LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Expressed in United States dollars)

Years ended August 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY FOR CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements of LCTI Low Carbon Technologies International Inc. (the "Corporation") are the responsibility of management and the Board of Directors. The unaudited consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited consolidated financial statements. Where necessary management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited consolidated financial statements and (ii) the unaudited consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

/s/ Bryan S. Jarnagin	/s/ Michael Lege
Chief Executive Officer	Chief Financial Officer

NOTICE TO READER

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited consolidated financial statements for the year ended August 31, 2012.

LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in United States dollars)

	As at August 31, 2012 (Unaudited)	As at August 31, 2011 (Unaudited)	As at September 1, 2010 (Note 24 and Restated Note 3) (Unaudited)
ASSETS			
Current assets			
Cash	**$ 672,562**	$ 1,078,935	$ -
Accounts receivable (Notes 6 and 7)	**1,617,443**	3,392,195	200,568
Prepaid expenses	**1,110**	-	1,361,047
	2,291,115	4,471,130	1,561,615
Investments in affiliates (Note 7)	**12,041,472**	11,942,450	-
Investment in joint venture (Note 8)	**8,178,000**	-	-
Machinery and equipment (Note 9)	**655,996**	361,295	222,440
Mitigation land (Note 10)	**45,800,000**	45,800,000	45,800,000
Investment in Encap Investments Inc.	**-**	56,000	56,000
Intellectual property assets (Note 11)	**28,991,271**	15,728,312	-
Customer list (Note 5)	**429,167**	479,167	-
Goodwill (Note 5)	**2,592,309**	2,592,309	-
Total assets	**$ 100,979,330**	$ 81,430,663	$ 47,640,055
EQUITY AND LIABILITIES			
Current liabilities			
Bank indebtedness (Note 12)	**$ 335,400**	$ -	$ -
Accounts payable and accrued liabilities (Note 23)	**3,545,612**	2,989,824	335,184
Billings in excess of costs and estimated earnings	**748,030**	1,223,456	-
Current portion of long-term debt (Note 13)	**1,590,808**	78,125	-
Due to related parties (Note 14)	**140,848**	140,848	-
	6,360,698	4,432,253	335,184
Long term liabilities			
Long-term debt, net of current portion (Note 13)	**2,736,140**	3,750,000	-
Total liabilities	**9,096,838**	8,182,253	335,184
Equity			
Share capital (Note 15)	**85,069,299**	84,813,418	54,782,286
Contributed surplus (Note 15)	**16,899,010**	-	-
Deficit	**(10,085,817)**	(11,565,008)	(7,477,415)
Total equity	**91,882,492**	73,248,410	47,304,871
Total equity and liabilities	**$ 100,979,330**	$ 81,430,663	$ 47,640,055

Commitments and contingencies (Note 23)
Going concern (Note 1)
Subsequent events (Notes 23 and 26)

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

Approved on behalf of the Directors:
Signed "Bryan Jarnagin", Director

Signed "Mike Lege", Director

LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Expressed in United States dollars)

	Year ended August 31, 2012 (Unaudited)	Year ended August 31, 2011 (Unaudited)
Revenue	**$ 3,578,845**	$ 3,805,516
Cost of goods sold (Note 16)	**3,285,826**	3,720,789
	293,019	84,727
Expenses		
General and administrative (Notes 17 and 23)	**2,602,792**	2,358,873
Amortization and depreciation	**3,716,531**	1,768,837
Other expenses (Note 18)	**672,505**	92,512
Total expenses	**6,991,828**	4,220,222
Loss before gain on joint venture and gain on debt forgiveness	**(6,698,809)**	(4,135,495)
Gain on joint venture (Note 8)	**8,178,000**	-
Gain on debt forgiveness (Note 19)	**-**	47,902
Total gain on joint venture and debt forgiveness	**8,178,000**	47,902
Net income (loss) and other comprehensive income (loss) for the year	**$ 1,479,191**	$ (4,087,593)
Net income (loss) per share, basic and diluted	**$ 0.01**	$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	**194,592,377**	338,216,949

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

LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in United States dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, August 31, 2010 (Note 15)	492,078,501	$ 54,782,286	$ -	$ (7,477,415)	$ 47,304,871
Acquisition of intellectual property assets (Note 11)	4,000,000	17,463,000	-	-	17,463,000
Acquisition of investments in East Bay Farms LLC (Note 7)	5,000,000	11,926,837	-	-	11,926,837
Acquisition of a subsidiary (Note 5)	600,000	600,000	-	-	600,000
Cancellation of shares on assignment of leases (Note 15)	(887,543)	-	-	-	-
Cancellation of shares for lease payment (Note 15)	(7,500)	(7,500)	-	-	(7,500)
Adjustment for shares issued for services	-	48,795	-	-	48,795
Cancellation of founders' shares (Note 15)	(202,401,468)	-	-	-	-
Net loss for the year	-	-	-	(4,087,593)	(4,087,593)
Balance, August 31, 2011	298,381,990	84,813,418	-	(11,565,008)	73,248,410
Cancellation of shares for services	(42,840,000)	-	-	-	-
EnCap Investments Inc. capital prior to reverse takeover transaction (Note 4)	4,690,704	355,796	79,908	-	435,704
Shares issued to private Sustainable Energy Properties shareholders (Note 4)	134,583,460	311,880	-	-	311,880
Elimination of private Sustainable Energy Properties share capital (Note 4)	(309,541,990)	-	-	-	-
Elimination of EnCap Investments Inc. share capital (Note 4)	-	(355,796)	(79,908)	-	(435,704)
Acquisition of intellectual property (Note 11)	-	-	16,850,000	-	16,850,000
Reinstatement of founders' shares	54,000,000	-	-	-	-
Elimination of cross ownership	-	(55,999)	-	-	(55,999)
Share-based compensation (Note 15)		-	49,010	-	49,010
Net income for the year	-	-	-	1,479,191	1,479,191
Balance, August 31, 2012	139,274,164	$ 85,069,299	$ 16,899,010	$ (10,085,817)	$ 91,882,492

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

LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)

	Year ended August 31, 2012 (Unaudited)	Year ended August 31, 2011 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 1,479,191**	$ (4,087,593)
Items not affecting cash:		
Amortization & depreciation	**3,716,531**	1,768,837
Gain on joint venture	**(8,178,000)**	-
Accounts payable forgiven	**-**	(47,902)
Interest on long-term debt	**201,394**	78,125
Stock-based compensation	**49,010**	-
Other	**(13,894)**	55,692
RTO transaction cost	**420,163**	-
Share of loss of equity investment	**50,948**	14,387
Changes in non-cash working capital items:		
Decrease in accounts receivable	**1,779,969**	1,552,431
(Decrease) increase in prepaid expenses	**(1,110)**	1,361,047
Increase (decrease) in accounts payable and accrued liabilities	**440,739**	(627,296)
Decrease in billings in excess of costs	**(475,426)**	(702,231)
Net cash flows used in operating activities	**(530,485)**	(634,503)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash at acquisition of Teposolar	**-**	1,714,813
Cash acquired in reverse takeover transaction	**1,550**	-
Investment in affiliates	**(149,970)**	-
Acquisition of equipment	**(39,432)**	(1,375)
Net cash flows (used in) provided by investing activities	**(187,852)**	1,713,438
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit	**335,400**	-
Repayment of long-term obligations	**(23,436)**	-
Net cash provided by financing activities	**311,964**	-
Change in cash during the year	**(406,373)**	1,078,935
Cash, beginning of year	**1,078,935**	-
Cash, end of year	**$ 672,562**	$ 1,078,935
Supplementary cash flow disclosures		
Interest paid	**$ 8,855**	$ -
Income taxes paid	**$ -**	$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

LCTI Low Carbon Technologies International Inc. formerly known as Encap Investments Inc. (the "Company" or "LCTI") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on August 11, 2008. The head office of the Company is located at 4010 Bluebonnet St. Suite 209 Houston, TX 77025, and its registered and records office is located at 5587 Westhaven Road, West Vancouver, British Columbia, V7W 3E9. The unaudited consolidated financial statements for the years ended August 31, 2012 and 2011 were approved by the Board of Directors on March 1, 2013.

The Company was classified as a Capital Pool Company ("CPC") as defined by the TSX Venture Exchange. On September 30, 2008, the Company received final receipts for a prospectus and became a reporting company in British Columbia and Alberta. The Company completed its initial public offering (the "offering") on December 23, 2008.

Sustainable Energy Properties Inc. ("SEP") and EnCap Acquisition Corp. ("Encap Acquisition"), a wholly owned subsidiary of the Company, amalgamated on January 30, 2012 under the Wyoming Business Corporation Act ("WBCA"). On January 31, 2012 the Company changed its name to LCTI Low Carbon Technologies International Inc. and on February 10, 2012 SEP completed a reverse takeover ("RTO) of the Company as described in note 4. Trading commenced on Wednesday February 15, 2012 on the Canadian National Stock Exchange ("CNSX") under the trading symbol LCT. SEP is a clean technology and solutions provider focused on developing and operating cleantech projects.

The Company's primary objective is to continue to develop the business of SEP, which business is now assumed by LCTI as a result of the RTO.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which assume that the Company will be able to meet its obligations and continue its operations for its next fiscal year. At August 31, 2012, the Company has a working capital deficiency of $4,069,584 and has accumulated losses of $10,085,817 since inception and expects to incur further losses in the development of its business. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue operations is uncertain and is dependent upon the ability of the Company to obtain necessary financing to meet the Company's liabilities and commitments as they become payable, the successful acquisition of an interest in assets or a business and the ability to generate positive cash flows from future profitable production or operations. These consolidated financial statements do not give effect to adjustments that may be necessary to the carrying values of the Company's assets, or to the classifications of its assets and liabilities, should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and transition to International Financial Reporting Standards ("IFRS")

These consolidated financial statements for the year ended August 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They are the Company's first unaudited annual consolidated financial statements to be prepared in accordance with IFRS. The consolidated financial statements are presented in United States dollars.

The Company prepared its financial statements until August 31, 2010 in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP), which differ in certain respects from IFRS. In preparing these consolidated financial statements, management has amended certain accounting policies and descriptions it previously applied in the Canadian GAAP financial statements to comply with IFRS (Note 24).

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Statement of compliance and transition to International Financial Reporting Standards ("IFRS") - continued

The Company has adopted IFRS in accordance with the transitional provisions set out in IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 requires that a first-time adopter retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. The following optional exemptions and mandatory exceptions are relevant to the Company's reporting:

<u>Stock-based Compensation</u>
The Company has elected to apply IFRS 2 "Stock-based Compensation" only to equity instruments granted after November 7, 2002 which had not vested as of the transition date of September 1, 2010.

<u>Business Combinations</u>
The Company has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred prior to the transition date.

<u>Estimates</u>
As required by IFRS 1, the estimates used by the Company at the transition date are consistent in all respects with the estimates it previously made at the same date for purposes of its Canadian GAAP reporting.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Project Green Lonestar 1 Corp. ("PGL"), HNNG Midstream Partners, LLC ("HNNG Midstream"), HNNG Energy LLC ("HNNG Energy"), Teposolar Technologies Corp. ("Teposolar"), 95% owned subsidiary Entropy Power Corp ("Entropy"), and special purpose entity ("SPE") Z Carbon Companies Corp. ("Z Carbon"). Significant inter-company transactions and balances have been eliminated upon consolidation. PGL was incorporated under the laws of the State of Wyoming, USA on February 9, 2009. PGL has a wholly owned subsidiary, WK Management Services Inc. ("WKM"), which was incorporated under the laws of the State of Wyoming, USA on March 5, 2009. Teposolar was incorporated under the laws of the State of Wyoming, USA on May 24, 2010. Teposolar has a wholly owned subsidiary, C&I Mechanical Ltd. ("C&I"), which was incorporated under the laws of the State of Texas, USA on January 28, 2002. HNNG Midstream, HNNG Energy, and Entropy are currently inactive. Z Carbon Companies Corp., a Wyoming Corporation, has common shareholders and directors, and is considered a Special Purpose Entity ("SPE") in accordance with *SIC-12 Consolidation – Special Purpose Entities* and its accounts have been consolidated into these consolidated financial statements (note 23).

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Foreign exchange translation

The Company's reporting currency and the functional currency of all of its operations is the United States dollar as this is the principal currency of the economic environment in which they operate. Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Cash and bank indebtedness

The Company considers unrestricted cash on hand and in banks as cash. Bank overdrafts are repayable on demand. Bank overdrafts from an integral part of the Company's cash management and are included as a component of cash or bank indebtedness for the purpose of the statement of cash flows.

Machinery and Equipment

Machinery and equipment are recorded at cost less accumulated depreciation and net of any impairment loss. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation of equipment over the estimated useful lives of the assets is as follows:

	Method	Annual rates
Computer hardware	Declining balance	100%
Nitrogen removal unit	Straight-line	10%
Machinery and equipment	Straight-line	7%-10%
Furniture and fixtures	Straight-line	20%
Leasehold improvements	Straight-line	3%
Motor vehicles	Straight-line	20%

The Company reviews the estimated useful lives, residual values and depreciation method at the end of each annual reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Investments in affiliates

Investments over which the Company exercises significant influence and which are not subsidiaries are accounted for using the equity method as described below.

Investment in joint venture

The Company has an interest in a joint venture, which is a joint controlled entity, by virtue of a contractual arrangement with another party. The Company accounts for the interest in joint venture using the equity method.

The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the Company's proportionate share of the profit or loss and any other changes in the affiliates' net assets such as dividends.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment in joint venture - continued

The Company's proportionate share of an equity-accounted investee's profit or loss is based on its most recent financial statements. Adjustments are also made to align any inconsistencies between the Company's accounting policies and the investee's policies before applying the equity method, and to account for depreciable assets based on their fair values at the acquisition date and for any impairment losses recognized by the investee.

If the Company's share of the equity-accounted investee's losses equals or exceeds the carrying value of the investment, recognition of further losses is discontinued. After the Company's interest is reduced to zero, additional losses will be provided for and a liability recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the investee. If the investee subsequently reports profits, the Company resumes recognizing its share of those profits only after the share of the profits equals the share of losses not recognized.

At the end of each reporting period, the Company assesses its equity-accounted investees for indicators of impairment.

Mitigation land

Mitigation land is used for the development of a mitigation bank. A mitigation bank is a wetland, stream, or other aquatic resource area that has been restored, established, enhanced, or (in certain circumstances) preserved for the purpose of providing compensation for unavoidable impacts to aquatic resources permitted under Section 404 or a similar U.S. state or local wetland regulation.

The value of a bank is defined in "compensatory mitigation credits." A bank's instrument identifies the number of credits available for sale and requires the use of ecological assessment techniques to certify that those credits provide the required ecological functions.

Mitigation banks are a form of "third-party" compensatory mitigation, in which the responsibility for compensatory mitigation implementation and success is assumed by a party other than the permittee. This transfer of liability has been a very attractive feature for many companies and other entities who have the required U.S. permits for activities conducted in wetlands or other U.S. waters. These companies and other entities would otherwise be responsible for the design, construction, monitoring, ecological success, and long-term protection of the site. Mitigation banks require approval from the U.S. Army Corps of Engineers, the federal agency responsible for oversight of wetlands mitigation.

Mitigation land includes the cost of the land and any direct costs to restore the land.

Intangible assets

Intangible assets consist of intellectual property assets and customer list, and are recorded at cost.

(a) Intellectual property assets are technology licenses comprised of exclusive and non-exclusive manufacturing, distribution, and marketing licensing rights to a portfolio of patented clean-tech technologies. The Company amortizes these assets over an estimated useful life to a maximum of eight years (Note 11).

(b) Customer list was acquired when the Company acquired C&I (Note 5) and consists of non-contractual customer relationships. The Company amortizes its acquisition cost, which is the fair value of the customer list at the acquisition date, over the lives of the acquired contracts which have a life of approximately ten years.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Leases

Leases entered into by the Company in which substantially all of the benefits and risks of ownership are transferred to the Company are recorded as obligations under capital leases, and under the corresponding category of machinery and equipment. Obligations under capital leases reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by rental payments net of imputed interest. Machinery and equipment under capital leases are depreciated, to the extent that these assets are in continuing operations, based on the useful life of the asset.

All other leases in continuing operations are classified as operating leases and leasing costs, including any rent holidays, leasehold incentives, and rent concessions, are amortized on a straight-line basis over the lease term. All the Company's leases are classified as operating leases.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its machinery and equipment and intangible assets with finite lives to determine whether there is any indication those assets have suffered an impairment loss. If any such indication exists, the Company estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently when events or circumstances occur that would indicate that the carrying value may be impaired. Recoverability of goodwill is determined at the CGU level using a one-step approach. The carrying value of the CGU is compared to its recoverable amount. If the carrying value of the CGU exceeds its recoverable amount, an impairment loss is recognized for the excess amount. As of August 31, 2012 there are no indicators of impairment for goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations and comprehensive income (loss).

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations and comprehensive income (loss).

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of operations and comprehensive income (loss).

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that cash flows from a financial asset or a group of financial assets have been adversely impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are carried at fair value with changes in fair value recognized in the consolidated statement of operations and comprehensive income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial instruments - continued

Other financial liabilities

This category includes long-term debt and its current portion, due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities, due to a related party, long term debt, and current portion of long term debt are classified as other financial liabilities.

Asset retirement obligations

The Company recognizes the liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-lived assets in the period when the liability arises. The net present value of the asset retirement obligation is capitalized to the long-lived asset to which it relates with a corresponding increase to the liability in the period incurred.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and interest expense in the consolidated statement of operations and comprehensive income (loss). Changes resulting from revisions to the timing, discount rates, regulatory requirements or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company's estimates are reviewed annually for such changes. The Company does not have any significant asset retirement obligations.

Revenue recognition

Revenue from contracts is recognized on the percentage of completion basis. Percentage of completion is calculated based on the costs incurred on each contract to the end of the respective accounting period divided by the total estimated costs. Revenue from cost reimbursable contracts is recognized progressively on the basis of costs incurred during the period plus the estimated fee earned. For agency relationships, such as construction management, where the Company acts as an agent for its clients, fee revenue only is recognized, generally in accordance with the contract terms.

Revenue from change orders is recognized to the extent that management estimates that realization is probable. Any excess of progress billings over earned revenue on contracts is carried as billings in excess of costs and estimated earnings in the consolidated statement of financial position. Any excess of costs and estimated earnings over progress billings on construction contracts is carried as costs in excess of billings in the consolidated statement of financial position.

Losses from any contracts are recognized in full in the period the loss becomes apparent.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cost of revenues

Costs associated with contract revenues are expensed as the contract revenues are recognized. Contract costs of revenue include all expenses that relate directly to execution of the specific contract, including site labor and site supervision, direct materials, subcontractor costs, equipment rentals, design and technical assistance, and warranty claims. Construction costs also include overheads that can be attributed to the project in a systematic and consistent manner and include general insurance and bonding costs, project management and accounting costs. Construction costs also include expenditures for services which are specifically recoverable from the customer under the terms of the contract.

Costs in excess of billings, billings in excess of costs and estimated earnings

Costs in excess of billings arise when revenues based on contract attainment, though appropriately recognized, cannot be billed yet under the terms of the contract as of the end of the reporting period. Costs in excess of billings represent unbilled amounts expected to be collected from customers for contract work performed to date. The amount is measured at costs plus profit recognized to date less progress billings and recognized losses. Costs include all expenditures directly related to specific projects and an allocation of overheads incurred in the Company's contract activities based on normal operating capacity. Costs in excess of billings are presented as a current asset in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed the progress billings and the amounts are expected to be billed and recovered within twelve months. If progress billings exceed costs incurred plus recognized profits, the difference represents amounts collected in advance for contract work yet to be performed and is presented as billings in excess of costs and estimated earnings on the consolidated statement of financial position as a current liability.

Basic and diluted income (loss) per share

The Company uses the "treasury stock method" in computing income (loss) per share. Under this method, it calculates basic income (loss) per share by dividing the net income (loss) by the weighted average number of common shares outstanding during the period, and calculates diluted net income (loss) per share by dividing the net income (loss) by the sum of the weighted average number of common shares outstanding and the dilutive common equivalent shares outstanding during the year. Common equivalent shares consist of the shares issuable upon exercise of stock options and warrants, calculated using the treasury stock method. Common equivalent shares are not included in the calculation of the weighted average number of shares outstanding for diluted net income (loss) per common share when the effect would be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Stock-based compensation

The Company measures equity-settled share-based payments to employees and others providing similar services at the fair value of the equity instruments at the grant date. It expenses the fair value determined at the grant date of the equity-settled share-based payments on a graded vesting basis over the vesting period, based on its estimate of equity instruments that will eventually vest, and credits this amount to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. It recognizes the impact of the revision of the original estimates, if any, in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds together with the amount originally credited to contributed surplus are credited to share capital.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where this fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted, as at the date the Company obtains the goods or the counterparty renders the service. These transactions include the investment in an affiliate (Note 7) and the acquisitions of mitigation land (Note 10) and intellectual property assets (Note 11).

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit or loss for the year. Taxable profit or loss differs from net income as reported in the consolidated statement of operations and comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company calculates its liability for current tax using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Company recognizes deferred tax on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in computing taxable profit. It generally recognizes deferred tax liabilities for all taxable temporary differences, and generally recognizes deferred tax assets for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The Company measures deferred tax liabilities and assets at the tax rates expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Company recognizes current and deferred tax in profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity, in which case, it also recognizes the current and deferred tax in other comprehensive income or directly in equity respectively.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Business combination

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

The Company expenses acquisition related expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

Use of estimates and judgments

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

<u>Impairment of non-financial assets</u>

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Valuation of non-financial assets

In determining the fair value of non-financial assets, including intangible assets, investments in affiliates, mitigation land, and joint venture, assumptions were made regarding future cash flows, comparable sales of similar projects, as well as general business and economic conditions that prevail and are expected to prevail. By nature, asset valuations are subjective and do not necessarily result in precise determinations. The valuation of no-financial assets is subject to material measurement uncertainty. It is reasonably possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recorded amount. Significant inputs factors into the valuations included projected sales, estimated value of mitigation credits, a royalty rates, terminal growth rate, and discount rates. Changes in these inputs and market demand will have a material impact on the estimated value.

Cost in excess of billings

Mechanical subcontracting revenue, construction costs, unearned contract revenue, and costs in excess of billings include amounts derived using the percentage of completion method applied to construction contracts. Percentage completion is calculated based on the costs incurred on each construction contract at the end of the respective accounting period divided by the total estimated costs for the contract. To determine the estimated cost to complete the construction contract, judgment, assumptions and estimates are required to evaluate issues related to the level of advancement, material and labor costs to complete the project, labor productivity, changes in contract scope and subcontractor costs. Due to the nature of construction, estimates may change significantly from one accounting period to the next.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at August 31, 2012, August 31, 2011 and September 1, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Future accounting changes

The International Accounting Standard Board has issued the following standards, which have not yet been adopted by the Company. Effective dates of the standards are described below with early adoption permitted. The Company does not expect to adopt these new and amended standards before their effective dates.

a) International Accounting Standard ("IAS") 1 – Presentation of Financial Statements ("OCI") was amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to income or loss in the future. This amendment is effective for years beginning on or after July 1, 2012.

b) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

c) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

d) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

e) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

f) IFRS 13, 'Fair Value Measurement' is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for years beginning on or after January 1, 2013. The Company is currently assessing the impact of this standard.

(Expressed in United States Dollars)

3. RESTATEMENT

The consolidated statement of financial position as at August 31, 2010 was restated to correct the accounting presentation and disclosures. During 2010, the Company prepaid lease payments on properties by issuing 1,703,500 common shares valued at $1,703,500. $1,361,047 was considered as a prepayment and was recorded as services receivable in equity. This amount should been recorded as a prepaid expense [a]. A value of $34,117,000 was assigned to the shares issued for the acquisition of the mitigation land as described in Note 10. During fiscal 2012, an error on the valuation was identified relative to this inception value. The revised amount was determined to be $45,800,000 (Note 10). An adjustment is made to record the incremental value of $11,683,000 and a corresponding adjustment was made to contributed surplus [b]. The above restatements have been applied retrospectively. Where required, note disclosures have also been updated to reflect appropriate description of transactions and/or revisions to balances previously disclosed.

The consolidated statement of financial position as at August 31, 2010 has been restated as summarized below.

	As of August 31, 2010 (Unaudited)		
	Previously Reported	Effect of Restatement	Restated
ASSETS			
Current assets			
Accounts receivable	$ 200,568	$ -	$ 200,568
Prepaid expenses (a)	-	1,361,047	1,361,047
	200,568	1,361,047	1,561,615
Machinery and equipment	222,440	-	222,440
Mitigation land (b)	34,117,000	11,683,000	45,800,000
Exploration and evaluation assets	4,879,075	-	4,879,075
Investment in Encap Investments Inc.	56,000	-	56,000
Total assets (a) (b)	$ 39,475,083	$ 13,044,047	$ 52,519,130
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 335,184	$ -	$ 335,184
Total liabilities	335,184	-	335,184
Equity			
Share Capital	65,705	-	65,705
Contributed surplus (b)	43,033,581	11,683,000	54,716,581
Services Receivable (a)	(1,361,047)	1,361,047	-
Deficit	(2,598,340)	-	(2,598,340)
Total equity (a) (b)	39,139,899	13,044,047	52,183,946
Total equity and liabilities (a) (b)	$ 39,475,083	$ 13,044,047	$ 52,519,130

(Expressed in United States Dollars)

4. REVERSE TAKEOVER TRANSACTION

SEP and EnCap Acquisition amalgamated on January 30, 2012 under the WBCA to become LCTI. The transaction involved the acquisition by the Company of SEP and is considered an RTO within the meaning of National Instrument 51-102 ("NI 51-102"). The share capital of each company immediately prior to the RTO was as follows:

LCTI	**Number of Shares**	**Amount $**
Balance as at January 30, 2012, prior to the RTO	4,690,704	355,796
SEP		
Balance as at January 30, 2012, prior to the RTO	134,583,460	73,248,410

On February 10, 2012 the Company completed its acquisition of all of the issued and outstanding securities of SEP. In exchange for obtaining all of the issued and outstanding securities of SEP, the Company issued to the former SEP security holders 134,583,460 common shares.

The substance of the transaction is a reverse takeover of a non-operating company. The transaction did not constitute a business combination as LCTI did not meet the definition of a business under the standard. As a result, the transaction is accounted for as a share-based payment transaction with the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of SEP and comparative figures presented in the consolidated financial statements after the RTO are those of SEP.

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or service received in return. Because SEP issued shares with a value in excess of the assets received, IFRS 2 would indicate that the difference is recognized in comprehensive loss as a transaction cost. The amount assigned to the transaction cost of $420,163 is the difference between the fair value of the consideration and the net identifiable assets of LCTI acquired by SEP and is included in other expenses (Note 18) in the consolidated statement of operations and comprehensive income (loss).

The fair value of the consideration is determined based on the fair value of outstanding stock options and on the percentage of ownership the legal parent's shareholders have in the amalgamated entity after the transaction. This represents the fair value of the shares that SEP would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of SEP acquiring 100% of the shares in LCTI. The percentage of ownership LCTI shareholders had in the combined entity is 3.37% after the issuance of 134,583,460 common shares of LCTI. The fair value of the consideration in the reverse takeover is equivalent to the fair value of the 360,000 stock options and 4,690,704 shares controlled by original LCTI shareholders. This totaled $311,880, consisting of the fair value of the stock options estimated as $8,531 (See Note 15) and the fair value of the LCTI shares estimated as $303,349 based on fair market value of approximately $0.07 per share on the date of February 15, 2012, the first trading day of LCTI shares after the RTO.

(Expressed in United States Dollars)

4. REVERSE TAKEOVER TRANSACTION - CONTINUED

Based on the statement of financial position of LCTI at the time of the RTO, the net assets at estimated fair value that were acquired by SEP were ($108,283) and the resulting transaction cost charged to the statement of operations and comprehensive income (loss) is as follows:

	Amount $
4,690,704 Common shares purchased by SEP	303,349
Stock options outstanding prior to RTO	8,531
Consideration paid	**311,880**
Identifiable assets acquired	
Cash	1,550
Other assets	5,217
Accounts payable and accrued liabilities	(115,050)
	(108,283)
Unidentifiable asset acquired	
Transaction costs	420,163
Total net identifiable assets and transaction cost	311,880

5. ACQUISITIONS

Acquisition of Teposolar Technologies Corp.

On April 1, 2011, the Company exercised its option to acquire all of the issued and outstanding common shares of Teposolar from officers and directors of the Company. The purchase price consisted of $3,750,000 payable by way of a promissory note and 600,000 common shares of the Company.

Acquisition of C&I Mechanical Ltd.

Concurrent with the above acquisition, Teposolar acquired all of the issued and outstanding limited partnership interests and 100% of the common shares of the general partner of C&I, a Texas Limited Partnership for $3,750,000 payable by way of a promissory note (Note 13) and 600,000 common shares of the Company. Teposolar assigned the promissory note to the Company as part of the purchase price below.

The acquisition has been accounted for using the purchase method of accounting and accordingly, these consolidated financial statements include the results of operations of Teposolar and its wholly owned subsidiary C&I from the date of acquisition. The total purchase price of $4,350,000 was allocated as follows:

(Expressed in United States Dollars)

5. ACQUISITIONS - CONTINUED

	$	$	$
Consideration paid:			
Common shares issued (600,000)*	600,000		
Promissory note	3,750,000		
Total consideration:			4,350,000
Net assets acquired:			
Cash	1,714,813		
Accounts receivable	4,744,058		
Equipment at fair value	147,291		
		6,606,162	
Less liabilities:			
Accounts payable	3,281,936		
Billings in excess of costs incurred	1,925,687		
Due to related parties	140,848		
		(5,348,471)	
Total net assets acquired:			
Excess purchase price consideration:			3,092,309
Allocated to:			
Customer list			500,000
Goodwill			2,592,309

**The fair value of $600,000 common shares issued was based on the fair value of shares issued to non-related parties at the date of issuance.*

The Company purchased Teposolar and its wholly owned subsidiary C&I because of synergies with the Company's business model of acquiring cash flow generating businesses that have the potential to achieve improved economies of scale through the introduction of new technologies. Goodwill comprises the value attributable to management strength and the experience of C&I. Customer list was valued using discounted cash flows. Key variables in the valuation of customer list were revenue of recurring customers for the last 5 years projected forward over 5 years and a discount rate of 15%. Customer list is being amortized over 10 years. Amortization expense charged to operations amounted to $50,000 and $20,833 in 2012 and 2011 respectively. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011.

6. ACCOUNTS RECEIVABLE

	August 31, 2012	August 31, 2011	September 1, 2010
Accounts receivable	**$ 1,617,443**	$ 3,392,195	$ 200,568

No allowance has been provided as of August 31, 2012, August 31, 2011, and September 1, 2010 based on management's estimate and experience.

(Expressed in United States Dollars)

7. INVESTMENTS IN AFFILIATES

East Bay Farms LLC

On December 10, 2010 the Company acquired a 27.5% interest in East Bay Farms LLC ("East Bay"), a Texas limited liability company, for 5,000,000 common shares valued at $11,926,837. The Company used discounted cash flows to assess the cost of the investment comprising of approximately 1,900 acres of mitigation land.

In determining the estimated market value of the mitigation land, assumptions were made regarding future cash flows, comparable sales of similar projects, as well as general business and economic conditions that prevail and are expected to prevail. By nature, asset valuations are subjective and do not necessarily result in precise determinations. The following significant inputs were factored into the valuation technique on inception of the interest:

a) The number and sales value of mitigation credits to be developed estimated at 925 and $80,000 - $105,000 respectively.

b) Term of mitigation credit sales – the Company used an absorption rate of estimated total mitigation credits available of five (5) years.

c) Discount rate – the discounted cash flow valuation technique requires a discount rate to match the risks of owning this investment. The discount rate, adjusted for credit and liquidity risk, was 16%.

Changes in variables such as the absorption rate, the number of credits approved by the U.S. Army Corps of Engineers, the value of mitigation credit sales and market demand will have a material impact on the estimated value of the investment. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011.

During the year ended August 31, 2012, the Company made additional investments, by way of cash calls, in East Bay Farms LLC of $145,070 (August 31, 2011 - $30,000) and incurred a loss of $47,625 in 2012 and $14,387 in 2011 for its investment in East Bay Farms LLC.

Industrial Commercial Mechanical LLC

On March 2, 2012, the Company acquired a 24.5% interest in Industrial Commercial Mechanical LLC ("ICM"), an energy service company. As at the year ended August 31, 2012 the Company has made $4,900 in capital contributions to ICM. As at the year ended August 31, 2012 the Company had loaned $69,100 to ICM which is included in accounts receivable.

The Company incurred a loss of $3,323 in 2012 for its investment in ICM.

Summarized financial information for associates for total assets, total liabilities, revenue and profit or loss on a 100% basis is as follows:

	August 31, 2012	August 31, 2011	September 1, 2010
Total assets	$ 3,652,189	$ 2,859,225	$ -
Total liabilities	$ 2,445,019	$ 2,528,785	$ -
Revenue	$ 749,471	$ -	$ -
Net loss	$ 503,785	$ 409,874	$ -

8. INVESTMENT IN JOINT VENTURE

Prestige Thermal Americas LLC ("PTA")

The Company has a 50% interest in PTA, a jointly controlled entity established in the United States of America on February 20, 2012. The Company is committed to contribute certain non-monetary assets consisting mainly of providing or securing rights to an approximately 40,000 square feet of manufacturing facility; and a commitment to deploy the technology in the Company's first two waste-to-energy projects; and funding the start up costs of PTA in exchange for a 50% interest in the joint venture. The other joint venture partner contributed certain rights to manufacture and assemble certain technology equipment in North America to be employed in waste-to-energy, biomass-to-energy and biomass-to-liquid market sectors for the other 50% interest in the joint venture.

The Company engaged a third party to complete the valuation of the joint venture. Based on this valuation, the Company's 50% interest in the joint venture was valued at $16,355,000. The valuation method used was an income approach using a discounted cash flow model. The key assumptions used in the model are timing of revenue stream and the profit to be generated, discount rate of 30%, terminal growth rate of 3.5%, and lack of marketability discount of 25%.

As a result, the Company recognized a gain on contribution to the joint venture of $8,178,000 for the year ended August 31, 2012, representing the portion of the gain relating to the interest of the other venturer.

At August 31, 2012, August 31, 2011 and September 1, 2010, the total assets of the joint venture amounted to $32,710,000, $nil, and $nil, respectively. There were no liabilities at the end of the reporting periods. The joint venture did not have revenue and expenses for the years ended August 31, 2012 and 2011. In addition, the various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012.

(Expressed in United States Dollars)

9. MACHINERY AND EQUIPMENT

	September 1, 2011	Additions	Disposals	Additions related to business combination	August 31, 2012
Cost:					
Computer hardware	$ 1,375	$ -	$ -	$ -	$ 1,375
Nitrogen removal unit	222,440	-	-	-	222,440
Machinery and equipment	7,072	3,499	-	-	10,571
Furniture and fixtures	5,188	-	-	-	5,188
Leasehold improvements	31,089	-	-	-	31,089
Motor vehicles	107,446	370,692	-	-	478,138
Total	$ 374,610	$ 374,191	$ -	$ -	$ 748,801
Accumulated depreciation:					
Computer hardware	$ 69	$ -	$ -	$ -	$ 69
Nitrogen removal unit	-	-	-	-	-
Machinery and equipment	982	3,340	-	-	4,322
Furniture and fixtures	720	2,450	-	-	3,170
Leasehold improvements	2,590	8,809	-	-	11,399
Motor vehicles	8,954	64,891	-	-	73,845
Total	$ 13,315	$ 79,490	$ -	$ -	$92,805
Net Book Value	$ 361,295				$ 655,996

	September 1, 2010	Additions	Disposals	Additions related to business combination	August 31, 2011
Cost:					
Computer hardware	$ -	$ 1,375	$ -	$ -	$ 1,375
Nitrogen removal unit	222,440	-	-	-	222,440
Machinery and equipment	-	-	-	7,072	7,072
Furniture and fixtures	-	-	-	5,188	5,188
Leasehold improvements	-	-	-	31,089	31,089
Motor vehicles	-	-	-	107,446	107,446
Total	$ 222,440	$ 1,375	$ -	$ 150,795	$ 374,610
Accumulated depreciation:					
Computer hardware	$ -	$ 69	$ -	$ -	$ 69
Nitrogen removal unit	-	-	-	-	-
Machinery and equipment	-	982	-	-	982
Furniture and fixtures	-	720	-	-	720
Leasehold improvements	-	2,590	-	-	2,590
Motor vehicles	-	8,954	-	-	8,954
Total	$ -	$ 13,315	$ -	$ -	$ 13,315
Net Book Value	$ 222,440				$ 361,295

Depreciation expense charged to operations amounted to $79,490 and $13,315 in 2012 and 2011, respectively. No depreciation has been recorded on certain assets in 2012 and 2011 because the equipment was not in service, but the amount was not considered significant.

Management has reviewed the carrying value of the machinery and equipment and determined there was no indication of impairment as at August 31, 2012 and 2011.

(Expressed in United States Dollars)

10. MITIGATION LAND

In May 2010, the Company purchased four parcels of land in the Bolivar Peninsula in Texas, USA through the issuance of 35,000,000 common shares. A value of $34,117,000 was assigned to the shares issued. During the fiscal 2012, an error on the valuation was identified relative to this inception value. The revised amount was determined to be $45,800,000 (Note 3). The impact on this restatement is an increase to mitigation land of $11,683,000 and a corresponding increase to contributed surplus.

Of the common shares issued, 17,500,000 shares were issued to directors and officers of the Company. The Company used discounted cash flows to estimate the cost of the investment comprising approximately 3,700 acres of land.

In determining the estimated cost of the mitigation land based on the market value for mitigation land, assumptions were made regarding future cash flows, and general business and economic conditions that prevail and are expected to prevail. By nature, asset valuations are subjective and do not necessarily result in precise determinations.

The following significant inputs were factored into the valuation:

a) The number and sales value of mitigation credits to be developed estimated at 1,700 and $75,000 respectively.

b) Term of mitigation credit sales – based on historical mitigation credit sales in the industry, the Company used an absorption rate of estimated total mitigation credits available of 13 years.

Discount rate – the discount rate, adjusted for credit and liquidity risk, was 16%. Changes in variables such as the absorption rate, the number of credits approved by the U.S. Army Corps of Engineers, the value of mitigation credit sales and market demand will have a material impact on the estimated value of the investment. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011.

11. INTELLECTUAL PROPERTY ASSETS

	September 1, 2011	Additions	Disposals	Additions related to business combination	August 31, 2012
Cost:					
Technology licenses:					
Low Carbon Lighting Ltd.	$ 5,751,000	$ -	$ -	$ -	$ 5,751,000
Zero Carbon RDL Limited	10,260,000	-	-	-	10,260,000
Zero Emission Ltd.	1,452,000	-	-	-	1,452,000
C6 Technology Inc.	-	16,850,000	-	-	16,850,000
Total	$ 17,463,000	$ 16,850,000	$ -	$ -	$ 34,313,000
Accumulated amortization:					
Technology licenses:					
Low Carbon Lighting Ltd.	$ 599,063	$ 718,874	$ -	$ -	$ 1,317,937
Zero Carbon RDL Limited	984,375	1,282,500	-	-	2,266,875
Zero Emission Ltd.	151,250	181,500	-	-	332,750
C6 Technology Inc.	-	1,404,167	-	-	1,404,167
Total	$ 1,734,688	$ 3,587,041	$ -	$ -	$ 5,321,729
Net Book Value	$ 15,728,312				$ 28,991,271

(Expressed in United States Dollars)

11. INTELLECTUAL PROPERTY ASSETS - CONTINUED

	September 1, 2010	Additions	Disposals	Additions related to business combination	August 31, 2011
Cost:					
Technology licenses:					
Low Carbon Lighting Ltd.	$ -	$ 5,751,000	$ -	$ -	$ 5,751,000
Zero Carbon RDL Limited	-	10,260,000	-	-	10,260,000
Zero Emission Ltd.	-	1,452,000	-	-	1,452,000
Total	$ -	$ 17,463,000	$ -	$ -	$ 17,463,000
Accumulated amortization:					
Technology licenses:					
Low Carbon Lighting Ltd.	$ -	$ 599,063	$ -	$ -	$ 599,063
Zero Carbon RDL Limited	-	984,375	-	-	984,375
Zero Emission Ltd.	-	151,250	-	-	151,250
Total	$ -	$ 1,734,688	$ -	$ -	$ 1,734,688
Net Book Value	$ -				$ 15,728,312

Amortization expense charged to operations amounted to $3,587,041 in 2012 and $1,734,688 in 2011.

In October, 2010 the Company entered into various agreements discussed below whereby the Company was granted exclusive manufacturing, distribution, and marketing licensing rights to a portfolio of clean-tech technologies.

Low Carbon Lighting Ltd. (“LCL”)

On October 15, 2010, the Company acquired the exclusive manufacturing, distribution, and marketing licensing rights in the USA, Canada, Mexico and all the sovereign countries that make up the geographic region of the Caribbean, America and Central South America, for 3 years for energy efficient LED streetlights and a heat transfer device useful in the thermal management of LED lighting units and other commercial applications requiring heat transfer. Payment was 500,000 common shares of the Company valued at $5,751,000. Following the 3 year term, the Company would have had the right to extend the ”Exclusivity Period” for an additional 5 years with a payment of USD $1,200,000 payable in cash or common shares of the Company. On February 25, 2011, the agreement was amended to extend the “Exclusivity Period” indefinitely without further payment.

In addition to the above noted stock issuances, the Company will pay LCL 5% of revenue earned as a result of exploiting the technologies.

In determining the fair value of the LCL license, assumptions were made regarding future cash flows, comparable sales of similar projects, as well as general business and economic conditions that prevail and are expected to prevail. The relief from royalty approach is used to value the license. By nature, asset valuations are subjective and do not necessarily result in precise determinations. The valuation of LCL license is subject to material measurement uncertainty. It is reasonably possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recorded amount. Significant inputs factors into the valuation were projected sales, a royalty rate of 9%, and discount rate of 20%. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011. Changes in these inputs and market demand will have a material impact on the estimated value.

11. INTELLECTUAL PROPERTY ASSETS - CONTINUED

Zero Emissions Ltd. ("ZEM")

On October 10, 2010, the Company acquired the exclusive manufacturing, distribution, and marketing licensing rights in the USA, Canada, Mexico and all the sovereign countries that make up the geographic region of the Caribbean, Central America and South America, for 3 years for electric and hybrid urban buses and other utility vehicles. Payment was 500,000 common shares of the Company with a value of $1,452,000. Following the 3 year term, the Company shall have the right to extend the "Exclusivity Period" for an additional 5 years with a payment of USD $1,200,000 payable in cash or common shares of the Company. On February 18, 2011, the agreement was amended to extend the "Exclusivity Period" indefinitely without further payment.

In determining the fair value of the ZEM license, assumptions were made regarding future cash flows, comparable sales of similar projects, as well as general business and economic conditions that prevail and are expected to prevail. The relief from royalty approach is used to value the license. By nature, asset valuations are subjective and do not necessarily result in precise determinations. The valuation of ZEM license is subject to material measurement uncertainty. It is reasonably possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recorded amount. Significant inputs factors into the valuation were projected sales, a royalty rate of 5%, and discount rate of 30%. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011. Changes in these inputs and market demand will have a material impact on the estimated value.

Zero Carbon RDL Limited ("Zero Carbon")

On October 22, 2010, the Company acquired the exclusive manufacturing, distribution, and marketing licensing rights in the USA, Canada, Mexico and all the sovereign countries that make up the geographic region of the Caribbean, Central America and South America, for 3 years for a portfolio of clean-tech technologies. As payment, the Company issued 3,000,000 common shares valued at $8,100,000 for the 15 technologies in the portfolio. Following the 3 year term, the Company would have had the right to extend the "Exclusivity Period" for an additional 5 years for no additional cost. At the end of the 3 year exclusive period, if the Company does not extend, or at the end of the additional 5 year extension period, the license shall continue on indefinitely as a non-exclusive license for no additional cost, or until the expiry of the last patent, if earlier.

Zero Carbon agrees that the first $5,000,000 generated from the sale of shares of the Company received by Zero Carbon will be re-invested into the technology portfolio to develop demonstration facilities.

On the same day, the agreement was amended to extend the "Exclusivity Period" indefinitely. Consideration for the amendment was paid by transferring 800,000 common shares of the Company valued at $2,160,000 from a director and officer to Zero Carbon. A corresponding amount has been recorded as contributed surplus as the director and officer does not require repayment.

Management estimated the value ascribed to the common shares issued to acquire the technology license at $2.70 per share based on the implied price of similar stock issuances for acquisitions that took place around the same period. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012 and 2011.

C6 Technology Inc. ("C6T")

On February 20, 2012, as part of the Prestige joint venture (Note 8), the Company obtained deployment licenses from C6 Technologies Inc. granting the Company the right to utilize their technology for waste to energy and waste to fuel projects. The licenses are registered on the date that the quotes are issued for each project. These licenses were contributed to the Company by a major shareholder, as a result of his efforts prior to the contribution and accordingly have been credited to contributed surplus. The license fees are based on the C6 Technologies standard fees. The license fees are not payable until permitting and financing occurs on each project. The ongoing monthly royalty fees are paid only upon project completion and project start up. The royalties are paid one month in arrears. The Company currently has three projects that are registered with C6 Technology Inc.

(Expressed in United States Dollars)

11. INTELLECTUAL PROPERTY ASSETS - CONTINUED

The deployment licenses are valued at $16,850,000. In determining the fair value of the deployment licenses, assumptions were made regarding future cash flows, comparable sales of similar projects, as well as general business and economic conditions that prevail and are expected to prevail. The relief from royalty approach is used to value the licenses. By nature, asset valuations are subjective and do not necessarily result in precise determinations. The valuation of the deployments licenses is subject to material measurement uncertainty. It is reasonably possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recorded amount. Significant inputs factors into the valuation were projected sales, a royalty rate of 19%, and discount rate of 30%. The various acquisition-date assumptions disclosed above did not materially differ from those that would have been applied at the end of August 31, 2012. Changes in these inputs and market demand will have a material impact on the estimated value.

12. BANK INDEBTEDNESS

The Company has a revolving line of credit for up to $350,000 from the International Bank of Commerce with a maturity date of April 25, 2012. Interest is New York prime rate + 1% with a minimum interest of 5.75% per annum. New York Prime rate is 3.25% as of the date of this report. As of August 31, 2012, the Company has drawn $335,400 (2011 - $nil and 2010 - $nil) from the facility. A director and officer of the Company has placed a personal guarantee on this facility.

13. LONG-TERM DEBT

	August 31, 2012	August 31, 2011	September 1, 2010
Promissory note payable	$ 4,015,625	$ 3,828,125	$ -
Finance lease obligations	311,323	-	-
Total	4,326,948	3,828,125	-
Current portion	(1,590,808)	(78,125)	-
Non-current portion	$ 2,736,140	$ 3,750,000	$ -

Note payable to C&I vendors (Note 5)

The $3,750,000 promissory note, together with interest calculated at a rate of 5% per annum simple interest compounded annually, bears the following payment terms:

Simple interest and principal payments are due on or before the following dates:

a) $1,250,000 plus accrued and unpaid interest from April 1, 2011 (the “Effective Date”) to the date of such payment on April 15, 2013 (as of August 31, 2012 the Company has accrued $265,625 in interest payable on the note);

b) $1,250,000 plus accrued and unpaid interest on the unpaid balance of principal of the Note being due and payable on the first anniversary of the first payment of principal; and

c) $1,250,000 plus accrued and unpaid interest, being due and payable on the second anniversary of the first installment of principal.

Included in the promissory note payable balance is $265,625, $78,125 and $nil of accrued interest as at August 31, 2012, August 31, 2011 and September 1, 2010, respectively.

(Expressed in United States Dollars)

13. LONG-TERM DEBT - CONTINUED

Finance lease obligations

Finance leases relate to vehicle equipment. These leases have interest rates ranging from 6.74% to 8.9% and a remaining term of 42 to 44 months.

Finance lease obligations are payable as follows:

	August 31, 2012	August 31, 2011	September 1, 2010
Future minimum lease payments			
Due within one year	$ 98,668	$ -	$ -
Due between one year and two years	98,668	-	-
Due between two and three years	98,668	-	-
Due between three and four years	66,107	-	-
Interest	(50,788)	-	-
Present value of minimum lease payments	$ 311,323	$ -	$ -

14. RELATED PARTY BALANCES AND TRANSACTIONS

Related party transactions not disclosed elsewhere in these consolidated financial statements, are described below.

During the year ended August 31, 2012, the Company:

1. Has accrued salaries for Officers and Directors in the amount of $163,758.
2. The Chairman of the Company has advanced the Company operating capital totaling $33,300 and has funded a Cash Call from one of the Investment Entities for $56,866.
3. The Company issued Stock Options to three of its Officers and Director's as part of a qualified option plan. See note 15.
4. Paid $63,660 in consulting fees to a Company with common directors and shareholders.

During the Year ended August 31, 2011, the Company:

1. Paid rental fees of $46,250 to a private company owned by an officer and director of the Company.
2. Reimbursed a private company owned by an officer and director and an immediate family member for expenses incurred on behalf of the Company in the amount of $39,988.
3. Assigned operating lease agreements to a Company with common directors and shareholders. See Note 23.
4. On March 15, 2011, the directors of the Company forgave $47,902 of the accounts payable and accrued liabilities for management fees, rental fees and reimbursements due to the directors of the Company.
5. Paid a private company owned by a director of the company $6,000 for accounting services.
6. Paid a private company owned by a director of the company $6,000 for legal services.

(Expressed in United States Dollars)

15. SHARE CAPITAL

Authorized share capital

As at August 31, 2012, the Company has authorized an unlimited number of voting common shares without nominal or par value.

Shares issued and outstanding

	Number	Amount
Balance, September 1, 2010	492,078,501	$ 54,782,286
Acquisition of intellectual property assets [1]	4,000,000	17,463,000
Acquisition of investment in East Bay Farms LLC [2]	5,000,000	11,926,837
Acquisition of a subsidiary [3]	600,000	600,000
Cancellation of shares on assignment of leases[4]	(887,543)	-
Cancellation of shares on lease[5]	(7,500)	(7,500)
Adjustment for shares issued for services[6]	-	48,795
Cancellation of founders' shares[7]	(202,401,468)	-
Balance, August 31, 2011	298,381,990	84,813,418
Reinstatement of founders' shares[8]	54,000,000	-
Cancellation of shares for services[9]	(42,840,000)	-
EnCap Investments Inc. capital prior to reverse takeover transaction[10]	4,690,704	355,796
Elimination of private SEP share capital[10]	(309,541,990)	-
Elimination of EnCap Investments Inc. share capital[10]	-	(355,796)
Shares issued to private Sustainable Energy Properties shareholders[13]	134,583,460	311,880
Elimination of cross ownership[12]	-	(55,999)
	139,274,164	$ 85,069,298

1. In October, 2010 the Company entered into various agreements whereby the Company was granted exclusive manufacturing, distribution, and marketing licensing rights to a portfolio of clean-tech technologies from LCL, ZEM and Zero-Carbon (Note 11). As consideration the Company issued 4,000,000 common shares valued at $17,463,000.

2. The Company acquired a 27.5% interest in East Bay Farms LLC ("East Bay"), a Texas limited liability company, for 5,000,000 common shares valued at $11,926,837 (Note 7).

3. On April 1, 2011 the Company issued 600,000 common shares valued at $600,000 as part of the consideration for the acquisition of Teposolar Technologies Corp (Note 5).

4. On November 30, 2010, the Company assigned all leases to a company with common shareholders and directors. Upon transfer of the leases, the common directors and shareholders returned 887,543 shares to the Company to be cancelled as the first year's lease payments were prepaid by the Company prior to the transfer.

5. On February 25, 2011 the Company cancelled a lease resulting in the cancellation of 7,500 common shares of the Company that were previously issued as payment.

6. In 2011 the Company recorded an adjustment to share capital related to shares issued for lease payments (Note 23).

(Expressed in United States Dollars)

15. SHARE CAPITAL - CONTINUED

7. On November 28, 2010 directors and officers of the Company cancelled 202,401,468 of their common shares of the Company.

8. On January 27, 2012 54,000,000 common shares of officers and director that were previously cancelled were reinstated.

9. On November 10, 2011 the Company cancelled 42,840,000 common shares that were previously issued for services.

10. On February 10, 2012 4,690,704 common shares of the Company were outstanding prior to the RTO with share capital of $355,796.

11. On February 10, 2012 the company completed the RTO with SEP and common shares of SEP were exchanged at a 2.3:1 basis for common shares of the Company.

12. On February 10, 2012 the Company completed the RTO with SEP and SEP's investment in the Company of $55,999 was eliminated.

Escrow shares

As at August 31, 2012 included in issued capital are 77,241,369 (2011 - 1,051,000; 2010 – 2,051,000) common shares held in escrow of which 76,190,369 are to be released up to February 15, 2015.

Stock options

The Company has established a stock option plan for its directors, officers and technical consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company.

The exercise price of the options granted under the Plan will be determined by the Board of Directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market value price. The term of any options granted shall not exceed the maximum permitted time period under applicable regulations.

A summary of the share option transaction for the years ended August 31, 2012 and August 31, 2011 are as follows:

	Number of options	**Weighted average exercise price $**
Outstanding at September 1, 2010	-	
Granted	-	
Outstanding at August 31, 2011	-	
Converted to LCTI stock options upon RTO	360,000	0.10
Granted	2,333,333	0.25
Outstanding at August 31, 2012	2,693,333	0.23

(Expressed in United States Dollars)

15. SHARE CAPITAL - CONTINUED

360,000 stock options of LCTI outstanding as at January 30, 2012, exercisable at $0.10 per option with an expiery date of January 30, 2013, were deemed as part of the consideration for the reverse takeover (Note 4), and these options were valued on January 30, 2012 the date of the reverse takeover, using a Black Scholes option pricing model with the following assumptions: dividend yield of 0%; volatility of 120%; risk free interest rate of 1.25%; an expected life of 0.92 years. As a result, the fair value of the stock options was estimated at $8,531 and the amount was recorded as part of the reverse takeover transaction cost in the unaudited consolidated statement of operations and comprehensive income (loss) for the year ended August 31, 2012.

On February 27, 2012, the Company granted to directors, officers, and consultants of the Company 2,333,333 stock options to acquire common shares of the Company. The Options will vest quarterly over a period of one year in four equal batches with the first batch vesting May 31, 2012 and are exercisable at a price of $0.25 per share for a period of two years from the date of issuance. The fair value of the stock options was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: dividend yield of 0%; volatility of 120%; risk free interest rate of 1.25%; and an expected life of 2 years. As a result, the fair value of the stock options was estimated as $98,020. $49,010 has been recorded as an expense in the statement of operations and comprehensive income (loss) during the year.

The following table summarizes stock options outstanding as at August 31, 2012:

Exercise prices ($)	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Exercise price for exercisable options ($)
0.10	360,000	0.39	360,000	0.10
0.25	2,333,333	1.50	2,333,333	0.25
0.23	2,693,333	1.35	2,693,333	0.23

The estimated weighted average fair value of share options granted during the year was $0.04 per option. The fair value of each share option grant was estimated on the date of grant, as determined by using the Black-Scholes option pricing model with the following weighted average assumptions:

	August 31, 2012	August 31, 2011
Risk-free interest rate (%)	1.25%	-
Expected life (years)	1.86	-
Expected volatility (%)	120%	-
Expected dividend yield (%)	0%	-

16. COSTS OF GOODS SOLD

	For the year ended August 31, 2012	For the year ended August 31, 2011
Labor	**$ 873,407**	$ 514,885
Materials	**526,175**	437,019
Equipment	**382,236**	691,807
Subcontractors	**1,504,008**	2,077,078
Total	**$ 3,285,826**	$ 3,720,789

(Expressed in United States Dollars)

17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended August 31, 2012	For the year ended August 31, 2011
Leasing	**$ 1,406,700**	$ 1,719,764
Management and consulting	**107,841**	118,000
Office, rent and miscellaneous	**437,568**	195,280
Professional fees	**75,161**	155,932
Salaries and wages	**479,248**	135,221
Travel	**96,274**	34,676
Total	**$ 2,602,792**	$ 2,358,873

18. OTHER EXPENSES

	For the year ended August 31, 2012	For the year ended August 31, 2011
Equity in net loss of a affiliates	**$ 50,948**	$ 14,387
Transaction costs (Note 4)	**420,163**	-
Interest expense (Note 13)	**201,394**	78,125
Total	**$ 672,505**	$ 92,512

19. GAIN ON DEBT FORGIVENESS

During the year ended August 31, 2011, a director and officer of the Company forgave $47,902 of amount due to him for expenses that he has paid on behalf of the Company in fiscal 2010.

20. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the year ended August 31, 2012 and 2011 is as follows:

	For the year ended August 31, 2012	For the year ended August 31, 2011
Income (loss) before income taxes for the year	**$ 1,479,191**	$ (4,087,593)
Expected income tax expense (recovery) at 25.5% (2011 – 27.17%)	**377,194**	(1,110,599)
Difference in foreign tax rates (34%)	**127,305**	(261,437)
Purchase price adjustment from lawsuit	**-**	-
Amortization of C6 assets	**477,417**	-
RTO transaction costs	**142,855**	-
Book gain on joint venture	**(2,780,520)**	-
Change in tax benefits not recognized	**1,655,749**	1,372,036
Income tax recovery reflected in the statement of operations	**$ -**	$ -

(Expressed in United States Dollars)

20. INCOME TAXES CONTINUED

Unrecognized deferred tax assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Other deductible temporary differences	**$ 384,000**	$ 220,000	$ 220,000
Mineral properties	**1,050,000**	1,200,000	1,350,000
Intangible assets	**1,325,631**	456,165	-
Non-capital losses carried forward – Canadian	**482,986**	462,000	213,000
Non-capital losses carried forward - US	**8,687,052**	4,696,040	914,612

The Company's non-capital loss carry forwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilized the benefits therefrom.

The Company's non-capital income tax losses expire as follows:

2028	**$ 7,000**
2029	**172,527**
2030	**948,085**
2031	**4,030,428**
2032	**4,011,998**
	$ 9,170,038

(Expressed in United States Dollars)

21. CAPITAL MANAGEMENT

The Company's objective in managing its capital, which consists of its shareholders' equity, is to safeguard all cash resources by investing in government or bank instruments which can be liquidated promptly and which yield an acceptable rate of return, and to issue from its treasury, shares, warrants and options which can be converted to cash. Treasury issuances of shares and warrants are part of the Company's capital raising process and are issued when cash is required, ideally under favorable market conditions, and with regard to dilution of the Company's capital structure. The exercise of warrants and options is under the control of the Company's management, as management represents three out of the four Board of Directors members. All capital transactions are subject to approval of the Company's directors. The Company is not subject to any regulatory capital requirements.

There were no changes in the Company's approach to capital management during the year ended August 31, 2012.

22. FINANCIAL INSTRUMENTS

Financial Risk Factors

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk (interest rate risk and currency risk).

Fair values

The Company's financial instruments include cash, amounts receivable, advances and accounts payable and other liabilities. The fair values of the financial instruments approximates their carrying values.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and amounts recoverable. Cash deposits are maintained with a financial institution of reputable credit and are redeemable on demand. Accounts receivable at August 31, 2012 is $1,617,443. The Company evaluates the credit worthiness of its partners and establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. As at August 31, 2012 and 2011 no allowance was considered necessary as all the Company's receivables are bonded.

Aging of Receivables as at August 31, 2012

0-30 days	31-60 days	61-90 days	Over 90 days	**Total**
$ 708,042	$ 71,847	$ 60,299	$ 777,255	**$ 1,617,443**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. To the extent that the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity funding, or engage in negotiations to extend terms with creditors. As at August 31, 2012, the Company has a working capital deficiency of $4,069,584. The Company manages liquidity risk through the management of its capital structure. See Note 21.

Interest-Rate Risk

The Company earns an immaterial amount of interest income, and the Company has a revolving line of credit for up to $350,000 from the International Bank of Commerce with a maturity date of April 25, 2012. Interest is New York prime rate + 1% with a minimum interest of 5.75% per annum. New York Prime rate is 3.25% as of the date of this report. As of August 31, 2012, the Company has drawn $335,400 (2011 - $nil and 2010 - $nil) from the facility. A director and officer of the Company has placed a personal guarantee on this facility.

(Expressed in United States Dollars)

23. COMMITMENTS AND CONTINGENCIES

Prestige Thermal Americas LLC

The Company is to provide or secure rights to an approximately [40,000 square feet] manufacturing facility to be utilized for manufacturing and assembly of the technology licensed to the Company by GEI Green Energy Industries (pty) Ltd. at a future date to be determined by the Managers of PTA.

Leases

On May 17, 2010 the Company entered into a lease agreement in Tishomingo County in Mississippi for a portion of the Tri-State Commerce Park. The lease is for a 65 acre portion of the 3,500 acre property as well as 3,500 sq/ft of furnished office space. At the Company's option it may lease additional portions of the properties under similar terms and conditions. The office space has minimum lease payments of $4,200 annually.

Additional lease payments for the 65 acres being leased are calculated as 5% of gross revenue or $1,000 per month, whichever is greater, for onsite projects with annual payments capped at $350,000 once 20 full time employees are hired and $250,000 once 30 full time employees are hired.

The Company entered into the following leases in the Sonora and Campeche areas of Mexico:

Effective Date	Lease	Location	Acres	Annual Rental Payment (0-3 years) common shares	Annual Rental Payment (3-25 years)	Optional Purchase Price	Original Lease Term
June 1, 2010	Mexico #1	Senora, Mexico	12,105	$ 1,000,000	$ 1,000,000	$ 10,000,000	25
June 1,2010	Mexico #2	Campeche, Mexico	897	$ 76,000	$ 76,000	$ 760,000	25
April 12, 2010	Texas #1	Beaumont, Texas, USA	14	$ 15,000	$ 15,000	$ 300,000	25

Lease payments for the first three years from the effective date of the lease are payable in common stock of the Company. Subsequent years are payable with equity in onsite development projects. If lessor declines payment with equity in onsite developments then the lease payments, at the option of the Company, are payable in cash or common stock of the Company. At the end of the first three years, if the value of the shares issued has a fair market value of less than $1.00 per share, the Company will be required to pay the difference in cash or additional shares of the Company. Until the properties are utilized, developed, or improved by the Company, the landlord is responsible for maintenance, taxes, and insurance on all of the properties. The Company has the option to purchase the land, payable in cash or common shares of the Company, at any time.

On November 30, 2010, the Company assigned the leases to Z Carbon Companies Corp. (Z Carbon"), a company with common shareholders and directors. The shares of the Company required to be issued in the original lease will be transferred from shares already issued to directors and officers on behalf of Z Carbon. Z Carbon is considered a Special Purpose Entity ("SPE") in accordance with *SIC-12 Consolidation – Special Purpose Entities* because Z Carbon is controlled by officers and directors of the Company. Its accounts have been consolidated into these consolidated financial statements. Z Carbon made an annual lease payment for the year ended August 31, 2012 which is included in the statement of financial position and holds no other assets or liabilities other than the leases.

23. COMMITMENTS AND CONTINGENCIES – CONTINUED

The leases may be terminated by the Company after the initial 3-year term, upon sixty days notice by the lessee.

Included in accounts payable and accrued liabilities at August 31, 2012 is $1,740,952 related to unpaid leases (August 31, 2011 - $347,452; October 31, 2010 – nil). Lease expense recognized in general and administrative expense for the year ended August 31, 2012 was $1,406,700 (August 31, 2011 - $1,719,764; October 31, 2010 – nil).

(Expressed in United States Dollars)

24. RECONCILIATION OF CONSOLIDATED FINANCIAL STATEMENTS TO IFRS

A. Reconciliation of consolidated statement of financial position as at September 1, 2010

	Canadian GAAP (Note 3) $	Effects of transition to IFRS $	IFRS $
ASSETS			
Current			
Accounts receivable	200,568	-	200,568
Prepaid expenses	1,361,047	-	1,361,047
Total Current Assets	1,561,615	-	1,561,615
Machinery & Equipment	222,440	-	222,440
Mitigation Land	45,800,000	-	45,800,000
Exploration and evaluation assets (a)	4,879,075	(4,879,075)	-
Investment in EnCap Investments Inc.	56,000	-	56,000
Total Assets(a)	52,519,130	(4,879,075)	47,640,055
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and Accrued Liabilities	335,184	-	335,184
Shareholders' equity			
Share capital (1)	54,782,286	-	54,782,286
Deficit (a)	(2,598,340)	(4,879,075)	(7,477,415)
Total Equity (a)	52,183,946	(4,879,075)	47,304,871
Total Liabilities and Shareholders' Equity	52,519,130	(4,879,075)	47,640,055

(1) Prior to the RTO, the Company reported using a par-value share structure, which has been revised as the Company has no par-value shares as a result of the RTO. This change had no impact on the Total Equity.

References to the IFRS conversion adjustments:

The adoption of IFRS has had no material impact on the cash flows of the Company, and as such, no reconciliation of prior year cash flows has been presented.

(a) On transition to IFRS, the Company adopted a policy to expense exploration and evaluation expenditures as incurred. Previously, the Company's Canadian GAAP policy was to capitalize exploration and evaluation expenditures as incurred. As a result of this adoption, all previously capitalized exploration and evaluation assets were written off against accumulated deficit.

(Expressed in United States Dollars)

24. RECONCILIATION OF FINANCIAL CONSOLIDATED STATEMENTS TO IFRS CONTINUED

B. Reconciliation of consolidated statement of financial position as at the year ended August 31, 2011

	Canadian GAAP $	Effects of transition to IFRS $	IFRS $
ASSETS			
Current			
Cash	1,078,935	-	1,078,935
Accounts receivable	3,392,195	-	3,392,195
Total Current Assets	4,471,130	-	4,471,130
Investment in Non-consolidating Affiliates	11,942,450	-	11,942,450
Machinery & Equipment	361,295	-	361,295
Mitigation Land	45,800,000	-	45,800,000
Investment in EnCap Investments Inc.	56,000	-	56,000
Intellectual Property Assets	15,728,312	-	15,728,312
Customer List	479,167	-	479,167
Goodwill	2,592,309	-	2,592,309
Total Assets	81,430,663	-	81,430,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and Accrued Liabilities	2,989,824	-	2,989,824
Billings in Excess of Costs and estimated earnings	1,223,456	-	1,223,456
Current portion of debt	78,125		78,125
Due to Related Parties	140,848	-	140,848
Long Term Liabilities			
Long Term Debt	3,750,000	-	3,750,000
Total Liabilities	8,182,253	-	8,182,253
Shareholders' equity			
Share capital	84,813,418	-	84,813,418
Contributed surplus	-	-	-
Deficit	(11,565,008)	-	(11,565,008)
Total Equity	73,248,410	-	73,248,410
Total Liabilities and Shareholders' Equity	81,430,663	-	81,430,663

(Expressed in United States Dollars)

24. RECONCILIATION OF CONSOLIDATED FINANCIAL STATEMENTS TO IFRS CONTINUED

C. Reconciliation of consolidated statement of comprehensive income for the year ended August 31, 2011

	Canadian GAAP $	Effects of transition to IFRS $	IFRS $
REVENUE	3,805,516	-	3,805,516
Cost of Goods Manufactured	3,720,789		3,720,789
Gross Margin	84,727	-	84,727
EXPENSES			
General and administrative	2,358,873	-	2,358,873
Amortization and Depreciation	1,768,837	-	1,768,837
Other expenses	92,512	-	92,512
Total Expenses	4,220,222	-	4,220,222
Loss before debt forgiveness	(4,135,495)	-	(4,135,495)
Debt forgiveness	47,902	-	47,902
Net loss and other comprehensive loss for the period	(4,087,593)	-	(4,087,593)

(Expressed in United States Dollars)

25. SEGMENTED REPORTING

Financial reporting by operating segment is based on the internal organization and activities of the Company that are regularly provided to the chief operating decision maker. and corresponds to the following reportable segments:

- The energy efficiency and related construction services segment consists of the operations of Teposolar and affiliate ICM.
- The environmental segment consists of the generation of mitigation credits and the operations of affiliate East Bay Farms LLC.
- The technology segment consists of the technology development, management, licensing, and the operations of the Prestige Thermal Americas LLC joint venture.

Year ended August 31, 2012

	Energy Efficiency	Technology	Environmental	Reconciliation	LCTI
Revenue	$ 3,578,845	$ -	$ -	$ -	$ 3,578,845
COGS	3,285,826	-	-	-	3,285,826
Gross profit	293,019	-	-	-	293,019
Operating Expenses	803,794	1,406,700	24,999	367,299	2,602,792
Interest expense	196,085	-	-	5,309	201,394
Transaction costs	-	-	-	420,163	420,163
Depreciation and amortization	129,489	3,587,042	-	-	3,716,531
Gain from joint venture	-	8,178,000	-	-	8,178,000
Loss from affiliate	(3,323)	-	(47,625)	-	(50,948)
Income (loss)	$ (839,672)	$ 3,184,258	$ (72,624)	$ (792,771)	$ 1,479,191

Assets	Energy Efficiency	Technology	Environmental	Reconciliation	LCTI
Cash	$ 670,076	$ -	$ -	$ 2,486	$ 672,562
Accounts Receivable	1,543,687	-	-	73,756	1,617,443
Prepaid expenses	550	-	-	560	1,110
Total current assets	$ 2,214,313	$ -	$ -	$ 76,802	$ 2,291,115
Investments in affiliates	1,578	-	12,039,894	-	12,041,472
Investment in joint venture	-	8,178,000	-	-	8,178,000
Machinery and equipment	432,181	222,440	-	1,375	655,996
Mitigation land	-	-	45,800,000	-	45,800,000
Intellectual property assets	-	28,991,271	-	-	28,991,271
Customer list	429,167	-	-	-	429,167
Goodwill	2,592,309	-	-	-	2,592,309
Total non current assets	$ 3,455,235	$ 37,391,711	$ 57,839,894	$ 1,375	$ 98,688,215

(Expressed in United States Dollars)

25. SEGMENTED REPORTING CONTINUED

Year ended August 31, 2011

	Energy Efficiency	Technology	Environmental	Reconciliation	LCTI
Revenue	$ 3,805,516	$ -	$ -	$ -	$ 3,805,516
COGS	3,720,789	-	-	-	3,720,789
Gross profit	84,727	-	-	-	84,727
Operating Expenses	306,232	1,719,764	-	332,877	2,358,873
Interest expense	78,125	-	-	-	78,125
Depreciation and amortization	34,080	1,734,688	-	69	1,768,837
Loss from affiliate	-	-	(14,387)	-	(14,387)
Gain on debt forgiveness	-	-	-	47,902	47,902
Loss from affiliate	$ (333,710)	$ (3,454,452)	$ (14,387)	$ (285,044)	$ (4,087,593)

Assets	Energy Efficiency	Technology	Environmental	Reconciliation	LCTI
Cash	$ 1,074,747	$ -	$ -	$ 4,188	$ 1,078,935
Accounts Receivable	3,392,195	-	-	-	3,392,195
Total current assets	$ 4,466,942	$ -	$ -	$ 4,188	$ 4,471,130
Investments in affiliates	-		11,942,450	-	11,942,450
Machinery and equipment	138,855	222,440	-	-	361,295
Mitigation land	-	-	45,800,000	-	45,800,000
Investment in Encap Investments Inc.	-	-	-	56,000	56,000
Intellectual property assets	-	15,728,312	-	-	15,728,312
Customer list	429,167	-	-	-	429,167
Goodwill	2,592,309	-	-	-	2,592,309
Total non current assets	$ 3,160,331	$ 15,950,752	$ 57,742,450	$ 56,000	$ 76,909,533

(Expressed in United States Dollars)

25. SEGMENTED REPORTING CONTINUED

As at September 1, 2010

Assets	Energy Efficiency	Technology	Environmental	Reconciliation	LCTI
Cash	$ -	$ -	$ -	$ -	$ -
Accounts Receivable	-	-	-	200,568	200,568
Prepaid expenses	-	1,361,047	-	-	1,361,047
Total current assets	$ -	$ 1,361,047	$ -	$ 200,568	$ 1,561,615
Machinery and equipment	-	222,440	-	-	222,440
Mitigation land	-	-	45,800,000	-	45,800,000
Investment in Encap Investments Inc.	-	-	-	56,000	56,000
Total non current assets	$ -	$ 222,440	$ 45,800,000	$ 56,000	$ 46,078,440

26. SUBSEQUENT EVENTS

On September 25, 2012 the terms of the promissory note and associated debt related to the acquisition of Teposolar and its subsidiary C&I (Note 12) were modified. The modified terms of the promissory note are as follows:

1. The principal sum of the promissory note was reduced from $3,750,000 to $2,500,000.
2. All interest accrued from April 1, 2011 to September 25, 2012 was forgiven.
3. Two equal payments of $1,250,000 are due on October 1, 2014 and October 1, 2015.
4. Interest shall accrue at the rate of 5% per annum following the date of the first payment on October 1, 2014.