Management Discussion and Analysis
For The Nine Months Ended June 30, 2013

The following discussion and analysis ("MD&A") as of August 28, 2013 should be read in conjunction with the Interim Consolidated Financial Statements of Sustainable Energy Technologies Ltd. ("Sustainable", "Sustainable Energy" or the "Company") and notes for the period ended June 30, 2013.

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

FORWARD LOOKING INFORMATION

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

In particular we include: statements on the future size of the distributed energy storage market; statements concerning the advantages of our products and technologies which make assumptions concerning manufactured costs, statements concerning sales and average selling prices; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

Our conclusions concerning the size of the addressable energy storage market are based on certain critical assumptions and general conclusions concerning the future of the solar PV industry, the market segmentation, emerging market dynamics and estimated factory gate prices for solar PV modules and inverters in our power ratings. These are described in greater detail in our Annual Information Return ("AIF") in respect of the fiscal period ending September 30, 2012 and dated January 28, 2013, which may be found on SEDAR at www.sedar.com and on our website.

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

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

BUSINESS OVERVIEW: HISTORY, VISION AND STRATEGY, AND CORE BUSINESS

A detailed overview of Sustainable Energy's business, including a summary of our history, business strategy, industry outlook, and core business is provided in the Management Discussion and Analysis ("MDA") and Annual Information Form ("AIF") for the financial year ended September 30, 2012. Our MDA and AIF may be found, together with all our public documents, at www.sedar.com.

Management Discussion of Operations

Overview

Sustainable Energy is ahead of plan to position its "Bi-Direx" platform as the premium energy storage electronics solution for residential and small commercial energy storage. Building on proven proprietary technology the Bi-Direx platform can charge and discharge batteries in these applications with higher electrical conversion efficiencies than any other product or combination of products in the market.

We have focused on suppliers of energy storage solutions – battery manufacturers and energy management service companies – wishing to develop value added solutions built around their own core value propositions. We have successfully levered our efficiency advantages with a long time design philosophy that supports a highly competitive and profitable OEM business model.

The Bi-Direx platform was originally designed to allow the core electronics to be directly integrated into the final product solution reducing total system cost. In addition the control architecture of software configurable electronics we developed from the outset with a view to allowing an OEM partner to easily adapt inverter functionality during product development to optimize the OEM partner's proprietary advantages and to increase speed to market of new product iterations. This is unique to the power inverter industry.

Our business model is also driving a fundamentally lower cost operating structure where our marketing and business development is focused on identifying applications where our efficiency advantage is important and on building longer term OEM relationships where the Bi-Direx platform is sole sourced or is the preferred solution. A comparatively small engineering team is able to customize the Bi-Direx platform for the desired application and to support OEM partner integration.

Utilizing a software configurable platform, we have been able to outsource manufacturing for multiple customers and to limit our investment in working capital needed to ramp production. We are on track to achieve our manufactured cost targets, and we expect to be able to materially reduce our landed cost by transferring Bi-Direx production for local markets.

We reduced total operating costs for the last nine month period from $3,124,158 in 2012 to $2,724,198 this year. We achieved savings in each category. Only product research and development is up from $517,603 in 2012 to $730,812 for the nine months ending June 30, 2013 reflecting our investment in developing core functionality for the energy storage applications and in product certification in the U.S. and Japan.

Changing to the more competitive and more focused business model necessarily entailed a significant short term reduction in top line revenues as we re-directed resources to the higher value opportunity and away for the more expensive solar distribution model. Product sales were down materially from $2,414,628 for the first nine months in 2012 to $132,748 this year. Revenues are recovering in the current Quarter, and we expect to see strong growth in revenues and bottom line contributions over the next year.

We were severely constrained financially during Q3, due to the last minute failure of tenKsolar to close in February on the purchase of a license for a minimum $2.5 million. We had originally expected this transaction to finance the transition to our new model and market focus. We have since completed three financings to raise a total of $2.7 million, replacing the license fees lost on the tenKsolar transaction during Q2, 2013.

Europe

We are on plan in Europe. During Q3, 2013, we executed a 10,000 unit, 2-year exclusive supply contract with Prosol Invest Deutschland GmbH ("Prosol") to supply energy storage inverters for Prosol's market leading Sonnenbatterie residential energy management system. Sonnenbatterie is one of a small number of fully integrated energy management systems marketed as consumer products for residential and small commercial solar based energy storage applications. Prosol is the number one player in this market with a strong network of regional distributors as well as several pan European private label partners including RWE, E-On and Kyocera.

Electrical conversion efficiency has emerged as a key competitive metric earlier than we anticipated, and the materially higher round trip (charging and discharging) efficiency of our energy storage inverter is a key differentiator of the Sonnenbatterie product line in its market.

Since signing the agreement with Prosol in May, our engineering team successfully completed customization of the electronics circuits for 2.5 kW, 3.3kW and 5.0kW single phase platforms, which can be used alone to support single phase Sonnenbatterie systems, or in combinations of three to support 7.5kW 10kw and 15 kW three phase Sonnenbatterie systems supporting energy storage systems with up to 100 kilowatt hours of storage time.

First deliveries of the inverter platforms began at the end of June, less than 45 days after execution of the agreement, - a very significant achievement. Integration of the electronics into the Sonnebatterie product suite is complete for single phase product and is expected to be completed for three phase products in September.

London based, IHS Research is forecasting approximately 2 Gigawatts of residential solar energy systems to be installed in Germany alone, between now and the end of 2017, with growth accelerating in 2014. The market is accelerating and every indication is that Prosol is maintaining its lead. We expect demand to be choppy in terms of product mix and volumes over the next two Quarters, but firming up in the first half of 2014 as the market evolves. A key variable for Sustainable Energy will be the mix between single phase and three phase systems since the three phase system requires 3 sets of Bi-Direx platforms instead of a single Bi-Direx for each Sonnenbatterie unit sold. This would be positive to the Company.

Japan

We are on plan to achieve our goal of partnering with one or more of the leading companies in Japan to deliver solar energy storage solutions which lever the same core advantages of higher efficiency, lower cost and ease of integration. The evidence is that competitive solutions in the Japanese market have much lower conversion efficiencies than Bi-Direx and are more costly and cumbersome.

The response to Bi-Direx in Japan has been positive, and the Company is now actively engaged with several leading Japanese electronics companies leading to an OEM style agreement which builds around the Bi-Direx advantages to supply higher value added energy storage solutions for Japan and other export markets.

Our parallel goal is to use one of the OEM relationships to also collaborate on manufacturing and distributing our solar inverter in Japan which is now well advanced in the certification review for that market. Japan will be #2 after China in solar installations this year and we are already seeing demand for the product which we are unable to support from Canada. Our target is to see first sales into Japan during the first half of CY 2014.

United States

We are ahead of plan in the U.S. Whereas we had anticipated demand to come mainly from developers of micro-grids for remote industrial and military applications (See Q2, MD&A page: 3), we are now seeing significant interest from battery manufacturers to create value added battery packs for back-up power and on-site peak shaving applications. The Bi-Direx inverter is quickly gaining recognition within the industry as the premium energy storage inverter, and we are optimistic that we will see higher product sales than originally anticipated into the back-up power market beginning in the first half of CY 2014.

We are delivering on two sub-contracts with defense contractors for military micro-grid applications, which are proving the value of Bi-Direx in this application. Feedback is that our unique open control architecture, which facilitates system optimization, is a key differentiator in addition to higher conversion efficiencies. We continue to believe this will be a growth segment of the market based mainly on the ability of solar electricity to compete as a diesel fuel saver.

Management Discussion of Financial Results

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES

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

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

Net loss and comprehensive Loss

The Net Loss for the quarter ended June 30, 2013 was $1,843,602 compared to $1,623,812 at June 30, 2012, an increase of $210,790 (13%). Adjusting for non-cash items the Net Loss at June 30, 2013 decreased by $103,683 to $820,362 (11%) compared to $924,045 in 2012. The Net Loss for the nine months ended June 30, 2013 was $4,759,700 compared to $4,616,123 at June 30, 2012, an increase of $143,577 (3%). Adjusting for non-cash items the Net Loss for the nine months ended at June 30, 2013 decreased by $266,736 to $2,007,379 (12%) compared to $2,274,115 in 2012.

Cash Flow Used in Operations

Cash flow used in operations for the quarter ended June 30, 2013 was $558,558 compared to a cash surplus of $106,805 in 2012. This represents a decrease of $665,363. Cash flow used in operations for the nine ended June 30, 2013 was $1,342,519 compared to a cash deficit of $1,096,905 in 2012. This represents an increase of $245,614 or 22%.

Sales and Gross Margin

Sales for the quarter ended June 30, 2013 were $15,819, compared to $516,426 for the same quarter in 2012. Sales for the nine months ended June 30, 2013 were $132,748 compared to $2,414,628 for the same period in 2012. The decline in sales was due primarily to our decision to focus our resources on securing a position in the energy storage market which has been successful.

Cost of sales for the quarter ended June 30, 2013 were $12,066, less an inventory adjustment of $27,653 to yield a gross margin of $31,406 or 198% of total revenues. The high percentage margin for the quarter reflects relatively minor one-time inventory adjustments which have an exaggerated impact with low volume sales. Cost of sales for the nine months ended June 30, 2013 were $62,723 to yield a gross margin of $70,025 or 53% of total revenues.

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

Operating Costs

During the nine months ended June 30, 2013 we continued to cut fixed operating costs and we now have a fundamentally lower operating cost structure than one year ago.

- We reduced operating costs (manufacturing and logistics overhead) costs from $263,602 for the quarter ended June 30, 2012 to $190,680 for the quarter ended June 30, 2013. For the nine month period ended June 30, 2013, operating costs were reduced from $857,971 for the nine months ended June 30, 2012 to $575,189.
- General and administrative costs ("G&A") (which include stock based compensation) decreased by $123,715 from $481,595 for the quarter ended June 30, 2012 to $357,880 for the quarter ended June 30, 2013. G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees investor relations fees and travel for all personnel. G&A for the nine ended months June 30, 2013 was reduced by $246,065 from $1,280,162 for the same period in 2012 to $1,034,097.
- We increased our investment in selling and marketing by $25,390 to $144,750 for the quarter ended June 30, 2013 compared to $119,360 for the same period in 2012. Sales and marketing for the nine months ended June 30, 2013 were cut by $84,422 to $384,100 compared to $468,522 for the same period in 2012. This reflects a shift towards a business development model to support our OEM strategy which requires fewer resources.
- Product research and development costs for the quarter ended June 30, 2013 were up by $148,175 to $287,296 from $139,121 for the quarter ended June 30, 2012. Product research and development costs increased by $213,209 from $517,603 for the nine months ended June 30, 2012 to $730,812 for the nine months ended June 30, 2013. The increase reflects increased investment in customization of the product platform for Prosol and for product certification in North America and Japan.

Amortization

Amortization of development costs was $100,312 for the quarter ended June 30, 2013 compared to $48,916 in the same period in 2012. Amortization of development costs was $296,026 for the nine months ended June 30, 2013 compared to $146,750 in the same period in 2012. The increase is a result of a determination to accelerate amortization of cost incurred prior to 2003 as a result of the development of the STX inverter platform which replaces the previous platformThe amortization of capital assets for the quarter ended June 30, 2013 was $13,936 compared with $25,914 for 2012. The amortization of capital assets for the nine months ended June 30, 2013 was $35,897 compared with $90,744 for 2012.

Financing Costs

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

Accretion accrued for the First Preferred Shares was $777,683 for the quarter ended June 30, 2013 compared to $515,245 for the same period in 2012. Accretion accrued for the First Preferred Shares was $2,104,622 for the nine months ended June 30, 2013 compared to $1,468,164 for the same period in 2012. Interest accrued for the participating debenture issued in 2012 was $20,898 for the quarter ended June 30, 2013 and $70,343 for the nine months ended June 30, 2013 including interest based on a percentage of top line revenues. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $73,176 compared to $44,000 for the quarter ended June 30, 2013 and $205,176 compared to $194,303 for the nine month period. Accretion of the obligation to repay government contributions to research and development was $11,486 for the quarter ended June 30, 2013 by comparison to $Nil for 2012 and $37,985 compared to $Nil for the nine month period. Interest on the convertible debenture for the quarter and nine month period ending June 30, 2013 was $15,060.

Other interest charges for the nine months ended June 30, 2013 were $345 compared to $26,609 for the same period 2012.

The financing costs paid were $14,898 during the quarter ended June 30, 2013 compared to $20,537 for the same period in 2012. The financing costs paid during the nine months ended June 30, 2013 was $52,885 compared to $54,861 at March 31, 2012.

Foreign Exchange

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

Summary of Quarterly Results

For the periods ended:

	2013			2012				2011
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Sales	15,819	46,768	70,161	880,652	516,426	904,841	1,011,215	1,013,881
Net (loss)	(1,843,602)	(1,276,247)	(1,639,851)	(760,287)	(1,632,812)	(1,398,873)	(1,526,393)	(476,294)
Per share – basic and diluted	(0.09)	(.06)	(0.08)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)

Summary of Annual Information

	2013	2012
	3 Qtrs	4 Qtrs
Revenues	132,748	3,313,134
Net loss	(4,759,700)	(5,318,365)
Per share – basic and diluted	(0.23)	(0.03)
Total assets	4,610,533	5,084,388
Non-current liabilities	15,128,475	8,695,383
Declared dividends	-	-

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

Summary of expenses

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

Product research and development

	2013	2012
Employee Compensation	243,690	221,766
Consumables	114,235	19,065
Travel	19,858	9,258
Other	57,003	30,560
Amortization	296,026	95,263
Total	730,812	375,912

The above noted columns represent the expenses for the nine months ended June 30 respectively.

Operations

	2013	2012
Employee Compensation	473,393	593,928
Consumables	7,074	22,858
Travel	12,098	7,334
Freight and storage	37,879	171,368
Other	44,745	62,483
Total	575,189	857,971

The above noted columns represent the expenses for the nine months ended June 30 respectively.

Sales and marketing

	2013	2012
Employee Compensation	159,720	304,812
Travel	42,141	33,263
Marketing	91,504	71,462
Other	90,735	58,985
Total	384,100	468,522

The above noted columns represent the expenses for the nine months ended June 30 respectively.

General and administration

	2013	2012
Employee Compensation	288,984	376,673
Stock based compensation	(9,096)	85,209
Travel	8,384	22,172
Rent	152,108	220,004
Audit & accounting fees	190,346	235,594
Legal fees	169,315	43,006
Other	198,159	206,760
Amortization	35,897	90,744
Total	1,034,097	1,280,162

The above noted columns represent the expenses for the nine months ended June 30 respectively.

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $251,742 at June 30, 2013 by comparison to $703,924 at September 30, 2012. The components are comprised of cash of $166,186, finished product inventory totaling $465,177, component inventory totaling $2,369,674, prepaid expenses and deposits in the amount of $323,222, which are mainly accrued finance costs and accounts receivables and advances in the amount of $439,406.

Accounts payable and accrued liabilities at June 30, 2013 were $2,178,462 compared to $1,816,285 at September 30, 2012. The increase in accounts payable and accrued liabilities from September 30, 2012 was caused mainly by the deposit amounting to $314,551 received for the supply contract with tenKsolar. Although the Company is of the view that the deposit has been forfeited by reason of a breach of contract on the part of tenKsolar, it continues to record this amount as, deferred revenue pending resolution of the matter with tenKsolar in which event it is expected that the amount will be brought into revenue. The deposit of $250,000 for the license agreement has been forfeited by tenKsolar and is recognized as other income in the second fiscal quarter of 2013.

The Company has an operating line with HSBC Canada in the amount of $1.5 million which is secured by a Standby Equity Agreement with Doughty Hanson. As of June 30, 2013 the outstanding Company's operating line was $1,131,329. Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

During Q1, the Company issued 50,000 Series 13 First Preferred Shares to Doughty Hanson which resulted in a cash inflow of $500,000 to provide working capital for the Company. The Series 13 Preferred Shares are convertible at a price of $0.40 and mature on December 27, 2017. During the same period the CEO of the Company loaned the Company $100.000. The amount has been repaid following period end with the CEO investing the proceeds plus an additional amount to acquire $120,000 in Royalty Debenture Units subsequent to period end. (Note 17)

During Q1, the Company agreed to sell a non-exclusive manufacturing license to tenKsolar for $2.5 million to be paid $1,750,000 on closing, $500,000 on June 30 2013 and $250,000 on December 31 2013. The proceeds of the sale were intended to finance the Company's shift in its strategy to focus on energy storage applications. At the same time, the Company entered into a Supply Contract with tenKsolar, under which tenKsolar committed to take a minimum number of inverters in the 2013 calendar year having an aggregate value of approximately $2.9 million.

tenKsolar failed to complete the purchase of the license and forfeited its deposit of $250,000. tenKsolar also did not take any of the minimum committed volumes under the Supply Contract and the Supply Contract was unilaterally terminated by tenKsolar. The Company has retained the $314,551 deposit and is considering its options on the recovery of the balance of its loss. The Company estimates the overall loss net of the deposit at approximately $785,000.

To replace the lost funding from the tenKsolar sale the Company entered into a series of financing transactions resulting in gross proceeds to the Company totaling $2,725,000

- On March 25, 2013 the Company issued an unsecured 8% Convertible Debenture in the amount of $500,000 convertible into 50,000, $10, 8%, 5yr First Preferred Shares ("Preferred Shares") of Sustainable Energy and 4,750,000 common share purchase warrants exercisable for a period of 6 months at an exercise price of $0.105 per share. The Convertible Debenture was converted into Preferred Shares on April 16 2013 with the Company issuing 50,000 Series 14 First Preferred Shares convertible into common shares of the Company at an exercise price of $0.105 per share.

- On April 16, 2013, the Company also issued 65,000 8%, 5 yr Series 15 First Preferred Shares to a private investor and insiders of the Company resulting in a cash inflow of $650,000 plus 780,000 common share purchase warrants exercisable for a period of one year at an exercise price of $0.12 per share
- Subsequent to period end, the Company agreed to issue 5 yr Secured Debentures totaling 1,800,000 plus a mix of bonus common shares and/or 4 yr common share purchase warrants exercisable at a price of $0.50 per share depending on options exercised by each subscriber. The Debenture Units are being issued at an origination discount of 12.5% to realize gross proceeds of $1,575,000

  Each $20,000 Royalty Debenture bears interest at a rate of 3% per annum, plus an amount equal to 2/100 of 1% of the consolidated revenues realized by the Company, both payable quarterly in arrears. The royalty Debentures are callable by the Company at par at any time after August 1, 2015; and if not called, will be amortized in 12 equal quarterly installments beginning August 1, 2015.

  A total of 424,000 Common Shares and 576,000 Warrants were issued under the private placement with management of the Company subscribing for approximately 13% of the issue. In connection with the issue the Company will pay a total of $13,125 cash commissions and issue 26,250 broker warrants (the Broker Warrants) entitling the holder to acquire one common share at a price of $0.50 per share for a period of one year from the date of issue.

The Series 13, Series 14 and Series 15 Preferred Shares are similar in all respects and rank parri passu with other Series of Preferred Shares except for the maturity date and the number of common shares into which the Preferred Shares are convertible.

The Debentures are virtually identical to and will rank parri passu with $800,000 Royalty Debentures issued on June 29, 2012. As consideration for agreement to rank debentures parri passu the Company has agreed to release restricted bonus common shares and to defer its right to call the Debentures for a period of one year.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises and equipment, which have been disclosed in the note 22 to the Financial Statements.

Related Party Transactions

Other than as disclosed elsewhere in the unaudited condensed interim consolidated financial statements, the Company had the following related party transaction: Included in general and administrative expense is salaries and benefits for key management personnel and directors of $109,800 and $257,349 respectively for the three months and the nine months ended June 30, 2013 (2012 - $86,480 and $276,538) and share based compensation of $Nil for the three months and nine months ended June 30, 2013 (2012 - $4,884 and $12,770). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $37,500 and $124,500 respectively for the three months and nine months ended June 30, 2013 (2012 – 50,000 and $150,000) and share based compensation of $5,792 and $25,682 for the three months and nine months ended June 30, 2013 respectively (2012 – 12,943 and $23,378).

Key management personnel and directors subscribed for $69,000 of the debentures (Note 9) issued in June 2012 and received 138,000 (2012 – nil) bonus shares (Note 10) valued at $6,900 (2012 - $nil) as at June 30, 2013.

In April 2013, key management personnel and directors subscribed for $80,000 of First Preferred Shares Series 15 (Note 11) and received 96,000 detachable warrants valued at $6,432 as at June 30, 2013.

Financing costs of $2,903 and $8,490 respectively for the three months and nine months ended June 30, 2013 (2012 - $nil and $nil) respectively related to the debentures, First Preferred Shares Series 15 and amount received from a director have been included in the statement of loss.

Consolidation Common Share Capital

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

Disclosure of Outstanding Share Data

As at August 28, 2013, 21,417,789 common shares and 1,137,086 First Preferred Shares convertible at the option of the holder into 25,331,346 common shares were issued and outstanding. The conversion for the preferred shares includes a fixed conversion and the conversion of unpaid dividends on the First Preferred Shares to be converted to common shares. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion and therefore is variable. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to August 28, 2013. The actual number of common shares that would be issued will vary from this estimate based on the share price and the amount of unpaid dividends at the time of conversion. As at August 28, 2013, First Preferred Shares are convertible into 25,331,346 common shares compared to 28,014,868 indicated in Note 12 as of June 30, 2013.

In addition, common share purchase warrants, representing the right to acquire 1,250,000 common shares at an exercise price of $0.50 per share, common share purchase warrants representing the right to acquire 4,750,000 common shares at $0.105, common share purchase warrants representing the right to acquire 780,000 common shares at a price of $0.12 and 3,529,411 common share purchase warrants representing the right to acquire at $0.17.

The Company had employee stock options outstanding entitling the holders thereof to acquire up to 2,676,019 common shares, of which options to acquire common shares up to 1,285,206 had vested. The weighted average exercise price of the vested options is $1.73 per share.

Risks and Uncertainties

Going Concern

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

At June 30, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $27,512,218, after a reclassification of $30,000,000 from share capital ($22,752,518 at September 30, 2012) and recognized a cash flow deficiency from operations at June 30, 2013 of $1,342,519 (2012 - $(1,096,905)). Whether and when the Company can attain profitability and positive cash flows is uncertain.

Although the lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern, the Company had a working capital surplus of $251,742 at June 30, 2013 ($703,924 at September 30, 2012). At June, 2013, there was $328,691 in deferred revenue that will become income at some point in the future and this will increase the working capital amount accordingly.

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. Subsequent to period end the Company completed an issue 90 Royalty Debenture Units to realize net proceeds before the costs of the issue of $1,575,000 to provide additional working capital and expects to raise additional capital on the exercise of “in the money” warrants expiring September 15, 2013.

Operating Losses

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

Market Acceptance

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

Dependency on Government Policies

Our business model is highly dependent on growth of solar power and energy storage as part of the power grid in many different countries. In some markets demand for our products is still dependent on government pricing policies and incentives. If pricing policies change there is a risk that demand for our products would be materially affected. A significant assumption of our business plan is growth in the demand for electronics to be used with distributed energy systems. Although industry forecasts are very optimistic these forecasts make many assumptions the most significant of which is that the cost of high efficiency batteries will decline quickly with continued investment. This may not occur in which event the energy storage industry will develop much more slowly than we anticipate reducing demand for our products and interest in our technology.

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

Competition and Technological Change

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

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

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

Manufacturing Cost Targets

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

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

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

Operation and Supplier Risk

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

Dependence on Customers

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

Foreign Exchange

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

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

Attracting and Retaining Key Personnel

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