the Acro Group of a percentage of future gross revenue generated from the Acquired Assets in an amount not to exceed \$2,000,000 over the 12-month period beginning the first full month following the Closing Date, subject to certain reductions as described in the Agreement, and (iii) between \$700,000 and \$800,000 representing amounts paid by IES Residential, to the Acro Group to fund certain of its operating expenses between January 4, 2013 and closing of the transaction.

On February 21, 2013, Acro Energy Technologies Inc filed a Chapter 7 bankruptcy petition at United States Bankruptcy Court—Southern District of Texas.

ACRO ENERGY TECHNOLOGIES CORP.



ACRO ENERGY

Giving you the power

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

(Stated in US Dollars)

ACRO ENERGY TECHNOLOGIES CORP.
Consolidated Financial Statements

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Certified Public
Accountants and
Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Acro Energy Technologies Corp.

We have audited the accompanying consolidated financial statements of Acro Energy Technologies Corp. ("Acro") which comprise the consolidated balance sheets as at December 31, 2011 and 2010, the consolidated statements of operations and changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes, comprising 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 as issued by the International Accounting Standards Board, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures, on a test basis, 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 auditor considers 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 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 consolidated financial position of Acro as at December 31, 2011 and 2010, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of \$10,421,416 and \$2,338,062 for the years ended December 31, 2011 and 2010. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Calvetti, Ferguson & Wagner, P.C.

Calvetti, Ferguson & Wagner, P.C.
Certified Public Accountants
Houston, Texas
June 18, 2012

ACRO ENERGY TECHNOLOGIES CORP.

CONSOLIDATED BALANCE SHEETS

(Stated in US dollars)

	Note	As of December 31, 2011	As of December 31, 2010	As at January 1, 2010
ASSETS				
Current:				
Cash	2	\$ 229,478	\$ 158,495	\$ 500,863
Accounts receivable, net	16	1,225,321	1,131,049	650,957
Other receivables		—	23,248	19,079
Work-in-progress	2	36,777	1,136,895	374,549
Inventory	2	—	659,959	422,996
Job costs	2	320,450	—	—
Prepaid expenses and deposits	4	179,258	264,298	128,591
Total current assets		<u>1,991,284</u>	<u>3,373,944</u>	<u>2,097,035</u>
Property and equipment, net	5	52,571	261,841	348,423
Other assets		14,377	14,377	14,377
Intangibles	6	19,873	101,960	176,327
Goodwill	7	—	7,297,411	7,297,411
Total non-current assets		<u>86,821</u>	<u>7,675,589</u>	<u>7,836,538</u>
TOTAL ASSETS		<u>\$ 2,078,105</u>	<u>\$ 11,049,533</u>	<u>\$ 9,933,573</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current:				
Accounts payable		\$ 2,968,637	\$ 3,276,072	\$ 2,199,936
Accrued expenses		1,605,868	1,294,231	488,873
Deferred revenues		443,759	678,148	705,422
Current portion of capital leases		—	10,346	28,259
Current portion of debt	8	3,167,043	2,013,281	1,480,654
Total current liabilities		<u>8,185,307</u>	<u>7,272,078</u>	<u>4,903,144</u>
Obligations under capital lease		—	12,528	22,935
Long-term debt	8	3,004,454	2,513,314	2,278,632
Total liabilities		<u>11,189,761</u>	<u>9,797,920</u>	<u>7,204,711</u>
SHAREHOLDERS' EQUITY (DEFICIT)				
Capital stock	11	5,937,250	5,937,250	5,291,604
Contributed surplus	12	1,655,080	1,601,103	1,379,785
Translation reserves		16,666	12,496	18,647
Deficit		(16,720,652)	(6,299,236)	(3,961,174)
Total shareholders' deficit		<u>(9,111,656)</u>	<u>1,251,613</u>	<u>2,728,862</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		<u>\$ 2,078,105</u>	<u>\$ 11,049,533</u>	<u>\$ 9,933,573</u>
Nature and Continuance of Operations (Note 1)				
Commitments and Contingencies (Note 10)				

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

ACRO ENERGY TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in US dollars except share amounts)

	Note	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	2	\$ 16,333,626	\$16,755,215
Cost of sales		<u>10,658,974</u>	<u>10,994,582</u>
Gross profit		<u>5,674,652</u>	<u>5,760,633</u>
Expenses:			
Sales and marketing		2,771,501	1,831,020
General and administrative		4,962,036	5,513,364
Bad Debt Expense		350,987	—
Amortization	2 & 5	140,872	165,844
Goodwill Impairment	7	<u>7,297,411</u>	<u>—</u>
Total Expenses		<u>15,522,807</u>	<u>7,510,228</u>
Total operating loss		<u>(9,848,155)</u>	<u>(1,749,595)</u>
Other Expense (Income):			
Interest expense	8	652,063	583,530
Loss on sale of assets		73,517	11,167
Gain on Debt Restructuring	8	(153,603)	—
Other, net		<u>(316)</u>	<u>(7,830)</u>
Total Other Expense:		<u>571,661</u>	<u>586,867</u>
Loss before income taxes		(10,419,816)	(2,336,462)
Income tax expense:			
Current		1,600	1,600
Future		<u>—</u>	<u>—</u>
NET LOSS		<u><u>\$ (10,421,416)</u></u>	<u><u>\$ (2,338,062)</u></u>
Net loss per common share			
Basic		\$ (0.32)	\$ (0.07)
Fully Diluted		\$ (0.32)	\$ (0.07)
Weighted average number of common shares outstanding			
Basic		32,595,280	32,242,569
Fully Diluted		32,595,280	32,242,569

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

ACRO ENERGY TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Stated in US dollars, except share amounts)

	Common Shares	Share Capital	Contributed Surplus	Translation Reserves	Deficit	Total
Balance, January 1, 2010	29,685,406	\$5,291,604	\$1,379,785	\$ 18,647	\$ (3,961,174)	\$ 2,728,862
Total comprehensive loss for the period						
Loss	—	—	—	—	(2,338,062)	(2,338,062)
Currency translation	—	—	—	(6,151)	—	(6,151)
Total comprehensive loss for the period	—	—	—	(6,151)	(2,338,062)	(2,344,213)
Shareholder transaction						
Shares issued for private placements	2,636,294	607,003	—	—	—	607,003
Shares issued pursuant to options	273,580	38,643	—	—	—	38,643
Stock-based compensation	—	—	221,318	—	—	221,318
Total shareholder transactions	2,909,874	645,646	221,318	—	—	866,964
Balance, December 31, 2010	<u>32,595,280</u>	<u>\$5,937,250</u>	<u>\$1,601,103</u>	<u>\$ 12,496</u>	<u>\$ (6,299,236)</u>	<u>\$ 1,251,613</u>
Total comprehensive loss for the period						
Loss	—	—	—	—	(10,421,416)	(10,421,416)
Currency translation	—	—	—	4,170	—	4,170
Total comprehensive loss for the period	—	—	—	4,170	(10,421,416)	(10,417,246)
Shareholder transaction						
Stock-based compensation	—	—	53,977	—	—	53,977
Total shareholder transactions	—	—	53,977	—	—	53,977
Balance, December 31, 2011	<u>32,595,280</u>	<u>\$5,937,250</u>	<u>\$1,655,080</u>	<u>\$ 16,666</u>	<u>\$(16,720,652)</u>	<u>\$ (9,111,656)</u>

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

ACRO ENERGY TECHNOLOGIES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US dollars)

	Year ended December 31, 2011	Year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (10,421,416)	\$ (2,338,062)
Adjustments to reconcile net loss to cash from operating activities:		
Goodwill impairment	7,297,411	—
Amortization	140,872	165,844
Bad debt expense	350,987	97,962
Loss on sale of assets	73,517	11,167
Stock-Based Compensation	53,977	221,318
Gain on restructuring of debt	(153,603)	—
Change in translation reserve	4,170	(6,151)
Change in non-cash working capital balances:		
Accounts receivable	(445,259)	(578,054)
Other receivables	23,248	(4,169)
Work-in-progress	1,100,118	(762,346)
Inventory	659,959	(236,963)
Prep aid job costs	(320,450)	—
Prep aid expenses and deposits	85,040	(135,707)
Accounts payable and accrued expenses	2,918,482	1,881,493
Deferred revenues	(234,389)	(27,274)
Net cash from (used in) operating activities	<u>1,132,664</u>	<u>(1,710,942)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(53,903)	(29,061)
Sale of Assets	130,871	13,000
Net cash from (used in) investing activities	<u>76,968</u>	<u>(16,061)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	—	607,003
Proceeds of options exercised	—	38,643
New borrowings	2,591,061	1,300,000
Payments on loans	(3,706,836)	(532,691)
Payments on capital leases	(22,874)	(28,320)
Net cash from (used in) financing activities	<u>(1,138,649)</u>	<u>1,384,635</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	70,983	(342,368)
CASH AND CASH EQUIVALENTS, beginning of period	158,495	500,863
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 229,478</u>	<u>\$ 158,495</u>
Supplemental Cash Flow Information (Note 19)		

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

ACRO ENERGY TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 1. Nature and Continuance of Operations

Acro Energy Technologies Corp. (the "Company") is incorporated under the provisions of the Business Corporations Act (British Columbia) and until November 11, 2011 its common shares were traded on the TSX Venture Exchange ("TSXV"). The Company is focused on the consolidation and growth of renewable energy companies, primarily in the United States residential solar energy installation market. The Company's head office is located in Houston, Texas.

These consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business as they come due. There are material uncertainties that cast significant doubt about the appropriateness of the going concern assumptions. The Company has sustained substantial losses in recent years and its ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations and cash flows. Management's plan to reduce losses and obtain sufficient liquidity is dependent on the success of one or more of the following factors, but not limited to: its ability to generate positive cash flows from future operations, raise financing necessary to fund its operations, and discharge its liabilities as they become due. The Company had a net loss of \$10,421,416 and \$2,338,062 for the years ended December 31, 2011 and 2010, respectively.

Should the Company not be able to generate sufficient cash flow from these initiatives to become profitable in the future and generate sufficient working capital to fund operations, then it will become necessary to secure additional sources of financing. However, there can be no assurances that such financing will be available to the Company or that such financing will be available on acceptable terms.

The outcome of these matters cannot be predicted at this time which raises significant doubt with regards to the Company's ability to continue as a going concern. The consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern, and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

On October 24, 2011, the Company held a Special Meeting of shareholders, at which the shareholders approved a resolution authorizing the Company's directors to apply for the voluntary delisting of the Company's common shares from the TSXV. The application was approved by the TSXV on October 27, 2011, and effective at the close of business on November 11, 2011, the common shares of the Company were voluntarily delisted from the TSXV.

Effective December 15, 2011, Lonestar Renewable Technologies Corp., a Delaware corporation ("Lonestar Renewable"), Lonestar Renewable Technologies Acquisition Corp., a British Columbia corporation ("Lonestar Acquisition"), and a number of the shareholders of the Company ("Selling Shareholders") entered into a Share Exchange Agreement, under which the Selling Shareholders sold their Common Shares in the Company to Lonestar Acquisition in return for an equal number of shares in Lonestar Renewable. Lonestar Acquisition acquired an aggregate of 23,956,773 of the Company's Common Shares pursuant to the Share Exchange Agreement.

ACRO ENERGY TECHNOLOGIES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US dollars)
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Note 2. Significant Accounting Policies

a) Basis of presentation and consolidation

The consolidated financial statements of the Company have been presented in accordance with Canadian generally accepted accounting principles (GAAP), specifically International Accounting Standard (IAS) 1, *Presentation of Financial Statements*. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as prescribed by the International Accounting Standards Board (IASB), including IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The impact of the transition to IFRS on the Company's previously reported financial statements is presented in Note 20.

All amounts are expressed in US dollars. These consolidated financial statements include the accounts of Acro Energy Technologies Corp. and its subsidiaries Acro Energy Technologies, LLC, Acro Energy Technologies, Inc. (formerly Acro Electric, Inc.) and Energy Efficiency Solar, Inc. All significant intercompany transactions and balances have been eliminated. Acro Energy Technologies Corp. ownership in subsidiaries is as follows:

Entity	Percentage Ownership
Acro Energy Technologies, LLC	100%
Acro Energy Technologies, Inc.	100%
Energy Efficiency Solar, Inc.	100%

b) Foreign currency translation

Since the acquisition of Acro Electric, Inc., the Company's only revenue producing activities are within the United States and conducted in US dollars. Although the Company's corporate domicile is in Canada, the transactions conducted in Canadian dollars are minimal.

As indicated, most of the Company's activities have been transacted and maintained in the accounting records in US dollars so no translation adjustments are necessary. Canadian dollar transactions are translated into US dollars using the temporal method.

c) Cash

The Company maintains cash which consist principally of demand deposits with high credit quality financial institutions. At certain times, such amounts exceed federal insurance limits.

d) Allowance for Doubtful Accounts

We establish provision for losses on accounts receivables if it is determined that collection of all or a part of an outstanding balance is not probable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using the credit worthiness of the customer, delinquency of the receivable and the customer's disposition to pay. As of December 31, 2011 and December 31, 2010, the allowance for doubtful accounts was \$146,761 and \$0.

ACRO ENERGY TECHNOLOGIES CORP.
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e) Inventory

Inventory is stated at the lower of cost (on an average basis) or net realizable value. The Company determines cost based on the weighted-average purchase price and includes the cost of acquisition in its inventory. The Company's inventory generally has a long life cycle and obsolescence has not historically been a significant factor in its valuation. On November 1, 2011, the Company sold its inventory and has no inventory at December 31, 2011. Work-in-progress consists of inventory owned by the Company which has been issued to projects at December 31, 2011.

f) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is computed using the straight-line method over the useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repairs are charged to operations when incurred.

The estimated useful lives for amortization purposes are:

	<u>Estimated Useful Lives</u>
Tools, machinery and equipment	5-7 Years
Office furniture, equipment and computers	7 Years
Vehicles	5 Years
Leasehold improvements	Lease term

g) Obligations under capital leases

The Company accounts for leases as either operating or capital. Capital leases are those that substantially transfer the benefit and risks of ownership to the lessee. Assets acquired under capital leases are amortized over the lease term or if the lease contains terms that allow ownership to pass to the Company or a bargain purchase option, assets are amortized over their estimated useful lives consistent with other property and equipment. Obligations under capital leases are measured at lower of the present value of future minimum lease payments or fair market value. Leases not meeting the capital lease criteria are treated as operating leases with lease payments recorded as an expense in the period paid or accrued.

h) Impairment of long-lived assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed on a yearly basis to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated on an annual basis.

The recoverable amount of an asset is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely

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independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”, or “CGU”). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination.

The Company’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement in the period in which they are determined. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

i) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at fair value. The assigned values of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to the individual assets acquired based on fair value. Intangible assets consist of non-competition agreements and are amortized over the estimated life of the contracts which are three years. The net carrying amount of these intangibles was \$19,873 and \$101,960 as at December 31, 2011 and December 2010, respectively. Intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired.

j) Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. During the year ended December 31, 2011, goodwill was fully impaired.

k) Corporate transaction costs

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs related to shares not yet issued are recorded as prepaid capital costs and are included in prepaid expenses and deposits. These costs are considered prepaid until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

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l) Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

m) Financial instruments

The Company's financial instruments are included on the balance sheet and are measured at fair market value upon inception. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. The primary financial instruments used by the Company are cash, accounts receivable, other receivable, accounts payable, capital leases, and long-term debt. Cash, receivables, payables, capital leases, debt and other financial liabilities are measured at estimated net realizable value. Gains and losses upon inception, de-recognition, impairment write downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financings are included in the cost of the related instrument and are amortized using the effective interest rate method. See Note 16 for further information.

n) Revenue recognition

Revenue from sales of products is recognized when: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sale price is fixed or determinable, and (4) collection of the related receivable is reasonably assured. The Company recognizes revenue upon completion of a system installation.

Work-in-progress includes the cost of materials, direct labor and the applicable share of overhead for residential and commercial contracts for which revenue has not been recognized. Deferred revenue includes amounts that have been invoiced but not yet recognized as revenue.

o) Job costs

Job costs consist of costs incurred for which system installation has not been completed. When system installation is complete, these amounts will be recorded as cost of sales as the corresponding revenue is recognized.

p) Manufacture and installation warranties

For installations prior to November 1, 2011, the Company provides a 10 year warranty on labor and incidental supplies other than the solar panels and inverters covered under the manufacturer's warranty. The manufacturer of the solar panels and inverters provide warranties ranging from 10-25 years. The Company assists the customer in processing warranty claims with the manufacturer in the event that a defective panel or inverter needs replacement. The Company's historical cost to process warranty claims have been met and in most cases exceeded by reimbursements from the solar panel and inverter manufacturers. The Company does not expect future warranty costs to materially exceed manufacturer reimbursements and does not carry a reserve.

q) Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in-the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Company at the average market price during the period. Options and warrants which are anti-dilutive are excluded from diluted earnings per share and weighted average number of common shares outstanding. Options to purchase 2,504,617 common shares were outstanding at December 31, 2011, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

r) Stock-based compensation

The Company uses the fair value method of accounting for its stock options and other stock-based payments. Under this method, compensation cost is measured at fair value using the Black-Scholes option pricing model at the date of grant and expensed over the vesting period of the option for employees and over the earlier of the provision of services or the vesting period for non-employees with a corresponding increase to contributed surplus. Compensation cost is not recognized for awards that are forfeited.

Stock-based compensation relating to warrants granted to share placement agents is treated as share issuance cost.

s) Use of estimates

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant estimates include, but are not limited to the valuation of future tax assets, the purchase price allocation for business acquisitions and assumptions used in stock-based compensation.

t) Comparatives

Certain comparatives have been reclassified to conform to current year presentation. These reclassifications have no effect on shareholders' equity.

u) Future accounting pronouncements

Future accounting pronouncements which may affect the Company's financial reporting under IFRS are summarized below:

Acro's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. The Company has applied IFRS 1—*First-time adoption of international financial reporting standards*, in preparing these consolidated financial statements.

To prepare the aforementioned consolidated financial statements in accordance with IFRS 1, all mandatory exemptions and some optional exemptions from retrospective application of the IFRS have been applied.

Retrospective exemptions selected by the Company:

(a) Business combinations

Acro has applied the IFRS 1 exemption for business combinations, which allows business combinations prior to the transition date not to be restated. Therefore, businesses combinations that took place before the transition date of January 1, 2010 have not been restated in these consolidated financial statements.

(b) Share based payment transactions

Acro has applied the IFRS 1 exemption for share based payment transactions, which allows businesses to not restate the effects of the previous GAAP to all equity instruments that have vested and liability awards that have settled prior to the transition date.

Enforcement date of first time adoption of financial statements in accordance with IFRS

The IFRS adoption date is January 1, 2011.

Financial statements transition date to IFRS

The transition date to IFRS is January 1, 2010.

Comparative information for first time IFRS adoption

Acro has included the year 2010 for comparative purposes in IFRS adoption.

Explanation of IFRS transition

The reconciliation summary below quantifies the impact of the IFRS transition (see Note 20).

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Note 3. Adoption of New Accounting Standards

CICA Handbook Section 1601, *Consolidated Financial Statements* will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has adopted this standard.

Note 4. Prepaid and Other Assets

A components of prepaid and other assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Insurance	\$ 27,537	\$ 65,809	\$ 30,085
Rent	24,625	26,208	8,498
Commissions	87,599	153,809	73,271
Software licenses	18,872	18,472	14,721
Other	20,625	—	2,016
	<u>\$ 179,258</u>	<u>\$ 264,298</u>	<u>\$ 128,591</u>

Note 5. Property and Equipment

A detail of the components of property and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Property and equipment, cost	\$ 94,713	\$ 404,301	\$ 405,240
Accumulated amortization	(42,142)	(142,460)	(56,817)
	<u>\$ 52,571</u>	<u>\$ 261,841</u>	<u>\$ 348,423</u>
Net book value:			
Vehicles	9,424	96,669	143,495
Leasehold improvements	23,333	62,177	62,255
Office furniture and equipment	19,814	11,043	23,969
Tools and equipment	—	91,952	118,704
	<u>\$ 52,571</u>	<u>\$ 261,841</u>	<u>\$ 348,423</u>

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	<u>Vehicles</u>	<u>Leasehold Improvements</u>	<u>Office Furniture and Equipment</u>	<u>Tools and Equipment</u>	<u>Total</u>
Cost					
Balance—January 1, 2010	\$ 164,821	\$ 67,193	\$ 35,074	\$ 138,152	\$ 405,240
Additions	15,185	9,954	1,036	2,886	29,061
Disposals	(30,000)	—	—	—	(30,000)
Balance—December 31, 2010	<u>150,006</u>	<u>77,147</u>	<u>36,110</u>	<u>141,038</u>	<u>404,301</u>
Additions	28,944	—	17,003	7,956	53,903
Disposals	(167,350)	(47,147)	—	(148,994)	(363,491)
Balance—December 31, 2011	<u>\$ 11,600</u>	<u>\$ 30,000</u>	<u>\$ 53,113</u>	<u>\$ —</u>	<u>\$ 94,713</u>
Accumulated Amortization					
Balance—January 1, 2010	\$ 21,326	\$ 4,938	\$ 11,105	\$ 19,448	\$ 56,817
Additions	37,844	10,032	13,962	29,638	91,476
Disposals	(5,833)	—	—	—	(5,833)
Balance—December 31, 2010	<u>53,337</u>	<u>14,970</u>	<u>25,067</u>	<u>49,086</u>	<u>142,460</u>
Additions	25,697	5,883	8,232	18,973	58,785
Disposals	(76,858)	(14,186)	—	(68,059)	(159,103)
Balance—December 31, 2011	<u>\$ 2,176</u>	<u>\$ 6,667</u>	<u>\$ 33,299</u>	<u>\$ —</u>	<u>\$ 42,142</u>

Note 6. Intangible Assets

Listed below are the identifiable intangible assets, solely non-compete agreements, recognized upon the acquisition of the Acro Electric, Inc. and Energy Efficiency Solar, Inc. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable but at least on an annual basis. Intangible assets consist of the following:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Non-compete agreements	\$ 223,104	\$ 223,104	\$ 223,104
Accumulated amortization	(203,231)	(121,144)	(46,777)
	<u>\$ 19,873</u>	<u>\$ 101,960</u>	<u>\$ 176,327</u>

Amortization expense was \$82,087 and \$74,367 for years ended December 31, 2011 and 2010, respectively.

Note 7. Goodwill

Goodwill represents the difference between business acquisition costs, using the purchase method of accounting, and the fair value of the net tangible assets and identifiable intangible assets acquired. Under IFRS, goodwill is not amortized but is subject to an annual impairment test based on a one-step impairment approach used to identify potential goodwill impairment.

Management closely monitors trends in budget to actual results on a quarterly basis to determine if an impairment triggering event was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test. In the second quarter of 2011, the Company determined goodwill was impaired and recorded an impairment charge of \$6,000,000.

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The Company performed its annual impairment test to determine if goodwill was impaired in the fourth quarter of 2011. Based upon the test's findings, the Company determined goodwill was fully impaired and recorded an impairment charge of \$1,297,411.

Goodwill consists of the following:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cost	\$ 7,297,411	\$ 7,297,411	\$ 7,297,411
Accumulated impairment	(7,297,411)	—	—
	<u>\$ —</u>	<u>\$ 7,297,411</u>	<u>\$ 7,297,411</u>
<u>Cost</u>			
Balance—beginning of year	\$ 7,297,411	\$ 7,297,411	
Acquisition made during the year	—	—	
Balance—end of year	<u>\$ 7,297,411</u>	<u>\$ 7,297,411</u>	
<u>Accumulated impairment</u>			
Balance—beginning of year	\$ —	\$ —	
Impairment charges during the year	(7,297,411)	—	
Balance—end of year	<u>\$ (7,297,411)</u>	<u>\$ —</u>	

Note 8. Debt

Aggregate scheduled principal maturities of our long-term debt for the next five years and thereafter are as follows:

<u>Year</u>	
2012	\$ 3,167,043
2013	504,454
2014	—
2015	—
2016	2,500,000
Thereafter	—
Total debt obligations	<u>6,171,497</u>
Less:	
Current debt	<u>(3,167,043)</u>
Long-term debt at December 31, 2011	<u>\$ 3,004,454</u>

The Company established a \$1,000,000 line of credit with Encore Bank on May 14, 2010. On December 21, 2010 this line of credit was increased to \$2,000,000. The interest rate on funds advanced under this line is the prime rate plus 1%. This credit facility has a maturity date of March 31, 2013 and the outstanding balance at December 31, 2011 was \$1,199,999.

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The Company had an unsecured interest-bearing loan payable to an individual related to a major shareholder. The loan bears interest of 7.49% per annum and matured in December 2025. Principal and interest payments of \$1,670 were made monthly. During 2011, the Company restricted the note and shortened the term. At December 31, 2011, the balance of the loan was \$55,440. At December 31, 2010, the balance of the loan was \$122,633.

As part of the consideration given for the acquisition of Acro Electric, Inc., the Company issued an unsecured convertible demand promissory note for \$2,939,034 to the seller, Steve Vella, who is currently a major shareholder in the Company. Following the Company being joined in a lawsuit against Mr. Vella, referenced in Note 10, the Company suspended payment on the promissory note. As of December 31, 2010, the promissory note is reported at \$2,061,921 net of remaining discount of \$601,542. On November 23, 2011, the Company and Mr. Vella reached a *Settlement Agreement and Release* in which the Company issued a promissory note which superceded the unsecured convertible demand promissory note for \$2,500,000 due on November 23, 2016 with interest payments due monthly with an interest rate between 7.2% and 10.8% per annum. The new agreement resulted in a \$153,603 non-cash gain in the Consolidated Statement of Operations.

As part of the consideration given for the business acquisition of Energy Efficiency Solar, Inc., \$740,700 in the form of a promissory note was issued by the Company to the seller. On June 16, 2010 this note along with an addition \$100,000 line of credit from the seller was restructured with a 3.25% per annum interest rate. In accord with the revised terms of the note, \$262,500 of the note was repaid in December 2010 and an additional \$87,500 was repaid in March 2011. The balance of the note is due in February 2013. The balance of this note at December, 2011 was \$504,454 while the balance of its preceding equivalents on December 31, 2010 was \$591,954.

The Company has a \$700,000 no interest line of credit facility with the Company's CEO for which the balances at December 31, 2011 and December 31, 2010 were \$104,338 and \$227,092, respectively.

The Company owed \$62,082 at December 31, 2010 under various other notes which had interest rates of up to 9.39% and maturity dates from 2011 to 2014. These notes fully satisfied during the year ended December 31, 2011.

Note 9. Related Party Transactions and Loans

The Company established a \$1,000,000 line of credit with Encore Bank on May 14, 2010. On December 21, 2010 this line of credit was increased to \$2,000,000. In connection with the renewal of this line of credit, the Company granted collateral security on the assets of the Company and its subsidiaries, Acro Energy Technologies, LLC and Energy Efficiency Solar Inc., to four individuals who signed as co-borrowers on this line of credit including the Company's CEO and another Company executive.

With the exception of the item noted above and the debt restructuring discussed in Note 8, the Company did not have material related party transaction for the years ended December 31, 2011 and 2010.

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Note 10. Commitments and Contingencies

Operating Leases

The Company leases property under non-cancellable operating lease arrangements, which expire at various dates through 2016. Certain leases of real property provide options to extend the lease terms. The Company recorded rent expense under operating leases of \$165,997 and \$183,102 for the years ended December 31, 2011 and 2010.

The following table summarizes our future minimum payments under existing operating property leases:

Year	
2012	\$168,722
2013	122,713
2014	75,143
2015	66,000
2016	—
Total	<u>\$432,578</u>

Earn Out

As part of the Acro Electric, Inc. acquisition, the Company is obligated to pay an earn out to the seller for each of the calendar years through 2011, in which the earnings before interest, tax, depreciation and amortization (“EBITDA”) of the acquired entity exceed the EBITDA of the acquired entity for calendar year 2008. The earn out shall be equal to twenty percent (20%) of the excess EBITDA earned in such calendar year with the total potential earn-out capped at a maximum of \$1,600,000. No amounts were due under the contingent earn out obligation for the years ended December 31, 2011 or 2010.

Legal

The Company and its subsidiaries are involved in certain legal proceedings arising in the ordinary course of business. The Company’s wholly owned subsidiary, Acro Energy Technologies, Inc. (formerly Acro Electric, Inc.) was added to a lawsuit against Steve Vella, the former owner of Acro Electric, Inc., arising from a 2007 transaction between Mr. Vella and a former shareholder of Acro Electric, Inc. that predates the Company’s acquisition. On January 13, 2012, Mr. Vella made an offer to compromise all claims. One of the terms of the offer to compromise was that any and all claims against Acro Energy Technologies, Inc. shall be fully and finally resolved, terminated, discharged, waived and released. On February 14, 2012, the attorneys for the former shareholder accepted Mr. Vella’s offer to compromise without condition. On November 4, 2009, Mr. Vella was removed from the position of Chief Operations Officer of the Company. On October 25, 2010, the Company terminated the employment of Steve Vella, as Director of Business Development. On December 7, 2010, Mr. Vella filed suit in the Superior Court of Stanislaus County, California against Acro Energy Technologies, LLC, the Company’s wholly owned subsidiary, claiming breach of his employment agreement and breach of the Stock Purchase Agreement for the purchase of Acro Electric, Inc. Effective November 23, 2011, an agreement was reached to resolve the claims between Vella and the Company. Based on a consideration of all relevant facts and circumstances, the Company does not believe the ultimate outcome of any currently pending lawsuits will have a material adverse effect on the Company’s operations or financial condition.

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On May 1, 2012, Suntech America, Inc. filed its original complaint alleging claims for breach of contract and on common counts to collect moneys allegedly due in connection with the sale of solar panels in March of 2011. On May 23, 2012, Suntech America, Inc. filed its first amended complaint making the same allegations and adding Harry Fleming as an individual defendant. Suntech America has also filed an application for a writ of attachment. Neither the Company nor Mr. Fleming has filed responsive pleadings and discovery has not yet begun. Acro Energy and Mr. Fleming intend to vigorously defend the claims of Suntech America against them and pursue appropriate claims against Suntech America. At this early stage of the proceedings, it is not yet possible to evaluate Acro Energy's exposure to an adverse verdict or the likelihood of an unfavorable outcome.

Note 11. Capital Stock

Authorized and Issued Shares

The Company has an unlimited number of no par value common shares authorized. Common shares issued during the years ended December 31, 2011 and 2010 were as follows:

	Number of Shares	Amount
Balance, December 31, 2009	29,685,406	\$ 5,291,604
Shares issued for private placements	2,636,294	607,003
Shares issued pursuant to options	273,580	38,643
Balance, December 31, 2010	<u>32,595,280</u>	<u>\$ 5,937,250</u>
Shares issued for private placements	—	—
Shares issued pursuant to options	—	—
Balance, December 31, 2011	<u>32,595,280</u>	<u>\$ 5,937,250</u>

(i) Private Placements

On January 15, 2010, the Company completed a non-brokered private placement and raised gross proceeds of \$300,000 through the issuance of 1,550,250 shares (at C\$0.20 Canadian dollars per share) and warrants to purchase an additional 1,550,250 shares. Each warrant entitles the owner to purchase one common share of the Company for C\$ 0.35 Canadian dollars per share until January 15, 2012. None of these warrants were exercised before expiration.

On March 17, 2010, the Company completed a non-brokered private placement and raised gross proceeds of \$307,003 through the issuance of 1,086,044 shares (at C\$0.29 Canadian dollars per share) and warrants to purchase an additional 543,022 shares. Each warrant entitles the owner to purchase one common share of the Company for C\$ 0.55 Canadian dollars per share until September 18, 2010. None of these warrants were exercised before expiration.

(ii) Shares Issued Pursuant to Options

On March 10, 2010, 50,000 shares were issued for proceeds of \$12,572 pursuant to the exercise of stock options.

On March 12, 2010, the agent for the Company's IPO exercised options to purchase 170,665 shares for which the Company received proceeds of \$16,759.

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On March 23, 2010, the agent for the Company's IPO exercised options to purchase 2,915 shares for which the Company received proceeds of \$287. On July 28, 2010, 50,000 shares were issued for proceeds of \$9,025 pursuant to the exercise of stock options.

Stock Options

On May 15, 2009, the Company received acceptance from the TSX Venture Exchange for the adoption of the Company's rolling 10% stock option plan (the "Stock Option Plan") which provides that the Board of Directors of the Company may grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares. Stock options granted under the Stock Option Plan have a maximum term of five years from the date of grant and have an exercise price that is not less than the last closing price of the shares before the date of the grant less the maximum discount permitted under the policies of the Exchange. The vesting schedule of each option is determined at the discretion of the Board of Directors. The following summarizes stock options activity for the years ended December 31, 2011 and 2010:

	Number of options	Weighted average exercise price (SCAD)
Outstanding at December 31, 2009	2,276,080	0.35
Granted	1,545,000	0.25
Forfeited or expired	337,500	0.24
Exercised	273,580	0.16
Outstanding at December 31, 2010	3,210,000	\$ 0.34
Granted	1,160,000	0.13
Forfeited or expired	1,865,383	0.31
Outstanding at December 31, 2011	<u>2,504,617</u>	<u>\$ 0.26</u>

Options outstanding and exercisable as at December 31, 2011 are summarized below:

Exercise price (SCAD)	Options Outstanding			Options Exercisable		
	Number of options	Weighted average exercise price (SCAD)	Weighted average life years	Number of options	Weighted average exercise price (SCAD)	Weighted average life years
0.10 - 0.25	1,674,617	0.15	4.07	692,617	0.14	2.42
> 0.25	830,000	0.46	3.52	795,000	0.47	3.48
	<u>2,504,617</u>	<u>0.25</u>	<u>3.88</u>	<u>1,487,617</u>	<u>0.32</u>	<u>2.99</u>

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The Company recorded stock-based compensation expense of \$53,977 and \$221,318 for the year ended December 31, 2011 and 2010, respectively. The fair value of common share options granted was estimated on the date of grant using the Black-Scholes option pricing model using the assumptions noted below for both the year ended December 31, 2011 and 2010:

Expected life of stock options (years)	5.00
Volatility (weighted average)	100%
Risk-free rate of return (weighted average)	3.0%
Expected dividend yield	0%

Note 12. Contributed Surplus

The following table summarizes contributed surplus as at December 31, 2011 and December 31, 2010:

	December 31, 2011	December 31, 2010
Beginning Balance	\$ 1,601,103	\$ 1,379,785
Stock-based compensation	53,977	221,318
Ending Balance	\$ 1,655,080	\$ 1,601,103

Note 13. Income Taxes

As at December 31, 2011, the Company had accrued \$67,649 for current US taxes payable. This amount was assumed in the acquisition of Acro Electric and is included in accrued liabilities in the consolidated balance sheet.

The actual income tax expense reflected in the accompanying consolidated statements of operations for the years ended December 31, 2011 and 2010 differs from the "expected" tax expense (computed by applying the U.S. Federal corporate tax rate of 35% to income before taxes) as follows:

	2011	2010
Expected tax at Federal statutory rate	\$(3,543,281)	\$(797,033)
Other permanent items	(95,878)	(61,639)
Valuation allowance	3,639,159	858,672
Income tax provision	\$ —	\$ —

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The tax effects of temporary differences that give rise to the Company's future tax assets and liabilities as at December 31, 2011 and December 31, 2010 are as follows:

	2011	2010
Future tax assets:		
Net operating loss and credit carry forward	\$ 5,568,559	\$ 1,905,215
Stock-based compensation	18,892	250,139
Basis difference for fixed assets	2,116,820	—
Basis difference for fixed assets	(11,592)	18,758
Total future tax assets	7,692,679	2,174,112
Value allowance	(7,692,679)	(2,174,112)
Net future tax assets	<u>\$ —</u>	<u>\$ —</u>

A valuation allowance is provided when it is more likely than not that some portion of the future tax assets will not be realized. The Company established a 100% valuation allowance due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and other future tax assets. At December 31, 2011 the Company had net operating loss carryforwards expiring at various dates between 2028 and 2031 of approximately \$14.6 million for U.S federal taxes, \$1.3 million for Canadian taxes and \$14.0 million for state income tax purposes.

The Company's tax returns filed since its inception and those filed since 2007 by Acro Electric, Inc. and Energy Efficiency Solar, Inc. prior to their acquisition by the Company, are subject to examination by taxing authorities. Generally, the applicable statutes of limitations are three to four years from filing of the returns.

Note 14. Significant Suppliers

As of November 1, 2011, the Company has entered into an exclusive agreement with an external organization for installation services. The agreement provides for payment of services based upon specific milestones of each installation. The agreement term is one year, renewable on the anniversary date.

Note 15. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the profitable growth of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable level of risk. The Company includes the components of shareholders' equity, comprised of issued capital stock, contributed surplus and deficit, and debt in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its operations and for the identification and completion of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may raise additional funds through the issuance of equity or debt. As noted in Note 1, there is uncertainty about the Company's ability to raise capital.

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Note 16. Financial Instruments and Risk Management

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

1) Principal Financial Instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash; carried at fair value
- Accounts receivable, loans and receivable; carried at amortized cost
- Accounts payable, accrued liabilities and other liabilities; carried at amortized cost
- Long-term debt; carried at amortized cost

2) General Objectives, Policies and Processes

The Company's Board has overall responsibility for the determination of the Company's risk management objectives and policies related to financial instruments and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

3) Financial Instruments—Risk Management

The company is exposed through its operations to the following financial risks:

- Fair value of financial instruments
- Currency risk
- Credit risk
- Interest rate risk
- Liquidity risk

4) Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, other receivables and accounts payable approximate their fair values because of the near term to maturity of these instruments. The fair value of the long-term debt approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of obligations under capital leases reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

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5) Currency Risk

The Company held virtually all of its cash balances with three financial institutions in US dollars as at December 31, 2011. All of the Company's operations are in the United States so the impact of currency transaction risk and currency translation risk should be minimal.

6) Credit Risk

The financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. The Company maintains cash with high credit quality financial institutions located in the United States. Concentration of credit risk related to accounts receivable is not significant as amounts are due principally from numerous residential customers.

At December 31, 2011, the Company had a reserve for bad debt of \$146,761. At December 31, 2010, the Company did not consider any of its accounts receivable to be impaired. During the years ended December 31, 2011 and 2010 the Company wrote off and charged to bad debt expense \$350,987 and \$97,962, respectively. The following table provides information regarding the aging of accounts receivable, net of the allowance noted above:

	December 31, 2011	December 31, 2010
0 - 30 days	\$ 365,160	\$ 733,417
31 - 60 days	409,563	32,302
61 - 90 days	77,147	11,830
Over 90 days	373,451	253,500
	<u>\$ 1,225,321</u>	<u>\$ 1,131,049</u>

The definition of items that are past due is determined by reference to terms agreed with individual customers. The Company reviews accounts receivable past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customers to determine the reason for delay in payment and to establish an agreement to rectify the breach of contractual terms.

7) Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis.

8) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by forecasting cash flows and anticipating investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As discussed in Note 1, these consolidated financial statements have been prepared using IFRS applicable to a going concern which assumes the realization of assets and discharge of liabilities in the normal course of

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business as they come due. The Company has sustained substantial losses since inception and its ability to continue as a going concern is dependent on its ability to generate future profitable operations and cash flows.

As at December 31, 2011, the Company had current liabilities of \$8,185,307 due within twelve months and had current assets of \$1,991,284 to meet these obligations. The Company cannot be certain that financing will be available when needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

Note 17. Employee Retirement Savings Plans

The Company has adopted a 401(k) savings plan for its employees. The plans cover all employees of our subsidiaries in California. Under the terms of the plans, employees may contribute up to a maximum of 15%, subject to Internal Revenue Code ("IRC") limitations, of their salaries to the plan plus any catch-up contributions permitted under the IRC. The Company does not match employee contributions but has a discretionary profit sharing option. No Company contributions were made for the year ended December 31, 2011 and 2010.

Note 18. Business Segments

The Company operates in one reportable business segment and one geographic location and operates only in the United States.

Note 19. Supplemental Cash Flow Information

Cash paid for taxes for the years ended December 31, 2011 and 2010 were \$179,192 and \$226,281, respectively. Cash paid for interest for the years ended December 31, 2011 and 2010 were \$432,439 and \$320,266, respectively.

Non-cash items are as follows: Conversion of account payables of \$3,054,420 to \$2,914,280 of debt and \$140,140 of accrued interest.

Note 20. First-time Adoption of IFRS

Effective January 1, 2011 (adoption date), the Company began reporting under IFRS, and the accounting policies disclosed in the Company's consolidated financial statements and the preparation of the Company's opening balance sheet at January 1, 2010 (transition date) has been adjusted to reflect the reporting change.

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In previous years, the Company prepared its consolidated financial statements in accordance with Previous GAAP. Reconciliations from Previous GAAP to IFRS for comparative periods are as follows:

Reconciliation of total comprehensive income for the year ended December 30, 2011

	Year ended December 31, 2010
Loss reported under Previous GAAP	\$ (2,344,213)
Adjustments upon adoption of IFRS:	
Reclassification of currency translation differences (Note a)	6,151
Loss reported under IFRS	<u>(2,338,062)</u>
Other comprehensive expense reported under Canadian GAAP	
Adjustments upon adoption of IFRS:	
Reclassification of currency translation differences (Note a)	(6,151)
Other comprehensive expense reported under IFRS	<u>(6,151)</u>
Total comprehensive loss reported under IFRS	<u>\$ (2,344,213)</u>

Reconciliation of equity

	December 31, 2010
Equity reported under Previous GAAP	\$ 1,251,613
Adjustments upon adoption of IFRS:	
Translation Reserves (Note a)	12,496
Deficit (Note a)	(12,496)
Equity reported under IFRS	<u>\$ 1,251,613</u>

Notes to the reconciliation

(a) The Company's revenue producing activities are within the United States and conducted in US dollars. Although the Company's corporate domicile is in Canada, the transactions conducted in Canadian dollars are minimal. As a result the Company uses the US dollar as its presentation currency and Canadian dollar activity is translated to US dollars when consolidated for financial reporting as follows:

- 1) Assets and liabilities are translated at the closing rate at the date of the balance sheet
- 2) Income and expenses are translated at the average rate for the period
- 3) Equity is translated at historical rates.

IFRS requires that non-monetary currency translation effects be recognized as other comprehensive income. Prior to the adoption of IFRS the company recognized these translation effects as other income or expense in the consolidated statement of operations.

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Note 21. Subsequent Events

We have evaluated subsequent events through June 18, 2012, the date the consolidated financial statements were available to be issued.

On January 20, 2012, Lonestar Acquisition made an offer to purchase all of the remaining issued and outstanding Common Shares of the Company (the "Offer"). The Offer was open for acceptance until February 27, 2012. A total of 3,576,110 Common Shares of the Company were deposited in response to the Offer and acquired by Lonestar Acquisition.

Effective February 27, 2012, the Company and Lonestar Acquisition entered into an Amalgamation Agreement under which the Company and Lonestar Acquisition would amalgamate and continue as "Lonestar Renewable Technologies Acquisition Corp." Pursuant to the terms of the Amalgamation Agreement, on the Effective Date, each issued and outstanding Common Share of the Company, other than those held by Dissenting Shareholders and Lonestar Acquisition, would be exchanged for one Lonestar Acquisition Redeemable Preferred Share. Following the Amalgamation, the Lonestar Acquisition Redeemable Preferred Shares will be immediately redeemed at the Redemption Price by Lonestar Acquisition, such that Lonestar Acquisition will then own, directly and indirectly, all of the outstanding Common Shares of Lonestar Acquisition. All Shareholders, other than the Dissenting Shareholders and Lonestar Acquisition, will be paid, upon delivery of the certificates representing their Common Shares, a cash amount equal to the Redemption Price, being \$0.04 per Lonestar Acquisition Redeemable Preferred Share.

On March 27, 2012, the Company held a Special Meeting of shareholders, at which the shareholders approved a special resolution ratifying the Amalgamation Agreement and authorizing the Amalgamation of the Company and Lonestar Renewable Technologies Acquisition Corp. pursuant to the provisions of Section 269 of the Business Corporations Act (British Columbia) and upon the terms and conditions set forth in the Amalgamation Agreement. No shareholder exercised their dissent rights under the provisions of Section 238 of the Business Corporations Act (British Columbia).

On April 11, 2012, an Amalgamation Application was filed with the British Columbia Registrar of Corporations. The amalgamation took effect at the time that the Amalgamation was filed with the Registrar. Upon the completion of the Amalgamation, the Company has filed a Notice under Instrument 11-502 with the British Columbia Securities Commission and ceased to be a reporting issuer (or equivalent) in all the provinces of Canada in which Acro Energy was previously a reporting issuer (or equivalent).

Note 22. Approval of Financial Statements

The consolidated financial statements were approved by the board of directors for issuance on June 18, 2012.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined statements of operations for the three months ended December 31, 2012 and for the year ended September 30, 2012 combines the historical consolidated statements of operations of Integrated Electrical Services, Inc. (“IES”) and Lonestar Renewable Technologies Corp (together, with Residential Renewable Technologies, Inc., Energy Efficiency Solar, Inc. and Lonestar Renewable Technologies Acquisition Corp., “Acro”), giving effect to the Transaction (as defined Note 1 below) as if it had occurred on October 1, 2011. The unaudited pro forma condensed combined balance sheet as of December 31, 2012 combines the historical consolidated balance sheets of IES and Acro, giving effect to the Transaction as if it had occurred on December 31, 2012. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give pro forma effect to events that are (1) directly attributable to the Transaction, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

- Separate historical financial statements of IES for the year ended September 30, 2012 and the related notes included in IES’s Annual Report on Form 10-K for the year ended September 30, 2012;
- Separate historical financial statements of IES as of and for the period ended December 31, 2012 and the related notes included in IES’s Quarterly Report on Form 10-Q for the period ended December 31, 2012; and
- Separate historical financial statements of Acro as of and for the year ended December 31, 2012 and the related notes, which are filed as Exhibit 99.1 to this Current Report on Form 8-K/A.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The unaudited pro forma condensed combined information is not necessarily indicative of what the combined company’s financial position or results of operations actually would have been had the Transaction been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under U.S. generally accepted accounting principles, and the applicable regulations of the SEC. All material transactions between IES and Acro during the periods presented in the unaudited pro forma condensed combined financial statements have been eliminated. IES has been treated as the acquirer in the Transaction for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma

adjustments are preliminary and have been made solely for the purpose of providing this unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company's future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Transaction, the costs to integrate the operations of IES and Acro, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of December 31, 2012
(In thousands)

ASSETS	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
CURRENT ASSETS:				
Cash and cash equivalents	\$ 20,873	\$ 6	\$ (6) ^(a)	\$ 20,045
			(828) ^(Note 3)	
Restricted cash	7,564	—	—	7,564
Accounts receivable:				
Trade	73,478	593	(2,263) ^(Note 3)	71,808
Retainage	19,015	—	—	19,015
Inventories	13,034	—	—	13,034
Costs and estimated earnings in excess of billings on uncompleted contracts	8,031	—	—	8,031
Assets held for sale	1,110	—	—	1,110
Prepaid expenses and other current assets	6,365	384	(384) ^(a)	5,323
			(1,042) ^(Note 3)	
Total current assets	<u>149,470</u>	<u>983</u>	<u>(4,523)</u>	<u>145,930</u>
LONG-TERM RECEIVABLE, net	213	—	—	213
PROPERTY AND EQUIPMENT, net	6,018	39	— ^(d)	6,057
GOODWILL	4,446	—	3,882 ^(Note 4)	8,328
OTHER NON-CURRENT ASSETS, net	5,011	14	(14) ^(a)	5,001
			890 ^(c)	
Total assets	<u>\$ 165,158</u>	<u>\$ 1,036</u>	<u>\$ 235</u>	<u>\$ 166,429</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term debt	\$ 9,554	\$ 7,334	\$ (7,334) ^(e)	\$ 9,554
Accounts payable and accrued expenses	69,085	7,652	(4,783) ^(a)	70,623
			(2,263) ^(b)	
			665 ^(Note 3)	
			267 ^(g)	
Billings in excess of costs and estimated earnings on uncompleted contracts	22,930	—	—	22,930
Total current liabilities	<u>101,569</u>	<u>14,986</u>	<u>(13,448)</u>	<u>103,107</u>
LONG-TERM DEBT	2,917	—	—	2,917
LONG-TERM DEFERRED TAX LIABILITY	285	—	—	285
OTHER NON-CURRENT LIABILITIES	6,575	—	—	6,575
Total liabilities	<u>111,346</u>	<u>14,986</u>	<u>(13,448)</u>	<u>112,884</u>
STOCKHOLDERS' EQUITY:				
Preferred stock	—	—	—	—
Common stock	154	5,951	(5,951) ^(a)	154
Treasury stock, at cost	(3,297)	—	—	(3,297)
Additional paid-in capital	162,767	1,710	(1,710) ^(a)	162,767
Accumulated comprehensive income	—	10	(10) ^(a)	—
Retained deficit	(105,812)	(21,621)	(267) ^(g)	(106,079)
			21,621 ^(a)	
Total stockholders' equity	<u>53,812</u>	<u>(13,950)</u>	<u>13,683</u>	<u>53,545</u>
Total liabilities and stockholders' equity	<u>\$ 165,158</u>	<u>\$ 1,036</u>	<u>\$ 235</u>	<u>\$ 166,429</u>

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the three months ended December 31, 2012
(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	\$ 127,264	\$ 3,399	\$ (516) ^(b)	\$ 130,147
Cost of services	109,284	2,401	(516) ^(b)	111,169
Gross profit	17,980	998	—	18,978
Selling, general and administrative expenses	14,922	2,342	37 ^(c)	16,893
			(408) ^(b)	
Gain on sale of assets	(19)	—	—	(19)
Income (loss) from operations	3,077	(1,344)	371	2,104
Interest and other (income) expense				
Interest expense	607	686	(686) ^(e)	607
Interest income	(12)	—	—	(12)
Other (income) expense, net	1,734	797	—	2,531
Interest and other expense, net	2,329	1,483	(686)	3,126
(Loss) Income from operations before income taxes	748	(2,827)	1,057	(1,022)
Provision (benefit) for income taxes	115	—	(271) ^(f)	(156)
Net (loss) income from continuing operations	<u>\$ 633</u>	<u>\$(2,827)</u>	<u>\$ 1,328</u>	<u>\$ (866)</u>
Earnings (loss) per share from continuing operations				
Basic	\$ 0.04			\$ (0.06)
Diluted	\$ 0.04			\$ (0.06)
Shares used in the computation of earnings (loss) per share				
Basic	14,801,903			14,801,903
Diluted	14,919,189			14,801,903 ^(g)

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the year ended September 30, 2012
(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	\$ 456,115	\$14,824	\$ (8,596) ^(b)	\$ 462,343
Cost of services	398,063	10,019	(8,596) ^(b)	399,486
Gross profit	58,052	4,805	—	62,857
Selling, general and administrative expenses	58,609	8,462	147 ^(c)	65,807
			(1,411) ^(b)	
Gain on sale of assets	(168)	1,297	—	1,129
Income (loss) from operations	(389)	(4,954)	1,264	(4,079)
Interest and other (income) expense				
Interest expense	2,324	400	(400) ^(e)	2,324
Interest (income)	(34)	(126)	—	(160)
Other (income), net	(62)	(524)	—	(586)
Interest and other expense (income), net	2,228	(250)	(400)	1,578
Income (loss) from operations before income taxes	(2,617)	(4,704)	1,664	(5,657)
Provision (benefit) for income taxes	38	1	— ^(f)	39
Net (loss) income from continuing operations	<u>\$ (2,655)</u>	<u>\$ (4,705)</u>	<u>\$ 1,664</u>	<u>\$ (5,696)</u>
Earnings (loss) per share from continuing operations				
Basic	\$ (0.18)			\$ (0.39)
Diluted	\$ (0.18)			\$ (0.39)
Shares used in the computation of earnings (loss) per share				
Basic	14,625,776			14,625,776
Diluted	14,625,776			14,625,776

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements
(All Dollar Amounts in Thousands Except Per Share Amounts)

Note 1: Description of Transaction

On February 15, 2013, pursuant to that certain Asset Purchase Agreement, dated February 8, 2013, by and between IES Renewable Energy, LLC (“IES Renewable”), an indirect wholly-owned subsidiary of IES, and a group of affiliated entities (referred to herein as Acro), IES purchased certain assets and liabilities of Acro in exchange for IES’ release of certain accounts receivable from Acro, plus an amount of additional purchase consideration paid in cash and contingent consideration based on future revenue targets for one year following the closing date of the transaction (the “Transaction”).

Note 2: Basis of Presentation

The Transaction is reflected in the unaudited pro forma condensed combined financial statements as being accounted for under the acquisition method of accounting. Under the acquisition method, the total purchase price for the Transaction as described in Note 3 was allocated to the fair value of the acquired assets and liabilities. The assets and liabilities of Acro have been measured at fair value based on various preliminary estimates using assumptions that IES management believes are

reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The process for estimating the fair values of identifiable intangible assets requires the use of significant estimates and assumptions, including estimating future cash flows. The excess of the estimated purchase consideration over the estimated amounts of identifiable assets and liabilities of Acro as of the effective date of the Transaction have been allocated to Goodwill. The purchase price allocation is subject to finalization of IES's analysis of the fair value of the assets and liabilities of Acro as of the effective date of the Transaction. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuations. Such adjustments could be material.

In accordance with the SEC's rules and regulations, the unaudited pro forma condensed combined financial statements do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Transaction or the costs to integrate the operations of IES and Acro or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

IES is performing a detailed review of Acro's accounting policies. As a result of this review, IES may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the consolidated financial statements of the combined company.

Certain reclassifications have been made to the historical presentation of Acro to conform to the presentation used in the unaudited pro forma condensed combined financial statements. Further review of Acro's financial statements may result in additional revisions to Acro's classifications to conform to IES's presentation.

The following is a summary of the consideration transferred to effect the Transaction. The consideration transferred for the Transaction approximates the fair value of Acro.

IES accounts receivable from Acro as of December 31, 2012	\$2,263
Plus: IES receivables recorded in connection with transactions with Acro between January 1, 2013 and February 15, 2013	1,042
Plus: Additional cash purchase consideration	828
Plus: Fair value of contingent consideration	665
Equals: Total consideration transferred	<u>\$4,798</u>

Note 4: Preliminary Purchase Price Allocation

The following is a preliminary estimate of the assets acquired and liabilities assumed by IES in the Transaction, reconciled to the consideration transferred:

	Acro
Total consideration transferred (see Note 3)	<u>\$ 4,798</u>
Book value of net liabilities acquired as of December 31, 2012	\$(13,950)
Plus: Adjustments for assets not acquired and liabilities and debt not assumed as of December 31, 2012	<u>13,976</u>
Equals: Adjusted book value of net assets acquired	<u>26</u>
Fair value adjustments to (see Note 5):	
Intangible assets ^(c)	890
Goodwill	<u>3,882</u>
Total fair value adjustments	<u>4,772</u>
Fair value of net assets acquired	<u>\$ 4,798</u>

Note 5: Adjustments to the Unaudited Pro Forma Condensed Combined Financial Statements

(a) *Assets and Liabilities Not Acquired*: Based on the terms of the Asset Purchase Agreement, certain assets were acquired and liabilities were assumed by IES and certain assets and liabilities were retained by Acro. The unaudited pro forma condensed combined financial statements have been adjusted to remove such assets not acquired and liabilities not assumed from Acro as well as the historical Acro stockholders' equity at the respective historical carrying values.

(b) *Intercompany Eliminations*: Reflects the elimination of accounts receivable, accounts payable, revenue and cost of services in connection with historical services provided by IES to Acro and Acro's related cost of such

services as if the entities were combined as of December 31, 2012 for the unaudited pro forma condensed combined balance sheet and October 1, 2011 for the unaudited pro forma condensed combined statements of operations.

(c) *Intangible Assets:* The fair value of identifiable intangible assets is determined primarily using the “income approach,” which requires a forecast of all of the expected future cash flows either through the use of the relief-from-royalty method or the multi-period excess earnings method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset’s life cycle, as well as other factors. However, for purposes of these unaudited pro forma condensed combined financial statements, using certain high-level assumptions, the fair value of the identifiable intangible assets, the related amortization expense and their weighted-average useful lives have been estimated as follows (in thousands):

	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Fair Value Adjustment</u>	<u>Weighted Average Estimated Useful Life</u>	<u>Amortization Expense</u>	
					<u>Year Ended September 31, 2012</u>	<u>Three Months Ended December 31, 2012</u>
Fair Value Adjustment						
Backlog	\$ —	\$ 350	\$ 350	5 Months	\$ — ⁽¹⁾	\$ — ⁽¹⁾
Covenant not-to-compete	—	140	140	3 Years	47	12
Developed technology	—	400	400	4 Years	100	25
Total	<u>\$ —</u>	<u>\$ 890</u>	<u>\$ 890</u>		<u>\$ 147</u>	<u>\$ 37</u>

⁽¹⁾ Note that subsequent amortization of the new backlog intangible asset recorded at fair value is expected to be less than 12 months. As this does not have a continuing impact, the unaudited pro forma condensed combined statements of operations do not include this amortization expense.

These preliminary estimates of fair value and estimated useful lives will likely be different from the final acquisition accounting, and the differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. Once IES has completed its purchase price allocation, additional insight will be gained that could impact: (i) the estimated total value assigned to intangible assets and (ii) the estimated weighted average useful lives of each category of intangible assets. The estimated intangible asset values and their useful lives could be impacted by a variety of factors that may become known to IES only upon completion of the purchase price allocation.

(d) *Property and equipment:* For purposes of these unaudited pro forma condensed combined financial statements, the fair value of Acro’s property and equipment is assumed to approximate carrying value. This estimate is preliminary and subject to change once IES has

sufficient information as to the specific types, nature, age, condition and location of Acro's property and equipment.

(e) Debt and Interest: Based on the terms of the Asset Purchase Agreement, none of the historical Acro debt was assumed by IES in the Transaction. As such, there is an adjustment in the unaudited pro forma condensed combined balance sheet to remove this historical Acro debt as well as the related interest from the unaudited pro forma condensed combined statements of operations as it will not have a continuing impact.

(f) Deferred taxes:

Since the Transaction was taxable, no deferred taxes will be recorded as the tax bases and financial reporting bases are revalued in the same manner.

In assessing the recovery of net operating loss carryforwards, IES considers whether it is more likely than not that some portion or all of net operating loss carryforwards will be realized. The realization of net operating loss carryforwards is dependent upon the generation of taxable income during the periods the net operating loss carryforwards may be utilized. In assessing the likelihood of future taxable income, considerably more weight is placed upon historical results and less weight on future projections when there is negative evidence such as cumulative pretax loss in recent years. IES believes the future benefits of the Transactions are not of sufficient weight to offset the historical cumulative pretax loss generated by IES. Accordingly, IES has provided a valuation allowance for the net operating loss carryforward resulting from the pretax loss for year ended September 30, 2012. The effect of the net operating loss carryforward results in actual income tax expense from the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate. No income tax expense or benefit was recorded in the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2012 as a result of the pro forma adjustments.

For the period ended December 31, 2012, a net pro forma income tax benefit of \$271 is recorded for Acro. The net operating loss carryforward results in actual income tax expense from the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate.

(g) Reflects an estimate of the future costs directly attributable to the Transaction, including advisory and legal fees that are recorded as an adjustment to the unaudited pro forma condensed combined balance sheet only. These amounts will be expensed as incurred in the future and are not reflected in the unaudited pro forma condensed combined statement of operations because they have not yet been incurred for accompanying periods presented and they will not have a continuing impact. There have been no expenses incurred in the historical periods presented in the unaudited pro forma condensed combined financial statements.

(h) Certain assets, liabilities, operating leases and employees were not retained by IES in the Transaction as agreed in the Asset Purchase Agreement. This pro forma adjustment removes these related costs out of the historical statements of operations since they are factually supportable, directly attributable to the Transaction and will not have a continuing impact. The table below summarizes these costs:

Nature of cost	Year Ended September 30, 2012	Three Months Ended December 31, 2012
Salary and related compensation for Executives	\$ 661	\$ 242
Payroll costs	608	145
Operating lease and related costs	87	21
Other	55	—
Total	<u>\$ 1,411</u>	<u>\$ 408</u>

(i) Pro forma diluted number of shares outstanding are shown as the same as pro forma basic shares outstanding in periods with a loss from continuing operations.