

Sustainable Energy Technologies

Management Discussion and Analysis For The Year Ended September 30, 2012

The following discussion and analysis as of January 28, 2013 should be read in conjunction with the Consolidated Financial Statements of Sustainable Energy Technologies Ltd. ("Sustainable", "Sustainable Energy" or the "Company") and notes for the year ended September 30, 2012.

Additional information relating to the Company including our Consolidated Financial Statements, Management Discussion and Analysis, And Annual Information Form ("AIF"), news releases, and other required filing documents is available on SEDAR at www.sedar.com and on our website at www.sustainableenergy.com. The aforementioned documents are issued and made available in accordance with legal requirements but are not incorporated by reference into this MD&A.

FORWARD LOOKING INFORMATION

This Management Discussion and Analysis ("MD&A,") especially but not limited to this section, contains certain forward-looking statements within the meaning of National Instruments and other relevant securities legislation relating but not limited to our operations, anticipated financial performance, business prospects and strategies. Forward-looking information includes statements that are not statements of historical fact and address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, construction timetable, extent of solar resources and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

In particular we include: statements on the future dynamics and size of the solar PV and energy storage market and segments thereof; statements concerning our expectations of future relationships as well as the size of the market for power electronics; statements concerning our sales; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

Our conclusions concerning the size of the addressable solar PV and energy storage market are based on certain critical assumptions and general conclusions concerning the future of these industries the market segmentation, and emerging market dynamics

Our assumptions and the conclusions that we draw represent forward-looking information.

While valuable in assessing our future prospects, forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of this MD&A. All subsequent forward-looking information attributable to the Company herein is expressly qualified in their entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to forward-looking information contained in this MD&A to reflect events or circumstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

BUSINESS OVERVIEW:

COMPANY PROFILE

Sustainable Energy designs and manufactures intelligent power electronics solutions for decentralized ("distributed") electrical generation and storage systems. We have designed and manufactured products for solar PV systems, small wind generators, fuel cell and battery storage systems. Our inverter for grid connected solar PV systems is marketed under the PARALEX™ brand name solar inverter. The PARALEX solar inverter is now in its 3rd generation, and has powered more than 20 megawatts of solar PV systems in 11 countries proving the reliability and cost.

A detailed overview of the history of the Company may be found in our Annual Information Form for the year ended September 30, 2012, which may be found with all our public documents at www.sedar.com

Value Proposition

Our core value proposition lies in the ability of our products to convert high current/low voltage DC outputs of all cellular generation and storage technologies with higher efficiencies and a lower cost than any other technology in sight. Most distributed generation and storage technologies produce low voltage direct current ("DC") outputs which must be converted into higher voltage alternating current ("AC") required by power grids and most industrial and consumer electronics products. Our products are based on proprietary patented power electronics technologies which enable us to achieve the high conversion efficiencies with a fundamentally simpler, more reliable, and lower cost electronics platform than competitive low voltage power electronics solutions in the market.

Other value propositions associated with our platform are the following:

- The electronics platform has been designed from the bottom up so that it is software configurable for all generation and storage technologies and for country to country variances in regulatory environments. Unlike our competitors, we have adopted an open communications protocol with industry standard language – modbus or canbus – used to communicate with different devices.

Taken together, these features allow great flexibility and speed in designing products built around our electronics platform which can be taken simultaneously to all the major markets of the world. This is uncommon in our industry where typically product designs serve specified markets so that products sold in Europe are often not capable of being sold in North America or Japan and vice versa.

- We have designed and proven a manufacturing model which leverages the flexibility of our product design to enable products to be manufactured in multiple venues and in comparatively low volumes without sacrificing cost reductions achieved through high volume manufacturing of interchangeable sub-assemblies. To achieve this we have designed a discrete electronics module – an "engine" around which finished products can be built by us or by OEM partners.

Combined with the open communications protocol the engine enables a highly profitable OEM strategy which delivers a lower cost finished product for our OEM partners. This strategy is not easily replicated by competitive power supply companies which typically have more complex designs, and closed proprietary communications protocols.

- Our power electronics platform has four quadrant control over the power flow in a single power conversion step enabling the same platform to serve grid-connected markets with full smart grid functionality and to provide grid forming capability needed for off-grid and micro-grid markets. The four quadrant control also enables seamless bi-directional conversion of DC to AC and AC to DC in a grid interactive mode for battery charging and discharging functionality with higher efficiencies and a simpler system topology for greater reliability and a lower delivered cost.

With certification in Japan expected this Quarter our power electronics platform will be the only low voltage inverter certified in Europe, the US and Japan. This enables OEM partners to develop products which can be marketed globally. This feature should not be underestimated since the crossover of products between Europe North America and Japan has been very limited.

Our value propositions are design driven and protected by multiple patents issued and pending with the US and Canadian Patent Offices and filed internationally.

Market Opportunities/Competitive Advantages

Our core value propositions will provide the greatest leverage in the solar power market and in the emerging market for distributed energy storage, both of which are based on low voltage cellular technologies. Fuel cells are also based on low voltage cellular technologies but few are commercial at this juncture

- Solar PV is the only economical cellular generation technology at this time; but is rapidly becoming one of the lowest cost incremental generation technologies. By 2015, it is estimated that solar PV will represent 1/3 of all new electrical generating capacity additions globally (Photon Consulting Energy Annual Energy Storage Report "*More in Store*", March 2012). In this application our advantage lies in the ability to enable a "parallel" system design where low voltage solar cells and/or solar panels are wired in parallel resulting in higher current outputs than can be managed with conventional high voltage solar inverters.

The main advantage of a parallel design is that each cell or panel operates independently of the other cells or panels in the system. This eliminates complex site specific electrical design constraints needed to step up the low DC voltage outputs of solar cells and panels to meet the high voltage/low current input specifications needed by conventional inverters in order to achieve high electrical conversion efficiencies.

This design complexity is exacerbated where there is the potential for variances in power outputs from individual cells or panels in the system coming from variances in the intensity of the solar energy impacting the cell. With conventional series wiring the cells or panels in the string will perform at the level of the poorest performing cell or panel. This comes from shading or variances in the angle of the panel to the sun due to variances in building design. Avoiding the impact of this phenomenon adds complexity and is a barrier to standardization and modularization needed to further bring down the installed cost of the system.

- Grid tied energy storage is driven by the belief that decoupling generation from consumption will reduce/defer investment in surplus generation and transmission needed to meet power needs in peak demand periods which sits idle most of the time. Increased use of renewable energy is also driving demand for storage to convert intermittent power into firm power used to meet demand during peak periods. Radically lower solar electricity costs are accelerating this trend due to the near perfect match of solar availability with peak demand and the ability to incrementally distribute solar through the grid.

- According to Photon International total demand for grid tied battery based energy storage in the next 4 years will exceed 138 GW, of which an estimated 21 GW will be for smaller “distributed” battery storage. Highly intelligent and highly efficient power electronics are critical components of the systems. Based on current market pricing aggregate demand for the electronics component of smaller “distributed” systems over this period alone is an estimated \$6.53 billion in Japan, Germany and the United States. .
- Distributed battery systems are, and will continue to be, low voltage systems for cost, performance and regulatory reasons. High efficiency conversion of the battery outputs is a critical driver of system cost and performance.

To our knowledge there is no product or technology in the market other than Sustainable Energy’s which meets the efficiency and cost targets that system integrators are looking for. As this is a totally new market there are no established incumbents. Traditional off-grid inverters for off-grid solar and uninterruptible power supply systems do not have the functionality and power quality controls required by the utility grid. Only a few companies offer low voltage inverters with grid tie functionality developed for solar back up power applications including SMA (Germany), Studer (Switzerland), Xantrex (US) and Outback (US). Only SMA has a product which meets both the German and European grid connection standards.

Based on published data from the California Energy Commission and information from prospective OEM partners we believe we have materially higher round trip (charging and discharging) efficiencies and a design that enables a fundamentally lower manufactured cost structure. To our knowledge, none of these companies have a design philosophy which enables the OEM partner to integrate the electronics into their own product and none of the companies has an open communications protocol which can be used effectively to develop product solution further increasing our competitive cost and strategic advantage.

BUSINESS MODEL

Our preferred business model is to earn revenues through OEM partnerships where our product forms part of a package or product distributed by our OEM partner. We expect to earn revenues from the sale of finished products which are incorporated into an OEM partner designed and distributed bundle or from the sale of the power electronics engine which is incorporated directly into the OEM partner’s product.

Our strategy is to focus on applications where our proprietary competitive advantages will make a material difference to our OEM partners’ competitive positions by leveraging the partner’s technology advantage or marketing strategy, which cannot be easily replicated with other products in the market.

This is a departure from our earlier model where we distributed PARALEX solar inverters through conventional distribution channels principally to solar installers competing directly with other solar inverters on price and performance characteristics. The change is driven by our conclusion that we can create greater shareholder value with materially less investment by focusing on well defined high growth market segments where our technology enables unique product solutions which have the potential to take a material share of the segment and where our partner has the channels to take that product to market.

This strategy is only possible because our products are based on proprietary and patented technology. We can expect to earn lower top line revenues per sale and relatively lower margins but we do not need to invest as much in marketing or in customer support. It is also a strategy that by its nature means we will be in emerging market situations or working with new products.

BUSINESS STRATEGY

Solar PV Market: Within the solar power industry, we believe that we will be able to build OEM partnerships by (i) enabling emerging cell technologies which need a parallel design to achieve their goals; and (ii) in enabling standardized structurally integrated packages or bundles which eliminate the need for site specific electrical engineering and can be factory assembled and distributed directly to mainstream builders and or mainstream electrician.

Our OEM partnership with tenKsolar is an example of our strategy. During 2012, we combined with tenKsolar to create industry's first completely modular, structurally integrated solar PV system based on the tenKsolar parallel cell technology. At the core of the tenKsolar product is an advanced power electronics design enabled by the PARALEX proprietary technology. tenKsolar has a global strategic partnership with Korea's Hanwha Solar One which is one of the most important solar companies in the world and which has the market reach needed to maximize the product's value, especially in Asian markets.

During 2011 and 2012 we supplied PARALEX inverters which were integrated into the tenKsolar product offering. In December 2012 we agreed to license the right to integrate our platform into the tenKsolar product enabling tenKsolar to materially reduce its manufactured cost. We believe that this will enable tenKsolar and Hanhwa Solar to drive very much higher volumes and generate much higher value for our shareholders through our revenue sharing agreement.

During Q1, 2013, we announced the development and demonstration of a structurally integrated parallel design for high efficiency thin film in combination with Solar Frontier, a leading manufacturer high efficiency thin film modules. The AC module eliminates the site specific engineering and which enables a very simple flexible modular approach to installation which levers the aesthetic and performance advantages of the thin film module in this application.

We believe that the "AC module" is the single best opportunity to bring high efficiency thin film to the rooftop and building façade market. Our goal is to position our inverter platform as the "go to" solution to use with all high efficiency thin film modules on residential rooftops and in commercial building facades in all the major markets. Solar Frontier is one of the two largest thin film module manufacturers in the world today and the Company best positioned to make high efficiency thin film a fixture for rooftops and building facades.

Also in Q1 2013 we announced an agreement with EECOL a leading Canadian building products distributor to jointly market a structurally integrated modular system for rooftops to EECOL's established base of builders and electricians. (See Management Discussion of Operations)

We believe that the use of pre-assembled systems or kits will be the next major trend in the solar industry to reduce total system costs by eliminating site-specific electrical engineering design and enabling systems to be installed by mainstream builders and electricians with limited specialized experience with solar PV. Our parallel system architecture is a key enabler of pre-assembly by eliminating the need for site specific design. The much higher shade tolerance means errors in siting are not fatal to system economics

We believe that success with EECOL in demonstrating the value of prepackaged systems to mainstream builders and electricians will drive interest from other large distributors of systems in the US market including the leading solar PV leasing companies and will help to position the PARALEX inverter in this market application.

In each case we will deliver PARALEX inverters to our OEM partner who will bundle the inverters to deliver complete structurally integrated solar PV systems.

ENERGY STORAGE: Our value in the energy storage market is the ability to drive out system costs through (i) increased efficiencies which reduce the battery capacity needed to meet defined storage needs, (ii) the ability and willingness to integrate the electronic components directly into the energy management system enclosure and (iii) an open industry standard communications protocol which enables very rapid iterations in product development to meet changing market demands. To our knowledge no competitor can match this value.

Our strategy is to stake out an early position with first movers in the market at the point when they are making decisions on critical components. Our goal is to embed our platform in their product design creating a barrier to latecomers to the market. The first markets will be in Germany and Japan and driven by solar energy load shifting. Our strategy is to secure partnerships which have the potential to take an aggregate 30% market share over the next three years in each of these markets.

During 2013, we will also demonstrate the value of our platform to support multiple applications with a view to positioning the product in these segments, increasing awareness of the Company and identifying demand potential to justify actively marketing solutions. These applications include (i) a retrofit back up power module for installed solar PV systems in the US; (ii) an AC storage module for peak shaving to avoid utility demand charges principally in the US; and (iii) load management for diesel based and solar diesel based micro-grids for military and industrial applications.

Each application uses the same inverter platform with only software changes.

The reader is cautioned that the preceding paragraphs include forward looking statements concerning the size of the potential market for distributed solar and energy storage markets and the ability to obtain a share of the markets. While management believes these statements to be reasonable there is no assurance that they will occur, in which event the prospects for the Company will be negatively impacted.

MANAGEMENT'S DISCUSSION OF OPERATIONS

Operations

Entering 2012, we were cautiously optimistic about the recovery of the Ontario market. The majority Liberal party had been returned to government on October 6, 2011, campaigning on a renewed commitment to the Green Energy Program. Although the industry was expecting lower feed in tariffs to reflect lower module prices there was optimism about the outlook for the industry. We had built a strong market presence in the Province and were expecting strong demand for our products in the rural micro-FIT markets.

In the final analysis, the optimism for Ontario was misplaced. Instead of simply announcing a revised feed in tariff, as expected, the new government imposed a moratorium on new projects, while it developed comprehensive new policies designed to slow growth in solar installations especially in the rural micro-FIT market which was the only high growth market sector and where we were very well positioned. The moratorium was only partly lifted in July 2012 and continues to be plagued by uncertainty and a slow moving government apparatus.

The result is that expected demand for product in the Province did not materialize and revenues totaled only \$3.3 million by the end of the fiscal year. To preserve revenues and liquidity, we cut operating costs by 42.5% (\$3,055,126) and reduced our annual net loss (adjusted for non cash items) by 44.5% to \$3,031,487. Significantly, we reduced cash used in operations by 75% to \$1,690,957 compared to \$6,692,627 in 2011.

During Q2 2012 we released a structurally integrated solar PV system ("ProFab Solar") designed to deliver positive investment returns in the Ontario agricultural market even with lower feed in tariff pricing by eliminating site specific electrical engineering and materially reducing installation costs. The market response to ProFab Solar was very positive, with more than \$5 million in indicated orders within a few weeks of product launch. During Q4 2012, the Ontario Power Authority introduced increasingly restrictive land use regulations designed to limit growth of ground based solar in rural markets.

Our experience with ProFab Solar led, however, to an agreement with EECOL, one of Canada's largest electrical distributors, to market a structurally integrated modular system for rooftops to EECOL's established base of builders and electricians. EECOL has since been acquired by US based WESCO (NYSE: "WCC") expanding the distribution network for PARALEX enabled structurally integrated systems into the US. We believe that the merger creates an opportunity to lever the EECOL relationship into distribution in the US.

While Ontario was a significant setback for the Company, we continued to sell PARALEX inverters to tenKsolar and were able to convert our partnership with tenKsolar into a very successful outcome for Sustainable Energy. In December, 2012 we agreed to license our power electronics design solely for integration into the tenKsolar system in exchange for \$2.5 million payable in 3 tranches during 2013, a share of revenues on future sales and a commitment by tenKsolar to take or pay for PARALEX inverters during calendar 2013 valued at \$2.9 million. The agreement also provides tenKsolar with the option to buy down our revenue share by paying \$3 million before the end of 2013 or \$8 million before the end of 2015.

Closing of the licensing agreement has been delayed from the original December 19 2012 to early February in order to complete documentation of shareholder funding agreements. To secure both agreements tenKsolar has paid non refundable deposits totaling \$567,000

Product Development

2012 saw the submission of production prototypes of the 3rd generation STX platform to CSA for North America certification and to JET for Japanese certification. Both processes are on track at the time of writing, and we are expecting certification in both markets during the current Quarter. In the meantime, we expect to have successfully liquidated all surplus component inventory that is specific to the 2nd generation platform and expect to liquidate virtually all finished old product inventory before the new STX platform becomes available in the next Quarter.

The STX platform is based on a patented breakthrough in transformer technology originally conceived and developed by us in collaboration with the University of Alberta to eliminate the need for multiple transformers which were part of the original design. The result is lower manufactured cost, lower weight and mass and higher conversion efficiencies.

The STX platform is fully software configurable enabling it to be used for a wide range of applications including solar PV advanced battery technologies and fuel cells with no change in the basic product design or manufacturing process.

During 2012, we also completed the design for a power electronics module which can serve as the "engine" for multiple product applications and which can be certified and sold as a discrete product to OEM partners. The engine reduces manufactured cost and significantly reduces time to market for new products and product enhancements. Designed to be built in power ratings from 3 kW to 6.2 kW the engines can be combined in a single enclosure to power three phase products ranging from 10kW to 20kW.

Development of a production prototype of the engine and development of the 3-phase products was deferred during 2012 due to a shortage of financial and engineering resources and a decision to devote scarce resources to securing the tenKsolar results and completing software for the AC Battery.

The same software configurable STX platform supports the PARALEX solar inverter and the recently announced AC battery solution in all the major markets of the world. We have designed the platform from the bottom up to enable us to sell it as a finished product or to sell a software configurable electronics engine which can be cost effectively integrated into partner developed product solutions and has an open industry standard control protocol.

During 2012, we completed the redesign and restructuring of our manufacturing model which outsources interchangeable subassemblies that can be easily assembled into finished product with very little investment on tooling and can quickly respond to changes in product mix even in relatively low volumes without sacrificing manufactured cost targets.

A flexible labor driven final assembly process can be easily replicated in multiple venues to meet domestic content requirements and reduce logistics and/or to allow final assembly by multiple OEM partner using the same supply chain.

Outlook and Priorities

We believe that the single biggest contributor to shareholder value in 2013 will be the emergence of the grid tied energy storage market and our ability to position our technology as the market leader for grid tied energy storage systems.

We have focused first on Germany as this is where the greatest product development is occurring and there is more openness to new designs. Although there are differences of opinion as to whether the market will start in 2013 or in 2014 our sense is that most of the major companies believe that energy storage will play a significant role in the German power industry going forward.

There is broad agreement that, the German government will announce subsidies for energy storage systems to kick start the market this Quarter in much the same way it started the solar PV market in 2004. We have had significant interest from larger consumer products companies which are looking to label complete product solutions and from smaller energy management system developers which will be marketing directly and through private label relationships.

We believe our ability to lower total system costs described earlier will allow us to build partnerships with market leaders which are competitors to SMA. We believe that we will be able to lever our partnerships in Germany into partnerships in Japan which is potentially a much larger market in the near term and which is not as advanced as Germany in inverter product development.

Key milestones of our success will be strategic OEM partnerships in Germany and Japan during 2013 based on the solar energy storage market, and one or more strategic partnerships for micro-grids. We are already delivering trial products to customers in the US and Germany with very positive feedback and engaged in commercial negotiations with market leaders. Our priority is to convert these relationships into high volume partnerships.

We expect demand for PARALEX solar inverters to deliver a growing base of revenues based on expanding the partnerships put in place during 2012. Our goal is to build out the Solar Frontier model in Japan as soon as the STX platform is certified in Japan and to partner locally to build a "made in Japan" inverter for this and other applications. We expect to see early although modest sales of the PARALEX inverter for the Solar Frontier bundle beginning in this Quarter, and we are optimistic that these will increase during the next 2 Quarters with increasing market acceptance and penetration of the Japanese market.

We expect the Licensing agreement with tenKsolar to close in early February and we expect our agreements with tenKsolar to contribute a minimum of \$5.4 million over the next 12 months. Based on the structure of our revenue sharing arrangement, we believe it will be in the best interests of tenKsolar to exercise its option to buy down the revenue share component of the License at the end of 2013.

Additional revenues will come from the sale of engineering services to assist tenKsolar to integrate our electronics platform into their RAISWave system.

The reader is cautioned that the preceding paragraphs include forward looking statements concerning the size of the potential market for distributed solar and energy storage markets the prospects for government incentives to encourage the energy storage markets and the potential to create partnerships which will result in product sales revenues and or strategic transactions. While management believes these statements to be reasonable there is no assurance that they will occur in which event the prospects for the Company will be negatively impacted.

Management Discussion of Financial Results

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES OR CHANGES UNDER IFRS

The Company's significant accounting policies have been disclosed in note 4 of the consolidated financial statements.

As disclosed in note 2 to the September 30, 2012 consolidated financial statements, the consolidated financial statements represent the company's presentation of the financial performance and financial position under IFRS for the year ended September 30, 2012. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the October 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. Note 30 to the consolidated financial statements provides information about the transition from pre-transition Canadian GAAP to IFRS.

The most significant impacts of IFRS upon conversion were within the areas of share-based payments, and foreign currency translation. The effects and adjustments required to the Company's statement of financial position as a result of the transition to IFRS are discussed below.

	Accounting Policy Difference	October 1, 2010 Balance Sheet Impact	September 30, 2011 Balance Sheet Impact
<i>Share-Based Payments</i>	<p>IFRS does not permit the recognition of the expense associated with share-based payments to be recognized on a straight-line basis as was permitted under Canadian GAAP, but requires the Company to expense share-based payments based on graded vesting.</p> <p>IFRS also requires forfeitures be estimated and recognized on the grant date and revised prospectively in subsequent periods for actual experiences; while under Canadian GAAP forfeitures of awards could be recognized as they occurred.</p>	<p>Under IFRS 1, an entity has the option to apply IFRS 2 only to equity instruments granted after November 7, 2002 and which are unvested as at October 1, 2010. The Company applied this elective exemption upon adoption of IFRS on October 1, 2010.</p> <p>The application of IFRS 2 for stock-based payments for unvested equity instruments as at October 1, 2010 was a \$286,257 increase to the share-based payment reserve and a corresponding increase to deficit as at October 1, 2010.</p>	<p>The application of IFRS 2 during the 2011 fiscal year-end resulted in a \$189,700 increase in share-based payment reserve and a corresponding increase to deficit as at September 30, 2011.</p>
<i>Foreign Currency Translation</i>	<p>Under IAS 21, 'The Effects of Changes in Foreign Exchange Rates', an entity's functional currency is the currency of the primary economic environment in which it operates.</p> <p>The functional currency for the Company's foreign operation is translated to Canadian Dollars on consolidation using the current method whereby all assets and liabilities are translated at the closing rate at the end of the reporting period.</p> <p>Under Canadian GAAP, the Company classified its foreign</p>	<p>Under IFRS 1, an entity has the option to deem the cumulative translation gains or losses at the date of transition to IFRS to be zero.</p> <p>The Company applied the elective exemption upon adoption of IFRS. As a result, the deficit position increased by \$571,990 at October 1, 2010 and a corresponding decrease of \$569,921 to development costs and \$2,069 to capital assets were recorded to restate the opening deficit for cumulative translation losses as at October 1, 2010.</p>	<p>The application of IAS 21 during the 2011 fiscal year-end decreased development costs and capital assets by \$477,010 and \$2,315 respectively, increased the deficit by \$307,419, and decreased the foreign currency translation reserve by \$171,906.</p>

	<p>operations as integrated foreign operations and used the temporal method of translation whereby monetary items on the balance sheet were translated at the prevailing exchange rate at the end of the reporting period and nonmonetary items were translated at the exchange rates prevailing at the transaction dates.</p>		
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The Company's significant accounting policies have been disclosed in Note 4 of the consolidated financial statements.

Net loss and comprehensive Loss

The Net Loss for the year ended September 30, 2012 was \$5,318,365 compared to \$6,692,891 at September 30, 2011, a decrease of \$1,374,526 (20.5%). Adjusting for non-cash items the Net Loss at September 30, 2012 was reduced by \$2,287,710 to \$3,031,487 (44.5%) compared to \$5,462,142 in 2011.

Cash Flow Used in Operations

Cash flow used in operations for the year ended September 30, 2012 was reduced 75% to \$1,690,957 compared to \$6,692,627 in 2011. Revenues decreased \$554,776 while gross margin decreased \$375,072 for the year ended September 30, 2012. Margins declined due to higher costs occasioned by slower sales in Ontario and the conversion of European inverters to North American standards for sale to the US in order to liquidate inventories in advance of the introduction of our 3rd generation PARALEX STX inverter.

Sales and Gross Margin

Sales for the year ended September 30, 2012 were \$3,313,134 compared to \$3,867,910 for the year in 2011 a decrease of 14%. The reduction was attributable almost entirely to the moratorium on new solar projects imposed by the Ontario government immediately following its re-election on October 6 2011 and reduced sales to tenKsolar. Sales for the 4th Quarter were \$880,652. Cost of sales for the year ended September 30, 2012 were \$2,740,805 to yield a gross margin of \$572,329 or 17% of total revenues. Costs of sales for the 4th Quarter were \$751,230 and the margin was \$129,422.

Margins fluctuate from month to month based on utilization of component inventory. Also sales revenues included revenues on the resale of solar PV modules reducing the average margins. We expect margins to improve as we continue to reduce the cost of the inverter product through technological change and the realization of higher operating efficiencies under the restructured supply chain and manufacturing model.

Operating Costs

During the year ended September 30, 2012 we continued to cut fixed operating costs and we now have a fundamentally lower operating cost structure than one year ago.

- We reduced product research and development costs by \$137,034 from \$1,053,181 for the year ended September 30, 2011 to \$916,147 for the year ended September 30, 2012. The savings reflects completion of the core product platform and a shift in the engineering focus to product support and product cost reduction. Product research and development for the 4th Quarter was \$399,960.
- We reduced operating costs (manufacturing and logistics overhead) costs from \$1,709,276 for the year ended September 30, 2011 to \$963,409 for the year ended September 30, 2012. Operating costs for the 4th Quarter were \$113,293.

- We reduced general and administrative costs ("G&A" which include stock based compensation) by \$770,163 from \$2,416,577 for the year ended September 30, 2011 to \$1,464,414 for the year ended September 30, 2012. G&A expenses for the 4th Quarter were \$258,479. G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees investor relations fees and travel for all personnel.
- We reduced our investment in sales and marketing by \$1,402,062 to \$587,011 for the year ended September 30, 2012 compared to \$1,989,073 for the same period in 2011. Sales and marketing costs for the 4th Quarter were \$117,350. Reduced sales and marketing costs reduced market demand from Ontario solar market a decision to cease marketing in Europe and a shift towards a business development model to support our OEM strategy which requires fewer resources.

Amortization

Amortization of development costs was \$395,546 for the year ended September 30, 2012 compared to \$189,533 in the same period in 2011. All capitalized development costs relate to development of the core technology and the previous solar inverter platform incurred prior to 2003. Development of the STX inverter platform has not been capitalized but has been expensed in accordance with the Company's accounting policies. With the development of the STX platform, management determined to accelerate the rate of amortization of the development costs to 1/3 per year beginning in 2012

The amortization of capital assets for the year ended September 30, 2012 was \$62,734 compared with \$184,033 for 2011.

Financing Costs

A substantial portion of the financing costs recognized in the year are non-cash, in that the cost is accrued, but is not paid. The largest component represents 8% dividends on First Preferred Shares which are "accrued" and added to the redemption value of the Preferred Shares. In prior years the largest portion of non cash financing costs was the provision for the potential liability to compensate Energy Northwest for contributions made to the Company in developing its step wave power converter. In 2011 the amount recognized as financing costs was US\$1,350,000. Based on the development of the STX platform management determined that there was no possibility that the Company would be required to Energy Northwest amounts in excess of the minimum annual payment of \$7,000 which represents an amortization of the earlier contributions.

Accretion accrued for the preferred shares was \$2,304,469 for the year ended September 30, 2012 compared to \$1,945,055 for 2011. Interest accrued for the debenture issued in 2012 was \$30,739. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was \$260,303 compared to \$150,303 for the year ended September 30, 2011. Accretion of the obligation to repay government contributions to research and development was \$65,001 for the year ended September 30, 2011 by comparison to \$10,650 for 2011. Other interest charges for the year ended September 30, 2012 were \$28,220 compared to \$45,359 for 2011.

The cash paid out for interest was \$82,102 in fiscal 2012 compared to \$11,411 for 2011.

Accounting standards require that the Company treat a component of each series of First Preferred Shares as debt, since there is an obligation to redeem the First Preferred Shares 5 years after the date of issue. The amount of debt recognized on the balance sheet is determined by discounting the estimated payment of dividends and principal at a rate that reflects the yield that one might expect for a 5 year, 8% term preferred share issued by the Company without a conversion feature.

The Company issued debentures during the year and accounting standards require that the financial instruments be valued at fair value. This was done by using an effective interest rate of approximately 25%

for a 5 year term, bearing 3% interest per annum and a 0.8% royalty participation amount based on quarterly revenues.

Foreign Exchange

Our contract manufacturing is priced in U.S. dollars, as is the custom in the electronics industry but our sales are priced in Canadian dollars, Euros and US dollars. As a result we are exposed to fluctuations in the Canadian dollar value relative to the U.S. dollar and the Euro. We do not hedge these exchange risks and have no plans to do so until our volumes are more stable.

Summary of Quarterly Results

For the periods ended:

	2012				2011			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Sales	880,652	516,426	904,841	1,011,215	1,013,881	1,135,015	724,549	994,465
Net (loss)	(760,287)	(1,632,812)	(1,398,873)	(1,526,393)	(476,294)	(1,724,716)	(1,916,030)	(2,575,851)
Per share – basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Summary of Annual Information

	2012	2011	2010
Revenues	3,313,134	3,867,910	2,140,320
Net loss	(5,318,365)	(6,692,891)	(11,226,32)
Per share – basic and diluted	(0.03)	(0.04)	(0.07)
Total assets	5,084,388	6,920,693	6,953,433
Non-current liabilities	8,695,383	6,780,954	6,222,265
Declared dividends	-	-	-

* 2012 and 2011 are presented under IFRS. 2010 is presented under Canadian GAAP

Summary of expenses

The following tables set forth the breakdown of the major components of the various departments within the Company.

Product research and development

	2012	Fiscal 2011	Fiscal 2010
Employee Compensation	368,122	489,167	859,065
Consumables	44,091	105,624	648,197
Travel	14,508	14,427	31,538
Other	93,880	254,400	64,555
Amortization	395,546	189,533	-
Total	916,147	1,053,151	1,603,355

* 2012 and 2011 are presented under IFRS. 2010 is presented under Canadian GAAP

Operations

	2012	Fiscal 2011	Fiscal 2010
Employee Compensation	727,443	951,778	1,272,858
Consumables	24,618	169,165	111,037
Travel	8,472	59,546	129,074
Freight and storage	148,918	283,405	520,285
Other	53,958	245,382	155,529
Total	963,409	1,709,276	2,188,783

* 2012 and 2011 are presented under IFRS. 2010 is presented under Canadian GAAP

Sales and marketing

	2012	Fiscal 2011	Fiscal 2010
Employee Compensation	386,776	1,198,976	610,622
Travel	35,400	182,794	358,893
Marketing	74,068	408,787	563,006
Other	90,767	198,516	4,791
Total	587,011	1,989,073	1,537,312

* 2012 and 2011 are presented under IFRS. 2010 is presented under Canadian GAAP

General and administration

	2012	Fiscal 2011	Fiscal 2010
Employee Compensation	529,639	912,144	1,409,876
Stock based compensation	131,133	296,927	474,650
Travel	29,749	80,659	331,665
Bad debts	-	237,254	1,598
Rent	281,468	279,332	234,621
Audit & accounting fees	190,110	102,000	130,476
Patent attorney fees	-	113,115	28,450
Legal fees for financing	76,087	85,381	74,865
Other professional fees	40,874	33,750	98,301
Other	304,627	91,466	480,426
Amortization	114,969	184,549	-
Total	1,646,414	2,416,577	3,311,009

* 2012 and 2011 are presented under IFRS. 2010 is presented under Canadian GAAP

Liquidity and Capital Resources

Liquidity, as measured by working capital, was \$703,924 at September 30, 2012 by comparison to \$2,166,129 at September 30, 2011. The components comprise cash of \$256,104, finished product inventory totaling \$488,205 component inventory totaling \$2,223,799, prepaid expenses and deposits in the amount of \$168,587, which are mainly accrued finance costs and accounts receivables and advances in the amount of \$913,426. Accounts payable and accrued liabilities at September 30, 2012 were \$1,816,285 compared to \$1,568,471 at September 30, 2011. These are mainly owing to suppliers of components and sub-assemblies.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has secured an operating line with HSBC Canada in the amount of \$1.5 million. As of September 30, 2012 the Company's operating line was \$1,443,830. The loan is subject to certain covenants, including covenants to maintain certain financial ratios. Subsequent to year end the lender provided a forbearance letter waiving the covenant requirements for the period June to November 2012. After this date the lender has agreed to delete both covenant requirements for the operating line. Interest on the operating line will increase to prime rate plus 3% effective December 1, 2012.

In May 2012, the Company issued an additional 12,000,000 warrants as compensation for the Standby Equity Commitment at a price of \$0.05 per share for a period of one year. These warrants are subject to post consolidation conversion at 10-1.

50,000 Series 11 Preferred shares, 50,000 Series 12 Preferred Shares and subsequent to the consolidation of its share capital, 50,000 Series 13 Preferred Shares were issued to Doughty Hanson for total proceeds of \$1,500,000. Each of these Series matures five years and one day after issuance. The Series 11 Preferred shares are convertible at \$0.115, the Series 12 Preferred Shares are convertible at \$0.08 and the Series 13 Preferred Shares are convertible at \$0.40. The Series 7, 9, 10, 11 and 12 Preferred Shares are subject to post consolidation conversion at 10-1.

On June 29, 2012, the Company issued \$800,000 in 5-year subordinated debentures ("Debentures"), issued at an original issue discount of 12.5% to net the Company \$699,875. The debentures bear interest at a rate of 3% per annum, plus an amount equal to 0.8% of the consolidated revenues realized by the Company and are both payable on a quarterly basis during the term of the debenture. The Debenture is callable by the Company at par at any time after the second anniversary of issue. Purchasers of the debentures have also been issued a total of 2.8 million restricted common shares of the Company, which will be released on a quarterly basis over the 2 year period following issuance. The debentures are secured by a general security agreement. The principal amount of \$800,000 is repayable in 12 equal quarterly payments commencing 2 years after issuance.

Subsequent to year end the Company agreed to sell a non-exclusive manufacturing license to tenKsolar for a cash consideration of \$2.5 million to be paid \$1,750,000 on closing, \$500,000 on June 30 2013 and \$250,000 on December 31 2013. Closing was originally scheduled for December 19, 2012 but the Company has agreed to extend closing in exchange for payment of a non-refundable deposit of \$250,000. Under a Supply Contract entered into at the same time, tenKsolar also committed to take a minimum number of PARALEX inverters in the 2013 calendar year having a value of approximately \$2.9 million and has paid a deposit of \$319,000 to the Company.

On December 27, 2012 Doughty Hanson acquired 50,000 units at a price of \$10.0 per unit, each unit comprised of one 8% five year First Preferred Shares Series 13 convertible into Common Shares at a price of \$0.40 per share and 20, 5 year, common share purchase warrants exercisable at a price of \$0.50 per share.

Subsequent to year end, the Company agreed to issue a \$114,000 debenture to a director, at an original discount rate of 12.5% to net the company \$100,000, at the same terms as noted above. 399,000 restricted common shares will be issued under the terms of the debenture and will be released on the same basis as noted above. This transaction is subject TSX-V approval.

The Company has \$2,223,799 in component inventory all of which we expect to use in manufacturing. This represents long lead time inventory committed to prior to the slowdown in Ontario and based on forecast demand from customers and published by the Ontario Power Authority at the time.

The component inventory is paid for except for an amount of \$103,538 which we intend to retire fully by the end of the second quarter of fiscal 2013. We have \$488,205 in finished product inventory which we expect to be able to sell at current market prices in excess of this amount.

Energy Northwest Obligation

As a result of the shift to the STX inverter platform which will replace the current design, the Company has revalued the Energy Northwest Obligation to reduce the accrued amount by \$1,162,184 to \$90,600. The reduction represents a gain of \$1,071,584 in the year. The background to this is explained in note 9 to the Financial Statements

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises and equipment, which have been disclosed in the note 27 to the Financial Statements.

Related Party Transactions

Other than as disclosed elsewhere in the Consolidated Financial Statements, the Company had the following related party transaction:

Included in general and administrative expense is salaries and benefits for key management personnel and directors of \$365,297 (2011 - \$369,660) and share based compensation of \$14,775 (2011 - \$63,127). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of \$201,500 (2011 - \$199,375) and share based compensation of \$35,764 (2011 - 26,886).

Key management personnel and directors subscribed for \$69,000 of the debentures issued in June 2012 and received 55,200 bonus shares valued at \$2,760 as at September 30, 2012. Interest expense of \$2,651 has been included in financing costs related to these debentures.

Capitalization of Deficit

At the Company's Annual General and Special Meeting held August 21, 2012, the Shareholders approved a resolution to reduce the stated capital of the Common Shares of the Company by \$30,000,000 reducing the deficit by the same amount.

Consolidation Common Share Capital

At the Company's Annual General and Special Meeting held August 21, 2012, the Shareholders approved a resolution to reduce consolidate the common share capital in a ratio of up to 1 share for each 10 shares with the ratio determined by the Board of Directors. During December 2012 the Board of Directors determined that it would be in the best interests of the Company to consolidate Common Shares on a ratio of 1 new share for each 10 common shares held. This was made effective December 26 , 2012

Disclosure of Outstanding Share Data

As at January 28, 2013, 20,915,597 common shares and 1,026,587 First Preferred Shares convertible at the option of the holder into 8,178,078 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 2,219,200 common shares at an exercise price of \$3.00 per share, common share purchase warrants representing the right to acquire 809,643 common shares at \$2.00 and common share purchase warrants representing the right to acquire 2,450,000 at a price of \$0.50. As of January 28, 2013, , the Company had employee stock options outstanding entitling the holders thereof to acquire up to 1,559,372 common shares of which options to acquire common shares up to 1,149,372 had vested. The weighted average exercise price of the vested options is \$1.70 per share.

Risks and Uncertainties

Going Concern

The consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At September 30, 2012, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of \$22,752,518, after a reclassification of \$30,000,000 from share capital (2011 - \$47,434,153) and recognized a cash flow deficiency from operations at September 30, 2012 of \$1,690,957 (2011 - \$6,692,627). Whether and when the Company can attain profitability and positive cash flows is uncertain.

Although the lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern, the Company had a working capital surplus of \$703,924 at September 30, 2012 (2011 - \$2,166,119).

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by any accelerating loss of customers and any falling sales per customer. To address its financing requirements, the Company may seek financing through the sale of non exclusive license to use its technology the issuance of long term debt or the issuance of additional common shares or First Preferred Shares.

Operating Losses

We have a limited operating history. We are in the growth phase of our business and are subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability, and the need to raise additional funding. As is common with companies at this stage of development it is likely that marketing and operating costs will exceed net sales revenues during the product launch period. Our business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development, particularly companies in relatively new and evolving markets.

Market Acceptance

Market acceptance of our products represents a challenge for the Company. While the competitive advantages to the solar industry and the energy storage sector are material our small size and limited financial resources is a deterrent to customers. We are adjusting our strategy to address this risk through OEM, private labelling and/or licensing relationships which will provide better access to the market and alleviate customer concerns.

Dependency on Government Policies

Our business model is highly dependent on growth of solar power as part of the power supply in many different countries. In some markets demand for solar energy is still dependent on government pricing policies to reflect the different capital investment characteristics of renewable energy by comparison to pricing for grid supplied power which has an amortized cost base. If pricing policies change there is a risk that demand for our products would be materially affected.

A significant assumption of our business plan is growth in the demand for electronics to be used with distributed energy systems. Although industry forecasts are very optimistic these forecasts make many assumptions the most significant of which is that the cost of high efficiency batteries will decline quickly with continued investment. This may not occur in which event the energy storage industry will develop much more slowly than we anticipate reducing demand for our products and interest in our technology.

Even with continued high growth in the solar industry markets, and growth in the energy storage sector, demand for our products can be volatile and it is more difficult to predict the nature and scope of demand for our class of products than would be the case in a more mature environment. This makes it difficult to plan production to meet demand on a timely basis adding to the financial risk of the business. While our business model attempts to address these risks, there is no assurance that changes in market conditions will not adversely affect liquidity.

Competition and Technological Change

Because we are in a highly competitive market, we may not be able to compete effectively in these markets, and we may lose or fail to gain market share. We face a large number of competitors, many of whom are larger and have greater resources than us, and we expect to face increasing competition in the future. Our competitors may develop products based on new or proprietary technology that have competitive advantages over our products.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources than we do. Our competitors may enter into strategic or commercial relationships on terms that increase their competitiveness. These competitors may be able to respond more quickly to changing customer demand, and devote greater resource to developing, marketing, and selling their products than we can.

Our business model is also highly dependent on market acceptance of the value propositions for our technology. Even if we are successful in gaining market acceptance for our value propositions, there is always the possibility that one or more of our competitors will develop new technology which enables the same value propositions at the same or better cost than we are able to achieve and our business would be adversely affected. It is also possible that one or more of our competitors will attempt to copy our approach and challenge the validity of our patents. While we believe that our patents and other intellectual property are defensible, there is no assurance that a court will not find to the contrary, negatively impacting the value of Sustainable Energy.

Manufacturing Cost Targets

Our business model assumes that we will be able to use our low manufactured cost and our strategy of selling an electronics "engine" to penetrate target markets. Delays in reaching adequate rates and efficiencies in production could impair the profitability of our products. Our ability to produce products that are cost effective depends on reaching efficient production levels. In addition, our production process results in the wasting of materials and supplies which must be minimized to produce cost effective products.

The failure to reach adequate production levels and efficiencies would impair our ability to profitably market our products and would have a material adverse effect on our business, results of operation and financial condition. We cannot control the cost of our raw materials. Our principal raw materials are copper and steel. The prices for these raw materials are subject to market forces largely beyond our control and have varied significantly and may vary significantly in the future.

We may not be able to adjust our product prices, especially in the short-term, to recover the costs of increases in these raw materials. Our future profitability may be adversely affected to the extent we are unable to pass on higher raw material or reduce our costs to compensate for such changes.

Operation and Supplier Risk

At our stage of development, there is a greater than normal exposure to the risk that critical components will not be available on a timely basis, negatively impacting our ability to meet delivery commitment on sales contracts. Also, with new products there is also a greater risk of failures in quality control a risk that is increased by the limited resources of the Company. There is also a risk that long lead times for critical components may affect production lead times. Where possible, we address these risks by ensuring multiple sources and working closely with our suppliers through the demand planning cycle and actively monitor critical component suppliers and in some cases invest to secure longer lead time items.

Dependence on Customers

Our strategy depends heavily on the ability of our customers to develop markets for our products.. This risk is exacerbated by our strategy of focusing on applications where our technology makes a material difference to the outcome. This tends to limit the number of customers and in some cases bias the customer selection to new companies with emerging technologies or products which need our technology. We balance this risk by partnering closely on the demand planning, limiting our supply chain investment and securing financial commitments from our customers in the form of deposits and or letters of credit

Foreign Exchange

Most of our product sales are and will for the foreseeable future be made in Euros or in US dollars; whereas most of our production costs are incurred in US dollars. To date we have not hedged these transactions except in the form of cash deposits on sales and for the cost of production, and we have no immediate plans to do so. As a result there is a risk that margins will be reduced due to adverse changes in these currencies relative to the Canadian dollar.

While the risks of these actions are mitigated by our contract manufacturing strategy which enables us to easily change where we manufacture products there can be no assurance that the various government licenses and approvals or amendments thereto that from time to time may be sought will be granted at all or with conditions satisfactory to the Company or, if granted, will not be cancelled or will be renewed upon expiry or that income tax laws and government incentive programs relating to the Company's business, and the solar energy industry generally, will not be changed in a manner which may adversely affect the Company.

Attracting and Retaining Key Personnel

Our future prospects depend to a significant extent on the continued service of our key executives. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit and retain key management and engineering personnel. The competition for such employees is substantial and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel. If any of these events occur, it may have a material adverse effect on the business, financial condition and results of operations of the Company or the value of the Common Shares