



Management Discussion and Analysis

For The Six Months Ended March 31, 2012

The following discussion and analysis ("MD&A") as of May 30, 2012 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 period ended March 31, 2012.

Additional information relating to the Company including our Consolidated Financial Statements, MD&A, 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 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 size of the solar PV market and segments thereof as well as the size of the solar inverter market; statements concerning our production plans which make assumptions concerning manufactured costs, sales and average selling prices; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

Our conclusions concerning the size of our markets are based on certain critical assumptions and general conclusions concerning the future of the solar and energy storage industry, the market segmentation, emerging market dynamics and estimated factory gate prices for solar PV modules and inverters in our power ratings. These are described in greater detail in our Annual Information Return ("AIF") in respect of the fiscal period ending September 30, 2011 and dated January 30, 2011, which may be found on SEDAR at www.sedar.com and on our website.

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: HISTORY, VISION AND STRATEGY, AND CORE BUSINESS

A detailed overview of Sustainable Energy business, including a summary of our history, our core business and business strategy and the outlook and priorities for our business is provided in our MD&A dated January 30, 2012 for the fiscal year ended September 30, 2011 and in our Annual Information Form ("AIF") for that year. Our MD&A and AIF may be found, together with all our public documents, at www.sedar.com.

SIGNIFICANT NEW DEVELOPMENTS

During the 2nd Quarter, we completed development of the 3rd generation PARALEX inverter platform. The 3rd generation inverter consolidates 4 transformers on a single core using proprietary technology (patent pending) developed in collaboration with the University of Alberta. Designated "STX" (for single transformer) the 3rd generation platform is more efficient, has a lower mass and a lower manufactured cost than the 2nd generation platform. It also sets the stage for a further round of cost reduction later this year and development of a 3-phase inverter platform for higher power ratings.

On March 22, 2012, Ontario announced new and much lower feed in tariffs as expected to reflect lower module prices across the board. Our early analysis and early customer feedback is that the prices will sustain an active market in the Province, and we are seeing an increase in demand although reduced tariffs will put pressure on labor costs and installer margins resulting in some consolidation of the business.

The Ontario market remains stalled as the Ontario Power Authority develops its responses to comments on the new rules. The Minister of Energy has committed to 50MW of microFIT installations during calendar 2012, and expectations are the final rules will be published in May 2012.

We responded to the anticipated feed in tariff reduction by creating ProFAB, a factory assembled 10kW package for ground mounted micro-FIT projects manufactured under a Sustainable Energy controlled joint venture of the same name between the Company and Steeltree Structures, an Ontario based supplier of prefabricated structural housing components.

Each ProFab system will consist of prefabricated racking and all other DC side components, including, in most cases, solar PV modules and the PARALEX inverter, which are pre-assembled and pre-certified in the factory to meet Ontario safety standards. The value of the ProFAB system lies in a material reduction in on site labor costs and reduction of logistical risks. Customer response to ProFAB has been very positive. Since announcing ProFAB on April 18 2012, we have responded to requests for quotations totaling more than \$5 million in potential orders. We expect to convert much of this interest to purchase orders as soon as the Ontario Power Authority releases the final rules for new systems.

On April 25, 2012, our largest customer, tenKsolar, announced a global strategic partnership with Korea's Hanwha Group for tenKsolar's high efficiency RAISWAVE solar PV system for commercial and institutional rooftops. The partnership creates a global footprint for the PARALEX enabled RAISWAVE system, which delivers up to 60% more energy per square foot. Hanwha has already begun marketing the RAISWAVE system in Japan with tenKsolar, and we are currently in the process of certifying the 3rd generation PARALEX inverter for Japan. According to last month's PV Magazine, tenKsolar is projecting 100 – 150 MW in production capacity during 2013.

On May 17, 2012, the U.S. Commerce Department announced preliminary antidumping duties on the "Import of Solar Panels made with Chinese Cells." The duties range from 31% to 250% percent, depending on the manufacturer. We believe that the ruling will be positive to US based tenKsolar, which uses solar cells produced in the United States, Taiwan and Korea providing it with a non-quantifiable competitive advantage in the US market. Since the PARALEX inverter is critical to tenKsolar's cost and performance targets, the ruling should be positive to Sustainable Energy.

MANAGEMENT'S DISCUSSION OF OPERATIONS

Product sales revenues for the 6 month period ending March 31 2012 were \$1,906,569 compared to \$1,704,030 for the six months in 2011 an increase of 12%. Based on customer forecasts as of today the Company is on track to generate approximately \$1.05 million in revenues during the current Quarter.

Whereas in 2011 virtually all our products were shipped to Ontario markets this has reversed with more revenue attributable to sales to tenKsolar or Stuart C Irby, its principal distributor for US markets. Year to date we have shipped 816 units under the announced Supply Contract with tenKsolar for an estimated 4,600 units.

Revenues for the 2nd Quarter were \$904,841 down from the expected \$1.1 million for the Quarter. This was due mainly to delays in shipping inverters to Stuart Irby during the final weeks of March. We continue to cut operations overhead. Operating costs for the 6 month period ending March 31, 2012 were 41% lower than the previous year at \$2,278,424. Operating costs for the 2nd Quarter were at \$992,006 , 41% less than in Q1 2012. Cash flow used in operations for the period was reduced by 68% to \$1,173,438 compared to \$3,756,014 for the same period in 2011.

The second Quarter saw completion of a year-long process where we systematically restructured operations to lower our breakeven point and to become more focused on responding to a rapidly changing competitive environment. Our business development and marketing plans have now been crystallized for success with short, mid, and long term strategic targets. Our strategy is specific to targeted customers, integrated packages and emerging technologies. Each segment is driven on its own set of metrics and managed by the executive team.

Our supply chain has been restructured to a build products based on assemblies of a series of outsourced subassemblies to allow maximum flexibility and reduce system inventory risk. A tiered partnership approach allows the company easy access to additional capacities in any growth region. The sub assembly model reduces skilled labor requirements while improving turn-time and increasing quality.

The financial investment in inventory is now properly spread throughout the supply chain allowing Sustainable Energy to execute production capabilities with significantly less up-front investment. Our operations management structure has been built with a stronger experience base in sales and operations planning to properly balance inventory and financial investment with emerging demand and product patterns. Our engineering team is now focused on market driven technology and uses expert partnerships to develop and commercialize cutting edge products.

Our investment in the tenKsolar relationship is poised to provide significant upside returns. We believe the RAISWAVE product is a significant breakthrough in the solar power delivery model as witnessed by the strategic global partnership with Korean industrial giant Hanwha Corporation.

With a recovery of the Ontario market, we expect sales of ProFAB to contribute much higher margins to our bottom line – a key strategic objective.

Based on customer forecasts and a maturing pipeline, we are in a position to achieve profitability within the next two Quarters. Our strategy is now very focused on building partnerships in three core areas:

- We are putting most of our resources into developing relationships where our technology leverages the technology advantages of our customers to drive higher volumes and where our partners carry the sales and first line customer support responsibilities. tenKsolar is an example of this kind of relationship.
- We are also investing resources to create relationships where our technology advantages add measurable cost, logistical or system performance driven value. ProFAB is an example.
- We are following closely the developments in the energy storage market, where we have material cost and efficiency advantages and a market ready product. We expect to put more resources behind this effort once the Company achieves profitability.

In summary, the Company is in better shape fundamentally than it has ever been. Short term liquidity remains the major risk to achieve the growth expected of the Company. We are pursuing avenues to address this situation in a difficult market without undue dilution of our shareholder equity. Although we are optimistic that we will achieve our goals, this remains the single most important risk facing the Company.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES OR CHANGES UNDER IFRS

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

As disclosed in note 2 to the March 31, 2012 condensed interim consolidated financial statements, the financial statements represent the Company's presentation of the financial performance and financial position under IFRS for the period ended March 31, 2012 in conjunction with the Company's annual consolidated audited financial statements issued under IFRS as at and for the year ended September 30, 2011. As a result, the interim condensed consolidated financial statements have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards and with IAS 34, Interim Financial Reporting, as issued by the IASB. Previously, the Company prepared its interim and 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 24 to the condensed interim consolidated financial statements provide information about the transition from pre-transition 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.</p> <p>Instead IFRS 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 January 1, 2010. The Company applied this elective exemption upon adoption to IFRS on January 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 decrease to deficit as at October 1, 2010</p> | <p>The application of IFRS 2 during the 2011 fiscal year-end resulted in a \$96,557 decrease in share payment reserve and a \$96,557 increase to the net loss for the year and 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 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> | <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 to IFRS. As a result a \$571,990 decrease to deficit at October 1, 2010 and a corresponding decrease of \$569,921 to development costs and \$2,069 to capital assets were recorded to restate opening deficit for cumulative translation losses as at October 1, 2010.</p> | <p>The application of IAS 21 during the 2011 fiscal year-end decrease in development costs of \$477,010, \$2,315 decrease capital assets, \$307,419 decrease in the deficit, and negative \$171,906 addition to foreign currency translation reserve.</p> |

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

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

Net loss and comprehensive Loss

The Company reduced its Net Loss for the quarter ended March 31, 2012 by \$659,537 (34% to \$1,256,493 from \$1,916,030 for the quarter ended March 31, 2011. Adjusting non-cash items the Net Loss for the 2nd Quarter was \$811,101 by comparison to \$1,648,660 for the Quarter in 2011. The Net Loss for the six months ended March 31, 2012 was \$2,826,568 compared to \$4,479,144 at March 31, 2011, a decrease of \$1,652,576 (37%). Adjusting for non-cash items the Net Loss at March 31, 2012 was \$1,863,172 compared to \$3,447,479 in 2011, a decrease of \$1,584,307 (46%).

Revenue and Gross Margin

Revenues for the quarter ended March 31, 2012 were \$904,841 compared to \$724,549 for 2011 and increase of 25%. Revenues for the six months ended March 31, 2012 were \$1,906,569 compared to \$1,704,030 for the six months in 2011 an increase of 12%. Whereas 68% of sales in 2011 were for domestic markets 81% of sales for 2012 were for export markets.

Total costs of sales for the quarter ended March 31, 2012 were \$724,412 to yield an overall gross margin of \$180,429 or 20% of total revenues. Cost of sales for the six months ended March 31, 2012 were \$1,491,317 to yield a gross margin of \$415,252 or 22% of total revenues. 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. As noted earlier, 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 6 months ended March 31 2012 we continued to cut fixed operating costs

- We reduced engineering and product development costs by \$26,250 from \$402,162 for the six months ended March 31, 2011 to \$375,912 for the six months ended March 31, 2012. The savings in the 2nd Quarter ended March 31, 2012 was \$112,818 compared to the same period in 2011. The savings reflects completion of the core product platform and a shift in the engineering focus to product support and product cost reduction.
- We reduced manufacturing and related operating costs from \$852,235 for the six months ended March 31, 2011 to \$584,368 for the six months ended March 31, 2012. The savings for the 2nd Quarter ended March 31, 2012 was \$62,393 compared to the same period in 2011.
- We reduced general and administrative costs including stock based compensation by \$456,989 from \$1,424,179 for the six months ended March 31, 2011 to \$967,190 for six months ended March 31, 2012. The reduction for the second quarter ended March 31, 2012 was \$99,236. General and administrative ("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 \$843,149 to \$350,954 for the six months ended March 31, 2012 compared to \$1,194,103 for the same period in 2011. The reduction in the second quarter ended March 31, 2012 was \$432,964 compared to the same period in 2011.

Amortization

Amortization of development costs was \$95,263 for the six months ended March 31, 2012 compared to \$93,998 in the same period in 2011. The amortization of capital assets for the six months ended March 31, 2012 was \$64,891 compared with \$90,566 for 2011.

Financial Costs

Most of the financial costs recognized in the year are non-cash, in that the cost is accrued, but is not paid. Non cash interest reported in respect of the Energy Northwest Obligation was \$127,211 for the six months ended March 31, 2012. There is no agreement on whether interest should be compounded or calculated on a simple interest basis. Although we have legal advice that the interest payable is calculated as simple interest, the matter is not entirely free from doubt and we have chosen to show the higher amount until the issue is resolved and this does not reflect an acknowledgement on our part that the higher amount is payable.

Calculated on a simple interest basis, the interest accrual to Energy Northwest would have been \$13,354 for the six months. Calculated on a simple interest basis, the current amount owing to Energy Northwest at March 31, 2012 was approximately \$505,359 by comparison to \$1,396,920 if interest is compounded.

In addition, Energy Northwest is entitled to a royalty equal to 1% of revenues realized by SEL in respect of the sale of products incorporating the intellectual property developed under the agreement. SEL has licensed the intellectual property to SES and STGLP in exchange for a royalty equal to 4% of gross sales revenues realized by them. SEL does not however have product sales and no royalty is accrued. Were a royalty to be accrued it would represent 0.04% of gross sales realized by the Company.

Dividends accreted on the First Preferred Shares were converted to common shares on the conversion of Series 7 Class B Preferred shares during the six months. This conversion amounted to \$2,659 and was charged to financing costs.

Accounting standards require that the Company treat the several series of First Preferred Shares as debt, since there is an obligation to redeem the First Preferred Shares in cash 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.

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

As at March 31, 2012:

| | 2012 | | 2011 | | | | 2010 | |
|---------------------|-------------|-------------|-----------|-------------|-------------|-------------|-------------|-------------|
| | Qtr 2 | Qtr 1 | Qtr 4 | Qtr 3 | Qtr 2 | Qtr 1 | Qtr 4 | Qtr 3 |
| Revenues | 904,883 | 1,021,225 | 2,902,766 | 1,135,015 | 725,016 | 1,003,296 | 737,968 | 829,667 |
| Net (loss) | (1,180,494) | (1,570,074) | (720,037) | (1,749,445) | (2,044,125) | (2,602,712) | (2,667,639) | (2,781,096) |
| Per share – basic | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) |
| Per share – diluted | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) |

*Only Q1 and Q2 2012 are calculated under IFRS. The remaining quarters are calculated under Canadian GAAP

Summary of Annual Information

| | 2012 | 2011 | 2010 |
|-------------------------|-------------|-------------|-------------|
| Revenues and Gains | 1,916,620 | 5,766,093 | 2,140,320 |
| Net (loss) | (2,684,082) | (7,116,319) | (11,226,32) |
| Per share – basic | (0.01) | (0.04) | (0.07) |
| Per share – diluted | (0.01) | (0.04) | (0.07) |
| Total assets | 6,082,253 | 7,400,018 | 7,525,423 |
| Non-current liabilities | 0 | 0 | 0 |
| Declared dividends | 0 | 0 | 0 |

The 2012 revenue (representing six months) is comprised of \$1,906,569 product sales and \$10,051 interest and other revenue. The 2011 revenue (representing 4 Quarters) is comprised of \$3,867,910 product sales, \$1,887,074 gain on preferred shares and \$11,109 interest and other revenue.

Summary of expenses

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

Product development

| | 2012 | Fiscal 2011 | Fiscal 2010 |
|--------------------------|---------|-------------|-------------|
| Salaries and consultants | 221,766 | 489,167 | 859,065 |
| Consumables | 19,065 | 105,624 | 648,197 |
| Travel | 9,258 | 12,261 | 31,538 |
| Other | 30,560 | 130,696 | 64,555 |
| Amortization | 95,263 | - | - |
| Total | 275,912 | 737,748 | 1,603,355 |

*Only 2012 is calculated under IFRS and represents the six month period ended March 31, 2012. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Operations

| | 2012 | Fiscal 2011 | Fiscal 2010 |
|--------------------------|---------|-------------|-------------|
| Salaries and consultants | 425,442 | 947,369 | 1,272,858 |
| Consumables | 22,540 | 21,844 | 111,037 |
| Travel | 5,333 | 59,430 | 129,074 |
| Freight and storage | 105,070 | 403,939 | 520,285 |
| Other | 25,983 | 171,671 | 154,900 |
| Total | 584,368 | 1,604,253 | 2,188,783 |

*Only 2012 is calculated under IFRS and represents the six month period ended March 31, 2012. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Sales and marketing

| | 2012 | Fiscal 2011 | Fiscal 2010 |
|--------------------------|---------|-------------|-------------|
| Salaries and consultants | 216,465 | 1,184,809 | 610,622 |
| Travel | 23,990 | 182,794 | 358,893 |
| Marketing | 62,447 | 408,787 | 563,006 |
| Other | 48,052 | 198,516 | 4,790 |
| Total | 350,954 | 1,974,907 | 1,537,312 |

*Only 2012 is calculated under IFRS and represents the six month period ended March 31, 2012. Fiscal 2011 and 2012 are calculated under Canadian GAAP

General and administration

| | 2012 | Fiscal 2011 | Fiscal 2010 |
|--------------------------|---------|-------------|-------------|
| Salaries and consultants | 191,785 | 912,144 | 1,409,876 |
| Stock based compensation | 45,484 | 393,483 | 474,650 |
| Travel | 15,850 | 80,659 | 331,665 |
| Bad debts | - | 237,254 | 1,598 |
| Rent | 134,624 | 279,332 | 234,621 |
| Audit & accounting fees | 188,348 | 102,000 | 130,476 |
| Patent attorney fees | - | 113,115 | 28,450 |
| Legal fees for financing | 35,944 | 85,381 | 74,865 |
| Other professional fees | - | 33,750 | 98,301 |
| Other | 290,264 | 223,073 | 480,426 |
| Amortization | 64,891 | - | - |
| Total | 967,190 | 2,460,191 | 3,311,009 |

*Only 2012 is calculated under IFRS and represents the six month period ended March 31, 2012. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Cash Flow Used in Operations

Cash flow used in operations for the six months ended March 31, 2012 was \$1,173,438 compared to \$3,756,014 for the same period in 2011 a reduction of 68%. Revenues increased \$202,539 while gross margin decreased \$9,948 for the six months ended March 31, 2011. Revenues for the three months ended March 31, 2012 were \$904,481 compared to \$ 724,549 in 2011 and the gross margin was \$180,429 compared to \$50,2814 in 2011.

Liquidity and Capital Resources

Liquidity, as measured by working capital, was \$1,519,214 at March 31, 2012 by comparison to \$1,970,327 at September 30, 2011. The components comprise cash and cash equivalents of \$189,522 finished product inventory totaling \$700,736 component inventory totaling \$2,593,077, prepaid expenses and deposits in the amount of \$82,775 which are mainly with component suppliers and accounts receivables and advances in the amount of \$1,165,520. Accounts payable and accrued liabilities at March 31, 2012 were \$1,434,032 down from \$1,641,421 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 March 31, 2012 the Company's operating line was \$1,499,000. The loan is subject to certain covenants, including covenants to maintain certain financial ratios. There is uncertainty concerning the calculating the ratios and the Company was not in compliance on March 31 2012 but this has been waived by HSBC. The Company is negotiating clarification of certain ratios and changes as required to ensure compliance.

The Company secured a second Standby Equity Commitment with Doughty Hanson for \$1,500,000 in October 2011. At this time there have been 50,000 Series 11 Preferred shares and 50,000 Series 12 Preferred Shares issued for total draw-downs of \$1,000,000 Each Series matures five years and one day after issuance. The Company issued 6,347,826 additional warrants as compensation for the Standby Equity Commitment at a price of \$0.115 per share for a period of one year. The Series 11 Preferred shares are convertible at \$0.115. In approving the issue the TSX Venture Exchange requires that The Series 12 Preferred Shares be convertible at \$0.10 unless the Company takes action to enable it to consolidate its share capital on a 1:10 basis before December 31 2012 in which event they are convertible at \$0.08 per share.

The Company will seek authority at the next Annual General and Special Meeting of the Shareholders to make the consolidation if it determines at the time it is in the best interests of the Company to do so. This will not necessarily lead to consolidation as there are other options to compensate Doughty Hanson for the higher exercise price in the event the consolidation does not take place. The Company does believe that it may be in the best interests to effect a consolidation of the shares in the future in order to expand the shareholder base in other markets but also understands the pitfalls of a consolidation if it is not executed properly and under the right circumstances.

We have \$2,593,077 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 published by the Ontario Power Authority at the time. The component inventory paid for except for an amount of \$129,550 which we intend to retire fully before the end of the year. We have \$700,736 in finished product inventory which we expect to be able to sell at current market prices in excess of this amount.

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 notes 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 administration expenses is remuneration and fees for key management personnel and directors. For the three month and six month period ending March 31, 2012, the Company has expensed \$143,016 and \$290,058 respectively as salary and \$7,223 and \$24,588 respectively as salary based compensation.

Revenue and expense transactions are in the normal course of operations and have been valued in these consolidated financial statements at fair value.

Disclosure of Outstanding Share Data

As at May 30, 2012, 206,355,809 common shares and 976,586 First Preferred Shares convertible at the option of the holder into 69,280,778 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 22,192,000 common shares at an exercise price of \$0.30 per share were issued and outstanding. Common share purchase warrants representing the right to acquire 8,096,429 common shares at \$0.20 were issued and are outstanding as of the date hereof. Also, 1,063,500 warrants at \$0.14 and additional warrants to acquire 6,347,826 common shares at \$.0115 were issued and are outstanding. As of May 30, 2012, the Company had employee stock options outstanding entitling the holders thereof to acquire up to 16,968,724 common shares of which 11,406,224 options to acquire common shares had vested. The weighted average exercise price of the vested options is \$0.18 per share.

We have indicated that we will seek approval from the shareholders to allow management to consolidate common share capital up to 1 share for 10 shares, where it deems it in to be in the best interests of the shareholders.

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 March 31, 2012, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of \$50,329,677 (2011 - \$44,656,522) and recognized a cash flow deficiency from operations at March 31, 2012 of \$1,173,438 (2011 - \$3,756,014). 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 \$1,519,214 at March 31 31, 2012 (2012 - \$4,454,767).

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 will seek financing through the issuance of long term debt to avoid undue dilution of the shareholder equity. If it is not successful it may be necessary to issue common shares additional First Preferred Shares or Units of STG Markets Limited Partnership. The outcome of these matters cannot be predicted at this time. Subsequent to September 30, 2011, the Company received a cash inflow of \$1,000,000 for the issuance of 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 there is widespread acceptance of the core value proposition of module power optimization for the solar power industry, the advantages of our approach to power optimization are not well known and 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 in the solar power industry which is in turn still dependent on continuing government support for the industry for the foreseeable future although in many markets around the world solar electricity has a comparable cost to grid pricing – a phenomenon known as grid parity which will reduce such dependence. In particular, our business model assumes that much of the growth in this industry will be for rooftop and building integrated solar power systems. In the near term, this is dependent on the structure of the incentives continuing to support these systems. If these incentives were removed or materially changed before the cost of solar electricity becomes competitive with other energy sources, the demand for our products would be materially affected.

Even with continued support for solar PV and continued high growth in the solar industry markets, 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 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.

Currently, we outsource our production to a single contract manufacturer and there is a risk that it will not perform on its contractual obligations. There is also a risk that long lead times for critical components may affect production lead times.

Where possible, we address these risks through contract frustration insurance. We also actively monitor critical component suppliers to the contract manufacturer and in some cases invest to secure longer lead time items.

At this stage of our development we have greater exposure to financial loss due to a concentration of customers. This risk is exacerbated by our business strategy which is to develop multi-year multi-megawatt contracts with a few leading market players. We have in the past obtained contract frustration insurance and for Export Development Canada to protect against premature cancellation of the contract or failure to pay for product when due and we intend to continue to do so wherever possible. We also structure our supplier purchase contracts to ensure that we are not over committed to purchase products.

We intend where possible to finance a portion of our product inventory commitments with operating lines of credit. It is our intention wherever possible to obtain contract frustration insurance and to balance the production and sales so as to mitigate the financial risk to the Company to the greatest degree possible. It is possible that we will not be able to obtain such insurance in all cases or that the insurance may not fully cover the exposure to loss. Should this happen there is the potential for financial loss to the Company.

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.