



Management Discussion and Analysis For The Six Months Ended March 31, 2013

The following discussion and analysis ("MD&A") as of May 28, 2013 should be read in conjunction with the Interim Consolidated Financial Statements of Sustainable Energy Technologies Ltd. ("Sustainable", "Sustainable Energy" or the "Company") and notes for the period ended March 31, 2013.

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 distributed energy storage market; statements concerning the advantages of our products and technologies which make assumptions concerning manufactured costs, statements concerning 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 the addressable energy storage market are based on certain critical assumptions and general conclusions concerning the future of the solar PV 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, 2012 and dated January 28, 2013, 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's business, including a summary of our history, business strategy, industry outlook, and core business is provided in the Management Discussion and Analysis ("MDA") and Annual Information Form ("AIF") for the financial year ended September 30, 2012. Our MDA and AIF may be found, together with all our public documents, at www.sedar.com.

SIGNIFICANT DEVELOPMENTS

Distributed Energy Storage

On May 1, 2013, Germany implemented a package of financial incentives for residential solar energy storage and is expected to install 2 Gigawatts by 2017 according to London based IHS Research which is predicting a \$19 billion annual global market by 2017.

During Q2, we executed our first major transaction in the energy storage market, securing a contract to supply inverters to Prosol Invest Deutschland GmbH ("Prosol") for its market leading Sonnenbatterie residential solar energy management system. We have since negotiated and completed definitive license and supply contracts, which were announced May 16, 2013.

We are delivering the critical power electronics and transformer sub-assemblies, which are then integrated into Sonnenbatterie products by Prosol at Prosol's factory in Bavaria. Our inverters are supporting single phase and three phase products in power ratings from 2kW to 15kW, which can then be economically combined to support up to 100 kilowatt hours of energy storage.

Prosol supplied approximately 50% of solar energy storage systems in Germany in 2012, and is forecasting an estimated 40% share of the German market, based on a strong product design and material cost advantages over competitive products as well as strong partners including two of Europe's largest power companies: E.ON and RWE; by Diehl Controls, a large power supply company; by Juwi, one of Germany's largest renewable energy companies and by Japan's Kyocera, a global electronics products company.

During Q2 we also began shipping inverters to a Fortune 500 technology company for a micro-grid demonstration using an advanced battery technology. Customer feedback has been positive, in terms of lower cost, higher efficiencies, and ease of integration with the batteries which is due to our design philosophy and open industry standard controls architecture.

Over the past 16 weeks the level of interest in our product platform has accelerated especially from battery manufacturers, developers of new battery technologies and integrators of micro-grids as well as from competitive inverter companies. Every engagement has positively reinforced our confidence in the value of our technology.

Outlook

The bottom line contribution from the Prosol agreement will be substantial

Market values for energy storage inverters and related electronics are estimated to range from \$0.30/watt at the low end to more than \$0.70/watt depending on volumes power ratings and the level of system complexity.

Conservatively, if Prosol obtains only a small part of its projected ~40% share of the German market, revenues to Sustainable Energy will be substantial. Product margins are expected to be above 40% and our OEM strategy means that there is little in variable costs resulting in an excellent bottom line contribution. Significantly, we have structured our supply chain and the agreements with Prosol so that no new working capital, other than component inventory on hand, is needed to ramp production.

Prosol also positions us to make our low voltage platform an industry leader in a multi-billion dollar market.

Power electronics for low voltage energy storage are proving to be a more significant technological challenge than expected, requiring complex multi-component solutions that add cost, impact efficiency and increase the storage required to serve a basic load. Only a very few competitive products exist in the market and there have been multiple product recalls and delayed availability announcements in the past few months

Our proven bi-directional low voltage platform simplifies system design, reduces system component count, and eliminates multiple conversions to reduce system cost, increase system efficiencies, and meets tough VDE 4105 smart grid connectivity standards at a fraction of the cost of competitive products.

We believe that we have the opportunity to replicate the Prosol OEM partnership with one or more partnerships for the Japanese market by the end of CY'13. Japan is expected to be an even larger than Germany before the end of the year driven by aggressive support for solar and concerns about energy stability due to a faltering nuclear industry.

Our view on the US is more tentative as that market is more fragmented, with limited visibility on how that market will define itself. At this juncture we believe that near term US demand will come from integrators of micro-grids for military and remote industrial applications – telecommunications, oil and gas and mining – where solar is being used to displace diesel fuel. In this application, the energy storage inverter is used to provide grid stability and load balancing to optimize the solar and diesel combination. In this application the same values of design simplicity, lower cost ease of integration and higher efficiencies for smart grid applications will that make our energy storage inverter a market leader.

Our goal in the US is to embed our inverter in the product development process of battery manufacturers and integrators of micro-grids in the expectation that these relationships will lead to longer term supply contracts as the market defines itself.

Strategy

We believe that we can lever the technology advantage by coupling it with a very competitive OEM model that delivers only the core electronics and firmware into the final consumer product.

Our goal is to embed our platform in multiple product applications in multiple markets as the solar energy storage market takes off. Our customers will be (i) battery manufacturers looking to deliver a value added solution to multiple energy management system integrators and (ii) energy management system integrators like Prosol looking to build their solutions around a low cost platform that is easily adapted to new battery technologies as they emerge.

Unlike the solar market, where inverters are sold as separate products, and systems are pieced together by local installers, the evidence is that energy storage systems will be sold as fully integrated consumer oriented products and easily installed in basements by mainstream building trades. Brand names and strong customer support networks that are needed for conventional distribution will be irrelevant in this application.

With technology driven performance and cost advantages in a commercially proven platform we create a difficult entry barrier for emerging competitors. Our low cost OEM structured model allows our target customer base to create and deliver their own proprietary value added products to the

We are uniquely able to do this because of our proprietary technology advantage and our design philosophy to create a technology agnostic platform (fuel cells, solar PV and batteries) as a sub-assembly which could be integrated into a finished product. A key part of this philosophy was to build the platform on an "open" model using industry standard communications protocols which would allow the OEM partner maximum control over inverter functionality during his product design process. This is also unique.

The result to the OEM partner is lower cost, greater reliability and faster speed to market with product iterations. When we have Japanese certification we believe we will also have the only platform that is certified for use on all the major markets, enabling a global product solution for OEM partners.

Conventional Solar PV

In line with our announced strategy, we have refocused sales and marketing resources towards energy storage and towards only those solar applications where there is a clearly defined and technology driven advantage which can be converted into long term OEM style supply contracts. The result is that inverter sales through conventional distribution have been terminated, except to service existing customers.

We continue to work with Solar Frontier to develop a model to integrate our low voltage inverter with their high efficiency thin film module. The focus of this effort has shifted to Japan and awaits certification of the STX inverter. This process is underway albeit more slowly than originally anticipated and we now expect certification within the next Quarter. We continue to believe that this remains an extraordinary opportunity given the orientation of Solar Frontier to Japan and the significance of the residential component in the Japanese market.

tenKsolar has not taken committed volumes under the Supply Contract negotiated in December 2012 due to adverse market conditions affecting tenKsolar sales. The Supply Contract has been terminated and we have retained tenKsolar's deposit. We are negotiating an arrangement under which tenKsolar can use up our surplus inventory on hand for its systems. At this juncture we do not have visibility on any demand from tenKsolar beyond the current surplus inventory.

Management Discussion of Operations

We used 2012 to increase our operating efficiencies reducing our break-even point and allowing us to move quickly to profitability as sales from Prosol materialize.

We reduced operating costs during the last six months from \$584,368 in 2012 to \$384,644 this year. We reduced G&A over the same period from \$816,887 in 2012 to \$672,769. Our change in strategy enabled us to reduce selling and marketing costs to \$239,924 compared to \$350,954 in 2012. Only product research and development is up marginally from \$375,912 in 2012 to \$445,805 for the six months ending March 31, 2013.

As expected, product sales were down materially from \$1,906,569 for the first six months in 2012 to \$116,929 this year. Disappointing demand from tenKsolar, which failed to meet its minimum commitments, contributed to reduced sales. We do not expect sales to recover until the quarter ending September 30 2013, when we will begin shipping to Prosol under our announced contract.

We reduced cash flow used in operations during the first six months by 34% to \$786,131 by comparison to \$1,190,055 in 2012. Cash used in operations during Q2 was \$898,585.

Management Discussion of Financial Results

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES

The Company's significant accounting policies have been disclosed in note 4 of the annual audited 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.

Net loss and comprehensive Loss

The Net Loss for the quarter ended March 31, 2013 was \$1,276,247 compared to \$1,456,916 at March 31, 2012, a decrease of \$180,669 (12%). Adjusting for non-cash items the Net Loss at March 31, 2013 decreased by \$149,768 to \$369,210 (29%) compared to \$518,978 in 2012. The Net Loss for the six months ended March 31, 2013 was \$2,916,098 compared to \$2,983,289 at March 31, 2012, a decrease of \$67,191 (2%). Adjusting for non-cash items the Net Loss for the six months ended at March 31, 2013 decreased by \$191,285 to \$1,180,711 (20%) compared to \$1,371,996 in 2012.

Cash Flow Used in Operations

Cash flow used in operations for the quarter ended March 31, 2013 was \$898,585 compared to a cash deficit of \$390,578 in 2012. This represents an increase of \$508,007 or 130%. Cash flow used in operations for the six ended March 31, 2013 was \$786,131 compared to a cash deficit of \$1,190,055 in 2012. This represents a decrease of \$403,924 or 34%.

Sales and Gross Margin

Sales for the quarter ended March 31, 2013 were \$46,768 compared to \$904,841 for the same quarter in 2012. Sales for the six months ended March 31, 2013 were \$116,929 compared to \$1,906,569 for the same period in 2012. The decline in sales was due primarily to our decision to focus our resources on securing a position in the solar energy storage market which has been successful.

Cost of sales for the quarter ended March 31, 2013 were \$11,110 to yield a gross margin of \$35,658 or 76% of total revenues. The high percentage margin for the quarter reflects relatively minor one-time inventory adjustments which have an exaggerated impact with low volume sales. Cost of sales for the six months ended March 31, 2013 were \$78,310 to yield a gross margin of \$38,619 or 33% of total revenues.

We expect margins on products to be delivered under the Prosol and other contracts to be above 40% and we believe that we can increase this by locating product assembly close to Prosol in Germany. With our change in strategy we do not expect to incur significant variable costs of sales in the future. The result will be a much better contribution to the bottom line.

Operating Costs

During the six months ended March 31, 2013 we continued to cut fixed operating costs and we now have a fundamentally lower operating cost structure than one year ago.

- We reduced operating costs (manufacturing and logistics overhead) costs from \$305,344 for the quarter ended March 31, 2012 to \$178,650 for the quarter ended March 31, 2013. For the six month period six months ended March 31, 2013, operating costs were reduced from \$584,368 for the six months ended March 31, 2012 to \$384,644.

- General and administrative costs (“G&A”) (which include stock based compensation) increased by \$7,979 from \$375,505 for the quarter ended March 31, 2012 to \$383,484 for the quarter ended March 31, 2013. 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. G&A for the six ended months March 31, 2013 was reduced by \$144,118 from \$816,887 for the same period in 2012 to \$672,769.
- We reduced our investment in selling and marketing by \$40,064 to \$98,265 for the quarter ended March 31, 2013 compared to \$138,329 for the same period in 2012. Sales and marketing for the six months ended March 31, 2013 were cut by \$111,030 to \$239,924 compared to \$350,954 for the same period in 2012. This reflects a shift towards a business development model to support our OEM strategy which requires fewer resources.
- Product research and development costs for the quarter ended March 31, 2013 were up slightly by \$48,242 to \$203,487 from \$155,245 for the quarter ended March 31, 2012. Product research and development costs increased by \$69,893 from \$375,912 for the six months ended March 31, 2012 to \$445,805 for the six months ended March 31, 2013. The increase reflects increased investment in product certification in North America and Japan.

Amortization

Amortization of development costs was \$98,265 for the quarter ended March 31, 2013 compared to \$27,218 in the same period in 2012. Amortization of development costs was \$198,002 for the six months ended March 31, 2013 compared to \$95,263 in the same period in 2012. The increase is a result of a determination to accelerate amortization of cost incurred prior to 2003 as a result of the development of the STX inverter platform which replaces the previous platform

The amortization of capital assets for the quarter ended March 31, 2013 was \$9,547 compared with \$28,433 for 2012. The amortization of capital assets for the six months ended March 31, 2013 was \$21,960 compared with \$64,891 for 2012.

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 “accreted” 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. Based on the development of the STX platform management determined that there was no possibility that the Company would be required to make any payments to Energy Northwest in excess of the minimum annual payment of \$7,000.

Accretion accrued for the First Preferred Shares was \$695,558 for the quarter ended March 31, 2013 compared to \$506,808 for the same period in 2012. Accretion accrued for the First Preferred Shares was \$1,326,939 for the six months ended March 31, 2013 compared to \$968,274 for the same period in 2012. Interest accrued for the participating debenture issued in 2012 was \$21,355 for the quarter ended March 31, 2013 and \$49,445 for the six months ended March 31, 2013 including interest based on a percentage of top line revenues. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was \$66,000 compared to \$75,150 for the quarter ended March 31, 2013 and \$132,000 compared to \$150,303 for the six month period. Accretion of the obligation to repay government contributions to research and development was \$13,089 for the quarter ended March 31, 2013 by comparison to \$Nil for 2012 and \$26,499 compared to \$Nil for the six month period. Interest on the convertible debenture for the quarter and six month period ending March 31, 2013 was \$5,528.

Other interest charges for the six months ended March 31, 2013 were \$345 compared to \$17,303 for the same period 2012.

The financing costs paid were \$18,582 during the quarter ended March 31, 2013 compared to \$17,400 for the same period in 2012. The financing costs paid during the six months ended March 31, 2013 was \$59,013 compared to \$34,703 at March 31, 2012.

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:

	2013		2012				2011	
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3
Sales	46,768	70,161	880,652	516,426	904,841	1,011,215	1,013,881	1,135,015
Net (loss)	(1,276,247)	(1,639,851)	(760,287)	(1,632,812)	(1,398,873)	(1,526,393)	(476,294)	(1,724,716)
Per share – basic and diluted	(.06)	(0.08)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Summary of Annual Information

	2013	2012
	2 Qtrs	4 Qtrs
Revenues	116,929	3,313,134
Net loss	(2,916,098)	(5,318,365)
Per share – basic and diluted	(0.14)	(0.03)
Total assets	4,110,064	5,084,388
Non- current liabilities	10,237,970	8,695,383
Declared dividends	-	-

The 2013 column represents year-to-date amounts and the 2012 column show the annual results for fiscal 2012.

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

	2013	2012
Employee Compensation	153,848	221,766
Consumables	64,083	19,065
Travel	4,167	9,258
Other	13,652	30,560
Amortization	198,002	95,263
Total	445,805	375,912

The above noted columns represent the expenses for the six months ended March 31 respectively.

Operations

	2013	2012
Employee Compensation	322,685	425,442
Consumables	2,763	22,540
Travel	5,024	5,333
Freight and storage	26,336	105,070
Other	27,835	25,983
Total	384,644	584,368

The above noted columns represent the expenses for the six months ended March 31 respectively.

Sales and marketing

	2013	2012
Employee Compensation	114,987	216,465
Travel	39,271	23,990
Marketing	37,370	62,447
Other	48,295	48,052
Total	239,924	350,954

The above noted columns represent the expenses for the six months ended March 31 respectively.

General and administration

	2013	2012
Employee Compensation	162,640	191,785
Stock based compensation	(21,745)	45,484
Travel	-	15,850
Rent	124,654	134,624
Audit & accounting fees	129,021	188,348
Legal fees	104,018	35,944
Other	152,220	140,321
Amortization	21,961	64,891
Total	672,769	816,887

The above noted columns represent the expenses for the six months ended March 31 respectively.

Liquidity and Capital Resources

Liquidity, as measured by working capital, was \$(155,812) at March 31, 2013 by comparison to \$703,924 at September 30, 2012. The components are comprised of cash of \$23,041, finished product inventory totaling \$462,863 component inventory totaling \$2,234,161, prepaid expenses and deposits in the amount of \$128,016, which are mainly accrued finance costs and accounts receivables and advances in the amount of \$428,343.

Accounts payable and accrued liabilities at March 31, 2013 were \$1,826,470 compared to \$1,816,285 at September 30, 2012. The increase in accounts payable and accrued liabilities from September 30, 2012 was caused mainly by the deposit amounting to \$314,551 received for the supply contract with tenKsolar, which is recorded as deferred revenue until the amount is brought into revenue at some point in the future. The deposit of \$250,000 for the license agreement has been forfeited by tenKsolar and is recognized as other income in the second fiscal quarter of 2013.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of \$1.5 million. As of March 31, 2013 the outstanding Company's operating line was \$958,271. Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012. On December 27, 2012 the Company issued 50,000 Units at a price of \$10.0 per unit to Doughty Hanson for total gross proceeds of \$500,000. Each unit was comprised of one (1) \$10.0 8% 5 year First Preferred Shares Series 13 convertible into Common Shares at a price of \$0.40 per share (post consolidation) 20 (post consolidation), 5 year, common share purchase warrants exercisable at a price of \$0.50 per share.

In order to meet TSX Venture Exchange rules pertaining to minimum conversion pricing of convertible securities the Company completed a consolidation of its common share capital on a 1:10 basis effective December 27, 2012.

During Q 1, the CEO of the Company advanced \$100,000 to the Company against an agreement to issue a \$114,000 subordinated secured debenture on the same terms and ranking parri passu with the 5 year subordinated secured Debentures issued by the Company June 29, 2012, The debentures issued to the CEO bear interest at a rate of 3% per annum, plus an amount equal to 0.001% 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. The Company has also agreed to issue a total of 399,000 (pre consolidation, 39,900 post consolidation) restricted common shares of the Company, subject to approval of regulatory authorities including the TSX Venture Exchange. The principal amount of \$114,000 is repayable in 12 equal quarterly payments commencing July 1, 2014.

During Q1, the Company agreed to sell a non-exclusive manufacturing license to tenKsolar for \$2.5 million to be paid \$1,750,000 on closing, \$500,000 on June 30 2013 and \$250,000 on December 31 2013. tenKsolar failed to meet the closing date and a deposit of \$250,000 has been forfeited.

Under a Supply Contract entered into at the same time, tenKsolar has committed to take a minimum number of PARALEX inverters in the 2013 calendar year having an aggregate value of approximately \$2.9 million and has paid a deposit of \$314,551 to the Company. tenKsolar has not taken the minimum committed volumes under the Supply Contract and it has been terminated. The Company has retained the \$314,551 deposit but has offered to credit it to future purchases of PARALEX inverters by tenKsolar until current inventory of the PARALEX solar inverters are fully liquidated.

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 22 to the Financial Statements.

Related Party Transactions

Other than as disclosed elsewhere in the unaudited condensed interim 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 \$70,081 and \$147,549 respectively for the three months and the six months ended March 31, 2013 (2012 - \$93,516 and \$190,058) and share based compensation of \$Nil for the three months and six months ended March 31, 2013 (2012 - \$4,497 and \$14,735). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of \$37,500 and \$87,000 respectively for the three months and six months ended March 31, 2013 (2012 - \$ 49,500 and \$100,000) and share based compensation of \$9,945 and \$19,889 for the three months and six months ended March 31, 2013 respectively (2012 - \$2,726 and \$9,853).

Key management personnel and directors subscribed for \$69,000 of the debentures (Note 9) issued in June 2012 and received 110,400 (2012 - nil) bonus shares (Note 10) valued at \$5,520 (2012 - \$nil) as at March 31, 2013. Interest expense of \$4,265 (2012 - \$nil) has been included in financing costs related to these debentures.

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. The Board of Directors subsequently 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 and this was completed December 26, 2012

Disclosure of Outstanding Share Data

As at May 28, 2013, 20,915,597 common shares and 1,126,587 First Preferred Shares convertible at the option of the holder into 17,106,649 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 1,250,000 common shares at an exercise price of \$0.50 per share, common share purchase warrants representing the right to acquire 4,750,000 common shares at \$0.105, common share purchase warrants representing the right to acquire 600,000 common shares at a price of \$0.12. The Company had employee stock options outstanding entitling the holders thereof to acquire up to 1,524,372 common shares of which options to acquire common shares up to 1,114,372 had vested. The weighted average exercise price of the vested options is \$1.69 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 March 31, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of \$25,668,616, after a reclassification of \$30,000,000 from share capital (\$22,752,518 at September 30, 2012) and recognized a cash flow deficiency from operations at March 31, 2013 of \$786,131 (2012 - \$(1,190,055)). 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 deficit of \$155,812 at March 31, 2013 (\$703,924 at September 30, 2012). At March 31, 2013, there was \$366,971 in deferred revenue that will become income at some point in the future and this will increase the working capital amount accordingly.

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 securities and is in discussions with Doughty Hanson to support such a financing.

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 and energy storage as part of the power grid in many different countries. In some markets demand for our products is still dependent on government pricing policies and incentives. 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 proprietary electronics sub-assemblies 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.