

Management Discussion and Analysis
For The Three Months Ended December 31, 2012

The following discussion and analysis ("MD&A") as of March 1, 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 December 31, 2012.

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

FORWARD LOOKING INFORMATION

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

In particular we include: statements on the future size of the 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 circrstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

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

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

SIGNIFICANT DEVELOPMENTS DURING 3 MONTH PERIOD

Distributed Energy Storage

Certainly, the most significant development during the Quarter ended December 31, 2012 was the validation of our belief that our energy storage inverter or "AC Battery" as it has been referred to has the potential to become an industry standard. During the second half of CY 2012, we devoted resources to marketing our inverter platform in Germany which will be the early market leader in distributed energy storage followed by Japan which most believe will quickly overtake Germany and the United States.

In early February, 2013, we reached an agreement in principle with the leading developer of energy management systems in Germany to incorporate our energy storage inverter platform into its energy management systems. Power electronics are the critical interface between the high efficiency batteries, the load and the power grid. –Cost, design, simplicity and efficiency are the key drivers in the choice of electronics. We secured this agreement because our solution has material cost, simplicity and efficiency advantages. We estimate a cost advantage between 40% and 80% for competitive grid tied energy storage solutions and a round trip (charging and discharging) efficiency advantage of 6 – 12 percentage points.

The minimum commitment is for 10,000 units over the two years beginning next Quarter in Q3 with customer forecasts coming in considerably higher.

Pricing is confidential but in line with value for solar inverters and margins are attractive. In this case we are delivering only the core power electronics components which are directly integrated into the partner developed product. This is aligned with our restructured operating model to outsource core subassemblies with easy low cost final assembly by us or by our OEM partners

Germany is the world leader in power electronics and aims to be the world leader in power electronics for energy storage adding further weight to the significance of this success. In the weeks that have followed we continue to receive positive validation. A major US Defense Contractor has selected our energy storage inverter to provide battery management of a diesel based micro-grid demonstration and we have since shipped several units. We have also had unsolicited interest from several leading battery manufacturers and integrators of energy management systems as well as other inverter manufacturers.

We believe that our unique value in the distributed energy storage market will be the single biggest driver of shareholder value.

Thin Film Solar

Our solar inverter platform was originally designed around the voltage/current curve for high efficiency thin film solar modules which we believed would secure a significant share of the market based on a fundamentally lower cost structure superior performance ratios in higher temperatures and superior aesthetics especially for residential and building facades. Thin film's cost advantage was challenged by an enormous expansion of production capacity for silicon wafers as well as conventional silicon base modules mainly out of China and has not seen the growth that was expected in particular for residential and small commercial systems.

Thin film has consolidated around two high efficiency technologies from US based First Solar and Japan based Solar Frontier. During Q1 2013 we announced the development and demonstration of an approach to the installation of thin film that enables the equivalent of an "AC module" at a fraction of the cost of other alternatives. An AC module is a stand-alone module that eliminates the need for site specific system design and can be easily installed by mainstream trades. The result is a materially lower balance of system cost.

Equally as important for residential applications is the value of the AC module in levering the superior aesthetics of thin film by enabling seamless coverage of an entire rooftop space without the impact on system performance caused by conventional high voltage inverters.

We believe that the "AC module" is the single best opportunity to bring high efficiency thin film to the residential and building façade market. We have been working with Solar Frontier America to demonstrate the value of the AC module in this application. We are in the final planning stages for further demonstrations in the US and Japan driving towards an agreement with Solar Frontier and the goal of taking the concept to market in the US but more importantly Japan, which will be the #3 market in the world in 2013 and which has been almost 80% residential.

We are aware of no other product which can enable the AC module for thin film at a cost that is economically viable.

TenKsolar/Hanwha

During Q1, Minnesota based tenKsolar approached us to secure a non-exclusive license to manufacture our inverter for integration into its high yield solar PV system. The tenKsolar system is power electronics driven and requires a high efficiency grid interactive low voltage inverter to work. We have the only grid interactive low voltage inverter that will work without batteries and materially lower costs and higher efficiencies than the limited number of grid interactive battery based inverters in the market.

The tenKsolar product is a very powerful product with one of the highest economic yields in the industry. It is especially valuable in Japan because of it high density per square meter and the ability to directly integrate energy storage into the system with our inverter. .

On December 6, 2012, we announced an agreement to license with tenKsolar to integrate our inverter into is solar PV system in exchange for a cash payment of $2.5 million and an agreed margin on the sale of firmware embedded microprocessors needed to operate the inverter that will yield approximately $20,000 per MW up to 50MW per year, declining for higher amounts. We also entered into a Supply Contract with tenKsolar under which tenKsolar committed to take finished product during 2013 having a value of approximately $2.9M.

tenKsolar has been unable to close on the purchase of the license for financial reasons and has forfeited a 10% deposit to be applied, however, to any license fee ultimately paid by tenKsolar. Discussions are ongoing with tenKsolar on payment terms, but we have advised tenKsolar that a reduced price for the license is not in our interests. Although sales to tenKsolar during Q1 did not meet forecasts or committed volumes, we continue to believe that the tenKsolar product will be successful especially in Japan because of the ability to integrate low voltage battery storage without additional electronics. Based on data from Photon International we estimate demand for energy storage for rooftop system at 900MW in 2013 increasing to 4,900 MW in 2016 with a total of 10.5MW over the entire period.

Ontario

Ontario has been very disappointing. Although the Minister of Energy for Ontario committed ~~o~~in August, ~~,~~ ~~*~~ 2012 to 50MW of Micro-FIT projects before the end of 2012, only 3MW have been installed and the prospects for the industry are negative. The evidence is that the Government has lost its commitment to the Green Energy Program and we have scaled back marketing in the Province.

In line with our announced change in strategy to focus on applications where our inverters are integrated into other product solutions, such as ProFab Solar for ground mount systems and EECOL for rooftop systems, we ceased marketing inverters to installers or through conventional distribution channels. Although the market response to ProFab Solar was very positive and we saw sales during Q4 2012, the Ontario Power Authority introduced increasingly restrictive land use regulations designed to limit growth of ground based solar in rural markets significantly reducing demand. We are, however, beginning to see demand for ProFab Solar in other markets.

Consolidation of Share Capital and Financing

Durinq Q1, we had to add cash reserves to compensate for lower volumes during the Quarter and Doughty Hanson agreed to purchase 50,000 Units for gross proceeds of $500,000, consisting of $10 Convertible First Preferred Shares convertible into common shares at $0.~~0~~40 per share ~~(~~and ~~*~~1,250,000 - ~~4~~5 year common share purchase warrants at an exercise price of $0.50 per share. In addition, our CEO agreed to loan the Company $100,000 against the delivery of 5yr term participating debentures on the same terms as the 5-yr participating term debenture issued by the Company during Q3 2012.

To execute on the issuance of the First Preferred Shares we were required by TSX Venture Exchange Rules to consolidate the common share capital on a 1:10 basis. In the longer term we believe this will be beneficial in added better liquidity from markets in the US which have a much better appreciation for technology companies than Canadian markets which are highly resource oriented.

tenKsolar's failure to close on the $2.5M licensing agreement has also led an unexpected gap in funding which must be filled in order to meet our commitments under the agreements in Germany. We expect to be able to do this with the support of our shareholder Doughty Hanson Technology Ventures which already has a significant investment in the Company.

MANAGEMENT'S DISCUSSION OF OPERATIONS

Operations

Sales for the quarter ended December 31, 2012 were a disappointing $70,161. Although we had anticipated reduced sales during Q1 as we shifted our attention to building strategic long term OEM partnerships the reduced volumes were lower than we would have expected. The reasons for this are twofold:

First the Ontario micro-FIT market, where we had positioned the Company, came to a standstill in Q1, notwithstanding promises made by the Minister of Energy during Q4, 2012 for 50MW of projects. This situation was exacerbated by increasingly restrictive land use regulations designed successfully to limit growth of ground based solar in rural markets where we had focused ProFab Solar.

Second, tenKsolar disappointed materially, failing to meet minimum demand commitments, and failing to meet its own forecasts. We expect deliveries to tenKsolar to pick up again this Quarter and continually increase over the course of the year. We also expect to see demand from Hanwha for its Optimax system in Japan upon certification of the inverter

On the other hand we have executed very successfully on our OEM strategy. On February 19, 2013 we announced an agreement in principle to supply a minimum of 10,000 energy storage inverters to a leading Germany manufacturer of home energy management systems over two years beginning in the next Quarter. Our customer's forecasts are much higher and we are planning for higher than the minimum 5,000 units per year take or pay commitment.

Pricing is confidential but in line with value for solar inverters and margins are very acceptable. We have also structured our supply terms to enable us to distribute working capital across the supply chain resulting in very little working capital needed to meet the demand.

Management Discussion of Financial Results

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES OR CHANGES UNDER IFRS

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

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

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

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

	Accounting Policy Difference	October 1, 2010 Balance Sheet Impact	September 30, 2011 Balance Sheet Impact
Share-Based Payments	IFRS does not permit the recognition of the expense associated with share-based payments to be recognized on a straight-line basis as was permitted under Canadian GAAP, but requires the Company to expense share-based payments based on graded vesting. IFRS also requires forfeitures be estimated and recognized on the grant date and revised prospectively in subsequent periods for actual experiences; while under Canadian GAAP forfeitures of awards could be recognized as they occurred.	Under IFRS 1, an entity has the option to apply IFRS 2 only to equity instruments granted after November 7, 2002 and which are unvested as at October 1, 2010. The Company applied this elective exemption upon adoption of IFRS on October 1, 2010. The application of IFRS 2 for stock-based payments for unvested equity instruments as at October 1, 2010 was a $286,257 increase to the share-based payment reserve and a corresponding increase to deficit as at October 1, 2010	The application of IFRS 2 during the 2011 fiscal year-end resulted in a $189,700 increase in share-based payment reserve and a corresponding increase to deficit as at September 30, 2011.

Foreign Currency Translation	Under IAS 21, 'The Effects of Changes in Foreign Exchange Rates', an entity's functional currency is the currency of the primary economic environment in which it operates. The functional currency for the Company's foreign operation is translated to Canadian Dollars on consolidation using the current method whereby all assets and liabilities are translated at the closing rate at the end of the reporting period. Under Canadian GAAP, the Company classified its foreign operations as integrated foreign operations and used the temporal method of translation whereby monetary items on the balance sheet were translated at the prevailing exchange rate at the end of the reporting period and nonmonetary items were translated at the exchange rates prevailing at the transaction dates.	Under IFRS 1, an entity has the option to deem the cumulative translation gains or losses at the date of transition to IFRS to be zero. The Company applied the elective exemption upon adoption of IFRS. As a result, the deficit position increased by $571,990 at October 1, 2010 and a corresponding decrease of $569,921 to development costs and $2,069 to capital assets were recorded to restate the opening deficit for cumulative translation losses as at October 1, 2010.	The application of IAS 21 during the 2011 fiscal year-end decreased development costs and capital assets by $477,010 and $2,315 respectively, increased the deficit by $307,419, and decreased the foreign currency translation reserve by $171,906.

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

Net loss and comprehensive Loss

The Net Loss for the quarter ended December 31, 2012 was $1,639,851 compared to $1,526,393 at December 31, 2012, an increase of $113,458 (7%). Adjusting for non-cash items the Net Loss at December 31, 2012increased by $19,322 to $808,965 (2%) compared to $789,643 in 2012.

Cash Flow Used in Operations

Cash flow provided in operations for the quarter ended December 31, 2012 was $101,756 compared to a cash deficit of $775,922 in 2012. This represents a positive change of $877,678 or 113%.

Sales and Gross Margin

Sales for the quarter ended December 31, 2012 were $70,161 compared to $1,011,215 for the quarter in 2012. As noted the decline in sales revenues was due in part to the collapse of the Ontario solar market and disappointing demand from tenKsolar.

Cost of sales for the quarter ended December 31, 2012 were $67,200 to yield a gross margin of $2,961 or 4% of total revenues. The low percentage margin reflects relatively minor one-time inventory adjustments which have an exaggerated impact with low volume sales. We expect margins on products to be delivered under forward contracts to average in mid 30% range.

Operating Costs

During the quarter ended December 31, 2012 we continued to cut fixed operating costs and we now have a fundamentally lower operating cost structure than one year ago.

- Product research and development costs increased by $18,981 from $221,821 for the quarter ended December 31, 2011 to $240,802 for the quarter ended December 31, 2012. The increase reflects increased investment in product certification in North America and Japan.
- We reduced operating costs (manufacturing and logistics overhead) costs from $281,170 for the quarter ended December 31, 2012 to $205,815 for the quarter ended December 31, 2012.
- We reduced general and administrative costs ("G&A") which include stock based compensation) by $160,199 from $438,577 for the quarter ended December 31, 2011 to $278,378 for the quarter ended December 31, 2012. G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees investor relations fees and travel for all personnel.
- We reduced our investment in sales and marketing by $57,636 to $154,336 for the quarter ended December 31, 2012 compared to $211,972 for the same period in 2011. Reduced sales and marketing costs reduced market demand from Ontario solar market a decision to cease marketing in Europe and a shift towards a business development model to support our OEM strategy which requires fewer resources.

Amortization

Amortization of development costs was $97,486 for the quarter ended December 31, 2012 compared to $69,200 in the same period in 2011 as a result of a determination to accelerate amortization of cost incurred prior to 2003 as a result of the development of the STX inverter platform which replaces the previous platform

The amortization of capital assets for the quarter ended December 31, 2012 was $12,413 compared with $36,506 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 $631,381 for the quarter ended December 31, 2012 compared to $461,895 for the same period in 2011. Interest accrued for the participating debenture issued in 2012 was $28,090 including interest based on a percentage of top line revenues. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $66,000 compared to $75,151 for the quarter ended December 31, 2012. Accretion of the obligation to repay government contributions to research and development was $13,411 for the quarter ended December 31, 2012 by comparison to $Nil for 2012. Other interest charges for the quarter ended December 31, 2012 were $343 compared to $Nil for the same period 2012.

The cash paid out for interest was $34,086 in the quarter ended December 31, 2012 compared to $19,962 for 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 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
Sales	70,161	880,652	516,426	904,841	1,011,215	1,013,881	1,135,015	724,549
Net (loss)	(1,639,851)	(760,287)	(1,632,812)	(1,398,873)	(1,526,393)	(476,294)	(1,724,716)	(1,916,030)
Per share – basic and diluted	(0.08)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Summary of Annual Information

	2013	2012
	1 Qtr	4Qtrs
Revenues	70,161	3,313,134
Net loss	(1,639,851)	(5,318,365)
Per share – basic and diluted	(0.08)	(0.03)
Total assets	4,796,043	5,084,388
Non-current liabilities	9,545,079	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

	Q1 2013	Q1 2012
Employee Compensation	85,679	128,424
Consumables	37,431	-
Travel	4,167	6,460
Other	6,3080	17,737
Amortization	97,486	69,200
Total	240,802	221,821

Operations

	Q1 2013	Q1 2012
Employee Compensation	168,683	199,522
Consumables	2,477	2,782
Travel	3,630	2,335
Freight and storage	20,057	62,708
Other	10,967	13,823
Total	205,815	281,170

Sales and marketing

	Q1 2013	Q1 2012
Employee Compensation	70,187	112,190
Travel	25,847	15,307
Marketing	32,667	56,087

Other	25,636	28,388
Total	154,336	211,972

General and administration

	Q1 2013	Q1 2012
Employee Compensation	98,816	89,676
Stock based compensation	(43,737)	26,751
Travel	-	7,186
Rent	62,306	67,487
Audit & accounting fees	43,361	91,899
Legal fees	57,675	18,919
Other	47,545	145,237
Amortization	12,413	36,507
Total	278,378	483,662

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $235,183 at December 31, 2012 by comparison to $703,924 at September 30, 2012. The components comprise cash and cash held in trust of $237,322 and $250,000 respectively., finished product inventory totaling $483,538 component inventory totaling $2,200,847, prepaid expenses and deposits in the amount of $1103,885, which are mainly accrued finance costs and accounts receivables and advances in the amount of $570,887.

Accounts payable and accrued liabilities at December 31, 2012 were $2,396,550 compared to $1,816,285 at September 30, 2012. The increase in accounts payable and liabilities from September 30, 2012 was caused mainly by the deposits amounting to $564,000 received for the license agreement and the supply contract with tenKsolar which are recorded as deferred revenue until the amounts are brought into revenue at some point in the future. The deposit of $250,000 for the license agreement has been forfeited by tenKsolar and is recognized as income in the second fiscal quarter of 2013.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of $1.5 million. As of December 31, 2012 the outstandinCompany's operating line was $1,005,642. Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012. On December 27, 2012 the Company issued 50,000 Units at a price of $10.0 per unit to Doughty Hanson for total gross proceeds of $500,000. Each unit was comprised of one (1) $10.0 8% 5 year First Preferred Shares Series 13 convertible into Common Shares at a price of $0.40 per share (post consolidation) 20 (post consolidation), 5 year, common share purchase warrants exercisable at a price of $0.50 per share.

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

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

During Q1 the Company agreed to sell a non-exclusive manufacturing license to tenKsolar for a cash consideration of $2.5 million to be paid $1,750,000 on closing, $500,000 on June 30 2013 and $250,000 on December 31 2013. Closing was originally scheduled for December 19, 2012 but was deferred to enable tenKsolar to complete a financing which included financing the payment of the cash consideration. in exchange forpayment of a non-refundable deposit of $250,000. tenKsolar failed to meet the closing date and the deposit has been forfeited.

Under a Supply Contract entered into at the same time, tenKsolar has committed to take a minimum number of PARALEX inverters in the 2013 calendar year having an aggregate value of approximately $2.9 million and has paid a deposit of $319,000 to the Company.

The Company has $2,200,847 in component inventory all of which we expect to use in manufacturing. This represents long lead time inventory committed to prior to the slowdown in Ontario and based on forecast demand from customers and published by the Ontario Power Authority at the time. The Company has $483,538 in finished product inventory which it expects to be able to sell at current market prices in excess of this amount.

Off Balance Sheet Items

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

Related Party Transactions

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

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Included in general and administrative expense is salaries and benefits for key management personnel and directors of $77,468 (2011 - $96,542) and share based compensation of $Nil (2011 - $6,018). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $49,500 (2011 - $50,500) and share based compensation of $9,945 (2011 – 5,948).

Key management personnel and directors subscribed for $69,000 of the debentures (Note 9) issued in June 2012 and received 82,800 (2011 – nil) bonus shares (Note 10) valued at $4,140 (2011 - $nil) as at December 31, 2012. Interest expense of $2,423 ($2011 - $nil) has been included in financing costs related to these debentures.

In December, 2012 the CEO advanced $100,000 to the Company in exchange for which the Company has agreed to issue to a director an $114,000 debenture at an original discount rate of 12.5% to net the Company $100,000, at the same terms as the debentures described in Note 9. This issuance of bonus shares is ~~is~~ subject TSX-V approval.

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Capitalization of Deficit

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

Consolidation Common Share Capital

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

Disclosure of Outstanding Share Data

As at February 28, 2013, 20,915,597 common shares and 1,026,587 First Preferred Shares convertible at the option of the holder into 8,178,078 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 2,219,200 common shares at an exercise price of $3.00 per share, common share purchase warrants representing the right to acquire 809,643 common shares at $2.00, common share purchase warrants representing the right to acquire 2,450,000 common shares at a price of $0.50 and broker warrants representing the right to acquire 106,350 at a price of $1.40 As of January 28, 2013, , the Company had employee stock options outstanding entitling the holders thereof to acquire up to 1,559,372 common shares of which options to acquire common shares up to 1,149,372 had vested. The weighted average exercise price of the vested options is $1.71 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 December 31, 2012, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $24,392,369, after a reclassification of $30,000,000 from share capital (2011 - $48,872,761) and recognized a cash flow surplus from operations at December 31, 2012 of $101,756 (2011 - $(775,922)). 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 $235,183 at December 31, 2012 (2011 - $2,072,353). At December 31, 2012, there was $679,616 in deferred revenue that will become income at some point in the future and this will increase the working capital amount accordingly.

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by any accelerating loss of customers and any falling sales per customer. To address its financing requirements, the Company will seek financing through the issuance of securities and is in discussions with Doughty Hanson to support such a financing.

Operating Losses

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

Market Acceptance

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

Dependency on Government Policies

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

Even with continued 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 an electronics "engine" to penetrate target markets. Delays in reaching adequate rates and efficiencies in production could impair the profitability of our products. Our ability to produce products that are cost effective depends on reaching efficient production levels. In addition, our production process results in the wasting of materials and supplies which must be minimized to produce cost effective products.

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

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

Operation and Supplier Risk

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

Dependence on Customers

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

Foreign Exchange

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

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

Attracting and Retaining Key Personnel

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